STADA Annual Report 2014

STADA Arzneimittel

STADA KEY FIGURES

Key figures for the Group in € million	2014	Previous year[1]	± %
Group sales	2,062.2	2,003.9	+3%
• Generics (core segment)	1,217.7	1,227.9	-1%
• Branded Products (core segment)	800.5	704.4	+14%
Operating profit	188.5	248.3	-24%
Operating profit, adjusted[2] [3]	*320.7*	*303.1*	*+6%*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	418.8	382.6	+9%
EBITDA (Earnings before interest, taxes, depreciation and amortization), adjusted[2] [3]	*431.9*	*414.3*	*+4%*
EBIT (Earnings before interest and taxes)	190.3	252.4	-25%
EBIT (Earnings before interest and taxes), adjusted[2] [3]	*322.4*	*307.1*	*+5%*
EBT (Earnings before taxes)	124.7	189.3	-34%
EBT (Earnings before taxes), adjusted[2] [4]	*253.3*	*240.7*	*+5%*
Net income	64.6	121.4	-47%
Net income, adjusted[2] [4]	*186.2*	*160.6*	*+16%*
Cash flow from operating activities	223.8	203.7	+10%
Capital expenditure	279.0	365.0	-24%
Depreciation and amortization (net of write-ups)	228.5	130.2	+76%
Employees (average number calculated on the basis of full-time employees Jan. 1 – Dec. 31)[5]	10,209	8,841	+15%
Employees (as of the balance sheet date calculated on the basis of full-time employees)	10,363	9,825	+5%

Key share figures	2014	Previous year	± %
Market capitalization (year-end) in € million	1,530.8	2,171.7	-30%
Year-end closing price (XETRA®) in €	25.25	35.93	-30%
Number of shares (year-end)	60,626,700	60,442,500	0%
Average number of shares (without treasury shares)	60,408,501	59,571,959	+1%
Earnings per share in €	1.07	2.04	-48%
Earnings per share in €, adjusted[2] [4]	*3.08*	*2.70*	*+14%*
Diluted earnings per share in €	1.05	2.00	-48%
Diluted earnings per share in €, adjusted[2] [4]	*3.04*	*2.65*	*+15%*
Dividend per share in €	0.66[6]	0.66	0%
Total dividend payments in € million	40.0[6]	39.8	0%
Distribution ratio as a percentage	62%[6]	33%	+88%

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
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 annual report, adjustments in connection with the operating profit, EBITDA and EBIT generally relate to one-time special effects.
4) Within the context of this annual 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 changes in the scope of consolidation 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 and, in particular, in the pharmaceutical market
- Core segments
  - Generics (59% of Group sales)
  - Branded Products (39% of Group sales)
- Strategic success factors
  - Orientation on long-term growth markets
  - Comprehensive generics portfolio and numerous attractive-margin branded products
  - Strong product development without cost-intensive research
  - International sales structure
  - Active acquisition policy, particularly in the area of branded products, including experienced integration management
  - Functionally organized Group with short decision-making channels and close to market sales companies
  - Culture of continuous cost optimization including efficient cost management

STADA FINANCIAL YEAR 2014

- Group sales rise by 3% to € 2.06 billion – Group sales adjusted for currency and portfolio effects records slight growth of 1%
- Reported key earnings figures
  - Reported EBITDA increases by 9% to € 418.8 million
  - Reported net income decreases significantly by 47% to € 64.6 million
  - Earnings per share records a substantial decrease of 48% to € 1.07
- Adjusted key earnings figures
  - Adjusted EBITDA records growth by 4% to € 431.9 million
  - Adjusted net income rises substantially by 16% to € 186.2 million
  - Adjusted earnings per share increases clearly by 14% to € 3.08
- Pleasing development in Central Europe with a sales increase of 11% and in Asia & Pacific with sales growth of 52%
- Further expansion of the self-pay patient portfolio from high sales growth of 14% in branded products – share of branded products in adjusted operating profit of core segments rises to 52%
- Introduction of a centralized portfolio management structure including a decentralized marketing
- Successful product development with 626 product launches worldwide
- Further acquisitions to strengthen the Branded Products segment
- Successful securing of promissory notes in the amount of € 270 million
- Dividend proposal of € 0.66 per STADA common share unchanged to the previous year

STADA OUTLOOK

- Outlook for 2015
  - Slight growth in Group sales adjusted for currency and portfolio effects
  - Substantial decrease in adjusted EBITDA and adjusted net income
  - Ratio of net debt, excluding further acquisitions, to adjusted EBITDA at a level of nearly 3

STADA Annual Report 2014

LETTER TO SHAREHOLDERS FROM THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear Shareholders,

In 2014, we were confronted with challenging framework conditions both in the market region Germany and in the market region CIS / Eastern Europe. Overall, we had to report high one-time special effects that primarily resulted from impairments on goodwill and on further intangible assets as a consequence of the significantly changed interest rate and currency environment as well as ongoing higher risks in the market region CIS / Eastern Europe.

Despite the challenges, we were able to reach our sales and earnings targets at Group level. Group sales increased and we were able to achieve strong sales growth, especially in the Branded Products business segment, which is becoming increasingly important for us. The earnings development was characterized by an increase in operating performance as shown by growth in all of the Group's adjusted key earnings figures. In view of the high one-time special effects, reported net income decreased by nearly half as compared to the previous year. However, adjusted net income recorded substantial growth. Our adjusted Group tax rate, which we were able to reduce significantly, also developed well. We were also very satisfied with the development of adjusted free cashflow; its increase primarily resulted from a cash-effective decrease in trade accounts receivable as well as from lower income tax payments.

Looking at the regional sales development, worth noting is, on the one hand, Central Europe with a significant increase which was achieved despite a strong basis for comparison in the previous year and which is based in particular on sales increases in the United Kingdom, Italy, Belgium and Spain. On the other hand, the market region Asia & Pacific developed very positively with a significant rise in sales primarily attributable to the consolidation of the Vietnamese STADA Vietnam and the Chinese STADA Pharmaceuticals (Beijing) as subsidiaries.

Within the scope of our active acquisition policy, we made further progress in financial year 2014, strengthening our branded products portfolio in Russia as well as in the United Kingdom through attractive takeovers.

We were once again able to demonstrate the degree of success of our product development through the global introduction of a large number of products. In addition, within the scope of our biosimilar activities, we began with the sale of the filgrastim product Grastofil®, in-licensing of Teriparatide and achieved further progress in initial negotiations on the in-licensing of a biosimilar for Adalimumab (Humira®).

We were able to further strengthen the financing structure of the Group in the reporting year through the securing of additional promissory notes at good conditions. We continue to have a balanced maturity dates profile and a stable financing structure with financial instruments that have staggered maturities. In general, it is clear, both within the framework of our refinancing talks as well as on the basis of the conditions for the promissory notes, that the participants in the refinancing market continue to have a strong level of confidence in our business model and the further growth opportunities of STADA.

The successes that we achieved in 2014 are attributable, first and foremost, to the outstanding performance and the untiring commitment of our employees. For this, on behalf of the entire Executive Board, I would like to express my sincere appreciation. Our gratitude also extends to our Supervisory Board and Advisory Board for their continued constructive and professional cooperation.

Overall, we expect continued positive development for the Group's outlook. We have, however, been confronted in the current financial year with very difficult framework conditions, especially as a result of the CIS crisis. In light of this, we expect to be able to achieve slight growth in Group sales adjusted for currency and portfolio effects. Due to the recent developments of the Russian ruble and increased risks in connection with consumer mood and the general market situation, we anticipate a decreased earnings contribution from Russia. Taking these developments into account and based on current currency relations, we expect a substantial decrease in adjusted EBITDA and adjusted net income. We expect the ratio of net debt, excluding further acquisitions, to adjusted EBITDA to be at a level of nearly 3.

Hartmut Retzlaff
Chairman of the Executive Board

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In financial year 2014, the Supervisory Board of STADA Arzneimittel AG carefully executed the duties imposed on it in accordance with the law and the Articles of Incorporation. The Supervisory Board monitored the management of the Company and advised the Executive Board regularly in the management of the Group. In all decisions of fundamental importance for the Company, the Executive Board involved the Supervisory Board regularly, directly and in a timely manner. Within the scope of its supervisory and consultative duties, the Supervisory Board had the Executive Board inform it comprehensively through monthly oral and written reports on business development, the strategy and corporate planning including financial, investment and personnel planning as related to the Company and the STADA Group. At all times, the members of the Supervisory Board had the opportunity in the committees and in the plenum to critically examine the reports and proposed resolutions submitted by the Executive Board and to present input of their own. In particular, the Supervisory Board intensively discussed all business transactions of importance for the Company and reviewed them for their plausibility on the basis of the Executive Board reports. The Executive Board briefed the Supervisory Board – also between the regular meetings – regarding all questions of strategy, planning, business development, the risk situation, risk management and compliance. The Executive Board also briefed the Chairman of the Supervisory Board on the progress of business including the sales development and profitability, important business events and issues of particular importance. In addition, the Supervisory Board monitored the accounting process and the measures taken by the Executive Board for risk management, the internal control system, the internal auditing system as well as the compliance measures taken. The Executive Board explained in detail to the members of the Supervisory Board eventual deviations in the business development from the plans and objectives.

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

Meetings of the Supervisory Board and focus of activities

The Supervisory Board convened for a total of nine meetings in financial year 2014 (on January 17, March 26, May 6, June 3, July 9, August 6, October 8, November 11 and December 11).

These meetings focused on the following themes:

- the Company strategy and its operative implementation,
- the acquisition policy,
- the economic situation of the Group, its segments and subsidiaries and, in particular, their respective sales, sales volume, costs and earnings development, the development of working capital, the cash flow, inventories, the balances and terms of receivables as well as the effects of the global financial and economic crisis,
- the market structures, development of demand, the competitive situation and the price, conditions and discount development in the individual market regions and in particular the development of market shares of the Group and the relevant competitors,
- the assets situation of the Group and its finance and liquidity situation considering especially the investment plans in the Group, the financing structures and refinancing strategies as well as the development of the debt-to-equity ratio,
- the risk and opportunities management and the significant risks for the Group that were revealed as a result as well as the internal control and auditing systems, contemplated, planned and executed acquisitions, disposals and cooperations of the Group as well as the integration of acquired companies and products in the Group,

- the impact of economic and political developments in the market region CIS / Eastern Europe, in particular considering the CIS crisis,
- the effects of regulatory state interventions on the Group and/or on the individual subsidiaries and the necessary reactions to these, especially in the German home market with regard to discount agreements with health insurance organizations,
- the evaluation of cost-optimized process allocations, process and control optimizations and improvements including the partial transfer of operations of the German logistics activities.
- the product development and product portfolio of the Group,
- the realignment of the German sales organization,
- STADA's capital market position,
- Executive Board personnel issues, compensation questions and questions relating to company pension plans,
- questions on the composition and the efficiency of the Supervisory Board,
- issues of corporate governance and compliance and
- the Annual Report and the interim reports of the Group prior to their respective publication.

Composition of the Executive Board and the Supervisory Board

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

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

Work of the committees

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

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

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

Due to the size of STADA's Supervisory Board with six shareholder representatives, the Supervisory Board believes that a Nomination Committee as recommended by the German Corporate Governance Code in the version of June 24, 2014 is structurally superfluous. The Supervisory Board, however, created a Nomination Panel consisting of the Chairmen of the Human Resources Committee and the Audit Committee.

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

Corporate governance

In financial year 2014, too, the Supervisory Board and Executive Board dealt in detail with the further development of corporate governance in the Company while taking the current version of the German Corporate Governance Code into account. The new joint Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act issued by the Executive Board and the Supervisory Board on November 11, 2014 on the basis of the German Corporate Governance Code as amended on June 24, 2014 is printed in this Annual Report in the chapter "Corporate Governance Report" and is publicly available on the Company's website at www.stada.de 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 2014 were audited by PKF Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion. The Supervisory Board had no doubts with regard to the independence of the auditor. The auditor submitted the Statement of Independence as required by the Code. The main areas of the audit were established by the Supervisory Board within the scope of the commissioning of the auditor. The Audit Committee reviewed the annual financial statements and consolidated financial statements as well as the Management Report and the Group Management Report as well as the proposal for the appropriation of profits and also included the reports of the auditor on the audit of the financial statements in its review. The auditor reported on significant results of the audit in a meeting of the Audit Committee and was available for questions to the members of the Committee. The members of the Audit Committee dealt extensively with the submissions from the Executive Board and the audit reports and discussed these with the auditor. The Audit Committee raised no objections and recommended to the Supervisory Board to approve the financial statements and the Management Report as well as the Group Management Report and assent to the Executive Board's proposal for the appropriation of profits.

On the basis of the preparation by the Audit Committee, the Supervisory Board examined the annual financial statements and the consolidated financial statements prepared by the Executive Board, the Management Report and the Group Management Report of the Executive Board on the financial year 2014 as well as the Executive Board's proposal for the appropriation of profits. The Chairman of the Audit Committee reported to the Supervisory Board on the work and the audit results of the Audit Committee. The auditor reported to the Supervisory Board on significant results of the audit and was available for questions from members of the Supervisory Board. The Supervisory Board discussed the submissions mentioned above and the conclusions of the auditor in detail with the auditor and the Executive Board. Also following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the annual financial statements, the Management Report, the consolidated financial statements and the Group Management Report on the financial year 2014 and concurred with the outcome of the audit. The auditor also determined that the Executive Board had implemented an appropriate information and monitoring system which, in its concept and use, is suitable for the early recognition of any developments that could threaten the continuation of the Company.

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

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

Bad Vilbel, March 25, 2015

Dr. Martin Abend
Chairman of the Supervisory Board

OVERVIEW

Five-year comparison in € million	2014	2013[1]	2012[1]	2011[1]	2010[1]
Group sales	2,062.2	2,003.9	1,837.5	1,715.4	1,627.0
Operating profit	188.5	248.3	202.1	120.1	161.8
Operating profit, adjusted	*320.7*	*303.1*	*266.2*	*257.6*	*239.3*
EBITDA[2]	418.8	382.6	323.7	223.2	268.8
EBITDA, adjusted	*431.9*	*414.3*	*367.4*	*337.2*	*315.9*
EBIT[3]	190.3	252.4	205.9	121.2	162.1
EBIT, adjusted	*322.4*	*307.1*	*270.0*	*258.7*	*239.6*
EBT[4]	124.7	189.3	135.6	69.5	109.0
EBT, adjusted	*253.3*	*240.7*	*200.5*	*205.8*	*186.2*
Net income	64.6	121.4	86.5	22.0	68.4
Net income, adjusted	*186.2*	*160.6*	*147.9*	*146.6*	*133.3*

Solid business development despite challenging framework conditions

In 2014, the STADA Group was confronted by challenging framework conditions in the market regions of Germany and CIS / Eastern Europe.

Overall, there were one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses in the reporting year of € 128.6 million before or € 121.6 million after taxes, which include impairments on goodwill in the amount of € 54.0 million before and after taxes as well as on further intangible assets in the amount of € 22.0 million before or € 21.7 million after taxes as a result of the significantly changed interest rate and currency environment as well as on ongoing higher risks in the market region CIS / Eastern Europe.[5]

Regardless of the challenges, Group sales increased – with mixed development in the individual market regions – by 3% to € 2,062.2 million (previous year[6]: € 2,003.9 million). When effects on sales based on changes in the Group portfolio and currency effects are deducted, Group sales grew slightly by 1% to € 2,014.3 million.

The earnings development in 2014 was characterized by an increase in operating performance as shown by growth in all of the Group's adjusted key earnings figures.

In 2014, reported operating profit decreased significantly by 24% to € 188.5 million (previous year[6]: € 248.3 million), mainly due to impairments of goodwill in the market regions CIS / Eastern Europe as well as Asia / Pacific & MENA. Reported EBITDA increased by 9% to € 418.8 million (previous year[6]: € 382.6 million). In view of high one-time special effects, reported net income recorded a substantial decrease of 47% to € 64.6 million (previous year: € 121.4 million).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2012 and earlier were not adjusted.
2) Earnings before interest, taxes, depreciation and amortization.
3) Earnings before interest and taxes.
4) Earnings before taxes.
5) See the Company's ad hoc release of February 19, 2015.
6) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

After adjusting the key earnings figures for influences distorting the year comparison resulting from one-time special effects, the adjusted operating profit increased by 6% in financial year 2014 to € 320.7 million (previous year[1)]: € 303.1 million). Adjusted EBITDA recorded growth of 4% to € 431.9 million (previous year[1)]: € 414.3 million). Net income, adjusted for one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses, increased substantially by 16% to € 186.2 million (previous year: € 160.6 million).

The Group's adjusted tax rate saw very pleasing developments. While the reported tax rate was at 43.8% primarily as a result of impairments on goodwill not deductible for tax purposes in the market regions CIS/Eastern Europe and Asia/Pacific & MENA (previous year[1)]: 35.1%), the adjusted tax rate decreased to 24.2% in financial year 2014 compared to the previous year (previous year[1)]: 32.7%).

In consideration of the challenging framework conditions in the two market regions of Germany and CIS/Eastern Europe, STADA, in the estimation of the Executive Board, achieved a solid result in 2014 based on the Group's sustainable business model focused on market regions with long-term growth potential. Despite the difficult regulatory and economic environment STADA was able to maintain its market positions in the major national markets.

Stable financial position

The financial position of the STADA Group remained stable in the reporting year.

As of December 31, 2014, the equity-to-assets ratio was 27.1% (December 31, 2013 : 29.6%) and was thereby satisfactory in the opinion of the Executive Board. Net debt amounted to € 1,327.5 million as of the balance sheet date (December 31, 2013: € 1,306.8 million).

The net debt to adjusted EBITDA ratio improved to 3.1 in financial year 2014 (previous year[1)]: 3.2).

The refinancing of the Group as of December 31, 2014 was provided for by 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. which will reach maturity in April of the current financial year. For the purpose of long-term refinancing, as of the balance sheet date, there was a five-year bond placed in the second quarter of 2013 in the amount of € 350 million with an interest rate of 2.25% p.a. As of the December 31, 2014, furthermore, there were promissory notes with maturities in the area of 2015 to 2019 in the total amount of € 552.5 million. In the first quarter of 2014, STADA secured € 200 million of this with a term of five years, of which € 124 million have a fixed interest rate of 2.30%. A variable interest rate of currently 1.40% applies for € 76 million. In the second quarter of 2014, STADA secured further promissory notes in the amount of € 20 million with maturity in 2019 and a variable interest rate of currently 1.33%. In the fourth quarter of 2014, STADA secured further promissory notes in the amount of € 50 million with a term of five years and a fixed interest rate of 1.33%. Overall, STADA continues to have a balanced maturity dates profile and a stable financing structure based on financial instruments with staggered maturities.

Cash flow from operating activities in financial year 2014 amounted to € 223.8 million (previous year[1)]: € 203.7 million). Free cash flow amounted to € -38.2 million (previous year[1)]: € -108.2 million). Free cash flow adjusted for payments for significant investments or acquisitions and proceeds from significant disposals amounted to € 157.4 million (previous year[1)]: € 133.3 million).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Strong product development with a well-filled pipeline and promising biosimilar activities

The STADA Group has a strong product development. With the expansion of the product portfolio and 626 individual product launches worldwide (previous year[1]: 706 product launches), STADA once again proved the successes of the Group-wide development activities in the reporting year.

The Group also made further progress in the course of its biosimilar activities. In the third quarter of 2014, STADA subsidiary cell pharm started the sale of the Filgrastim product Grastofil®, which the Group had already in-licensed in 2013.[2] In addition, STADA in-licensed Teriparatid in 2014, which is expected to be launched under the STADA label throughout Europe following the expiration of the patent of the original product, Forsteo® in 2019.[3] In addition, STADA and the biotech specialist mAbxience started to negotiate over the in-licensing of an Adalimumab (Humira®) biosimilar in the fourth quarter of 2014.[4]

In consideration of the well-filled product pipeline, the Executive Board expects to be able to continuously introduce new products to the individual national markets of the respective market regions in future as well. The focus here remains on generics in the EU countries. In its biosimilar activities, the Group continues to consistently pursue its strategy of relying on cooperation with highly specialized partners to add high-quality products to its portfolio at favorable conditions.

Active acquisition policy with attractive purchases

In financial year 2014, the Group continued to pursue an active acquisition policy to accelerate organic growth with external growth impulses. In this context, STADA concentrates, on the one hand, on regional expansion of business activities with a focus on high-growth emerging markets. On the other hand, a top focus is 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 Group made further progress in the context of this active acquisition policy in the reporting year.

In the first quarter of 2014 – after fulfillment of extensive completion conditions particularly in the areas of production documentation and supply chain – the contract was completed as planned for the purchase of the Russian branded product portfolio Aqualor® by the Russian STADA subsidiary AO Nizhpharm, which comprises ten prescription-free (OTC) product presentations based on seawater in the form of sprays and drops with the local regulatory status of medical products for the treatment of sinusitis (infection of the paranasal sinus) and sore throat.[5]

The British STADA subsidiary Thornton & Ross Ltd. acquired the production and distribution rights for the branded product portfolio Flexitol® for the United Kingdom and Ireland in the second quarter of 2014.[6]

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) See the Company's press releases of October 28, 2013 and August 6, 2014.
3) See the Company's press release of October 13, 2014.
4) See the Company's press release of November 18, 2014.
5) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.
6) See the Company's press release of June 30, 2014.

In the fourth quarter of 2014, the Russian STADA subsidiary Nizhpharm signed a purchase contract for the two branded products AndroDoz® and NeroDoz®, which are positioned in the area of men's health and until now have been sold under a licensing agreement. The acquisition was completed in the current first quarter of 2015.[1)]

In addition, the British STADA subsidiary STADA UK Holdings Ltd. acquired the British Internis Pharmaceuticals Ltd., which is active in the prescription therapeutic treatments for vitamin D3 deficiency, in the fourth quarter of 2014.

Volatile development of the STADA share price

The development of the STADA share price was relatively volatile in 2014, but was mainly burdened by the CIS crisis and in particular by the significant devaluation of the Russian ruble in relation to the Group currency euro. In 2014, share prices of companies with a relatively high business share in Russia were affected in general. STADA could also not avoid this influence with a sales contribution of approx. 17% from the Russian market. Whereas the share price closed 2013 at € 35.93, it was listed at a closing price of € 25.25 at the end of 2014. This was a decrease of 30% in total. Whereas STADA's market capitalization was € 2.172 billion at the end of 2013, it was € 1.531 billion at the end of 2014.

Dividend proposal

Due to the decrease in reported net income, the Executive Board recommends the Supervisory Board to propose an unchanged dividend for financial year 2014 in the amount of € 0.66 per STADA common share to the next Annual General Meeting on June 3, 2015.[2)] The resulting total dividend payments of € 40.0 million (previous year: € 39.8 million) represent a significantly higher distribution ratio than in the previous year with approx. 62% of reported net income (previous year: approx. 33%).

Comprehensive opportunities and risk management

The comprehensive risk management system in the STADA Group aims to continuously identify important risks that may jeopardize the Company's continued existence, to assess their effects to the Group and to determine 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.

The opportunities management, which focuses on the recognition and realization of new growth potential and on ensuring and expanding upon existing growth opportunities, aims to secure the short, middle and long-term success of the Group. 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.

1) See the Company's press release of February 4, 2015.
2) See the Company's ad hoc release of February 19, 2015.

Outlook

Overall, the future sales and earnings development of the Group will continue to be characterized by both growth-stimulating and challenging framework conditions in the individual markets of STADA's respective market regions. In the current financial year, the Group has been confronted with very difficult framework conditions, especially as a result of the CIS crisis. In light of this, for financial year 2015, the Executive Board expects to be able to achieve slight growth in Group sales adjusted for currency and portfolio effects. Due to the recent developments of the Russian ruble and increased risks in connection with consumer mood and the general market situation, it anticipates a decreased earnings contribution from Russia. Taking these developments into account and based on current currency relations, the Executive Board expects a substantial decrease in adjusted EBITDA and adjusted net income. The Executive Board expects the ratio of net debt, excluding further acquisitions, to adjusted EBITDA to be at a level of nearly 3 in 2015. More details on the outlook can be found in the Prognosis Report of the Management Report in this Annual Report.

BOARDS OF THE COMPANY

THE STADA SUPERVISORY BOARD
(as of March 1, 2015)

Dr. Martin Abend, Dresden (Chairman)
Carl Ferdinand Oetker, Düsseldorf (Deputy Chairman)

Dr. Eckhard Brüggemann, Herne
Halil Duru[1)], Frankfurt am Main
Dr. K. F. Arnold Hertzsch, Dresden
Dieter Koch, Kiel
Constantin Meyer, Seelze
Dr. Ute Pantke[1)], Wettenberg
Jens Steegers[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, 2015)

Hartmut Retzlaff
Chairman of the Executive Board
Executive Board member since 1992
Chairman of the Executive Board since 1993
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, 2015)

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 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, 2014, the subscribed share capital of STADA Arzneimittel AG was at an amount of € 157,629,420.00 (December 31, 2013: € 157,150,500) consisting of 60,626,700 registered shares with restricted transferability[1] (December 31, 2013: 60,442,500 registered shares), each with an arithmetical share in share capital of € 2.60. Changes from the previous year resulted from the exercising of 9,210 warrants 2000/2015[2]. As of December 31, 2014, 88,176 warrants 2000/2015 for the subscription of 1,763,520 registered shares with restricted transferability were thus still outstanding.

Capital structure of STADA Arzneimittel AG	Dec. 31, 2014	Dec. 31, 2013
Number of issued registered shares with restricted transferability	60,626,700	60,442,500
Number of outstanding warrants 2000/2015[2]	88,176	97,386
Number of potential shares from warrants 2000/2015[2]	1,763,520	1,947,720

Volatile development of the STADA share price

The development of the STADA share price was relatively volatile in 2014, but was mainly burdened by the CIS crisis and in particular by the significant devaluation of the Russian ruble in relation to the Group currency euro. In 2014, share prices of companies with a relatively high business share in Russia were affected in general. STADA also could not avoid this influence with a share of Russian sales in Group sales of approx. 17%. Whereas the share price closed 2013 at € 35.93, it was listed at a closing price of € 25.25 at the end of 2014. This corresponded to a total decrease of 30%.

The relevant national comparative indices for STADA showed percentage-rate differences in their share price development during the course of 2014. The German benchmark index DAX®[3] rose by 3% as compared to the previous year. MDAX®[4], the index which the STADA share belongs to, increased by 2% in the same period. Both developments relate to their XETRA®[5] closing prices.

At year-end 2014, the STADA market capitalization amounted to € 1.531 billion. At the end of 2013, this figure was € 2.172 billion. Based on Deutsche Börse AG's index system, which only considers free float, STADA occupied position 24 in terms of market capitalization in the MDAX® in 2014. STADA had been at place 17 in this category in the previous year.

1) Under the Company's Articles of Incorporation, STADA's registered shares with restricted transferability can only be 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.
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.

The average daily volume of the STADA share in the trading volume at the XETRA® trading and the Frankfurt Stock Exchange amounted to € 13.7 million in 2014. In 2013, the average trading volume per day of the STADA share was € 11.1 million. Thus in trading volume based on Deutsche Börse AG's index system, STADA occupied place 8 in 2014. In the previous year, STADA had occupied position 13 in this area.

STADA key share data	2014	2013
Number of shares (year-end)	60,626,700	60,442,500
Number of treasury shares (year-end)	89,835	91,989
Average number of shares (without treasury shares)	60,408,501	59,571,959
Year-end closing price (XETRA®) in €	25.25	35.93
High (XETRA® closing price) in €	38.72	42.41
Low (XETRA® closing price) in €	24.64	24.95
Market capitalization (XETRA®) in € million (year-end)	1,530.8	2,171.7
Earnings per share in €	1.07	2.04
Adjusted earnings per share in €	*3.08*	*2.70*
Diluted earnings per share in €	1.05	2.00
Adjusted diluted earnings per share in €	*3.04*	*2.65*
Dividend per share in €	0.66[1)]	0.66

Broadly based shareholder structure with 100% free float

On December 31, 2014, a total of approx. 42,000 shareholders held share capital of STADA Arzneimittel AG. Based on results of regularly occurring analyses of the Company's shareholder structure, STADA assumes that approx. 58% of STADA's shares are held by institutional investors and approx. 11% are held by pharmacists and doctors.

As part of an employee share ownership program, STADA sold 2,154 of its own shares in 2014 at an average price of € 31.62. As of December 31, 2014, STADA held 89,835 treasury shares, compared to 91,989 shares which were held by the Company as of December 31, 2013.

In 2014, the Group published all of the received voting rights notices according to Section 26 of the German Securities Trading Act (WpHG). These 26 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 2014, according to information available to the Company, STADA reported the following Director's Dealings. On September 29, 2014, Hartmut Retzlaff, Chairman of the Executive Board, sold 2,000 STADA warrants at a price of € 311.1325 per warrant.

On October 17, 2014, Silvia Retzlaff, the wife of Hartmut Retzlaff, purchased 400 STADA shares at a price of € 16.45 (purchase due to option exercise).

1) Proposed.

Successful progress of the Annual General Meeting

On June 4, 2014[1], the STADA Annual General Meeting resolved a dividend of € 0.66 per common share that was significantly higher than the previous year by 32%. The total dividend payments of € 39.8 million (previous year: € 29.6 million) thus represent a distribution ratio of approx. 33% of reported net income (previous year: approx. 34%). In addition, the Annual General Meeting confirmed the Executive Board and the Supervisory Board with a high level of approval. The Annual General Meeting furthermore approved the adjustment of existing control and profit transfer agreements of STADA Arzneimittel AG with some of its subsidiaries in order to adapt to a change in legislation. In addition, there were – as a result of a regular new election in May this year – changes in the employee representatives[2] on STADA's Supervisory Board.

1) The voting results of the decisions taken at the Annual General Meeting of June 4, 2014 are published on the Company's website at www.stada.de and www.stada.com at least until the end of the current financial year.
2) New employee representatives: Dr. Ute Pantke, Halil Duru and Jens Steegers.

CORPORATE GOVERNANCE REPORT

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

DECLARATION OF CORPORATE GOVERNANCE

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

1. Declaration of Compliance 2014

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)

Since the most recent Declaration of Compliance issued on November 12, 2013, STADA Arzneimittel AG ("STADA") has complied 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 deviations listed and will comply with the recommendations of the German Corporate Governance Code in the version of June 24, 2014 (published on September 30, 2014 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 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 11, 2014

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 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 in this Annual 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 reach 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 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", "safety", "sustainability" and "environment" and the mission statement of STADA can be found in the Management Report of 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. It confirms the strategic orientation of the Company with the Supervisory Board and, in the course of the implementation of the strategy, discusses the respective status 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.

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

- Hartmut Retzlaff, Chairman of the Executive Board (under contract until August 31, 2016), is the Executive Board member responsible for the areas of Marketing and Sales, Corporate 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 confer with other affected members of the Executive Board before coming to a decision.

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, corporate planning, the risk situation, risk management and compliance. 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)
- Carl Ferdinand Oetker, Banker, Düsseldorf (Deputy Chairman)
- Dr. Eckhard Brüggemann, Doctor, Herne
- Halil Duru, Deputy Chairman of the Worker's Council released from duty, Frankfurt am Main (Employee Representative)
- Dr. K. F. Arnold Hertzsch, Pharmacist, Dresden
- Dieter Koch, Pharmacist, Kiel
- Constantin Meyer, Pharmacist, Seelze
- Dr. Ute Pantke, Director Internal Communications, Wettenberg (Employee Representative)
- Jens Steegers, Chairman of the Worker's Council released from duty, 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 via telephone or in written form (via telefax or with the aid of other common means of communication such as 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 had 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 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.

  As of the balance sheet date, the Audit Committee included the following members from the shareholders: Carl Ferdinand Oetker (Chairman), Dr. Martin Abend and Dr. K. F. Arnold Hertzsch.

- Human Resources Committee

  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 personnel development of STADA Arzneimittel AG and prepares the decisions of the Supervisory Board in this area.

  As of the balance sheet date, the members of the Human Resources Committee from the shareholders were Dr. Martin Abend (Chairman), Dieter Koch and Constantin Meyer.

- Nomination Panel

  As the declaration on the German Corporate Governance Code already submitted on November 11, 2014 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 assess the decisions of the Executive Board and the transactions arising as well as to be able to analyze economic connections,*
- *the ability to understand the documentation submitted for the financial statements and to be able to evaluate these in consideration of company-specific issues, if necessary, with the support of an auditor,*
- *communicative abilities.*

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

The above-mentioned specialist knowledge and experience is to be as 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 consulting 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 11 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 this Annual Report, 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, who is 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 auditor 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 auditor 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

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, whereby the pharmaceutical market, one of the global growth industries, in particular is at the heart of the internationally focused Group activities

The global health care and pharmaceutical markets recorded further increase in 2014. Sales in the international pharmaceutical market increased by approx. 8.1%[1)] to approx. € 856.2 billion[1)] as compared to the previous year.

In the Executive Board's assessment, numerous national health care and, in particular, pharmaceutical markets will continue to provide high growth opportunities that are relatively independent of economic activity in the future as well. On one hand, this is based on general growth drivers in the form of the global population increase, an aging society in industrialized countries and further medical progress. On the other hand, the growth opportunities are based on generics-specific drivers such as progressive generics penetration as a result of increasing spending restraints in individual national health systems and continuous patent expirations. This also applies to the future-oriented field of biopharmaceuticals with high sales and profit potential.

In view of the continually rising demand in the health care market and the fact that drugs are viewed as relatively efficient in comparison to other treatment methods, further growth is also expected for the international pharmaceutical market in the future. According to the forecasts, sales in the global pharmaceutical market will increase by 5% to 7% per year until 2019 (see "Prognosis Report").[1)]

The STADA Group focuses on selected segments within the health care and pharmaceutical market. With regard to costs and risks, STADA deliberately does not conduct any own research on, or marketing of new active pharmaceutical ingredients, but rather focuses on the development and marketing of products with active ingredients – generally active pharmaceutical ingredients – which are free from commercial property rights, particularly patents. In this context, 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 focused on the four market regions of Germany, Central Europe, CIS/Eastern Europe and Asia & Pacific[2)].[3)]

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**.

Whereas generics sales focus on low pricing and/or cross-product and cross-indication marketing, branded product marketing focuses on specific product characteristics and, in particular, the brand name of the individual products.[4)]

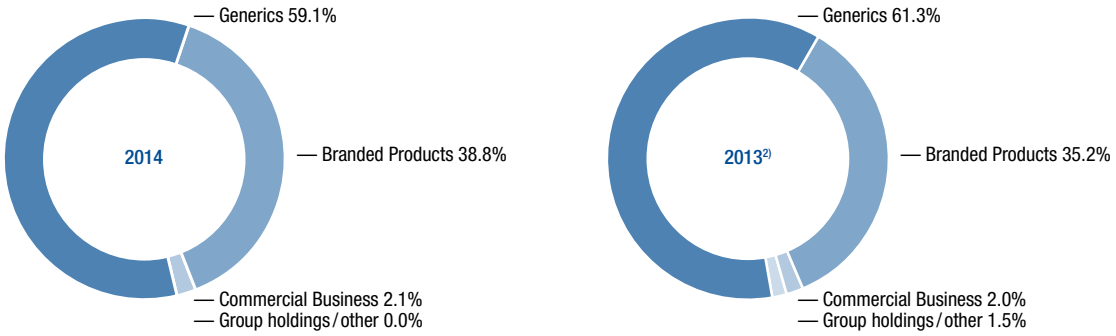
1) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015.
2) Since January 1, 2015, the former market region Asia & Pacific has been grouped together with the activities of the MENA region and reported in the market region Asia/Pacific & MENA.
3) For a breakdown of the national sales activities of the STADA Group according to the four market regions, see "Development of Segments".
4) For a detailed segment definition see Notes to the Consolidated Financial Statements – 43.

Apart from the 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 closely tied to the regulatory structure of the individual markets in the respective market regions and the regional market power of the locally active STADA subsidiaries. STADA is generally positioned as a so-called full-portfolio concept in this segment. This product portfolio includes numerous dosage forms and strengths for the most relevant active pharmaceutical ingredients and thus partly also products with only a low significance for Group sales. In only a few markets such as the United Kingdom, however – where STADA has been concentrating on the area of branded products even stronger in particular since the acquisition of the British OTC supplier Thornton & Ross[1] – 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 kind of portfolio structure if it seems promising based on specific local market conditions, and in particular taking earnings aspects into consideration.

The Group generally pursues a selective portfolio approach in the Branded Products core segment. In this context, STADA markets branded products in consideration of availability and demand in selected markets of the individual market regions. The Group relies on a concept of so-called "strong brands", which – because of their high brand awareness, ideally as the local market leader – generate growth 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 financial year 2014, the two core segments Generics and Branded Products had a total share of 97.9% (previous year[2]: 96.4%) of Group sales. The core segment Generics contributed 59.1% of Group sales (previous year[2]: 61.3%); 89% of the generics were prescription products (previous year[2]: 86%). The core segment Branded Products contributed 38.8% of Group sales (previous year[2]: 35.2%); 63% of the branded products were non-prescription products (previous year[2]: 59%).[3]

1) See the Company's ad hoc release of August 6, 2013 and ad hoc update of August 16, 2013.
2) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
3) At Group level, prescription products contributed approx. 69% (previous year[2]: approx. 69%) and non-prescription products approx. 31% (previous year[2]: approx. 31%) to Group sales (according to national categorization).

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

The **Commercial Business** segment includes activities primarily with a trading character such as wholesaling activities. In the reporting year, the segment's share of Group sales amounted to 2.1% (previous year[1]: 2.0%).

Other non-core activities not presented separately as well as Group holding-related items are reported under **Group holdings / other**. In financial year 2014, these made no contribution to Group sales (previous year[1]: 1.5%) .

Core segment Generics

In 2014, sales in the global generics market increased by 9.9%[2] to approx. € 116.6 billion[2] as compared to the previous year. The market share of generics in the global pharmaceutical market amounted to approx. 13.6%[2].

In the view of the Executive Board, Generics, in particular, has growth opportunities within the pharmaceutical market, as generics provide 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 expanding due to the continuous 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 generics area, biosimilars in particular will play an increasingly important role in the future, since, on the cost side, they can contribute significantly to relieving the individual national health care markets. Overall, twelve of the strongest biologics in terms of sales will have lost their patent protection by 2020[3]. In the current year, a paradigm shift is pending in this connection since, for the first time ever, there will be more patent expirations among biopharmaceutical products than chemical/synthetic products.

In light of this potential, STADA consequently pursues the strategy of selectively in-licensing biosimilars from high-profile partners, because for the Group this represents the course with the lowest risk and, above all, lower costs than relying on in-house developments (see "Product Development").

Core segment Branded Products

For several years, the Executive Board has been pursuing the strategy of further strengthening the Branded Products segment from a growth and earnings perspective, since it is generally subject to less regulatory intervention and is characterized by substantially more attractive margins than the Generics segment.

The Group will increasingly leverage synergies for the international positioning of its branded products. With the introduction of a centralized portfolio management structure and the advantages of decentralized marketing, STADA takes account of the growing Group-wide importance of this segment. In this context, existing branded products will be introduced into new markets and the portfolio will be further expanded at the same time, to thus further accelerate the expansion and internationalization of the Branded Products segment.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015.
3) Source: Deutsches Ärzteblatt of March 14, 2014; 111 (11): A-452 / B-388 / C-372:
"Biosimilars: Das Wettrennen ist in vollem Gange" ("Biosimilars: The race is well underway").

During the implementation of this strategy, the expertise of the British STADA subsidiary, which is currently number 4 in the British OTC market and is working on new branded products for the globally operating STADA subsidiaries, will play a role in supporting STADA Arzneimittel AG's central "Center of OTC Excellence". In light of Thornton & Ross' competence, infrastructure and technical possibilities, new opportunities in the area of OTC, consumer marketing and dermatology have opened up to the Group with the acquisition of the company. In principle, STADA Arzneimittel AG's "Center of OTC Excellence" was conceived as a think tank for the entire Group. The main objective is the long-term pipeline and portfolio development in the areas of OTC and dermatology.

STADA is currently one of the fastest growing OTC companies within the top 10.[1)]

In 2014, sales in the global OTC market increased by 4.6%[2)] to approx. € 62.60 billion[2)] as compared to the previous year. The market share of OTC products in the global pharmaceutical market amounted to approx. 8.2%[2)].

In the reporting year, STADA was able to strengthen the Branded Products segment through the acquisition of the Russian branded product Aqualor®[3)], the purchase of the rights for Flexitol®[4)] for the United Kingdom and Ireland, the signing of the purchase contract for the two Russian branded products AndroDoz® and NeroDoz®[5)] as well as the acquisition of the British company Internis (see "Economic Report – Business Development and Situation – Financial Situation").

Operative alignment

STADA has a predominantly functional organizational structure in the areas of Development, Production, Procurement, Central Purchasing, Quality Management, Finance, Risk Management, Compliance, Corporate Governance as well as overall responsibility for the Group strategy. The sole targeted exception are parts of the sales functions, which are are focused locally and organized through the STADA market regions with a primarily regional focus in order to ensure the greatest degree of market proximity in accordance with Group strategy. In this context, the sales responsibility – which comprises sales and earnings of the market regions, their product portfolio and their personnel management – lies with the respective regional management.

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

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.

1) Source: IMS Health MIDAS – EU28+RU+CH+NO+RS – Panel: Retail + Hospital – MAT/12/2014, without cosmetics and RX branded products.
2) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015. IMS MIDAS (September) 2014.
3) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.
4) See the Company's press release of June 30, 2014.
5) See the Company's press release of February 4, 2015.

Product Development

Strategic and organizational basis of development activities

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

The Group-wide development activities concentrate on the development of new generics and branded products for international marketing using Group-owned 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. Furthermore, the Group concentrates on the support of transfer projects, e.g. the transfer of knowledge in the production area, as well as on the optimization of products already launched with the goal of reducing the cost of sales or to create improvements in potential areas of application.

Market readiness is at the center of development activities for new products. 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 the international orientation of development activities, STADA also aims at generating economy of scale effects through optimized batch sizes.

The Group-wide development activities are aimed at the long-term, in order to guarantee a continuous flow of new product launches and thus drive organic growth, particularly in the segment Generics. In view of this, STADA is now already working on the development of generic products with potential launch dates beyond 2024. STADA currently assumes an average regulatory preparation time including an approval period of three years for generics with Group-wide relevance. STADA generally pursues a so-called “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 further success, the planning and organization of development activities are mainly carried out centrally by STADA Arzneimittel AG. With regards to costs and thereby efficiency aspects, the Group utilizes in-house as well as third-party development. Development centers for global projects are located in Bad Vilbel, Germany, and Vrsac, Serbia. In the area of external development, there are currently four projects in cooperation with third-party developers from India. In selected projects, STADA additionally relies on an international network of external development partners, from which the Group acquires dossiers or approvals. STADA – as is usual in this sector in some cases – also enters into joint development projects with competitors. In view of the great significance of strong product development, the punctual coordination of such a network, also in terms of costs and the respective commercial property rights, ranks as one of the Group’s strategic success factors.

With the goal of increasing the number of in-house developments of strategically important and high-sales products and also under consideration of cost reductions, 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, as the purchase of dossiers and their associated initial supply commitments can be reduced. In addition, costs for in-house developments can be reduced by bundling them in low-cost

Group locations. Meanwhile approx. 54% of ongoing Group-wide in-house developments of generics are thus processed by the development center in Vrsac, Serbia. If products are not significant at the Group level, local business units also carry out their own development in individual cases.

For the Group-wide management of all development projects, STADA has, on the basis of a Group management function of STADA Arzneimittel AG, central project management with 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, the decision, which active pharmaceutical ingredients are to be launched into a market and at what time, is made in cooperation with the management of the respective market region. STADA generally aims to have completed the development of all Group-relevant, according to sales, strengths and dosage forms of an active pharmaceutical ingredient as early as possible, in order to make these and all required approvals available to individual sales companies as immediately 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 respective commercial property rights that have to be observed are of substantial importance, as their scope and duration can be very different from market to market. As a precautionary measure, the STADA Group management and the regional management regularly receive legal recommendations on commercial property rights from both internal and external experts. Nevertheless, before and after the launch of new generics, there can be, in some cases, legal disputes commenced by initial suppliers, which generally involve the validity of commercial property rights such as patents, which stand in contrast to the Group's assessment and, in exceptional cases, can even lead to a negative result for STADA.

In the Branded Products core segment, the development activities are better targeted to 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. During the implementation of this strategy, the "Center of OTC Excellence" of STADA Arzneimittel AG plays a guiding role.

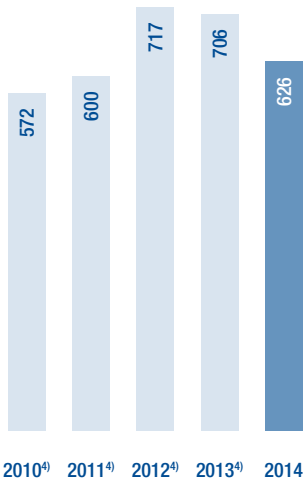
Sustainable development and approval strength

STADA's sustainable development and approval strength is evident in the large number of product launches every year. With the introduction of 626 individual products worldwide (previous year[1]: 706) STADA was able to prove this strength once again in 2014.

The great importance of successful product development can be seen from the 5% share in sales (previous year[1]: 7%) generated with products the Group introduced in the last two years[2)3)].

STADA's product pipeline remains well-filled. This assessment is also confirmed by the high number of running approval procedures as of December 31, 2014 totaling over 1,300 for over 150 active pharmaceutical ingredients and active ingredient combinations for more than 55 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.

5-year development: Number of product launches



1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) Reporting year and previous year.
3) Not including products and sales from acquisitions.
4) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2012 and earlier were not adjusted.

The high level of expertise in product development becomes clear not only through the high number of successful new launches in the area of classic generics, but also considering activities in the area of the increasingly important field of biosimilars.

From a competition and margin perspective, STADA has been active in the area of biosimilars for quite some time now and has been successful on the German market with SILAPO®, a biosimilar epoetin, since 2008.

In addition to the cooperation with Gedeon-Richter, which has existed since 2011, among other things, for the monoclonal antibody Rituximab[1)], whose approval can be expected for 2018 from today's perspective, the Group was able to achieve further progress in this future-oriented field in financial year 2014.

In the third quarter of 2014, the German STADA subsidiary cell pharm started the sale of the Filgrastim product Grastofil®, which had already been in-licensed by the Group in 2013.[2)] In addition, STADA in-licensed Teriparatid in the reporting year, which is expected to be launched in 2019 under the STADA label throughout Europe following the expiration of the patent of the original product, Forsteo®.[3)] Furthermore, STADA and the biotech specialist mAbxience started to negotiate over the in-licensing of an Adalimumab biosimilar (Humira®) in the fourth quarter of 2014.[4)]

In light of the existing potential in the biosimilars area (see "Prognosis Report"), STADA will continue to pursue the strategy of selectively in-licensing biosimilars from high-profile partners instead of relying on in-house developments, since this for the Group represents the course with the lowest risk and lower costs. In view of this, STADA regularly reviews offers for in-licensing biosimilars for various indications, which meanwhile also cover biosimilars for monoclonal antibodies whose patents expire as from 2020, in order to be in the position to further expand the existing biosimilar portfolio in a targeted manner.

Expenses for research and development costs

The research and development costs amounted to € 56.9 million in financial year 2014 (previous year[5)]: € 55.5 million) (see "Economic Report – Business Development and Situation – Earnings Situation – Development of Earnings and Cost"). These costs relate only to development costs as STADA, due to its business model, does not carry out any research into new active ingredients. In addition, the Group capitalized development costs for new products in the amount of € 27.5 million in the reporting year (previous year: € 18.8 million). This resulted in a capitalization rate of 32.6% (previous year[5)]: 25.3%). Amortization of capitalized development costs amounted to approx. € 6 million (previous year: approx. € 6 million). In 2014, the Group had 571 employees in the area of product development (previous year[5)]: 524).

1) See the Company's press release of August 30, 2011.
2) See the Company's press releases of October 28, 2013 and August 6, 2014.
3) See the Company's press release of October 13, 2014.
4) See the Company's press release of November 18, 2014.
5) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Procurement, Production and Quality Management

International network for procurement of active ingredients and auxiliary materials

Under flexibility and cost aspects, STADA has generally abstained from manufacturing any active ingredients or auxiliary materials necessary for the Group's pharmaceutical production, but utilizes an international network of raw materials suppliers. Thereby, STADA focuses – particularly for the procurement of active pharmaceutical ingredients – on low-priced suppliers from low-cost countries, mainly from Asia. Nevertheless, the Group does not generally rule out future cooperations in the area of active pharmaceutical ingredient production with the goal of achieving greater vertical integration.

In consideration of the Group-wide, continuous cost optimization, both China and India have become important resource countries for low-cost active ingredient procurement for STADA. STADA currently has a procurement office in Shanghai, the People's Republic of China and in Mumbai, India.

If the Group's products are produced in the context of contract manufacturing, STADA is dependent on both global purchase price developments of the necessary raw and auxiliary materials and on the prices negotiated with contract manufacturers, which may fluctuate significantly depending on the product. With the objective of minimizing the risk of market-related margin losses due to falling selling prices, STADA involves suppliers – where 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.

Centralized needs planning

In the area of supply chain, the Group's needs planning for important products is carried out centrally. In addition, there are three supply chain hubs at the locations in Bad Vilbel, Germany, Vrsac, Serbia, and Moscow, Russia, which are managed through the STADA Arzneimittel AG and where the centralized needs planning is carried out for the Group's top products selected according to specified criteria. In view of the corresponding pooling of individual services, the Group creates cost synergies and thus cost savings. In consideration of the continuous cost optimization, the concept of this project, which was already concluded in financial year 2013, will be continuously developed in the context of an improvement process.

Supply chain and pharmaceutical production characterized by high flexibility and continuous cost optimization

With regard to the comprehensive product portfolio of more than 800 active pharmaceutical ingredients and over 16,000 product packagings sold by the Group, each different in terms of its active ingredients and/or quantity of the active ingredients and/or dosage forms and/or package sizes, STADA makes use of an international network of internal and external resources for the supply chain and pharmaceutical production.

The concentration of production processes at its own locations was continued in 2014. 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 the locations in low-cost countries in particular, and, on the other hand, to reduce unit costs of respective products by increasing capacities.

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.

The EU-GMP certified production facility in Huddersfield, United Kingdom, which was added to the Group's internal production network in the course of the acquisition of the British OTC supplier Thornton & Ross in 2013, was integrated in the production network of STADA Arzneimittel AG to a greater extent in 2014. Central capacity utilization was further increased through various product transfers of previously externally produced products, which has resulted in reduced unit prices.

The process optimization program in the area of production, which was launched in the previous years and has led to significant improvements in results, was expanded to all technical areas in 2014. Ongoing improvement in all technical/operative processes is extremely important for the STADA Group in order to continuously ensure competitiveness.

As of March 1, 2015, the Group had 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 & MENA	· 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)

STADA generally makes adequate annual investments to ensure that all Group-owned production facilities and test laboratories are maintained at the level required by legal stipulations and technical production considerations. Investments in the expansion and renewal of production facilities and plants as well as test laboratories, amounted to € 19.7 million in the reporting year (previous year[2]: € 27.3 million).

1) Production unit that is exclusively or primarily focused on local demand and not integrated in the Group.
2) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Highest quality and safety standards

As a health company, STADA places the highest priority on the quality and safety of its products. This focus relates to the quality of the raw materials processed by the company, the products fabricated by STADA, the services the Group offers worldwide, and also to the working conditions in which these services are carried out.

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

From the external side, inspections are carried out regularly by the respective nationally responsible regulatory authorities in the Group-owned production facilities. Within the EU, these inspections take place every two to three years. In addition to inspection by national authorities outside the EU, STADA also orders EU Good Manufacturing Compliance inspections (EU GMP compliance inspections) in order to receive extensions of the required EU import authorizations valid for three years each. In the context of these inspections, the responsible authorities review whether the inspected production facilities comply with the EU GMP standards. Between 2012 and 2014, twelve inspections in total were successfully completed in third countries throughout the Group. They include inspections in the production facilities of 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; Hemofarm LLC, Obninsk, Russia; Pymepharco Joint Stock Company, Tuy Hoa, Vietnam; and STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam.

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

If individual quality problems occur despite all the preventative and controlling measures, the quality management area focuses on an active approach to identify the root cause as quickly as possible and to find an appropriate solution. The procedure was also confirmed, for example, at the Serbian production facility in Vrsac when, in the third quarter of 2011, technical problems arose in the injection substances area which is primarily used for contract manufacturing. In the context of the ongoing GMP optimization program, STADA displayed the willingness for re-inspections by the US regulatory authority FDA in the fourth quarter of 2014. The re-inspection was confirmed by this US regulatory authority for the second quarter of 2015.

In general, the Group's quality management through STADA Arzneimittel AG is focused centrally and internationally and on a low-cost activity. In the course of the implementation of further optimization processes, STADA continued the second expansion phase already initiated in 2012 of the Group-owned laboratory building in Timisoara, where the Group carries out laboratory tests for the purpose of product authorizations, and, with the completion of the overall project in the first quarter of 2014, achieved the conditions for a doubling of test capacities there.

Sales and Marketing

Functionally organized Group with local and close to market sales companies

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

Depending on the market structure and the corresponding demand structure, the individual STADA subsidiaries focus 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, the sales activities are coordinated at the international level in the Group. This includes, for example, the structuring of the portfolio in line with the further internationalization of individual products or sales activities such as wholesaling cooperations. If it is necessary due to structural or legal framework conditions, STADA separates the marketing and sales activities of various sales companies within the individual market regions.

In some cases, STADA is also active in selected market regions with parallel sales companies. While adhering to strategical Group regulations, the individual subsidiaries are responsible for sales decisions in their respective local market so that they can optimally serve the respective local needs of the target groups.

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

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

In the context of the active acquisitions policy, STADA will continue to pursue the goal of continuously expanding the existing sales network in the future as well. On the one hand, this is to further reduce the dependencies 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 use the growth opportunities arising from the expansion.

As of March 1, 2015, the Group was active with numerous sales companies in the four market regions Germany, Central Europe, CIS / Eastern Europe and Asia / Pacific & MENA. The sales focus in 2014 was on the market regions Germany, Central Europe and CIS / Eastern Europe.

In the Asia / Pacific & MENA market region, as of March 1, 2015, the Group operated its own sales companies in China, the Philippines, Thailand, Vietnam as well as in Egypt and the United Arab Emirates.

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

STADA sales structure (as of March 1, 2015)[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
	Denmark	· STADA Nordic ApS, Herlev
	Germany	· STADA CEE GmbH[2)4)], Bad Homburg
	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 · Internis Pharmaceuticals Ltd., London · 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-Kasachstan 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 & MENA	**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
	United Arab Emirates	· STADA Mena DWC LLC, Dubai
	Egypt	· STADA Egypt Ltd., Cairo

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 basis of the STADA Group's operative alignment is in principle the management of a comprehensive network of internal and external resources. This applies in particular to procurement and production, product development as well as sales and marketing. In light of this, the employees, with their extensive expertise, their substantial experience and their strong commitment, have a significant share in the long-standing success of the Group.

Generally, STADA pursues a long-term personnel policy that focuses on optimally supporting employees, creating loyalty to the Group and carrying out the personnel changes required for sustainable development. Furthermore, STADA's personnel policy aims to attract those who might be interested and to win them as employees.

Decentralized personnel management

In the area of personnel management, STADA relies on a decentralized organization in order to optimally target the different needs and demands of its employees at the various locations of the individual market regions. In accordance with the Company guidelines, the international STADA subsidiaries are largely independent in many areas such as recruitment, training and remuneration. In this context, the Group's operational and strategic guidelines – in particular the compliance regulations – must be observed respectively.

Detailed information on 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.

Training and development as a fixed component of personnel management

In consideration of the major contribution to the successful Group development made by STADA's employees, training and staff development take on tremendous importance. Against this backdrop, STADA offers various career training programs in the pharmaceutical, administrative and warehouse logistics area. The Group also provides internships to young people to introduce them to the processes of a pharmaceutical company. The Group's employees receive general support in their field and have the opportunity to update their knowledge, for example in the form of foreign language training or specialist workshops and seminars.

Ongoing personnel development through targeted employee programs

STADA has established various employee programs which focus on personnel development by way of individual career planning and institutional talent development for the optimal support of its employees.

And so the Group has, for example, development programs that specifically focus on individual career stages. Under the acronym "STARS – Searching Talents in All Regions of STADA" the Group provides an international talent management and development program for the early and targeted support for future managers. This enables STADA not only to recruit managers from an external pool of applicants but to fill management positions from within its own ranks. Additionally, there is a highly individualized exchange program between the national and international subsidiaries called "secondment" with the goal of growing through networking and promoting talent at an early stage with

an individual and targeted approach within the STADA Group. Furthermore, STADA offers the so-called "Management College" to managers at a certain level, a multi-day and multi-phase program in which selected employees are supported in their management role.

Employee dialog and employee participation as a fixed part of internal communications

In the area of internal communications, STADA has started, among numerous other measures, to give employees the opportunity to get into contact with individual members of the Executive Board in order to gather information on important topics on the one hand, and, on the other hand, to establish a mutual exchange in the context of a continuous employee dialog. Since this type of employee communication has been exceedingly well-received since its introduction, and since it strengthens both cooperation and the feeling of belonging, STADA is currently in the process of further expanding this instrument of communication.

Employee participation also plays an important role at STADA. For the Group, employee participation means – in addition to the financial contribution that is made for employees when they buy STADA shares – participation in the form of ideas management including honoring ideas with rewards. In order to optimize the previously existing system, the entire process is currently in redevelopment.

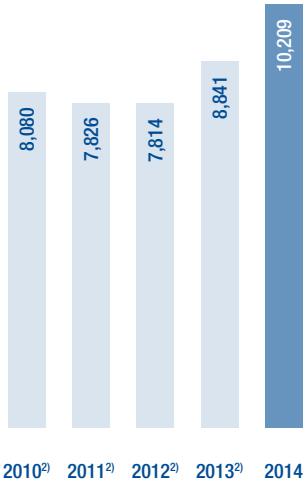
Development of the number of employees

Compared with 2013, the Group recorded a significant increase in the number of employees in financial year 2014 – both on average and at the balance sheet date. In 2014, the average number of employees thus increased to 10,209 (previous year[1]: 8,841). When considered in relation to the balance sheet date, the number of employees as of December 31, 2014 increased to 10,363 (December 31, 2013: 9,825).

The increase of the average number of employees in the Group is primarily due to the acquisition of the British OTC supplier Thornton & Ross as of September 1, 2013 and the control achieved over STADA Vietnam as of October 1, 2013. The inclusion of the Chinese subsidiary STADA Pharmaceuticals (Beijing) Ltd. in the scope of consolidation as of January 1, 2014 and an increase of the number of employees at the Serbian Hemofarm A.D. due to increased utilization of production capacities also contributed to this development.

The regional breakdown of the Group's employees shows that there was an average of 1,318 employees in Germany in the reporting year (previous year: 1,269). Of these, an average of 978 employees were located at the Group's headquarters in Bad Vilbel (previous year: 988). The average number of persons employed in international Group companies amounted to 8,891 (previous year[1]: 7,572).

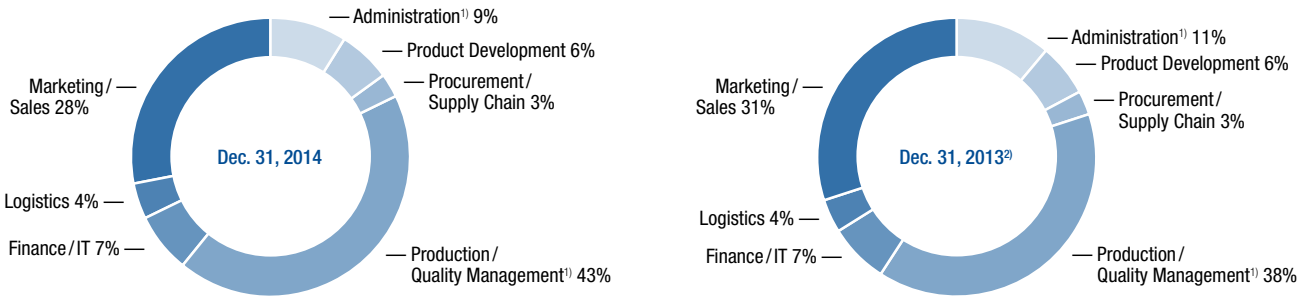
STADA's development in the number of employees on an annual average



1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2012 and earlier were not adjusted.

The percentage distributions with regard to the Group's average total number of employees were as follows for the individual functional areas as of December 31, 2014:

STADA employees by functional area



The Group-wide share of women in management positions amounted to approx. 51% in financial year 2014 (previous year: approx. 51%).

Personnel expenses

Personnel expenses in the reporting year amounted to € 305.1 million (previous year[2]: € 319.6 million). The personnel expenses ratio amounted to 14.8% in 2014 (previous year[2]: 15.9%). The decrease in the personnel expenses ratio was mainly a result of earnings from past service cost in connection with a change in the defined benefit plan for the Chairman of the Executive Board.

1) In 2013, facility management employees were exclusively recorded in the functional area Administration. In 2014, the facility management employees in production are allocated to the functional area Production/ Quality Management and the other facility management employees are recorded in the functional area Administration.
2) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Personnel structure by market region and functional area

Average number of STADA employees in 2014

	Marketing / Sales	Logistics	Finance / IT	Production / Quality Management[1]	Procurement / Supply Chain	Product Development	Administration[1]	2014 total
Germany	**294**	**139**	**174**	**330**	**75**	**168**	**184**	**1,364**
• Germany	255	139	170	330	74	166	184	1,318
• Other[2]	39	-	4	-	1	2	-	46
Central Europe	**726**	**50**	**95**	**295**	**87**	**114**	**106**	**1,473**
• Belgium	109	-	9	3	5	11	8	145
• France	57	-	8	8	9	7	7	96
• United Kingdom	120	31	25	261	17	49	56	559
• Italy	29	-	13	3	6	8	7	66
• The Netherlands	15	9	6	6	11	5	3	55
• Poland	92	-	3	-	-	3	1	99
• Spain	140	-	12	3	6	7	11	179
• Czech Republic	45	-	2	-	2	4	2	55
• Other[2]	119	10	17	11	31	20	11	219
CIS / Eastern Europe	**1,461**	**96**	**315**	**2,645**	**127**	**230**	**356**	**5,230**
• Bosnia-Herzegovina	28	7	9	101	3	2	18	168
• Kazakhstan	90	1	7	-	9	4	2	113
• Montenegro	12	4	4	107	2	1	10	140
• Romania	33	4	3	38	-	1	4	83
• Russia	840	39	136	973	42	133	180	2,343
• Serbia	152	38	141	1,425	71	81	140	2,048
• Ukraine	177	3	7	-	-	4	2	193
• Other[2]	129	-	8	1	-	4	-	142
Asia & Pacific	**457**	**115**	**86**	**1,172**	**22**	**59**	**231**	**2,142**
• Vietnam	390	95	67	1,127	21	51	191	1,942
• China	14	10	6	43	1	2	31	107
• Other[2]	53	10	13	2	-	6	9	93
Group total	**2,938**	**400**	**670**	**4,442**	**311**	**571**	**877**	**10,209**

1) The facility management employees in production are allocated to the functional area Production / Quality Management and the other facility management employees are recorded in the functional area Administration.
2) Other countries of the respective market regions each have less than 50 employees.

Goals and Strategies

Active acquisition policy based on multi-pillar strategy

STADA's business model focuses on the generation of further growth. In this context, STADA generally strives to maintain or achieve leading positions in each relevant market segment with the subsidiaries in important markets within the individual market regions. In order to achieve this, the Group focuses on both the expansion of organic growth and on acquisitions. In the context of an active acquisition policy, STADA pursues a multi-pillar strategy that focuses on increasing the diversification of the portfolio. This aims at reducing potential risks and at building upon existing opportunities. On the one hand, the multi-pillar strategy stipulates the regional expansion of business activities – whereby the focus is on high-growth emerging markets. On the other hand, there should be an expansion and internationalization of the Branded Products segment, which is generally characterized by less regulatory intervention and more attractive margins than the generics area. The STADA Group also pursued these goals in financial year 2014.

Utilizing existing growth potential through strategic success factors

STADA's strategic success factors create the basis for utilizing existing growth opportunities for securing sustainable Group success. They include strong product development, an international sales structure, an active acquisitions policy including experienced integration management, a functionally organized Group with short decision-making processes and close-to-market sales companies, as well as a culture of continuous cost optimization including efficient cost management (see "Prognosis Report").

The strong product development and thus a well-filled product pipeline are the basis of a steady flow of product launches and therefore an ongoing expansion of the existing product portfolio, particularly in the Generics segment.

The international sales structure with four market regions is designed to market the products from the Group-wide product portfolio in a way which is adapted to the different regulatory and competitive framework conditions in the individual markets of the respective market regions.

In the context of the active acquisition policy, STADA aims to further expand the Group's business activities. In this context, the Group concentrates, on the one hand, on the regional expansion in selected markets focusing on high-growth emerging markets. On the other, the focus is on the expansion and internationalization of the core segments, particularly of Branded Products, as they are generally characterized by better margins and are subject to less regulatory intervention.

With respect to further Group growth, an important function is inherent in the organization by market region with short decision-making channels while maintaining a strong local market presence at the same time. This predominately applies to sales activities, because the ability to react to changes in the short-term plays an important role in both exploiting opportunities and reducing risks.

Furthermore, continuous cost optimization and efficient cost management are of great importance in consideration of earnings.

Controlling

The management of the corporate areas in the STADA Group is based on strategic and operative guidelines as well as on various financial indicators. The financial performance indicators used by the Group as key figures for the operational management are 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. Top-line programs to increase sales in the STADA Group are thus an important pillar for future development. For STADA, reported sales is essential, since the Group relies on growth both by organic means and through acquisitions in the course of its growth strategy.

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 effects 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. Results 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. At STADA, the adjusted net income represents a key figure for the measurement of the overall success in the Group.

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.

1) The deduction of such effects which have an impact on the presentation of the 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

Strategic positioning in the name of sustainability

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.

Care for people's health and well-being is in the center of STADA's activities. "All the best" describes the mission statement that, on the one hand, represents a guideline for the over 10,000 employees and, on the other hand, reflects the quality of business activities: the quality of the raw materials which the company processes, of the products that STADA produces, the services the Group offers worldwide and the working conditions in which STADA's services are carried out.

In order to ensure that the economic success of the Group is consistent with its environmental and social impact, responsible action and sustainable economic activity are taken into consideration throughout the entire value chain at STADA. In order to demonstrate the responsibility and the sustainable commitment of Group activities as well as to document and compare the status and future goals on an annual basis, STADA plans to join the UN Global Compact.

"All the best" – a STADA initiative

In the autumn of 2014, STADA Arzneimittel AG launched the "All the best" initiative. Its objective is to provide people with useful information to support their approach to health in their day-to-day lives. The STADA Health Report is the heart of the initiative. It provides interesting insights into the attitude of Germans towards various health topics. The topic of the first Health Report, which is published once a year with various focus topics, was about the attitudes, wishes and behavior of Germans regarding health in their day-to-day lives. With the "All the best" initiative, STADA shows what every single person can do to stay fit and healthy, since health and well-being are essential requirements for being able to cope with and manage life's daily challenges. The initiative also enjoys the support of high-ranking experts in the fields of medicine, science, sport and lifestyle. Not only STADA's Chairman of the Executive Board Hartmut Retzlaff attended the press conference to introduce the "All the best" initiative, but also former world-class swimmer Franziska van Almsick, trend analyst Corinna Mühlhausen and Managing Director of Kantar Health, Werner Guminski, whose institution had conducted the representative online-survey among 2,000 Germans between 18 and 70 years of age, were there and emphasized the content of the STADA Health Report with their points of view. Current information on the initiative can be found at www.stada.de/initiative or www.stada.com/initiative.

Active promotion of health and sports

As a health company, STADA Arzneimittel AG and various subsidiaries support numerous sports projects for the general population, disabled individuals and professionals. In addition, STADA supports opportunities for the employees not only to find out about health and sports, but also to actively maintain their level of fitness. The health care center at Group headquarters in Bad Vilbel, Germany, offers, among other things, fitness training, yoga classes and massage sessions. Furthermore, STADA conducts a health consultation within the Company for employees on several days of the year.

In 2014, STADA initiated a series of events in line with the motto “STADAktiv”, in the scope of which employees can participate in sports and leisure events. STADAktiv aims at motivating and getting active together, thereby improving one’s health and well-being as well as strengthening the sense of community. A winter sports trip to Oberstdorf, which started the new event series, was followed by active camps with top triathletes for challenging running training and an event for playing pool. Highlights in which STADA participated included the J.P. Morgan Corporate Challenge, a run in Frankfurt am Main with over 71,000 participants, and the “Firmen Datterich Ultra-Triathlon” in Darmstadt, in which every runner had to cover one-tenth of the Ironman distance. STADAktiv closed 2014 with the pre-Christmas event of cutting Christmas trees in the German Taunus region.

Since 1995, STADA has supported the Rollstuhlbasketball-Verein (RSV) Lahn-Dill, a very successful wheelchair basketball club in the German Basketball Bundesliga and at the European level. In 2014, the successful paralympics team from Wetzlar clinched its eleventh cup and the eleventh German Champion title.

In 2014, the German subsidiary STADAvita GmbH used its Magnetrans product to sponsor the “Deutsche Post Ladies Run”, a five and ten kilometer run that took place in different German cities. Apart from the health-promoting physical exercise for the approximately 7,000 participants, the event series supported a foundation for children and teenagers in need. Furthermore, STADAvita hosted a “STADA Family Day” at the Nürburgring, in which STADA employees and their families could participate.

Since 2006, the STADA subsidiary ALIUD PHARMA GmbH has been supporting the two-time Olympic medalist and 2012 Paralympics participant in London Hanne Breuer in dressage riding. The top athlete became a paraplegic in a riding accident and is an inspiration to other disabled athletes due to her achievements that encourage them to face difficult challenges despite handicaps. In 2014, the athlete and her horse “Woman of the World” won one gold and one silver in single competitions as well as bronze in the team ranking at the World Equestrian Games. ALIUD PHARMA also supports the “Kleine Glücksritter e.V.” (small riders) club initiated by Hanne Brenner. 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. Since the start of 2015, ALIUD PHARMA has also sponsored the gold medal team winner of the European championship in Para Archery, Lucia Kupczyk. The archer with disabilities, who has been bound to a wheelchair since 2005 as a result of a medical condition, even set a new world record with her German team.

Social commitment

Since 2012, STADA Arzneimittel AG has supported the “Kinderzukunft” (Children’s Future) Foundation project that helps children in need. One focus lies on the financial support of the children’s village in Timisoara, Romania, which celebrated its 20th anniversary in 2014. The social institution that helps orphans and children without any perspective, provides not only care and safety to approximately 200 children between three and 18 years, but also offers a holistic concept with education and the village’s own training centers with state-recognized vocational training.

In cooperation with the Hochschule Fresenius in Idstein, Germany, STADA has supported the STADA foundation professorship in “health management” since 2003 in order to provide new impetus to the discussion about 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.

Since 2011, STADA Arzneimittel AG has been investing in a fund 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. 15 STADA employees have already benefited from the fund since it was established.

One of STADA's main regional promotion projects are the castle festivals in Bad Vilbel, Germany, which STADA has been sponsoring for 27 years now. In 2014, the culturally most important event at the Group's headquarters attracted more than 100,000 visitors with its entertaining performances. About a third of that total visited the shows especially intended for families and children.

After large parts of Serbia and Bosnia had been drastically flooded in May 2014 due to the most severe rainfalls in more than 120 years, STADA's Serbian subsidiary did not only send relief supplies to the affected areas, but it also supported disaster management with the help of the company's fire brigade and the commitment of numerous employees. Furthermore, STADA employees in Germany collected relief supplies for the victims in the affected regions, and transport was financed by STADA. Additionally, the Executive Board of STADA covered the costs of private damages from Hemofarm employees living in those areas.

STADA Arzneimittel AG has supported the non-profit association dolphin aid e.V. located in Düsseldorf, Germany, as a main sponsor since 2007. Dolphin aid promotes alternative therapies and enables ill and handicapped children to undertake "dolphin therapy". 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 German subsidiary STADApharm GmbH has now been supporting the so-called "Deutschlandstipendium" (scholarship of Germany) for three years. This educational scholarship initiated by the federal government 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.

ALIUD PHARMA has supported the educational program "Klasse 2000" of a first grade of an elementary school as a mentor since the beginning of the school year 2013/14. Its objective is to strengthen the health and life competences of elementary school-aged children in order to counteract addiction and violence potential at an early stage. This allows children to get in touch with physical exercise, nutrition and relaxation and handling feelings such as stress. They also learn about strategies for problem and conflict solution.

Social commitment of international STADA subsidiaries

In 2012, the Spanish STADA subsidiary Laboratorio STADA initiated the "kNOW Alzheimer" project in cooperation with Spanish specialist institutions. The project's particular goal is to expand research opportunities and to raise awareness of Alzheimer's disease and thereby to improve the situation for patients. On the occasion of World Alzheimer's Day on September 21, a campaign to raise public attention to this disease was launched. The challenge of the campaign, which has its own website and is also represented in social media, is to collect 800,000 statements – one for every Alzheimer patient in Spain.

In summer 2014, the Spanish sunscreen division Ladival® and the "Cruz Roja Española" (the Spanish Red Cross) donated sunscreen in order to increase awareness of sufficient sun protection and to thereby counteract premature skin aging and severe skin diseases. The cooperation took place on 245 beaches where more than 1,500 lifeguards benefited from the project.

Since 2012, Ladival® has supported the "Carrera de la Mujer" in Spain, the largest European sporting event for women with more than 90,000 participants, as one of the main sponsors. The five to seven-kilometer race that is held in eight cities in Spain every year supports the Spanish association the fight against cancer. In the scope of the events, Ladival® particularly emphasizes the necessity of the correct use and an early start of sun protection.

Since autumn 2013, the Swiss subsidiary Spirig HealthCare AG has sponsored the foundation "aha! Allergiezentrum Schweiz" – a patients' organization that provides advice and help to people with allergies, asthma, neurodermatitis and food intolerances. In line with the goal of increasing the affected patients' standards of living, they are offered various information through the website, guides and seminars.

In 2011, the Russian Holding STADA CIS initiated the project "Medicine for life", which aims to raise awareness of health care among Russian citizens and to provide them with basic information on the use of medicines. Alongside brochures, its own radio programs, social media activities and media events, the website which provides clear information on different topics was updated in 2014.

STADA CIS also got involved socially at a regional level in 2014. The Russian STADA subsidiary Nizhpharm, for example, became actively involved as co-organizer at the award for the most popular doctors by the citizens of the Nizhny Novgorod region, which, among other things, aims to promote the doctors' positive image. Furthermore, STADA CIS supported children that suffer from leukemia and rheumatic diseases, as well as those who have critical family backgrounds or have grown up in orphanages.

On the occasion of the 95th anniversary of the Nizhpharm subsidiary, STADA CIS organized the project "Mobile Diagnostics: Get Your Health under Control" in September 2014. The project draws attention to non-infectious chronic diseases in particular that, statistically speaking, make up more than 80% of all cases of work incapacity and mortality in Russia. The people were given the opportunity to be checked by more than 50 leading specialists of the most diverse medical fields in regional hospitals and mobile medical centers. In the scope of this thorough health check, 2,000 people from 31 districts of Nizhny Novgorod, including areas in which medical help is hard to find, were examined within ten days. Among others, cases of high blood pressure, thyroids diseases, diabetes or vascular symptoms were diagnosed. Depending on the disease, the patients were admitted to hospital for treatment or received corresponding health tips.

Furthermore, STADA CIS is actively involved in areas related to the pharmaceutical industry. The third edition of a photo book of "Profession of a Doctor", a photography project initiated by STADA, has now published. It shows around one hundred doctors from different Russian cities who present their jobs in descriptive photographs. The objective is, on the one hand, to foster trust in the services that doctors provide and, on the other, to encourage the public to have regular preventative check-ups.

The Serbian STADA subsidiary Hemofarm initiated numerous sustainable projects to support social issues in cooperation with the Hemofarm Foundation. Apart from the above mentioned financial and human aid during the Balkan flood, Hemofarm donated, among other things, medical equipment for anesthesia and intensive-care medicine as well as for gynecology and obstetrics to several hospitals in financial year 2014. In addition, Serbian institutions in need, e.g. schools and social clubs, received financial donations or donations in kind. The sports events supported by the Serbian organization in 2014 comprised the Serbian championship of sports for people with disabilities and the 27th Belgrad Marathon. In the area of culture, Hemofarm provided, among other things, support for young pianists from Serbia in an international competition and a national choir festival in Belgrade. Additionally, Hemofarm was the foundation partner of the 2014 Serbinale, a festival for young Serbian artists living in Berlin. This enables, among other things, the merging of Serbian and German talents of the most diverse arts. Furthermore, Hemofarm was actively involved in the field of education. Biology students from Belgrade thus received financial support for the organization of their European winter conference and primary school pupils were able to participate in a quiz contest that draws attention to young people's risk of addiction.

In addition, in cooperation with UNICEF Serbia, the Hemofarm Foundation conducted the study "Happiness and Families with Children in Serbia", which reveals that strong families are the most important factor of happiness. The conclusion is based on the finding that functions and customs of families, the way of raising children and the strong bond with the close and wider social environment are the key to happiness. The study aims to motivate Serbian families to treat each other with respect, to solve conflicts peacefully and to spend time with their children. The project is accompanied by a media campaign, workshops and several family activities.

The STADA subsidiaries in the market region Asia & Pacific are socially engaged in various projects, too. In 2014, for example, some health controls were organized in various parts of Vietnam, particularly in remote parts of the country and areas that are difficult to access. This way, many children and people in need were provided with health care they otherwise had not been able to receive due to the lack of doctors and medication. Apart from supporting several conferences that were conducted by hospitals and research institutes, STADA Vietnam sponsored the organization of the Vietnam Doctors' Day in February 2014 and the Children's Day in June 2014. Furthermore, STADA Vietnam got actively involved in the form of making monetary donations and donations in kind for hospitals and institutes for children, disabled and elderly people. In 2014, the Vietnamese STADA subsidiary Pymepharco also supported social projects. In this context, poor or disabled people, orphans and people in difficult life situations received, among other things, donations in kind in the form of medicine.

Further information on the social engagement of STADA and its subsidiaries is provided on the Company's website at www.stada.de or www.stada.com.

Responsible action for the environment

STADA also pursues responsible action 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. Furthermore, STADA's business model, which focuses on long-standing and proven active ingredients, requires no types of genetic research with embryos.

The Group also promotes the environmental awareness of its employees. For example, STADA reimburses travel costs when using public transportation and subsidizes car pools among employees.

Compliance system in the STADA Group

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 the Management Report of this Annual Report in the chapter "Corporate Governance Report".

ECONOMIC REPORT

General Economic and Industry-Specific Situation

Overall economic development

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

According to information from the International Monetary Fund (IMF), global economic output in 2014 increased by 3.3%.[1)] In the course of this, the growth rates of the advanced countries at 1.8% and those of the emerging markets at 4.4% therefore slightly approached each other.[1)] The economic output of the USA, the world's largest economy, increased by 2.4%, while China's economy grew by 7.4%.[1)] With recorded growth of 0.8%, the EU countries returned to the growth path.[1)] While the gross domestic product (GDP) was positive in Germany (1.5%), France (0.4%) and Spain (1.4%), it declined slightly in Italy (-0.4%).[1)] GDP in the so-called CIS countries (Commonwealth of Independent States) grew by 0.9%, while Russia recorded a slight increase of 0.6%. The Emerging and Developing Europe[2)] region grew by 2.7%, while economic output in Serbia[3)] decreased slightly by 0.5%.

Industry-specific development

Sales in the global generics market increased by approx. 9.9%[4)] to approx. € 116.6 billion[4)] in 2014 as compared to the previous year. The market share of generics in the global pharmaceutical market amounted to approx. 13.6%[4)]. The sales development of generics in the four STADA market regions in the same period was as follows: Germany approx. +6.3%[5)] to approx. € 6.28 billion[5)], Central Europe approx. +3.9%[5)] to approx. € 23.10 billion[5)], CIS/Eastern Europe approx. +9.0%[5)] to approx. € 6.10 billion[5)], Asia & Pacific approx. +7.5%[5)6)] to approx. € 8.14 billion[5)6)].

Sales of the global OTC market increased by approx. 4.6%[7)] to approx. € 62.60 billion[7)] as compared to the previous year. The market share of OTC products amounted to approx. 8.2%[7)]. The sales development of OTC products in the four STADA market regions in the same period was as follows: Germany approx. +1.5%[5)] to approx. € 4.82 billion[5)], Central Europe approx. -1.4%[5)] to approx. € 11.40 billion[5)], CIS/Eastern Europe approx. +6.0%[5)] to approx. € 5.44 billion[5)], Asia & Pacific approx. +5.6%[5)6)] to approx. € 3.97 billion[5)6)].

1) Source: International Monetary Fund: World Economic Outlook January 2015.
2) Including Bulgaria, Croatia, Lithuania, Poland, Romania, Serbia, Turkey and Hungary.
3) Source: International Monetary Fund: World Economic Outlook October 2014.
4) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015.
5) IMS MIDAS (September) 2014, data based on the definition of STADA market regions.
6) Asia & Pacific excluding China.
7) IMS MIDAS (September) 2014.

Effects of overall economic and industry-specific framework conditions

As the business model of STADA is oriented toward the health care market, where demand is relatively independent of the economy, the international economic framework 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.

Nevertheless, the economic framework conditions do have an influence on the Group's business development because they are characterized by currency and interest rate fluctuation. Therefore, STADA regularly takes precautionary measures in order to react appropriately to strong volatility in interest rates and Group-relevant currency relationships (see "Risk Report" as well as Notes to the Consolidated Financial Statements – 46.). Furthermore, the economic influences have a stronger effect on the Group in the markets belonging to the so-called self-pay markets, since the demand for STADA products, to a certain extent, depends on the financial means of the respective patients. Depending on the respective economic development, there is also a more or less strong cost pressure in the individual health care systems that can also have curbing effects on generics suppliers as a result of corresponding regulatory measures. Furthermore, macroeconomic influences can directly affect STADA's development, if individual state health care systems no longer have sufficient funds to finance adequate health care for their people.

With a view to the currency effects in financial year 2014, an uneven development can be seen regarding translation of sales and earnings in the national currencies most important for STADA of the Russian ruble, Serbian dinar and the pound sterling. Whereas the Russian ruble showed significantly weaker and the Serbian dinar showed weaker development, the British pound sterling had a positive currency effect. In addition, the Ukrainian hryvnia showed significantly weaker development. The currency relationships in other countries relevant for STADA only had a small influence on the translation of sales and earnings in local currencies into the Group currency euro.

In view of the self-pay markets, the business development in the market region CIS/Eastern Europe – especially in Russia – was affected by the CIS crisis in the reporting year. In addition to the above mentioned significantly weaker exchange rate, a reluctance to buy was noted among end consumers through whom approx. 92% of STADA's sales in Russia is generated. Furthermore, this development was also influenced by a reduction in demand on the part of wholesalers.

Business Development and Situation | Development of 2014 Compared to Outlook

In the outlook for 2014, the Executive Board had envisaged slight growth in Group sales, adjusted EBIDTA and adjusted net income in the Prognosis Report of the Annual Report 2013. In this context, the Executive Board had expected slight growth in sales in the core segment Generics and significant growth in sales in the core segment Branded Products. Additionally, the core segment Generics was expected to generate an adjusted EBITDA slightly above the level of financial year 2013. The core segment Branded Products was expected to generate a significantly increased adjusted EBITDA as compared to the previous year. The Executive Board had aimed for a net debt to adjusted EBITDA ratio at a level of 3 – whereby the outlook of this key figure was slightly adjusted to a level of nearly 3 in the Interim Report on the First Nine Months of 2014.

Group sales in the reporting year increased, with varying developments in the individual market regions, by 3% to € 2,062.2 million. Sales of the core segment Generics decreased, contrary to the Executive Board's expectation, slightly by 1% to € 1,217.7 million. On the one hand, this development was based on the difficult local framework conditions for generics in Germany as a result of intensive competition for tenders for discount agreements. On the other, the significant weakness of the ruble, a reluctance to buy among end consumers and a decrease in demand from wholesalers as a consequence of the CIS crisis had a noticeable curbing effect in Russia. Sales in the core segment Branded Products increased significantly by 14% to € 800.5 million. Adjusted EBITDA grew by 4% to € 431.9 million, while adjusted EBITDA of the core segment Generics increased by 7% to € 228.7 million. Adjusted EBITDA of the core segment Branded Products increased by 7% to € 240.0 million. Adjusted net income increased substantially by 16% to € 186.2 million. The net debt to adjusted EBITDA ratio improved to 3.1.

Business Development and Situation | Development of Performance Indicators

The development of the STADA Group's financial performance indicators in financial year 2014 was as follows:

Financial performance indicators of the STADA Group

in € million	2014	2013[1)]	±%
Group sales	**2,062.2**	**2,003.9**	**+3%**
• Generics	1,217.7	1,227.9	-1%
• Branded Products	800.5	704.4	+14%
Adjusted EBITDA	**431.9**	**414.3**	**+4%**
• Generics	228.7	213.4	+7%
• Branded Products	240.0	225.1	+7%
Adjusted net income	**186.2**	**160.6**	**+16%**
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.

Non-financial performance indicators of the STADA Group

With regard to the non-financial performance indicators, please refer to the chapter "Responsibility and Sustainability" in this Annual Report.

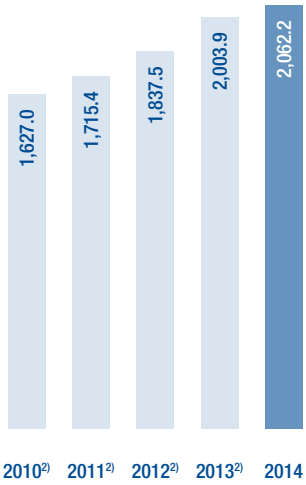
1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Business Development and Situation | Earnings Situation

Development of Sales

Increase in Group sales despite challenging framework conditions in two out of four market regions

Group sales in € million over 5 years



Despite challenging framework conditions and with mixed development in the individual market regions, **Group sales** increased by 3% in the reporting year to € 2,062.2 million (previous year[1)]: € 2,003.9 million).

When effects on sales attributable to changes in the Group portfolio and currency effects are deducted, Group sales increased slightly by 1% to € 2,014.3 million in the reporting year.

In 2014, **portfolio changes** amounted to a total of € 139.2 million or 6.9 percentage points which are divided among the affected market regions as follows: market region Central Europe € 65.6 million, market region CIS / Eastern Europe € 40.9 million, market region Asia & Pacific € 32.7 million.

In detail, the effects on sales, which can be attributed to changes in the Group portfolio and currency effects, were as follows:

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 € 91.9 million or -4.6 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 was significantly weaker and the development of the Serbian dinar was weaker. However, the Group's third most important national currency, the pound sterling, recorded a positive currency effect. Furthermore, the development of the Ukrainian hryvnia was significantly weaker as compared to the euro. The currency relationships in other countries relevant for STADA only had a small influence on the translation of sales and earnings in local currencies into the Group currency euro.

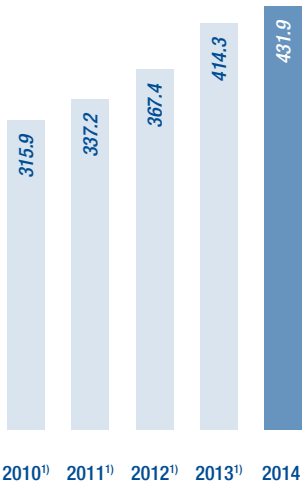
To the extent that adjusted sales figures are reported in this Annual Report, this refers to sales adjusted for portfolio effects and currency fluctuations respectively.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2012 and earlier were not adjusted.

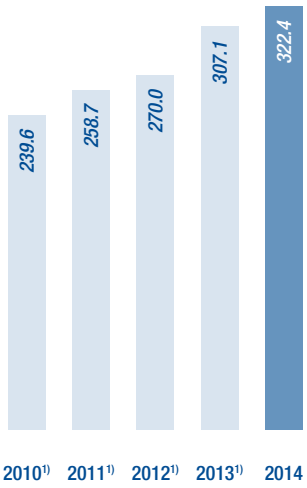
Business Development and Situation | Earnings Situation

Development of Earnings and Costs

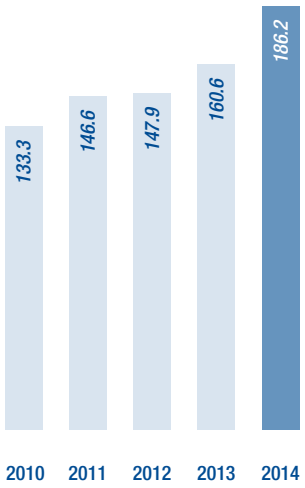
Adjusted EBITDA
in € million



Adjusted EBIT
in € million



Adjusted net income
in € million



Growth in operating performance – increase in all of the Group's adjusted key earnings figures

The earnings development in the reporting year was characterized by an increase in operating performance as shown by growth in all of the Group's adjusted key earnings figures.

In 2014, reported operating profit decreased significantly by 24% to € 188.5 million (previous year[2)]: € 248.3 million), mainly due to impairments on goodwill in the market regions CIS / Eastern Europe and Asia / Pacific & MENA. Reported EBITDA increased by 9% to € 418.8 million (previous year[2)]: € 382.6 million). In view of high burdening one-time special effects, reported net income recorded a substantial decrease of 47% to € 64.6 million (previous year: € 121.4 million).

After adjusting the key earnings figures for influences distorting the period comparison resulting from one-time special effects, adjusted operating profit increased by 6% in financial year 2014 to € 320.7 million (previous year[2)]: € 303.1 million). Adjusted EBITDA recorded growth of 4% to € 431.9 million (previous year[2)]: € 414.3 million). Net income, adjusted for one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses, increased by a substantial 16% to € 186.2 million (previous year: € 160.6 million).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2012 and earlier were not adjusted.
2) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

The disproportionate increase of adjusted net income could primarily be attributed to a substantial reduction of the adjusted tax rate as of the first quarter of 2014. This development results from a changed profit allocation in the STADA Group, which has been primarily influenced by the successful conclusion of the "STADA – build the future" project at the end of financial year 2013 and a connected adjustment of the internal transfer pricing model.

In view of this, the adjusted tax rate in financial year 2014 decreased to 24.2% as compared to the previous year (previous year[1)]: 32.7%). The reported tax rate rose to 43.8% as compared to the previous year primarily as a result of impairments on goodwill not deductible for tax purposes in the market regions CIS / Eastern Europe and Asia / Pacific & MENA (previous year[1)]: 35.1%).

Influence on earnings due to one-time special effects

One-time special effects amounted to a net burden on earnings of € 132.2 million before or € 125.2 million after taxes in the reporting year (previous year: net burden on earnings due to one-time special effects in the amount of € 54.8 million before or € 41.7 million after taxes).

In detail, these were as follows:

- a burden in the amount of € 59.8 million before or € 59.8 million after taxes from impairments on goodwill
- a burden in the amount of € 45.8 million before or € 41.5 million after taxes in connection with impairments of further intangible assets following impairment tests including the market region CIS / Eastern Europe
- a burden in the amount of € 25.0 million before or € 20.7 million after taxes in connection with currency translation expenses recorded in the income statement resulting from the fluctuation of the Russian ruble as well as further significant currencies of the market region CIS / Eastern Europe
- a burden in the amount of € 10.9 million before or € 10.6 million after taxes resulting from additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions taking financial year 2013 as a basis
- a net relief in the amount of € 9.3 million before or € 7.4 million after taxes from several extraordinary expenses and income, among other things, for payments made and received in connection with damage claims

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 to a net relief on earnings of € 3.6 million before or € 3.6 million after taxes in 2014 (previous year: net relief on earnings from effects from the measurement of derivative financial instruments under financial income and expenses of € 3.4 million before or € 2.5 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 the 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.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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 2014 and for the previous year to allow for comparison.

Development of the STADA Group's reported key earnings figures

in € million	2014	2013[1]	± %	Margin[2] 2014	Margin[2] 2013[1]
Operating profit	188.5	248.3	-24%	9.1%	12.4%
• Operating segment result Generics	108.3	154.4	-30%	8.9%	12.6%
• Operating segment result Branded Products	138.2	160.2	-14%	17.3%	22.7%
EBITDA[3]	418.8	382.6	+9%	20.3%	19.1%
EBIT[4]	190.3	252.4	-25%	9.2%	12.6%
EBT[5]	124.7	189.3	-34%	6.0%	9.4%
Net income	64.6	121.4	-47%	3.1%	6.1%
Earnings per share in €	1.07	2.04	-48%		
Diluted earnings per share in €	1.05	2.00	-48%		

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

in € million	*2014*	*2013[1]*	*± %*	*Margin[2] 2014*	*Margin[2] 2013[1]*
Operating profit, adjusted	*320.7*	*303.1*	*+6%*	*15.6%*	*15.1%*
• *Operating segment result Generics, adjusted*	*176.9*	*165.5*	*+7%*	*14.5%*	*13.5%*
• *Operating segment result Branded Products, adjusted*	*192.9*	*173.5*	*+11%*	*24.4%*	*24.6%*
EBITDA[3], adjusted	*431.9*	*414.3*	*+4%*	*21.0%*	*20.7%*
• *EBITDA Generics, adjusted*	*228.7*	*213.4*	*+7%*	*18.8%*	*17.4%*
• *EBITDA Branded Products, adjusted*	*240.0*	*225.1*	*+7%*	*30.3%*	*32.0%*
EBIT[4], adjusted	*322.4*	*307.1*	*+5%*	*15.7%*	*15.3%*
EBT[5], adjusted	*253.3*	*240.7*	*+5%*	*12.3%*	*12.0%*
Net income, adjusted	*186.2*	*160.6*	*+16%*	*9.1%*	*8.0%*
Earnings per share in €, adjusted	*3.08*	*2.70*	*+14%*		
Diluted earnings per share in €, adjusted	*3.04*	*2.65*	*+15%*		

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
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 2014 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	2014 without deduction of effects to be adjusted	2014 effects to be adjusted	*2014 after deduction of effects to be adjusted*	2013[1] without deduction of effects to be adjusted	2013 effects to be adjusted	*2013[1] after deduction of effects to be adjusted*
Sales	2,062,247	-8,650	*2,053,597*	2,003,912	1,800	*2,005,712*
Cost of sales	1,070,441	14,756	*1,055,685*	1,024,475	1,174	*1,023,301*
Gross profit	**991,806**	**6,106**	***997,912***	**979,437**	**2,974**	***982,411***
Selling expenses	458,381	-	*458,381*	488,162	2,351	*485,811*
General and administrative expenses	152,817	-	*152,817*	159,537	3,448	*156,089*
Research and development expenses	56,905	-	*56,905*	55,473	123	*55,350*
Other income	20,067	-5,972	*14,095*	53,754	-546	*53,208*
Other expenses	155,243	132,012	*23,231*	72,629	37,369	*35,260*
Expenses in connection with the "STADA – build the future" project	-	-	-	9,064	9,064	-
Operating profit	**188,527**	**132,146**	***320,673***	**248,326**	**54,783**	***303,109***
Result from associated companies	1,595	-	*1,595*	3,700	-	*3,700*
Investment income	132	-	*132*	340	-	*340*
Earnings before interest and taxes (EBIT)	**190,254**	**132,146**	***322,400***	**252,366**	**54,783**	***307,149***
Financial income	4,833	-3,588	*1,245*	6,865	-3,381	*3,484*
Financial expenses	70,393	-	*70,393*	69,930	-	*69,930*
Earnings before taxes (EBT)	**124,694**	**128,558**	***253,252***	**189,301**	**51,402**	***240,703***
Income taxes	54,586	-6,816	*61,402*	66,490	-12,203	*78,693*
Earnings after taxes	**70,108**	**121,742**	***191,850***	**122,811**	**39,199**	***162,010***
Result distributable to non-controlling interests	5,546	93	*5,639*	1,385	-	*1,385*
Result distributable to shareholders of STADA Arzneimittel AG (net income)	**64,562**	**121,649**	***186,211***	**121,426**	**39,199**	***160,625***
Earnings per share in €	1.07	-	*3.08*	2.04	-	*2.70*
Earnings per share in € (diluted)	1.05	-	*3.04*	2.00	-	*2.65*
EBIT	**190,254**	**132,146**	***322,400***	**252,366**	**54,783**	***307,149***
Balance from depreciation and amortization/write-ups on intangible assets (including goodwill), property, plant and equipment and financial assets	228,521	-119,033	*109,488*	130,193	-23,071	*107,122*
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**418,775**	**13,113**	***431,888***	**382,559**	**31,712**	***414,271***

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Cost of sales amounted to € 1,070.4 million in financial year 2014 (previous year[1]: € 1,024.5 million). Gross profit i.e. sales after deducting cost of sales thus amounted to € 991.8 million (previous year[1]: € 979.4 million).

Overall, cost of sales in the reporting year included impairment, depreciation and amortization in the amount of € 100.8 million (previous year[1]: € 86.3 million), which primarily related to amortization on such intangible assets, which represent 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 51.9% in 2014 (previous year[1]: 51.1%). The sales-related **gross margin**, which is reciprocal to the cost of sales ratio, decreased to 48.1% in the reporting year (previous year[1]: 48.9%). This development was primarily attributable to two factors. On the one hand, the gross margin was burdened by additional impairments from acquisitions like the British OTC supplier Thornton & Ross[2], the purchase of the Russian branded product portfolio Aqualor®[3] as well as the control acquired over STADA Vietnam (see partly "Financial Situation – Acquisitions and disposals"). On the other hand, the burdens in the context of the CIS crisis were notable (see "Earnings Situation – Development of Segments – Development by Market Region – Russia").

Selling expenses, which at STADA are predominantly composed of costs for sales force and sales department employees, as well as product-related marketing expenditure, decreased in the reporting year to € 458.4 million (previous year[1]: € 488.2 million). The decline was particularly attributable to high savings from the new sales agreement in Belgium as well as cost savings within the CIS subgroup, which streamlined its marketing activities for the purpose of a stronger focus on high-margin products. The selling expenses ratio amounted to 22.2% (previous year[1]: 24.4%).

General and administrative expenses decreased to € 152.8 million in 2014 (previous year[1]: € 159.5 million) and had a share of 7.4% of Group sales (previous year[1]: 8.0%). The decrease resulted from net earnings in the amount of € 15.9 million, mainly from past service cost in connection with a change in the defined benefit plan for the Chairman of the Executive Board and the resulting changes with regard to the benefits awarded according to the former benefit plan.

Research and development costs were at € 56.9 million in financial year 2014 (previous year[1]: € 55.5 million). The sales-related ratio of research and development costs amounted to 2.8% (previous year[1]: 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 not included in this cost item, as they are usually capitalized by STADA (see Notes to the Consolidated Financial Statements – 15.).[4]

Other income decreased in the reporting year to € 20.1 million (previous year[1]: € 53.8 million). The reduction was, among other things, due to the fact that in the previous year this item included earnings from the revaluation of the shares in the Vietnamese pharmaceutical company Pymepharco and STADA Vietnam in the context of achieving control. Furthermore, there was a negative difference in connection with the acquirement of the British OTC supplier Thornton & Ross due to the purchase price allocation for this business combination in the previous year.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) See the Company's ad hoc release of August 6, 2013 and ad hoc update of August 16, 2013.
3) See the Company's ad hoc release of October 18, 2013.
4) In financial year 2014, development expenses for new products in the amount of € 27.5 million (previous year: € 18.8 million) were capitalized.

Other expenses increased in financial year 2014 to € 155.2 million (previous year[1)]: € 72.6 million). This development resulted mainly from the recognized impairments on goodwill in the market regions CIS / Eastern Europe and Asia / Pacific & MENA, as well as from the strong devaluation of the significant currencies of the market region CIS / Eastern Europe and the resulting currency translation expenses, which are reported as one-time special effects. In addition, increased impairments of intangible assets that were also reported as one-time special effects resulted in a corresponding increase of other expenses.

Within the other remaining expenses, personnel expenses are recognized in the amount of € 5.8 million (previous year: € 9.4 million).

The decrease in the **result from investments measured at equity** to € 1.6 million (previous year[1)]: € 3.7 million) in 2014 was due to the retrospective accounting for the company STADA Vietnam according to the equity method in the previous year pursuant to the new standard IFRS 11. In the context of achieving control over STADA Vietnam, the company has been consolidated as a subsidiary since the fourth quarter of 2013.

The **financial result**, which is primarily made up of financial income and financial expenses, was € -63.8 million in financial year 2014 (previous year[1)]: € -59.0 million). The interest expense in the amount of € 70.4 million (previous year[1)]: € 69.9 million) represented the largest single operational item. Furthermore, the financial result in the reporting year also included effects from the measurement of derivative financial instruments that amounted to a net relief on earnings of € 3.6 million (previous year: relief on earnings of € 3.4 million).

In 2014, the Group refinanced itself at interest rates of between 0.9% p.a. and 12.0% p.a. (previous year: between 0.8% p.a. and 13.8% p.a.). On the balance sheet date of December 31, 2014, the weighted average interest rate for non-current financial liabilities was approx. 3.3% p.a. (previous year: approx. 3.5% p.a.) and for current financial liabilities approx. 4.6% p.a. (previous year: approx. 2.1% p.a.). For all of the Group's financial liabilities the weighted average interest rate amounted to approx. 3.7% p.a. (previous year: approx. 3.3% p.a.).

Income tax expense decreased in the financial year to € 54.6 million (previous year[1)]: € 66.5 million). This development results from a changed profit allocation in the STADA Group, which has been primarily influenced by the successful conclusion of the "STADA – build the future" project at the end of financial year 2013 and a connected adjustment of the internal transfer pricing model.

The adjusted tax rate decreased in the reporting year to 24.2% (previous year[1)]: 32.7%). The reported tax rate rose to 43.8% in the same period (previous year[1)]: 35.1%) primarily as a result of impairments on goodwill not deductible for tax purposes in the market regions CIS / Eastern Europe and Asia / Pacific & MENA.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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 both **core segments** Generics and Branded Products increased by a total of 4% in the reporting year. They thus contributed a total of 97.9% to Group sales (previous year[1)]: 96.4%). Sales of the two core segments adjusted for portfolio effects and currency influences increased slightly by 2% (see "Economic Report– Business Development and Situation – Earnings Situation – Sales Development").

Sales of the core segment **Generics** decreased slightly by 1% in financial year 2014 to € 1,217.7 million (previous year[1)]: € 1,227.9 million). This reduction is primarily attributable to the development in the markets of Germany and Russia. Generics contributed 59.1% to Group sales (previous year[1)]: 61.3%). Adjusted, Generics sales was at the same level of the previous year (see "Economic Report – Business Development and Situation – Earnings Situation – Sales Development").

Top 5 generic active ingredients in products of the STADA Group 2014

Active ingredient	Indication group	Sales 2014 for products of the STADA Group in € million	Change from previous year
Omeprazole	Stomach medicine	24.8	+10%
Diclofenac	Antirheumatic drug	24.6	+2%
Tilidine	Opioid	23.8	-1%
Atorvastatin	Antilipemic	23.1	+13%
Phospholipide	Liver medicine	22.8	-27%
Total		119.1	

In 2014, STADA generated sales in the total of € 119.1 million with products containing the Group's top five active pharmaceutical ingredients in terms of sales (previous year: € 124.9 million). These products thereby generated 9.8% of sales in the Generics segment (previous year[1)]: 10.3%).

In the reporting year, the stomach medicine Omeprazole was the best-selling active pharmaceutical ingredient in the core segment Generics.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Sales of the core segment **Branded Products** in the reporting year recorded a significant growth of 14% to € 800.5 million (previous year[1]: € 704.4 million). Branded products thus contributed 38.8% to Group sales (previous year[1]: 35.2%). The adjusted sales of the Branded Products segment increased significantly by 6% to € 747.6 million (previous year[1]: € 704.3 million) (see "Economic Report – Business Development and Situation – Earnings Situation – Sales Development").

Top 5 branded products in the STADA Group in 2014

Branded product	Indication group	Sales 2014 in € million	Change from previous year
APO-go®	Parkinson medicine	51.3	+18%
Aqualor®	Cold medicine based on seawater	40.3	-[2]
Grippostad®	Cold medicine	33.7	-14%
Snup®	Nasal preparation	33.0	+34%
Ladival®	Sunscreen	26.1	+62%
Total		184.4	

With the top five branded products in the Group in term of sales, STADA achieved sales in the amount of € 184.4 million in financial year 2014 (previous year: € 154.7 million). These products thus contributed 23.0% to sales in the Branded Products segment (previous year[1]: 22.0%).

With sales in the amount of € 51.3 million (previous year: € 43.5 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

In the **Commercial Business** segment, which is not part of the core segments, sales grew to € 44.0 million in 2014 (previous year[1]: € 41.0 million). This development is based for the most part on the purchase of the pharmaceutical wholesale and commercial business in Switzerland that has been consolidated since March 1, 2013.

Sales reported under the position **Group holding / other** was at € 30.6 million in the previous year. This amount primarily resulted from a sale with subsequent back-licensing in the previous year, in the context of which intangible assets had been sold and licensed back at the same time for further utilization in sales. In the reporting year, no sales were recorded under this position.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) Consolidation of sales since March 1, 2014.

Operating profit by segment

In financial year 2014, **reported operating profit** in the **Generics segment** decreased significantly by 30% to € 108.3 million (previous year[1)]: € 154.4 million). This development was particularly due to the impairments on goodwill in the market region CIS / Eastern Europe and on further intangible assets. **Reported operating profit** in the **Branded Products segment** decreased by 14% to € 138.2 million (previous year[1)]: € 160.2 million), mainly due to impairments on goodwill in the market region Asia / Pacific & MENA and on further intangible assets, mainly in the market region CIS / Eastern Europe. The **reported operating profit margin** of **Generics** amounted to 8.9% (previous year[1)]: 12.6%). **The reported operating profit margin** of **Branded Products** was at 17.3% (previous year[1)]: 22.7%).

Adjusted operating profit in the **Generics segment** grew in the reporting year by 7% to € 176.9 million (previous year[1)]: € 165.5 million). **Adjusted EBITDA** of **Generics** increased by 7% to € 228.7 million (previous year[1)]: € 213.4 million). Both developments were particularly attributable to high savings as a result of the new sales agreement in Belgium. The **adjusted operating profit margin** of **Generics** amounted to 14.5% (previous year[1)]: 13.5%).

Adjusted operating profit in the **Branded Products segment** increased by 11% to € 192.9 million in 2014 (previous year[1)]: € 173.5 million). **Adjusted EBITDA** of **Branded Products** recorded an increase of 7% to € 240.0 million (previous year[1)]: € 225.1 million). Both developments were mainly based on the share of profits of the British OTC supplier Thornton & Ross, which has been consolidated since September 1, 2013. The **adjusted operating profit margin** of **Branded Products** amounted to 24.4% (previous year[1)]: 24.6%).

Reported operating profit in the **Commercial Business segment** decreased slightly to € 0.9 million in financial year 2014 (previous year[1)]: € 1.3 million).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Business Development and Situation | Earnings Situation

Development of Segments: Information by Market Region

Development of the market regions

In the STADA Group, information by market region is based on the regional differentiation in 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.

As of financial year 2015, the former market region Asia & Pacific will be expanded by substantial parts of the business activities in the Middle East and North Africa (MENA region). In doing so, the activities in this region, which used to be allocated to market region Germany, should be largely centralized. Thus, the market region will be referred to as market region Asia / Pacific & MENA from 2015.

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 recorded within the country they are located in, as well as the export sales they achieve.

Sales in 2014 by segments, market regions and markets in € million

in € million	Generics	Branded products	Commercial business	Reconciliation Group holdings / other	Total sales 2014	Share in Group sales 2014	Total sales previous year[1]	± %[2]	±% adjusted
Germany	**300.5**	**146.8**	**-**	**-**	**447.3**	**21.7%**	**454.1**	**-1.5%**	***-1.5%***
• Germany	265.3	124.0	-	-	389.3	18.9%	420.2	-7.4%	*-7.4%*
• Export sales of the market region Germany	35.2	22.8	-	-	58.0	2.8%	33.9	+71.1%	*+71.1%*
Central Europe	**611.3**	**311.3**	**33.7**	**-**	**956.3**	**46.4%**	**858.7**	**+11.4%**	***+3.0%***
• Italy	150.5	30.7	-	-	181.2	8.8%	169.5	+6.9%	*+3.6%*
• Belgium	141.6	8.6	-	-	150.2	7.3%	147.7	+1.7%	*+1.6%*
• United Kingdom	17.0	118.2	-	-	135.2	6.6%	79.1	+70.9%	*+6.7%*
• Spain	101.0	12.0	-	-	113.0	5.5%	107.7	+4.9%	*+4.5%*
• France	75.5	19.9	-	-	95.4	4.6%	95.0	+0.4%	*-1.0%*
• Switzerland	19.0	12.6	20.6	-	52.2	2.5%	51.3	+1.8%	*-6.4%*
• The Netherlands	36.1	3.4	-	-	39.5	1.9%	37.6	+5.1%	*+4.3%*
• Poland	0.6	25.2	-	-	25.8	1.3%	20.3	+27.1%	*+25.8%*
• Ireland	14.9	7.5	0.5	-	22.9	1.1%	23.0	-0.4%	*-6.4%*
• Denmark	7.2	2.4	12.6	-	22.2	1.1%	19.7	+12.7%	*+11.7%*
• Other / rest of Central Europe	46.5	33.7	0.0	-	80.2	3.9%	70.8	+13.3%	*+13.1%*
• Export sales of the market region Central Europe	1.4	37.1	-	-	38.5	1.9%	37.0	+4.1%	*-14.9%*
CIS / Eastern Europe	**247.9**	**315.5**	**1.1**	**-**	**564.5**	**27.4%**	**629.2**	**-10.3%**	***-1.2%***
• Russia	118.0	242.7	-	-	360.7	17.5%	418.8	-13.9%	*-5.6%*
• Serbia	76.8	16.6	0.0	-	93.4	4.5%	86.0	+8.6%	*+11.9%*
• Ukraine	6.4	20.7	-	-	27.1	1.3%	36.7	-26.2%	*+4.8%*
• Bosnia-Herzegovina	13.7	1.6	0.1	-	15.4	0.7%	13.9	+10.8%	*+10.4%*
• Kazakhstan	1.6	11.8	-	-	13.4	0.6%	21.3	-37.1%	*-25.5%*
• Other / rest of CIS / Eastern Europe	22.0	22.0	1.0	-	45.0	2.2%	40.3	+11.7%	*+24.7%*
• Export sales of the market region CIS / Eastern Europe	9.4	0.1	-	-	9.5	0.5%	12.2	-22.1%	*-19.6%*
Asia & Pacific	**58.0**	**26.9**	**9.2**	**-**	**94.1**	**4.5%**	**61.9**	**+52.0%**	***-0.4%***
• Vietnam	42.3	24.2	6.8	-	73.3	3.5%	52.3	+40.2%	*-1.3%*
• China	11.1	0.7	-	-	11.8	0.6%	2.7	>100%	*-36.0%*
• The Philippines	1.6	0.0	2.3	-	3.9	0.2%	2.6	+50.0%	*+55.4%*
• Thailand	1.1	1.0	0.1	-	2.2	0.1%	2.5	-12.0%	*-9.4%*
• Other / rest of Asia & Pacific	1.5	0.9	-	-	2.4	0.1%	1.5	+60.0%	*+15.9%*
• Export sales of the market region Asia & Pacific	0.4	0.1	-	-	0.5	0.0%	0.3	+66.7%	*-8.3%*

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) 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 2014. Furthermore, within these market regions, 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 the reporting year decreased by 2% to € 447.3 million (previous year: € 454.1 million). This development was due to various effects. While sales generated in the Generics segment in this market region were at the level of the previous year due to an increase in export sales, a significant increase in sales was recorded in the Branded Products segment. In opposition, the sale of intangible assets with subsequent back-licensing for further utilization in sales, which was carried out in the previous year, can be seen in the sales of this market region. In the previous year, these sales were reported outside the operating segments under "Group holdings / other". Overall, this market region thus contributed 21.7% to Group sales (previous year[1]: 22.6%). Of the sales generated by the market region Germany, € 58.0 million was attributable to export sales (previous year: € 33.9 million). Adjusted sales in this market region decreased slightly by 2%.

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 7% to € 389.3 million in 2014 (previous year: € 420.2 million).

The sales development reported in the German market was still attributable to the difficult local framework conditions for generics, which stem from the intensive competition in tenders for discount agreements from public health insurance organizations. As a result, sales in the German Generics segment in the reporting year decreased by 5% to € 265.3 million (previous year: € 278.9 million). Sales generated in Germany with generics had a share of 68% in the overall sales achieved in the German market (previous year: 66%). In 2014, the market share of generics sold in German pharmacies was slightly above the level of the previous year by volume with approx. 13.7%[2] (previous year: approx. 13.5%[2]). Despite the development in the reporting year in the Generics segment in Germany, the STADA Group remains the clear number 3[2] in the German generics market.

Sales of generics in Germany are almost exclusively generated with the sales companies ALIUD PHARMA GmbH, STADApharm GmbH and cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH. Sales of the generics sales company cell pharm, a special supplier for the indication areas oncology and nephrology, which are included in these figures, decreased in the reporting year by 8% to € 30.7 million (previous year: € 33.3 million).

Due to the increasingly difficult framework conditions in the German generics market in financial year 2014, it has been decided that now only one of the previous two German subsidiaries will take part in tenders for discount agreements. Therefore, only ALIUD PHARMA shall make bids in the context of these tenders whereas STADApharm has discontinued the submission of bids. Previously concluded contracts, some of which continue until 2017, will still be fulfilled by STADApharm. With this step, the Group is following the longstanding and communicated decision to always participate in German tenders for discount agreements following the primary objective of appropriate operating profitability.

In 2014, STADA signed a letter of intent for handing the German logistics activities over to the global leading logistics company DHL.[3] The associated partial transfer of operations comprises the STADA logistics activities at the Florstadt and Bad Vilbel locations with approx. 160 employees. On the one hand, in light of increasing cost pressure in Germany and STADApharm's corresponding withdrawal from the tender business, the need for logistics services had changed in course of the reporting year. On the other hand, the Group needs to focus increasingly on its core business in order to strengthen its competitiveness. In the current first quarter 2015, the contract for the transfer of the German logistics activities was signed.[4]

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) Data from IMS Health based on pharmacy sales to customers (source: IMS/Pharmascope national).
3) See the Company's press release of October 10, 2014.
4) See the Company's press release of March 23, 2015.

Back in the fourth quarter of 2013, STADA had announced the optimization of the German sales activities and the foundation of STADAvita GmbH.[1] As a result, STADAvita took over from the beginning of 2014 the sales of preventative branded products, nutritional supplements as well as plant-based products.

Sales generated with branded products in the German market – primarily with the two sales companies STADA GmbH, Bad Vilbel, and STADAvita, Bad Homburg – increased substantially in financial year 2014 by 12% to € 124.0 million (previous year: € 110.7 million). Overall, the share of branded products in Germany amounted to 32% of the total sales achieved in the German market (previous year: 26%).

In the reporting year, important branded products of STADA continued to be counted as market leaders in their corresponding market segments in the German pharmacy market. Examples for this are the cold medicine Grippostad® C with sales in Germany of € 33.9 million (previous year: € 36.7 million) and a market share of approx. 32% in the market for flu drugs[2] [3] as well as STADA's sunscreen portfolio under the brand Ladival® with sales in Germany of € 27.3 million[4] (previous year: € 28.7 million[4]). It clearly remains market leader in the pharmacy market for sunscreens[4] with a market share of approx. 36%[4].

For financial year 2015, 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 2014 increased significantly by 11% to € 956.3 million (previous year: € 858.7 million). This pleasing development is especially attributable to sales growth in the United Kingdom – predominantly due to the purchase of the British OTC supplier Thornton & Ross –, as well as in Italy, in Belgium and in Spain, and took place despite a high comparable basis of the previous year. Sales generated in this market region had a share of 46.4% of Group sales (previous year[5]: 42.9%). Of the sales generated by market region Central Europe, € 38.5 million were attributable to export sales (previous year: € 37.0 million). Adjusted sales in this market region increased by 3%.

The Executive Board expects growth in sales for financial year 2015 with operating profitability at Group average in the market region Central Europe.

The countries of market region Central Europe saw varying developments in the reporting year. The development of business in the five largest markets according to sales within this market region is described in detail below.

Sales generated in **Italy** increased by 7% to € 181.2 million in 2014 (previous year: € 169.5 million) and is attributable to continued positive regulatory framework conditions. This positive development was visible both in the Generics as well as the Branded Products segment.

Sales generated in the Italian market with generics increased by 5% to € 150.5 million despite the high level of the previous year (previous year: € 143.6 million). Generics contributed 83% to local sales (previous year: 85%). With a market share of approx. 14.8% (previous year: approx. 14.6%), STADA occupied position 5 in the Italian generics market in financial year 2014.[6]

Sales achieved in the Italian market with branded products rose significantly by 19% to € 30.7 million (previous year: € 25.9 million). The share of branded products in Italian sales was at 17% (previous year: 15%).

1) See the Company's press release of October 1, 2013.
2) Excluding anti-infective agents.
3) Data from IMS Health based on pharmacy sales to customers (source: IMS/Pharmascope national).
4) STADA estimate at pharmacy retail prices based on data from IMS Health.
5) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
6) STADA estimate based on IMS Health data at ex-factory prices.

In **Belgium**, sales increased in financial year 2014 by 2% to € 150.2 million (previous year: € 147.7 million).

Sales recorded in the Belgian market with generics rose slightly by 1% to € 141.6 million (previous year: € 140.1 million). The increase primarily resulted from strong growth in volume. Generics contributed 94% to local sales (previous year: 95%). With a market share of approx. 50.0% (previous year: approx. 49.9%), STADA remained the clear market leader in the Belgian generics market in 2014.[1)]

Sales achieved in Belgium with branded products rose substantially by 13% to € 8.6 million (previous year: € 7.6 million). Branded products contributed 6% to sales in Belgium (previous year: 5%).

Sales generated in the **United Kingdom** in the reporting year increased substantially applying the exchange rates of the previous year by 65%. In euro, sales rose even more significantly by 71% to € 135.2 million due to a positive currency effect of the pound sterling (previous year: € 79.1 million). This pleasing development was primarily attributable to the consolidation of the British OTC supplier Thornton & Ross. Adjusted, sales increased by 7% to € 84.3 million.

Sales generated with branded products in the British market recorded substantial growth of 73% to € 118.2 million (previous year: € 68.2 million). Branded products thereby contributed 87% to sales generated in the United Kingdom (previous year: 86%).

Sales of generics in the United Kingdom, where STADA continues to be a niche provider of selected generics with only a few active pharmaceutical ingredients, grew despite heavy competition by a strong 56% to € 17.0 million (previous year: € 10.9 million). Generics contributed 13% to local sales (previous year: 14%).

Back in the fourth quarter of 2013, the Group implemented a restructuring under company law in the United Kingdom, transferring the shares in the two local sales companies Genus Pharmaceuticals Ltd. and Britannia Pharmaceuticals Ltd. to STADA UK Holdings Ltd. With effect from January 1, 2014, this was followed by a fundamental restructuring of sales responsibilities and a stronger pooling of competencies for the overall product portfolio of the British companies. In this context, a major portion of the branded products and the generics portfolio of Genus Pharmaceuticals were transferred to Thornton & Ross, and Britannia Pharmaceuticals took over global sales responsibility for the Parkinson's medication APO-go®.

In order to strengthen the branded products sold by Thornton & Ross, the British STADA subsidiary in the second quarter of 2014 acquired the production and distribution rights for the branded product portfolio Flexitol®[2)] for the United Kingdom and Ireland[3)] (see "Economic Report – Business Development and Situation – Financial Situation").

Furthermore, STADA UK Holdings acquired the British company Internis in the fourth quarter of 2014, which is active in the prescription area of therapeutic treatment of vitamin D3 deficiency and which has been consolidated in the STADA Group since December 19, 2014 (see "Economic Report – Business Development and Situation – Financial Situation").

In **Spain**, sales recorded a rise – despite ongoing high price competition and continued tender processes in Andalusia – of 5% to € 113.0 million in the reporting year (previous year: € 107.7 million). This was a result of unchanged strong volume growth both in the Generics and the Branded Products segments.

Sales generated with generics in the Spanish market rose by 4% to € 101.0 million (previous year: € 97.2 million). Generics contributed 89% to local sales (previous year: 90%). With a market share of approx. 9.4% (previous year: approx. 9.3%), STADA occupied position 2 in the Spanish generics market in financial year 2014, representing a significant improvement as compared to the previous year.[1)]

1) STADA estimate based on IMS Health data at ex-factory prices.
2) Dermatological range in the area of hand and foot care.
3) See the Company's press release of June 30, 2014.

Sales achieved with branded products in Spain recorded substantial growth of 14% to € 12.0 million (previous year: € 10.5 million). Branded products contributed 11% to local sales (previous year: 10%).

In **France**, sales were slightly above the level of the previous year in 2014 with € 95.4 million (previous year: € 95.0 million).

Sales recorded in the French market with generics declined by 10% to € 75.5 million (previous year: € 84.3 million). In addition to the high comparable basis of the previous year, this development was a result of strong price competition. This was especially attributable to a fundamental regulatory change in the form of a decrease in reference prices as of September 1, 2014, which came in connection with a significant increase of the highest possible discount in the French generics market. The maximum permitted discount amount was substantially increased which in turn detracted from the development of sales. Overall, a general sales decrease can be observed in the French generics market, which appears to continue in the coming months. Generics contributed 79% to local sales (previous year: 89%). With a market share of approx. 3.5% (previous year: 3.5%), STADA occupied position 7 in the French generics market in financial year 2014.[1)]

Sales achieved with branded products in France, however, recorded a substantial rise of 86% to € 19.9 million (previous year: € 10.7 million). Branded products contributed 21% to sales in France (previous year: 11%). This development was mainly based on the sale of approvals and trademarks.

Market region CIS / Eastern Europe

In the **market region CIS / Eastern Europe**[2)], sales in financial year 2014 increased applying the exchange rates of the previous year, by 5%. In euro, sales recorded a decrease of 10% to € 564.5 million as a result of negative currency effects (previous year: € 629.2 million). Sales generated in this market region thus had a share of 27.4% of Group sales (previous year[3)]: 31.4%). Of the sales generated by the market region CIS / Eastern Europe, € 9.5 million was attributable to export sales (previous year: € 12.2 million). Sales adjusted for portfolio and currency effects in this market region decreased by 1%.

For financial year 2015, applying the exchange rates of the previous year, the Executive Board expects growth in sales in the market region CIS / Eastern Europe, also taking consideration of the acquisition of the Russian branded product portfolio Aqualor® and the consolidation of the resulting sales as from March 1, 2014. Operating profitability adjusted for negative currency effects is expected to be above Group average.

The development of business in the two largest markets according to sales within this market region is described below.

In **Russia**, sales increased in the reporting year by 4% applying the exchange rates of the previous year. As a result of a clearly negative currency effect of the Russian ruble, sales strongly decreased in euro by 14% to € 360.7 million (previous year: € 418.8 million). The sales decrease was primarily attributable to three factors. In addition to a substantially weaker exchange rate as compared to the previous year, a reluctance to buy was noted among end consumers through whom approx. 92% of STADA's sales in Russia is generated. Furthermore, the development was influenced by a reduction in demand on the part of wholesalers. In the context of the state program for the reimbursement of selected medicines for individual population groups (DLO Program), which is no longer in the focus of the sales strategy due to continuously decreasing margins, approx. 5% of Russian sales were recorded in 2014. In addition, approx. 3% of sales were generated directly or indirectly with other state clients, primarily via tenders. In the context of tenders, the decreased demand for medicines to treat HIV illnesses as a result of declining hospital budgets also had a small share in the sales decrease.

1) STADA estimate based on IMS Health data at ex-factory prices.
2) So-called CEE countries (Central and Eastern Europe) including Russia.
3) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statement – 3.).

Sales generated with generics in the Russian market declined by 29% to € 118.0 million (previous year: € 166.5 million). Generics contributed 33% to local sales (previous year: 40%). With a market share of approx. 5.1% (previous year: approx. 4.7%), STADA took position 2 in the Russian market in 2014.[1)]

Sales recorded in Russia with branded products declined by 4% to € 242.7 million (previous year: € 252.3 million). Branded products had a share in sales of 67% in the Russian market (previous year: 60%).

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 addition, the increasingly bleak prospects for the Russian economy and the corresponding strong devaluation of the Russian ruble present an increased risk in terms of consumer sentiment and consumer spending.

In order to further strengthen the Russian business activities, the Russian STADA subsidiary Nizhpharm purchased the Russian branded product portfolio Aqualor®, which comprises ten prescription-free (OTC) product presentations based on seawater in the form of sprays and drops with the local regulatory status of medical products for the treatment of sinusitis (infection of the paranasal sinus) and sore throat as planned in the first quarter of 2014 after fulfillment of extensive completion conditions particularly in the areas of production documentation and supply chain[2)] (see "Economic Report – Business Development and Situation – Financial Situation").

Furthermore, Nizhpharm signed the purchase agreement for the branded products AndroDoz® und NeroDoz®, which are positioned in the area of men's health and have been marketed via in-licensing in the previous years, in the fourth quarter of 2014. In the current first quarter of 2015, the purchase was completed[3)] (see "Economic Report – Business Development and Situation – Financial Situation").

In **Serbia**, sales increased significantly by 13% in 2014 applying the exchange rates of the previous year. In euro, sales increased by 9% to € 93.4 million due to a negative currency effect of the Serbian dinar (previous year: € 86.0 million). A general shift from generics to branded products can be observed in the sales mix of the Serbian market.

Sales recorded with generics in Serbia increased by 7% to € 76.8 million (previous year: € 71.8 million). Since the beginning of financial year 2014, the development in the Serbian generics market has been characterized by regulatory changes in reimbursement amounts and reimbursement lists as well as by increasing national tenders to supply hospitals and government pharmacies. In consideration of continued pending price reductions, the wholesale business has been holding back orders for some time now. Generics contributed 82% to sales in Serbia (previous year: 83%). With a market share of approx. 36.1% (previous year: approx. 35.6%), STADA remained the market leader in the Serbian market in 2014.[1)]

Sales recorded with branded products in Serbia recorded strong growth of 20% to € 16.6 million (previous year: € 13.8 million). Branded products contributed 18% to local sales (previous year: 16%).

In the first quarter of 2014, the insolvency administrator of Velefarm Holding and Velefarm VFB took 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. Hemofarm and STADA continue to believe that the lawsuit is unfounded.[4)]

1) STADA estimate based on IMS Health data at ex-factory prices.
2) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.
3) See the Company's press release of February 4, 2015.
4) See the Company's ad hoc release of February 14, 2014.

Overall, STADA assumes that its own operating business in the Serbian market is stable and that it offers further growth opportunities. Sales and earnings contributions in Serbia will continue to be significantly characterized by the currency relationship of the Serbian dinar to the euro in the future as well as by the development of the local liquidity situation of the wholesalers and distribution partners.

Market region Asia & Pacific

Sales in the **market region Asia & Pacific** recorded substantial growth in the reporting year of 52% to € 94.1 million (previous year[1)]: € 61.9 million). This market region's contribution to Group sales amounted to 4.5% (previous year[1)]: 3.1%). The pleasing development is predominately attributable to sales growth resulting from the consolidations of the Vietnamese company STADA Vietnam and the Chinese company STADA Pharmaceuticals (Beijing) as subsidiaries. Adjusted sales in this market region were approximately at the level of the previous year with € 60.9 million (previous year[1)]: € 61.2 million).

For financial year 2015, the Executive Board expects a sales increase in the market region Asia / Pacific & MENA, which has been expanded as of January 1, 2015, with operating profitability above Group average.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statement – 3.).

Business Development and Situation | Financial Situation

Unchanged stable financial situation

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

Basis and goals of financial management at STADA

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

In the course of its forward-looking monitoring of the financial management, STADA has defined the "net debt to adjusted EBITDA ratio" key figure as a dynamic debt capacity, which should not exceed 3. In the case of temporary results in excess of this, e.g. as a consequence of growth-enhancing acquisitions, STADA strives to reach this target value again within twelve to 18 months.

The financial management also covers financial risks such as currency and interest price risks. In this area, STADA pursues the objective of minimizing existing financial risks that arise by way of natural hedges or derivative financial instruments. STADA does not hold or issue any derivative financial instruments 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 the Group-wide financial strategy, STADA focuses strongly on a high degree of financial flexibility. In order to achieve this flexibility, STADA relies on various financial instruments and 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 need for financing is covered with a combination of cash flow from operating activities and the borrowing of funds on the short, middle and long-term, as well as 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 securing of additional promissory notes

The long-term refinancing of the Group as of December 31, 2014 was provided for by a corporate bond with a term of five years that was placed in 2010 in the amount of € 350 million with an interest rate of 4.00% p.a., which will reach maturity in April of the current financial year. For the purpose of long-term refinancing, as of the balance sheet date, there was a five-year bond which had been placed in the second quarter of 2013 in the amount of € 350 million with an interest rate of 2.25% p.a. Furthermore, there were promissory notes with maturities in the area of 2015 to 2019 with a nominal value in the total amount of € 552.5 million as of December 31, 2014. In the first quarter of 2014, STADA secured € 200 million of this with a term of five years, of which € 124 million have a fixed interest rate of 2.30%.

A variable interest rate of currently 1.40% applies for € 76 million. In the second quarter of 2014, STADA secured further promissory notes in the amount of € 20 million with maturity in 2019 and a variable interest rate of currently 1.33%. In the fourth quarter of 2014, STADA secured further promissory notes in the amount of € 50 million with a term of five years and a fixed interest rate of 1.33%. Furthermore, a considerable single loan in the amount of an equivalent of around € 83 million (in local currency as of the balance sheet date) was taken out in Russia for the financing of the purchase of the branded product portfolio Aqualor®, which is due gradually from 2015 to 2021. Overall, STADA continues to have a balanced maturity dates profile and a stable financing structure based on financial 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 as well as Asia & Pacific.

In 2014, the Group refinanced itself at interest rates of between 0.9% p.a. and 12.0% p.a. (previous year: between 0.8% p.a. and 13.8% p.a.). On the balance sheet date of December 31, 2014, the weighted average interest rate for non-current financial liabilities was approx. 3.3% p.a. (previous year: approx. 3.5% p.a.) and for current financial liabilities approx. 4.6% p.a. (previous year: approx. 2.1% p.a.). For all of the Group's financial liabilities the weighted average interest rate amounted to approx. 3.7% p.a. (previous year: approx. 3.3% p.a.).

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

Remaining maturities of financial liabilities due to banks as of Dec. 31, 2014 in € million	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total	thereof as of Dec. 31, 2014 > 1 year in %
Promissory notes	50,487	231,330	269,017	-	550,834	91%
Bond	349,880	-	347,391	-	697,271	50%
Amounts due to banks	48,336	103,107	52,161	39,992	243,596	80%
Total	448,703	334,437	668,569	39,992	1,491,701	70%

In general, liabilities due to banks can indeed 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 the reporting year, the Group's liquidity was ensured at all times. The Group's sources of liquidity were mainly attained from cash inflows from operating activities and the borrowing of funds on the short, middle and long-term. STADA also received cash inflow from factoring programs and from 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 twelve months and currently amount to over € 500 million.

Cash flow analysis

Cash flow statement (abridged) in € 000s	2014	2013[1)]
Cash flow from operating activities	223,810	203,744
Cash flow from investing activities	-261,980	-311,982
Free cash flow	**-38,170**	**-108,238**
Cash flow from financing activities	83,711	148,780
Non-cash changes in cash and cash equivalents	-7,495	-6,912
Cash flow	**38,046**	**33,630**

Cash flow from operating activities in financial year 2014 amounted to € 223.8 million (previous year[1)]: € 203.7 million). The increase by € 20.1 million as compared to the previous year mainly resulted from a substantial cash-effective decrease in trade accounts receivable, whereas a substantial cash-effective increase was recorded in the previous year, as well as from lower income tax payments. The resulting positive effects were partially compensated by a substantial cash-effective decrease in trade accounts payable as compared to a substantial cash-effective increase in trade accounts payable in the previous year. In addition, a significantly higher cash-effective decrease in other non-current provisions was recorded in financial year 2014, which is connected to the transfer of a defined benefit plan to an external pension fund.

Cash flow from investing activities amounted to € -262.0 million in the reporting year (previous year[1)]: € -312.0 million). In 2014, cash flow from investing activities was particularly influenced by high payments for investments in intangible assets, which primarily related to the purchase of the Russian branded product portfolio Aqualor®. Furthermore, there were payments for business combinations from the acquisition of the branded product portfolio Flexitol® as well as the acquisition of the British company Internis. Proceeds from the disposal of intangible assets and property, plant and equipment mainly resulted from the sales of approvals and trademarks in France and Italy and from the sale of a building in the United Kingdom. In the previous year, payments for investments in business combinations primarily resulted from the purchase price payments made for the acquisition of the British OTC supplier Thornton & Ross as well as from 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.

For **acquisitions** – for both the acquisition of consolidated companies and business combinations according to IFRS 3 as well as 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 € 202.5 million in 2014 (previous year[1)]: € 243.2 million).

As a result of **disposals**, cash flow from investing activities recorded an inflow of cash and cash equivalents in the total amount of € 12.0 million in financial year 2014 (previous year[1)]: € 5.4 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 significant investments or acquisitions for the short-term expansion of the product portfolio, amounted to € 33.9 million (previous year: € 39.5 million) and primarily comprised payments for the acquisition of approvals and approval dossiers in the reporting year.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statement – 3.).

Payments for **investments in property, plant and equipment** amounted to € 37.5 million in financial year 2014 (previous year[1)]: € 33.9 million).

Property, plant and equipment investments in 2014 comprised investments in production facilities, production sites and test laboratories in the total amount of € 19.7 million (previous year[1)]: € 27.3 million) (see "Basis of the Group – Procurement, Production and Quality Management").

Payments for **investments in financial assets** were € 0.1 million in the reporting year (previous year: € 0.7 million).

Cash flow from financing activities in the reporting year amounted to € 83.7 million (previous year[1)]: € 148.8 million). In financial year 2014, there were proceeds from securing financial liabilities, among other things, in connection with promissory notes secured in the total amount of € 270 million and a loan in the amount of approx. € 121 million for financing the purchase of the branded product portfolio Aqualor®. In the previous year, higher proceeds from taking up financial liabilities were recorded, in particular due to the bond placed in the second quarter of 2013. In addition, more financial liabilities were repaid in the previous year than in the reporting period. Dividend distribution payments of € 39.8 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2013. The distributed volume thus significantly increased as compared to the dividend for financial year 2012. In 2014, the Group furthermore received proceeds from a capital increase in the amount of € 3.0 million (previous year: € 18.3 million) in the context of the conversion of STADA warrants to shares (see Notes to the Consolidated Financial Statements – 35.1.).

Free cash flow, i.e. cash flow from current business activities plus cash flow from investing activities, amounted to € -38.2 million in 2014 (previous year[1)]: € -108.2 million). **Free cash flow adjusted** for payments for significant investments or acquisitions and proceeds from significant disposals amounted to € 157.4 million in the reporting year (previous year[1)]: € 133.3 million).

In total, cash flow for financial year 2014, net of all inflows and outflows of cash and cash equivalents, amounted to € 38.0 million (previous year[1)]: € 33.6 million).

Capital expenditure

The Group's investments amounted to € 279.0 million in the reporting year (previous year[1)]: € 365.0 million). Investments in property, plant and equipment amounted to € 37.9 million in 2014 (previous year[1)]: € 78.7 million), of which € 0.1 million (previous year: € 35.3 million) was attributable to business combinations according to IFRS 3. In relation to sales, the share of investments in property, plant and equipment was 1.8% (previous year[1)]: 3.9% of sales). Investments in intangible assets amounted to € 241.0 million (previous year[1)]: € 285.4 million), of which € 85.5 million was used for business combinations according to IFRS 3 (previous year: € 228.5 million). In the reporting year, 14% of the total investment volume was thereby attributable to property, plant and equipment (previous year[1)]: 22%) and 86% to intangible assets (previous year[1)]: 78%).

Active acquisition policy with attractive purchases

In financial year 2014, the STADA Group continued to pursue an active acquisition policy to further accelerate the Group's organic growth with external growth impulses. In this context, the Group concentrates, on the one hand, on regional expansion of business activities with a focus on high-growth emerging markets. On the other hand, a top focus is 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) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statement – 3.).

Regardless of this active purchasing policy, profitability and the purchase price must strike a good balance in the view of the Executive Board. 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 progress in the context of its active acquisitions policy in the reporting year.

Purchase of the Russian branded product portfolio Aqualor®

In the fourth quarter of 2013, the Russian STADA subsidiary Nizhpharm signed a framework agreement for the purchase of the branded product portfolio Aqualor®.[1)] The purchase price for the Aqualor® product package amounted 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. The purchase did 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. 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 this purchase.[1)] Sales of the products from the branded product package have been consolidated in the STADA Group since March 1, 2014.

Strengthening of the branded product portfolio of the British STADA subsidiary Thornton & Ross

In the second quarter of 2014, the British STADA subsidiary Thornton & Ross acquired the production and distribution rights for the branded products portfolio Flexitol®[2)] for the United Kingdom and Ireland.[3)] The purchase price amounted to GBP 10 million (according to the exchange rate at the date of acquisition approx. € 12.5 million) subject to adjustments for inventory. The seller is the LaCorium group of companies based in Sydney. In 2013, net sales generated with Flexitol® in the United Kingdom and Ireland amounted to approx. GBP 3.3 million (according to the exchange rate at the date of acquisition approx. € 4.1 million). Product sales have been consolidated in the STADA Group since June 16, 2014.

Furthermore, STADA UK Holdings acquired the British company Internis in the fourth quarter of 2014, which is active in the prescription area of therapeutic treatment of vitamin D3 deficiency. The purchase price, which contains certain contingent purchase price components, amounts to a maximum of GBP 49.0 million (applying the exchange rate at the date of acquisition approx. € 62.3 million). Sellers are various individuals. The sales have been consolidated in the STADA Group since December 19, 2014.

Further expansion of the branded product business in Russia

In the fourth quarter of 2014, the Russian STADA subsidiary Nizhpharm signed the purchase agreement for the branded products AndroDoz® und NeroDoz®, which are both positioned in the area of men's health. The purchase price was RUB 526.5 million (approx. € 7.9 million applying the official exchange rate of the Russian central bank as of December 25, 2014). The seller is OOO PharmEnergy, a Russian pharmaceutical company based in Moscow. Net sales generated with these two products in Russia amounted to approx. € 3.0 million in 2014. Product sales have been consolidated in the STADA Group since 2012, as Nizhpharm had sold the products via in-licensing before. The purchase will be completed in the current first quarter of 2015.[4)]

Continuation of the active acquisition policy

STADA continued the active acquisition policy in financial year 2015 as well.

1) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.
2) Dermatological range in the area of hand and foot care.
3) See the Company's press release of June 30, 2014.
4) See the Company's press release of February 4, 2015.

Business Development and Situation | Assets Situation

Development of the Balance Sheet

Balance sheet (abridged) Assets	Dec. 31, 2014 in € 000s	Dec. 31, 2014 in %	Dec. 31, 2013 in € 000s	Dec. 31, 2013 in %	Jan. 1, 2013[1] in € 000s	Jan. 1, 2013[1] in %
Non-current assets	**2,013,819**	**60.4%**	**2,059,989**	**60.4%**	**1,806,292**	**60.7%**
Intangible assets	1,631,516	48.9%	1,641,623	48.1%	1,417,050	47.6%
Property, plant and equipment	305,430	9.2%	318,428	9.3%	269,361	9.1%
Other assets	76,873	2.3%	99,938	3.0%	119,881	4.0%
Current assets	**1,321,639**	**39.6%**	**1,353,193**	**39.6%**	**1,169,679**	**39.3%**
Inventories	498,785	15.0%	524,374	15.4%	466,496	15.7%
Trade accounts receivable	502,794	15.1%	591,678	17.3%	489,567	16.4%
Other assets	155,851	4.6%	110,978	3.2%	121,083	4.1%
Cash and cash equivalents	164,209	4.9%	126,163	3.7%	92,533	3.1%
Total assets	**3,335,458**	**100%**	**3,413,182**	**100%**	**2,975,971**	**100%**

Equity and liabilities	Dec. 31, 2014 in € 000s	Dec. 31, 2014 in %	Dec. 31, 2013 in € 000s	Dec. 31, 2013 in %	Jan. 1, 2013[1] in € 000s	Jan. 1, 2013[1] in %
Equity	**903,339**	**27.1%**	**1,010,099**	**29.6%**	**910,317**	**30.6%**
Long-term borrowed capital	**1,246,693**	**37.4%**	**1,358,414**	**39.8%**	**1,102,404**	**37.0%**
Other non-current provisions	30,097	0.9%	51,478	1.5%	50,486	1.7%
Financial liabilities	1,042,998	31.3%	1,140,571	33.4%	941,572	31.6%
Other liabilities	173,598	5.2%	166,365	4.9%	110,346	3.7%
Short-term borrowed capital	**1,185,426**	**35.5%**	**1,044,669**	**30.6%**	**963,250**	**32.4%**
Other provisions	17,442	0.5%	17,536	0.5%	10,538	0.4%
Financial liabilities	448,703	13.5%	292,484	8.6%	326,183	11.0%
Trade accounts payable	340,847	10.2%	331,661	9.7%	267,773	9.0%
Other liabilities	378,434	11.3%	402,988	11.8%	358,756	12.0%
Total equity and liabilities	**3,335,458**	**100%**	**3,413,182**	**100%**	**2,975,971**	**100%**

In the Executive Board's view, the Group's financial position continues to be stable. This was reflected in various derived key figures as a supplement to the items reported in the balance sheet.

Net debt was at € 1,327.5 million as of December 31, 2014 (December 31, 2013: € 1,306.8 million).

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

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

As of the balance sheet date, the **equity-to-assets ratio** was 27.1% (December 31, 2013: 29.6%) and was thereby satisfactory in the opinion of the Executive Board.

The **balance sheet total** as of December 31, 2014 decreased to € 3,335.5 million (December 31, 2013: € 3,413.2 million). The reduction resulted in particular from intangible assets, despite the addition of assets from business combinations and product acquisitions. This development is mainly attributable to the weak Russian ruble and a corresponding lower translation of assets reported in foreign currencies into the Group currency euro, as well as to the impairments on goodwill recorded in financial year 2014.

Intangible assets recorded a decrease to € 1,631.5 million as of December 31, 2014 (December 31, 2013: € 1,641.6 million). The amount of this balance sheet item is based on the Group's long-term active acquisition 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, 2014, intangible assets included € 372.3 million in goodwill (December 31, 2013: € 458.0 million). There were additions to other intangible assets from the acquisition of the Russian branded product portfolio Aqualor® – not considering impairment in the reporting year – in the amount of € 89.4 million. In 2014, furthermore, development costs in the amount of € 28.7 million (December 31, 2013: € 20.7 million) were capitalized as internally created intangible assets (see Notes to the Consolidated Financial Statements – 25.). In financial year 2014, impairments on intangible assets were recognized in the amount of € 104.8 million (previous year: € 22.6 million).

The decrease in **property, plant and equipment** as of December 31, 2014 to € 305.4 million (December 31, 2013: € 318.4 million) was primarily based on the weakness of the Russian ruble and a corresponding lower translation of assets reported in foreign currencies into the Group currency euro.

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.

Financial assets declined as of December 31, 2014 to € 2.0 million (December 31, 2013: € 9.0 million). This development primarily resulted from the inclusion of the Chinese subsidiary STADA Pharmaceuticals (Beijing) in the scope of consolidation of STADA Arzneimittel AG and the liquidation of the Swedish investment STADApharm AB.

Investments measured at equity increased to € 10.6 million (December 31, 2013: € 9.0 million). The growth of this balance sheet item resulted exclusively from the earnings contribution of associates in the reporting year.

Other financial assets in the amount of € 98.7 million (previous year: € 77.9 million) include loan receivables and purchase price receivables. They contain, among other things, the loan from STADA Arzneimittel AG granted to BIOCEUTICALS Arzneimittel AG which was utilized as of the balance sheet date in the amount of € 3.3 million (December 31, 2013: € 15.6 million). This item also includes the positive market values of derivative financial instruments, which amounted to € 33.3 million as of the balance sheet date (December 31, 2013: € 10.5 million) and mainly resulted from the cross-currency swaps.

The decrease in **inventories** as of December 31, 2014 to € 498.8 million (December 31, 2013: € 524.4 million) was mainly based on the weakness of the Russian ruble and a corresponding lower translation of assets reported in foreign currencies into the Group currency euro as well as on balance sheet date effects.

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 € 33.7 million as of December 31, 2014 were incurred due to value adjustments in inventories netted with reversals (previous year[1]: € 29.9 million).

Trade accounts receivable decreased as of the balance sheet date to € 502.8 million (December 31, 2013: € 591.7 million). This resulted, among other things, from reporting date effects as well as translation effects in the context of converting financial statements of foreign subsidiaries with a reporting currency other than the Group currency euro. Furthermore, the factoring volume increased as of December 31, 2014 as compared to the balance sheet date of the previous year.

In certain market situations, the Group accepts, if necessary, higher current trade receivables, if this leads to opportunities for a better market position. 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, 2014 to € 164.2 million (December 31, 2013: € 126.2 million). This development was mainly 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 decreased as of December 31, 2014 to € 903.3 million (December 31, 2013: € 1,010.1 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 € 3.0 million in the reporting year (previous year: € 18.3 million) (see "The STADA Share").

Retained earnings including net income comprise net income for the financial year as well as earnings generated in previous periods, provided these were not distributed, including amounts transferred to retained earnings. In addition, effects from remeasurements of the net defined benefit liability that are recognized in other comprehensive income are reported under this item taking deferred taxes into account. In the context of measuring the significant defined benefit obligations as of December 31, 2014 – not considering amounts attributable to non-controlling interests – a net expense in the amount of € 15.5 million recognized in other comprehensive income after deferred taxes resulted from the remeasurement. This is mainly based on the substantial decrease in the discount rate underlying the measurement for different defined benefit plans in the STADA Group as of December 31, 2014 in comparison to December 31, 2013.

Other provisions include results recognized directly in equity. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation recognized in other comprehensive income of financial statements of companies included in the Group, which are recognized in the statement of changes in shareholders' equity under provisions for currency translation. In the reporting year, an expense of € 131.9 million recognized directly in equity arose, which is primarily composed of the following opposing effects: On the one hand, income recognized directly in equity from the currency translation of financial statements of companies reporting in pound sterling has been recorded due to the appreciation of the pound sterling since December 31, 2013. On the other hand, there were higher expenses recognized directly in equity primarily from the currency translation of financial statements of companies reporting in Russian ruble and Serbian dinar due to the significant weakening of the Russian ruble as well as the weakening of the Serbian dinar since December 31, 2013. In total, other provisions decreased to € -371.9 million as of December 31, 2014 (December 31, 2013: € -241.5 million).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Other non-current provisions decreased to € 30.1 million as of December 31, 2014 (December 31, 2013: € 51.5 million). The reduction was primarily a result of a change in the defined benefit plan for the Chairman of the Executive Board and the resulting changes with regard to the benefits awarded according to the former benefit plan. Despite the transfer of the defined benefit plan of the Chairman of the Executive Board to an external pension fund, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly. The plan assets created in the context of the transfer lead to a provision of zero due to offsetting that must be carried out in the amount of the defined benefit obligations at the time of the plan amendment for this benefit plan.

Financial liabilities amounted to € 1,491.7 million as of December 31, 2014 (December 31, 2013: € 1,433.1 million). The item includes, in particular, promissory notes with a nominal value in the amount of € 552.5 million (December 31, 2013: € 436.5 million) and two bonds with a nominal value in the amount of € 350.0 million each (December 31, 2013: two bonds of € 350.0 million each). The increase in financial liabilities mainly resulted from securing promissory notes in the total amount of € 270 million in financial year 2014 and a loan in the amount of approx. € 83 million at closing rate for the financing of the purchase of the branded product portfolio Aqualor®. In opposition, financial liabilities were repaid in the current financial year.

Trade accounts payable increased to € 340.8 million as of December 31, 2014 (December 31, 2013: € 331.7 million). This development was primarily based on temporary results of balance sheet date effects.

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

Deferred tax liabilities increased as of December 31, 2014 to € 166.7 million (December 31, 2013: € 150.4 million). The increase is primarily attributable to the acquisition of the British company Internis Pharmaceuticals Ltd. and the purchase price allocation carried out in this context.

Other financial liabilities in the amount of € 262.7 million (December 31, 2013: € 274.1 million) include, among other things, finance lease liabilities and liabilities from derivative financial instruments. The finance lease liabilities amounted to € 3.1 million as of December 31, 2014 (December 31, 2013: € 8.5 million). The liabilities from derivative financial instruments amounted to € 3.1 million on the balance sheet date (December 31, 2013: € 5.6 million), and resulted from the negative market values of derivatives measured at fair value with an effect on income, which were partly used as hedging instruments.

The decrease in other financial liabilities to € 262.7 million as of December 31, 2014 (December 31, 2013: € 274.1 million) was primarily a result of decreased liabilities due to discount agreements, among other things due to a quicker settlement of existing discount agreements. In addition, this development can be attributed to the decision to take part in tenders for discount agreements with only one German subsidiary in the future. With this step, the Group is following the longstanding and communicated decision to participate in German tenders for discount agreements always following the primary objective of appropriate operating profitability.

The reduction in other liabilities to € 88.9 million (December 31, 2013: € 114.3 million) mainly resulted from decreased tax liabilities.

Business Development and Situation | General Statements of the Executive Board on Business Development in 2014

In consideration of the challenging framework conditions in the two market regions of Germany and CIS / Eastern Europe, STADA achieved a solid result in financial year 2014 in the Executive Board's assessment, which was in line with the outlook published at the beginning of the year and is based on the Group's sustainable business model focused on market regions with long-term growth potential.

Overall, in the reporting year there were one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses in the amount of € 128.6 million before or € 121.6 million after taxes, which include impairments on goodwill in the amount of € 54.0 million before and after taxes as well as on further intangible assets in the amount of € 22.0 million before or € 21.7 million after taxes as a result of the significantly changed interest rate and currency environment as well as on ongoing higher risks in the market region CIS / Eastern Europe.[1)]

Despite the challenges, **Group sales** rose – with varying development in the individual market regions – in the reporting year by 3% to € 2,062.2 million (previous year[2)]: € 2,003.9 million).

Sales of the core segment **Generics** decreased slightly by 1% to € 1,217.7 million in financial year 2014 (previous year[2)]: € 1,227.9 million). This reduction is primarily attributable to the development in the markets of Germany and Russia. **Sales** of the core segment **Branded Products** in the reporting year recorded a significant growth of 14% to € 800.5 million (previous year[2)]: € 704.4 million). This increase was primarily based on the development in the markets of Italy, Belgium, the United Kingdom, Spain, France and Serbia.

The earnings development in financial year 2014 was characterized by an increase in operating performance as shown by growth in all of the Group's adjusted key earnings figures.

After adjusting the key earnings figures for influences distorting the year-on-year comparison resulting from one-time special effects, **adjusted EBITDA** increased by 4% to € 431.9 million (previous year[2)]: € 414.3 million). **Net income, adjusted** for one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses, increased substantially by 16% to € 186.2 million (previous year: € 160.6 million).

Adjusted EBITDA of the core segment **Generics** recorded growth of 7% to € 228.7 million (previous year[2)]: € 213.4 million). **Adjusted EBITDA** of the core segment **Branded Products** recorded an increase of 7% to € 240.0 million (previous year[2)]: € 225.1 million).

The **net debt to adjusted EBITDA ratio** improved to 3.1 in financial year 2014 (previous year[2)]: 3.2).

1) See the Company's ad hoc release of February 19, 2015.
2) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statement – 3.).

REMUNERATION REPORT

This Remuneration Report explains, in accordance with the legal requirements and the recommendations of the German Corporate Governance Code in the version of June 24, 2014, the principles of the remuneration system for the Executive Board, Supervisory Board and Advisory Board of STADA Arzneimittel AG as of the balance sheet date and includes individual information on the remuneration of each Executive Board and Supervisory Board member.

Remuneration of the Executive Board

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

Executive Board remuneration system

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

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

The remuneration of the Executive Board in the framework of this remuneration system is made up of remuneration not related to performance and a performance related remuneration. Stock option plans and other comparable components with a 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 Appropriateness 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 2014

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

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

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

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

1) The reporting year corresponds to the target year defined in the context of long-term goals, so the benefits granted from the contractually agreed long-term special remuneration for 2014 are fully attributable to the current reporting year. Accordingly, this also includes the contractually agreed progress payments of the long-term special remuneration upon achieving the respective interim goals from the previous years 2010 to 2013.
2) Contractually agreed performance related progress payments of the long-term special remuneration upon achieving the respective interim goals.
3) In the context of the changed plan and the resulting changes with regard to the benefits awarded according to the former benefit plan there were earnings from past service cost in the amount of € 17.6 million. In addition, an expense from administrative costs for the benefit plan in the amount of € 0.7 million and an expense from the adjustment of plan assets in the amount of € 1.0 million were incurred. The balance of the two items were earnings of € 15.9 million, which were recorded in general and administrative expenses.

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

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

The percentage ratio between non-performance related and performance related[2] remuneration of members of the Executive Board ranges in the area of approx. 28%[3] to approx. 72%[3] non-performance related and approx. 28%[3] to approx. 72%[3] performance related[2] remuneration.

1) Contractually agreed performance related progress payments of long-term special remuneration upon achieving the respective interim goals.
2) Including the contractually agreed long-term special remuneration which is reported as benefits.
3) Excluding pension expenses.

Commitments to members of the Executive Board

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

Previously, the Executive Board contract of the Chairman of the Executive Board included an annual pension set at a fixed annual amount, whereby after the provision commences, the monthly pension payment would have been adjusted on July 1 of every year by the percentage of the increase in the current level of pension in the German statutory pension scheme in comparison to the previous year. Payments from the pension commitments would have begun on request as pension payments after completion of the Executive Board contract, generally valid until August 31, 2016, to the extent that it would not have been renewed or as disability pension if employment had ended before this due to an occupational disability. Furthermore, a lifelong survivor's pension was granted in case of death.

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

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

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

Other commitments

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

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

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

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

To the Company's knowledge, third parties outside the Group have neither promised nor granted benefits to Executive Board members in financial year 2014 with regard to their position in the Executive Board in the reporting year.

Supervisory Board remuneration

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

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

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

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

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

In addition, sales tax is payable on all Supervisory Board remuneration.

Remuneration of the Supervisory Board in financial year 2014

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

- Dr. Martin Abend € 278,900.00 (thereof € 189,000.00 non-performance related and € 89,900.00 performance related)
  (previous year: € 275,400.00, thereof € 105,000.00 non-performance related and € 170,400.00 performance related)

- Carl Ferdinand Oetker € 145,500.00 (thereof € 101,100.00 non-performance related and € 44,400.00 performance related)
  (previous year: € 101,800.00, thereof € 45,000.00 non-performance related and € 56,800.00 performance related)

- Dr. Eckhard Brüggemann € 77,900.00 (thereof € 47,900.00 non-performance related and € 30,000.00 performance related)
  (previous year: € 81,800.00, thereof € 25,000.00 non-performance related and € 56,800.00 performance related)

- Halil Duru € 44,800.00 (thereof € 27,500.00 non-performance related and € 17,300.00 performance related)
  (member of the Supervisory Board since June 4, 2014)

- Heike Ebert € 33,100.00 (thereof € 20,400.00 non-performance related and € 12,700.00 performance related)
  (previous year: € 81,800.00, thereof € 25,000.00 non-performance related and € 56,800.00 performance related)
  (member of the Supervisory Board until June 4, 2014)

- Dr. K. F. Arnold Hertzsch € 85,200.00 (thereof € 55,200.00 non-performance related and € 30,000.00 performance related)
  (previous year: € 81,800.00, thereof € 25,000.00 non-performance related and € 56,800.00 performance related)

- Dieter Koch € 92,900.00 (thereof € 62,900.00 non-performance related and € 30,000.00 performance related)
  (previous year: € 91,800.00, thereof € 35,000.00 non-performance related and € 56,800.00 performance related)

- Manfred Krüger € 72,500.00 (thereof € 47,100.00 non-performance related and € 25,400.00 performance related)
  (previous year: € 173,600.00, thereof € 60,000.00 non-performance related and € 113,600.00 performance related)
  (member of the Supervisory Board until June 4, 2014)

- Constantin Meyer € 85,200.00 (thereof € 55,200.00 non-performance related and € 30,000.00 performance related)
  (previous year: € 81,800.00, thereof € 25,000.00 non-performance related and € 56,800.00 performance related)

- Dr. Ute Pantke € 44,800.00 (thereof € 27,500.00 non-performance related and € 17,300.00 performance related)
  (member of the Supervisory Board since June 4, 2014)

- Karin Schöpper € 39,400.00 (thereof € 26,700.00 non-performance related and € 12,700.00 performance related)
  (previous year: € 91,800.00, thereof € 35,000.00 non-performance related and € 56,800.00 performance related)
  (member of the Supervisory Board until June 4, 2014)

- Jens Steegers € 44,800.00 (thereof € 27,500.00 non-performance related and € 17,300.00 performance related)
  (member of the Supervisory Board since June 4, 2014)

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

Remuneration of the Advisory Board

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

SUPPLEMENTARY REPORT

No material events have occurred since the reporting date that could have a significant effect on the Group's business, financial and earnings situation.

OPPORTUNITIES REPORT

Opportunities management

To secure the short, medium and long-term success of the company the STADA Group carries out continuous opportunity management. In this context STADA aims to determine and seize new growth opportunities and to secure and expand upon existing potential for growth.

STADA's strategic success factors create the basis for utilizing growth opportunities that arise and thereby for securing sustainable Group success. These include in particular strong product development, an international sales structure, an active acquisition policy, a functionally organized group, efficient cost management and qualified employees.

Important strategic success factors of the STADA Group

The regional organizational and management structure in the sales related areas of the STADA Group, which is organized in a strategically centralized manner and managed decentrally, ensures that trends and requirements in the four market regions and the associated markets can be recognized and analyzed at an early stage so that arising opportunities can be used. They are supported in this by detailed observations of both the market and the competition as well as close contact with institutions. 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.

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

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

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

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

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

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

RISK REPORT

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

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

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

Risk management

As a stock corporation based in Germany, STADA is subject to German risk management legislation such as Section 91 (2) of the German Stock Corporation Act. The Executive Board has established a 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 decentrally organized responsible risk confidants by the Risk Management department on current topics and the risk situation in the individual areas of the Group..

4. The company specific risk management guide, which defines the risk management process, the responsibilities within the risk management process and the risk management system.

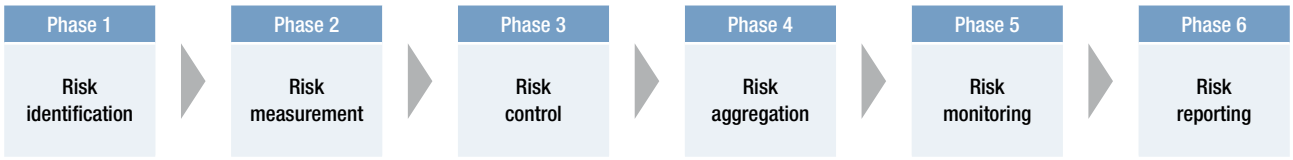
5. Risk reporting at Group and individual-company level.

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

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

Risk management process

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

Phase 2: Risk measurement

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

Phase 3: Risk control

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

Phase 4: Risk aggregation

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

Phase 5: Risk monitoring

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

Phase 6: Risk reporting

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

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

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

Evaluation of risk categories

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

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

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

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

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

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

Environmental and industry risks

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

Some competitors, as a result of their financial and/or organizational resources and/or production capabilities and/or sales strength and/or market power can influence market conditions in a negative manner for STADA. This relates in particular to such activities of competitors that influence, pricing (for example in tenders for discount agreements), product range and scope of service and/or delivery and discount conditions, in order to secure or improve their own competitive position. In addition, market conditions can also be influenced by the appearance of new competitors.

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

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

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

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

STADA places this in the "moderate" risk category.

Corporate strategy risks

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

STADA's growth strategy is linked to the risk that STADA might encounter difficulties in connection with certain operational and/or financial requirements, which cannot, or not to a sufficient extent, operatively be met. In the event that 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 and procurement, may be related to the USA and may, in the Company's view, be subject to elevated legal risks there as compared to other countries, particularly in the areas of liability and patent litigation. This may be associated there with substantial additional costs, in particular for legal counsel. The same applies to disputes in the USA resulting from agreements with third parties as well as a violation of confidentiality regarding company and trade secrets.

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

STADA places this in the "low" risk category.

Regulatory risks

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

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

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

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

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

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

STADA places this in the "moderate" risk category.

Product portfolio risks

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

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

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

STADA places this in the "low" risk category.

Legal risks

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

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

If there is a serious risk of future claims, STADA creates product-specific provisions considered to be commensurate with potential damage claims, which amounted to a total volume of € 0.3 million for the Group as of December 31, 2014 (December 31, 2013: € 0.6 million). In principle, STADA cannot guarantee that the provisions made will be sufficient for individual instances or in total.

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

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

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 companies of 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 applying the exchange rate at that time). However, it has to be taken into consideration that Hemofarm as creditor of the insolvent assets

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

would retrieve a quota of the insolvent assets in a significant amount. 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. Hemofarm and STADA continue to believe that the lawsuit is unfounded.

STADA places this in the "moderate" risk category.

Performance-related risks

The Group'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 product 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 also services which are essential for the Group's success 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 for the long term regardless of demographic challenges. Country and industry-specific fluctuation risks must be proactively identified and addressed specifically to maintain success and critical skills and competencies within the company. STADA counters these risks on the one hand through global staff development and succession processes through which the potential of the employees is systematically identified and promoted. In addition, STADA uses targeted development activities to support both young and experienced highly qualified employees in their career development and to develop and retain performance-critical skills in the company.

It is STADA's expressed goal that all business processes and Group activities be carried out exclusively within the framework of respective laws in force. To this end, within the scope of the compliance system established at STADA, all employees are regularly, and to an extent adjusted to the scale of their individual areas of responsibility, trained and instructed. It can, however, not be completely ruled out that employees, in the execution of business processes deviating from the Group regulation of full compliance, act negligently or intentionally in breach of legal regulations and that such breaches affect the business activities of the 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

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

Global IT applications in process control thereby form the basis for the delivery of products to the global customers of the STADA Group as agreed upon. In the event that information technology processes of the Group are, despite all precautions, insufficient and/or inefficient, this could have materially adverse effects on business processes at STADA. Variations in the quality of internal IT services can also lead to

failure of business-critical IT applications that would have a direct impact on STADA's ability to deliver. Similarly, the failure of a data center could affect the quality of service or lead to a complete failure of critical applications.

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

Currently, the gradual conversion of various information technology systems (IT systems) to an integrated SAP system is being carried out 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, adverse characteristics for STADA such as state-required price reductions, particularly for prescription drugs, 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, liquid financial markets for refinancing are an important precondition for STADA's acquisition policy. In case of disruptions of the financial markets – no matter whether globally or regionally in market regions that are important for STADA – materially adverse effects for 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.

The conflict between Russia and Ukraine has led to an additional risk for the development of the world economy and the STADA Group since 2014. This risk has increased macroeconomic uncertainty and in particular had a negative effect on the business climate, the consumer confidence and the demand of the wholesalers in these markets for the STADA Group. It is currently unclear how long the political upheaval and related decreased demand from consumer and wholesalers might last. If the crisis continues there may be further decreases in sales in these markets as well as further impacts due to a depreciation of the respective currencies (see “Financial Risks”) which will have a negative impact on the earnings situation and financial performance of the STADA Group.

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 the liquidity management is to ensure solvency at all times as well as the financial flexibility of the STADA Group by way of maintaining a sufficient supply of liquidity reserves and having free credit lines. STADA finances itself with short-term and long-term borrowings from banks, promissory notes, bonds and factoring. Furthermore, STADA has solid operating cash flow and further bilateral credit contracts with various banks (credit lines), which can be utilized as needed.

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

These risks consist of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency 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 counter the risks associated with assets, liabilities and anticipated future cash flows denominated in foreign currency. In the reporting year, STADA made use of foreign-exchange futures contracts and interest/currency swaps. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. The remaining term of the contracts is currently up to three years.

Additional risks occur when exchange rate fluctuations in the consolidated financial statements lead to an accounting effect as a result of the conversion of a balance sheet items 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 continue to 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. Exchange rate risks primarily result from activities in the following currencies: Russian ruble, pound sterling and Serbian dinar. This risk is not hedged.

According to a currency sensitivity analysis within the scope of regulations of IFRS 7 based on the foreign currency items outstanding as of the balance sheet date, an appreciation or devaluation of the euro compared to the currencies of relevance for the Group of 10% would have led to an effect on earnings of expenses in the amount of € 7.1 million (previous year: € 7.6 million) or of income in the amount of € 7.1 million (previous year: € 7.6 million). Of these effects on earnings, € -0.6 million or € 0.6 million relate to the Russian ruble, € -1.5 million or € 1.5 million relate to the Kazakhstani tenge, € -2.8 million or € 2.8 million to the Ukrainian hryvnia and € 1.3 million or € -1.3 million to the Serbian dinar.

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

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

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

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

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

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

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

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

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

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.

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

Furthermore, STADA has obligations in connection to pension plans. The present value of benefit obligations according to IFRS is influenced by changes in relevant valuation parameters, for example, interest rate changes or future salary increases. Thus, there is a risk of relevant valuation parameters changing in a way that is unfavorable for STADA and as a result, the present value of the retirement benefits increases significantly.

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

STADA places this in the “moderate” risk category.

Other risks

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

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 risks

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

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

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. The risk environment of STADA has changed as compared to the previous year, as a result of the geopolitical development of the conflict between Russia and Ukraine that led to an increased uncertainty of the macroeconomic and political situation. From today's perspective, however, 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, 2014, share capital consisted of 60,626,700 ordinary shares, each with an arithmetical share of share capital of € 2.60 per share.

These ordinary shares of the Company 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 their 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 exercise in Section 23 (1) the possibility of a deviation pursuant to Section 179 (2) AktG and stipulate that, unless otherwise provided by mandatory provisions of the German Stock Corporation Act, resolutions shall be passed by a simple majority of the votes cast and, insofar as a majority of the share capital is represented at the time the resolution is passed, with a simple majority of the capital present insofar as this is legally permissible. In case of a tie, a motion shall be deemed denied.

Furthermore, the Supervisory Board is authorized in accordance with Section 32 of the Articles of Association to resolve on amendments and additions to the Articles of 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 General 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 transfer ability against contributions in cash and/or in kind. The Executive Board is authorized, with the approval of the Supervisory Board, to determine the content of the share rights, the individual details of the capital increase as well as the conditions of the share issue in particular the issue price. The Executive Board has not made use of this authorization to date.

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

The share capital of the Company was conditionally increased as of December 31, 2014 by up to € 4,585,152.00 by issuing up to 1,763,520 registered shares with restricted transferability (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

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

Significant agreements on condition of a change of control

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

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

PROGNOSIS REPORT

Proven business model with sustainable growth potential

STADA's proven business model has been characterized by a constant and sustainable development for years. In light of the overall successful development, the Executive Board will maintain the Group's strategic orientation also in the future. The business activities, therefore, will continue to focus on products with off-patent active ingredients in selected segments of the pharmaceutical market. The Group's two core segments will continue to be Generics and Branded Products. Apart from the regional expansion of its business activities, STADA will, in growth and earning aspects, focus increasingly on the promising area of biosimilars in the Generics segment. In the core segment Branded Products, the main focus is both on expansion and on internationalization.

In view of the Executive Board, the Group activities thereby also remain focused on market regions with long-term growth opportunities in future. As 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 will continue to be influenced by various and, in part, opposing factors in financial year 2015. For details on the expectations of the Executive Board as relates to the opportunities and risks in the individual market regions, please refer to the segment reporting in this Annual Report (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. In view of the strategical success factors, however, the Executive Board sees clear opportunities for further growth also in the future.

Overall economic outlook

For 2015, the IMF expects a moderate increase in economic activity with a rise in global economic growth in the amount of 3.5%.[1)] Estimates show economic development for emerging markets at 4.3%, whereas growth of 6.8% in China is expected.[1)] IMF forecasts growth of 2.4% for advanced economies.[1)] In this context, GDP in the USA is expected to grow by 3.6%, while forecasts for economic development in EU countries assume an increase of 1.2%.[1)] According to estimates, GDP will grow by 1.3% in Germany, by 0.9% in France, by 2.0% in Spain and by 0.4% in Italy.[1)] In the so-called CIS countries (Commonwealth of Independent States), GDP is expected to decrease by 1.4% in 2015 with a minus of 3.0% in Russia. For the region Emerging and Developing Europe[2)], experts anticipate growth of 2.9% with a plus of 1.0% in Serbia[3)].

The ECB also sees the prospect of moderate recovery in the Euro zone in 2015. Domestic demand should benefit from the monetary policy measures, the ongoing improvements in financing conditions and from the lower energy prices supporting real disposable income.[4)] Export demand is expected to benefit from the global recovery.[4)] Nevertheless, Euro zone unemployment will remain high, and the changes that need to be made to both public and private sector budgets will continue to burden economic development.[4)] Overall, the ECB increasingly stresses the risks for private investments and for the insufficient progress made in the context of structural reforms in Euro zone countries.

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 of January 2015.
2) Including Bulgaria, Croatia, Lithuania, Poland, Romania, Serbia, Turkey and Hungary.
3) Source: International Monetary Fund: World Economic Outlook of October 2014.
4) ECB Monthly Bulletin of December 2014.

Industry specific outlook

In the Executive Board's assessment, numerous national health care and, in particular, pharmaceutical markets will continue to provide high growth opportunities that are relatively independent of economic activity. On the one hand, this is based on general growth drivers in the form of the global population increase, an aging society in industrialized nations and further medical progress. On the other hand, the growth opportunities are based on generics-specific drivers such as progressive generics penetration as a result of increasing spending restraints in individual national health systems and continuous patent expirations. This also applies to the future-oriented field of biopharmaceuticals with high sales and earnings potential.

In view of the continually rising demand in the health care market and the fact that drugs are viewed as relatively efficient compared to other treatment methods, further growth continues to be expected for the international pharmaceutical market in the future. According to forecasts, sales in the global pharmaceutical market will increase by 5% to 7% per year until 2019.[1)]

In the view of the Executive Board, the Generics segment, in particular, has growth opportunities within the pharmaceutical market, as generics ensure a cost-effective medicative therapy without any loss in quality and thus counteract increasing cost pressure in the individual health care markets. Furthermore, the potential available for generics competition is increasing due to the continuous expiration of patents and other commercial property rights.

This estimation is also confirmed by the forecasts of IMS Health, according to which annual growth for the global generics market will be as high as 7.4%[2)] until 2019. It should, however, be taken into account that the actual growth rates of reported sales in markets where significant discounts must be granted, could be substantially below gross sales generally recorded by the market research institutions before discounts.

In view of the sales volume for newly available active pharmaceutical ingredients for generics competition between 2015 and 2018 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, amount to more than € 12.1 billion, the Executive Board call for further growth opportunities in the EU generics market.[3)]

This assumption is supported by estimates from IMS Health as well, according to which annual generics growth in the EU amounts to an average of 5.4%[1)] from 2014 to 2016. For selected markets in Eastern Europe[4)] of the market regions Central Europe and CIS/Eastern Europe, IMS Health expects annual average generics growth of 5.8%[5)] until 2019. In Russia, estimates from IMS Health, after the start of the CIS crisis, call for average generics growth of 9.2%[5)] from 2015 to 2019.

In the Generics area, biosimilars in particular will play an increasingly important role in the future, since they can contribute significantly to a relief of the individual national health care markets. Overall, twelve of the strongest biologics in terms of sales will have lost their patent protection by 2020[6)]. In the current year, a paradigm shift is pending in this connection since, for the first time ever, there will be more patent expirations among biopharmaceutical products than chemical-synthetic products. By 2018, biopharmaceuticals valued at a total of around € 51 billion will have lost their patent worldwide.[7)] In view of the potential this area offers, the STADA Group consequently continues in the context of its biosimilar activities to pursue its strategy of relying on cooperations with highly specialized partners in order to expand its portfolio at favorable conditions with high-quality products.

1) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015.
2) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015. 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 2014 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 2018, 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, 2015) 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) Russia, Serbia, Ukraine, Kazakhstan, Bosnia-Herzegovina.
5) IMS MIDAS (September) 2014; IMS Syndicated Analytics: Forecasting Premium Support Service prepared for STADA, February 2015.
6) Source: "Deutsches Ärzteblatt" (a German medical journal) of March 14, 2014; 111 (11): A-452 / B-388 / C-372: "Biosimilars: Das Wettrennen ist in vollem Gange" ("Biosimilars: The race is well underway").
7) Source: "Pro Generika – Generika und Biosimilars in Deutschland, Marktdaten Pro Generika 2013" ("Pro Generics – generics and biosimilars in Germany, market data Pro Generics 2013").

In growth and earning aspects, STADA has been increasingly promoting the expansion and internationalization of the Branded Products segment, as it is generally subject to less regulatory intervention and is characterized by substantially more attractive margins than the Generics segment. This is due, on the one hand, to the relief of the global health care systems since non-prescription drugs are, with only a few exceptions, not reimbursable. On the other hand, the number of so-called "self-improvers", who rely on self-medication in health care and, with a growing tendency, spend more money on that, is increasing particularly in the Western industrialized nations.

For the global OTC market, IMS Health predicts annual growth of 6.9%[1)] until 2019. For the European OTC market, experts forecast an increase of up to 0.9%.[1)]

Challenges and risks

In addition to the growth opportunities mentioned in this Annual Report, the Group is also confronted with operating challenges and risks which are detailed in 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. In the view of the Executive Board, many of these challenges and risks result from the structures and mechanisms of the market segments and market regions which the Group cannot influence and in which the Group is active. As 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 optimally utilize these growth opportunities (see "Basis of the Group – Business Model" and "Risk Report").

The business model of STADA is generally oriented toward the health care market with demand that is relatively independent of the economy. Therefore, the international 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. Despite this, the Group will continue to be confronted by specific consequences of economic effects in the future in addition to the general challenges and risks associated with the business model (see "Risk Report").

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

Basis of the prognosis

The outlook for financial year 2015 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 based on the details on the overall economic outlook and the industry-specific outlook.

Furthermore, the forecast was mainly based on the following assumptions:

- Predominately unchanged regulatory framework conditions in the most important markets of the four STADA market regions
- Optimization of procurement prices for primary materials
- The continued possibility to immediately launch new products upon patent expiration
- Largely unchanged tax situation in the countries where STADA has Group companies

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

Summarizing outlook

STADA's business model is generally geared towards markets with long-term growth potential in the health care and pharmaceutical markets. Inseparably linked to this, however, are 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 be confronted by non-operational influence factors in future. As a consequence, relevant Group currency relations, in particular of the Russian ruble, the Serbian dinar and the British pound sterling to the euro, will affect the Group's future development in financial year 2015. Furthermore, STADA will have to deal with residual effects of the global financial and economic crisis as well as the effects of the CIS 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. However, in view of the residual effects of the global financial and economic crisis as well as the effects of the CIS crisis, resulting burdens such as one-time special effects from impairment losses on intangible assets and property, plant and equipment, payment defaults, non-operational burdens on earnings from currency influences, in particular from the devaluation of the Russian ruble and the Ukrainian hryvnia, as well as a curbed or further decreasing demand in the Russian pharmaceuticals market cannot be ruled out. With regard to the existing sanctions against Russia, STADA does not currently see any significant direct effects on the Group's business activities.

Overall, the future sales and earnings development of the Group will continue in future to be characterized by both growth-stimulating and challenging framework conditions in the individual markets of STADA's respective market regions. In the current financial year, the Group has been confronted with very difficult framework conditions, especially as a result of the CIS crisis. In light of this, for financial year 2015, the Excexutive Board expects to be able to achieve slight growth in Group sales adjusted for currency and portfolio effects. Due to the recent developments of the Russian ruble and increased risks in connection with consumer mood and the general market situation, it anticipates a decreased earnings contribution from Russia. Taking these developments into account and based on current currency relations, the Executive Board expects a substantial decrease in adjusted EBITDA and adjusted net income. The Executive Board expects the ratio of net debt, excluding further acquisitions, to adjusted EBITDA to be at a level of nearly 3 in 2015.

STADA Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2014	Previous year[1)]	Note
Sales	2,062,247	2,003,912	11.
Cost of sales	1,070,441	1,024,475	12.
Gross profit	**991,806**	**979,437**	
Selling expenses	458,381	488,162	13.
General and administrative expenses	152,817	159,537	14.
Research and development expenses	56,905	55,473	15.
Other income	20,067	53,754	16.
Other expenses	155,243	72,629	17.
Expenses in connection with the "STADA – build the future" project	-	9,064	18.
Operating profit	**188,527**	**248,326**	
Result from investments measured at equity	1,595	3,700	
Investment income	132	340	
Financial income	4,833	6,865	
Financial expenses	70,393	69,930	
Financial result	**-63,833**	**-59,025**	19.
Earnings before taxes	**124,694**	**189,301**	
Income taxes	54,586	66,490	20.
Earnings after taxes	**70,108**	**122,811**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income)	64,562	121,426	
• distributable to non-controlling shareholders	5,546	1,385	21.
Earnings per share in € (basic)	1.07	2.04	22.
Earnings per share in € (diluted)	1.05	2.00	22.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income in € 000s	2014	Previous year	Note
Earnings after taxes	**70,108**	**122,811**	
Items to be recycled to the income statement in future:			
Currency translation gains and losses	**-125,206**	**-61,366**	35.
thereof			
• income taxes	1,613	779	
Gains and losses on available-for-sale financial assets	**0**	**-1**	46.
thereof			
• income taxes	0	0	
Gains and losses on hedging instruments (cash flow hedges)	**1,519**	**2,349**	46.
thereof			
• income taxes	-563	-899	
Items not to be recycled to the income statement in future:			
Remeasurements of the net defined benefit liability	**-15,617**	**1,900**	36.
thereof			
• income taxes	5,294	-820	
Other comprehensive income	**-139,304**	**-57,118**	
Consolidated comprehensive income	**-69,196**	**65,693**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG	-81,555	66,329	
• distributable to non-controlling shareholders	12,359	-636	

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet as of Dec. 31 in € 000s Assets	Dec. 31, 2014	Dec. 31, 2013	Jan. 1, 2013[1)]	Note
Non-current assets	**2,013,819**	**2,059,989**	**1,806,292**	
Intangible assets	1,631,516	1,641,623	1,417,050	25.
Property, plant and equipment	305,430	318,428	269,361	26.
Financial assets	2,036	8,991	12,463	27.
Investments measured at equity	10,569	8,974	44,042	28.
Other financial assets	11,729	27,785	16,158	30.
Other assets	3,130	3,570	1,165	31.
Deferred tax assets	49,409	50,618	46,053	20.
Current assets	**1,321,639**	**1,353,193**	**1,169,679**	
Inventories	498,785	524,374	466,496	32.
Trade accounts receivable	502,794	591,678	489,567	29.
Income tax receivables	30,711	24,836	31,209	20.
Other financial assets	86,943	50,096	36,919	30.
Other assets	37,866	34,475	50,879	31.
Non-current assets and disposal groups held for sale	331	1,571	2,076	33.
Cash and cash equivalents	164,209	126,163	92,533	34.
Total assets	**3,335,458**	**3,413,182**	**2,975,971**	

Equity and liabilities	Dec. 31, 2014	Dec. 31, 2013	Jan. 1, 2013[1)]	Note
Equity	**903,339**	**1,010,099**	**910,317**	35.
Share capital	157,629	157,151	154,264	
Capital reserve	490,401	487,843	472,459	
Retained earnings including net income	561,376	552,663	458,924	
Other provisions	-371,851	-241,497	-184,467	
Treasury shares	-1,504	-1,542	-1,572	
Equity attributable to shareholders of the parent	**836,051**	**954,618**	**899,608**	
Shares relating to non-controlling shareholders	67,288	55,481	10,709	
Non-current borrowed capital	**1,246,693**	**1,358,414**	**1,102,404**	
Other non-current provisions	30,097	51,478	50,486	36.
Financial liabilities	1,042,998	1,140,571	941,572	37.
Other financial liabilities	5,259	12,988	24,528	39.
Other liabilities	1,640	2,937	3,054	40.
Deferred tax liabilities	166,699	150,440	82,764	20.
Current borrowed capital	**1,185,426**	**1,044,669**	**963,250**	
Other provisions	17,442	17,536	10,538	41.
Financial liabilities	448,703	292,484	326,183	37.
Trade accounts payable	340,847	331,661	267,773	38.
Income tax liabilities	33,726	30,569	25,633	20.
Other financial liabilities	257,403	261,067	219,519	39.
Other liabilities	87,305	111,352	113,604	40.
Total equity and liabilities	**3,335,458**	**3,413,182**	**2,975,971**	

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

CONSOLIDATED CASH FLOW STATEMENT

Consolidated Cash Flow Statement in € 000s	Dec. 31, 2014	Dec. 31, 2013[1)]	Note
Net income	70,108	122,811	
Depreciation and amortization net of write-ups of non-current assets	228,521	130,193	24.
Income taxes	54,586	66,490	20.
Interest income and expenses	69,151	66,446	19.
Result from associates	-1,595	-3,700	19.
Result from the disposals of non-current assets	-43	521	17.
Additions to / reversals of other non-current provisions	-17,039	4,337	36.
Currency translation income and expenses	29,415	16,535	16.
Other non-cash expenses and gains	214,001	182,319	19.
Gross cash flow	**647,105**	**585,952**	
Changes in inventories	-57,959	-55,723	32.
Changes in trade accounts receivable	629	-72,611	29.
Changes in trade accounts payable	-18,339	48,160	38.
Changes in other net assets, unless attributable to investing or financing activities	-237,705	-169,720	
Interest and dividends received	4,709	6,390	
Interest paid	-66,275	-65,717	
Income tax paid	-48,355	-72,987	
Cash flow from operating activities	**223,810**	**203,744**	42.
Payments for investments in			
• intangible assets	-181,397	-52,976	25.
• property, plant and equipment	-37,453	-33,895	26.
• financial assets	-65	-709	27.
• shares in consolidated companies	-	-	
• business combinations according to IFRS 3	-55,054	-229,754	8./42.
Proceeds from the disposal of			
• intangible assets	8,007	3,416	25.
• property, plant and equipment	3,953	1,481	26.
• financial assets	29	455	27.
• shares in consolidated companies	-	-	
Cash flow from investing activities	**-261,980**	**-311,982**	42.
Borrowing of funds	734,224	930,421	37.
Settlement of financial liabilities	-612,098	-770,302	37.
Dividend distribution	-42,495	-31,177	35.
Capital increase from share options	3,029	18,264	35.
Changes in non-controlling interests	1,006	1,537	35.
Changes in treasury shares	45	37	35.
Cash flow from financing activities	**83,711**	**148,780**	42.
Changes in cash and cash equivalents	**45,541**	**40,542**	
Changes in cash and cash equivalents due to Group composition	2,116	-123	
Changes in cash and cash equivalents due to exchange rates	-9,611	-6,789	
Net change in cash and cash equivalents	**38,046**	**33,630**	
Balance at beginning of the period	**126,163**	**92,533**	
Balance at end of the period	**164,209**	**126,163**	

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

2014	Number of shares	Share capital	Capital reserve
Balance as of Dec. 31, 2014	**60,626,700**	**157,629**	**490,401**
Dividend distribution			
Capital increase from share options	184,200	478	2,551
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, 2014	**60,442,500**	**157,151**	**487,843**

Previous year

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	**59,332,260**	**154,264**	**472,459**

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 interests	Group equity
561,376	**-369,906**	**22**	**-1,967**	**-1,504**	**836,051**	**67,288**	**903,339**
-39,832					**-39,832**	-2,663	**-42,495**
					3,029		**3,029**
				38	**45**		**45**
					-		**-**
					-	2,111	**2,111**
-254					**-254**		**-254**
-15,763	-131,860	-13	1,519		**-146,117**	6,813	**-139,304**
64,562					**64,562**	5,546	**70,108**
552,663	**-238,046**	**35**	**-3,486**	**-1,542**	**954,618**	**55,481**	**1,010,099**
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**

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 2014 were approved for publication by the Executive Board on March 23, 2015.

2. Basis of preparation

The consolidated financial statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2014, 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 2014, 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 2014, which had no or no significant effect on the presentation of STADA's business, financial, earnings situation or cash flow:

- **IAS 32 "Financial Instruments: Presentation":**
  The amendment clarifies requirements for the netting of financial assets and financial liabilities on the balance sheet.
  The right to netting on the balance sheet must exist as of the balance sheet date.
- **IAS 36 "Impairment of Assets":**
  The amendment contains a clarification that the reporting of a recoverable amount is only required of those cash-generating units for which an impairment loss or reversal has been recognized within the current reporting period.

- **IAS 39 "Financial Instruments: Recognition and Measurement":**
  In order to improve the transparency and regulatory supervision of OTC derivatives, companies are, in certain circumstances, required to clear derivatives to central counterparties. Despite novation, derivatives can remain designated as hedging instruments under certain conditions.
- **IFRIC 21 "Levies":**
  The standard concerns the question of the accounting of public levies which do not represent income tax in the sense of IAS 12 and clarifies when the obligation to pay such levies should be recognized as a liability in the financial statements.

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 special purpose 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". Joint ventures, 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 was to be made under the relevant income and expense items in accordance with currently valid regulations.

For STADA, the initial application of the new standards has resulted in retroactively applicable changes in relation to the consolidation of joint ventures in accordance with IFRS 11. Up until the time of its change in status to subsidiary in the past financial year, STADA Vietnam, previously consolidated on a pro rata basis, was included in STADA's consolidated financial statements retroactively according to the equity method up until the time control was acquired by STADA in accordance with IFRS 11 in connection with IAS 8 and in connection with IAS 1. As a result of the consolidation of this company as a subsidiary in the context of the control achieved over STADA Vietnam as of the fourth quarter of 2013, there were no more joint ventures within the scope of consolidation of STADA as of December 31, 2013. As a result, there have been no effects for STADA in financial year 2014 as a result of this changed accounting policy.

In the context of the retrospective adjustments carried out in accordance with the new standard IFRS 11 in connection with IAS 8 as well as in connection with IAS 1, balance sheet items changed as of January 1, 2013 as follows:

Consolidated Balance Sheet (abridged) in € 000s	Jan. 1, 2013	Adjustments in accordance with new IFRS 11	Jan. 1, 2013 adjusted
Non-current assets	**1,802,176**	**4,116**	**1,806,292**
Intangible assets	1,417,083	-33	1,417,050
Property, plant and equipment	273,822	-4,461	269,361
Investments measured at equity	34,885	9,157	44,042
Other non-current assets	76,386	-547	75,839
Current assets	**1,180,645**	**-10,966**	**1,169,679**
Inventories	475,311	-8,815	466,496
Trade accounts receivable	492,143	-2,576	489,567
Other current assets	120,461	622	121,083
Cash and cash equivalents	92,730	-197	92,533
Total assets	**2,982,821**	**-6,850**	**2,975,971**
Equity and liabilities	**910,317**	**-**	**910,317**
Non-current borrowed capital	**1,102,911**	**-507**	**1,102,404**
Financial liabilities	941,572	-	941,572
Other non-current borrowed capital	161,339	-507	160,832
Current borrowed capital	**969,593**	**-6,343**	**963,250**
Financial liabilities	328,519	-2,336	326,183
Trade accounts payable	268,973	-1,200	267,773
Other current borrowed capital	372,101	-2,807	369,294
Total equity and liabilities	**2,982,821**	**-6,850**	**2,975,971**

Due to the retrospective adjustments, the following changes resulted for the income statement in financial year 2013:

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2013	Adjustment in accordance with a change in methodology and amended standard IFRS 11	2013 adjusted
Sales	2,014,411	-10,499	2,003,912
Cost of sales	1,030,152	-5,677	1,024,475
Gross profit	**984,259**	**-4,822**	**979,437**
Selling expenses	488,772	-610	488,162
General and administrative expenses	160,005	-468	159,537
Research and development expenses	55,700	-227	55,473
Other income	53,644	110	53,754
Other expenses	72,813	-184	72,629
Expenses in connection with the "STADA – build the future" project	9,064	-	9,064
Operating profit	**251,549**	**-3,223**	**248,326**
Result from investments measured at equity	771	2,929	3,700
Investment income	340	-	340
Financial income	6,845	20	6,865
Financial expenses	70,079	-149	69,930
Financial result	**-62,123**	**3,098**	**-59,025**
Earnings before taxes	**189,426**	**-125**	**189,301**
Taxes on income	66,615	-125	66,490
Earnings after taxes	**122,811**	**-**	**122,811**
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income)	121,426	-	121,426
• distributable to non-controlling shareholders	1,385	-	1,385
Earnings per share in € (basic)	2.04	-	2.04
Earnings per share in € (diluted)	2.00	-	2.00

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 2014.

In May 2014, IASB published the new standard IFRS 15 "Revenue from Contracts with Customers". IFRS 15 governs the revenue recognition for contracts with customers in a 5-step model and in particular replaces the existing standards IAS 11 "Construction Contracts" and IAS 18 "Revenue". IFRS 15 is to be applied for financial years beginning on or after January 1, 2017. The adoption into European law is still pending. The impact of the new standard for revenue recognition on the business, financial and earnings situation is still currently under review.

From today's perspective no or 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 with significant consequences for the presentation of STADA's business, financial and earnings situation or cash flow in financial year 2014.

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 control of an investee, are exposed to variable backflows and, due to control over existing rights, are able to substantially influence the investee's variable backflows. Control is usually substantiated by a share of voting rights of more than 50%.

Joint arrangements are characterized by joint control by two or more parties and should be classified as either joint operations or as joint ventures. In joint operations, the parties that exercise joint control possess the rights to assets and liabilities included in the agreement. In joint ventures, however, the parties involved possess rights to the company's net assets. Joint ventures are to be included in the consolidated financial statements using the equity method.

As a result of changing the status of the company STADA Vietnam J.V. Co., Ltd., which was previously consolidated as a joint venture and as a result of the deconsolidation of STADA Import/Export in financial year 2013, there were no longer any joint ventures in STADA's scope of consolidation. The consolidation of STADA Vietnam J.V. Co., Ltd. is carried out regardless of their capital share of 50% as a subsidiary due to the fact that STADA controls this company on the basis of agreements in accordance with corporate law.

Associated companies are companies over which STADA is able to exercise 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 and balance sheet total of these companies make up less than 1% of total Group sales and the balance sheet total.

Changes in the scope of consolidation resulted regarding the number of subsidiaries, joint ventures and associated companies included in financial year 2014 and are as follows:

Number of companies in the scope of consolidation	Germany	outside	Total
January 1, 2014	12	65	77
Acquisitions	-	3	3
Disposals	-	1	1
December 31, 2014	12	67	79

Changes in the scope of consolidation as of December 31, 2014 as compared to December 31, 2013 resulted from the merger of the consolidated subsidiary S.A. Neocare N.V., Brussels, Belgium, with S.A. Eurogenerics N.V., Brussels, Belgium, also a consolidated subsidiary, in the second quarter of 2014.

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

Furthermore, in the first quarter of 2014, the contract for the purchase of the Russian branded product portfolio Aqualor® was completed as planned. The Aqualor® product sales have been consolidated in the STADA Group since March 1, 2014. In this context, STADA's Russian subsidiary OOO Aqualor has also been included in the scope of consolidation of STADA Arzneimittel AG.

In addition, the Chinese subsidiary STADA Pharmaceuticals (Beijing) Ltd., Beijing, China, has been included in the scope of consolidation of STADA as of January 1, 2014.

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

Furthermore, the British company Internis Pharmaceuticals Ltd., London, United Kingdom, which had been previously acquired, was included as a subsidiary in the scope of consolidation of STADA in the fourth quarter of 2014. For details on the impact of this merger on STADA's consolidated financial statements see Note 8.

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 amount of shares held, 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 (see 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 following condensed financial information is given for these three associates:

in € million	2014	2013
Share of result from continuing operations	1.6	0.8
Share of result from discontinued operations	-	-
Share of other comprehensive income	-	-
Share of comprehensive income	**1.6**	**0.8**
Aggregate carrying amount	**10.6**	**9.0**

As of December 31, 2014, there continued to be a guarantee on the part of STADA 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.

There are significant non-controlling interests in the Vietnamese subsidiaries Pymepharco Joint Stock Company and STADA Vietnam J.V. Co of the STADA Group.

In the following, the influence of other shareholders in these subsidiaries as of December 31, 2014 is presented:

Name of subsidiary	Headquarters / place of founding	Share in voting rights	Result of non-controlling interests in 2014 in € 000s	Accumulated non-controlling shares as of Dec. 31, 2014 in € 000s
Pymepharco	Vietnam	59.0%	1,570	24,730
STADA Vietnam	Vietnam	50.0%	3,196	30,996

The disclosures for the previous year are as follows:

Name of subsidiary	Headquarters / place of founding	Share in voting rights	Result of non-controlling interests in 2013 in € 000s	Accumulated non-controlling shares as of Dec. 31, 2013 in € 000s
Pymepharco	Vietnam	59.0%	928	19,481
STADA Vietnam	Vietnam	50.0%	-45	26,226

In the following, the financial information of both subsidiaries as of December 31, 2014 and for financial year 2014 is summarized:

	Assets as of December 31, 2014		Liabilities as of December 31, 2014	
in € 000s	non-current	current	non-current	current
Pymepharco	52,921	35,055	8,947	8,411
STADA Vietnam	46,453	32,332	6,258	5,609

		Earnings in 2014			
in € 000s	Sales	Distributable to STADA	Distributable to non-controlling interests	Total earnings in 2014	Dividends to non-controlling interests in 2014
Pymepharco	41,348	656	1,570	10,896	384
STADA Vietnam	43,304	2,634	3,196	14,035	2,143

The result of Pymepharco and STADA Vietnam distributable to STADA contains impairments on goodwill which have been accounted for in accordance with the partial goodwill method in the context of achieving control.

For the previous year, the following disclosures are made regarding the summarized financial information:

	Assets as of December 31, 2013		Liabilities as of December 31, 2013	
in € 000s	non-current	current	non-current	current
Pymepharco	48,922	28,838	8,754	12,029
STADA Vietnam	43,813	26,750	5,756	7,636

		Earnings in 2013			
in € 000s	Sales	Distributable to STADA	Distributable to non-controlling interests	Total earnings in 2013	Dividends to non-controlling interests in 2013
Pymepharco	42,769	1,335	928	-982	265
STADA Vietnam	10,218	-45	-45	-1,769	-

For financial year 2013, disclosures for the company STADA Vietnam are given, each first beginning with its consolidation in the fourth quarter of 2013, which took place in to the context of STADA achieving control. Until the time of its change in status to a subsidiary in the past financial year, STADA Vietnam, previously proportionately consolidated as a joint venture, was included in STADA's consolidated financial statements retroactively according to the equity method until the time that control was achieved by STADA in accordance with IFRS 11 in connection with IAS 8 and IAS 1.

Subsidiaries, joint ventures and associated companies as well as all non-consolidated and other investments are included in the consolidated financial statements as investments and 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
AO 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	100%	subsidiary
STADA d.o.o., Zagreb, Croatia	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt	75%	not included
STADA (Shanghai) Company 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 Bulgaria EOOD, Sofia, Bulgaria	100%	subsidiary
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 Ltd., 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	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, The Netherlands	100%	subsidiary
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 Ltd., Clonmel, Ireland	100%	subsidiary
Internis Pharmaceuticals Ltd., London, United Kingdom	100%	subsidiary
Pegach AG, Egerkingen, Switzerland	100%	subsidiary
Sundrops Ltd., Huddersfield, United Kingdom	100%	subsidiary
Thornton & Ross Ltd., 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 Ltd., Huddersfield, United Kingdom	100%	subsidiary
Thornton & Ross Ireland Ltd., Dublin, Ireland	100%	subsidiary
Zeroderma Ltd., 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
STADA Nordic ApS (previously PharmaCoDane ApS), Herlev, Denmark	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	3.42%	subsidiary
STADA CEE GmbH, Bad Homburg, Germany	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt	25%	not included
STADA Pharma Services India Private Ltd., 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 STADA GmbH:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Medical GmbH, Bad Vilbel, Germany	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V.:

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm Nederland B.V., Etten-Leur, The Netherlands	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia	100%	subsidiary
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam	49%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	96.58%	subsidiary
STADA MENA DWC-LLC, Dubai, United Arab Emirates	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

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) Ltd., Hong Kong, China	70%	not included
STADA Import/Export International Ltd., Hong Kong, China	51%	subsidiary
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China	83.35%	subsidiary
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 Ltd.:

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 Ltd., Clonmel, Ireland	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd.; Clonmel Healthcare Ltd. 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 AO Nizhpharm:

Name of the company, registered office	Share in capital	Form of consolidation
Dialogfarma LLC, Moscow, Russia	50%	not included
Hetmak FZCO, Dubai, United Arab Emirates[1)]	50%	not included
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan	100%	subsidiary
Nizhpharm-Ukraine DO, Kiev, Ukraine	100%	subsidiary
OOO Aqualor	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 Laboratorio STADA, S.L.:

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 Ciclum Farma, Unipessoal, LDA:

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

1) Currently in the process of liquidation.

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[1)]	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
Jinan Pharmaceuticals Co., Jinan, China	35.50%	not included
STADA Hemofarm d.o.o., Zagreb, Croatia[1)]	100%	not included
STADA HEMOFARM S.R.L., Temesvar, Romania	100%	subsidiary
STADA IT Solutions d.o.o., Belgrade, Serbia	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

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) 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.

1) Currently in the process of liquidation.

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 IFRS 10, 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.

Shares in associated companies are recognized according to the equity method at acquisition cost on the date when joint control is established (joint ventures) or when significant influence was established (associated company) 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 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		
	2014	2013	±%	2014	2013	±%
Pound sterling	0.77890	0.83310	-7%	0.80640	0.84974	-5%
Russian ruble	72.35890	45.24887	+60%	52.56082	42.58944	+23%
Serbian dinar	120.91898	114.81056	+5%	117.23329	113.12217	+4%
Ukrainian hryvnia	19.23447	11.35718	+69%	15.40541	10.86012	+42%
US Dollar	1.21409	1.37671	-12%	1.32989	1.33012	0%

8. Business combinations

In financial year 2014, the following significant business combinations in the sense of IFRS 3 occurred, for which the preliminary purchase price allocation is described in more detail below.

In the second quarter of 2014, STADA purchased the production and distribution rights for the branded product portfolio Flexitol® including the associated sales structures from the LaCorium group of companies. STADA achieved control upon conclusion of the contract on June 16, 2014.

The purchase price for the acquisition of the production and distribution rights including the associated sales structures totaled GBP 8.3 million (approx. € 10.3 million) including adjustments for inventory in the amount of GBP 1.7 million (approx. € 2.2 million), and was completely paid in cash or cash equivalents. The acquired product portfolio comprises 15 prescription-free (OTC) and prescribable (OTX) products in the area of hand and foot care.

In the context of the purchase price allocation, goodwill in the amount of approx. € 1 resulted from the business combination and is broken down as follows:

in € million	
Purchase price for 100% of the shares in the production and distribution rights approx.	10.3
Proportionate fair values of the assets and liabilities acquired incl. fair value of adjustments for inventory approx.	10.3
Goodwill	0.0

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	12.5
Inventories	0.8
Assets	13.3
Trade accounts payable	3.0
Liabilities	3.0

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 measurement of acquired assets and liabilities assumed.

Sales generated in the market region Central Europe with the branded product portfolio Flexitol® since the acquisition date amounted to approx. € 2 million in financial year 2014. The operating profit of this business combination adjusted for the effects of the purchase price allocation (approx. € 0.3 million) amounted to approx. € 1 million in financial year 2014. If STADA had acquired the branded product portfolio Flexitol® on January 1, 2014, sales of approx. € 4 million and operating profit, adjusted for effects from the purchase price allocation (about € 0.6 million), of approx. € 2 million would have been achieved on a linear extrapolation in financial year 2014.

Another significant business combination resulted in the context of acquiring the British company Internis Pharmaceuticals Limited, London, United Kingdom, which is active in the prescription area of therapeutic treatment of vitamin D3 deficiency. STADA achieved control upon conclusion of the contract on December 19, 2014.

The purchase price amounts to a maximum of GBP 49.0 million (applying the exchange rate at the date of acquisition approx. € 62.3 million) and was completely paid in cash or cash equivalents. It contains certain contingent purchase price components. The conditional purchase price components amount to a total of GBP 20.0 million and divide equally into two purchase price conditions. The first purchase price condition is to obtain regulatory drug approval. The final purchase price is determined by the date of achieving the approval. The determination of the final purchase price of the second purchase price component depends on certain changes regarding competitive

parameters and determined sales targets. The amount recognized as of the acquisition date for conditional consideration amounts to GBP 20.0 million. It is very likely that the regulatory drug approval will be obtained at an early date and, therefore, the competitive parameters will not have changed at that time. A range of GBP 0 to 20.0 million is assumed for the conditional purchase price components, while the risk of a deviation of GBP 20.0 million is estimated as very low. As of the balance sheet date, GBP 39.0 million had been already paid.

Due to the short amount of time between the acquisition and the balance sheet date, the entire purchase price allocation for this business combination is to be regarded as provisional. In the context of the preliminary purchase price allocation, goodwill in the amount of approx. € 8.9 million resulted from the business combination and is broken down as follows:

in € million	
Purchase price for 100% of the shares of the company approx.	62.3
Proportionate fair values of the assets and liabilities acquired approx.	53.4
Goodwill	**8.9**

Goodwill here results primarily from the expansion of the presence in the market region Central Europe, from taking over a highly qualified workforce and from a possible expansion of the sales activities in the market region Central Europe.

For the assets acquired and liabilities assumed in the context of the business combination, the following preliminary fair values were recognized at the acquisition date:

Fair values in € million	
Intangible assets	63.0
Other non-current assets	1.0
Trade accounts receivable	2.6
Other current assets	1.3
Cash and cash equivalents	4.9
Assets	**72.8**
Deferred tax liabilities	12.1
Other non-current liabilities	2.3
Other current liabilities	5.0
Liabilities	**19.4**

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 measurement of acquired assets and liabilities assumed.

Sales generated in the market region Central Europe with the company Internis since the acquisition date amounted to approx. € 0.4 million in financial year 2014. The operating profit of this business combination adjusted for the effects of the purchase price allocation (approx. € 0.0 million) amounted to approx. € 0.1 million in financial year 2014. If STADA had acquired the company on January 1, 2014, sales of approx. € 13 million and operating profit, adjusted for effects from the purchase price allocation (about € 2 million), of approx. € 5 million would have been achieved on linear extrapolation in financial year 2014.

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 2014.

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 2014 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, currency relations 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.

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, e.g. 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 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 various 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 plans in various countries, according to which the amount of pension benefits depends on the employees' pensionable remuneration and the length of their service or which contain guarantees not permitting recognition as defined contribution plan. **Pension obligations** are measured in accordance with actuarial principles of the projected unit credit method. The pension provisions recognized in the balance sheet correspond 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 standard IAS 19 only permits actuarial gains and losses to be recognized directly in equity. It differentiates between gains and losses due to changes in demographic assumptions, due to changes in 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 standard IAS 19 requires the application of the discount rate underlying the obligation. The remainder of the actual income from plan assets is to be recognized directly in 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 the respective 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. Commitments to anniversary payments are recognized in accordance with the guidelines in IAS 19 as other long-term employee benefits. In contrast 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. Furthermore, there is a working time accounts plan which is accounted for in the same way as commitments to anniversary payments.

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 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 allotted 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 2014, the increase in sales compared to 2013 was primarily a result of the good sales development in the market regions Central Europe and Asia & Pacific. This development was mainly characterized by the acquisition of the British OTC supplier Thornton & Ross as well as the consolidations of the Vietnamese company STADA Vietnam and the Chinese company STADA Pharmaceuticals (Beijing). Exchange rate effects and portfolio changes had a total influence of € 47.3 million on sales in the reporting year. 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	2014	2013[1)]
Material expenses	853,464	834,810
Impairment, depreciation and amortization	100,779	86,265
Expenses from inventory write-downs	33,747	29,945
Remaining cost of sales	82,451	73,455
Total	1,070,441	1,024,475

Impairment, depreciation and amortization in the amount of € 100.8 million (previous year[1)]: € 86.3 million) mainly inlcudes depreciation and 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 € 9.3 million in financial year 2014 (previous year[1)]: € 7.3 million).

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.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

In the reporting year, marketing expenses in the amount of € 186.4 million (previous year[1)]: € 196.6 million) corresponded to a share of 41% in selling expenses (previous year[1)]: 40%). In addition, selling expenses included depreciation in the amount of € 7.4 million (previous year: € 7.7 million).

14. General and administrative expenses

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

In 2014, the general and administrative expenses included depreciation in the amount of € 10.2 million (previous year[1)]: € 10.6 million).

General and administrative expenses decreased in the reporting year by a total of € 6.7 million. The decrease was a result of net earnings in the amount of € 15.9 million, primarily from past service cost, in connection with a change in the defined benefit plan for the Chairman of the Executive Board and the resulting changes with regard to the benefits awarded according to the former benefit plan.

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 2014, research and development expenses increased by € 1.4 million compared to the previous year.

The research and development expenses include depreciation in the amount of € 2.6 million (previous year[1)]: € 2.6 million). Development costs for new products in the amount of € 27.5 million (previous year: € 18.8 million) were capitalized in financial year 2014 (see the note on the item “Intangible assets”).

16. Other income

Other income is divided into the following items:

in € 000s	2014	2013[1)]
Income in connection with business combinations	-	36,831
Income from write-ups	-	546
Income from disposal of non-current assets	43	-
Currency translation gains	-	-
Remaining other income	20,024	16,377
Total	20,067	53,754

1) The previous year’s figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

The income in connection with business combinations in the previous year resulted from the control achieved over the Vietnamese pharmaceutical companies Pymepharco and STADA Vietnam and the related purchase price allocations, including effects from the dissolution of the respective provisions for currency translation. In connection with the acquisition of the British OTC supplier Thornton & Ross, furthermore, negative goodwill was recognized from the purchase price allocation for this business combination in the previous year. No such income was recognized in financial year 2014.

The remaining other income includes such items as income from damage claim payments received 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	2014	2013[1)]
Expenses from valuation allowances on accounts receivable	3,809	9,388
Losses on the disposal of non-current assets	-	521
Currency translation expenses	29,415	16,535
Impairment losses on non-current assets excluding goodwill	47,723	23,617
Impairment losses on goodwill	59,808	-
Remaining other expenses	14,488	22,568
Total	155,243	72,629

Expenses for valuation allowances on accounts receivable were recognized netted with the corresponding income from their reversal.

Other expenses include impairment losses on non-current assets excluding goodwill in the amount of € 47.7 million (previous year: € 23.6 million). In addition, impairment losses on goodwill regarding the market regions CIS/Eastern Europe as well as Asia/Pacific & MENA were recorded in the reporting year. These impairment losses were considered by STADA as a special effect of financial year 2014.

The item also included net currency translation expenses in the amount of € 29.4 million in the reporting year (previous year[1)]: € 16.5 million). This development is especially attributable to the strong devaluation of the significant currencies of the market region CIS/Eastern Europe and the resulting currency translation expenses, which are reported as one-time special effects.

Within remaining other expenses, personnel expenses are recognized in the amount of € 5,8 million (previous year: € 9.4 million).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

18. Expenses in connection with the "STADA – build the future" project

Expenses in connection with the "STADA – build the future" project, which were reported as special effects and recorded separately in the consolidated income statement since financial year 2010, amounted to € 9.1 million in the previous year and primarily included burdens from external consulting services, related follow-up projects as well as unscheduled personnel expenses in the framework of this project.

In financial year 2014, no expenses were incurred in connection with the "STADA – build the future" project, as it was successfully concluded at the end of financial year 2013.

19. Financial result

The **result from investments measured at equity** in financial year 2014 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 also related – in the context of the retrospective adjustments carried out in accordance with the new standard IFRS 11 – to the Vietnamese company STADA Vietnam, which has been consolidated as subsidiary since the fourth quarter of 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	2014	2013[1)]
Interest income	1,242	3,484
Interest expense	70,393	69,930
Interest result	**-69,151**	**-66,446**
thereof: from financial instruments of the valuation categories in accordance with IAS 39:		
• Loans and receivables	1,242	3,484
• Financial assets at fair value through profit and loss		-
• Held-to-maturity investments		-
• Available-for-sale financial assets		-
• Financial liabilities measured at amortized costs	-68,431	-67,915

In addition, the interest result in financial year 2014 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: € 2.0 million).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

In financial year 2014, the Group refinanced itself at interest rates of between 0.9% p.a. and 12.0% p.a. (previous year: between 0.8% p.a. and 13.8% p.a.). On the balance sheet date of December 31, 2014, the weighted average interest rate for non-current financial liabilities was approx. 3.3% p.a. (previous year: approx. 3.5% p.a.) and for current financial liabilities approx. 4.6% p.a. (previous year: approx. 2.1% p.a.). For all of the Group's financial liabilities the weighted average interest amounted to approx. 3.7% p.a. (previous year: approx. 3.3% 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 € 0.7 million in financial year 2014 (previous year: € 0.5 million). A capitalization rate of 3.1% for intangible assets (previous year: 3.6%) was taken as a basis.

Other financial income and other financial expenses consist of the following:

in € 000s	2014	2013
Other financial income	**3,591**	**3,381**
thereof		
• from the measurement of financial instruments	3,591	3,381
Other financial expenses	**-**	**-**
thereof		
• from the measurement of financial instruments	-	-

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 € 3.6 million before or € 3.6 million after taxes. In the previous year, there was a net relief on earnings from the measurement of derivative financial instruments in the amount of € 3.4 million before or € 2.5 million after taxes. The measurement of interest rate hedge transactions thereby depends on the development of the money market interest rate.

20. Income taxes

Actual income taxes in the income statement relate to taxes in Germany and abroad as follows:

in € 000s	2014	2013[1)]
Actual taxation	**46,032**	**66,388**
Germany	872	314
Outside Germany	45,160	66,074
Deferred taxes	**8,554**	**102**
Germany	12,046	-1,984
Outside Germany	-3,492	2,086

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	2014	2013[1)]
Actual income taxes	**46,032**	**66,388**
Tax expense in the current period	49,159	71,270
Tax expense from previous periods	2,371	398
Tax income from previous periods	5,498	5,280

The deferred taxes are as follows:

in € 000s	2014	2013[1)]
Deferred taxes	**8,554**	**102**
from temporary differences	10,726	9,933
from interest carryforwards	-	-
from loss carryforwards	-2,172	-9,831
from tax credits	-	-
from others	-	-

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

The income tax rate amounted to 43.8% for financial year 2014. The income tax rate in the previous year was 35.1%[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	2014	2013[1)]
Earnings before taxes	**124,694**	**189,301**
Weighted expected Group average tax rate (in %)	23.3%	25.1%
Expected income tax expense	**29,111**	**47,539**
Adjustments to the expected income tax expense	**-**	**-**
Tax effects from non-deductible impairment on investments and goodwill	9,635	1,872
Tax effects from loss carryforwards	88	-1,119
Tax effects from previous years	-3,127	-4,890
Effects from tax rate changes / deviation from Group tax rate	899	-828
Tax effects from non-deductible expenses and tax-free earnings	21,857	22,008
Other tax effects	-3,877	1,908
Income tax expense shown on the income statement	**54,586**	**66,490**
Effective tax rate (in %)	43.8%	35.1%

Tax effects from non-deductible impairments of investment and goodwill hereby result mainly from impairments of goodwill in the market regions CIS / Eastern Europe and Asia / Pacific & MENA.

The expenses not deductible for tax purposes primarily result from the limited tax deductibility of operating expenses for payments in connection with investments.

The actual income taxes and deferred taxes recognized in the balance sheet were as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Income tax receivables	30,711	24,836
Income tax liabilities	33,726	30,569

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

in € 000s	Dec. 31, 2014	Dec. 31, 2013[1)]
Deferred tax assets	49,409	50,618
Deferred tax liabilities	166,699	150,440
Deferred taxes as of December 31	-117,290	-99,822
Difference compared to previous year	-17,468	-63,111
thereof		
• recognized in income	-8,554	-102
• recognized directly in equity	6,344	-940
• acquisitions / disposals / changes in the scope of consolidation	-11,257	-62,630
• currency translation differences	-4,001	561

Deferred taxes result from the following balance sheet items and loss carryforwards:

in € 000s	Dec. 31, 2014 Deferred tax assets	Dec. 31, 2013 Deferred tax assets	Dec. 31, 2014 Deferred tax liabilities	Dec. 31, 2013 Deferred tax liabilities
Intangible assets	1,811	1,976	147,438	137,599
Property, plant and equipment	1,260	1,625	7,944	8,816
Financial assets	1,704	1,545	21	0
Inventories	16,835	14,437	2,110	3,645
Receivables	12,036	6,210	370	748
Other assets	1,309	4,668	8,869	2,574
Other non-current provisions	4,540	8,659	172	98
Other provisions	3,955	2,006	5,035	107
Liabilities	299	5,206	4,808	5,424
Loss carryforwards	15,728	12,857	-	-
Total	**59,477**	**59,189**	**176,767**	**159,011**
Offsetting	-10,068	-8,571	-10,068	-8,571
Deferred taxes as per balance sheet	**49,409**	**50,618**	**166,699**	**150,440**

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 company Internis.

Tax advantages that are highly probable and expected from the future utilization of tax loss carryforwards are recognized under “Deferred taxes from loss carryforwards”.

Tax loss carryforwards are only capitalized if their future utilization is highly probable. Tax loss carryforwards capitalized as of the December 31, 2014 reporting date amounted to € 60.1 million in financial year 2014 (previous year: € 54.0 million).

1) The previous year’s figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

The deduction of operating expenses for interest, which is limited under German tax law (so-called interest barrier), led to no net interest expense not deductible for tax purposes in 2014 (previous year: € 25.2 million) and therefore to no additional tax burden (previous year: € 6.1 million).

Income taxes paid or owed increased by a total of € 0.1 million (previous year: reduction by € 1.1 million) through the utilization of previously unrecognized tax loss carryforwards from previous years for which no deferred taxes have been recognized so far and through tax loss carryforwards from the current financial year 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, 2014	Dec. 31, 2013
Loss carryforward expiry date within		
• 1 year	-	465
• 2 years	1,427	532
• 3 years	-	635
• 4 years	779	-
• 5 years	0	-
• more than 5 years	1,062	5,352
• unlimited carryforward	56,836	46,996

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, 2014	Dec. 31, 2013
Loss carryforward expiry date within		
• 1 year	-	243
• 2 years	1,163	278
• 3 years	-	332
• 4 years	-	-
• 5 years	-	-
• more than 5 years	-	-
• unlimited carryforward	14,955	780
Temporary differences	-	814

21. Income distributable to non-controlling interests

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Earnings after taxes	70,108	122,811
• thereof distributable to shareholders of STADA Arzneimittel AG (net income)	64,562	121,426
• thereof distributable to non-controlling interests	5,546	1,385

Net income relating to non-controlling interests pertains to the subsidiaries STADA Thailand, STADA Import/Export International, STADA Vietnam J.V., Pymepharco, STADA Pharmaceuticals (Beijing) Ltd., Hemomont and Hemofarm Banja Luka.

22. Earnings per share

The basic and diluted earnings per share are as follows:

Basic earnings per share	2014	2013
Net income (in € 000s)	64,562	121,426
Adjustment	-	-
Adjusted net income (basic) (in € 000s)	64,562	121,426
Average number of registered shares with restricted transferability issued (in unit shares)	60,499,412	59,664,983
Average number of treasury shares (in unit shares)	90,911	93,024
Adjusted average number of shares (basic) (in unit shares)	60,408,501	59,571,959
Basic earnings per share (in €)	1.07	2.04

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	2014	2013
Adjusted net income (basic) (in € 000s)	64,562	121,426
Dilutive effects on profit from share options (after taxes) (in € 000s)	-	-
Adjusted net income (diluted) (in € 000s)	64,562	121,426
Adjusted average number of shares (in unit shares)	60,408,501	59,571,959
Potentially diluting shares from share options (in unit shares)	860,909	998,668
Average number of shares (diluted) (in unit shares)	61,269,410	60,570,627
Diluted earnings per share (in €)	1.05	2.00

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:

	2014	2013[1)]
Marketing / Sales	2,938	2,768
Logistics	400	343
Finance / IT	670	636
Production / Quality management[2)]	4,442	3,353
Procurement / Supply chain	311	296
Product development	571	524
Administration[2)]	877	921
Entire Group	**10,209**	**8,841**
Personnel expenses (in € million)	**305.1**	**319.6**

The average number of employees in the reporting year was above the level of the previous year at 10,209 (previous year[1)]: 8,841). This increase was mainly based on the acquisition of the British OTC supplier Thornton & Ross as of September 1, 2013 and the control achieved over STADA Vietnam as of October 10, 2013. Furthermore, the inclusion of STADA Pharmaceuticals (Beijing) Ltd., China, in the scope of consolidation as of January 1, 2014 and an increase in the number of employees at the Serbian Hemofarm A.D. as a consequence of increased production capacities contributed to this development. On the balance sheet date, the STADA Group's number of employees in 2014 totaled 10,363 (previous year: 9,825).

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, decreased in financial year 2014 to € 305.1 million (previous year[1)]: € 319.6 million). The decrease was a result of earnings recorded within personnel expenses from past service cost in connection with a change in the defined benefit plan for the Chairman of the Executive Board and the resulting changes with regard to the benefits awarded according to the former benefit plan.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).
2) In 2013, facility management staff were placed exclusively into the functional area Administration. In 2014, facility management staff in production were allocated to the functional area Production / Quality management and the remaining facility management staff were assigned to the functional area Administration.

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	2014	2013[1)]
Depreciation / amortization	**120,990**	**107,122**
Intangible assets	87,694	78,130
Property, plant and equipment	33,296	28,992
Impairment losses	**107,531**	**23,617**
Intangible assets	104,781	22,626
thereof:		
• Goodwill	59,808	-
Property, plant and equipment	136	71
thereof:		
• land and buildings	136	-
• other fixtures and fittings, tools and equipment	-	71
Financial assets	2,614	920
thereof:		
• investments	2,614	920

The impairment of intangible assets concerns various drug approvals and trademarks.

The impairments on goodwill recorded in financial year 2014 relate to goodwill of the market region CIS / Eastern Europe as well as of the market region Asia / Pacific & MENA.

The impairments of financial assets in the reporting year primarily relate to the carrying amounts of STADApharm AB in Sweden. These impairments in the previous year primarily related to the carrying amounts of IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH and STADA Pharmaceuticals Australia Pty Ltd.

Depreciation and amortization increased by 12.9% compared to the previous year. More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Notes to the Consolidated Balance Sheet

25. Intangible assets

Intangible assets developed as follows in financial year 2014:

2014 in € 000s	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2014	**1,619,982**	**470,770**	**160,209**	**2,250,961**
Currency translation	-37,342	-34,756	-5,282	-77,380
Changes in the scope of consolidation	-	-	-	-
Additions	113,366	825	41,317	155,508
Additions from business combinations according to IFRS 3	36,691	9,035	39,796	85,522
Disposals	16,160	-	701	16,861
Transfers	28,218	-	-28,218	0
Cost as of Dec. 31, 2014	**1,744,755**	**445,874**	**207,121**	**2,397,750**
Accumulated amortization as of Jan. 1, 2014	**539,239**	**12,776**	**57,323**	**609,338**
Currency translation	-24,293	987	-2,146	-25,452
Changes in the scope of consolidation	-	-	-	-
Amortization	87,694	-	-	87,694
Impairment losses	42,366	59,808	2,607	104,781
Disposals	10,057	-	70	10,127
Write-ups	-	-	-	-
Transfers	574	-	-574	0
Accumulated amortization as of Dec. 31, 2014	**635,523**	**73,571**	**57,140**	**766,234**
Residual carrying amounts as of Dec. 31, 2014	**1,109,232**	**372,303**	**149,981**	**1,631,516**
Residual carrying amounts as of Dec. 31, 2013	**1,080,743**	**457,994**	**102,886**	**1,641,623**

Additions from business combinations according to IFRS 3, which relate to the fair values determined in the context of the purchase price allocations, resulted from the acquisition of the British OTC supplier Internis with € 72.7 million, as well as from the purchase of the branded product portfolio Flexitol® with € 12.8 million.

Included in intangible assets in the previous year were software and software licenses in the amount of € 2.6 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 transaction and which have been amortized on schedule. At the end of the term of the lease contract, an existing purchase option was utilized. The respective assets have been fully amortized as of the balance sheet date of December 31, 2014.

The umbrella brand Hemofarm capitalized in 2006 in the context of the acquisition of the Hemofarm group is included in recognized trademarks as an intangible asset with an indefinite useful life, as STADA intends to make continuing use of it. As at December 31, 2014, it has a carrying amount of € 47.6 million (previous year: € 50.2 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, 2014, a royalty rate of 2% and a discount rate of 14.2% was used. No necessity for impairment was found for the reporting year.

In the context of the control achieved over Pymepharco in the previous year, furthermore, the umbrella brand Pymepharco 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 December 31, 2014, it has a carrying amount of € 9.1 million (previous year: € 8.0 million). The change is a result of different exchange rates. In the context of the impairment test of December 31, 2014, a royalty rate of 2% and a discount rate of 16.5% was used. No necessity for impairment was found for the reporting year.

Borrowing costs capitalized in 2014 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to € 0.7 million (previous year: € 0.5 million). In financial year 2014, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 3.1% (previous year: 3.6%).

Development costs of € 28.7 million were capitalized in the reporting year (previous year: € 20.7 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 2014, these development costs amounted to € 56.9 million (previous year[1)]: € 55.5 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 € 87.7 million (previous year[1)]: € 78.1 million).

In financial year 2014, impairments on intangible assets were recognized in the total amount of € 104.8 million (previous year: € 22.6 million). They mainly include impairment on goodwill in the amount of € 54.0 million and additional intangible assets in the amount of € 22.0 million as a result of the significantly changed interest rate and currency environment as well as on ongoing higher risks in the market region CIS / Eastern Europe.

Details on changes in the scope of consolidation can be found in the note on the scope of consolidation (see Note 5.).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Intangible assets developed as follows in the previous year:

2013[1] in € 000s	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2013	**1,309,293**	**468,926**	**160,322**	**1,938,541**
Currency translation	-24,083	-16,828	-1,638	-42,549
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	6,688	-	1,625	8,313
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	**459,145**	**13,153**	**49,192**	**521,490**
Currency translation	-7,185	-377	-405	-7,967
Changes in the scope of consolidation	-	-	-	-
Amortization	78,130	-	-	78,130
Impairments	13,425	-	9,201	22,626
Disposals	4,380	-	15	4,395
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	**850,148**	**455,773**	**111,130**	**1,417,051**

The following amortization expense is expected for the intangible assets in the next five years:

in € 000s	Expected amortization
2015	85,178
2016	86,688
2017	87,287
2018	87,546
2019	86,650

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

The subsequent chart shows which cash-generating units the capitalized goodwill can be attributed to:

in € million	Residual carrying amount Generics segment Dec. 31, 2014	Residual carrying amount Branded Products segment Dec. 31, 2014	Residual carrying amount Commercial Business segment Dec. 31, 2014	Residual carrying amount Total Dec. 31, 2014
Market region Germany	12.4	15.1	-	27.5
Market region Central Europe	126.8	97.1	0.0	223.9
Market region CIS / Eastern Europe	31.9	66.5	-	98.4
Market region Asia / Pacific & MENA	11.5	10.2	0.8	22.5
Total	182.6	188.9	0.8	372.3

In the previous year, the capitalized goodwill for cash-generating units was as follows:

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

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 Central Europe, Branded Products segment, resulted from the acquisition of the British company Internis. In opposition, the reclassification of goodwill to the market region Asia / Pacific & MENA, Branded Products segment, due to a change in management responsibility that resulted from a strategic reallocation led to a reduction in goodwill.

- The decrease in goodwill of the cash-generating unit market region CIS / Eastern Europe, Generics segment, mainly results from the necessity for impairment in the amount of € 54.0 million as of December 31, 2014 resulting from an extraordinary impairment test carried out in the reporting year. The impairment resulted from the aggravation of the economic situation in Russia at the end of the year, with a massive decline of the Russian ruble and a significant interest increase by the Russian central bank. The update of the parameters that derived from it, particularly of currency relations, interest rates and country risks for market conditions as of December 31, 2014 led to a value in use of € 375.4 million, which was below the carrying amount. The additional reduction in goodwill results from exchange rates changes, in particular from a devaluation of the Russian ruble.

- The decrease in goodwill of the cash-generating unit market region CIS / Eastern Europe, Branded Products segment, fully results from exchange rate changes, particularly from a devaluation of the Russian ruble.

- The increase in goodwill of the cash-generating unit market region Asia / Pacific & MENA, Branded Products segment, results from the reclassification of goodwill from the market region Central Europe, Branded Products segment, due to a change in management responsibility that resulted from a strategic reallocation. In opposition, an impairment in the amount of € 5.8 million resulted from the impairment tests carried out in the reporting year due to existing knowledge and expectations related to the market and competitive environment. The value in use of the cash-generating unit as of September 30, 2014 was at € 70.1 million.

In the context of the regular impairment tests for capitalized goodwill of September 30, 2014, 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 2014 in %	WACCs 2014 Generics segment in %	WACCs 2014 Branded Products segment in %	WACCs 2014 Commercial Business segment in %
Market region Germany	1.7%	8.8%	8.9%	-
Market region Central Europe	1.7%	11.1%	10.9%	-
Market region CIS / Eastern Europe	4.0%	16.1%	16.0%	-
Market region Asia / Pacific & MENA	4.2%	20.2%	20.2%	20.6%

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 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%

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 additional impairments would have come for the different cash-generating units 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 rate -0.5 percentage points	EBIT -10.0 percentage points
Market region Germany	-	-	-
Market region Central Europe	-	-	-
Market region Asia / Pacific & MENA	0.6	-	2.6

Branded Products segment sensitivity analysis Effects on impairment in € million	WACC +1.0 percentage points	Growth rate -0.5 percentage points	EBIT -10.0 percentage points
Market region Germany	-	-	-
Market region Central Europe	-	-	-
Market region Asia / Pacific & MENA	4.2	1.7	5.6

For the Commercial Business segment, there would have been no impairment in any of the market regions as a result of the sensitivity analysis.

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 the following lower impairments.

Branded Products segment sensitivity analysis Effects on impairment in € million	WACC -1.0 percentage points	Growth rate +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 & MENA	-3.8	-0.9	-4.7

Due to the massive decline of the Russian ruble since the fourth quarter 2014 and a significant increase of interest rates by the Russian central bank in December 2014, there were indications for an impairment. For this reason, an extraordinary impairment test was carried out for the cash-generating unit market region CIS/Eastern Europe, Generics segment, and for the cash-generating unit market region CIS/Eastern Europe, Branded Products segment, as of December 31, 2014. The parameters used to determine the value in use in the scope of the regular impairment test as of September 30, 2014 were updated, particularly regarding currency relations, interest rates as well as country risks for current market conditions, as of the new balance sheet date.

The discounted cash flow method was used to determine the anticipated cash inflows, applying the following parameters defined for the individual cash-generating units according to segment:

According to segment, defined as cash-generating unit	Growth rates forward projected phase 2014 in %	WACCs 2014 Generics segment in %	WACCs 2014 Branded Products segment in %	WACCs 2014 Commercial Business segment in %
Market region CIS/Eastern Europe	4.0	16.7	16.7	-

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. The following table shows what additional impairments would have come for the market region CIS/Eastern Europe 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:

Sensitivity analysis market region CIS/Eastern Europe Effect on impairment in € million	WACC +1.0 percentage points	Growth rates -0.5 percentage points	EBIT -10.0 percentage points
Generics segment	37.4	11.9	48.0
Branded Products segment	-	-	-

The following table shows what lower impairments would have come for the market region CIS/Eastern Europe as a result of a 1.0 percentage point lower discount rate, an increase in the growth rate of 0.5 percentage points and an increase in EBIT of 10.0 percentage points:

Sensitivity analysis market region CIS/Eastern Europe Effect on impairment in € million	WACC -1.0 percentage points	Growth rates +0.5 percentage points	EBIT +10.0 percentage points
Generics segment	-45.8	-13.1	-48.0
Branded Products segment	-	-	-

26. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2014:

2014 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, 2014	**260,684**	**199,611**	**105,510**	**19,166**	**584,971**
Currency translation	-10,478	-15,583	-7,282	-2,577	-35,920
Changes in the scope of consolidation	4,449	556	204	-	5,209
Additions	1,143	7,790	4,284	24,653	37,870
Additions from business combinations according to IFRS 3	-	68	10	-	78
Disposals	8,393	1,101	4,503	74	14,071
Reclassification from non-current assets held for sale and disposal groups	1,141	-	-	-	1,141
Transfers	6,520	11,636	1,742	-19,898	0
Cost as of Dec. 31, 2014	**255,066**	**202,977**	**99,965**	**21,270**	**579,278**
Accumulated depreciation as of Jan. 1, 2014	**88,107**	**115,832**	**62,604**	**-**	**266,543**
Currency translation	-3,570	-11,104	-3,360	-	-18,034
Changes in the scope of consolidation	-	-	-	-	-
Depreciation	7,287	15,364	10,645	-	33,296
Impairments	136	-	-	-	136
Disposals	3,330	1,049	3,714	-	8,093
Write-ups	-	-	-	-	-
Reclassification from non-current assets held for sale and disposal groups	-	-	-	-	-
Transfers	108	106	-214	-	0
Accumulated depreciation as of Dec. 31, 2014	**88,738**	**119,149**	**65,961**	**-**	**273,848**
Residual carrying amounts as of Dec. 31, 2014	**166,328**	**83,828**	**34,004**	**21,270**	**305,430**
Residual carrying amounts as of Dec. 31, 2013	**172,577**	**83,779**	**42,906**	**19,166**	**318,428**

Property, plant and equipment included assets from finance leases, primarily relating to cars and vehicles, in the amount of € 1.5 million (previous year: € 5.8 million), which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since been subjected to depreciation.

As in the previous year, no borrowing costs were capitalized in financial year 2014 for property, plant and equipment.

Property, plant and equipment developed as follows in the previous year:

2013[1)] 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	**231,635**	**169,813**	**93,086**	**13,896**	**508,430**
Currency translation	-5,270	-6,103	-2,747	-1,061	-15,181
Changes in the scope of consolidation	-	-	-	-	-
Additions	4,043	5,697	6,572	27,013	43,325
Additions from business combinations according to IFRS 3	22,706	23,578	6,807	912	54,003
Disposals	439	899	3,719	232	5,289
Reclassification to non-current assets held for sale and disposal groups	-	-	-	-	-
Transfers	8,009	7,525	5,511	-21,362	-317
Cost as of Dec. 31, 2013	**260,684**	**199,611**	**105,510**	**19,166**	**584,971**
Accumulated depreciation as of Jan. 1, 2013	**73,840**	**107,776**	**57,453**	**-**	**239,069**
Currency translation	-1,428	-3,838	-1,312	-	-6,578
Changes in the scope of consolidation	-	-	-	-	-
Depreciation	6,790	12,837	9,365	-	28,992
Impairments	8,851	-	71	-	8,922
Disposals	97	792	2,973	-	3,862
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	**157,795**	**62,037**	**35,633**	**13,896**	**269,361**

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

27. Financial assets

Financial assets developed as follows in financial year 2014:

2014 in € 000s	Shares in associated companies and other investments	Other financial assets	Total
Cost as of Jan. 1, 2014	**26,956**	**14**	**26,970**
Currency translation	-630	-	-630
Changes in the scope of consolidation	-4,397	-	-4,397
Additions	65	-	65
Disposals	3,135	14	3,149
Reclassification from non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-	-
Cost as of Dec. 31, 2014	**18,859**	**-**	**18,859**
Accumulated impairments as of Jan. 1, 2014	**17,976**	**3**	**17,979**
Currency translation	-656	-	-656
Changes in the scope of consolidation	-	-	-
Impairments	2,622	-	2,622
Disposals	3,119	3	3,122
Write-ups	-	-	-
Reclassification from non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-	-
Accumulated impairments as of Dec. 31, 2014	**16,823**	**-**	**16,823**
Residual carrying amounts as of Dec. 31, 2014	**2,036**	**-**	**2,036**
Residual carrying amounts as of Dec. 31, 2013	**8,980**	**11**	**8,991**

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 were included under other financial assets.

Financial assets developed as follows in the previous year:

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**

28. Investments measured at equity

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. Investments measured at equity developed as follows in financial year 2014 compared with the previous year:

in € 000s	2014	2013[1)]
As of Jan. 1	8,974	44,042
Increase in investment share	-	-
Reclassifications due to the changed status of Pymepharco and STADA Vietnam	-	-38,431
Result from associates	1,595	3,700
Elimination of dividend income	-	-
Currency translation differences	-	-337
As of Dec. 31	10,569	8,974

In the previous year, investments in associates decreased 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. In addition, the decrease in financial year 2013 resulted from the control achieved over Vietnamese company STADA Vietnam, which – in the context of the retrospective adjustments carried out in accordance with the new standard IFRS 11 – was measured at equity up until the time control was acquired and has been consolidated as a subsidiary since the fourth quarter of 2013.

29. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Trade accounts receivable from third parties	619,433	717,551
Trade accounts receivable from non-consolidated companies	791	134
Valuation allowances vis-à-vis third parties	-117,430	-126,007
Total	502,794	591,678

As of December 31, 2014, there are trade accounts receivable due after one year in the amount of € 1.4 million (previous year: none).

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.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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, 2014	502,794	448,358	25,619	19,905	5,569	3,343
Dec. 31, 2013	591,678	508,035	36,564	22,590	8,836	15,653

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 which are not impaired and not 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, 2014	Dec. 31, 2013[1)]
As of Jan. 1	126,007	125,068
Added	9,796	8,115
Utilized	9,037	2,971
Reversed	2,625	1,585
Changes in the scope of consolidation	-	278
Currency translation differences	-6,711	-2,898
As of Dec. 31	117,430	126,007

30. Other financial assets

Other financial assets are composed as follows:

in € 000s	Dec. 31, 2014 Total	Dec. 31, 2014 thereof: current	Dec. 31, 2013 Total	Dec. 31, 2013 thereof: current
Loan receivables	4,882	4,882	16,755	1,042
Outstanding purchase price receivables	2,870	1,810	4,025	3,347
Derivative financial assets	33,250	29,551	10,520	10,204
Available-for-sale financial assets	29	29	46	46
Other financial assets	57,641	50,671	46,535	35,457
Total	98,672	86,943	77,881	50,096

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Loans primarily include loans granted by STADA Arzneimittel AG to BIOCEUTICALS Arzneimittel AG. As of the balance sheet date, € 3.3 million (previous year: € 15.6 million) of the available credit line facility had been used.

The outstanding purchase price receivables in financial year 2014 and also primarily in the previous year 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 as well as of currency futures contracts (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 accruals for price compensations in connection with tender contracts in the amount of € 36.6 million, receivables from the German factoring business in the amount of € 6.2 million and also comprise many insignificant individual items in the Group companies.

As of December 31, 2014, other financial assets include impairments in the amount of € 0.6 million (previous year: € 0.0 million). There are 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, 2014		Dec. 31, 2013	
in € 000s	Total	thereof: current	Total	thereof: current
Other receivables due from the tax authorities	16,239	16,239	15,910	15,910
Prepaid expenses / deferred charges	13,389	11,252	13,444	11,369
Assets from overfunded pension plans	109	-	665	-
Remaining assets	11,259	10,375	8,026	7,196
Total	40,996	37,866	38,045	34,475

Remaining assets comprise many insignificant individual items in the Group companies.

Remaining assets are impaired in the amount of € 7.1 million (previous year: € 6.2 million).

32. Inventories

Inventories can be subdivided as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Materials and supplies	93,958	106,133
Work in progress	24,858	27,413
Finished goods	374,986	382,584
Advance payments	4,983	8,244
Total	498,785	524,374

The decrease in inventories primarily resulted from a weak Russian ruble and a corresponding low translation of assets reported in foreign currency into the Group currency euro as well as from reporting date effects.

In financial year 2014, impairments netted with reversals were made on the net realizable value of inventories in the amount of € 33.7 million (previous year[1)]: € 29.9 million), which were already deducted from the amounts shown above through profit and loss. In financial year 2014, reversals here amounted to € 9.3 million (previous year[1)]: € 7.3 million).

33. Non-current assets and disposal groups held for sale

In financial year 2014, assets held for sale in the amount of € 0.3 million (previous year: € 1.6 million) included real estate of a STADA subsidiary in Serbia. Thereof, € 0.2 million (previous year: € 1.3 million) is allocated to the Generics operating segment and € 0.1 million to the Branded Products operating segment (previous year: € 0.3 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 € 126.2 million as of December 31, 2013 to € 164.2 million as of December 31, 2014 is primarily due to reporting date effects. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

35. Equity and liabilities

Group equity amounted to € 903.3 million as of the balance sheet date (previous year: € 1,010.1 million). This corresponds to an equity-to-assets ratio of 27.1% (previous year: 29.6%).

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

35.1. Share capital

As of December 31, 2014, share capital amounted to € 157,629,420.00 (December 31, 2013: € 157,150,500.00) and was divided into 60,626,700 registered shares with restricted transferability (December 31, 2013: 60,442,500), 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 2014 was due to the exercise of 9,210 options from STADA warrants 2000/2015 in 2014. The number of shares as of December 31, 2014 thereby increased by 184,200 to 60,626,700 and the share capital of STADA Arzneimittel AG increased by € 478,920.00 to € 157,629,420.00. As of December 31, 2014 88,176 warrants 2000/2015 for the subscription of 1,763,520 registered shares with restricted transferability continued to be outstanding.

As of December 31, 2014, 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	4,585,152.00	1,763,520	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 comprise net income for the financial year as well as earnings generated in previous periods, provided these were not distributed, including 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.

In the context of measuring the defined benefit obligations as of December 31, 2014, a net expense in the amount of € 15.5 million after deferred taxes – not considering amounts attributable to non-controlling interests – resulted from the remeasurement. It is mainly based on the substantial decrease in the discount rate for various defined benefit plans in the STADA Group underlying the measurement of December 31, 2014 in comparison to December 31, 2013.

35.4. Other provisions

Other provisions include 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 is primarily composed of opposing effects. On the one hand, an increase in other provisions from the currency translation of financial statements of companies reporting in pound sterling was recorded. This was primarily due to the appreciation of the British pound sterling since December 31, 2013. On the other hand, there was a significantly higher decrease in other provisions, which primarily resulted from the currency translation of financial statements of companies reporting in the Russian ruble and Serbian dinar as a consequence of the significant weakening of both the Russian ruble and Serbian dinar since December 31, 2013.

35.5. Treasury shares

As of the balance sheet date, the Company held 89,835 treasury shares (previous year: 91,989), each with an arithmetical par value of € 2.60 per share, which is equivalent to 0.15% (previous year: 0.15%) of the share capital. In financial year 2014, 2,154 treasury shares were sold at an average price of € 31.62 per share within the scope of an employee stock option program.

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, STADA Pharmaceuticals (Beijing), Well Light Investment Services, 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 and provisions for working time accounts as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Germany	13,155	37,955
Outside Germany	16,942	13,523
Total	30,097	51,478

In Germany, STADA has plan assets in the form of a reinsurance police, which are used to serve the pension entitlements of a small number of former employees. In addition, there are plan assets for a pension obligation which was outsourced to a pension fund. All further pension entitlements are financed internally in the scope of pension provisions. In addition, there are plan assets in a few foreign subsidiaries in the form of, among others, government bonds and securities funds.

In Germany, plan assets were increased by additional contributions in financial year 2014. This led to a decrease in provisions.

In financial year 2014, the plan assets of an international subsidiary exceeded their pension obligations, with a result that, as in the previous year, these assets in excess were reported under other assets as assets from overfunded pension plans in the amount of € 0.1 million (previous year: € 0.7 million).

Plan assets were as follows divided according to investment type:

Share of plan assets in € 000s	2014	2013
Cash and cash equivalents	3,179	358
Equity securities	4,612	8,827
Debt securities	13,891	8,539
Real estate	1,441	1,324
Derivatives	-	-
Shares in investment funds	15,273	13,483
Insurance policies	62,604	30,106
Other	348	1,094
Total	101,348	63,731

The plan assets, which have a quoted market price, consist of the following:

Share of plan assets (quoted market price) in € 000s	2014	2013
Cash and cash equivalents	3,179	358
Equity securities	4,612	8,827
Debt securities	13,891	8,539
Real estate	1,441	1,021
Derivatives	-	-
Shares in investment funds	12,990	10,565
Insurance policies	-	-
Other	348	143
Total	36,461	29,453

For German Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € 000s	2014	2013
As of Jan. 1	49,794	49,035
Current service cost	29	969
Past service cost	-17,603	-
Plan settlements	-	-
Interest cost	1,640	1,754
Benefits paid from plan assets	-112	-98
Benefits paid by employer	-488	-472
Revaluations:		
• Gains (-)/losses (+) due to changed demographic assumptions	-	-
• Gains (-)/losses (+) due to changed financial assumptions	15,411	-974
• Gains (-)/losses (+) due to experience-based changes	3,803	-420
As of Dec. 31	52,474	49,794

For international Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € 000s	2014	2013[1)]
As of Jan. 1	**61,395**	**39,745**
Current service cost	1,559	1,622
Past service cost	-1,500	842
Plan settlements	-379	122
Interest cost	2,564	1,776
Benefits paid from plan assets	-2,648	-594
Benefits paid by employer	-586	-685
Employee contributions	457	429
Insurance premiums for death and disability benefits	-142	-95
Business combinations	-	20,821
Reclassifications	864	-
Revaluations:		
• Gains (-)/losses (+) due to changed demographic assumptions	108	4
• Gains (-)/losses (+) due to changed financial assumptions	12,606	-2,961
• Gains (-)/losses (+) due to experience-based changes	-13	463
Currency changes	1,182	61
Other	-5	-155
As of Dec. 31	**75,462**	**61,395**

The negative past service cost (as income) is primarily attributable to plan changes in plan in Serbia, the Netherlands and Russia. In Serbia, the definition of pensionable salary was changed, in the Netherlands, the pension plan was adapted to the tax regulations applicable as of 2015 and in Russia, the effect mainly resulted from a settlement of plans.

The fair value of plan assets underlying the pension obligations developed as follows for German group companies:

Fair value of plan assets in € 000s	2014	2013
As of Jan. 1	**12,011**	**11,051**
Interest income	408	396
Employer contributions	25,188	604
Employee contributions	-	-
Pension payments	-112	-98
Actuarial gains (+)/losses (-) on plan assets (not included in interest result)	3,076	58
Other	-1,252	-
As of Dec. 31	**39,319**	**12,011**

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

The fair value of plan assets underlying the pension obligations developed as follows for international Group companies:

Fair value of plan assets in € 000s	2014	2013
As of Jan. 1	51,720	29,828
Interest income	2,062	1,317
Employer contributions	1,168	1,506
Employee contributions	457	429
Pension payments	-2,648	-594
Insurance premiums for death and disability benefits	-142	-95
Business combinations	-	20,102
Reclassifications	76	-
Actuarial gains (+) / losses (-) on plan assets (not included in interest result)	7,832	-952
Currency changes	1,642	349
Other	-138	-170
As of Dec. 31	62,029	51,720

The amount of the pension provisions recognized as of the balance sheet date for companies with plan assets is therefore as follows:

in € 000s	2014	2013
Projected benefit obligations for pension commitments	117,152	104,239
Fair value of plan assets	101,348	63,731
Net obligation	15,804	40,508
Effect from the limit on a defined benefit asset according to IFRIC 14	157	251
Net liability recognized in balance sheet	15,961	40,759

The amount of the pension provisions recognized as of the balance sheet date for companies without plan assets is therefore as follows:

in € 000s	2014	2013
Projected benefit obligations for pension commitments	10,784	6,950
Net liability recognized in balance sheet	10,784	6,950

Expenses for defined benefit plans on net income totaled € 15.1 million in financial year 2014 (previous year: expenses in the amount of € 5.4 million) and consisted of the following components:

in € 000s	2014	2013
Current service cost	1,588	2,591
Past service cost	-19,103	842
Plan settlements	-379	122
Net interest expense:		
• Interest expense (DBO)	4,204	3,530
• Interest income (plan assets)	-2,470	-1,713
• Interest income from reimbursement	-	-
• Interest expense (+) / interest income (-) from the limit on an asset	10	1
Administration costs	117	66
Other	954	-
Total	-15,079	5,439

The actual return on plan assets amounted to € 3.5 million in financial year 2014 (previous year: € 0.5 million) for German group companies and € 9.9 million for international group companies (previous year: € 0.4 million).

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 (weighted)	Dec. 31, 2014	Dec. 31, 2013
Discount rate	2.0%	3.7%
Salary trend	1.9%	3.0%
Benefits trend	1.4%	1.8%
Inflation	1.8%	2.0%

The change in the average salary and pension trends can be attributed to the outsourcing of the pension commitment to a pension fund. For this pension commitment, a long-term discretionary participation in the active phase as a salary trend and in the performance phase as a pension trend is assumed.

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, 2014	Dec. 31, 2013
Discount rate	2.71%	4.25%
Salary trend	2.5%	2.9%
Benefits trend	0.8%	1.7%
Inflation	1.9%	2.2%

The lower average pension trend as compared to the previous year mainly resulted from the decrease in the pension trends in the United Kingdom, Russia and the Netherlands.

A sensitivity analysis was carried out in which only one assumption was changed in each case and all other assumptions were not changed. 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, 2014 (€ 52,474,000) according to changed assumptions in € 000s	2014	2013
Discount rate +0.5%	-5,355	-4,449
Discount rate -0.5%	6,261	5,150
Salary trend +0.5%	4,696	29
Salary trend -0.5%	-4,005	-21
Pension trend +0.5%	5,975	4,409
Pension trend -0.5%	-5,164	-3,869

The higher sensitivity of the salary trend can be attributed to the outsourcing of a pension commitment to a pension fund. For this pension commitment, a long-term discretionary participation in the active phase as a salary trend is assumed.

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, 2014 (€ 75,462,000) according to changed assumption in € 000s	2014	2013
Discount rate +0.5%	-6,470	-5,052
Discount rate -0.5%	7,530	5,726
Salary trend +0.5%	809	635
Salary trend -0.5%	-623	-608
Pension trend +0.5%	3,509	3,159
Pension trend -0.5%	-1,826	-2,573

As of December 31, 2014, the weighted duration of the pension obligations amounts to 23 years (previous year: 20 years) for German Group companies and 19 years (previous year: 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	602	2,832
Between 1 and 2 years	596	2,310
Between 2 and 3 years	599	2,582
Between 3 and 4 years	647	2,925
Between 4 and 5 years	903	2,824
Between 5 and 10 years	8,262	13,316

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 € 1.7 million for international Group companies.

The regulations of the standard 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 87%. 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 reinsurance policies and in the form of assets in a pension fund. As of December 31, 2014, plan assets amounted to € 39.3 million and were composed of three different plans. There are no plan assets for two additional plans.

In the context of risk assessment, the life expectancy of plan participants plays a smaller role in Germany, as the – regarding its amount – material obligation including associated risks was outsourced in financial year 2014. 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 the third quarter of 2014, the implementation method for the pension obligation for the Chairman of the Executive Board was changed. It will be implemented through an independent pension fund in the future. The pension commitment has been fundamentally changed in the context of outsourcing it to the pension fund. Accordingly, there is now a commitment to the Chairman of the Executive Board, upon reaching the contractually agreed start of pension payments, for a lifelong pension in the form of a lower monthly guaranteed pension as compared to the previous commitment as well as a variable non-guaranteed participation feature from which a corresponding benefit increase may result. The start of pension payments can in principle – with the corresponding change in the amount of monthly pension payments – take place variably within a defined time period, which exceeds the formerly assumed retirement age. In addition, a lifelong survivor's pension and a temporary orphan's pension will be paid in case of death. In the context of the changed plan and the resulting changes with regard to the benefits awarded according to the former benefit plan there were earnings from past service cost in the amount of € 17.6 million. In addition, an expense from administrative costs for the benefit plan in the amount of € 0.7 million and an expense from the adjustment of plan assets in the amount of € 1.0 million were incurred. The balance of the two items were earnings of € 15.9 million, which were recorded in general and administrative expenses. Despite the transfer of the defined benefit plan of the Chairman of the Executive Board to an pension fund, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly. The plan assets created in the context of the transfer lead to a provision of zero due to offsetting that must be carried out at the time of the plan amendment for this benefit plan. Because the pension commitment is fully funded, no further provisions are expected in the future.

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, 2014, plan assets amounted to € 22.8 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 underlie 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.

From January 1, 2015, new limits for annual attribution rates approved for tax purposes have been in effect in the Netherlands; a cap for the maximum pensionable salary was also introduced. In order to comply with legal requirements, the pension plan has been adjusted accordingly. The effect of the resulting changes was recognized as past service cost. Overall, there was income.

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 financial year 2014, the investment strategy in the United Kingdom was changed to the extent that the titles held in the investment category of equity securities, which are generally subject to a higher volatility risk, as well as titles held in the investment category of real estate were sold and reinvested in low-risk classes of investment. As of December 31, 2014, plan assets amounted to € 23.9 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, departure 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.

The Swiss benefit plan includes three sub-plans. Retirement benefits had already been envisaged by two of the sub-plans, one sub-plan only provided for a lump sum benefit. This sub-plan has been changed so that as of now the contractually agreed benefits will be paid not only in the form of a lump sum, but an option for payment in the form of a pension was introduced. The effect of the plan change was recognized as past service cost.

The contributions for defined contribution plans, which are reported as expense in the respective period in the relevant functional areas, amounted to € 23.9 million in financial year 2014.

The other non-current provisions developed as follows:

Other non-current provisions in € 000s	2014	2013
As of Jan. 1	3,104	2,565
Current service cost	315	268
Past service cost	-59	171
Plan settlements	-	-78
Interest cost	218	197
Benefits paid	-324	-307
Business combinations	-	85
Revaluations		
• Gains (-)/losses (+) due to changed demographic assumptions	75	27
• Gains (-)/losses (+) due to changed financial assumptions	63	-50
• Gains (-)/losses (+) due to experience-based changes	-7	290
Currency changes	-257	-127
Reclassifcations	115	63
As of Dec. 31	3,243	3,104

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, 2014	Dec. 31, 2013
Discount rate	6.5%	7.8%
Salary trend	4.0%	4.5%
Inflation	3.2%	4.1%

37. Financial liabilities

Financial liabilities are comprised as follows in accordance with their remaining terms as of the balance sheet date:

in € 000s	Liabilities promissory notes		Amounts due to banks		Liabilities from bond		Total	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Remaining terms up to 1 year	50,487	97,770	48,336	194,714	349,880	-	448,703	292,484
Remaining terms over 1 year to 3 years	231,330	237,581	103,107	37,709	-	349,488	334,437	624,778
Remaining terms over 3 years to 5 years	269,017	99,592	52,161	69,554	347,391	346,633	668,569	515,779
Remaining terms over 5 years	-	-	39,992	14	-	-	39,992	14
Financial liabilities	550,834	434,943	243,596	301,991	697,271	696,121	1,491,701	1,433,055

The increase in financial liabilities mainly resulted from securing promissory notes in financial year 2014 in the total amount of € 270 million and a loan in the amount of approx. € 83 million as of the balance sheet date for the financing of the purchase of the branded product portfolio Aqualor®. In opposition, financial liabilities were repaid in the current financial year.

The contractually agreed undiscounted cash flows, as of the balance sheet date December 31, 2014, from interest payments and repayment of financial liabilities for the coming years can be seen in the following chart:

in € 000s	2015			2016			> 2016		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities	38,676	14,274	453,786	20,376	11,731	223,764	52,244	27,203	818,516

The following projection of cash flows from financial liabilities was generated in the previous year:

in € 000s	2014			2015			> 2015		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities	37,560	5,130	297,172	31,878	4,642	414,338	35,238	5,935	726,433

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, 2014.

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the notes on the management of liquidity risk (see Note 47.5.).

38. Trade accounts payable

Trade accounts payable are composed as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Trade accounts payable to third parties	271,765	263,391
Trade accounts payable to non-consolidated Group companies	200	7,112
Advances received on orders from third parties	1,660	1,950
Liabilities from outstanding accounts	67,222	59,208
Total	340,847	331,661

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.

39. Other financial liabilities

Other financial liabilities are broken down as follows:

in € 000s	Dec. 31, 2014		Dec. 31, 2013	
	Total	thereof: current	Total	thereof: current
Outstanding purchase price liabilities	32,233	32,233	6,595	5,890
Finance lease liabilities	3,081	1,056	8,467	4,460
Liabilities from derivative financial instruments	3,124	348	5,619	405
Other financial liabilities	224,224	223,766	253,374	250,312
Total	262,662	257,403	274,055	261,067

In the reporting year, the outstanding purchase price liabilities primarily resulted, as in the previous year, from installments which were not yet due for the acquisition of branded products in Russia. Furthermore, the outstanding contingent purchase price payment for the acquisition of the British company Internis is included in financial year 2014.

Finance lease liabilities, such as for vehicles and passenger vehicles amount to € 3.1 million (previous year: € 8.5 million). Liabilities for sale-and-leaseback transactions for software and software licenses recognized in the previous year no longer exist as of the balance-sheet date December 31, 2014. Considering interest in the amount of € 0.6 million (previous year: € 1.7 million), lease installments payable in subsequent years total € 3.7 million (previous year: € 10.2 million). The lease liabilities are due as follows:

	Lease installments		Interest		Liabilities finance lease	
in € 000s	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Remaining terms up to 1 year	1,371	5,197	315	737	1,056	4,460
Remaining terms over 1 year to 3 years	2,335	4,535	310	978	2,025	3,557
Remaining terms over 3 years to 5 years	-	475	-	25	-	450
Remaining terms over 5 years	-	-	-	-	-	-
Total	3,706	10,207	625	1,740	3,081	8,467

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 2014, 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 and currency forwards (see Note 47.7.). 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, 2014	Dec. 31, 2013
Remaining terms up to 1 year	348	405
Remaining terms over 1 year to 3 years	2,776	4,785
Remaining terms over 3 years to 5 years	-	429
Remaining terms over 5 years	-	-
Total	3,124	5,619

Remaining financial liabilities include liabilities from discount agreements of German STADA companies in the amount of € 192.1 million (previous year: € 214.7 million) and furthermore comprise many insignificant individual items in the Group companies. The remaining financial liabilities fall due in the amount of € 223.8 million (previous year: € 250.3 million) within one year, in the amount of € 0.5 million after one year and up to five years (previous year: € 3.1 million).

The contractually agreed undiscounted cash flows, as of the balance sheet date December 31, 2014, 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:

	2015			2016			2017–2019		
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	315	-	1,056	206	-	956	104	-	1,069
Cash flows from derivatives	2,185	-	-	1,187	-	-	1,185	-	-

The following projection of cash flows from finance lease liabilities as well as derivatives was generated in the previous year:

	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	-	-

Included were all financial instruments used by STADA which existed as of December 31, 2014 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, 2014		Dec. 31, 2013	
in € 000s	Total	thereof: current	Total	thereof: current
Tax liabilities	1,949	1,949	17,031	17,031
Personnel related liabilities	46,521	46,145	48,919	47,968
Other liabilities	40,475	39,211	48,339	46,353
Total	88,945	87,305	114,289	111,352

Personnel-related liabilities relate to € 0.4 million in accruals in connection with partial retirement agreements as of December 31, 2014 (previous year: € 1.0 million).

Remaining liabilities comprise many insignificant individual items in the Group companies.

41. Other provisions

Other provisions are composed as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Provisions set aside for damages	343	604
Warranties	17,099	16,932
Total	17,442	17,536

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, 2014	Dec. 31, 2013
As of Jan. 1	604	1,024
Added	1,721	340
Utilized	1,964	-
Reversed	18	731
Currency translation differences	-	-29
As of Dec. 31	343	604

Provisions for warranties developed as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013
As of Jan. 1	16,932	9,514
Added	5,138	12,966
Utilized	3,897	1,879
Reversed	1,074	3,669
Changes in the scope of consolidation	-	-
As of Dec. 31	17,099	16,932

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 € 223.8 million in the reporting year (previous year[1)]: € 203.7 million). The increase by € 20.1 million as compared to the previous year mainly resulted from a substantial cash-effective decrease in trade accounts receivable, whereas a substantial cash-effective increase was recorded in the previous year, as well as from lower income tax payments. The resulting positive effects were partially compensated by a substantial cash-effective decrease in trade accounts payable as compared to a substantial cash-effective increase in trade accounts payable in the previous year. In addition, a significantly higher cash-effective decrease in other non-current provisions was recorded in financial year 2014, which is connected to the transfer of a defined benefit plan to an external pension fund.

Cash flow from investing activities reflects the cash outflows for investments reduced by the inflows from disposals. This amounted to € -262.0 million in the reporting year (previous year[1)]: € -312.0 million).

In financial year 2014, payments for investments in intangible assets in the amount of € 181.4 million (previous year: € 53.0 million) were made, of which € 147.5 million (previous year: € 13.5 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 € 12.0 million (previous year[1)]: € 5.4 million).

In financial year 2014, cash flow from investing activities was particularly influenced by high payments for investments in intangible assets, which primarily related to the purchase of the Russian branded product portfolio Aqualor®. Furthermore, there were payments for business combinations from the purchase of the branded product portfolio Flexitol® and the acquisition of the British company Internis. Proceeds from the disposal of intangible assets mainly resulted from the sale of approvals and trademarks in France and Italy. Proceeds from the disposal of property, plant and equipment primarily related to the sale of a building in the United Kingdom. In the previous year, payments for investments in business combinations primarily resulted from the purchase price payments made for the acquisition of the British OTC supplier Thornton & Ross as well as from 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.

Cash flow from financing activities amounted to € 83.7 million in financial year 2014 (previous year[1)]: € 148.8 million) and encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity. In the reporting year, there were proceeds from securing financial liabilities, among other things, in connection with promissory notes secured in financial year 2014 in the total amount of € 270 million and a loan in the amount of approx. € 121 million for financing the purchase of the branded product portfolio Aqualor®. In the previous year, higher proceeds from taking up financial liabilities were recorded, in particular due to the bond placed in the second quarter of 2013. Furthermore, more financial liabilities were repaid in the previous year than in the reporting period.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

Dividend distribution payments of € 39.8 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2013. A significant increase was thus achieved in the distributed volume as compared to the dividend 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 € -38.2 million in financial year 2014 (previous year[1]: € -108.2 million) and is therefore still significantly characterized by a high volume of acquisitions.

Free cash flow, adjusted for effects from payments for significant investments and acquisitions and effects of proceeds from significant disposals is calculated as follows:

in € 000s	2014	2013[1]
Cash flow from operating activities	223,810	203,744
Cash flow from investing activities	-261,980	-311,982
+ Payments for investments in business combinations according to IFRS 3	55,054	229,754
+ Payments for significant investments in intangible assets for the short-term expansion of the product portfolio	147,487	13,450
⁄. Proceeds from the disposal of intangible assets in significant disposals	6,960	1,700
Adjusted free cash flow	**157,411**	**133,266**

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.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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 € 000s		2014	2013[1)]
Generics	**External sales**	**1,217,729**	**1,227,894**
	Sales with other segments	571	888
	Total sales	1,218,300	1,228,782
	Operating profit	108,314	154,367
	Depreciation / amortization	50,743	45,775
	Impairment losses	63,924	5,103
	Reversals	-	-
	Other significant non-cash items within operating result	-221,153	-225,233
Branded Products	**External sales**	**800,558**	**704,366**
	Sales with other segments	-	-
	Total sales	800,558	704,366
	Operating profit	138,206	160,171
	Depreciation / amortization	59,444	50,631
	Impairment losses	33,896	5,000
	Reversals	-	176
	Other significant non-cash items within operating result	-32,430	2,136
Commercial Business	**External sales**	**43,960**	**41,045**
	Sales with other segments	-	-
	Total sales	43,960	41,045
	Operating profit	871	1,327
	Depreciation / amortization	139	226
	Impairment losses	-	1
	Reversals	-	-
	Other significant non-cash items within operating result	-170	-561
Reconciliation Group holdings / other and consolidation	**External sales**	**-**	**30,607**
	Sales with other segments	-571	-888
	Total sales	-571	29,719
	Operating profit	-58,864	-67,539
	Depreciation / amortization	10,664	10,490
	Impairment losses	9,711	13,513
	Reversals	-	370
	Other significant non-cash items within operating result	16,418	22,312
Group	**External sales**	**2,062,247**	**2,003,912**
	Sales with other segments	-	-
	Total sales	2,062,247	2,003,912
	Operating profit	188,527	248,326
	Depreciation / amortization	120,990	107,122
	Impairment losses	107,531	23,617
	Reversals	-	546
	Other significant non-cash items within operating result	-237,335	-201,346

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

43.2. Reconciliation of segment results to net profit

in € 000s	2014	2013[1)]
Operating segment profit	247,391	315,865
Reconciliation Group holdings / other and consolidation	-58,864	-67,539
Result from investments measured at equity	1,595	3,700
Investment income	132	340
Financial income	4,833	6,865
Financial expenses	70,393	69,930
Earnings before taxes, Group	**124,694**	**189,301**

43.3. Reconciliation of segment assets to Group assets

in € 000s	Dec. 31, 2014	Dec. 31, 2013
Segment assets	1,863,967	1,890,259
Reconciliation Group holdings / other and consolidation	75,015	78,783
Other non-current assets	74,837	90,947
Current assets	1,321,639	1,353,193
Total assets, Group	**3,335,458**	**3,413,182**

43.4. Information by country

	Development of sales by the company's registered office		Non-current assets	
in € 000s	2014	2013[1)]	Dec. 31, 2014	Dec. 31, 2013
Germany	462,565	483,120	599,702	641,858
Russian Federation	381,958	436,015	221,847	225,447
United Kingdom	185,179	114,585	468,059	324,690
Italy	180,895	169,106	43,955	54,767
Belgium	150,127	147,736	7,774	9,264
Other regions	701,523	653,350	595,609	704,025
Total, Group	**2,062,247**	**2,003,912**	**1,936,946**	**1,960,051**

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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.

Disclosures on assets by country relate to parts of the 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 customer in the reporting year.

44. Contingent liabilities

Contingent liabilities describe possible obligations with respect to third parties which result from past events and which may lead to a future outflow of resources depending on specific events. As of the balance sheet date, these contingent liabilities were considered improbable and are therefore not recognized.

STADA has contingent liabilities, among other things, in connection with patent risks for certain active pharmaceutical ingredients and associated pending or impending proceedings. The resulting possible obligations amounted to approx. € 18.9 million (previous year: € 11.1 million), from which, in addition to the contingent liabilities for patent risks reported in the Annual Report 2013, further contingent liabilities in the amount of € 5.6 million in the market region Central Europe and in the amount of € 2.8 million in the market region CIS / Eastern Europe resulted. Former contingent liabilities for patent risks in the amount of € 0.6 million in the market region Central Europe no longer exist however, as a settlement was reached for this issue due to a lost patent dispute and any additional potential obligations were satisfied by a settlement payment. Provisions were not created for contingent liabilities as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be short-term.

Furthermore, 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)] 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 translated using the currency exchange rate at that time). 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 continue to believe that the lawsuit is unfounded. For this reason no provisions were made for this purpose.

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

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, 2014	Dec. 31, 2013
Operating lease liabilities	72,892	70,973
Other financial obligations	31,536	166,705
Total	104,428	237,678

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 4 years.

The total of future minimum lease payments under operating leases amounted to € 72.9 million as of the end of the financial year (previous year: € 71.0 million) and can be broken down according to remaining term as follows:

	Operating lease	
in € 000s	Dec. 31, 2014	Dec. 31, 2013
Remaining terms up to 1 year	25,280	22,370
Remaining terms over 1 year to 5 years	36,909	33,120
Remaining terms over 5 years	10,703	15,483
Total	72,892	70,973

Lease payments in the amount of € 29.2 million (previous year[1]: € 29.5 million) were recognized as an expense in financial year 2014.

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

As of December 31, 2013, other financial obligations consisted of an obligation of Nizhpharm amounting to € 131.0 million toward Butterwood Holdings Limited, Cyprus, for the purchase of the Russian branded product portfolio Aqualor® [1)], whereby the completion of the contract was still subject to comprehensive completion conditions as of December 31, 2013. As of December 31, 2014, this other financial obligation no longer exists, as the residual amount of the purchase price liability still outstanding as of December 31, 2014 of € 13.1 million has been recorded in the balance sheet under other financial liabilities.

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, additional 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, 2014	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	164,209	LaR	164,209	-	-	-	
Trade accounts receivable	502,794	LaR	502,794	-	-	-	
Held-to-maturity financial assets	-	HtM	-	-	-	-	
Available-for-sale financial assets	2,065	AfS	2,036	29	-	-	
Derivative financial assets without hedging relationship	33,250	FAHfT	-	-	33,250	-	
Other financial assets	65,393	LaR	65,393	-	-	-	
Equity and liabilities							
Trade accounts payable	339,187	FLAC	339,187	-	-	-	
Amounts due to banks	243,596	FLAC	243,596	-	-	-	
Promissory notes	550,834	FLAC	550,834	-	-	-	
Bonds	697,271	FLAC	697,271	-	-	-	
Liabilities financial leasing	3,081	n/a	-	-	-	3,081	
Derivative financial liabilities with hedging relationship	2,666	n/a	-	2,666	-	-	
Derivative financial liabilities without hedging relationship	458	FLHfT	-	-	458	-	
Other financial liabilities	256,457	FLAC	256,457	-	-	-	
Thereof aggregated according to valuation categories in accordance with IAS 39:							
Loans and receivables	732,396	LaR	732,396	-	-	-	
Held-to-maturity investments	-	HtM	-	-	-	-	
Available-for-sale financial assets	2,065	AfS	2,036	29	-	-	
Financial assets held for trading	33,250	FAHfT	-	-	33,250	-	
Financial liabilities measured at amortized cost	2,087,345	FLAC	2,087,345	-	-	-	
Financial liabilities held for trading	458	FLHfT	-	-	458	-	

		Valuation rate balance sheet in accordance with IAS 39					
	Fair Value Dec. 31, 2014	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, 2013
	164,209	126,163	126,163	-	-	-	126,163
	502,794	591,678	591,678	-	-	-	591,678
	-	11	11	-	-	-	11
	2,065	9,026	8,980	46	-	-	9,026
	33,250	10,520	-	-	10,520	-	10,520
	65,393	67,315	67,315	-	-	-	67,315
	339,187	329,711	329,711	-	-	-	329,711
	245,914	301,991	301,991	-	-	-	305,168
	592,749	434,943	434,943	-	-	-	471,285
	715,750	696,121	696,121	-	-	-	714,042
	3,081	8,467	-	-	-	8,467	8,467
	2,666	4,748	-	4,748	-	-	4,748
	458	871	-	-	871	-	871
	256,457	259,969	259,969	-	-	-	259,969
	732,396	785,156	785,156	-	-	-	785,156
	-	11	11	-	-	-	11
	2,065	9,026	8,980	46	-	-	9,026
	33,250	10,520	-	-	10,520	-	10,520
	2,150,057	2,022,735	2,022,735	-	-	-	2,080,175
	458	871	-	-	871	-	871

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 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:

Fair values by levels of hierarchy in € 000s on a 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, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Available-for-sale financial assets (AfS)						
• Securities	29	46	-	-	-	-
Financial assets held for trading (FAHfT)						
• Currency forwards	-	-	-	-	749	17
• Interest rate / currency swaps	-	-	-	-	32,501	10,503
Financial liabilities held for trading (FLHfT)						
• Currency forwards	-	-	-	-	5	405
• Interest rate / currency swaps	-	-	-	-	453	466
Derivative financial liabilities with a hedging relationship						
• Cash flow hedges	-	-	-	-	2,666	4,748

In the context of the preparation of the financial statements, 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 as of the beginning of the reporting period. In the reporting year, there were no reclassifications among the respective hierarchy levels.

The fair values are analyzed in the context of the preparation of the financial statements. 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 / 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 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 chart shows how the valuation rates of assets measured at fair value on a non-recurring basis 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, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Non-current assets and disposal groups held for sale	-	-	331	1,571	-	-

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 based 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.

Financial assets and liabilities allocated to hierarchy level 3 and recognized at fair value developed as follows in financial year 2014:

in € 000s	Financial assets measured at fair value	Financial liabilities measured at fair value
as of Jan. 1, 2014	**10,520**	**-5,619**
Reclassification from level 2	-	-
Currency changes	-	-
Total result	20,818	3,582
• in the income statement	20,818	1,500
• directly in equity	-	2,082
Additions	-	-
Realizations	1,912	-1,087
Reclassification in level 2	-	-
Balance at December 31, 2014	**33,250**	**-3,124**
Income recognized in the income statement	**20,818**	**1,500**
Other earnings / other expenses	17,434	1,296
• thereof attributable to assets / liabilities held as of the balance sheet date	17,424	-196
Financial result	3,384	204
• thereof attributable to assets / liabilities held as of the balance sheet date	3,384	-262

Financial assets and liabilities allocated to hierarchy level 3 and measured at equity develped as follows as compared to the previous year:

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 result	8,504	1,029
• in the income statement	8,504	-2,219
• directly in equity	-	3,248
Additions	-	-
Realizations	-249	5,059
Reclassification in level 2	-	-
Balance at Dec. 31, 2013	**10,520**	**-5,619**
Income recognized in the income statement	**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, 2014	Dec. 31, 2013[1)]
Loans and receivables (LaR)	1,242	-	-6,031	-3,809	-	-8,598	-9,830
Available-for-sale financial assets (AfS)	132	-	-	-2,622	-	-2,490	-580
Financial assets held for trading (FAHfT)	-	22,757	-	-	-27	22,730	8,255
Financial liabilities measured at amortized cost	-68,431	-	-42,940	-	-	-111,371	-85,963
Financial liabilities held for trading (FLHfT)	-	1,500	-	-	-1,087	413	2,840
Total	**-67,057**	**24,257**	**-48,971**	**-6,431**	**-1,114**	**-99,316**	**-85,278**

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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 valuation results from interest rate/currency swaps recognized at fair value with an effect on income, which are reported under financial income or financial expenses and partially 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 expired in financial year 2014.

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 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.

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 2014, STADA made particular use of foreign-exchange futures contracts and interest/currency swaps. 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 three 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 the balance sheet items 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. Currency risks primarily stem from business transactions in the following currencies: Russian ruble, pound sterling and Serbian dinar. 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, 2014				Dec. 31, 2013		
in € 000s	Kazakhstani tenge	Ukrainian hryvnia	Serbian dinar	Russian ruble	Russian ruble	US dollar	Kazakhstani tenge
Outstanding foreign currency item	-14,866	-28,117	+12,322	+7,932	-65,032	-31,319	-9,445
Income (+) / expense (-) from an appreciation of the euro by 10%	-1,487	-2,812	+1,343	-588	-7,180	+3,132	-945
Income (+) / expense (-) from a depreciation of the euro by 10%	+1,487	+2,812	-1,343	+588	+7,180	-3,132	+945
Equity increase (+) / equity reduction (-) from an appreciation of the euro by 10%	-1,510	-2,425	-5,301	-15,890	-12,401	+3,132	-1,004
Equity increase (+) / equity reduction (-) from a depreciation of the euro by 10%	+1,510	+2,425	+5,301	+15,890	+12,401	-3,132	+1,004

Here, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency items in the Russian ruble and Serbian dinar relate to a balance from foreign currency reserves at international Group companies in euro and outstanding foreign currency reserves in the Russian ruble and Serbian dinar. The reported outstanding foreign currency items in Kazakhstani tenge and Ukrainian hryvnia exclusively relate 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. Overall, based on outstanding foreign currency items as of the balance sheet date, an appreciation or a devaluation of the euro by 10% compared to the currencies of relevance for the Group would have led to an effect on earnings in the amount of an expense of € 7.1 million (previous year: € 7.6 million) or in the amount of earnings of € 7.1 million (previous year: € 7.6 million).

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 2014, to hedge the interest rate risk, there were cash flow hedges in the form of interest-rate swaps. Taking into account these hedging transactions, an average of 85% (previous year: 72%) of financial liabilities denominated in euro and 41% (previous year: 100%) of those denominated in ruble had fixed interest rates in 2014.

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 generally 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, 2014	Dec. 31, 2013
Income (+) / expense (-) from an increase in the market interest rate level of 100 basis points	-0.5	-2.1
Income (+) / expense (-) from a decrease in the market interest rate level of 100 basis points	+0.4	+2.0
Equity increase (+) / equity reduction (-) from an increase in the market interest rate level of 100 basis points	+1.0	+2.2
Equity increase (+) / equity reduction (-) from a decrease in the market interest rate level of 100 basis points	-1.0	-2.2

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 € 25.3 million (previous year: € 156.4 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. Furthermore, there is commercial credit insurance for certain markets and customers.

47.5. Liquidity risks

The Group's liquidity was guaranteed at all times in financial year 2014. 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 2014, 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 2014, 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 three currency swaps, which serve to hedge foreign currency loans, but which were not designated as fair value hedge.

	Start	Term in days	Swap from nominal value	Swap to nominal value
Currency swap	Dec. 10, 2014	91	kRUB 1,088,000	kEUR 15,485
Currency swap	Dec. 17, 2014	365	kAED 850	kEUR 185
Currency swap	Dec. 23, 2014	94	kCHF 2,000	kEUR 1,665

The income from the measurement of these hedging transactions in the total amount of € 0.7 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 206,500	kEUR 5,336
Interest rate / currency swap	Apr. 23, 2012	Jan. 25, 2017	kRUB 1,904,100	kEUR 49,075
Interest rate / currency swap	Oct. 11, 2012	Dec. 12, 2016	kRUB 321,100	kEUR 8,007
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 € 18.4 million (previous year: € 8.0 million) and in the amount of € 3.6 million (previous year: € 1.6 million) under other financial income. 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, 2014		Dec. 31, 2013	
	Nominal value	Fair value	Nominal value	Fair value
Derivatives without hedging relationship				
Interest rate/currency swaps	86,346	32,048	95,151	10,037
Other derivatives	17,335	744	51,218	-388
Derivatives with hedging relationship				
Interest rate swaps	117,000	-2,666	117,000	-4,748
thereof				
• fixed rate payer	117,000	-2,666	117,000	-4,748
• fixed rate recipient	-	-	-	-
Total	220,681	30,126	263,369	4,901

The terms of the cash flow hedges existing as of the balance sheet date end between 2015 and 2016.

All hedges are assumed to be highly effective as the important features are nearly identical (critical terms match). 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 2014, the resulting earnings amounted to € 1.5 million after consideration of deferred taxes (previous year: € 2.3 million).

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, which improved to 3.1 in the reporting year as compared to the previous year (previous year[1)]: 3.2).

1) The previous year’s figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

In this connection, the net debt and net debt to adjusted EBITDA ratio were as follows:

in € 000s	Dec. 31, 2014	Dec. 31, 2013[1)]
Non-current financial liabilities	1,042,998	1,140,571
Current financial liabilities	448,703	292,484
Gross debt	**1,491,701**	**1,433,055**
Cash, cash equivalents and "available-for-sale" securities	164,238	126,209
Net debt	**1,327,463**	**1,306,846**
EBITDA (adjusted)	**431,888**	**414,271**
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 "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 2014, 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 accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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, 2014	Dec. 31, 2013
Trade accounts receivable		
Non-consolidated subsidiaries / joint ventures	44	94
Associates	309	40
Joint ventures	-	-
Other investors	739	165
Trade accounts payable		
Non-consolidated subsidiaries / joint ventures	62	7,034
Associates	547	480
Joint ventures	-	-
Other investors	-	551

Expenses and income essentially relate to related party transactions as follows:

in € 000s	2014	2013[1)]
Sales		
Non-consolidated subsidiaries / joint ventures	-	-
Associates	-	-
Joint ventures	-	1,330
Other investors	1,427	1,635
Interest income		
Non-consolidated subsidiaries / joint ventures	64	144
Associates	447	868
Joint ventures	-	41
Other investors	-	-
Interest expense		
Non-consolidated subsidiaries / joint ventures	-	-
Associates	-	-
Joint ventures	-	-
Other investors	-	-

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

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 € 3.3 million (previous year: € 15.6 million) had been used as of December 31, 2014.

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.

Furthermore, STADA also had business relations with its fellow partner of the Chinese subsidiary STADA Import/Export International Ltd. As of the balance sheet date, outstanding loan liabilities in the amount of € 0.5 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 "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	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Members of the Executive Board	8,001[1]	6,266[2]	-	2,753	-	-	-17,603[3]	940	-	-	-9,602	9,959
Members of the Supervisory Board	1,045	1,062	-	-	-	-	-	-	-	-	1,045	1,062

1) Thereof progress payments on variable long-term special remuneration in the total amount of € 2,759,275 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2014.
2) Thereof progress payments on variable long-term special remuneration in the total amount of € 1,206,250 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2013.

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

Remuneration to former members of the Executive Board amounted to a total of € 293,000 in financial year 2014. The fair value of pension commitments for former Executive Board members amounted to € 12,514,000 as of December 31, 2014.

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 2014, the following professional fees were recognized as expenses for services rendered by the auditor of the consolidated financial statements, PKF Deutschland GmbH:

in € 000s	2014	2013
Fees for the auditor	475	471
• thereof for audits	348	328
• thereof for other confirmation services	92	82
• thereof for other services	35	61

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.

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 11, 2014. 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.

52. Events after balance-sheet date

No material events have occurred since the reporting date that could have a significant effect on the Group's business, financial and earnings situation.

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 € 49,317,995.91 as of December 31, 2014. 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 2014. In financial year 2014, a dividend in the amount of € 0.66 per common share was distributed to shareholders from the distributable profit of financial year 2013.

Bad Vilbel, March 23, 2015

H. Retzlaff Chairman of the Executive Board	H. Kraft Chief Financial Officer	Dr. M. Wiedenfels Chief Business Development & Central Services Officer

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 23, 2015

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, 2014. 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 23, 2015

PKF Deutschland GmbH
Wirtschaftsprüfungsgesellschaft

Annika Fröde
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).

Adalimumab: Adalimumab is the first entirely human monoclonal antibody (against the tumor necrosis factor α, TNFα). Adalimumab is used for the treatment of rheumatoid arthritis, psoriatic arthritis, ankylosing spondylitis and Crohn's disease.

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 an active pharmaceutical ingredient produced in a biotechnological process, which has been developed in comparison with an original product already on the market. It is so similar to the original product that it has proven therapeutic equivalence and is comparable in terms of safety and quality. Therefore, a biosimilar is an equivalent successor product of an off-patent biopharmaceutical product.

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.

Epoetin or Erythropoietin: Epoetin or erythropoetinion is a biopharmaceutical active ingredient in protein form that is produced by living cell lines. The erythropoietin biosimilar developed by BIOCEUTICALS is epoetin-zeta. Erythropoietin is used, among other things, in nephrology for dialysis patients to stimulate hematopoieses as well as in cancer therapy.

Filgrastim: Filgrastim is the form of the human granulocytes colony-stimulating factor (G-CSF) which is produced by using biotechnology. Filgrastim is, among others, used for the treatment of neutropenia, a low count of a special type of white blood cells. Neutropenia can arise e.g. after a cytotoxic chemotherapy or a bone marrow transplantation.

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.

Teriparatid: Teriparatid is a fragment of the human parathormone for hypodermic injection which is produced recombinant. Teriparatid is used for the treatment of post-menopausal women with manifest osteoporosis and a high fracture risk, of men with osteoporosis and a high fracture risk, as well as for glucocorticoid-induced osteoporosis of adults with an elevated fracture risk.

FINANCIAL CALENDAR

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 2015
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

2016

March 23, 2016	Publication of 2015 results with analysts' and press conference
May 12, 2016	Publication of the results of the first three months of 2016
June 9, 2016	Annual General Meeting 2016
August 4, 2016	Publication of the results of the first six months of 2016
November 10, 2016	Publication of the results of the first nine months of 2016

Status at time of going to print; STADA reserves the right to change these dates. The current financial calendar can be found on the Internet at: www.stada.de and www.stada.com.

The Annual Report and the interim reports will be published on the dates listed above on the Company website (www.stada.de and www.stada.com), usually before trading begins on the Frankfurt Stock Exchange. Shareholders may receive printed copies of the reports on request.

PUBLISHING INFORMATION

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Forward-looking statements

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

Rounding

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

OVERVIEW OF SALES

Group sales in € million	2014	2013[1)]
Total Group sales	**2,062.2**	**2,003.9**
• Core segment Generics	1,217.7	1,227.9
• Core segment Branded Products	800.5	704.4
• Commercial Business	44.0	41.0
• Group holdings / other	-	30.6

Sales by market regions in € million	2014	2013[1)]
Germany	**447.3**	**454.1**
• Germany	389.3	420.2
• Export sales of the market region Germany	58.0	33.9
Central Europe	**956.3**	**858.7**
• Italy	181.2	169.5
• Belgium	150.2	147.7
• United Kingdom	135.2	79.1
• Spain	113.0	107.7
• France	95.4	95.0
• Switzerland	52.2	51.3
• The Netherlands	39.5	37.6
• Poland	25.8	20.3
• Ireland	22.9	23.0
• Denmark	22.2	19.7
• Other / rest of Central Europe	80.2	70.8
• Export sales of the market region Central Europe	38.5	37.0
CIS / Eastern Europe	**564.5**	**629.2**
• Russia	360.7	418.8
• Serbia	93.4	86.0
• Ukraine	27.1	36.7
• Bosnia-Herzegovina	15.4	13.9
• Kazakhstan	13.4	21.3
• Other / rest of CIS / Eastern Europe	45.0	40.3
• Export sales of the market region CIS / Eastern Europe	9.5	12.2
Asia & Pacific	**94.1**	**61.9**
• Vietnam	73.3	52.3
• China	11.8	2.7
• The Philippines	3.9	2.6
• Thailand	2.2	2.5
• Other / rest of Asia & Pacific	2.4	1.5
• Export sales of the market region Asia & Pacific	0.5	0.3

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.).

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Financial key figures in € million	2014	2013[1]	2012[1]	2011[1]	2010[1]
Total Group sales	2,062.2	2,003.9	1,837.5	1,715.4	1,627.0
• Core segment Generics	1,217.7	1,227.9	1,213.1	1,188.3	1,124.2
• Core segment Branded Products	800.5	704.4	596.2	471.9	425.0
Operating profit	188.5	248.3	202.1	120.1	161.8
EBITDA	418.8	382.6	323.7	223.2	268.8
Adjusted EBITDA	*431.9*	*414.3*	*367.4*	*337.2*	*315.9*
EBIT	190.3	252.4	205.9	121.2	162.1
Earnings before taxes (EBT)	124.7	189.3	135.6	69.5	109.0
Net income	64.6	121.4	86.5	22.0	68.4
Adjusted net income	*186.2*	*160.6*	*147.9*	*146.6*	*133.3*
Cash flow from operating activities	223.8	203.7	212.7	169.0	194.8

Asset/capital structure in € million	2014	2013	2012	2011	2010
Balance sheet total	3,335.5	3,413.2	2,982.8	2,799.8	2,506.7
Non-current assets	2,013.8	2,060.0	1,802.2	1,532.7	1,381.4
Current assets	1,321.7	1,353.2	1,180.6	1,267.1	1,125.3
Equity	903.4	1,010.1	910.3	863.9	868.5
Equity-to-assets ratio in percent	27.1%	29.6%	30.5%	30.9%	34.6%
Non-current liabilities	1,246.7	1,358.4	1,102.9	1,254.9	910.5
Current liabilities	1,185.4	1,044.7	969.6	681.0	727.7
Net debt	1,327.5	1,306.8	1,177.3	900.3	864.1

Capital expenditure/depreciation and amortization in € million	2014	2013[1]	2012[1]	2011[1]	2010[1]
Total capital expenditure	279.0	365.0	401.0	286.6	109.3
• on intangible assets	241.0	285.4	367.1	237.3	70.5
• on property, plant and equipment	37.9	78.7	30.3	31.7	30.8
• on financial assets/associates	0.1	0.9	3.6	17.6	8.0
Total depreciation and amortization	228.5	130.7	123.3	107.4	107.8
• on intangible assets	192.5	100.7	88.8	73.5	67.7
• on property, plant and equipment	33.4	29.1	33.3	29.3	36.0
• on financial assets	2.6	0.9	1.2	4.6	4.1

Employees	2014	2013[1)2)]	2012[1)2)]	2011[1)2)]	2010[1)2)]
Average number per year	10,209	8,841	7,814	7,826	8,080
Number as of the balance sheet date	10,363	9,825	7,761	7,900	8,024

Key figures per STADA share	2014	2013	2012	2011	2010
Market capitalization (year-end) in € million	1,530.8	2,171.7	1,448.3	1,135.1	1,494.3
Year-end closing price ordinary share in €	25.25	35.93	24.41	19.25	25.38
Average number of shares (without treasury shares)	60,408,501	59,571,959	59,059,393	58,830,209	58,763,492
Basic earnings per share in €[3]	1.07	2.04	1.46	0.37	1.16
Adjusted earnings per share in €	*3.08*	*2.70*	*2.50*	*2.49*	*2.27*
Diluted earnings per share in €[4]	1.05	2.00	1.44	0.37	1.14
Adjusted diluted earnings per share in €	*3.04*	*2.65*	*2.47*	*2.44*	*2.22*
Dividend per ordinary share in €	0.66[5]	0.66	0.50	0.37	0.37
Total dividend payments in € million	40.0[5]	39.8	29.6	21.8	21.7
Distribution ratio in percent	62%[5]	33%	34%	99%	32%

1) The previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2012 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.

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