STADA Annual Report

2010

STADA
Arzneimittel

STADA KEY FIGURES

Key figures for the Group in € million	2010	Previous year	± %
Group sales	1,627.0	1,568.8	+4%
• Generics (core segment)	1,124.2	1,115.6	+1%
• Branded Products (core segment)	425.0	392.6	+8%
• Commercial Business	66.9	51.6	+30%
Operating profit	161.8	191.9	-16%
Operating profit, adjusted [1)]	*239.3*	*211.1*	*+13%*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	268.8	280.1	-4%
EBITDA (Earnings before interest, taxes, depreciation and amortization), adjusted [1)]	*315.9*	*287.5*	*+10%*
EBIT (Earnings before interest and taxes)	162.1	192.5	-16%
EBIT (Earnings before interest and taxes), adjusted [1)]	*239.6*	*210.8*	*+14%*
EBT (Earnings before taxes)	109.0	141.5	-23%
EBT (Earnings before taxes), adjusted [1)]	*186.2*	*163.0*	*+14%*
Net income	68.4	100.4	-32%
Net income, adjusted [1)]	*133.3*	*115.8*	*+15%*
Cash flow from operating activities	194.8	250.5	-22%
Cash flow from operating activities, adjusted [2)]	*194.8*	*261.2*	*-25%*
Equity	868.5	869.7	0%
Capital expenditure	109.3	124.8	-12%
Depreciation and amortization (net of write-ups)	106.7	87.6	+22%
Employees (average number for the year calculated on the basis of full-time employees) [3)]	8,080	8,064	0%

Key share figures	2010	Previous year	± %
Market capitalization (year-end) in € million	1,494.3	1,424.2	+5%
Year-end closing price (XETRA®) in €	25.38	24.20	+5%
Number of shares (year-end)	58,876,360	58,849,820	0%
Average number of shares (without treasury shares)	58,763,492	58,662,392	0%
Earnings per share in €	1.16	1.71	-32%
Earnings per share in €, adjusted [1)]	*2.27*	*1.97*	*+15%*
Diluted earnings per share in €	1.14	1.70	-33%
Diluted earnings per share in €, adjusted [1)]	*2.22*	*1.96*	*+13%*
Dividend per share in €	0.37 [4)]	0.55	-33%
Total dividend payments in € million	21.7 [4)]	32.3	-33%
Distribution ratio as a percentage	32% [4)]	32%	0%

1) Adjusted for one-time special effects as well as non-operational effects from currency influences and interest rate hedge transactions in 2010 and 2009.
2) Adjusted for influences outside of the reporting period.
3) This average number includes initial consolidations on a pro-rata basis. At the end of 2010, STADA Group had 8,024 employees as of the balance sheet date (December 31, 2009: 7,981).
4) Proposed.

STADA AT A GLANCE

The 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 (69% of Group sales)
  – Branded Products (26% of Group sales)
- Strategic success factors
  – Positioning in long-term growth markets
  – Extensive Generics portfolio complemented by stable-margin branded products business
  – Increasing internationalization of the branded products business
  – Broad international sales structure with a local focus
  – Strong product development
  – High flexibility as a result of short decision-making processes
  – Efficient cost management
  – Accelerated acquisition policy with focus on high-growth emerging markets and attractive-margin Branded Products segment

2010 – good operating results despite difficult framework conditions in individual national markets and high one-time special effects

- Group sales € 1.63 billion (+4% – adjusted +2%)
- Net income € 68.4 million (-32% – adjusted +15%)
- Earnings before interest, taxes, depreciation and amortization (EBITDA) € 268.8 million € (-4% – adjusted +10%)
- Earnings per share € 1.16 (-32% – adjusted +15%)
- High burdening special effects totaling € 77.2 million before taxes or € 64.8 million after taxes
- Operational key earnings figures, i.e. excluding one-time special effects, all above level of previous year
- Further expansion of international business activities
- Consistent implementation and initial successes of the Group project "STADA – build the future" with the aim of strengthening the mid and long-term earnings potential
- Successful placement of a corporate bond in the amount of € 350 million
- Strong product development with 572 product launches worldwide
- Unchanged planned distribution ratio of approx. 32% of net income results in dividend proposal of € 0.37 per common share (previous year: € 0.55)

Outlook

- Further growth in Group sales and earnings in 2011 and 2012
- Opportunity in 2011 for an increase in adjusted EBITDA in the high single-digit percentage area
- Long-term targets for 2014[1] confirmed: Group sales of approx. € 2.15 billion, adjusted EBITDA of approx. € 430 million and net income of approx. € 215 million

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

LETTER TO SHAREHOLDERS FROM THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear shareholders,

STADA was faced with tremendous challenges in financial year 2010. For one thing, markets that are important for us showed difficult framework conditions. For another, we had to cope with high one-time special effects. Regardless of this, Group sales in the reporting year rose by 4%. In addition, we were able to increase all operational key earnings figures, i.e. without consideration of the one-time special effects. The adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) grew by 10%. Adjusted net income recorded a plus of 15%. We further reduced the Group's net debt in order to increasingly take advantage of external growth opportunities as of the current financial year.

That risks are inseparably linked to the strategic positioning of STADA was shown in the reporting year both in the German market as well as in the Serbian market, which is fundamentally aligned for growth. In Germany, business development continued to be burdened by the discount agreement arrangements. In Serbia, development of business in the reporting year was characterized primarily by the ongoing liquidity problems at the local wholesalers, which, however, all market participants there were affected by. In order to reduce the default risk to the Group, we have there deliberately avoided potential further sales in the cumulative double-digit million euro area. Regardless of this, however, we had to carry out value adjustments on receivables from Serbian wholesalers. With a view to the measures taken by us to counteract this situation and the clear improvement in the fourth quarter, STADA's sales development in Serbia should now once again proceed more positively.

In light of the difficult environment, we achieved good operating profit in the view of the Executive Board in the reporting year, which can be attributed in particular to the strong commitment and the very good performance of our employees. On behalf of the entire Executive Board, I would like to express my thanks to them. I would like to thank the Supervisory Board and the Advisory Board for the professional cooperation characterized by mutual respect.

STADA's debut on the bond market in 2010 was thoroughly pleasing. In view of the targeted optimization of the long-term refinancing structure to increase liquidity security, we placed a corporate bond with a volume of € 350 million. The success of the bond, which has a term of five years and an annual interest rate of only 4.0%, is made clear by various criteria. On the one hand, the bond was seven times over-subscribed, that means that in theory, based on the level of demand, we could have placed a volume of nearly € 2.5 billion. On the other hand, the bond was issued without a liquidity grade from a rating agency. Last but not least, the yield on the secondary market developed very successfully following the placement. Overall, this shows that investors in this market segment have tremendous confidence in the viability and performance of our Group.

In addition, in 2010 we recorded initial successes within the framework of the consistent implementation of the Group-wide efficiency improvement program "STADA – build the future". Thus, we transferred the Dutch packaging unit with more than 100 employees. In Italy, we implemented a restructuring of the sales of branded products, which led to a reduction of the relevant sales force. In addition, we implemented the comprehensive reform of the internal reporting lines and the previously primarily locally aligned reporting structure was changed to a predominantly functionally central organizational structure for the areas of Finance as well as Production and Development including Procurement.

The good, from our perspective, operational development was unfortunately not sufficiently recognized by the capital markets in 2010, with the STADA share price at the end of the year just slightly above the level of the previous year. Obviously, the factors mentioned above were too strongly at the forefront of investors' considerations. Because on the stock markets, however, it is primarily the future prospects of a company that are evaluated, we will, also in the future, do everything to show that STADA has a sustainable and viable business model with long-term structural growth potential, for which the further internationalization of the Group activities should have a positive impact on sales growth and profitability.

Within the framework of our internationalization strategy, we will continue to push forward with the expansion of the global sales structure with our own subsidiaries oriented toward the local needs in currently 31 countries in order to make ourselves even more independent from the German market. The cautious acquisitions policy that we have pursued in the last two years will be replaced again by an accelerated acquisition approach. Thereby, we will rely on the regional expansion of our business activities on the one hand, especially in the strong growth Eastern European markets like Russia, for example. There we are today already very successful with our subsidiaries and want to benefit from the high growth rates and attractive margins also in the future. On the other hand, we are increasingly driving the expansion of our Branded Products core segment because it is generally characterized by better margins and fewer regulatory interventions than the area of generics.

We will, however, also continue to grow organically and solidify what we view as our unchanged position as number five among the global classical generics suppliers and our ranking as clear number three in the Germany generics market. With our product pipeline which continues to be well-filled – especially in the Generics core segment – we know how to successfully take advantage of the expiration of a large number of patents in the coming years in order to expand the Group's business activities also in this way.

In addition, we will continue to move ahead with the planned measures from “STADA – build the future” and will thus reduce complexity, make processes more efficient and thereby move forward with the continuous cost optimization in order to achieve an even greater increase in the Group’s profitability.

Overall, STADA is well-prepared for a successful development, also in the future. For financial years 2011 and 2012, we in the Executive Board expect further growth in Group sales and earnings. From today’s perspective, we see the opportunity for an increase in adjusted EBITDA in the high single-digit percentage range in financial year 2011. In addition, we maintain our long-term targets as published in June 2010 which call for us to achieve, by 2014, Group sales of approx. € 2.15 billion, an adjusted EBITDA of approx. € 430 million and a net income of approx. € 215 million.

Hartmut Retzlaff
Chairman of the Executive Board

STADA ANNUAL REPORT 2010

MANAGEMENT REPORT OF THE EXECUTIVE BOARD

STADA CONSOLIDATED FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

MANAGEMENT REPORT OF THE EXECUTIVE BOARD

GENERAL STATEMENTS ON BUSINESS SITUATION

Five-year comparison in € million[1]	2010	2009	2008	2007	2006
Group sales	1,627.0	1,568.8	1,646.2	1,570.5	1,245.1
Operating profit	161.8	191.9	176.4	215.5	180.5
Operating profit, adjusted	*239.3*	*211.1*	*221.4*	*249.5*	*186.4*
EBITDA[2]	268.8	280.1	255.4	288.6	232.6
EBITDA, adjusted	*315.9*	*287.5*	*294.3*	*315.5*	*233.0*
EBIT[3]	162.1	192.5	175.2	186.8	168.7
EBIT, adjusted	*239.6*	*210.8*	*219.0*	*249.0*	*186.7*
EBT[4]	109.0	141.5	105.5	149.8	145.2
EBT, adjusted	*186.2*	*163.0*	*164.8*	*209.5*	*163.2*
Net income	68.4	100.4	76.2	104.2	91.8
Net income, adjusted	*133.3*	*115.8*	*116.0*	*144.9*	*102.1*

Good operating results for 2010 in difficult framework conditions

Despite difficult framework conditions in individual national markets – particularly in Serbia and Germany – the sales and operating earnings development of the STADA Group, i.e. without consideration of the significant earnings-burdening one-time special effects in financial year 2010, was within the scope of the outlook given by the Executive Board at the beginning of the year.

Group sales increased in the reporting year – with continuing mixed development in the individual national markets – by 4% to € 1,627.0 million (previous year: € 1,568.8 million).

When effects on sales attributable to changes in the Group portfolio and currency effects are taken into account, Group sales increased by 2% in 2010.

Key earnings figures decreased in financial year 2010, in view of the difficult environment in individual national markets as well as high one-time special effects, primarily due to value adjustments on receivables as a result of liquidity problems on the part of Serbian wholesalers (see "Earnings Situation – Development of Earnings and Costs") and expenses in connection with the "STADA – build the future" project (see "Earnings Situation – Development of Earnings and Costs" as well as "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'"); operationally, however, i.e. excluding one-time special effects, all were above the key earnings figures of the previous year.

Operating profit recorded a decrease of 16% in 2010 to € 161.8 million (previous year: € 191.9 million). Net income declined by 32% to € 68.4 million (previous year: € 100.4 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) fell by 4% to € 268.8 million (previous year: € 280.1 million).

1) The accounting treatment of shareholdings in BIOCEUTICALS Arzneimittel AG was changed retroactively for the years 2007 to 2001 (see "Financial Situation – Development of the Balance Sheet"). For reasons of the practicability caveat as specified under IAS 8.43 ff., the comparison figures and the key figures for the 2006 to 2001 period were not adjusted. Therefore, disclosures made in this Annual Report for financial years 2006 and before do not include the recognition of BIOCEUTICALS Arzneimittel AG as associated company under the equity method.
2) Earnings before interest, taxes, depreciation and amortization.
3) Earnings before interest and taxes.
4) Earnings before taxes.

Adjusted operating profit on the other hand, recorded an increase of 13% to € 239.3 million (previous year: € 211.1 million). Adjusted net income increased by 15% to € 133.3 million (previous year: € 115.8 million). Adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) rose by 10% to € 315.9 million (previous year: € 287.5 million) and thus reached the highest value in the Company's history.

In view of the difficult framework conditions and the burdening one-time special effects, the Group, in the assessment of the Executive Board, achieved a good operating result in the reporting year overall. This shows that the STADA business model remains stable and continues to generate significantly positive earnings despite an accumulation of burdening factors.

Good financial position and improved free cash flow

In the Executive Board's view, the STADA Group's financial position continues to be good.

As of December 31, 2010, the equity-to-assets ratio, at 34.6% (December 31, 2009: 35.5%), continued to be clearly above the minimum ratio targeted by the Executive Board. Net debt decreased as of the balance sheet date to € 864.1 million (December 31, 2009: € 899.0 million) and was thus € 34.9 million lower than its value as of December 31, 2009.

The net debt to adjusted EBITDA ratio amounted to 2.7 in financial year 2010 (previous year: 3.1) and was thus significantly below the maximum value of 3 strived for by the Executive Board. The long-term refinancing structure was optimized to increase liquidity security as planned in the reporting year. In addition to a corporate bond placed in 2010, promissory notes in the total amount of € 515.5 million as of December 31, 2010 continued to contribute to a significant degree to this long-term refinancing.

Cash flow from operating activities in financial year 2010 amounted to € 194.8 million (previous year: € 250.5 million). Free cash flow in the reporting year was € 102.4 million (previous year: € 144.0 million or adjusted for influences outside of the reporting period at that time to € 154.7 million). Free cash flow adjusted for payments for acquisitions and proceeds from disposals in 2010 was € 135.0 million (previous year adjusted for payments for acquisitions and proceeds from disposals as well as influences outside of the reporting period[1)] € 169.4 million).

Promising development pipeline

With expansion of the product portfolio and the introduction of 572 individual products worldwide in many national markets, the Group once again proved its successful product development in 2010.

In view of STADA's product pipeline, which remains well-filled, the Executive Board expects a constant flow of product launches to continue in the coming years, with a focus on generics in European markets.

Initial successes with "STADA – build the future"

In the context of the implementation of the "STADA – build the future" project, the Group was able to record initial successes in 2010. Thus, STADA transferred the Dutch packaging unit in Etten-Leur in 2010 including the 113 employees. In Italy, the Group implemented a restructuring of the sales of branded products, which led to a reduction of the relevant sales force. In addition, the reporting structure, previously primarily locally aligned, was changed in the reporting year to a predominantly functionally centralized organizational structure for the areas of Finance as well as Production and Development including Procurement and Quality Management.

1) Utilization of provisions from 2008 as a consequence of the negative patent decision for STADA in Germany in connection with the active pharmaceutical ingredient Olanzapine.

Established, comprehensive risk management system

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

Against this backdrop, the Executive Board expects that STADA will continue to be confronted with challenging framework conditions, from which, however, from today's perspective, no risks are discernible which alone or in combination could jeopardize the continued existence of the Group.

Cautious acquisition policy

In financial year 2010, the Group continued to pursue a cautious acquisition policy, which remained oriented toward stringent standards in terms of profitability and appropriateness of the purchase price.

In this context, STADA only completed smaller acquisitions in the reporting year. In addition to the purchase of a branded product portfolio in Denmark, these included the acquisition of an Egyptian sales company. STADA also carried out an increase of its investment in a Vietnamese pharmaceutical company.

The cautious acquisition policy pursued in the last two years shall again be a focus in 2011, however. STADA will focus on the one hand on the regional expansion of business activities, particularly in the high-growth East-European markets such as Russia and on the other hand, on the expansion of the Branded Products core segment, which is generally characterized by better margins and less regulatory intervention than the generics sector.

Dividend proposal

The Executive Board proposes to the Supervisory Board that they recommend to the next Annual General Meeting on June 16, 2011, to plan for a distribution ratio for financial year 2010 unchanged from the previous year of approx. 32% of net income. This corresponds to a dividend proposal of € 0.37 per STADA common share (previous year: € 0.55). The proposed total dividend payments amount to € 21.7 million (previous year: € 32.3 million).

Volatile price development of the STADA share

The price development of the STADA share was characterized by high volatility in 2010. The share price, however, stabilized toward the end of the year and increased slightly. The closing price in 2010 at € 25.38 was thus 5% above that of the previous year and 23% above the lowest price of the year of € 20.70. In the first quarter of 2011, the share price recovery continued to March 11, 2011, the last trading day before the preparation of the financial statements.

Successful placement of a corporate bond

In view of the targeted optimization of the long-term refinancing structure to increase liquidity security, STADA successfully placed a corporate bond with a volume of € 350 million in financial year 2010. The bond has a term of five years with an interest rate of 4.00% per year. The issue price was 99.987%. The denomination is € 1,000. The proceeds from the issue will be used for general business purposes. The closing price of the bond as of December 31, 2010 was 102.25%.

Outlook

STADA’s business model is geared towards markets with long-term growth potential in the health care and pharmaceutical fields. Inseparably linked to this, however, are risks and challenges that result from intense competition and changed or additional state regulation. In view of this, in the Executive Board’s assessment, far-reaching regulatory interventions, a high level of competition and significant margin pressure will continue to occur in individual national markets in the future. The latter applies in particular to the increasing volume of business activities in the Generics core segment characterized by tenders. In addition, the Group will continue to have to deal with currency volatilities, particularly those of the Serbian dinar and the Russian ruble.

Thus, the sales and earnings development of the STADA Group will, also in the current financial year 2011 as well as in financial year 2012, be characterized by differing and partially contradictory factors in the various national markets. The overall sales increase for the Group expected by the Executive Board, however, should positively influence earnings development.

Positive effects on earnings as a result of the implementation of the “STADA – build the future” project are to be expected for EBITDA adjusted for one-time special effects and the correspondingly adjusted net income to a significant extent from the current financial year 2011 and mainly in 2012. By 2013, from today’s perspective, project-related investments of a total of approx. € 20 million as well as project-related expenditure for special write-offs, personnel expenses and consultancy services of a total of approx. € 50 million are expected (in each case including the past financial year 2010). The Group will recognize each of these project-related costs as a one-time special effect according to the progression of the project.

For financial years 2011 and 2012, the Executive Board expects further growth in Group sales and earnings. Against the backdrop of all the factors influencing the Group’s earnings development stated in this outlook, the Executive Board, in its overall assessment for financial year 2011, from today’s perspective, sees the opportunity for an increase in adjusted EBITDA in the high single-digit percentage area. This would mean that adjusted EBITDA in 2011 would reach again a record value in STADA's Company history.

In addition, the Executive Board continues to hold to the long-term targets envisaged for financial year 2014[1)], according to which Group sales of approx. € 2.15 billion, an adjusted EBITDA of approx. € 430 million and net income of approx. € 215 million should be reached.

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

BUSINESS AND GENERAL CONDITIONS

Business Model, Core Segments and Structural Environment

Business model focused on sustainable growth potential

STADA's business model focuses on the health care market. At the center of the internationally oriented business activities are the pharmaceutical and, in particular, the generics market with sustainable growth potential.

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

The strategic success factors of the STADA Group include in particular a broad international sales structure with a local focus, strong product development, a high degree of flexibility due to short decision-making processes, efficient cost management and an accelerated acquisition policy.

Effects of overall economic developments

In 2010, the global economy gradually recovered from the severe downturn of the most serious financial and economic crisis since the Second World War and increasingly stabilized. According to the International Monetary Fund, global economic output increased by 5.0%[1)] in 2010. In the European Union, gross domestic product showed an increase of 1.8%[1)] in the same period.

As STADA, due to its business model, operates in a sector that tends to be independent of economic trends, the Group is generally dependent less on global economic development and much more on regulatory conditions in individual national markets.

Economic activity does however have an effect on business development in the form of currency and interest rate fluctuations – even if STADA takes appropriate precautions in order to be able to adequately counter the continuing strong volatility in the interest rate level and currency relations relevant to the Group (see "Notes to the Consolidated Financial Statements – 44."). In addition, economic effects are also noticeable in the operational development of Group activities in so far as STADA partly operates in markets, which belong to the so-called self-pay patient markets and thus depend on the financial means of the patients. Furthermore, depending on economic development, individual national health care systems are obliged to a greater or lesser extent to make cost savings, which regularly leads, among other things, to regulatory measures, which can also affect generics suppliers (see "Development of Segments – Information by Region").

In relation to currency influences, the Group was burdened in the reporting year in its translation of sales and earnings from STADA's important national market Serbia to the Group currency euro by a continuing weakness of the Serbian dinar in relation to the euro. The appreciation of the Russian ruble had an offsetting effect in 2010.

1) International Monetary Fund: World Economic Outlook-Update of January 25, 2011.

In addition, the Group's business development in 2010 in individual national markets, in particular in Eastern Europe – here primarily in Serbia – was negatively affected due to local weaknesses in demand in the wake of the global financial and economic crisis (see "Development of Segments – Information by Region – Serbia").

Furthermore, in financial year 2010, as a result of liquidity problems on the part of Serbian wholesalers, STADA had to carry out value adjustments on receivables, which burdened the Group to a high degree (see "Earnings Situation – Development of Earnings and Costs" as well as "Development of Segments – Information by Region – Serbia").

Generics remains a growth segment

The global health care and pharmaceutical markets recorded further growth in 2010. Sales in the global pharmaceutical market increased by approx. 4.7%. Sales in the global generics market grew by approx. 11.5%[1)] to approx. € 91.4 billion[2)], so that the market share of generics in the international pharmaceutical market amounted to 13.8% in 2010.

The STADA Group was able to benefit from this growth in 2010 and secure its unchanged position as number 5[3)] in terms of sales among global classical generics suppliers. In the German generics market, STADA continued to be the clear number 3 in the reporting year. In the Group's most important national markets, the respective STADA subsidiaries occupied leading positions in 2010 as in the past.

Many national health care markets will also be characterized in the future by high growth opportunities that are relatively independent of economic activity. These opportunities are based, on the one hand, on general growth drivers in the form of global population growth, an aging society in industrialized countries, above-average growth in emerging markets as well as medical progress, and on the other, on specific growth drivers such as progressive generics penetration as a result of increasing spending restraints in individual national markets and continuous patent expiries. Based on this continually increasing demand in the health care market and in view of the fact that in the health economy comparison, drugs continue to be viewed as very efficient in comparison to other treatment methods, the international pharmaceutical market will continue to be characterized by further growth in the future. Against this backdrop, according to forecasts, sales in the global pharmaceutical market will increase by 5% to 8% per year by 2015.[4)]

In the view of the Executive Board, within the pharmaceutical market, generics in particular continue to demonstrate growth potential, as they guarantee cost-effective medicative therapy without any loss in quality and thus counteract the increasing cost pressure in the individual national health care markets. In addition, the potential available for generics competition is constantly being expanded due to the continuous expiration of patents or other commercial property rights.

For the future, IMS Health, a leading international market research institute, has forecast an annual growth rate for the global generics market of up to 8.4%[5)] by 2015, although considerable volume increases may turn out to be weaker as a result of increased price pressure.

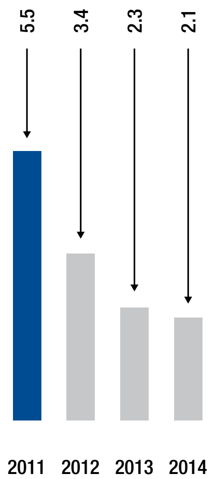
1) IMS Market Prognosis, June 2010; IMS Thought Leadership analysis prepared for STADA, Dec. 2010. Data based on the 26 leading generics markets.
2) Data based on the 26 leading generics markets and a projection for the other generics markets.
3) Source: STADA estimate.
4) IMS MIDAS, 2010; IMS Generic Market Prognosis, Sep. 2010; IMS Thought Leadership analysis prepared for STADA, Dec. 2010.
5) IMS Generic Market Prognosis, Sep. 2010; IMS Thought Leadership analysis prepared for STADA Dec. 2010. The market data on generics fluctuates – in some cases substantially – due to differing market definitions from source to source.

The Executive Board expects that the European generics market in particular will continue to show ongoing growth opportunities. This is based, among other things, on the fact that the sales volume alone for newly available active pharmaceutical ingredients for generics competition between 2011 and 2014 in the largest national markets by sales in Europe – Germany, United Kingdom, France and Italy – according to current market research figures will amount to more than € 13 billion.[1] Furthermore, STADA expects a further generics penetration in most European markets, which currently is still very different in the individual national markets.

Also, according to data from IMS Health, average annual generics growth in the EU will amount to 5.7%[2] from 2010 to 2012. Generics growth in Eastern Europe[3] is also expected to be particularly high. According to estimates from PMR[4] average annual growth of 14% will be possible here by 2011. According to BMI London, average generics growth in Russia between 2010 and 2014 will be 13%.

With a share in sales of approx. 25% currently generated by STADA in Eastern European markets, the Executive Board continues to expect to be able to benefit appropriately from this growth potential. With a view to the growth opportunities forecast in Eastern Europe, a focus of the internationalization strategy which continues to be pursued by the Group is thus also on the expansion of Group activities in Eastern European countries.

Newly available sales volumes for generics marketing in the four countries Germany, United Kingdom, France and Italy in € billion per year[1]



Further expansion of the branded products business

In view of the increasing pressure to reduce costs, to which the individual national health care systems are subjected, the Executive Board also sees further growth potential in the branded products business, as there is generally far less regulatory intervention in this area and better margins can be achieved than with generics. Against this backdrop, STADA will accelerate further the expansion and internationalization of the Branded Products core segment in the future.

Operational challenges and risks of STADA's business model

The continuous growth of the markets, on which STADA's business model is focused, is at the same time inseparably associated with operating challenges and risks (see "Risk Report").

These primarily include measures required due to state regulation, as the tasks of each state include ensuring that access to health care is available at acceptable costs to large parts of the population. In view of this, most national health care systems are subject to constant cost pressure due to the continuous increase in demand which in turn is regularly associated with cost-cutting state regulation.

There continue to be very different regulatory framework conditions in the social security systems of the individual national markets that are also not expected in the future to demonstrate any supranational harmonization.

In particular in Generics, the significantly larger of the two STADA core segments (see "Business and General Conditions – Business Model, Core Segments and Structural Environment"), the demand mechanisms are characterized to a high degree by the framework conditions of the respective national regulations. Against this backdrop, interventions into health care policy, such as pricing, granting of discounts, reimbursability, type and amount of patient co-payments or the possibilities of substituting with products with the same active pharmaceutical

1) STADA estimate of sales volumes in 2010 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 2014, based on data provided by various international market research institutes. STADA's expectations as to the date of availability of active pharmaceutical ingredients for generics competition are continuously being reviewed from a legal perspective and may in future significantly differ from today's (status: March 1, 2011) expectations as expressed in this data. The actual sales volumes becoming available for generics competition at the respective dates are subject to fluctuations as a result of changing market success, legal situations or market structures, among other factors.
2) IMS Market Prognosis, Sep. 2010; IMS Thought Leadership analysis prepared for STADA, Dec. 2010; data based on the five leading generics markets in Western Europe.
3) So-called CEE countries (Central and Eastern Europe) including Russia.
4) Data from PMR Publications (2009): Generic and innovative drugs market in Central and Eastern Europe 2009.

ingredients can have significant effects on the business development of individual STADA sales companies and the STADA Group. In view of this, regulation can result in both curbing and stimulating effects, for example in the case of state-ordered price reductions or state-ordered incentives for the prescription of low-cost generics.

In addition, the generics markets in which the Group is active are characterized by a high level of competition. This applies both to the competition among generics suppliers themselves and between the generics suppliers and the initial suppliers of the active pharmaceutical ingredients marketed as generics. While the competitive focus within the generics sector relates to the factors of price, conditions and service, the competitive focus between generics and initial supplier products can extend to legal and in particular patent-related parameters.

Branded Products, STADA's second core segment, also demonstrate growth potential due to increasing life expectancy in industrialized countries. Economic influences in individual national markets carry more weight here however than in the case of generics, as the majority of the costs are assumed by the patients themselves and are only partly reimbursed. Moreover, the development of branded products can also be affected by regulatory framework conditions such as modified reimbursement regulatory conditions or pricing requirements. This occurs, however, less frequently and with less marked operating consequences than with generics.

Operative alignment and management

One operational premise in the STADA Group is local market proximity, which is achieved on the basis of agreed targets via the sales responsibility of the respective local management. This responsibility is related to sales and earnings of the individual local sales company, its product portfolio as well as its personnel management.

In the context of the implementation started in 2010 of the Group-wide "STADA – build the future" project, the Group undertook comprehensive reform of internal reporting lines. The reporting structure, previously primarily locally aligned, was changed to a predominantly functionally centralized organizational structure for the areas of Finance as well as Production and Development including Procurement and Quality Management (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'"). The sales functions remained unaffected by these changes and are thus still close to the market, i.e. primarily locally and regionally organized.

Apart from the areas of Finance as well as Production and Development including Procurement and Quality Management, the central Group functions continue to hold overall responsibility for the Group's strategy, risk management, compliance and corporate governance.

Based on the Group's modified operative alignment, STADA, by way of the Group-wide harmonization and centralization, will achieve an increase in efficiency, while at the same time maintaining the necessary flexibility and market proximity to be able to react quickly to changing framework conditions.

In this regard, the classification into the core segments Generics and Branded Products as well as the non-core activity Commercial Business, is carried out primarily on sales criteria (see "Business and General Conditions – Business Model, Core Segments and Structural Environment"). The different sales requirements of the respective product categories are thus also reflected in the operational management of the Group.

The financial performance indicators according to which STADA manages individual corporate areas and in particular the local sales companies are in principle the same for the Group segments. This also applies below the segment level, as they are as a rule organized by mainly segment-specific local sales companies.

The key figures used for the operational management of the STADA Group are Group sales, gross margin, operating profit – particularly the local level of operating profitability as compared to the Group average – operating margin, adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA), net income, the cash conversion cycle, free cash flow, net debt and the net debt to adjusted EBITDA ratio.

The development of **Group sales** is a key element to ensure business success. Top-line programs to increase sales in the STADA Group are thus a key pillar for future development. In 2010, STADA's Group sales increased by 4% to € 1.627 billion (previous year: € 1.569 billion).

The **gross margin** measures the percentage share of gross profit in sales and is calculated as the difference between sales revenue and cost of sales divided by sales. The gross margin indicates the profitability of STADA's production within a particular period – without taking into consideration costs other than the cost of sales. The gross margin in the Group amounted to 47.0% in the reporting year (previous year: 46.1%).

Operating profit is generated from STADA's ordinary business activities and represents the gross profit minus functional costs as well as other income and other expenses. In financial year 2010, the Group's operating profit decreased – primarily due to difficult framework conditions in individual national markets as well as high one-time special effects – by 16% to € 161.8 million (previous year: € 191.9 million). Adjusted operating profit increased by 13% to € 239.3 million (previous year: € 211.1 million).

The **operating margin** represents operating profit divided by sales. The operating margin in the Group was 9.9% in the reporting year (previous year: 12.2%). The adjusted operating margin amounted to 14.6% (previous year: 13.4%).

Adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) is equal to earnings before interest, taxes, depreciation and amortization (EBITDA) adjusted for one-time special effects as well as non-operational effects from currency influences and interest rate hedge transactions. The development of adjusted EBITDA is used by the Group to measure the short-term operational performance and the success of the individual business areas. Adjusted EBITDA rose by 10% to € 315.9 million in 2010 (previous year: € 287.5 million) and thus reached the highest value in the Company's history.

Net income is the earnings after taxes, which is distributed to the shareholders of STADA Arzneimittel AG and in accordance with IFRS, also represents the basis for calculating earnings per share and diluted earnings per share. Net income is significantly influenced by the Group tax rate, among other things, which is in turn dependent on the regional profit allocation in the Group. In the reporting year, net income – primarily due to a difficult environment in individual national markets as well as high one-time special effects – decreased by 32% to € 68.4 million (previous year: € 100.4 million. Adjusted net income increased by 15% to € 133.3 million (previous year: € 115.8 million).

The **cash conversion cycle** measures the period from payment for raw materials to payment for products by customers and indicates how long capital invested in current assets is tied up. The cash conversion cycle is calculated from days inventory outstanding (DIO) plus days sales outstanding (DSO) minus days payables outstanding (DPO). STADA aims to optimize this figure by having the shortest possible customer targets and the longest possible payment targets, i.e. through the intensified management of current assets. The cash conversion cycle in 2010 was 87 days (previous year: 84 days).

STADA defines **free cash flow** as cash flow from current operating activities plus cash flow from investing activities. This key figure is the Group's measure for the potential of further development of the Company in the form of organic and non-organic growth as well as of the ability to distribute a dividend and repay liabilities. Free cash flow in the Group in 2010 amounted to € 102.4 million (previous year: € 144.0 million).

Net debt in the Group is represented by short-term securities plus cash and cash equivalents minus non-current and current financial liabilities. STADA reduced net debt in the reporting year to € 864.1 million (December 31, 2009: € 899.0 million).

The **net debt to adjusted EBITDA ratio** is an indication of the financial stability of the Group and is accordingly used as a benchmark for the borrowing of funds. The Executive Board aims for a net debt to adjusted EBITDA ratio of a maximum value of 3. In financial year 2010, this figure was 2.7 in the STADA Group (previous year: 3.1). Furthermore, the financial stability of the Group is also secured by maintaining at all times a liquidity reserve in the form of firmly-pledged, open credit lines i.e. not utilized by the Group.

Key value management figures of the STADA Group

in € million	2010	2009
Group sales	1,627.0	1,568.8
Gross margin (in %)	47.0	46.1
Operating profit	161.8	191.9
Operating margin (in %)	9.9	12.2
Adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortization)	315.9	287.5
Net income	68.4	100.4
Cash conversion cycle (in days)	87.3	84.3
Free cash flow	102.4	144.0
Net debt (Dec. 31)	864.1	899.0
Net debt to adjusted EBITDA ratio	2.7	3.1

Further details on the development of these key figures can be found in the chapters "Earnings Situation" and "Financial Situation".

The most important non-financial performance indicator in the management of the Group is the respective local – generally segment-specific – market share. In addition, depending on the respective issue to be managed, there are further non-financial performance indicators – such as possible earnings dilutions and their potential effect on the STADA share price in the case of acquisitions.

Initial successes in “STADA – build the future”

In 2009, the Group – with the involvement of external advisors – initiated the “STADA – build the future” project aiming to strengthen the mid and long-term earnings potential.

In financial year 2010, STADA began the consistent implementation of this Group-wide project, which aims for a reduction of complex Group structures, more efficient centralized control of Group companies as well as an acceleration of the continuous cost optimization with a focus on the fields of cost of sales/production locations as well as organizational, reporting and personnel structures.

In this context, the Group carried out a comprehensive reform of internal reporting lines in 2010. The reporting structure, previously mainly locally aligned, was changed to a primarily functionally centralized organizational structure for the areas of Finance as well as Production and Development including Procurement. In the reporting year, STADA centralized and streamlined previous service functions of the subsidiaries, such as product development, pharmaceutical approval, production, purchasing and procurement, quality management, information technology, strategic planning and finance under the uniform operational leadership of the Group.

The centralization of the service functions, which also requires a new, accelerated reporting system, integrates the capacities and expertise of the subsidiaries more efficiently into the Group. At the same time, the STADA sales companies in the individual national markets remain decentrally organized, so that they continue to be responsible for their local sales. However, the individual corporate areas of the respective subsidiaries report directly to global line managers, who in their corporate function, are responsible for and control all processes and functions related to their area in the STADA Group, regardless of location or subsidiary. Due to this organization, the individual subsidiaries now have more direct access to the Group’s financial, personnel and knowledge-related resources.

In the view of the Executive Board, STADA can use this central organizational structure to best counteract the challenges related to frequent regulation, continuous cost pressure and increasing importance of economies of scale effects, as this structure combines the advantages of flexible and local sales units i.e. operating independently in their respective markets with a central and therefore efficient organization in the operating area. This leads in turn to higher level of transparency and further cost optimization.

In light of the significant cost reduction potentials in the area of manufacturing and production facilities, STADA is increasingly putting products on a common basis, harmonizing dossiers and optimizing production processes and capacities. Due to the continuous necessary adjustment of the organizational, reporting and personnel structures to economic requirements, the option of selling or abandoning production facilities and outsourcing individual functional areas to third-party providers is also available.

Overall, the implementation of the “STADA – build the future” measures aiming for sustainable growth in the Group’s earnings and an increase in competitiveness in the short and medium term will lead to significant staff reductions in all corporate divisions and regions. Including outsourcing and sales, approximately 800 full-time positions and thus approximately 10% of the existing Group-wide employee level at the beginning of financial year 2010 are affected by these personnel measures – which are mainly outside Germany.

For example, STADA transferred the Dutch packaging unit in Etten-Leur in 2010. According to the contracts agreed, the Group can draw on the capacities of the transferred unit for a transitional period at fixed costs to a variable extent determined by STADA. In the context of the transfer, the 113 employees were also transferred to the acquiring company (see “Earnings Situation – Development of Earnings and Costs” as well as “Development of Segments – Information by Region – The Netherlands”).

In addition, the Group implemented a restructuring of the sales of branded products in Italy in 2010, which led to a reduction of the relevant sales force (see "Earnings Situation – Development of Earnings and Costs" as well as "Development of Segments – Information by Region – Italy").

In the context of the consistent implementation of the Group-wide cost efficiency program "STADA – build the future" and in view of the health care policy framework conditions in the German market – particularly as a result of health insurance organization tenders – the 40-hour week with no wage increase, effective until the end of 2012, was introduced in the context of a company agreement with the Works Council and with the approval of the parties to the wage agreement in the current financial year 2011 at the Bad Vilbel and Florstadt locations, in order to ensure the long-term competitiveness of the STADA Group's locations in Germany. In return, for the first time in the Company's history, STADA gave the affected employees a commitment effective until December 31, 2012 that no dismissals for operational reasons will take place (see "Employees" as well as "Supplementary Report").

A functional consolidation of all German activities in the area of product development and quality management was introduced at the Bad Vilbel location in the first quarter of the current financial year. Against this backdrop, negotiations are currently in progress with the Works Council on a balancing of interests and social compensation plan for 17 employees at the Laichingen location. With a view to the centralization in the logistics area, 12 employees from the drug sample area will also be transferred from Laichingen to the Distribution and Service Center location in Florstadt in the current financial year 2011. STADA has already also given the remaining employees at the Laichingen location a commitment effective until December 31, 2012 that no dismissals for operational reasons will take place (see both "Employees" and "Supplementary Report").

Positive effects on earnings are to be expected for EBITDA adjusted for one-time special effects and the correspondingly adjusted net income to a significant extent from the current financial year 2011 and mainly in 2012. By 2013 (including the past financial year 2010), from today's perspective, project-related investments of a total of approx. € 20 million as well as project-related expenditure for special write-offs, personnel expenses and consultancy services of a total of approx. € 50 million are expected. The Group will recognize each of these project-related costs as a one-time special effect according to the progression of the project. For 2010, this resulted in a burden in the amount of approx. € 16 million.

The implementation of "STADA – build the future", which is expected to be completed in 2013 should contribute significantly toward reaching the Group's long-term growth targets established in 2010, according to which sales of approx. € 2.15 billion, an adjusted EBITDA of approx. € 430 million and net income of approx. € 215 million should be reached in financial year 2014[1]. This growth forecast was based on the following assumptions and framework conditions:

- predominantly organic growth
- no significant disposals with an effect on sales and earnings
- forward projection of currency relations and the interest rate level at the time
- without consideration of one-time special effects
- forward projection of regulatory conditions at the time in markets relevant for STADA
- range of the forecast plus/minus 5%

Core segments Generics and Branded Products

In view of the Group's strategic positioning, STADA focuses its business activities on products with off-patent active pharmaceutical ingredients, which are commercially positioned in the two core segments of Generics and Branded Products. While the sales and marketing focus for Generics is based on a low pricing and/or a cross-product and a cross-indication marketing concept, with Branded Products the specific product characteristics and, in particular, the brand name of the respective product are at the forefront of sales.[2]

1) See the Company's ad hoc release of June 7, 2010.
2) For a detailed segment definition see "Notes to the Consolidated Financial Statements – 42.1.".

In the reporting year, the two core segments Generics and Branded Products had a share of 95.2% (previous year: 96.1%) of Group sales. Generics, which continues to be the significantly larger of the two core segments, contributed 69.1% to Group sales in financial year 2010 (previous year: 71.1%). At 91% (previous year: 90%), STADA generics include primarily prescription products. The Branded Products core segment had a share of Group sales of 26.1% in 2010 (previous year: 25.0%). STADA's branded products at 60% (previous year: 62%) consist primarily of non-prescription products.[1)]

In STADA's important national markets, such as Germany, Belgium, Italy, Spain and France, the Group pursues a so-called full-portfolio concept in the Generics segment. This product portfolio generally includes numerous dosage forms and strengths for the most relevant active pharmaceutical ingredients and thus partly also products with an only low significance for Group sales.

In individual national markets – such as the United Kingdom – STADA offers, on the other hand, a selected product portfolio. This product portfolio offers only specific active pharmaceutical ingredients with good local marketing opportunities in the respective national market. The Group adopts this selective portfolio structure if it seems to be promising based on specific local market conditions, and in particular taking earnings aspects into consideration.

In the core segment Branded Products, STADA also pursues a selective portfolio approach. Accordingly, the Group only markets the branded products in selected local markets depending on availability and market responsiveness. STADA focuses on the concept of so-called "strong brands" which as they are very well known, ideally as the local market leader, with comprehensive promotional and sales support, enjoy growth opportunities independently of local market trends as far as possible.

In view of increasing pressure to reduce costs, to which the individual national health care systems are exposed, the Executive Board sees further growth potential in the Branded Products core segment, as better margins can generally be achieved with them and they are subjected to far less regulatory intervention than generics. In view of these prospects, STADA will accelerate further the continued expansion and internationalization of this core segment in the future.

In financial year 2010, STADA strengthened the Branded Products core segment with the purchase through the Danish STADA subsidiary of a portfolio of mainly branded products with a focus on the antibiotics area of indication with eight pharmaceutical active ingredients (see "Business and General Conditions – Acquisitions and Disposals" as well as "Development of Segments – Information by Region – Denmark").

Non-core activities

STADA recognizes businesses and equity interests in areas outside the two core segments under non-core activities.

The **Commercial Business** segment includes activities with primarily trading character such as wholesaling activities. In the reporting year, this segment had a share of Group sales of 4.1% (previous year: 3.3%).

Other non-core activities not presented separately are included in the **Group holdings/other** segment. In 2010, this position contributed 0.7% (previous year: 0.6%) to Group sales.

STADA continuously reviews the non-core activities to see whether at least in the medium term they can be expected to generate a positive contribution to the core segments. Otherwise, they are possibly restructured, reduced or sold.

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

Sales and Marketing

Local sales structure with market proximity as strategic success factor

STADA's international sales network includes numerous nationally focused sales companies which are thus close to the market and are supported and monitored by central Group functions.

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

In order to differentiate by specific target groups, STADA sometimes operates in selected national markets under different national labels thereby operating in parallel with its subsidiaries. In the scope of Group guidelines, the individual sales companies can also partly structure their local product portfolio differently to meet local requirements.

On the basis of this sales concept focused on local market proximity, STADA is in a position to adjust promptly to changing framework conditions and to quickly adapt the local sales presence to the necessary requirements. This can include a modified product assignment, a changed market presentation or diversification, or expansion or reduction of local sales structures.

In addition, the STADA Group coordinates sales activities on a supranational level. This is the case, for example, for the structuring of the product portfolio, particularly in the Branded Products core segment, in the context of the further internationalization of individual products or supranational wholesaling cooperative agreements.

Continuous expansion of international sales network

To further reduce the dependence on individual national markets such as Germany as well as to take full advantage of growth opportunities, the Group aims for the continuous international expansion of both the number and also, if applicable, the structure of the sales companies.

In the reporting year, STADA added a sales company in Egypt to its existing sales network. With the takeover there, the Group is planning, in cooperation with STADA's Serbian subsidiary Hemofarm, to expand business activities in the Middle East (see "Business and General Conditions – Acquisitions and Disposals").

As of March 1, 2011, the Group was operating with 44 sales companies in 31 countries (March 1, 2010: 43 sales companies in 30 countries).

The focus of sales remained unchanged on the European markets. There, as of March 1, 2011, STADA was operating with 38 subsidiaries in 25 national markets (March 1, 2010: 38 subsidiaries in 25 national markets).

In addition, in the Asian area, as of March 1, 2011, STADA was represented with own sales companies in China, Kazakhstan, the Philippines, Thailand and Vietnam as well as in Africa with a sales company in Egypt.

More information on the development of Group activities in the individual national markets is published under "Development of Segments – Information by Region".

STADA sales structure (as of March 1, 2011)[1)]

Europe

Belgium	S.A. Eurogenerics N.V., Brussels S.A. Neocare N.V., Brussels
Bosnia-Herzegovina	Hemofarm Banja Luka d.o.o., Banja Luka (78.92%)
Bulgaria	STADA PHARMA Bulgaria EOOD, Sofia
Denmark	PharmaCoDane ApS, Copenhagen
Germany	STADApharm GmbH[2)], Bad Vilbel STADA GmbH[2)], Bad Vilbel ALIUD PHARMA GmbH, Laichingen cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg
Finland	Oy STADA Pharma Ab, Helsinki
France	EG Labo - Laboratoires Eurogenerics SAS, Paris
United Kingdom	Genus Pharmaceuticals Ltd., Newbury
Ireland	Clonmel Healthcare Limited, Clonmel
Italy	EG S.p.A., Milan Crinos S.p.A., Milan
Lithuania	UAB STADA-Nizhpharm-Baltiya[3)], Vilnius
Macedonia	Hemofarm Komerc d.o.o.[3)], Skopje (99.18%)
Montenegro	Hemomont d.o.o., Podgorica (71.02%)
The Netherlands	Centrafarm Pharmaceuticals B.V., Etten-Leur Healthypharm B.V., Etten-Leur Centrafarm B.V., Etten-Leur Neocare B.V., Etten-Leur
Austria	STADA Arzneimittel Gesellschaft m.b.H., Vienna
Poland	STADA PHARMA Poland Sp. z o.o., Warsaw
Portugal	Ciclum Farma, Unipessoal, LDA. Paco de Arcos
Romania	STADA Hemofarm S.R.L., Temisvar
Russia	OAO Nizhpharm[4)], Nizhny Novgorod ZAO Makiz-Pharma[4)], Moscow ZAO Skopinpharm[4)], Ryazanskaya obl. OOO Hemofarm Obninsk[4)], Obninsk
Sweden	STADApharm AB[3)], Malmö
Serbia	Hemofarm A.D.[5)], Vrsac
Slovakia	STADA PHARMA Slovakia s.r.o., Bratislava
Spain	Laboratorio STADA, S.L., Barcelona STADA Consumer Health, S.L.[3)], Barcelona
Czech Republic	STADA PHARMA CZ, s.r.o., Prague
Ukraine	Nizhpharm-Ukraine DO, Kiev

Asia

China	STADA Pharmaceuticals (Asia) Ltd., Hong Kong
Kazakhstan	Nizhpharm-Kazakhstan TOO DO[6)], Almaty
The Philippines	Croma Medic, Inc., Manila
Thailand	STADA Asiatic Company, Ltd., Bangkok (60%)
Vietnam	STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City (50%)

Africa

Egypt	Germa Pharm Ltd.[3)], Cairo

Export

Worldwide	More than 50 countries, among others, through Hemofarm A.D., Vrsac, Serbia

1) All companies with a STADA share of at least 50% have been listed. Unless indicated otherwise, the companies are wholly-owned by the STADA Group.
2) Acting as commission agents on behalf of STADA Arzneimittel AG.
3) Currently not consolidated.
4) Bundled under the umbrella brand STADA CIS.
5) Including various local sub-labels.
6) Name of the company has been translated from Cyrillic into English.

Product Development

Strategic and organizational basis of development activities

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

STADA's development activities aim to achieve market readiness for new or optimized products. In the case of pharmaceuticals this is achieved by obtaining a national approval from the respective responsible regulatory authorities in the scope of differentiated, partly supranational approval processes.

The Group's development activities are aimed at the long term, in order to drive organic growth via a continuous flow of new product launches in the core segment Generics. In this regard, STADA is already working on the development of generic products with potential launch dates after 2017. STADA calculates the regulatory preparation time including an approval period for generics with Group-wide relevance as currently at least three years. Products which the Group wants to launch within this time frame are thus generally already in the approval process today.

In view of the importance of successful product development, the planning and organization of product development at STADA is primarily centrally structured. The individual projects are realized either in the Group's own development centers or in the scope of subcontracted development. In addition, in some projects, STADA partially or fully acquires third party dossiers or approvals.

In the scope of its development activities, STADA relies on an international network of internal and external development partners. In this regard, the Group – as is usual in this sector in some cases – also enters into joint development projects with competitors. Against this backdrop, long-standing expertise in managing such a network cost-effectively and in terms of the respective commercial property rights in a timely manner ranks as one of STADA's strategic success factors.

For several years, the Group has focused more and more on expanding the internal development activities, in order to increase the number of in-house developments of strategically important and high-sales products. This is at the same time associated with optimization of the procurement and production costs of new products in the first few years of marketing, as in this way STADA can reduce the potential acquisition of dossiers and the associated initial supply commitments.

As far as possible, STADA uses newly developed products for Group-wide marketing, primarily in the EU. In view of this, the Group has the goal of achieving international and supranational, in particular EU-wide approval procedures, in order to achieve numerous national approvals of a product in different EU countries nearly simultaneously. Approval procedures outside of the EU should be carried out if possible based on the EU dossier of the corresponding product, so that the Group can fall back on a standardized wording. The international orientation of development activities also aims at generating economy of scale effects through optimized batch sizes.

In the case of other strategic objectives for the Group-wide development activities, STADA differentiates between the two core segments Generics and Branded Products, as they have different sales requirements.

The clear focus here is on development activities for the Generics core segment, as, with a share of 69% in Group sales, it has significantly higher importance. With a view to the respective local patent and approvals situation as well as the corresponding market strategy, STADA or the STADA sales company responsible decides which active pharmaceutical ingredients are to be launched at what time into a national market. In general, STADA aims to have completed the development of all internationally sales-relevant strengths and dosage forms of an active pharmaceutical ingredient as early as possible, in order to make them and all required approvals available to individual sales companies on time after the expiration of a patent and/or commercial property right, as the long-term success of a generic also depends on its time of launch.

In this context, observing commercial property rights takes on crucial importance as their scope and duration can be very different depending on the market. As a precautionary measure, STADA management and Group management regularly receive legal recommendations on commercial property rights from internal and external experts. However, before and after the launch of new generics, there are in some cases legal disputes initiated by initial suppliers which are contrary to the Group's assessment and, in exceptional cases, can lead to a negative result for STADA.

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, development in this core segment can be better targeted towards individual national markets and have more flexible scheduling than is the case for Generics.

This is complemented by local business units conducting their own development activities for new products that are not significant for the Group.

In addition to the clear focus on the development of new products, the Group also pursues development activities in other areas such as:

- Expansion of the existing product portfolio through additional dosage forms or strengths

- Internationalization of nationally successful products

- Support of transfer projects in the production area by means of know-how transfer, for example

- Optimization of products already launched in order to reduce cost of sales or achieve better application potentials

In these areas, too, individual local business units carry out their own complementary development activities for certain products in their respective national market.

Sustainable and successful product development

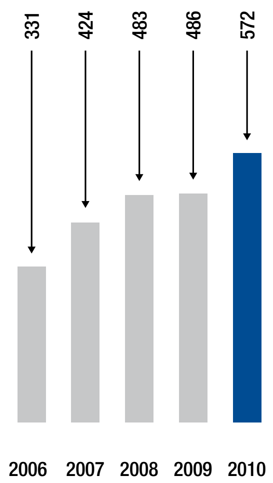
As in the past, the sustainable and successful development and approval activities of the Group can be seen from the high number of annual product launches. In financial year 2010, STADA demonstrated this strength with the introduction of 572 individual products worldwide in individual national markets (previous year: 486 product launches) – once again the highest number the STADA-Company's history.

The significant importance of this successful product development can be seen from the 10% of Group sales generated by products which STADA introduced in the last two years[1) 2)] (previous year: 9%).

In the Executive Board's view, the Group's product pipeline continues to be well-filled. This assessment is also proven by the high number of existing approval procedures as of December 31, 2010, totaling over 1,100 for over 120 active pharmaceutical ingredients for more than 50 countries. STADA should thus be able to launch a large number of new products in the individual national markets also in the future. This applies in particular with regard to generics in the EU. In addition, the Group conducts approval procedures also in countries outside of the EU, where STADA is represented with its own subsidiaries or is active in the export business.

The high level of expertise in the area of product development in the STADA Group is demonstrated not only by the high number of successful new launches in the area of classic generics but also by several specific projects.

Five-year development: Number of product launches



These include the development activities of BIOCEUTICALS Arzneimittel AG, a company initiated by STADA and predominantly financed via venture capital, whose business activities are oriented to biosimilar products[3)] – and continue to concentrate on Epo-zeta[4)] – (see "Earnings Situation – Development of Earnings and Costs – Result from Associated Companies", "Financial Situation – Development of the Balance Sheet – Investments in Associates" and "Notes to the Consolidated Financial Statements 18. and 27."). In addition to studies on pharmacovigilance, in the context of these development activities, the Company strived for a further expansion of the existing EU-wide approval for the subcutaneous application in the indication area of nephrology. After the so-called "positive opinion" by the EMA was achieved for this in the first quarter of 2010, STADA received approval for this additional indication from the EU Commission in the second quarter of 2010.

Due to the cost and risk profile, the STADA Group, as is known, in the development of further biosimilar products from the substance category of monoclonal antibodies, had ruled out financing the necessary extensive clinical studies alone. Since 2009 however, STADA had pursued preparatory work for the respective development in the form of a project. After close examination of various financing possibilities, STADA terminated this project in 2010, as it would have negatively affected the risk profile for the Group. In connection with the suspension of the project, expenses in the amount of € 5.4 million before or € 3.9 million after taxes were incurred in the reporting year, which were reported as one-time special effect (see "Earnings Situation – Development of Earnings and Costs – Influence on earnings due to one-time special effects").

The measures taken in the course of the implementation of "STADA – build the future" also had an effect in 2010 on the areas of product development and pharmaceutical approval (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'"). These service functions, which were previously in the area of responsibility of STADA subsidiaries were centralized under the uniform operational leadership of the Group in the reporting year and streamlined.

1) Reporting year and previous year.
2) Without products and sales from acquisitions.
3) A biosimilar is a biopharmaceutical product, i.e. a drug with a protein as biopharmaceutical active ingredient which is produced by genetically modified cell lines which, despite different producing cell lines, compared to an initial supplier product which is already on the market, is so similar that the biosimilar has proven therapeutic equivalence.
4) Erythropoietin-zeta is a biopharmaceutical active ingredient used in nephrology for treatment of renal anaemia for chronic renal insufficiency and in oncology for treatment of chemotherapy-induced anaemia.

Procurement and Production

Global procurement of active ingredients and auxiliary materials

For flexibility and cost reasons, the Group has to date generally deliberately abstained from manufacturing any active ingredients or auxiliary materials necessary for pharmaceutical production. In this context, STADA continues to take advantage of a globally operational network of raw materials suppliers. Thereby, the Group focuses – particularly for the procurement of active pharmaceutical ingredients – on low-priced suppliers from low-cost countries, preferably from Asia. In addition, in the area of active pharmaceutical ingredients production, cooperations in order to achieve greater vertical integration are not ruled out.

In the case of products produced in contract manufacturing, STADA is dependent on global developments with respect to purchase prices for active pharmaceutical ingredients or auxiliary materials required and on the prices negotiated with contract manufacturers, which may fluctuate significantly depending on the product. To reduce 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 by using 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.

Pharmaceutical production with high flexibility and continuous cost optimization

Due to the large product portfolio of more than 900 active pharmaceutical ingredients and over 10,000 product packagings sold by the Group, each different in terms of its active ingredient and/or quantity of the active ingredient and/or dosage form and/or package size, STADA also makes use of a global network of internal and external resources for pharmaceutical production. With a view to continuous cost optimization the Group is increasingly taking advantage of production facilities acquired or expanded particularly in recent years in low-cost countries in South East Europe as well as Russia and Vietnam. Due to the contracts that already exist, however, these remain longer-term processes.

In view of the significant cost reduction potentials in the area of manufacturing and production facilities, STADA is, in the course of implementing the measures from the “STADA – build the future” project, among other things, increasingly putting products on a common basis, harmonizing dossiers and optimizing production processes and capacities (see “Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes of ‘STADA – build the future’”). This includes, among other things, continuous adjustment of organizational, reporting and personnel structures to meet economic requirements. As a result of this, the Group thus also has the option of selling or abandoning production facilities as well as outsourcing individual functional areas to third-party providers.

Thus, the Group transferred the Dutch packaging unit in Etten-Leur as of August 1, 2010. According to the contracts agreed, the Group can draw on the capacities of the transferred unit for a transitional period at fixed costs to a variable extent determined by STADA. In the course of the transfer, the 113 employees were also transferred to the acquiring company (see “Earnings Situation – Development of Earnings and Costs” as well as “Development of Segments – Information by Region – The Netherlands”).

As of March 1, 2011, the following pharmaceutical production facilities belonged to the STADA Group:

- Bad Vilbel (Germany)
- Banja Luka (Bosnia-Herzegovina)
- Beijing[1)] (China)
- Clonmel (Ireland)
- Dubovac (Serbia)
- Ho Chi Minh City (two production sites in the greater metropolitan area)[2)] (Vietnam)
- Moscow (Russia)
- Nizhny Novgorod (Russia)
- Obninsk (Russia)
- Pfaffenhofen (Germany)
- Podgorica (Montenegro)
- Ryazanskaya obl. (Russia)
- Sabac (Serbia)
- Vrsac (Serbia)

Additional potential efficiencies continue to be achieved with increased utilization of uniform SAP software. To this end the roll-out of the SAP software, which was initiated in the German Group headquarters in 2007, was continued in 2010 and from today's perspective, should be fully completed by 2014.

As a general rule, appropriate investments ensure that all of STADA's production facilities are constantly maintained at the level required by legal stipulations and technical production considerations. Investments for the expansion and renewal of factories and production facilities in 2010 amounted to a total of € 20.7 million (previous year: € 24.1 million).

Centralization of procurement processes and production responsibility

Also in the area of Procurement and Production including Quality Assurance/Quality Management, in the context of of the "STADA – build the future" project, functions and processes extending beyond a purely local alignment were placed in the reporting year under the uniform operational leadership of the Group, in order to thus open up further possibilities for process improvement and cost optimization.

1) A production unit which is not integrated and consolidated in the Group, solely aimed at local market demand.
2) Both production sites are operated within the framework of a 50:50 joint venture with a local partner.

Acquisitions and Disposals

Cautious acquisition policy

In the reporting year, the Group continued to pursue a cautious acquisition policy, which continued to be oriented toward stringent standards in terms of profitability and appropriateness of the purchase price.

Against this backdrop, STADA only made a few acquisitions in financial year 2010.[1)] In addition to the Egyptian company Germa Pharm for the expansion of business activities in the Middle East, the Group purchased a branded product portfolio in Denmark in 2010. STADA also increased its shareholding in the Vietnamese pharmaceutical company Pymepharco (for each see “Development of Segments – Information by Region”).

The total investment volume for these acquisitions in 2010 was € 12.7 million (investment volume for acquisitions in previous year: € 17.5 million).

In view of the increasing concentration of processes in the industry, the Executive Board continues to see the opportunity, but also the necessity, to complement the Group’s organic growth with further external growth impulses. In view of this, STADA will pursue an accelerated approach to acquisition. The Group will focus on the one hand on the regional expansion of business activities with concentration on high-growth emerging markets. On the other hand, the expansion and internationalization of the Branded Products core segment, which is generally characterized by better margins and less regulatory intervention than the generics area, should be even further expanded. Additionally, the Executive Board still does not rule out cooperations with significant capital investments.

Despite the now accelerated approach to acquisition, the criteria of STADA’s acquisition policy remain strict and geared towards profitability and appropriateness of the purchase price. For larger projects such as acquisitions or cooperations with capital investments, appropriate capital measures continue to be imaginable in the future if the burden on the equity-to-assets ratio from such acquisitions or cooperations is too high.

Acquisition of Egyptian Germa Pharm Ltd.

Effective October 1, 2010, STADA acquired the Egyptian Germa Pharm, based in Cairo (see “Development of Segments – Information by Region – Serbia”). The purchase price was € 1.0 million. In 2009, the company achieved sales in the amount of € 0.8 million. With the takeover, the Group is planning, in cooperation with STADA’s Serbian subsidiary Hemofarm, to expand business activities in the Middle East.

Product acquisitions

On January 15, 2010, the Danish STADA subsidiary purchased a portfolio of mainly branded products with a primary focus on the antibiotics area of indication with eight active pharmaceutical ingredients (see “Development of Segments – Information by Region – Denmark”). The seller was NordMedica A/S, Copenhagen. The purchase price was € 4.8 million. In 2009, sales with these products amounting to approx. € 2.2 million were achieved under the former owners. Since January 18, 2010, the acquired product package has contributed a total of € 2.0 million to STADA’s sales.

1) Due to technical reasons, the contract to acquire a direct investment of 50% in Hetmak FZCO, Dubai, United Arab Emirates by the Russian STADA subsidiary Nizhpharm could not be completed in 2010 as originally planned.

Share increase in Pymepharco Joint Stock Company

In financial year 2008, STADA acquired a stake of 11.2% in the Vietnamese pharmaceutical company Pymepharco Joint Stock Company for a price of € 3.2 million. The company's business activities include the production and sale of their own pharmaceutical products as well as import activities for the Vietnamese health and pharmaceutical market. At the same time, STADA acquired the possibility to increase the shareholding in Pymepharco in the following two years in further steps at already determined times and prices to up to 49%. If agreed objectives relating to return on investment are not reached, STADA has the possibility until presentation of the 2011 annual financial statements to give back all shares acquired up to that point in return for the reimbursement of the relevant purchase price. In financial year 2010, STADA increased its shareholding in Pymepharco from 11.2% to 23.7%. The purchase price for this investment amounts to a total of € 10.1 million, thereof € 6.9 million in 2010. In the annual financial statements as of December 31, 2010, the company was accounted for as an associated company.

Disposal in the Netherlands

In the course of the implementation of the "STADA – build the future" project, the Group transferred the Dutch packaging unit in Etten-Leur as of August 1, 2010 (see "Development of Segments – Information by Region – The Netherlands"). According to the contracts agreed, the Group can draw on the capacities of the transferred unit for a transitional period at fixed costs to a variable extent determined by STADA. Within the scope of the transfer, the 113 employees were also transferred to the acquiring company. The book loss for STADA associated with the transfer of the relevant property, plant and equipment, which is within the scope of project planning for "STADA – build the future", amounted to € 6.2 million before or € 5.8 million after taxes and was reported as a burdening one-time special effect (see "Earnings Situation – Development of Earnings and Costs").

Employees

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 sales and marketing, product development as well as procurement and production. In view of this, STADA's employees, with their significant experience, their extensive expertise and their high degree of commitment, are the actual pillars of the longstanding business success.

Against this backdrop, STADA's personnel management aims to comprehensively develop employees, maintain their loyalty to the Group and to implement necessary personnel changes.

Decentralized organization of personnel management

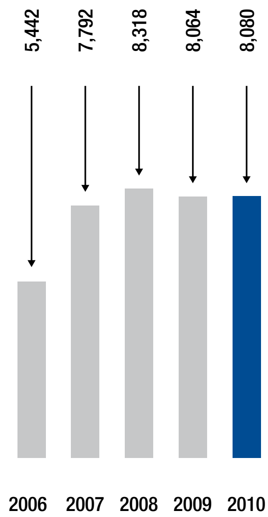
In the area of personnel management, STADA deliberately relies on a decentralized organization which allows the Group to better target the different needs of its employees at the various locations. This is especially true of the international STADA subsidiaries, which in accordance with Company guidelines are largely independent in many areas of personnel policy such as recruitment, training and remuneration policy. In this context, the Group's strategic and operational guidelines, in particular the compliance regulations, must continue to be observed.

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

Development in the number of employees

In financial year 2010, the average number of employees in the STADA Group was 8,080 (previous year: 8,064) and thus at approximately the level of the previous year. When considered in relation to the balance sheet date, the number of employees in the STADA Group increased slightly to a total of 8,024 as of December 31, 2010 (December 31, 2009: 7,981).

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



The "STADA – build the future" provides, among other things, for a reduction in staff in all Company divisions and regions. Including outsourcing and disposals, approximately 800 full-time positions and thus approximately 10 percent of the existing Group-wide personnel level at the beginning of financial year 2010 are affected by these personnel measures – which were mainly outside Germany (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'"). The reduction in the number of employees will gradually become noticeable over the course of the current financial year 2011. In the third quarter of 2010, for example, a restructuring implemented in the sales of branded products in Italy led to a corresponding reduction in the sales force as of December 31, 2010, which, however, thus only had an effect on the number of employees as of January 1, 2011.

The regional breakdown shows that there was an average of 1,192 employees in Germany in the reporting year (previous year: 1,128). Of these, an average of 929 employees were under contract at the Group's headquarters in Bad Vilbel in 2010 (previous year: 910). The average number of employees working outside Germany in the same period was 6,888 (previous year: 6,936). This reduction was primarily due to the transfer of the Dutch packaging unit in Etten-Leur in the reporting year.

If employees are broken down according to functional areas, the area of Production/Procurement recorded the most significant reduction compared to the previous year – also as a result of the transfer of the Dutch packaging unit in Etten-Leur.

With regard to the Group's average total number of employees, the following percentage distributions resulted for the individual functional areas as of December 31, 2010:

- Sales/Marketing 31% (previous year: 31%)
- Production/Procurement 47% (previous year: 48%)
- Product Development 6% (previous year: 6%)
- Administration 16% (previous year: 15%)

A functional consolidation of all German activities in the area of product development and quality management was introduced in the first quarter of the current financial year at the Bad Vilbel location. Against this backdrop, negotiations are currently in progress with the Works Council on a balancing of interests and social compensation plan for 17 employees at the Laichingen location. With a view to the centralization in the logistics area, 12 employees from the drug sample area will also be transferred from Laichingen to the Distribution and Service Center location in Florstadt in the current financial year 2011. STADA has already also given the remaining employees at the Laichingen location a commitment effective until December 31, 2012 that no dismissals for operational reasons will take place (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'" as well as "Supplementary Report").

With the goal of a further stabilization, STADA's Serbian subgroup continues to be the focus of measures to improve earnings within the scope of "STADA – build the future". These measures also include a further optimization of the number of employees in the coming years. Relevant projects were introduced in the first quarter of 2011 (see "Segment Development – Information by Region – Serbia" as well as "Supplementary Report").

Personnel expenses

Personnel expenses increased in financial year 2010 to € 268.6 million (previous year: € 247.2 million). The ratio of personnel expenses to sales amounted to 16.5% in the reporting year (previous year: 15.8%). Personnel expenses includes severance compensation for employees affected by the personnel reductions (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'").

As the Group will, in accordance with the efficiency improvement program, continue the introduced personnel measures in the current financial year 2011, STADA aims for a reduction in the ratio of personnel expenses to sales in the coming years (without inclusion of severance compensation).

Personnel structure by national markets and functional areas

Average number of STADA employees in 2010

	Sales/ Marketing	Production/ Procurement	Product development	Administration	2010 Total	Previous year Total
Belgium	118	5	11	18	152	145
Bosnia-Herzegovina	36	94		29	159	171
China	7	1		5	13	14
Denmark	2	14		8	24	23
Germany	380	333	197	282	1,192	1,128
Finland	8			4	12	11
France	51	12	13	15	91	92
United Kingdom	62	10	15	21	108	70
Ireland	25	189	8	12	234	267
Italy	115	7	4	19	145	137
Kazakhstan	87			1	88	88
Macedonia	6				6	6
Montenegro	18	117		27	162	170
The Netherlands	27	79	7	17	130	180
Austria	28	3	3	7	41	38
The Philippines	89	2	4	21	116	113
Poland	32				32	32
Portugal	30	1	5	6	42	46
Romania	26	8			34	28
Russia	708	1,100	126	383	2,317	2,266
Serbia	253	1,516	95	323	2,187	2,263
Slovakia	21			4	25	20
Spain	141		9	15	165	168
Thailand	21		1	5	27	30
Czech Republic	35			5	40	40
Ukraine	138			10	148	148
Vietnam	13	269	12	27	321	319
Rest of world	69				69	51
Total Group	**2,546**	**3,760**	**510**	**1,264**	**8,080**	**8,064**

Responsibility and Sustainability

“All the best!”

People all over the world wish each other “All the best”. This wish also represents the mission statement for around 8,000 employees in the STADA Group worldwide and expresses the requirements on the Company itself. The focus here is care for people’s health and wellbeing.

With this mission statement, STADA commits itself expressly to the comprehensive and sustainable character of its own responsibility as a health care company. The Executive Board works continuously towards ensuring that this mission statement and the high responsibility it describes represents a sustainable maxim for acting for management and all employees in the STADA Group.

In this context, the economic success of the Group shall be linked with responsible action and in particular topics such as corporate social responsibility (CSR) integrated into business processes. This applies particularly to the areas of quality, compliance, personnel development as well as social responsibility.

The full STADA mission statement is available on the Company website at www.stada.de and www.stada.com.

Highest safety and quality standards for STADA products

Product safety and product quality have always had the highest priority in the STADA Group. Besides the finished products, this also relates to the raw materials used by STADA, the Group’s services as well as the working conditions in which these services are carried out.

In the scope of regular and comprehensive audits, Group Quality Management examines the quality standards established by STADA 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.

In this context, the Group strives to secure, also in countries outside of the EU, EU quality standards for drugs, which often go beyond local requirements. The STADA Group’s non-EU-based production sites in Banja Luka, in the greater Ho Chi Minh City area, in Nizhny Novgorod, in Obninsk, in Sabac and in Vrsac are thus, at least partly, designed for the production of individual products for EU countries and have also been approved by the responsible EU supervisory authorities for this after local auditing.

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

Responsibility for compliance

It continues to be STADA’s expressed goal that all business processes and Group activities be carried out exclusively within the framework of the respectively valid laws. For this purpose, there are company-internal behavioral guidelines, which obligate all employees to behave in accordance with legal provisions as well as ethical principles and values. The Chief Compliance Officer of STADA Arzneimittel AG reports directly to the Executive Board, coordinates STADA’s compliance program and receives complaints and information – also anonymously. He or she is supported by the regional compliance officers. STADA’s existing compliance management system is regularly reviewed and further developed.

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

Continual personnel development

In the STADA Group, human resources work is seen as an essential factor influencing business success. STADA's employees are thus at the center of all considerations of success.

In view of this, the further development of employees in the Group is supported and promoted with training and advanced professional training. STADA offers various career training programs at a pharmaceutical level and in the areas of administration and warehouse logistics. In addition, young people can obtain their first insights into the processes of a pharmaceutical industrial company in the form of work placements. Further training for managers, foreign language support as well as specialized workshops and seminars support STADA employees and ensure up-to-date knowledge in the respective specialist areas.

Social responsibility

In order to meet the requirements of social responsibility and to cement these in the corporate principles, STADA also fulfills voluntary commitments.

An example of these is the code of conduct, which contains high ethical standards and demands respectful, fair and loyal behavior and views openness and tolerance as absolutely essential.

In numerous countries STADA supports – usually via the respective national subsidiaries – selected social and cultural projects, partly also with a sponsoring character.

Two projects in the domestic market Germany, which continue to be exemplary for STADA's social and cultural responsibility, are the main sponsorship of the non-profit association dolphin aid e.V. and the foundation professorship "health management" at the Hochschule Fresenius.

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

- Already in 2003, STADA Arzneimittel AG established the STADA foundation professorship "health management" at the Hochschule Fresenius in Idstein near Frankfurt am Main, Germany, in order to open up new, scientifically founded impulses for the discussion on cost optimization in the health care system. The foundation professorship, whose committed term runs into 2013, is aimed at the promotion of practice-related care research to optimize quality and efficiency in the health care system. One of its focuses is research into issues particularly related to the savings contribution via generics and their effect on the quality of patient care and patient satisfaction.

As a health care group, STADA is also heavily involved in the promotion of sports activities. The commitment of individual national STADA companies in this regard extends to activities in mass sports, disabled sports and professional sports.

Sustainability and environment

Already STADA's strategic positioning can be considered distinctly sustainable since Generics – which represents by far the larger of the Group's two core segments – contributes significantly to a more efficient health care and thus to a sustainably better utilization of resources in an area of life that is of vital importance for the population.

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

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

In the reporting year, for example, STADA set up a new car policy in Germany for an environmentally friendly vehicle fleet. The company cars are thus generally made up of consumption and emission optimized diesel models with the latest technology on the market. In addition to the positive effect of reducing fuel costs, STADA, as a company in the health care sector, thus also respects environmental requirements with regard to the vehicle fleet.

In consideration of environmental aspects, the new laboratory and office building at the Bad Vilbel location was also put into operation in financial year 2010. In connection with this project the responsibility for sustainability and ecological matters is expressed by means of the following concrete measures, among others:

- Compliance with the latest environmental standards, partly with no legal obligation, such as use of energy recovery technologies for air conditioning or the use of low-chromate concrete for pile foundations for improved protection of ground water;
- Creation of compensation areas in the form of green spaces, partially through initial planting, through the partial greening of rooftops as well as through participation in the ecology point system in the Wetterau region for the establishment of high-quality green spaces;
- Installation of an own facility for the neutralization of cleaning and laboratory water;
- Heating of the building with the most modern heating technology available in order to minimize consumption of fossil fuels;
- Use of external sun protection in order to reduce energy input and thus also the need for cooling.

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

Remuneration Report

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

Remuneration of the Executive Board

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

Revised Executive Board remuneration system

With regard to the newly formulated requirements on the Executive Board remuneration system in relation to the Law for the Appropriateness of Executive Board Remuneration (VorstAG), which is valid for Executive Board service contracts newly concluded, amended or adjusted after August 5, 2009, the Supervisory Board informed the Executive Board already at the end of 2009 that the existing Executive Board remuneration system was to be adjusted in financial year 2010.

Subsequently in financial year 2010, the Supervisory Board fundamentally revised the Executive Board remuneration system in line with the new VorstAG regulations, particularly Sections 87 and 93 of the German Stock Corporation Act (AktG).

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

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

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

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

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

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

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

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

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

The current Executive Board contracts of acting Executive Board members reflect this revised remuneration system. This does not include the Executive Board contract of Hartmut Retzlaff, still valid until August 31, 2011, as it was concluded before the VorstAG came into effect.[1)] The subsequent Executive Board contract of Hartmut Retzlaff, which is valid from September 1, 2011 to August 31, 2016, however, complies with the revised remuneration structure.

Within the concrete arrangement of these Executive Board contracts concluded in 2010 according to the revised remuneration system and developed with the support of an independent external remuneration expert, 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.

1) The Executive Board contract of Executive Board member Christof Schumann, who left the Company on July 31, 2010, also did not conform to the new remuneration structure because it was also concluded before the Law for the Appropriateness of Executive Board Remuneration came into effect.

Executive Board remuneration for financial year 2010:

The remuneration of the individual members of the Executive Board who were active for the Company in financial year 2010 are as follows.

- Hartmut Retzlaff: € 2,485,572.71 (thereof € 1,415,572.71 non-performance related including € 29,059.16 other remuneration and € 1,070,000.00 performance related) (previous year: € 2,798,799.53, thereof € 1,401,818.38 non-performance related including € 28,514.18 other remuneration and € 1,396.981.15 performance related)

- Helmut Kraft[1)]: € 939,393.54 (thereof € 609,182.85 non-performance related including € 38,542.75 other remuneration and € 330,210.69 performance related[2)])

- Dr. Axel Müller: € 337,777.87[3)] (thereof € 230,692.18 non-performance related including € 6,490.34 other remuneration and € 107,085.69 performance related[4)])

- Christof Schumann[5)]: € 783,691.70 (thereof € 783,691.70 non-performance related including € 16,649.93 other remuneration) (previous year: € 1,482,732.66, thereof € 778,992.09 non-performance related including € 16,612.37 other remuneration and € 703,740.57 performance related)

Commitments to members of the Executive Board

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

The Chairman of the Executive Board's current pension agreement contains commitments to an annual pension, which, depending on the duration of the Executive Board position, is calculated as a percentage of the basic remuneration in addition to a percentage of the variable remuneration, which was granted during the last five years before the beginning of pension payments, additionally taken into consideration. Payments from the pension commitments generally begin on request as pension payments after completion of the Executive Board contract, valid from September 1, 2011 to August 31, 2016, to the extent that it is not renewed or as disability pension if employment ends before this due to an occupational disability. The service cost in accordance with IFRS for the creation of provisions for benefit claims earned in financial year 2010 was € 940,997.00. The present value of the pension commitments in accordance with IFRS is € 22,583,922.00.

Regulations existing beyond that in the case of a transfer of control are found in the chapter "Disclosures in accordance with Section 315 (4) HGB" in this management report.

The contract of Executive Board member Christof Schumann, departed as of July 31, 2010, contained a provision for the full payment of all remuneration intended for the contract term as well as for the payment of a transitional allowance. According to this, in the case that Christof Schumann was removed as a member of the Executive Board before the end of the period of appointment, all entitlements to remuneration which were agreed on under the Executive Board contract for the period of appointment remained unaffected. If the Executive Board mandate of Christof Schumann ended before his reaching the age of 65 years, either because he is removed early or because he is not reappointed, a one-time transitional allowance in the amount of a fixed annual remuneration plus half of the previous year's bonus had been agreed. This one-time transitional allowance paid in 2010 amounted to a total of € 1,459,740.29.

1) Joined the Company effective January 1, 2010.
2) Thereof progress payment of variable long-term special remuneration € 43,750.00 on the basis of reaching the annual interim goal for financial year 2010.
3) For the period since joining the Company on September 16, 2010 to December 31, 2010.
4) Thereof progress payment of variable long-term special remuneration € 43,750.00 on the basis of reaching the annual interim goal for financial year 2010.
5) In financial year 2010, the Chief Production and Development Officer, Christof Schumann, left the Executive Board (see the Company's ad hoc releases from May 10, 2010 and July 26, 2010).

Other commitments

In the case of illness or accident, the Company will continue to pay the salary of the Chairman of the Executive Board. The amount of the continued payment, in the first year after the occurrence of either case, corresponds to a basic salary plus bonus and to a basic salary in the following two years.

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

In the context of a Group insurance, there exists a so-called D&O insurance for all three Executive Board members 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 2010 with regard to their position in the Executive Board in the reporting year.

Remuneration of the Supervisory Board

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

The remuneration system for the Supervisory Board is as follows pursuant to Article 18 of STADA Arzneimittel AG's Articles of Incorporation:

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

- an annual fixed sum of € 25,000,

- an additional remuneration in the amount of 0.03% of Group earnings before taxes.

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

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

In addition, value-added tax is payable on all Supervisory Board remuneration.

Remuneration of the Supervisory Board in financial year 2010

The remuneration of the individual members of the Supervisory Board who were active for the Company in financial year 2010 are as follows:

- Dr. Martin Abend € 204,793.34 (thereof € 105,000.00 non-performance related and € 99,793.34 performance related)
  (previous year: € 127,806.63, thereof € 55,623.29 non-performance related and € 72,183.34 performance related)

- Manfred Krüger € 126,528.89 (thereof € 60,000.00 non-performance related and € 66,528.89 performance related)
  (previous year[1]): € 78,463.28, thereof € 31,284.63 non-performance related and € 47,178.65 performance related)

- Dr. Eckhard Brüggemann € 58,264.45 (thereof € 25,000.00 non-performance related and € 33,264.45 performance related)
  (previous year[2]): € 174,639.23, thereof € 76,979.41 non-performance related and € 97,659.82 performance related)

- Heike Ebert € 58,264.45 (thereof € 25,000.00 non-performance related and € 33,264.45 performance related)
  (previous year: € 67,460.79, thereof € 25,000.00 non-performance related and € 42,460.79 performance related)

- Dr. K. F. Arnold Hertzsch € 58,264.45 (thereof € 25,000.00 non-performance related and € 33,264.45 performance related)
  (previous year: € 67,460.79, thereof € 25,000.00 non-performance related and € 42,460.79 performance related)

- Dieter Koch € 68,264.45 (thereof € 35,000.00 non-performance related and € 33,264.45 performance related)
  (previous year: € 70,967.64, thereof € 28,506.85 non-performance related and € 42,460.79 performance related)

- Constantin Meyer € 58,264.45 (thereof € 25,000.00 non-performance related and € 33,264.45 performance related)
  (previous year: € 67,460.79, thereof € 25,000.00 non-performance related and € 42,460.79 performance related)

- Carl Ferdinand Oetker € 78,264.45 (thereof € 45,000.00 non-performance related and € 33,264.45 performance related)
  (previous year[3]): € 9,958.06, thereof € 4,414.57 non-performance related and € 5,543.49 performance related)

- Karin Schöpper € 68,264.45 (thereof € 35,000.00 non-performance related and € 33,264.45 performance related)
  (previous year[1]): € 40,985.06 (thereof € 17,395.73 non-performance related and € 23,589.33 performance related)

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

Advisory Board remuneration

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

1) Member of the Supervisory Board since June 10, 2009.
2) Dr. Eckhard Brüggemann resigned his position as Chairman of the Supervisory Board on August 24, 2009.
3) Member of the Supervisory Board since November 13, 2009.

Capital Structure and STADA Share

Capital structure as of the balance sheet date

As of December 31, 2010, subscribed share capital of STADA Arzneimittel AG was at an amount of € 153,078,536[1] (December 31, 2009: € 153,009,532) consisting of 58,876,360[2] registered[3] shares with restricted transferability, each with an arithmetical share in share capital of € 2.60 (December 31, 2009: 58,849,820 registered shares). Changes from the previous year were based on the exercising of 1,327 warrants 2000/2015[4]. As of December 31, 2010, 175,693 warrants 2000/2015 for the subscription of 3,513,860 STADA registered shares were thus still outstanding.

In the first quarter of the current financial year 2011, another 95 warrants were exercised prior to the preparation of the financial statements by the Executive Board on March 14, 2011. The number of shares thereby rose by 1,900 to 58,878,260 and the share capital increased by € 4,940 to € 153,083,476[1]. As of March 14, 2011, 175,598 warrants 2000/2015 for the subscription of 3,511,960 STADA registered shares were thus still outstanding.

Equity structure of STADA Arzneimittel AG	Dec. 31, 2010	Dec. 31, 2009
Number of registered shares with restricted transferability	58,876,360	58,849,820
Number of outstanding warrants 2000/2015[3]	175,693	177,020
Number of potential shares from warrants 2000/2015[3]	3,513,860	3,540,400

Authorization to acquire and dispose of new shares

Due to the resolution adopted at the Annual General Meeting on June 10, 2009, the Company, in accordance with Section 71 (1) no. 8 of the German Stock Corporation Act (AktG), was authorized until December 10, 2010, to buy and dispose of own shares of up to 10% of the share capital existing at the time the resolution was adopted. The resolution strived for by the Executive Board and Supervisory Board at the Annual General Meeting on June 8, 2010, on the cancellation of this existing authorization and its replacement with a new authorization valid for 24 months, i.e. until June 8, 2012, found a majority, but not the necessary qualifying majority. The authorization to acquire and dispose of own shares thus ended on December 10, 2010. STADA made no use of this authorization.

Volatile price development of the STADA share

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

The price development of the STADA share was characterized by high volatility in 2010, the share price, however, stabilized toward the end of the year and increased slightly. The STADA share closed at € 29.17 on March 31, 2010, was listed at € 27.31 on June 30, 2010, and reached € 21.06 on September 30, 2010. At year-end 2010, the STADA share price was listed at € 25.38, while the 2009 year-end price was € 24.20. The STADA share thus increased by 5% in the course of 2010. Compared to the year's lowest price of € 20.70, it was 23% higher at the end of 2010.

1) Before deducting treasury shares.
2) After deducting treasury shares, 58,775,654 registered shares are entitled to vote.
3) 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.
4) The legally binding option terms and conditions are published on the Company website under www.stada.de and www.stada.com.

The recovery of the STADA share price continued to March 11, 2011, the last trading day before the preparation of the financial statements. The XETRA® closing price on March 11, 2011 of € 27.87 was 10% above the XETRA® closing price at the end of 2010.

The most important national comparative indices for STADA showed percentage-rate differences in their share price rises during the course of 2010. The German benchmark index DAX®[1] recorded an increase of 16% in 2010 compared to 2009. The MDAX®[2], of which the STADA share is part, saw an increase of 35% in the same period (respectively XETRA®[3] closing prices). The Bloomberg Pharmaceutical Index[4] increased by 5% in 2010 compared to 2009.

STADA's market capitalization at year-end 2010 was € 1.494 billion. At the previous year end it had been € 1.424 billion. Based on Deutsche Börse AG's index system, which only considers free float, STADA, in terms of market capitalization, occupied position 22 in the MDAX® in 2010. STADA had occupied position 15 in this category in the previous year.

The average daily volume of the STADA share in the trading volume at the XETRA® trading and the Frankfurt Stock Exchange amounted to a total of € 12.4 million in 2010. In 2009, the average trading volume per day of the STADA share had been € 10.4 million. Thus in trading volume based on Deutsche Börse AG's index system in 2010, STADA occupied position 11. In the previous year, STADA had occupied position 9 in this area.

STADA key share data	2010	Previous year
Number of shares (year-end)	58,876,360	58,849,820
Number of treasury shares (year-end)	100,706	103,555
Resulting number of voting shares (year-end)	58,775,654	58,746,265
Average number of shares (without treasury shares)	58,763,492	58,662,392
Year-end closing price (XETRA®) in €	25.38	24.20
High (XETRA® closing price) in €	32.10	26.36
Low (XETRA® closing price) in €	20.70	10.11
Market capitalization (XETRA®) in € million (year-end)	1,494.3	1,424.2
Earnings per share in €	1.16	1.71
Adjusted earnings per share in €	*2.27*	*1.97*
Diluted earnings per share in €	1.14	1.70
Adjusted diluted earnings per share in €	*2.22*	*1.96*
Dividend per share in €	0.37[5]	0.55

Continuing broadly based shareholder structure

As of December 31, 2010, a total of approx. 47,000 shareholders held share capital of STADA Arzneimittel AG. According to the results of continuous analyses of the Company's shareholder structure, STADA assumes that at least 54% of STADA's shares are held by institutional investors and that approx. 12% are held by pharmacists and doctors.

In 2010, STADA sold as part of the employee stock ownership program 2,849 treasury shares at an average price of € 24.11. As of December 31, 2010, 100,706 treasury shares were thus held by STADA, compared to 103,555 shares which the Company had held as of December 31, 2009.

1) DAX® is the index of Deutsche Börse AG, largely consisting of the 30 biggest companies by market capitalization and order book volume.
2) 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.
3) XETRA® is the electronic trading system of Deutsche Börse AG.
4) The Bloomberg Europe Pharmaceutical Index is a market capitalization-weighted index of all companies involved in the pharmaceutical sector of the Bloomberg Europe 500 Index and it also comprises the STADA share.
5) Proposed.

As of December 31, 2010, STADA assumes, in accordance with the announcements on exceeding or falling below reporting thresholds available to the Company, pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) that only SKAGEN AS, Stavanger, Norway, holds a stake that exceeds the legal reporting threshold of 3%.[1] In accordance with Deutsche Börse AG regulations, the free float of STADA Arzneimittel AG thus remains 100%.

In the first quarter of 2011, in accordance with Section 21 (1) of the German Securities Trading Act (WpHG), two announcements on exceeding one of the legal thresholds of shareholdings in STADA Arzneimittel AG had been made up to the adoption of the consolidated financial statements by the Executive Board on March 14, 2011. Firstly, Gryphon International Investment Corporation, Toronto/Ontario, Canada announced exceeding the legal threshold of 3%. 3.15% is attributable to Gryphon International Investment Corporation, Toronto/Ontario, Canada, and 0.05% to Gryphon Investment Counsel Inc., Toronto/Ontario, Canada.[2] In addition, BlackRock, Inc., New York, USA, BlackRock Holdco 2, Inc., Wilmington, USA, and BlackRock Financial Management, Inc., New York, USA, reported exceeding the legal threshold of 3%. In accordance with Section 22, Paragraph 1, Sentence 1, no. 6 combined with Sentence 2 of the WpHG, 3.24% is attributable to them.[3]

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

EARNINGS SITUATION

Development of Sales

Sales growth despite difficult framework conditions

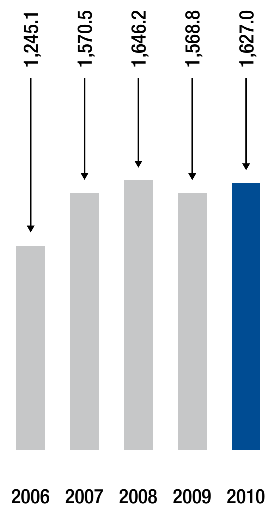
Despite difficult framework conditions in individual national markets – particularly in Serbia and Germany (see "Development of Segments – Information by Region"), Group sales increased in financial year 2010 by 4% to € 1,627.0 million (previous year: € 1,568.8 million).

When effects on sales attributable to changes in the Group portfolio and currency effects are taken into account, Group sales increased by 2% in the reporting year.

Portfolio changes contributed a total of € 21.5 million or 1.4 percentage points to sales growth in 2010. These related to the following:

- the acquisition of the branded product EUNOVA® Multi-Vitalstoffe Langzeit Kapseln – for sale through the German STADA subsidiary Hemopharm GmbH – as of November 13, 2009, sales contribution from January 1, 2010 to November 30, 2010: € 6.8 million.
- the purchase in Denmark of a portfolio of mainly branded products with eight pharmaceutical active ingredients as of January 15, 2010 and marketing since January 18, 2010, sales contribution from January 18, 2010 to December 31, 2010: € 2.0 million.
- purchase in Russia, as of November 18, 2009, of a package of five Russian branded products with a focus on the gynecology area of indication with sales contributions since April 1, 2010, sales contribution from April 1, 2010 to December 31, 2010: € 6.5 million.
- sales since August 1, 2010 with the transferred Dutch packaging unit in Etten-Leur, sales contribution from August 1, 2010 to December 31, 2010: € 6.2 million.

Group sales in € million over 5 years



The slightly positive currency effect achieved as a result of applying foreign exchange rates from the reporting year compared to the previous year for the translation of local sales contributions into the Group currency euro amounted to € 2.4 million in 2010 or 0.2 percentage points.

To the extent that adjusted sales figures are reported in this annual report, this refers to sales adjusted for the portfolio effects described above and currency fluctuations respectively.[1)]

Scheme for calculating the Group's adjusted sales growth

Previous year 2009		Reporting year 2010
STADA Group sales € 1,568.8 million	— +4% —>	STADA Group sales € 1,627.0 million
		⁒ Sales EUNOVA® Jan. 1 – Nov. 30, 2010
		⁒ Sales branded product portfolio in Denmark Jan. 18 – Dec. 31, 2010
		⁒ Sales branded product package in Russia Apr. 1 – Dec. 31, 2010
		⁒ Sales with transfered Dutch packaging unit Aug. 1 – Dec. 31, 2010
		± Sales change by applying the same, i.e. the previous year's exchange rates for both financial years
Base value for adjusted sales growth € 1,568.8 million	— +2% —>	Adjusted STADA Group sales € 1,603.1 million

1) The adjusted sales figures are pro forma key figures which are solely aimed at a more transparent year-on-year comparison.

In view of the difficult framework conditions, the Executive Board assesses STADA's sales development in financial year 2010 as positive overall.

Development of international sales

In **Europe**, the Group achieved sales growth of 3% to € 1,553.6 million in 2010 (previous year: € 1,501.0 million). STADA's sales in European markets thus contributed 95.5% to Group sales (previous year: 95.7%). Adjusted sales in European markets increased by 2%.

In **Western Europe**, sales rose by 4% to € 1,148.1 million in the reporting year (previous year: € 1,108.1 million). STADA's sales in Western European countries thus amounted to a 70.6% share (previous year: 70.6%) of Group sales. Adjusted sales in Western Europe increased by 2%. In Western European markets, decreased sales in Germany in particular had a noticeable curbing effect (see "Development of Segments – Information by Region – Germany").

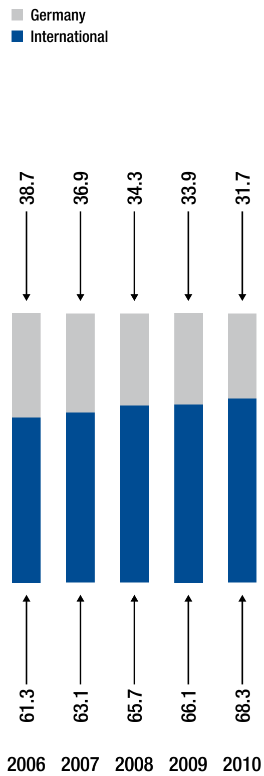
In **Eastern Europe**[1], the Group recorded a sales plus of 3% to € 405.5 million in 2010 (previous year: € 392.9 million). Sales generated by STADA in Eastern European markets thus had a share of 24.9% of Group sales (previous year: 25.0%). Adjusted sales in Eastern Europe increased by 2%. The curbed sales development in the Eastern European markets was predominantly characterized by the difficult situation in Serbia, which affected all market participants there (see "Development of Segments – Information by Region – Serbia"). Adjusted for the development in Serbia, sales in Eastern Europe increased by 12%.

In **Asia**, STADA's sales rose by 12% to € 51.4 million in the reporting year (previous year: € 45.9 million). STADA's sales in the Asian countries thus contributed 3.2% (previous year: 2.9%) to Group sales. Adjusted sales in Asia increased by 7%.

In the **rest of the world,** Group sales were at the level of the previous year and amounted to € 22.0 million in financial year 2010 (previous year: € 21.9 million). STADA's sales in the rest of the world thus had a share of 1.4% in Group sales (previous year: 1.4%). Adjusted sales in the rest of the world were also at the level of the previous year.

The sales development in national markets significant for STADA is described in more detail in the context of the reporting on regional developments (see "Development of Segments – Information by Region").

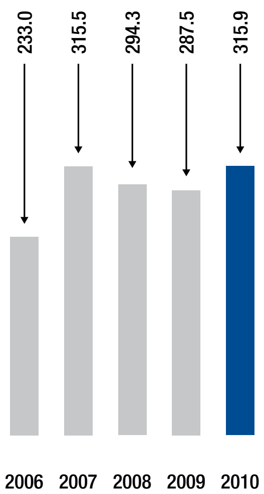
Sales share Germany vs. international sales as % of Group sales



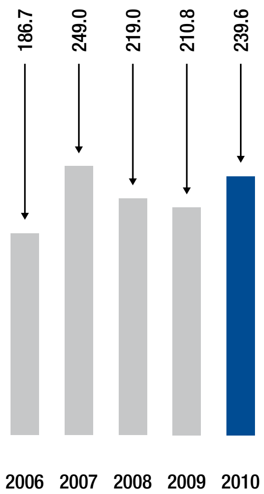
1) So-called CEE countries (Central and Eastern Europe) including Russia.

Development of Earnings and Costs

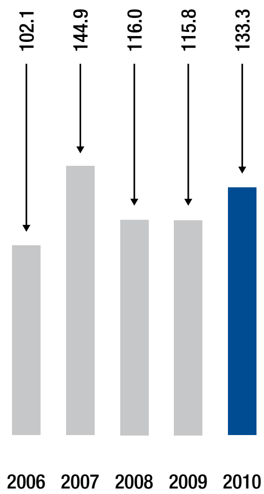
Adjusted EBITDA in € million



Adjusted EBIT in € million



Adjusted net income in € million



Increase in all operational key earnings figures

The key earnings figures of the STADA Group decreased in the reporting year, in view of the difficult environment in individual national markets as well as high one-time special effects, primarily due to value adjustments on receivables as a result of liquidity problems on the part of Serbian wholesalers and expenses in connection with the "STADA – build the future" project (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'"); operationally, however, i.e. excluding one-time special effects, all were above the key earnings figures of the previous year.

Operating profit decreased in financial year 2010 by 16% to € 161.8 million (previous year: € 191.9 million). **Net income** declined by 32% to € 68.4 million in 2010 (previous year: € 100.4 million). **Earnings before interest, taxes, depreciation and amortization (EBITDA)** recorded a decrease of 4% to € 268.8 million in the reporting year (previous year: € 280.1 million).

After adjusting the key earnings figures for influences distorting the year-on-year comparison resulting from one-time special effects and non-operational effects from currency influences and interest rate hedge transactions, **adjusted operating profit** increased in financial year 2010 by 13% to € 239.3 million (previous year: € 211.1 million). **Adjusted net income** rose by 15% to € 133.3 million in 2010 (previous year: € 115.8 million). **Adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA)** recorded an increase of 10% to € 315.9 million in the reporting year (previous year: € 287.5 million) and thus reached its highest value in the Company's history.

The adjustments made to these key earnings figures in order to better compare the reporting year with the previous year were as follows in 2010:[1)]

Influence on earnings due to one-time special effects

One-time special effects in the reporting year added up to a burden on earnings in a total of € 79.9 million before or € 66.7 million after taxes (previous year: net burden on earnings due to one-time special effects in the amount of € 17.3 million before or € 12.5 million after taxes).

In detail, these were as follows:

- a burden in the amount of € 34.2 million before or € 30.8 million after taxes primarily from value adjustments on receivables as a result of liquidity problems on the part of Serbian wholesalers, incurred until the start of the restructuring measures at the end of the third quarter 2010 (see "Development of Segments – Information by Region – Serbia")
- a net burden in the amount of € 20.8 million before or € 15.9 million after taxes for value adjustments particularly on intangible assets after impairment tests
- a burden in the amount of € 16.2 million before or € 13.7 million after taxes due to expenses in connection with the "STADA – build the future" project[2)] (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'")
- a burden in the amount of € 5.4 million before or € 3.9 million after taxes as a result of expenses due to the suspension of the biosimilar project for the development of monoclonal antibodies (see "Business and General Conditions – Product Development")
- a burden in the amount of € 2.1 million before or € 1.5 million after taxes for unscheduled personnel expenses due to management changes at STADA subsidiaries
- a burden in the amount of € 1.2 million before or € 0.9 million after taxes as a result of expenses in connection with the recall of products with the active ingredient Bufexamac (see "Development of Segments – Information by Region – Germany")

Influence on earnings due to non-operational effects from currency influences and interest rate hedge transactions

Non-operational effects from currency influences and interest rate hedge transactions added up to a relief on earnings in financial year 2010 in the total amount of € 2.7 million before or € 1.9 million after taxes (previous year: net burden on earnings due to non-operational effects from currency influences and interest rate hedge transactions in the amount of € 4.2 million before or € 2.8 million after taxes).

In detail, these related to the following:

- a net relief on earnings due to currency influences in the form of currency translation income of a Russian subsidiary in connection with loans that have since already been repaid, from an earlier acquisition financing in the amount of € 2.4 million before or € 1.7 million after taxes (reported under the item "Other income"). It must be taken into consideration here that after adjusting the refinancing structures, there is no longer any significant risk of non-operational effects from currency influences since the second quarter of 2010.
- a relief on earnings from the valuation of interest rate hedge transactions in the Group in the amount of € 0.3 million before or € 0.2 million after taxes (reported under the items "Financial income" and "Financial expenses").[3)]

1) The deduction of such effects which have an impact on the presentation of STADA's earnings situation and the derived key figures aims at improving the comparability of key figures with previous years. To achieve this, STADA uses adjusted key figures, which, as so called pro forma figures, are not governed by the accounting requirements in accordance with IFRS. As other companies may not calculate the pro forma figures presented by STADA in the same way, STADA's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.
2) In connection with this project, the Supervisory Board decided not to extend the Executive Board contract of Christof Schumann past December 31, 2010. A burdening provision, recognized as a one-time special effect of € 1.8 million was made for this.

3) In the first quarter of 2010, an interest rate swap of a Russian subsidiary which also included a compensation payment based on the currency relation ruble/euro, expired without a substantial burden on the financial result in financial year 2010.

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.

In the charts below, further essential key earnings figures of the STADA Group as well as the resulting margins are reported unadjusted and adjusted for the aforementioned one-time special effects as well as non-operational effects from currency influences and interest rate hedge transactions for financial year 2010 and the previous year to allow for comparison.

Development of the STADA Group's key earnings figures

in € million	2010	2009	± %	Margin[1] 2010	Margin[1] 2009
Operating profit	161.8	191.9	-16%	9.9%	12.2%
• Operating segment result Generics	145.9	156.3	-7%	13.0%	14.0%
• Operating segment result Branded Products	83.7	74.9	+12%	19.7%	19.1%
EBITDA[2]	268.8	280.1	-4%	16.5%	17.9%
EBIT[3]	162.1	192.5	-16%	10.0%	12.3%
EBT[4]	109.0	141.5	-23%	6.7%	9.0%
Net income	68.4	100.4	-32%	4.2%	6.4%
Earnings per share in €	1.16	1.71	-32%		
Diluted earnings per share in €	1.14	1.70	-33%		

Development of the STADA Group's adjusted[5] key earnings figures

in € million	*2010*	*2009*	*± %*	*Margin[1] 2010*	*Margin[1] 2009*
Operating profit, adjusted	*239.3*	*211.1*	*+13%*	*14.6%*	*13.4%*
• *Operating segment result Generics, adjusted*	*181.6*	*159.4*	*+14%*	*16.2%*	*14.3%*
• *Operating segment result Branded Products, adjusted*	*100.7*	*79.5*	*+27%*	*23.7%*	*20.2%*
EBITDA[2], adjusted	*315.9*	*287.5*	*+10%*	*19.3%*	*18.3%*
EBIT[3], adjusted	*239.6*	*210.8*	*+14%*	*14.7%*	*13.4%*
EBT[4], adjusted	*186.2*	*163.0*	*+14%*	*11.4%*	*10.4%*
Net income, adjusted	*133.3*	*115.8*	*+15%*	*8.2%*	*7.4%*
Earnings per share in €, adjusted	*2.27*	*1.97*	*+15%*		
Diluted earnings per share in €, adjusted	*2.22*	*1.96*	*+13%*		

1) Related to relevant Group sales.
2) Earnings before interest, taxes, depreciation and amortization.
3) Earnings before interest and taxes.
4) Earnings before taxes.
5) Adjusted for one-time special effects and non-operational effects from currency influences and interest rate hedge transactions.

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.

Income statement (abridged) in € 000s	2010 without deduction of effects to be adjusted	2010 effects to be adjusted	2010 after deduction of effects to be adjusted	2009 without deduction of effects to be adjusted	2009 effects to be adjusted	2009 after deduction of effects to be adjusted
Sales	1,626,976	7,504[1)2)]	*1,634,480*	1,568,779	1,389[8)]	*1,570,168*
Cost of sales	862,808	619[1)]	*862,189*	845,390	-	*845,390*
Gross profit	**764,168**	**8,123**	***772,291***	**723,389**	**1,389**	***724,778***
Selling expenses	375,462	29[1)]	*375,433*	346,084	-	*346,084*
General and administrative expenses	125,327	-	*125,327*	122,720	-	*122,720*
Research and development expenses	54,911	5,545[1)3)]	*49,366*	46,648	-	*46,648*
Other income	40,386	-3,434[4)]	*36,952*	33,442	-10,648[9)]	*22,794*
Other expenses	70,879	51,047[2)5)]	*19,832*	47,219	26,195[10)]	*21,024*
Expenses in connection with the "STADA – build the future" project	16,176	16,176[6)]	-	2,243	2,243[11)]	-
Operating profit	**161,799**	**77,486**	***239,285***	**191,917**	**19,179**	***211,096***
Result from associated companies	128	-	*128*	-287	-	*-287*
Investment income	162	-	*162*	831	-808[12)]	*23*
Earnings before interest and taxes (EBIT)	**162,089**	**77,486**	***239,575***	**192,461**	**18,371**	***210,832***
Financial income	3,818	-480[7)]	*3,338*	10,930	-6,883[13)]	*4,047*
Financial expenses	56,860	166[7)]	*56,694*	61,855	9,971[13)]	*51,884*
EBT (Earnings before taxes)	**109,047**	**77,172**	***186,219***	**141,536**	**21,459**	***162,995***
Taxes on income	40,477	-12,342	*52,819*	40,788	-6,146	*46,934*
Earnings after taxes	**68,570**	**64,830**	***133,400***	**100,748**	**15,313**	***116,061***
Result attributable to non-controlling interests	138	-	*138*	311	-	*311*
Result distributable to shareholders of STADA Arzneimittel AG (net income)	**68,432**	**64,830**	***133,262***	**100,437**	**15,313**	***115,750***
Earnings per share in €	1.16		*2.27*	1.71		*1.97*
Earnings per share in € (diluted)	1.14		*2.22*	1.70		*1.96*
EBIT	**162,089**	**77,486**	***239,575***	**192,461**	**18,371**	**210,832**
Balance from depreciation and amortization/write-ups on intangible assets (including goodwill), property, plant and equipment and financial assets	106,742	-30,427	*76,315*	87,640	-10,992	*76,648*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**268,831**	**47,059**	***315,890***	**280,101**	**7,379**	***287,480***

1) Expenses in connection with the recall of products with the active ingredient Bufexamac.
2) Expenses in connection with liquidity problems on the part of Serbian wholesalers.
3) Expenses in connection with the suspension of the biosimilar project for the development of monoclonal antibodies.
4) Write-ups in the context of impairment tests on intangible assets; currency translation income from a Russian subsidiary in connection with loans from an earlier acquisition financing that have since already been paid off.
5) Unscheduled personnel expenses due to management changes at STADA subsidiaries; value adjustments on intangible assets in particular after impairment tests.
6) Expenses for the strategic and structural positioning of the Group in connection with the "STADA – build the future" project.
7) Result from the valuation of interest rate hedge transactions.
8) Adjustments of provisions with a one-time character or outside of the reporting period for payments to health insurance organizations due to discount agreements concluded.
9) Reversal of provisions in connection with the negative patent decision relating to the active pharmaceutical ingredient Olanzapine; book profit from the sale of the 51% share in Health Vision Enterprise; write-ups on intangible assets; income outside of the reporting period in connection with the transfer of bank charges; successful sale of a commission business of Britannia Pharmaceuticals; reduction of value adjustments on receivables in various CEE countries.
10) Personnel expenses in connection with changes in the Group Executive Board and the merger of locations in the United Kingdom; expenses value adjustments on receivables in various CEE countries; write-downs due to impairment tests on intangible assets, currency translation expenses of a Russian subsidiary.
11) External consultancy services on strategic and structural positioning of the Group in connection with the "STADA – build the future" project.
12) Dividend income of a non-consolidated investment.
13) Result from the valuation of interest rate hedge transactions.

Cost of sales amounted to € 862.8 million in 2010 (previous year: € 845.4 million). **Gross profit** i.e. sales after deducting cost of sales thus amounted to € 764.2 million in the reporting year (previous year: € 723.4 million).

Cost of sales remains by far the largest cost item in the Group. Against this backdrop, STADA, in the scope of ongoing cost optimization, will continue to concentrate on this item and all associated sub-areas such as procurement costs of the active pharmaceutical ingredients and auxiliary materials as well as the costs which can be allocated to pharmaceutical production (see “Business and General Conditions – Procurement and Production”).

The **cost of sales ratio**, i.e. the share of cost of sales in relation to sales, was 53.0% (previous year: 53.9%) in financial year 2010. The sales-related **gross margin**, which is reciprocal to the cost of sales ratio, thus increased in the reporting year to 47.0% (previous year: 46.1%).

Due to the price erosion that is intrinsically associated with the business model, the Executive Board continues to expect that the cost of sales ratio and gross margin will remain under pressure in the long-term (see “Earnings Situation – Development of Sales”). In addition, these two items will also continue to be burdened by the further increase of so-called volume business. Based on such volume business however and the associated price reductions, STADA expects a considerable increase in sales volume in connection with a higher utilization of capacities, so that still acceptable profit contributions should be achieved overall. A classic example of volume business are the discount agreements in the German generics market that were also concluded in financial year 2010 (see “Development of Segments – Information by Region – Germany”). STADA generally counteracts the lasting margin pressure in the individual national markets through continuous cost optimization and through the Group-wide efficiency improvement program “STADA – build the future”, which is currently being implemented (see “Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in ‘STADA – build the future’”).

Selling expenses, which at STADA are predominantly composed of costs for employees working in the sales force and in sales departments as well as product-related marketing expenditure, increased in the reporting year to € 375.5 million (previous year: € 346.1 million). The selling expenses ratio in the same period amounted to 23.1% (previous year: 22.1%).

Overall, the Executive Board expects a slight decrease in the selling expenses ratio in the next few years, as the further expansion of the product portfolio will not result in any significant increase in sales activities, in particular, of the sales force. In addition, a reduction in sales expenses may occur in markets in which the number of low-margin volume transactions significantly increases.

General and administrative expenses amounted to € 125.3 million in financial year 2010 (previous year: € 122.7 million) and thus had a share in Group sales of 7.7% (previous year: 7.8%).

Research and development costs amounted to € 54.9 million in 2010 (previous year: € 46.6 million). The sales related ratio of research and development costs amounted to 3.4% (previous year: 3.0%). In financial year 2010, the research and development costs included expenses in connection with the suspension of the project to develop monoclonal antibodies in the amount of € 5.4 million, which were recognized as a one-time special effect (see “Business and General Conditions – Product Development”).

The development costs reported in STADA’s income statement include the non-capitalizable development costs which result primarily in connection with regulatory requirements and the optimization of existing products. Payments in connection with the development of new products are, in contrast, usually capitalized by STADA (see “Notes to the Consolidated Financial Statements – 15.”).[1] For this reason they are not included in this cost item.

Other income grew in the reporting year to € 40.4 million (previous year: € 33.4 million).

1) In financial year 2010, development costs for new products in the amount of € 13.3 million (previous year: € 14.8 million) were capitalized.

As the largest individual item, net currency translation income in the amount of € 10.0 million had the highest share here. In the previous year, there were net currency translation expenses, which were recognized under other expenses.

Other income in financial year 2010 also included income from one-time special effects. This relates to income from write-ups on intangible assets in the context of impairment tests as well as currency translation income in connection with loans from a previous acquisition financing that have since been paid off.

Other expenses increased in 2010 to € 70.9 million in 2010 (previous year: € 47.2 million).

In the previous year, this item included net currency translation expenses in the total amount of € 4.1 million.

Furthermore, this item included burdening expenses from various one-time special effects, which can be broken down as follows: value adjustments on receivables as a result of liquidity problems on the part of Serbian wholesalers in the amount of € 23.2 million, impairment losses on intangible assets and financial assets in the context of impairment tests in the amount of € 25.8 million, as well as unscheduled personnel expenses due to management changes at STADA subsidiaries in the amount of € 2.1 million.

The **financial result** which consists primarily of financial income and financial expenses, amounted to € -52.8 million in financial year 2010 (previous year: € -50.4 million). The largest operative-related individual item here continues to be interest expenses, which amounted in the reporting year to € 56.7 million (previous year: € 51.9 million).

On the balance sheet date, the weighted average interest rate for all of the Group's financial liabilities amounted to approx. 5.5% p.a. (previous year: approx. 3.8% p.a.). This increase was primarily based on the conversion of a euro loan in Russia to ruble, in order to minimize the Group's currency risk. The greater share of the financial liabilities continues to be financed on a long-term basis (see "Financial Situation"). In view of these longer-term financing shares, the Executive Board expects only a slight change of the weighted average interest rate in the STADA Group for financial year 2011, insofar as, fundamentally, no substantial changes are undertaken in the existing financing structure.

In financial year 2010, the Group refinanced itself at interest rates between 1.0% p.a. and 19.2% p.a. (previous year: between 1.1% p.a. and 11.0% p.a.). This also included financing via a corporate bond with an interest rate of 4.00% p.a., with which STADA was able to improve the maturity structure of the Group's liabilities (see "Financial Situation – Overview"). As of December 31, 2010, the weighted average interest rate for non-current financial liabilities was approx. 5.1% p.a. (previous year: approx. 4.5% p.a.) and for current financial liabilities approx. 7.0% p.a. (previous year: approx. 3.0% p.a.).

Taxes on income decreased in the reporting year to € 40.5 million (previous year: € 40.8 million) so that the tax rate was at 37.1% (previous year: 28.8%).

This increase is due, among other things, to a structurally changed regional profit allocation and the reduced tax deductibility of special effects. The Executive Board expects the tax rate to decrease again in the coming years.

In 2010, the tax rate – as in the previous two years – was burdened by the tax rules with regard to operating expenditures for interest expenses at corporate bodies effective in Germany. This so-called interest barrier provides that the net interest cost of a corporate body is only deductible up to an amount of 30% of the EBITDA stated for tax purposes in Germany. In view of high one-time special effects, among other things, the tax-relevant EBITDA decreased so much in financial year 2010, that it led to the non-deductibility of net interest costs in the amount of € 14.3 million (previous year: € 16.3 million) as well as to a corresponding additional tax burden of approx. € 3.4 million (previous year: approx. € 3.9 million).

Dividend

The Executive Board proposes to the Supervisory Board that they recommend to the next Annual General Meeting on June 16, 2011, to plan for a distribution ratio for financial year 2010 unchanged from the previous year of approx. 32% of net income. This corresponds to a dividend proposal of € 0.37 (previous year: € 0.55) per STADA common share.[1) 2)] The proposed total dividend payments amount to € 21.7 million (previous year: € 32.3 million). With this proposed resolution, the Executive Board aims to give shareholders a share in net income, without placing too great a restriction on the Group's financial flexibility for further growth.

The number of shares entitled to a dividend at the year-end 2010 in comparison to the year-end 2009 increased slightly to 58,775,654 shares due to the conversion of STADA warrants 2000/2015 as well as the reduction in treasury shares (see "Financial Situation" as well as "Notes to the Consolidated Financial Statements – 34."). In addition, STADA also held 100,706 treasury shares not entitled to a dividend in the reporting year.

1) See the Company's ad hoc release of February 28, 2011.
2) Proposed dividend ratio in terms of unappropriated retained earnings of STADA Arzneimittel AG approx. 90% (previous year: approx. 99%).

FINANCIAL SITUATION

Overview

Good Financial Situation

The STADA Group’s financial position continues to be good in the view of the Executive Board. This estimation can be recognized – as a supplement to the assessment of the individual items reported in the cash flow statement as well as in the balance sheet (see “Financial Situation – Cash Flow” as well as “Financial Situation – Development of the Balance Sheet”) – by means of various derived key figures.

The Group’s **equity-to-assets ratio** on December 31, 2010 was 34.6% (December 31, 2009: 35.5%). The figure thereby remains clearly above the minimum ratio targeted by the Executive Board.

Cash flow from operating activities amounted to € 194.8 million in the reporting year (previous year: € 250.5 million). **Free cash flow** of € 102.4 million in financial year 2010 was € 41.7 million below the previous year. The **free cash flow adjusted** for payments for acquisitions and proceeds from disposals amounted to € 135.0 million in 2010 (previous year’s free cash flow adjusted for payments for acquisitions and proceeds from disposals as well as influences from other accounting periods[1)]: € 169.4 million) (see respectively “Financial Situation – Cash Flow”).

The Group’s **liquidity** was guaranteed at all times in financial year 2010. For this purpose, a liquidity reserve in form of credit lines and, if required, cash is set aside. As of the balance sheet date, the short-term credit lines of STADA Arzneimittel AG were not utilized.

Net debt fell to € 864.1 million as of December 31, 2010 (December 31, 2009: € 899.0 million). It continues to be financed to a significant extent via long-term promissory notes with maturities in the area of 2012–2015 to a total amount of € 329.5 million as of December 31, 2010 as well as via a corporate bond. A large tranche of these short-term promissory notes of approx. € 186.0 million will reach maturity in the fourth quarter of the current financial year 2011.

With a view to STADA’s substantial borrowings, the Group continued carrying out factoring transactions to a significant extent in the reporting year.

In view of the targeted optimization of the long-term refinancing structure to increase liquidity security, STADA placed a corporate bond with a volume of € 350 million in the second quarter of 2010. The bond has a term of five years with an interest rate of 4.00% per year. The issue price was 99.987%. The denomination amounts to € 1,000. The proceeds from the issue serve general business purposes.

The weighted average interest rate for utilized credit lines rose according to expectations in 2010 and stood at approx. 5.5% as of December 31, 2010 (December 31, 2009: approx. 3.8%). The Executive Board expects only a slight change of the weighted average interest rate in the STADA Group for financial year 2011, insofar as, fundamentally, no substantial changes are undertaken in the existing financing structure.

1) Utilization of provisions from 2008 as a consequence of the negative patent decision in Germany in connection with the active pharmaceutical ingredient Olanzapine.

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

Remaining maturities of financial liabilities due to banks as of Dec. 31, 2010 in € million	< 1 year	1–3 years	3–5 years	> 5 years	Total	thereof as of Dec. 31, 2010 >1 year in %
Promissory notes	186.0	279.0	50.5	-	515.5	64%
Bond	-	-	350.0	-	350.0	100%
Amounts due to banks	95.7	58.8	19.7	23.6	197.8	52%
Total	**281.7**	**337.8**	**420.2**	**23.6**	**1,063.3**	**74%**

Indeed, liabilities to banks can still generally 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 those credit lines have a partly longstanding history.

The **net debt to adjusted EBITDA ratio** decreased to 2.7 in 2010 (previous year: 3.1) and was thus significantly below the maximum value of 3 strived for by the Executive Board.

Appropriate capital measures continue to be imaginable for the Executive Board for larger projects such as, for example, acquisitions or cooperations with capital investments if the burden on the equity-to-assets ratio from such acquisitions or cooperations is too high.

Further derivable key figures on the STADA Group's financial situation for the financial year 2010 were as follows:

- **First-class liquidity:** 28% (previous year: 18%)
  = (cash and cash equivalents + current securities) / current liabilities

- **Second-class liquidity:** 103% (previous year: 75%)
  = (cash and cash equivalents + current securities + current trade receivables
  + other current assets) / current liabilities

- **Third-class liquidity:** 157% (previous year: 118%)
  = current assets / current liabilities

- **Net working capital:** € 601.5 million (previous year: € 562.9 million)
  = inventories + current trade receivables ⁒ current trade payables

- **Capital employed:** € 1,764.5 million (previous year: € 1,792.1 million)
  = shareholders' equity + non-current provisions + net debt

From the Executive Board's perspective, the key figures presented in this overview reflect the Group's continued good financial position.

Cash Flow

Cash flow statement (abridged) in € 000s	2010	2009
Cash flow from operating activities	194,750	250,496
Cash flow from investing activities	-92,399	-106,483
Free cash flow	**102,351**	**144,013**
Influences from outside of the reporting period	-	10,700
Free cash flow (adjusted for influences from outside of the reporting period)	**102,351**	**154,713**
Cash flow from financing activities	-59,364	-95,760
Non-cash changes in cash and cash equivalents	-821	-1,796
Cash flow	**42,166**	**46,457**

Cash flow from operating activities in the reporting year amounted to € 194.8 million (previous year: € 250.5 million). The continuing difficult market environment in Serbia primarily contributed to this development in 2010. For financial year 2011, STADA aims to once again increase cash flow from operating activities.

For **cash flow from investing activities**, net cash outflows of € 92.4 million occurred in 2010 (previous year: net cash outflow of € 106.5 million).

Of this the Group spent for **acquisitions** – for both the acquisition of consolidated companies as well as for product purchases, i.e. for investments in intangible assets for the short-term expansion of the product portfolio (generally in the reporting year) – in 2010 a total of € 33.3 million (previous year: € 36.4 million) (see “Business and General Conditions – Acquisitions and Disposals”).

In addition, in cash flow from investing activities, an inflow of cash and cash equivalents due to **disposals** in the total amount of € 4.7 million (previous year: € 27.3 million) arose in financial year 2010.

Investments in other intangible assets, i.e. investments in intangible assets in the context of the ongoing operating business and therefore without consideration of acquisition, cooperation or disposal projects, in the amount of € 32.2 million (previous year: € 46.4 million) mainly included payments for the mid and long-term expansion of the product portfolio in the course of the acquisition of approvals or approval dossiers.

Overall, the future development of cash flow from investing activities with respect to total intangible assets depends in particular on individual decisions on existing acquisition, cooperation and disposal projects.

Regarding investments in other intangible assets to support organic growth in the context of the operating business, STADA expects investments of an amount similar to 2010 in the coming years.

Payments for investments in property, plant and equipment amounted to € 30.7 million in the reporting year (previous year: € 50.8 million).

A focus of property, plant and equipment investments in financial year 2010 was the investment in production facilities and production sites in the total amount of € 20.7 million (previous year: € 24.1 million) (see “Business and General Conditions – Procurement and Production”). STADA also expects significant annual investments of at least an amount similar to 2010 for this cash flow item in the future.

In addition, investments in property, plant and equipment in the reporting year also included payments for the new construction of laboratory and office space in a Group-owned site at the Bad Vilbel location. Of the total investments planned for this of up to € 15 million, investments of € 1.9 million were incurred in financial year 2010. In total, capitalizations in the amount of € 13.4 million were thus recognized for this new building.

For 2011 and 2012, further investments in property, plant and equipment for the maintenance and expansion of existing locations are planned. For example, in the current financial year 2011, investments in the amount of approx. € 5.0 million for the expansion of production facilities are planned at the Vrsac location and investments in the amount of approx. € 2.5 million at the Bad Vilbel location, in addition to the annual investments in plant equipment and infrastructure, for the refurbishment of and expansion of laboratory office capacities.

Payments for investments in financial assets were € 0.9 million in 2010 (previous year: € 0.1 million).

The further development of this cash flow item continues to depend on individual decisions on current investment projects.

Cash flow from financing activities amounted to € -59.4 million in the reporting year (previous year: € -95.8 million).

From the conversion of STADA warrants to shares, the Group generated an inflow from a capital increase in 2010 in the amount of € 0.4 million (previous year: € 1.5 million) (see “Notes to the Consolidated Financial Statements – 34.”).

In total, cash flow for financial year 2010, net of all inflows and outflows of cash and cash equivalents, amounted to € 42.2 million (previous year: € 46.5 million).

Free cash flow, i.e. cash flow from current business activities plus cash flow from investing activities, amounted to € 102.4 million in the reporting year (previous year: € 144.0 million). **Free cash flow adjusted** for payments for acquisitions and proceeds from disposals in 2010 was € 135.0 million (previous year adjusted for payments for acquisitions and proceeds from disposals as well as influences outside of the reporting period[1)]: € 169.4 million). Thus, also for 2010, it is evident that the Group can continue to finance the operating business, i.e. without acquisitions, through the self-generated cash flow.

In the view of the Executive Board, the development of the cash flow in 2010 indicates an unchanged stable financial situation for the Group.

1) Utilization of provisions from 2008 as a consequence of the negative patent decision for STADA in Germany in connection with the active pharmaceutical ingredient Olanzapine.

Development of the Balance Sheet

Balance sheet (abridged) Assets	Dec. 31, 2010 in € 000s	Dec. 31, 2010 in %	Dec. 31, 2009 in € 000s	Dec. 31, 2009 in %
Non-current assets	**1,381,450**	**55.1%**	**1,406,574**	**57.4%**
Intangible assets	985,952	39.3%	1,000,087	40.8%
Property, plant and equipment	297,968	11.9%	309,033	12.6%
Other assets	97,530	3.9%	97,454	4.0%
Current assets	**1,125,283**	**44.9%**	**1,045,155**	**42.6%**
Inventories	386,088	15.4%	374,983	15.3%
Trade accounts receivable	448,946	17.9%	419,435	17.1%
Other assets	91,147	3.7%	93,801	3.8%
Cash and cash equivalents	199,102	7.9%	156,936	6.4%
Total assets	**2,506,733**	**100.0%**	**2,451,729**	**100.0%**

Equity and liabilities	Dec. 31, 2010 in € 000s	Dec. 31, 2010 in %	Dec. 31, 2009 in € 000s	Dec. 31, 2009 in %
Equity	**868,489**	**34.6%**	**869,677**	**35.5%**
Long-term borrowed capital	**909,754**	**36.3%**	**683,539**	**27.9%**
Other non-current provisions	31,889	1.3%	23,490	1.0%
Financial liabilities	781,627	31.2%	565,326	23.0%
Other liabilities	96,238	3.8%	94,723	3.9%
Short-term borrowed capital	**728,490**	**29.1%**	**898,513**	**36.6%**
Other provisions	9,735	0.4%	10,490	0.4%
Financial liabilities	281,685	11.2%	490,951	20.0%
Trade accounts payable	233,503	9.3%	231,511	9.4%
Other liabilities	203,567	8.2%	165,561	6.8%
Total equity and liabilities	**2,506,733**	**100.0%**	**2,451,729**	**100.0%**

The **balance sheet total** increased as of December 31, 2010 to € 2,506.7 million (December 31, 2009: € 2,451.7 million).

Intangible assets, primarily due to scheduled amortization and impairment, fell to a total of € 986.0 million as of the balance sheet date (December 31, 2009: € 1,000.1 million). The amount of this balance sheet item continues to be attributable to the Group’s long-term active expansion policy with corresponding investments in the acquisition of companies and products including brands and licenses as well as in the area of product development for the acquisition of dossiers and approvals. In addition, in 2010, development costs in the amount of € 13.5 million (December 31, 2009: € 14.9 million) were capitalized as internally-created intangible assets (see “Notes to the Consolidated Financial Statements – 24.”).

In accordance with IFRS, the intrinsic value of the assets is checked at least once a year – within the STADA Group in the fourth quarter – but also when necessary event-related through **impairment tests**. In this context, both impairment losses and impairment gains on intangible assets occurred in the reporting year, which resulted in a net burden on earnings of € 20.6 million (previous year: € 11.0 million) (see “Earnings Situation – Development of Earnings and Costs”).

Property, plant and equipment decreased to € 298.0 million as of December 31, 2010 (December 31, 2009: € 309.0 million). This reduction was primarily due to the transfer of the Dutch packaging unit as well as translation effects as a result of the deprecation of the Serbian dinar (see "Financial Situation – Cash Flow").

Other assets comprise 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, 2010 to € 14.4 million (December 31, 2009: € 19.6 million) and included € 14.4 million for shares in associated companies and other investments classified as financial assets available for sale. As before, STADA is currently not planning any sale of these financial assets available for sale.

Shares in associated companies in the amount of € 17.3 million as of December 31, 2010 (December 31, 2009: € 7.2 million) related to the accounting of shares in BIOCEUTICALS Arzneimittel AG as well as the shares in Pymepharco Joint Stock Company (see "Business and General Conditions – Product Development", "Earnings Situation – Development of Earnings and Costs" as well as "Notes to the Consolidated Financial Statements – 18. and 27."). BIOCEUTICALS has so far not employed its own personnel to carry out all business activities – except for the Company's boards according to stock corporation law – but has exclusively charged companies from the STADA Group with this, which invoice at normal market conditions.

Other financial assets in the amount of € 50.7 million (previous year: € 67.6 million) primarily include loan receivables, derivative financial assets and purchase price receivables, particularly from the disposal of Health Vision Enterprise Ltd. in the fourth quarter of 2009.

Inventories increased to € 386.1 million as of December 31, 2010 (December 31, 2009: € 375.0 million). The primary reason for this increase in 2010 was the deliberate avoidance by the Serbian STADA subsidiary of further sales possible in the accumulated double-digit million euro area, in order to reduce the default risk on receivables for the Group in view of the ongoing liquidity problems on the part of Serbian wholesalers (see "Development of Segments – Information by Region – Serbia").

In specific situations STADA puts – following the principle of market proximity (see "Business and General Conditions – Sales and Marketing") – certain range considerations deliberately aside in favor of possible operating opportunities. In individual cases this can lead to revaluations of inventories which burden earnings, if the expected utilization of opportunities cannot be realized. In financial year 2010, total burdens in the amount of € 30.3 million (previous year: € 29.9 million) due to value adjustments in inventories were incurred.

Trade accounts receivable increased as of the balance sheet date to € 448.9 million (previous year: € 422.1 million).

In selected market situations, the Group generally accepts, if necessary, higher current trade receivables, if this is associated with opportunities for an improved market position. Within the scope of its receivables management, however, STADA pays careful attention to the creditworthiness of individual customers. Defaults – especially on the part of major clients – can, however, never be entirely ruled out (see "Risk Report"). In 2010 for example, as a result of liquidity problems on the part of Serbian wholesalers, STADA had to carry out value adjustments on receivables in the amount of € 23.2 million, which were reported as a one-time special effect (see "Earnings Situation – Development of Earnings and Costs" as well as "Development of Segments – Information by Region – Serbia").

In view of the substantial borrowings, STADA continued carrying out factoring transactions to a significant extent in 2010 in order to diversify the refinancing.

The item **cash and cash equivalents**, which is substantially influenced by random reporting date effects, amounted to € 199.1 million as of December 31, 2010 (December 31, 2009: € 156.9 million).

Equity decreased as of December 31, 2010 to € 868.5 million (December 31, 2009: € 869.7 million). Hereby it is to be taken into consideration that in financial year 2010 there were proceeds from capital increases from the conversion of STADA warrants in the amount of € 0.4 million (see "Business and General Conditions – Capital Structure and STADA Share"). Due to currency translation effects recognized with no effect on income, equity decreased in the reporting year by € 30.6 million (equity reduction in the previous year due to currency translation: € 37.5 million).

Other non-current provisions, at € 31.9 million as of the balance sheet date (December 31, 2009: € 23.5 million), were above the previous year's level. They included provisions for pensions exclusively created in accordance with actuarial principles (see "Notes to the Consolidated Financial Statements – 35.").

Financial liabilities amounted to € 1,063.3 million as of December 31, 2010 (December 31, 2009: € 1,056.3 million). This item included, among other things, promissory notes with maturities 2011–2015 (see "Financial Situation" as well as "Notes to the Consolidated Financial Statements – 36.") as well as a corporate bond placed in 2010 with a nominal value of € 350.0 million.

Trade accounts payable increased as of the balance sheet date to € 233.5 million (December 31, 2009: € 231.5 million) and were also influenced by random reporting date effects, among other things.

Remaining liabilities include, among other things, other financial liabilities in the amount of € 118.6 million (previous year: € 97.7 million), which are made up of finance lease liabilities as well as liabilities from derivative financial instruments. The finance lease liabilities in financial year 2010 amounted to € 11.4 million (previous year: € 11.7 million). The liabilities from derivative financial instruments resulted from the negative market values of derivatives measured at fair value with an effect on income, which are partly used as hedging instruments.

Due to the good financial situation, the Executive Board deems STADA as capable of financing the required investments for the intended organic growth largely by means of cash flow generated within the Group also in the future.

The Executive Board continues to aim for a net debt to adjusted EBITDA ratio of a maximum value of 3.

Appropriate capital measures continue to be imaginable for the Executive Board for larger projects such as, for example, acquisitions or cooperations with capital investments if the burden on the equity-to-assets ratio from such acquisitions or cooperations is too high.

Off-Balance Sheet Assets and Liabilities

In addition to the recognized assets (see “Financial Situation”) the STADA Group also has off-balance sheet assets which are however only partially quantifiable.

The most significant off-balance sheet assets include, for example, in the Executive Board’s view, the high international reputation of STADA as well as of the individual national labels in their respective markets. This reputation, which goes beyond the intangible asset of the trademarks held by the Group and recognized in the balance sheet in view of their importance for sales, is an important success factor, for example in the context of new business or also in the discussions on health policy with politicians or in associations. With this reputation, STADA achieves, among other things, easier access to or has its voice better heard with the respective decision makers.

Another essential off-balance sheet asset whose value can, however, be approximated by means of estimations, is the so-called goodwill of consolidated Group companies which, in accordance with IFRS, can partly not be recognized in the balance sheet.

Although every goodwill reduction determined in the context of continuous impairment tests immediately results in a write-down and thus in a reduction of the corresponding balance sheet item, any goodwill increases determined in this connection may not be used for write-ups. In addition, in the case of Group companies which are founded by STADA itself, no goodwill can be recognized according to IFRS. By making use for all of these cases of the criteria for impairment testing that are usual at STADA, the result is that the Group, because of this, can currently not report value in use of these companies alone in the amount of over approx. € 500 million as assets in the balance sheet.

In addition to the recognized liabilities (see “Financial Situation”) the STADA Group also has off-balance sheet liabilities which are however only partially quantifiable. These include contingent liabilities and other off-balance sheet liabilities.

Contingent Liabilities resulted in financial year 2010 from 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. In addition, there were contingent liabilities in connection with legal risks from ongoing proceedings.

There were other financial liabilities in the reporting year, among other things, in the context of additional guarantees and obligations from operating leases.

DEVELOPMENT OF SEGMENTS

Information by Operating Segment

Development of core segments

Information by operating segment is based on differentiation possibilities in terms of sales and at STADA is divided into the two core segments Generics and Branded Products as well as the non-core activity Commercial Business (see "Business and General Conditions – Business Model, Core Segments and Structural Environment").

Sales of both **core segments** Generics and Branded Products increased by a total of 3% in the reporting year to € 1,549.2 million (previous year: € 1,508.2 million). Sales of the two core segments adjusted for portfolio changes and currency influences (see "Earnings Situation – Development of Sales") rose in 2010 by 1%. The total share of the two core segments in Group sales in the reporting year thus amounted to 95.2% (previous year: 96.1%).

Sales of **Generics**, which continues to be the significantly larger core segment, were, in financial year 2010 – despite the partly difficult framework conditions in individual national markets (see "Development of Segments – Information by Region") – at € 1,124.2 million at the level of the previous year (previous year: € 1,115.6 million). Generics thus contributed 69.1% to Group sales in the reporting year (previous year: 71.1%). Adjusted, generics sales in the Group were also at the level of the previous year (see "Earnings Situation – Development of Sales").

Top 5 generic active ingredients in products of the STADA Group in 2010

Active ingredient	Indication	Sales 2010 in € million	Change from previous year
Omeprazole	Stomach medicine	50.5	-28%
Simvastatin	Cholesterol lowerer	26.5	-11%
Enalapril	ACE inhibitor	23.2	-21%
Diclofenac	Antirheumatic drug	23.1	-7%
Phospholipide	Liver medicine	22.4	+39%
Total		**145.7**	

In 2010, STADA generated sales in the total amount of € 145.7 million with products containing the Group's top five active pharmaceutical ingredients in terms of sales (previous year: € 184.1 million). These products thus contributed 13.0% to sales in the Generics segment in the reporting year (previous year: 16.5%).

The stomach medicine Omeprazole continued to be by far the best-selling active pharmaceutical ingredient both in the Generics core segment and in the Group.

Sales in the **Branded Products** core segment increased by 8% to € 425.0 million in financial year 2010 (previous year: € 392.6 million). Branded Products thus had a share of Group sales of 26.1% in the reporting year (previous year: 25.0%). The Group recorded an increase of 3% in adjusted sales of branded products in 2010 (see "Earnings Situation – Development of Sales").

Top 5 branded products in the Group in 2010

Branded product	Indication	Sales 2010 in € million	Change from previous year
Grippostad®	Cold medicine	28.7	-16%
Apo-Go®	Parkinson medicine	26.3	+5%
Mobilat®	Topical pain and trauma treatment	17.5	+15%
Hirudoid®	Venous therapeutic treatment	16.8	+4%
Chondroxid®	Treatment for wear-related joint diseases	14.7	-7%
Total		**104.0**	

With the top five branded products in the Group in terms of sales, STADA achieved sales in the amount of € 104.0 million in the reporting year (previous year: € 106.3 million). These products thus had a share of 24.5% of sales in the Branded Products segment in 2010 (previous year: 27.1%).

Measured by sales, Grippostad®, with sales of € 28.7 million in financial 2010 (previous year: € 34.1 million), continued to be the strongest branded product in the Group.

Non-core activities to support core segments

Sales in the **Commercial Business segment**, which is not among the core segments, recorded an increase to € 66.9 million in 2010 (previous year: € 51.6 million).

Sales reported under the position **Group holdings/other** grew slightly in the reporting year to € 10.9 million (previous year: € 9.0 million) and included, among other things, sales with the transferred Dutch packaging unit.

Operating profit by segment

Due to the curbed sales development in Serbia and Germany, high one-time special effects, primarily due to value adjustments on receivables as a result of liquidity problems on the part of Serbian wholesalers, as well as expenses in connection with the “STADA – build the future” project, the segment earnings and segment margins in the reporting year decreased; operationally, however, i.e. excluding one-time special effects, they exceeded those of the previous year in both core segments. **Operating profit** in the **Generics** segment thus decreased in 2010 by 7% to € 145.9 million (previous year: € 156.3 million). **Operating profit** in the **Branded Products** segment rose in financial year 2010 by 12% to € 83.7 million (previous year: € 74.9 million). The **operating profit margin** of **Generics** was 13.0% in the reporting year (previous year: 14.0%). The **operating profit margin** of **Branded Products** amounted to 19.7% in 2010 (previous year: 19.1%).

After adjusting the segment earnings and segment margins for influences distorting the year-on-year comparison resulting from one-time special effects and non-operational effects from currency influences and interest rate hedge transactions, **adjusted operating profit** in the **Generics** segment recorded an increase in 2010 of 14% to € 181.6 million (previous year: € 159.4 million). **Adjusted operating profit** in the **Branded Products** segment recorded an increase of 27% to € 100.7 million (previous year: € 79.5 million). The **adjusted operating profit margin** for **Generics** in the reporting year was thus at 16.2% (previous year: 14.3%) and the **adjusted operating profit margin** for **Branded Products** at 23.7% (previous year: 20.2%).

Operating profit in the **Commercial Business** segment decreased to € -18.9 million in financial year 2010 (previous year: € 2.7 million).

Information by Region[1)]

In the STADA Group, information by region is based on the regional differentiation in national markets. In this context, in the individual national markets, all relevant net sales to third parties generated there by consolidated Group companies are reported.

Sales by segments and national markets in € million[2)]

	Generics	Branded Products	Commercial Business	Reconciliation Group holdings/ other	Total sales 2010	Share of Group sales 2010	Total sales previous year	± %	±% *adjusted*[3)]
Europe	**1,082.5**	**405.8**	**54.4**	**10.9**	**1,553.6**	**95%**	**1,501.0**	**+3%**	***+2%***
Belgium	128.6	6.3			134.9	8%	125.7	+7%	
Bosnia-Herzegovina	8.5	2.3	0.8	0.0	11.6	1%	14.8	-21%	*-14%*
Bulgaria	5.2	0.7			5.9	<1%	6.1	-3%	*+7%*
Denmark	4.7	2.8	27.0		34.4	2%	25.9	+33%	*+28%*
Germany	401.7	111.9	0.0	2.8	516.4	32%	531.6	-3%	*-4%*
Finland	1.3	4.7			5.9	<1%	5.1	+16%	
France	76.1	4.9			81.0	5%	82.4	-2%	
United Kingdom	14.7	39.7			54.4	3%	51.3	+6%	*+2%*
Ireland	13.3	5.8	0.5		19.7	1%	20.1	-2%	
Italy	92.1	44.7			136.8	8%	117.1	+17%	
Macedonia	2.6	0.3	0.1		3.0	<1%	2.7	+11%	*+19%*
Montenegro	4.1	0.3	1.9	0.0	6.3	<1%	6.0	+5%	*+15%*
The Netherlands	25.0	16.0		6.2	47.2	3%	38.2	+24%	*+7%*
Austria	10.8	4.2			15.0	1%	15.3	-2%	
Poland	0.6	1.5			2.1	<1%	3.4	-38%	*-32%*
Portugal	10.0	1.9			12.0	1%	11.3	+5%	
Romania	3.5	1.1		0.0	4.6	<1%	4.1	+13%	*+25%*
Russia	102.6	118.2	0.0	0.4	221.2	14%	191.9	+15%	*+6%*
Sweden	2.7	1.6			4.3	<1%	4.8	-11%	*-21%*
Serbia	67.7	7.6	22.3	1.5	99.1	6%	118.6	-16%	*-8%*
Slovakia	5.9	1.2			7.1	<1%	5.7	+24%	*+19%*
Spain	76.9	5.9			82.8	5%	73.9	+12%	
Czech Republic	8.8	1.6			10.3	1%	12.2	-16%	*-19%*
Ukraine	7.5	15.8			23.3	1%	19.7	+19%	*+11%*
Rest of Europe	7.5	4.7	1.7	0.0	14.0	1%	13.0	+8%	*+9%*
Africa	**6.8**	**2.7**			**9.5**	**1%**	**7.1**	**+33%**	***+25%***
America	**12.3**	**0.2**			**12.5**	**1%**	**14.5**	**-14%**	***-11%***
Asia	**22.6**	**16.2**	**12.6**		**51.4**	**3%**	**45.9**	**+12%**	***+7%***
China	2.3	0.1			2.4	<1%	2.0	+20%	*+14%*
Kazakhstan	2.2	6.5			8.6	1%	8.0	+7%	*+1%*
The Philippines	0.3		11.9		12.2	1%	12.1	+1%	*-10%*
Thailand	1.6	0.8	0.1		2.5	<1%	2.2	+13%	*-2%*
Vietnam	7.2	3.6	0.6		11.4	1%	9.8	+16%	*+18%*
Rest of Asia	8.9	5.3	0.0		14.3	1%	11.6	+23%	*+22%*
Rest of world	**0.0**	**0.0**			**0.0**	**<1%**	**0.2**	**-85%**	***-85%***

1) Broken down according to the national market in which the sales were achieved.
2) Sales below € 0.05 million were rounded to € 0.0 million.
3) Adjustments due to changes in the Group portfolio and currency effects (see "Earnings Situation – Development of Sales").

Development of STADA's ten largest national markets

In view of the focus of Group activities on Europe, STADA's ten largest national markets are also in the European area, contributing a total of 87% to Group sales in the reporting year (previous year: 86%). Despite the partially difficult framework conditions in some of these ten national markets, STADA was able to increase sales here by a total of 4% in financial year 2010. Adjusted, this sales increase was 2% (see "Earnings Situation – Development of Sales").

Germany

In **Germany**, which continues to be the Group's largest national market, sales in financial year 2010 decreased by 3% to € 516.4 million (previous year: € 531.6 million) and were thus below expectations from the beginning of the year. STADA's German business contributed 31.7% to Group sales in the reporting year (previous year: 33.9%).

The decrease in sales in Germany was attributable to the ongoing difficult local framework conditions for generics. Sales in the German generics segment in the reporting year thus decreased by 6% to € 401.7 million (previous year: € 426.3 million). The STADA Group's market share of generics sold in German pharmacies declined by volume in 2010 to approx. 12.5% (previous year: approx. 13.4%).[1] This, however, continued to be contrasted with operating profitability in the German Group business as expected only just under Group average in the reporting year.

Sales achieved by STADA in the German market with generics in 2010 had a total share of 78% (previous year: 80%) of sales generated in the German market.

This development in Germany was primarily based on the results achieved by various STADA sales companies in the context of the numerous tenders for discount agreements by statutory health insurance organizations. German subsidiaries of STADA continue to participate on an ongoing basis in tenders for such discount agreements using various bid strategies characterized by margin and market share aspects and consequently also with a large variation in terms of award results. The associated primary objective pursued by the Group of reaching an appropriate operating profitability in the German market led, for the full year 2010, to a decrease in sales and market share for STADA in the Generics segment in Germany, without however negatively affecting the position of the STADA Group as the clear number 3[1] in the German generics market.

This local market strategy pursued by STADA in the reporting year was also attributable to the fact that, until the end of 2010, further laws aiming to make structural changes in the German health care system were going through the legislative process. These laws became effective as of January 1, 2011 in the scope of the German Pharmaceutical Market Restructuring Act (AMNOG). In this context, different regulatory changes were also discussed in the reporting year for the structural element of discount agreements. These have now been implemented and are expected to achieve, among other things, a greater degree of acceptance among patients, improved anti-trust protection and regulation of additional costs.

The moderate improvement in the structural framework conditions for generics suppliers in Germany which was originally expected as a result of this law has not yet appeared, because, among other things, the regulatory statutes of the individual new rules such as the additional cost regulation are so complicated that their impact on the market is significantly reduced.

In addition, from today's perspective, a significant special burden due to the revised package size regulations as a result of AMNOG cannot be ruled out. The repackaging necessary due to this and the possible product returns associated with it may lead to costs in the amount of a low single-digit million euro figure, which STADA will recognize as a one-time special effect in 2011.

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

Generics sales generated by STADA in the German market continue to be achieved via various sales lines. Sales of ALIUD PHARMA GmbH, Laichingen, the largest of the Group-owned sales labels in the German generics market, decreased in financial year 2010 by 8% to € 221.3 million (previous year: € 241.1 million). Sales generated with the second Group-owned German generics line STADApharm GmbH, Bad Vilbel, declined in the reporting year by 5% to € 147.5 million (previous year: € 155.0 million). In contrast, sales of STADA's other generics sales label, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel, special supplier for the indication areas oncology and nephrology, increased in financial year 2010 by 10% to € 31.7 million (previous year: € 28.8 million).

Sales generated with branded products in Germany rose in the reporting year by 9% to € 111.9 million (previous year: € 103.1 million) and was based, among other things, on the purchase in the fourth quarter of 2009 of the branded product EUNOVA®, with which the Group generated sales in the amount of € 5.9 million in Germany in financial year 2010 (see "Earnings Situation – Development of Sales").[1]

The total share achieved by STADA with branded products in the German market was 22% in 2010 (previous year: 19%).

The Group generates sales with branded products in Germany predominantly with two local sales lines. Sales achieved by STADA GmbH, Bad Vilbel, in the reporting year at € 97.6 million were thus slightly above the level of the previous year (previous year: € 97.4 million). Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, which mainly sells prescription-free generics and adjuvants in the indication area diabetes as well as selected branded products such as EUNOVA®, increased sales in the reporting year by 150% to € 9.5 million (previous year: € 3.8 million).

Important branded products from STADA continued to be market leaders in their respective segments in the German pharmacy market in 2010. Examples include Grippostad® (local sales in 2010: € 26.0 million, previous year: € 30.3 million) with a market share of approx. 35% in the market for flu drugs[2][3] and STADA's sunscreen portfolio under the brand Ladival® (local sales in 2010: € 13.8 million, previous year: € 12.3 million) which, with a market share of approx. 42%, clearly remains market leader in the market for sunscreens[4] sold in pharmacies.

In the second quarter of 2010, STADA – like numerous other suppliers – was also affected by a recall of drugs containing Bufexamac which is used for the treatment of hemorrhoids, ordered by the German regulatory authority, the Federal Institute for Drugs and Medical Devices (BfArM). Regulatory authorities in other countries had only partly adopted this measure to date. The relevant STADA product with this active ingredient under the trademark Mastu® had achieved annual sales within the Group of € 5.6 million and annual sales of € 1.2 million in the German market alone in 2009. Already in the second quarter of 2010, STADA was able to deliver a successor product in Germany using the former trademark. The recall of these products and the accelerated launch of a successor product in the reporting year resulted in a total burden in the amount of € 0.8 million before or € 0.6 million after taxes, which was reported as a one-time special effect[5] (see "Earnings Situation – Development of Earnings and Costs").

Sales in Germany also include export sales from foreign Group companies to Germany which accounted for sales in 2010 of € 3.9 million (previous year: € 3.0 million).

For financial year 2011, the Executive Board calculates, with a sales strategy that continues to be geared toward an appropriate local operating profitability, further sales decreases in the generics area and thus for the German business overall.

Russia

In **Russia**, which continues to be the Group's second most important national market, STADA generated, applying the exchange rates of the previous year, pleasing sales growth of 9% in the reporting year – in spite of a local price regulation introduced on April 1, 2010, for so-

1) EUNOVA® Multi-Vitalstoffe Langzeit Kapseln contributed a total of € 7.3 million to sales in the reporting year. In addition to sales in the German market, export sales in the amount of € 1.4 million were achieved with this product.
2) Data from IMS Health based on ex-factory prices.
3) Excluding anti-infective agents.
4) STADA estimate at pharmacy retail prices based on data from IMS Health.
5) The total effect of these special effects in the reporting year amounted to € 1.2 million before or € 0.9 million after taxes. In addition to the share accounted for by the German market, further expenses in the Czech Republic in the amount of € 0.4 million before or € 0.3 million after taxes were reported as a special effect.

called essential pharmaceuticals, which affected approx. 40% of local Group sales. Sales in euro increased by 15% to € 221.2 million (previous year: € 191.9 million).

Overall in 2010, STADA achieved a market share of approx. 2.0% in the Russian pharmaceutical market (previous year: approx. 1.9%), thus taking position 2 among the local Russian pharmaceutical companies.[1)]

The two core segments in the Russian market had nearly the same share of local Group sales in financial year 2010. With generics, the Group achieved a sales increase of 18% to € 102.6 million (previous year: € 86.8 million) or 46% of STADA's sales in Russia (previous year: 45%). Sales of branded products rose by 13% to € 118.2 million (previous year: € 104.5 million) or 53% of STADA's sales in the Russian market (previous year: 54%). This was also due to the purchase already at the end of 2009 of a package of five Russian branded products with a focus on the gynecology area of indication, for which sales responsibility was assumed as planned in the second quarter of 2010 and which contributed € 6.5 million to Russian sales in 2010 (see "Earnings Situation – Development of Sales").

The demand structure of STADA's Russian business activities continues to be characterized by self-pay patients with whom, directly or indirectly via wholesalers, approx. 78% of Russian sales are generated. The Group generated only approx. 16% of its Russian sales in the scope of the state program for the reimbursement of costs of selected drugs for individual groups of the population (DLO program). In addition, approx. 6% of sales were generated directly or indirectly with other state clients, in particular also via tenders.

Operating profitability in Russia was, as expected, above Group average in the financial year. This was also due to the consolidation carried out in the reporting year in the context of "STADA – build the future" of all local Russian activities under single management.

In financial year 2011, STADA expects further strong sales growth in local currency in Russia with operating profitability above Group average. The sales and earnings contributions of STADA's business in both the Russian market as well as at Group level will remain largely affected by the development of the currency relation of the Russian ruble to the euro.

Italy

In **Italy**, the Group recorded a sales increase of 17% to € 136.8 million in financial year 2010 (previous year: € 117.1 million).

With a considerable increase of 36% to € 92.1 million (previous year: € 67.5 million), generics continued to have the largest share of these sales, thus contributing 67% (previous year: 58%) to Italian sales. The significant sales growth in generics was based on the relatively low comparable basis of the corresponding previous year, a ban on discounts to the trade channels as well as overall strong market growth. With a market share of approx. 14.8% (previous year: approx. 15.3%) STADA occupied position 3 in the Italian generics market in the reporting year.[1)]

Sales of branded products generated by STADA in the Italian market decreased in 2010 by 10% to € 44.7 million (previous year: € 49.5 million). Branded products thus contributed 33% (previous year: 42%) to local STADA sales. In order to significantly improve the operating profitability of the Italian branded product business, the Group, in the context of the Group-wide "STADA – build the future" project, in the third quarter of 2010, implemented a restructuring, which led to a reduction of the relevant sales force (see "Earnings Situation – Development of Earnings and Costs" as well as "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in 'STADA – build the future'").

1) STADA estimate based on IMS Health data at ex-factory prices.

Operating profitability of STADA's Italian activities in financial year 2010 was, as expected, again approximately at Group average.

For financial year 2011, the Executive Board expects another sales increase in Italy with an operating profitability which will again be at about Group average.

Belgium

In **Belgium**, STADA generated sales growth in the amount of 7% to € 134.9 million in the reporting year (previous year: € 125.7 million) – despite state price reductions introduced during the course of the year.

With an increase of 7% to € 128.6 million (previous year: € 120.2 million), generics continued to have the largest share of local sales in 2010. They had a 95% share of STADA's sales in Belgium (previous year: 96%). With a market share of approx. 49.1% (previous year: approx. 48.1%), the Belgian STADA subsidiary continued to be the clear local market leader in the generics market there in financial year 2010.[1)]

The Group generated a sales increase in the amount of 14% to € 6.3 million with branded products in Belgium in 2010 (previous year: € 5.5 million). Their share of STADA's sales generated in Belgium amounted to 5% (previous year: 4%).

Operating profitability achieved in Belgium in the reporting year was, as expected, at Group average.

For financial year 2011, STADA expects another sales increase in the Belgian market with an operating profitability which will again be at about Group average.

Serbia

In **Serbia**, sales decreased in the reporting year by 8% applying the exchange rates of the previous year. In euro, the Group recorded a decrease in sales of 16% to € 99.1 million (previous year: € 118.6 million).

The primary reason for this development was the deliberate avoidance from the second quarter of 2010 by the Serbian sales force of further sales possible in the double-digit million euro area accumulated for financial year 2010, in order to reduce the default risk on receivables for the Group in view of the ongoing liquidity problems on the part of Serbian wholesalers.

Despite this, STADA had to carry out value adjustments on receivables from local wholesalers in Serbia in the reporting year. Due to liquidity problems on the part of Serbian wholesalers, the Group recognized earnings-burdening one-time special effects in 2010 in the total amount of € 34.2 million before taxes (see "Earnings Situation – Development of Earnings and Costs"). By far the most significant individual case concerned trade accounts receivable due to STADA's Serbian subsidiary Hemofarm A.D. from the Serbian wholesaler group Velefarm, in which Hemofarm – in addition to a participation of the Serbian state – holds a minority interest. In order to sustainably secure these receivables, a restructuring plan between Hemofarm and Velefarm was signed on September 28, 2010 for the Velefarm liabilities with respect to Hemofarm that, among other things, provides for the appointment of a Chief Restructuring Officer at Velefarm. The restructuring plan is intended to enable Velefarm to pay the outstanding receivables due to Hemofarm on a gradual basis over several years.

In addition, under new management, Hemofarm modified the local distribution model with the goal of improving the risk profile with respect to wholesalers and customers. In the context of a special project, Hemofarm's cost structure is being rapidly adjusted to the changed en-

1) STADA estimate based on IMS Health data at ex-factory prices.

vironmental conditions, in the context of which specific measures may considerably exceed the optimizations already planned in the context of "STADA – build the future".

The Serbian STADA subsidiary continued to be the local market leader in the Serbian pharmaceutical market with a market share of approx. 27.0% (previous year: approx. 27.8%).[1] STADA generated sales of € 67.7 million with generics in Serbia in the reporting year (previous year: € 91.1 million). Generics thus contributed 68% (previous year: 77%) to sales in Serbia. Sales of branded products in Serbia amounted to € 7.6 million (previous year: € 9.0 million) in financial year 2010. They thus had a 8% share of STADA's sales in Serbia (previous year: 8%).

The operating profitability – i.e. not including the burdening effects primarily of value adjustments on receivables from Serbian wholesalers – of the subgroup[2] managed from Serbia including foreign activities, despite the deliberate avoidance of sales, was still at about Group average in the reporting year.

In view of the measures taken by STADA to counteract the situation in the Serbian market and the considerable recovery in the fourth quarter of 2010, the Group expects sales growth in local currency for financial year 2011 in Serbia. Operating profitability of the subgroup, whose management is carried out from there, is expected to be slightly above Group average. In addition to the direction-setting restructuring plan, further cost reductions in operating business activity are expected to contribute to this. Against this backdrop, the subgroup remains a focus for measures to improve earnings in the context of the "STADA – build the future" project, which also include a further optimization in the number of employees there over the coming years. Corresponding projects were introduced in the first quarter of 2011.

However, in the first quarter of 2011, competitors and wholesalers are expected to have granted waivers of receivables with respect to the Serbian public health insurance system of 10% of the respective receivables. Should Hemofarm be prompted to a similar course of action, this would significantly negatively affect the operating profitability of the Serbian business.

The sales and earnings contributions of STADA's Serbian subgroup will continue to predominantly depend on the development of the currency relation of the Serbian dinar, in which this subgroup consolidates all results, to the euro.

Spain

In **Spain**, STADA recorded a sales increase in financial year 2010 in the amount of 12% to € 82.8 million (previous year: € 73.9 million).

In this Spanish market characterized by an increased growth dynamic, STADA was able – despite significant price reductions – to increase generics sales in the reporting year by 14% to € 76.9 million (previous year: € 67.2 million). In 2010 generics contributed 93% (previous year: 91%) to STADA's sales in Spain. With a market share of approx. 9.5% (previous year: approx. 8.9%), STADA occupied position 3 in the Spanish generics market in 2010.[3]

Sales of branded products decreased by 12% in the reporting year to € 5.9 million (previous year: € 6.7 million). Branded products thus had a 7% share of STADA's local sales (previous year: 9%).

Operating profitability in the Spanish generics market, was, as expected, positive in 2010, although it was below Group average.

STADA expects another sales increase in Spain in financial year 2011, also against the backdrop of continuing strong growth in the generics market. Due to coninuing high margin pressure in this local market, operating profitability should remain below Group average.

1) STADA estimate based on IMS Health data at ex-factory prices.
2) The subgroup managed from Serbia includes Serbia along with other countries mainly in the CEE area and parts of the STADA business in the Russian Federation as well as their export activities.
3) STADA estimate based on IMS Health data at ex-factory prices.

France

In **France**, sales declined slightly in financial year 2010 by 2% to € 81.0 million (previous year: € 82.4 million) in view of decreased selling prices of some important generics groups as a result of regulatory interventions by French authorities.

Sales of generics in France fell slightly in the reporting year by 2% to € 76.1 million (previous year: € 77.7 million), so that they contributed 94% (previous year: 94%) to STADA's sales in France. Overall, STADA's French subsidiary achieved a market share of approx. 4.0% (previous year: approx. 4.3%) in 2010 and thus occupied position 8 in the French generics market.[1)]

Sales generated by STADA in the local market with branded products increased by 5% to € 4.9 million in financial year 2010 (previous year: € 4.7 million). Branded products thus had a share of 6% in 2010 (previous year: 6%) of STADA's sales in France.

Operating profitability achieved by STADA in the French market in 2010, was, as expected, below Group average.

For financial year 2011, the Group expects steady sales development in France with operating profitability which continues to be below Group average.

United Kingdom

In the **United Kingdom**, sales increased in financial year 2010 by 2% applying the exchange rates of the previous year or by 6% in euro to € 54.4 million (previous year: € 51.3 million).

This was due primarily to the contribution of branded products, which with € 39.7 million (previous year: € 33.8 million) achieved a share of 73% (previous year: 66%) in British sales in 2010. With generics, for which STADA continues to be a niche provider in the United Kingdom of selected generics with only a few active pharmaceutical ingredients, the Group achieved sales in financial year 2010 in the amount of € 14.7 million (previous year: € 17.5 million) and thus a 27% share of local sales (previous year: 34%).

Operating profitability of the British business was, as expected, above Group average in the reporting year.

For financial year 2011, the Executive Board expects sales growth in local currency in the United Kingdom. From today's perspective, operating profitability is expected to remain above Group average. However, at Group level, sales and earnings contributions of the British business will also depend on the development of the currency relation of the British pound to the euro in 2011.

The Netherlands

In **the Netherlands**, sales in 2010 grew by 24% to € 47.2 million (previous year: € 38.2 million). This development was significantly influenced by sales from the disposal of bulkware[2)] in particular to the Dutch packaging unit in Etten-Leur, which was transferred as of August 1, 2010. Adjusted, sales in the Dutch market increased by 7% in the reporting year.

With generics, STADA generated sales in the Netherlands in the amount of € 25.0 million in financial year 2010 (previous year: € 23.9 million). This represents a share of local Group sales of 53% (previous year: 62%). With a market share of approx. 5.1% (previous year: approx. 5.8%), STADA continued to occupy position 5 in the Dutch generics market in 2010.[1)]

The Group generated sales in the amount of € 16.0 million with branded products in the Netherlands in 2010 (previous year: € 14.3 million). This segment thus contributed 34% (previous year: 38%) to STADA's Dutch sales.

1) STADA estimate based on IMS Health data at ex-factory prices.
2) Reported under the Group holdings/other item.

In the context of “STADA – build the future”, STADA transferred the Dutch packaging unit in Etten-Leur in 2010. According to the contracts agreed, the Group can draw on the capacities of the transferred unit for a transitional period at fixed costs to a variable extent determined by STADA. Within the scope of the transfer, the 113 employees were also transferred to the acquiring company (see “Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes in ‘STADA – build the future’”, “Business and General Conditions – Acquisitions and Disposals” as well as “Earnings Situation – Development of Earnings and Costs”).

Based on further sales of bulkware, STADA expects an increase in sales in the Netherlands in financial year 2011. Due to the continuation of the intensive competitive situation, operating profitability is expected to again be below Group average.

Denmark

In **Denmark**, sales increased considerably in financialy year 2010 applying the exchange rates of the previous year by 33% or in euro by 33% to € 34.4 million (previous year: € 25.9 million).

This development was based, among other things, on the acquisition of a portfolio consisting mainly of branded products of the Danish STADA subsidiary in January 2010, which has been consolidated in the Group since January 18, 2010 (see “Business and General Conditions – Acquisitions and Disposals“). The sales contribution of these products in Denmark amounted to € 1.4 million in 2010 (see “Earnings Situation – Development of Sales”).[1)] Adjusted sales in Denmark increased by 28% in the reporting year.

This pleasing sales development was also due to the parallel imports business activities, which is part of commercial business and is traditionally pursued by the local STADA sales company in Denmark. Sales from commercial business in Denmark increased by 23% to € 27.0 million (previous year: € 22.0 million) in the reporting year.

With generics, the Group generated sales of € 4.7 million in the Danish market in 2010 (previous year: € 2.8 million). This represents a share of local Group sales of 14% (previous year: 11%). With a market share in the amount of approx. 2.8% (previous year: approx. 2.3%), the local STADA subsidiary occupied position 9 in the Danish generics market in the reporting year.[2)]

Sales with branded products rose by 155% in Denmark in the reporting year to € 2.8 million (previous year: € 1.1 million). This gave branded products a share of local sales of 8% (previous year: 4%).

Operating profitability in the Danish market in 2010 was, as planned, again below Group average, as local activities, as described above, predominantly include commercial business with the usual low margins.

For financial year 2011, the Group expects sales in Denmark to stabilize with operating profitability which continues to be below Group average.

Development in other European markets

In the **Ukraine**, despite the ongoing difficult local economic situation, applying the exchange rates of the previous year, sales increased considerably in the reporting year by 11%. In euro, sales increased by 19% to € 23.3 million (previous year: € 19.7 million).

In **Ireland**, sales in financial year 2010 decreased by 2% to € 19.7 million (previous year: € 20.1 million).

1) The total sales contribution of the acquired portfolio amounted to € 2.0 million in the reporting year. In addition to the sales in the Danish market, export sales were achieved with these products in the amount of € 0.6 million.
2) STADA estimate based on IMS Health data at ex-factory prices.

In **Austria**, STADA recorded a sales decrease of 2% to € 15.0 million in 2010 (previous year: € 15.3 million).

In **Portugal**, sales grew in the reporting year by 5% to € 12.0 million (previous year: € 11.3 million).

In **Bosnia-Herzegovina**, sales declined in financial year 2010, applying the exchange rates of the previous year, by 14%. Sales in euro decreased by 21% to € 11.6 million (previous year: € 14.8 million).

In the **Czech Republic**, STADA reported a decrease in sales of 19%, applying the exchange rates of the previous year, or of 16% in euro to € 10.3 million in 2010 (previous year: € 12.2 million).

In **Slovakia**, sales increased by 19%, applying the exchange rates of the previous year or in euro by 24% to € 7.1 million in the reporting year (previous year: € 5.7 million).

In **Montenegro**, sales in 2010 rose by 15%, applying the exchange rates of the previous year or in euro by 5% to € 6.3 million (previous year: € 6.0 million).

In **Bulgaria**, applying the exchange rates of the previous year, STADA recorded a plus in sales of 7% or a minus of 3% in euro to € 5.9 million in the reporting year (previous year: € 6.1 million).

In **Finland**, STADA recorded a sales plus of 16% to € 5.9 million in financial year 2010 (previous year: € 5.1 million).

In **Romania** sales grew by 25% applying the exchange rates of the previous year, or by 13% in euro to € 4.6 million in 2010 (previous year: € 4.1 million).

In **Sweden**, sales decreased in the reporting year by 12% applying the exchange rates of the previous year, or by 11% in euro to € 4.3 million (previous year: € 4.8 million).[1)]

In **Macedonia**, STADA recorded an increase in sales, applying the exchange rates of the previous year, of 19% in the reporting year. Sales in euro increased by 11% to € 3.0 million (previous year: € 2.7 million).[1)]

In **Poland**, sales in financial year 2010 declined by 32% applying the exchange rates of the previous year, or by 38% in euro to € 2.1 million (previous year: € 3.4 million).

In addition, the STADA Group continued to be active in a further 18 European countries in the context of **export activities** thereby generating sales in the total amount of € 14.0 million (previous year: € 13.0 million) in financial year 2010.

Development in Africa

In Africa, sales in financial year 2010 increased by 33% to € 9.5 million (previous year: € 7.1 million). Adjusted, sales recorded an increase of 25%.

With the acquisition of Egyptian Germa Pharm (see “Business and General Conditions – Acquisitions and Disposals“), the Group is active with its own subsidiary in **Africa** for the first time. In 2010, STADA achieved total sales in the amount of € 0.02 million in Egypt (previous year: € 0.0 million).[1)]

1) Local sales company currently not consolidated.

Development in Asia

In **Asia**, sales rose by a total of 12% to € 51.4 million in the reporting year (previous year: € 45.9 million) (see "Earnings Situation – Development of Sales"). Adjusted, sales increased by 7%.

In detail, STADA's development in Asian markets in 2010 was as follows:

In the **Philippines,** sales decreased by 10% applying the exchange rates of the previous year. In euro, sales increased by 1% to € 12.2 million (previous year: € 12.1 million).

In **Vietnam**, sales consolidated on a pro rata basis – generated in the scope of a joint venture with a local partner, MST Trading Pharmaceutical Company Limited – recorded an increase of 18% applying the exchange rates of the previous year. Sales in euro increased by 16% to € 11.4 million (previous year: € 9.8 million).

In financial year 2010, STADA increased the shareholding in the Vietnamese pharmaceutical company Pymepharco Joint Stock Company from 11.2% to 23.7% (see "Business and General Conditions – Acquisitions and Disposals").

In **Kazakhstan**, sales grew by 1% applying the exchange rates of the previous year. In euro, sales increased by 7% to € 8.6 million (previous year: € 8.0 million).

In **Thailand**, sales declined by 2% applying the exchange rates of the previous year. In euro, sales increased by 13% to € 2.5 million (previous year: € 2.2 million).

In **China**, STADA recorded an increase in sales of 14% applying the exchange rates of the previous year. Sales in euro increased by 20% to € 2.4 million (previous year: € 2.0 million).

In addition, STADA was active in export activities in financial year 2010 in a further 19 Asian countries.

Development of export business

In 2010, in addition to sales from local sales companies in the individual national markets, STADA continued to generate export sales, which were achieved by various sales companies, particularly however by the Serbian subgroup. In the context of these global export activities in a total of 50 countries, the Group recorded sales of € 50.2 million in the reporting year (previous year: € 46.6 million).

The regional breakdown of export sales in 2010 was as follows:
- Exports to Asian countries € 14.3 million (previous year: € 11.6 million)
- Exports to European countries € 14.0 million (previous year: € 13.0 million)
- Exports to American countries € 12.5 million (previous year: € 14.5 million)
- Exports to African countries € 9.5 million (previous year: € 7.1 million)
- Exports to the rest of the world € 0.03 million (previous year: € 0.2 million)

RISK REPORT

Introduction

Every entrepreneurial decision taken in the course of the business activities of the STADA Group is based on the consideration of associated opportunities and risks. The willingness to take risks is the prerequisite to be able to take advantage of opportunities. However, the risks taken must be proportionate to the expected benefit for the STADA Group.

For this reason, STADA's Executive Board implemented an ongoing risk management system that is integrated into the value-based management and existing organizational structure of the Group.

Risk management system

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

The fundamental components of the risk management system are:

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

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

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

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

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

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

The structure of STADA's risk management system did not change in the reporting year 2010.

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

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

Main features of the internal control and risk management system with regard to the Group financial reporting process (report pursuant to Section 289 (5) of the German Commercial Code [HGB], Section 315 (2) no. 5 of the German Commercial Code [HGB])

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

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

The consolidated financial statements are prepared on the basis of Group uniform accounting guidelines laid down by the Corporate Accounting and Controlling department and a Group uniform accounting plan. New developments in the area of accounting standards are continuously monitored, and, insofar as they are relevant for STADA, the accounting guidelines and accounting plan are adjusted accordingly. The changes are communicated promptly to all companies included in the consolidated financial statements. In addition, the accounting departments of STADA Arzneimittel AG and its subsidiaries receive a monthly letter with scheduling requirements and information on current accounting topics, which ensures proper preparation of the consolidated financial statements and their timely publication. For certain accounting topics that require specialist knowledge, STADA makes use of external service providers, for example in the assessment of pension obligations.

For the Group's most important accounting processes, STADA primarily uses current standard software. The primary control functions are carried out by the respective plausibility tests integrated in the programs. The software systems used are protected against unauthorized external access by appropriate IT systems. In addition, authorization procedures ensure that internally, only the relevant individuals in each case have access to the individual systems.

Outside the software systems, manual plausibility tests and verification of the completeness and accuracy of data and calculations are carried out at all Group levels. Group-wide, standardized monthly reporting thus allows year-to-date target/actual deviations to be detected promptly. All separate financial statements of Group companies, which are included in the Group consolidation, are generally subject at least once a year to an audit by STADA's auditor. In addition, this auditor also carries out a review of STADA's half-year reports.

By employing qualified personnel, providing regular training and advanced training, consistently adhering to the dual control principle in controlling, in financial accounting and in Group Accounting, as well as continuously monitoring in random audits, the bookkeeping data received and transferred with regard to completeness and accuracy, STADA guarantees that the separate financial statements, the consolidated financial statements and the management reports consistently comply with national and international financial reporting requirements.

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

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

Finally, the Supervisory Board, as a controlling body, is also regularly involved with the most important issues relating to financial reporting, risk management, audit contracts and their main focus as well as with the effectiveness of the established internal control system of the STADA Group. The Executive Board informs the Supervisory Board and the Audit Committee at regular intervals on all areas of accounting. Furthermore, the auditor reports to the Supervisory Board on any significant weaknesses of the accounting-related internal control and risk management system, if these are determined in the context of the audit.

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

Categories of risks, period of prognosis and scope

From the STADA Executive Board’s current perspective, anticipated risks to the Group’s business activities particularly include the risks stated below, summarized according to risk categories in this context. In general, for this Risk Report the period up to the end of the next financial year is taken as the forecast period, to the extent that no other period is stated in individual cases. It can, however, on principle not be ruled out that further, also essential risks will arise in the development of business during the forecast period, which can add to the risks stated in the following. Analogous to the risk management system of the Group, the risks listed below apply to STADA Arzneimittel AG as well as all Group companies in which STADA holds a stake of at least 50%. Insofar as recognizable risks from subsidiaries in which STADA holds less than a 50% stake are anticipated for the Group, these risks are also listed below.

Environmental and industry risks

In the health care and pharmaceutical market, STADA operates in a highly competitive environment. Of primary importance to STADA are risks related to changes in market conditions on the basis of intense competition in individual national markets. Particular focus is placed on the Generics segment, STADA’s significantly larger core segment.

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

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

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

Similar risks can relate equally to the volume and scope of license revenues which are generated within the scope of the out-licensing of active ingredients. In these cases, if the marketing of the licensee proves insufficiently successful, this could lead to potentially disadvantageous effects on the business, financial and earnings situation.

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

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

Corporate strategy risks

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

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

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

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

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

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

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

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

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

Regulatory risks

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

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

In many markets, the prices of pharmaceutical products are subject to state supervision and regulation. In some markets, governments even exert a direct influence on pricing. This can mean that as a result of national regulations, the prices of pharmaceutical products are regulated directly (for example through statutory price reductions) or indirectly (for example through reference prices, mandatory discounts, terms and/or requirements concerning discounts, the creation of framework conditions stimulating more intense competition) or influenced by supranational regulations. Pricing pressure as a result of state reimbursement systems can reduce the profitability of individual pharmaceutical 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 for pharmaceutical products exists of exclusion or reduction of cost reimbursement as a result of regulatory intervention under the respective national social security systems. This can result in the profitability of individual pharmaceutical 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.

Accurate 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 are continuously analyzed. Depending on the extent of state regulation, it may be necessary to adjust the business model.

Product portfolio risks

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

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

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

Legal risks

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

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

If there is a serious risk of future claims, STADA creates product-specific provisions for potential damage claims, which reached a total volume of € 2.6 million for the Group as of December 31, 2010 (December 31, 2009: € 2.4 million). In principle, STADA cannot guarantee that such provisions will be sufficient for individual instances or in total.

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

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

Performance-related risks

STADA's own production sites are also exposed to the risk of faulty or inefficient planning and production processes as well as of potential production faults and breakdowns caused by this or by external influences which may have a materially adverse effect on costs, competitiveness, supply availability and the associated expectations regarding units sold, sales and earnings as well as the image with clients.

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

External suppliers, contract manufacturers, sales licensees and other contractors have been integrated into STADA's business processes to a considerable extent, particularly in the areas of development, procurement, production, and packaging, logistics as well as sales, though also to an increasing extent in other areas. Furthermore, the Group is taking increasing advantage of the opportunity of having essential Group services performed by third parties, with whom cooperations are entered into. In addition, as of the reporting date December 31, 2010, STADA had specifically licensed 14,842 German pharmacies (previous year: 15,602) to undertake the final packaging of partially packed products delivered by STADA in their own pharmacies. This license currently applies to four 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.

Human resources risks

STADA depends to a large extent on the commitment, motivation and abilities of its employees. The departure of managers from the ranks of Group and/or subsidiary management and/or of employees with specialist knowledge could have materially adverse effects on the Group. The Group's continued success also depends on its ability, in competition with other companies, to attract and keep qualified employees in the future.

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

Information technology risks

STADA uses information technology processes, particularly electronic data processing, extensively in its business processes. Therefore, the Group has to make continuous investments to appropriately adapt these systems to changing business processes. In the event that information technology processes of the Group are nonetheless insufficient and/or inefficient, this could have materially adverse effects on business processes at STADA.

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

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 can influence business activities of the Group and/or of individual subsidiaries in a materially adverse manner.

Economic risks

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

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

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

In addition, STADA generally conducts business transactions not against cash payment, but on an invoicing basis to numerous individual debtors. Thus, the fundamental, partly also cyclical commercial risk of debtor default is associated with this. STADA therefore strives to maintain business relations only with business partners of impeccable financial standing and in addition, partly uses suitable measures to safeguard itself against default risk, such as guarantees, loan insurances or the transfer of property, plant and equipment. However, it cannot be ruled out that these measures are insufficient and nonpayments of individual debtors arise to a significant extent.

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

Financial risks

STADA counters financial risks within the framework of what is possible 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 one time per year by the Executive Board. All transactions above a relevant threshold determined by the Executive Board additionally require the Executive Board's prior approval, who, in addition, is regularly informed on the nature, scope and the amount of the current risks. Regarding assets, liabilities and scheduled transactions, these risks comprise particularly risks from changes to exchange rates, interest rates and stock-exchange prices. It is the objective of financial risk management to limit these market risks through the current operative and finance-related activities. For this purpose, depending on the assessment of the financial risk, derivative and nonderivative hedging instruments are used. However, on principle only financial risks are hedged which have significant consequences on the Group's cash flow.

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

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

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

STADA counters risks from interest rate and currency related fluctuations 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.

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

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

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

In financial year 2010, to hedge the interest rate risk, there were cash flow hedges in the form of interest-rate swaps and interest rate/currency swaps as well as interest rate swaps not part of a hedging relationship.

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

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

The supply of goods and services to international wholesalers is also subjected to special monitoring. As of the balance sheet date however, there are no significant concentrations of risks at STADA exceeding the value adjustments for receivables with respect to local wholesalers in various CEE countries recognized as a one-time special effect.

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

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

Quantitative disclosures relating to STADA's financial risks can be found in STADA's consolidated financial statements, under point 46. of this annual report.

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

Other risks

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

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

Summary evaluation of risk

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

In the reporting year, STADA's risk environment did not change significantly compared to the previous year. The assessment of the overall risk situation is the result of the consolidated consideration of all significant individual risks. However, from today's perspective no risks are discernible which alone or in combination could jeopardize the continued existence of the Group.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) HGB

Composition of share capital, rights and obligations associated with shares

As of December 31, 2010, share capital consisted of 58,876,360 ordinary shares, each with an arithmetical share of share capital of € 2.60 per share. These ordinary shares of STADA Arzneimittel AG are exclusively registered shares with restricted transferability, which, under the Articles of Incorporation, can only be entered into the share registry with the approval of the Company and which, in accordance with the Articles of Incorporation, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights. No shareholder and no shareholder group shall have any special rights.

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, provided there are no mandatory legal provisions that preclude them, a majority of three thirds of the votes cast or provided at least half of the share capital is represented, the simple majority of votes cast. In case of a tie, a motion shall be deemed denied. Furthermore, the Supervisory Board is authorized in accordance with the Articles of Incorporation to resolve on amendments and additions to the Articles of Incorporation which relate only to their wording.

Authorizations of the Executive Board to issue or repurchase shares

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

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

For the purposes of servicing these bonds with warrants and/or convertible bonds, the Annual General Meeting on June 10, 2008 conditionally increased the share capital by up to € 66,823,458.00 by issuing up to 25,701,330 registered shares with restricted transferability and carrying a dividend right as of the beginning of the financial year in which they are issued. The Executive Board is authorized to determine the further details of implementation of the conditional capital increase (Conditional Capital 2008/II). 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, 2010 by up to € 9,136,036 by issuing up to 3,513,860 registered shares with restricted transferability (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

Due to the resolution adopted at the Annual General Meeting on June 10, 2009, the Company, in accordance with Section 71 (1) no. 8 of the German Stock Corporation Act (AktG), was authorized until December 10, 2010, to buy and dispose of own shares of up to 10% of the share capital existing at the time the resolution was adopted. The resolution strived for by the Executive Board and Supervisory Board at the Annual General Meeting on June 8, 2010, on the cancellation of this existing authorization and its replacement with a new authorization valid for 24 months, i.e. until June 8, 2012, found a majority, but not the necessary qualifying majority. The authorization to acquire and dispose of own shares thus ended on December 10, 2010. STADA made no use of this authorization.

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

For the Chairman of the Executive Board, Hartmut Retzlaff, a supplementary agreement to the employment contract contains a severance pay regulation for the case that the Executive Board contract, as a result of a closely defined change of control within the context of a takeover, is terminated. The severance payment would thereby consist of a one-time payment of an amount equal to five times the gross annual income of the Executive Board member in the last full year prior to the takeover, including bonus paid-out. In addition, the Chairman of the Executive Board receives remuneration including the bonus as agreed in the his employment contract for the entire term of the contract. The bonus is calculated based on the average of the previous two bonuses paid prior to the termination of the contract.

SUPPLEMENTARY REPORT

Significant events between the end of financial year 2010 and the date of signing the Management Report and the financial statements for 2010 are stated, for better understanding, within the respective context of the Management Report.

In view of this, only supplementary events that are, in the Executive Board's view, particularly important, are listed in this Supplementary Report. For detailed information as well as the effects on the business, financial and earnings situation, STADA refers to the relevant explanations in the Management Report.

Events in this Supplementary Report include:

- As of January 1, 2011, the German Pharmaceutical Market Restructuring Act (AMNOG) became effective. The moderate improvement in the structural framework conditions for generics suppliers in Germany which was originally expected as a result of this law has not yet appeared, because, among other things, the regulatory statutes of the individual new rules such as, for example, the additional cost regulation are so complicated that their impact on the market is significantly reduced. In addition, from today's perspective, a significant special burden due to the revised package size regulations as a result of AMNOG cannot be ruled out. The repackaging necessary due to this and the possible product returns associated with it may lead to costs in the amount of a low single-digit million euro figure, which STADA will recognize as a one-time special effect in 2011 (see "Development of Segments – Information by Region – Germany").

- In the context of the consistent implementation of the Group-wide cost efficiency program "STADA – build the future" and in view of the health care policy framework conditions in the German market – particularly as a result of health insurance organization tenders – the 40-hour week with no wage increase, until the end of 2012, was introduced in the current financial year 2011 at the Bad Vilbel and Florstadt locations, in order to ensure the long-term competitiveness of the STADA Group's locations in Germany. In return, for the first time in the Company's history, STADA gave the employees affected, a commitment effective until December 31, 2012 that no dismissals for operational reasons will take place (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes 'STADA – build the future'" as well as "Employees").

- A functional consolidation of all German activities in the area of product development and quality management was introduced in the first quarter of the current financial year at the Bad Vilbel location in the reporting year. Against this backdrop, negotiations are currently in progress with the Works Council on a balancing of interests and social compensation plan for 17 employees at the Laichingen location. With a view to the centralization in the logistics area, 12 employees from the drug sample area will also be transferred from Laichingen to the Distribution and Service Center location in Florstadt in the current financial year. STADA has already also given the remaining employees at the Laichingen location a commitment effective until December 31, 2012 that no dismissals for operational reasons will take place (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Initial Successes with 'STADA – build the future'" as well as "Employees").

- With the goal of further stabilization, STADA's Serbian subgroup remains a focus for measures to improve earnings in the context of "STADA – build the future", which include a further optimization in the number of employees there in the coming years. Such projects were introduced in the first quarter of 2011 (see "Development of Segments – Information by Region – Serbia" as well as "Employees").

- On February 28, 2011[1], the Executive Board of STADA Arzneimittel AG resolved and published to propose a dividend in the amount of € 0.37 (previous year: € 0.55) per STADA common share for financial year 2010 (see "Earnings situation – Dividend"). At the same time, the Executive Board published the preliminary business results for 2010 as well as the essential contents of the prognosis report.

- In the first quarter of 2011, competitors and wholesalers are expected to have granted waivers of receivables with respect to the Serbian public health insurance system of 10% of the respective receivables. Should Hemofarm be prompted to a similar course of action, this would significantly negatively affect the operating profitability of the Serbian business (see "Development of Segments – Information by Region – Serbia").

- The development of the STADA share price was generally positive until March 11, 2011, the last trading day before the preparation of the financial statements. The XETRA® closing price on March 11, 2011 of € 27.87 was thus 10% above the XETRA® closing price at the end of 2010 (see "Business and General Conditions – Capital Structure and STADA Share").

- In the first quarter of the current financial year 2011, another 95 warrants were exercised prior to the preparation of the financial statements by the Executive Board on March 14, 2011. The number of shares thereby rose by 1,900 to 58,878,260 and the share capital increased by € 4,940 to € 153,083,476. As of March 14, 2011, 175,598 STADA warrants 2000/2015 for the subscription of 3,511,960 STADA registered shares were thus still outstanding (see "Business and General Conditions – Capital Structure and STADA Share").

1) See the Company's ad hoc release of February 28, 2011.

PROGNOSIS REPORT

Focus on proven business model with sustainable growth opportunities

STADA's business model has been characterized by constancy and sustainability for years. In view of this, the Group will continue in the future to focus on products with off-patent active pharmaceutical ingredients in selected segments of the pharmaceutical and especially the generics market.

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

In financial years 2011 and 2012, the sales and earnings development of the STADA Group will continue to be characterized by differing and in part opposite factors in the individual different national markets. For the Executive Board's specific expectations regarding the respective opportunities and risks in individual national markets, see the respective assessments in the context of the reporting on regional developments (see "Development of Segments – Information by Region"). Overall for financial years 2011 and 2012, the Executive Board expects further sales growth, which should also have a positive effect on the operating earnings development.

Although in principle, in the case of an accumulation of difficult framework conditions in national markets that are particularly important for the Group, a weakened growth dynamic or a temporary downturn cannot be ruled out. With a view to the strategic success factors, STADA, in the view of the Executive Board, will however continue to be able to generate further growth in the future – despite a very difficult environment.

One of these success factors is the international sales structure with own sales companies in currently 31 countries which has been designed to market the products from the Group portfolio in a way which is adapted to the different regulatory and competitive framework conditions in the individual national markets. As before, the Executive Board intends to further expand this global sales network in order to be able to better counteract local challenges and risks in individual national markets and to optimally use the respective growth opportunities.

The Group's strong product development represents a further success factor. In view of the product pipeline, which remains well-filled, STADA will continue in the future to constantly expand the Group portfolio – particularly in the core segment Generics. Apart from generation of sales and earnings associated with the new product launches, they also create the opportunity for an improved margin mix and more cost-efficient economy of scale effects. A requirement for this, however, is that the new products can each be launched with margins that are initially better than the Group average or that they can be launched within the scope of existing sales structures in the individual national markets.

In addition to the continual expansion of Generics, which continues to the the significantly larger core segment, the Executive Board strives for an increased expansion as well as further internationalization of the Branded Products core segment. Against the backdrop of increasing pressure to reduce costs, to which the individual national health care systems are exposed, the Executive Board sees further growth opportunities here, as branded products are generally characterized by better margins and less regulatory intervention than generics.

The high degree of flexibility, the short decision-making processes and the functional centralized reporting structures introduced in the fourth quarter of 2010 are also some of STADA's success factors. This applies in particular with a view to sales as the ability to react in the short-term to structural, regulatory or competition-related changes plays an essential role in both exploiting opportunities and reducing risks. In view of this, STADA will continue in the future to pursue an aggressive price policy in individual cases with, if necessary, an associated decrease of operating margins, in order to achieve a better market position or a higher market share. This however requires that overall a profitable business situation is maintained in the respective market.

In the context of earnings development, efficient cost management, particularly in the area of cost of sales, is of high importance at STADA. In view of the significant cost reduction potentials in the area of manufacturing and production facilities, STADA is, in the course of implementing the measures from the "STADA – build the future" project, among other things, increasingly putting products on a common basis, harmonizing dossiers and optimizing production processes and capacities. In addition, in the case of global procurement – including active pharmaceutical ingredients and auxiliary materials – suppliers will continue to be involved in market risk through price escalation clauses or renegotiations. Furthermore, STADA will, in this regard, ccontinue to make greater use of suppliers in low-cost countries.

The implementation begun in 2010 of the Group-wide "STADA – build the future" project will contribute in particular to strengthening the mid and long-term earnings potential. The Executive Board continues to expect that this project will allow additional earnings contributions to be achieved, which with the gradual implementation of the individual measures will add up to annual savings in the double-digit million euro area. However, as planned, increased investments and burdens on the income statement due to project-related one-time special effects must continue to be expected.

STADA employees with their specific understanding of those markets that are relevant for the Group and their comprehensive knowledge focusing on the areas of sales and marketing, product development as well as procurement and production will also play a central role in the future and make a decisive contribution to success.

In view of the factors detailed influencing the Group's earnings development, the Executive Board, in its overall assessment for financial years 2011 and 2012, expects further growth in Group sales and earnings.

Against the backdrop of the continued stable financial situation of the Group, the Executive Board deems STADA as capable of financing the required investments for the intended organic growth predominantly by means of the cash flow generated also in the future. With regard to the individual investment projects, reference is made to the respective statements in the context of the presentation of the financial situation (see "Financial Situation – Cash Flow").

In view of the increasing concentration of processes in the industry, the Executive Board continues to see the opportunity, but also the necessity, to complete the Group's organic growth with further external growth impulses. STADA will thus pursue an accelerated approach to acquisition. The Group will focus on the one hand on the regional expansion of business activities with concentration on high-growth emerging markets. On the other hand, the expansion and internationalization of the Branded Products core segment, which is generally characterized by better margins and less regulatory intervention than generics, should be even further expanded. Additionally, the Executive Board still does not rule out cooperations with significant capital investments.

Despite this approach to acquisition, the criteria of STADA's acquisition policy remain strict and geared towards profitability and appropriateness of the purchase price. For larger projects such as acquisitions or cooperations with capital investments, appropriate capital measures continue to be imaginable in the future if the burden on the equity-to-assets ratio from such acquisitions or cooperations is too high.

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

Operational challenges and risks of the business model

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

In the Executive Board's assessment, many of these challenges and risks are based on the structures and mechanisms of the market segments in which the Group is active. As they are, to a large extent, inextricably associated with the structural growth opportunities, in order to optimally use these growth potentials, they continue to be unavoidable in the future. However, from today's perspective, the Executive Board identifies no challenges or risks which could jeopardize the continued existence of the Group.

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

To the extent that certain expectations of the Executive Board regarding specific challenges and risks in individual national markets are, from today's perspective, of relevance for the Group, reference is made to the respective assessments in the segment reporting on the regional development.

Specific challenges and risks as a result of economic effects

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

Against this backdrop, STADA prepares, within the scope of what is possible, for potential resulting specific risks such as defaults by business partners or strong volatility in interest rate levels and currency relations that are relevant for the Group (see "Risk Report"). However, in spite of this, burdens resulting from one-time special effects, for example due to payment defaults or non-operational effects from currency influences and interest rate hedge transactions cannot be completely ruled out. The sales and earnings contributions of STADA's business activities in the non-euro markets of Serbia and Russia will thus remain in financial years 2011 and 2012 predominantly influenced by the development of the currency relation of the Serbian dinar and the Russian ruble to the euro.

In addition, due to an economic-related long-term significant reduction in demand in individual national markets or due to impairment tests, value adjustments for such intangible assets may be necessary, the balance-sheet value of which is primarily characterized by the currency relationship at acquisition and/or by future market expectations such as the goodwill of acquired companies or product approvals.

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

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

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

Summarizing outlook

STADA's business model is geared towards markets with long-term growth potential in the health care and pharmaceutical market. 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 and significant margin pressure will continue to occur in individual national markets in the future. The latter applies primarily to the increasing volume of business activities in the Generics core segment characterized by tenders.

In addition, STADA will continue to have to deal with non-operational influence factors. The most important currency relations for the Group, in particular of the Serbian dinar and the Russian ruble to the euro, will thus affect STADA's future development in financial years 2011 and 2012.

The sales and earnings development of the STADA Group will also be generally characterized in financial year 2011 and 2012 by differing and partially contradictory factors in the various national markets. The overall sales increase for the Group expected by the Executive Board, however, should positively influence earnings development.

In 2011, the Executive Board thus expects further recovery in the Serbian business. Continued strong growth is expected for Russia and Asia in the current financial year. In Western Europe, increased volume growth – supported, among other things, by numerous patent expirations and increasing generics penetration – should more than compensate for potential state cost-cutting measures.

Positive effects on earnings as a result of the implementation of the “STADA – build the future” project are to be expected for EBITDA adjusted for one-time special effects and the correspondingly adjusted net income to a significant extent from the current financial year 2011 and mainly in 2012. By 2013 (each including the past financial year 2010), from today’s perspective, project-related investments of a total of approx. € 20 million as well as project-related expenditure for special write-offs, personnel expenses and consultancy services of a total of approx. € 50 million are expected. The Group will recognize each of these project-related costs as a one-time special effect according to the progression of the project.

For financial years 2011 and 2012, the Executive Board expects further growth in Group sales and earnings. Against the backdrop of all the factors mentioned in this outlook influencing the Group’s earnings development, the Executive Board, in its overall assessment for financial year 2011, from today’s perspective, sees the opportunity for an increase in adjusted EBITDA in the high single-digit percentage area. This would mean that adjusted EBITDA in 2011 would reach again a record value in STADA’s Company history.

In addition, the Executive Board continues to hold to the long-term targets envisaged for financial year 2014[1)], according to which Group sales of approx. € 2.15 billion, an adjusted EBITDA of approx. € 430 million and net income of approx. € 215 million should be reached.

Bad Vilbel, March 14, 2011

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

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

STADA CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2010	Previous year	Note
Sales	1,626,976	1,568,779	11.
Cost of sales	862,808	845,390	12.
Gross profit	**764,168**	**723,389**	
Selling expenses	375,462	346,084	13.
General and administrative expenses	125,327	122,720	14.
Research and development expenses	54,911	46,648	15.
Other income	40,386	33,442	16.
Other expenses	70,879	47,219	17.
Expenses in connection with the "STADA – build the future" project	16,176	2,243	
Operating profit	**161,799**	**191,917**	
Result from associated companies	128	-287	
Investment income	162	831	
Financial income	3,818	10,930	
Financial expenses	56,860	61,855	
Financial result	**-52,752**	**-50,381**	18.
Earnings before taxes	**109,047**	**141,536**	
Taxes on income	40,477	40,788	19.
Earnings after taxes	**68,570**	**100,748**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income)	68,432	100,437	
• distributable to non-controlling shareholders	138	311	20.
Earnings per share in € (basic)	1.16	1.71	21.
Earnings per share in € (diluted)	1.14	1.70	21.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income in € 000s	2010	Previous year	Note
Earnings after taxes	**68,570**	**100,748**	
Currency translation gains and losses	**-29,562**	**-37,071**	34.
Gains and losses on available-for-sale financial assets	**-19**	**73**	45.
thereof			
• income taxes	7	-26	
Gains and losses on hedging instruments (cash flow hedges)	**-261**	**-1,244**	45.
thereof			
• income taxes	120	453	
Actuarial gains and losses from defined benefit plans	**-8,021**	**-309**	35.
thereof			
• income taxes	2,427	-1	
Other comprehensive income	**-37,863**	**-38,551**	
Consolidated comprehensive income	**30,707**	**62,197**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG	29,492	61,503	
• distributable to non-controlling shareholders	1,215	694	

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet as of Dec. 31 in € 000s Assets	Dec. 31, 2010	Dec. 31, 2009	Note
Non-current assets	**1,381,450**	**1,406,574**	
Intangible assets	985,952	1,000,087	24.
Property, plant and equipment	297,968	309,033	25.
Financial assets	14,419	19,566	26.
Investments in associates	17,332	7,200	27.
Trade accounts receivable	-	2,638	28.
Income tax receivables	-	1,064	19.
Other financial assets	34,467	40,357	29.
Other assets	1,595	4,112	30.
Deferred tax assets	29,717	22,517	19.
Current assets	**1,125,283**	**1,045,155**	
Inventories	386,088	374,983	31.
Trade accounts receivable	448,946	419,435	28.
Income tax receivables	34,943	30,319	19.
Other financial assets	16,194	27,206	29.
Other assets	37,126	30,694	30.
Non-current assets and disposal groups held for sale	2,884	5,582	32.
Cash and cash equivalents	199,102	156,936	33.
Total assets	**2,506,733**	**2,451,729**	

Equity and liabilities	Dec. 31, 2010	Dec. 31, 2009	Note
Equity	**868,489**	**869,677**	34.
Share capital	153,078	153,009	
Capital reserve	466,173	465,812	
Retained earnings	366,280	348,159	
Other provisions	-125,047	-104,107	
Treasury shares	-1,698	-1,749	
Equity attributable to shareholders of the parent	**858,786**	**861,124**	
Shares relating to non-controlling shareholders	9,703	8,553	
Non-current borrowed capital	**909,754**	**683,539**	
Other non-current provisions	31,889	23,490	35.
Financial liabilities	781,627	565,326	36.
Trade accounts payable	-	29	37.
Other financial liabilities	25,519	25,741	38.
Other liabilities	5,701	4,291	39.
Deferred tax liabilities	65,018	64,662	19.
Current borrowed capital	**728,490**	**898,513**	
Other provisions	9,735	10,490	40.
Financial liabilities	281,685	490,951	36.
Trade accounts payable	233,503	231,511	37.
Income tax liabilities	30,803	21,823	19.
Other financial liabilities	93,118	72,003	38.
Other liabilities	79,646	71,735	39.
Total equity and liabilities	**2,506,733**	**2,451,729**	

CONSOLIDATED CASH FLOW STATEMENT

Consolidated Cash Flow Statement in € 000s	Dec. 31, 2010	Dec. 31, 2009	Note
Net income	68,570	100,748	
Depreciation and amortization net of write-ups of non-current assets	106,742	87,640	23.
Income taxes	40,477	40,788	19.
Interest income and expenses	53,356	47,837	18.
Result from associated companies	-128	287	18.
Result from the disposals of non-current assets	506	-3,615	17.
Changes in pension provisions	-3,257	-1,789	35.
Currency translation income and expenses	-10,019	4,063	16.
Other non-cash expenses and gains	-467	1,480	18.
Gross cash flow	**255,780**	**277,439**	
Changes in inventories	-12,016	16,783	31.
Changes in trade accounts receivable	-4,203	28,140	28.
Changes in trade accounts payable	8,201	30,996	37.
Changes in other net assets	24,191	-32,953	
Interest and dividends received	6,703	9,558	
Interest paid	-47,760	-53,347	
Income tax paid	-36,146	-26,120	
Cash flow from operating activities	**194,750**	**250,496**	41.
Payments for purchases of			
• intangible assets	-59,114	-73,796	24.
• property, plant and equipment	-30,666	-50,829	25.
• financial assets	-871	-125	26.
• shares in consolidated companies	-6,452	-9,019	
Proceeds from the disposal of			
• intangible assets	2,071	6,275	24.
• property, plant and equipment	1,470	4,136	25.
• financial assets	419	88	26.
• shares in consolidated companies	744	16,787	
Cash flows from investing activities	**-92,399**	**-106,483**	41.
Borrowing of funds	504,458	141,407	36.
Settlement of financial liabilities	-531,927	-208,167	36.
Dividend distribution	-32,362	-30,540	34.
Capital increase from share options	437	1,481	34.
Changes in non-controlling interests	-14	-	34.
Changes in treasury shares	44	59	34.
Cash flows from financing activities	**-59,364**	**-95,760**	41.
Changes in cash and cash equivalents	**42,987**	**48,253**	
Changes in cash and cash equivalents due to Group composition	0	-134	
Changes in cash and cash equivalents due to exchange rates	-821	-1,662	
Net change in cash and cash equivalents	**42,166**	**46,457**	
Balance at beginning of year	**156,936**	**110,479**	
Balance at end of year	**199,102**	**156,936**	

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

2010	Number of shares	Share capital	Capital reserve	Retained earnings
Balance as of Dec. 31, 2010	**58,876,360**	**153,078**	**466,173**	**39,515**
Dividend distribution				
Capital increase from share options	26,540	69	368	
Changes in treasury shares			-7	
Appropriation from retained earnings				18,000
Changes in non-controlling interests				
Changes in the scope of consolidation				
Comprehensive income				-8,021
Balance as of Jan. 1, 2010	**58,849,820**	**153,009**	**465,812**	**29,536**
Previous year				
Balance as of Dec. 31, 2009	**58,849,820**	**153,009**	**465,812**	**29,536**
Dividend distribution				
Capital increase from share options	90,000	234	1,247	
Changes in treasury shares			-50	
Profit brought forward				-15,500
Changes in non-controlling interests				
Changes in the scope of consolidation				624
Comprehensive income				-309
Balance as of Jan. 1, 2009	**58,759,820**	**152,775**	**464,615**	**44,721**

Net income incl. profit brought forward	Provisions for currency translation	Provisions Available for Sale	Provisions for cash flow hedges	Treasury shares	Equity attributable to shareholders of the parent	Shares relating to non-controlling shareholders	Group equity
366,280	-160,573	55	-4,044	-1,698	858,786	9,703	868,489
-32,311					**-32,311**	-51	**-32,362**
					437	-	**437**
				51	**44**	-	**44**
-18,000					**-**	-	**-**
					-	-14	**-14**
					-	-	**-**
68,432	-30,643	-15	-261		**29,492**	1,215	**30,707**
348,159	-129,930	70	-3,783	-1,749	861,124	8,553	869,677
348,159	-129,930	70	-3,783	-1,749	861,124	8,553	869,677
-30,501					**-30,501**	-39	**-30,540**
					1,481		**1,481**
				109	**59**		**59**
15,500					**-**		**-**
					-	-4,481	**-4,481**
	602				**1,226**		**1,226**
100,437	-37,453	72	-1,244		**61,503**	694	**62,197**
262,723	-93,079	-2	-2,539	-1,858	827,356	12,379	839,735

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 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 9, 2010. The declaration is publicly available via the Company's website (www.stada.de in German or www.stada.com in English) and is also presented in the Annual Report under "Additional Information".

The consolidated financial statements of STADA Arzneimittel AG for financial year 2010 were approved for publication by the Executive Board on March 14, 2011.

2. Basis of preparation

The consolidated financial statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2010, 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 calender 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. Use was made of the option to present the statement of comprehensive income 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 2010, there were no new pronouncements or amendments to pronouncements used for the first time that had significant effects on STADA's business, financial and earnings situation or cash flow.

The following pronouncements or amendments to pronouncements published by the IASB and endorsed by the EU which were first applicable in financial year 2010, had no or no significant effect on the presentation of STADA's business, financial, earnings situation or cash flow:

- **IFRS 1 "First-time Adoption of IFRS":**
  The revised standard contains amendments of an editorial nature. These do not result in significant effects on the presentation of the business, financial and earnings situation.
- **IFRS 1 "Additional Exemptions for First-time Adopters":**
  The amendments contain additional simplification for first-time adopters in relation to IFRS 6 and IFRIC.
- **IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters":**
  The amendments free first-time adopters from the provision of additional disclosures, which were introduced in March 2009 with the changes to IFRS 7.
- **IFRS 2 "Share-based Payment":**
  The amendments clarify the accounting of share-based payments within the Group that are made in cash.
- **IAS 32 "Financial Instruments":**
  The amendments clarify the accounting of subscription rights provided that they do not dominate the functional currency of the company.
- **IAS 39 "Financial Instruments: Recognition and Measurement: Hedged Items":**
  The revision relates to amendments concerning risk positions qualifying for hedge accounting.
- **IFRIC 9/IAS 39 "Reassessment of Embedded Derivatives" and "Financial Instruments: Recognition and Measurement":**
  The interpretation addresses the question of how embedded derivatives are to be accounted on reclassification of hybrid contracts out of the "fair value through profit or loss" category.
- **IFRIC 12 "Service Concession Arrangements":**
  The interpretation relates to agreements in which the public sector grants contracts for the supply of public services to private operators.
- **IFRIC 15 "Agreements for the Construction of Real Estate":**
  The interpretation clarifies when to apply IAS 11 or IAS 18. The focus is on sales agreements concluded before the construction of elements (buildings or parts of buildings) and when revenue is to be collected by the construction company.
- **IFRIC 16 "Hedges of a net investment in a foreign operation":**
  The interpretation addresses the questions of the amount of the designatable risk (foreign currency risk), which company within a group is allowed to hold the hedging instrument in case of the hedge of a net investment into a foreign operation and how to measure the amounts for the hedge and the hedged item to be reclassified from equity to the income statement in case of a disposal of the foreign operation.
- **IFRIC 17 "Distributions of Non-cash Assets to Owners":**
  The interpretation governs the recognition and the measurement of liabilities from distributions in the form of non-cash dividends and how a difference between the carrying amount of the distributed assets and the carrying amount of the dividend paid out is to be accounted for.
- **IFRIC 18 "Accounting of Transfers of Assets from Customers"**
  The interpretation outlines the requirements for agreements in which a company receives certain assets or cash from a customer that must be used to connect the customer to a network or ensures access to the supply of goods or services.

- **Amendments in the context of the Annual Improvement Project 2008:**
  Amendments to be adopted for the first time in financial year 2010 concern supplements to **IFRS 5 ("Non-current Assets Held for Sale and Discontinued Operations").** According to these, all assets and liabilities of a subsidiary that is intended for sale should be classified as held for sale whether or not a non-controlling shareholding will be retained in this company after its sale.
- **Amendments in the context of the Annual Improvement Project 2009:**
  The amendments to **IFRS 2 ("Share-based Payment")** serve to clarify the scope of the standard, especially regarding business combinations.
  The supplementing of **IFRS 5 ("Non-current Assets Held for Sale and Discontinued Operations")** is meant to regulate the extent of required disclosures for non-current assets held for sale and discontinued operations. It emphasizes that disclosure requirements that result from other standards for assets as defined by IFRS 5 do not apply.
  The amendments to **IFRS 8 ("Operating Segments")** determine that measurement of assets of a reportable segment is only to be included if this amount is regularly reported to the chief operating decision maker.
  The extension of **IAS 1 ("Presentation of Financial Statements")** clarifies when a debt is to be classified as short-term. Contractual arrangements that allow a creditor the option to convert the liability into equity have no effect on the classification.
  The extension of **IAS 7 ("Cash Flow Statements")** clarifies that only such payments can be reported in cash flow from investment activities that have also led to a capitalized asset.
  The amendments to **IAS 17 ("Leases")** affect real estate leases. According to this, property lease must no longer be classified as an operating lease if it is not automatically passed on to the lessee upon expiration of the lease contract. Instead, the unlimited useful life of a property and generally the commercial substance of the lease contract are to be taken into account.
  The explanations on **IAS 18 ("Revenue")** were expanded regarding the question of whether a company is active as agent or principal because amounts that a company receives as an agent in the interest of a third-party do not represent sales.
  The amendment to **IAS 36 ("Impairment of Assets")** clarifies that, for the purposes of an impairment test, the allocation of goodwill to an individual segment should be carried out before aggregating segments as permitted in accordance with IFRS 8. It is therefore not possible to compensate for individual segments that are more or less profitable within the aggregated segments.
  The amendments to **IAS 38 ("Intangible Assets")** specify the rule according to which all separable or contractually fixed intangible assets that were received in the context of a business combination count as reliably measurable. The intangible assets must then always be accounted for in combination with a related contract, asset or liability if they can only be separated in connection with this item from goodwill. Complimentary intangible assets acquired should also be accounted for as an individual asset in the future provided they have similar useful lives. An additional amendment concerns the measurement of intangible assets acquired in the context of a business combination for which no active market exists.
  The amendments to **IAS 39 ("Financial Instruments: Recognition and Measurement")** relate to specification of the exceptions to the scope of the standard, a clarification of cash flow hedges from an expected transaction in relation to the question of when the accumulated valuation changes recognized directly in equity should be reclassified to the current result, as well as an additional exception relating to the separation of embedded derivatives.
  The amendment to **IFRIC 9 ("Reassessment of Embedded Derivatives")** reduced the scope of the interpretation IFRIC 9. According to this, all contracts with embedded derivatives that were acquired in the course of business combinations, in connection with acquisitions under joint control as well as in the context of the creation of a joint venture are not included within the scope of IFRIC 9.

The amendment to **IFRIC 16 ("Hedges of a Net Investment in a Foreign Operation")** cancels the former exception according to which a company, whose foreign currency risks should be hedged, was not allowed to hold the hedging instrument itself.

In addition, STADA did not apply a number of pronouncements and amendments to pronouncements that were adopted by the IASB, the application of which, however, was not mandatory in financial year 2010. From today's perspective no significant effects on the consolidated financial statements are expected from the future application of the standards and interpretations not yet applied.

4. Changes in accounting policies

There were no changes to accounting policies resulting from new pronouncements or amendments to pronouncements by the IASB with significant consequences for the presentation of STADA's business, financial and earnings situation or cash flow in financial year 2010.

5. Scope of consolidation

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

A joint venture exists if STADA as well as one or more partner companies have contractually fixed joint control of this joint venture, and is proportionately consolidated according to the respective share in equity.

Associated companies are companies over which STADA has 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. These companies make up less than 1% of total Group sales.

There were the following changes in the scope of consolidation in financial year 2010:

Number of consolidated companies	Germany	Outside Germany	Total
January 1, 2010	**14**	**56**	**70**
Acquisitions	-	5	5
Disposals	-	3	3
December 31, 2010	**14**	**58**	**72**

Changes in the scope of consolidation are attributable to the initial inclusion of the following subsidiary companies: OOO STADA CIS, Nizhny Novgorod, Russia, Hemofarm USA Corporation, Washington, USA, STADA Pharma Bulgaria EOOD, Sofia, Bulgaria, and STADA Hemofarm d.o.o., Zagreb, Croatia.

Another change resulted from the increase in the shareholding in Pymepharco Joint Stock Company, which led to the initial consolidation of this company according to the equity method.

In addition, the subsidiary Hemofarm Komerc d.o.o., Skoplje, Macedonia, was deconsolidated due to lack of material significance, and the subsidiary Laboratorio Prodotti Farmaceutici Boniscontro & Gazzone S.r.l., Milan, Italy, was merged into Crinos S.p.A., Milan, Italy. A disposal from the scope of consolidation additionally resulted from the concluded sale of the Dutch packaging unit Centrafarm Services B.V., Etten-Leur, The Netherlands, in financial year 2010.

There were no significant effects on the consolidated balance sheet as of December 31, 2010 as a result of these changes. The deconsolidation of Centrafarm Services B.V. resulted in a book loss before taxes in the amount of € 6.2 million, which was recognized under expenses in connection with the “STADA – build the future” project.

As in the previous year, the chart shown above includes BIOCEUTICALS Arzneimittel AG, which is included in the consolidated financial statements as an associated company according to the equity method. STADA holds 15.86% of the shares in this company. The significant influence is therefore not directly due to the shareholding but instead is related in particular to the partial identity of management personnel between BIOCEUTICALS Arzneimittel AG and STADA Arzneimittel AG. Details on the relationship between BIOCEUTICALS Arzneimittel AG and STADA are included in the note on transactions with related companies (Note 47.2.). Since financial year 2010, the chart shown above also includes Pymepharco Joint Stock Company, in which STADA holds a 23.71% stake and which is also included in the consolidated financial statements as an associated company in accordance with the equity method. The aggregate assets and liabilities, revenue and profit or loss for the period attributable to these two associated companies are shown below:

in € million	2010	2009
Assets	69.1	47.2
Liabilities	60.9	46.6
Revenue	69.8	26.7
Profit or loss for the period	5.0	0.9

Also unchanged from the previous year, two joint ventures are included in the scope of consolidation of STADA and are proportionately consolidated in accordance with IAS 31. The assets, liabilities, income and expenses attributable to these companies are shown below:

in € million	2010	2009
Current assets	7.3	7.7
Non-current assets	6.3	6.8
Current liabilities	8.1	7.9
Non-current liabilities	0.3	1.1
Net assets	**5.2**	**5.5**
Income	11.3	9.6
Expenses	11.7	10.4
Earnings after taxes	**-0.4**	**-0.8**

There are no capital commitments or contingent liabilities on the part of STADA with respect to these joint ventures.

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

Direct investments of STADA Arzneimittel AG:

Name of the company, registered office	Share in capital	Form of consolidation
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany	15.86%	associated company
Ciclum Farma, Unipessoal, LDA, Paco de Arcos, Portugal	100%	subsidiary
Clonmel Healthcare Limited, Clonmel, Ireland	100%	subsidiary
Crinos S.p.A., Milan, Italy	96.77%	subsidiary
EG Labo SAS - Laboratoires Eurogenerics SAS, Paris, France	100%	subsidiary
EG S.p.A., Milan, Italy	98.87%	subsidiary
Germa Pharm Ltd., Cairo, Egypt	75%	not included
Laboratorio STADA, S.L., Barcelona, Spain	100%	subsidiary
LIFE TRANS Pharma Vertriebs GmbH, Bad Vilbel, Germany	100%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany	100%	subsidiary
OAO Nizhpharm, Nizhny Novgorod, Russia	100%	subsidiary
OOO HEMOFARM Marketing, Nizhny Novgorod, Russia	10%	not included
OOO STADA Marketing, Nizhny Novgorod, Russia	10%	subsidiary
Oy STADA Pharma Ab, Helsinki, Finland	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	99.99%	subsidiary
S.A. Neocare N.V., Brussels, Belgium	95.40%	subsidiary
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria	100%	subsidiary
STADA GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA LUX S.à.R.L., Luxembourg, Luxembourg	100%	not included
STADA PHARMA CZ, s.r.o., Prague, Czech Republic	25%	subsidiary
STADA Pharma International GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China	100%	subsidiary
STADA R&D GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, The Netherlands	100%	subsidiary
STADApharm AS, Oslo, Norway	100%	not included
STADApharm GmbH, Bad Vilbel, Germany	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
ALIUD PHARMA GmbH, Laichingen, Germany	100%	subsidiary
ALIUD PHARMA Verwaltungs-GmbH, Laichingen, Germany	100%	subsidiary
Billix Pharma GmbH, Bad Vilbel, Germany	100%	not included
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
Eurovax GmbH, Bad Vilbel, Germany	100%	not included
Germa Pharm Ltd., Cairo, Egypt	25%	not included
IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH, Aschaffenburg, Germany	25%	not included
PharmaCoDane ApS, Copenhagen, Denmark	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	0.01%	subsidiary
S.A. Neocare N.V., Brussels, Belgium	4.60%	subsidiary
STADA Asiatic Company, Ltd., Bangkok, Thailand	60%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH and through ALIUD PHARMA GmbH of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
STADA PHARMA CZ, s.r.o., Prague, Czech Republic	75%	subsidiary
Zimmer AL Data GmbH, Neu-Ulm, Germany	30%	not included

Indirect investments of STADA Arzneimittel AG through STADA GmbH of at least 20%:

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. of at least 20%:

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 City, Vietnam	23.71%	associated company

Indirect investments of STADA Arzneimittel AG through Centrafarm Nederland B.V. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
Alphacen N.V., Etten-Leur, The Netherlands	100%	not included
Cellpharm B.V., Etten-Leur, The Netherlands	100%	not included
Centrafarm Pharmaceuticals 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., Breda, The Netherlands	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Centrafarm Nederland B.V. and through Quatropharma Holding B.V. of at least 20%:

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. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
CIG (Hong Kong) Limited, Hong Kong, China	70%	not included
DATApharm Co. Ltd., Tortola, British Virgin Islands	51%	not included
STADA Import/Export Ltd., Tortola, British Virgin Islands	50%	joint venture
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China	75%	not included
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam	50%	joint venture

Indirect investments of STADA Arzneimittel AG through Clonmel Healthcare Limited of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
Breathe Pharmaceuticals Ltd. J.V., Clonmel, Ireland	50%	not included
Crosspharma Ltd., Belfast, United Kingdom	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Newbury, United Kingdom	100%	subsidiary
SFS International Limited, Clonmel, Ireland	100%	subsidiary
STADA Financial Investments Limited, Clonmel, Ireland	100%	subsidiary
STADA Production Ireland Limited, Clonmel, Ireland	100%	subsidiary
STADApharm AB, Malmö, Sweden	100%	not included

Indirect investments of STADA Arzneimittel AG through Clonmel Healthcare Limited and Genus Pharmaceuticals Holdings Ltd. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
Genus Pharmaceuticals Ltd., Newbury, United Kingdom	100%	subsidiary
Britannia Pharmaceuticals Ltd., Newbury, United Kingdom	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through OAO Nizhpharm of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
ZAO Makiz-Pharma, Moscow, Russia	100%	subsidiary
ZAO Skopinpharm, Ryazanskaya obl., Russia	100%	subsidiary
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan	100%	subsidiary
Nizhpharm-Ukraine DO, Kiev, Ukraine	100%	subsidiary
OOO HEMOFARM Marketing, Nizhny Novgorod, Russia	90%	not included
OOO STADA CIS, Nizhny Novgorod, Russia	100%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia	90%	subsidiary
OOO STADA PharmDevelopment, Nizhny Novgorod, Russia	100%	subsidiary
UAB STADA-Nizhpharm-Baltiya, Vilnius, Lithuania	100%	not included

Indirect investments of STADA Arzneimittel AG through Ciclum Farma, Unipessoal, LDA, of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
STADA, LDA, Paco de Arcos, Portugal	98%	not included

Indirect investments of STADA Arzneimittel AG through Laboratorio STADA S.L. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Consumer Health, S.L., Barcelona, Spain	100%	not included
STADA Genericos, S.L., Barcelona, Spain	100%	not included
STADA, LDA, Paco de Arcos, Portugal	2%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and Hemofarm A.D. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
AGROVOJVODINA - Vrsac d.o.o., Vrsac, Serbia	100%	not included
Banatska Prica d.o.o., Vrsac, Serbia	50%	not included
Breg d.o.o., Vrsac, Serbia	52.90%	not included
Cajavec sistemi upravljanja A.D., Banja Luka, Bosnia-Herzegovina	100%	subsidiary
Hemofarm Arabia Ltd., Damascus, Syria	50%	not included
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina	78.92%	subsidiary
Hemofarm Inženjering d.o.o., Belgrade, Serbia	100%	subsidiary
Hemofarm Komerc d.o.o., Skopje, Macedonia	99.18%	not included
Hemofarm Sabac d.o.o., Sabac, Serbia	100%	subsidiary
Hemofarm Slovakia, Skalica, Slovakia	54%	not included
Hemofarm S.a.r.l., Constantine, Algeria	40%	not included
Hemofarm USA Corporation, Washington, USA	100%	subsidiary
Hemomont d.o.o., Podgorica, Montenegro	71.02%	subsidiary
HEMOPHARM ENGINEERING Gesellschaft für Planung und Projektierung mbH, Bad Homburg, Germany	100%	subsidiary
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany	100%	subsidiary
HF Pharmasuisse AG, Chur, Switzerland	100%	subsidiary
Jinan Hemofarm Pharmaceuticals, Jinan, China	35.50%	not included
MOJA APOTEKA d.o.o., Vrsac, Serbia	100%	not included
OOO Hemofarm Obninsk, Obninsk, Russia	100%	subsidiary
STADA Hemofarm d.o.o., Ljubljana, Slovenia	100%	not included
STADA Hemofarm d.o.o., Zagreb, Croatia	100%	subsidiary
STADA HEMOFARM Poland Sp. z o.o., Warsaw, Poland	100%	subsidiary
STADA HEMOFARM S.R.L., Temisvar, Romania	100%	subsidiary
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria	100%	subsidiary
Velefarm A.D., Belgrade, Serbia	20.65%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Hemofarm A.D and HF Pharmasuisse AG of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
HF PharmaSwyzz Deutschland GmbH, Bad Homburg, Germany	100%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Hemofarm A.D. and Hemofarm Inženjering d.o.o. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
OOO Hemofarm Inženjering Obninsk, Obninsk, Russia	100%	subsidiary
IZGRADNJA d.o.o., Vrsac, Serbia	15%	not included
Global Project d.o.o., Vrsac, Serbia	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Hemofarm A.D. and Hemofarm Inženjering d.o.o. as well as Global Project d.o.o. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
IZGRADNJA d.o.o., Vrsac, Serbia	60%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Hemofarm A.D. and Hemofarm Sabac d.o.o. of at least 20%:

Name of the company, registered office	Share in capital	Form of consolidation
Zorka Pharma – Hemija Sabac d.o.o., Sabac, Serbia	100%	subsidiary

The exemption rule stated in Section 264 (3) of the HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, LIFE TRANS Pharma Vertriebs GmbH, STADA GmbH, STADA Medical GmbH, STADA R&D GmbH, STADApharm GmbH, STADA Pharma International GmbH and Mobilat Produktions GmbH.

6. Principles for the consolidation of subsidiaries, joint ventures and associated companies

According to IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full – irrespective of the amount of the shareholding – as of the acquisition date at their fair values. If the acquisition costs of the subsidiary acquired exceed the proportionate newly measured net assets of the acquiree, STADA recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized in income in the period of the acquisition. 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 the entity theory, 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 liabilities, expenses and income, as well as earnings between the companies included in the consolidated financial statements are eliminated, inter-company valuation allowances and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Joint ventures are consolidated according to the same principles, in accordance with the respective share in these companies.

Shares in associated companies are recognized according to the equity method at acquisition cost on the date when significant influence was established and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the carrying amount of the investment in the associated company. A negative difference is recognized in income in the period of the acquisition in the results from associated companies. Profit and loss from transactions with associated companies are recognized in the consolidated financial statements only according to the share of non-controlling interests.

If there are indications that the carrying amount of the associated company determined using the equity method may 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 associated company.

7. Currency translation

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 exchange rate at the date of the transaction. Resulting currency translation differences are recognized in income as exchange gains or losses.

The translation of the financial statements prepared in foreign currencies of the companies included in the consolidated financial statements 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 statements are translated in the same way as the respective annual results, 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 important currencies to the euro can be seen in the following chart.

Significant currency relations in local currency to €	Closing rate on Dec. 31 in €			Average rate for the reporting period in €		
	2010	2009	±%	2010	2009	±%
Pound sterling	1.15875	1.11957	3%	1.16624	1.12275	4%
Russian ruble	0.02467	0.02307	7%	0.02487	0.02259	10%
Serbian dinar	0.00948	0.01040	-9%	0.00965	0.01062	-9%
US Dollar	0.75290	0.69915	8%	0.75684	0.71659	6%

8. Business combinations

There were no significant business combinations as defined in IFRS 3 in financial year 2010.

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.

In accordance with the realization principle, **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 include 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 2010.

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.

Income taxes include actual taxes on income and earnings 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 2010 as well as from previous years, if applicable. The tax receivables and liabilities are calculated on the basis of current or soon to be effective tax laws 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. 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 created for future taxable temporary differences. STADA determines deferred taxes on the basis of the tax rates applicable at the balance sheet date or 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 items 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, where a cash-generating unit generally corresponds to a country or a company.

STADA carries out impairment tests for capitalized goodwill at least once a year. Additional reviews take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is determined by ascertaining assets and liabilities as well as corresponding goodwill. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is defined as the higher of the net realizable value, if measurable, and the present value of estimated future net cash inflows from the cash-generating unit. The discounted cash flow method is used to determine anticipated cash inflows, applying an individual interest rate for each cash-generating unit and a planning horizon of three years or, if applicable, five years, based on approved budgets. A specific growth rate in the amount of the respective inflation rate is assumed for the period after this three- or five-year planning horizon elapses.

Other intangible assets with specific useful lives are recognized at cost and amortized on a straight-line basis over the period of 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, copyrights and similar rights is between three and 20 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 carrying amounts determined at amortized cost.

Intangible assets with indefinite 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. 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, construction or production of a qualifying asset are capitalized as part of the cost of the intangible asset or property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original costs.

Profits and losses from the disposal of intangible assets and property, plant and equipment are determined as the difference between the disposal proceeds and the respective carrying amounts and are recognized netted under the items “Other income” or “Other expenses” in the income statement.

Impairments on intangible assets and property, plant and equipment exist when the recoverable amount of an asset is lower than its carrying amount. At each balance sheet, STADA assesses whether indications for impairment are apparent. If this is the case, the asset's recoverable amount is determined. For intangible assets, STADA carries out an annual impairment test in addition to the event-related assessments. In a first step, an amortization calculation (payback method) is prepared. 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 groups of countries with specific parameters. Expenses arising from impairments are recognized under "Other expenses".

To the extent that the reasons for an impairment no longer exist, the necessary write-ups are carried out at a maximum at the amount of the carrying amounts determined at amortized costs. Income from write-ups is reported under "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 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 as well as held-to-maturity securities. Shares in associated companies and 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. Any indications for impairment are determined and recognized in profit or loss by means of an impairment test 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 costs, 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 in principle reported under current assets in 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. Discounted cash flow methods are applied which are based to a large extend 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 and general impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the expected default risk, STADA determines the expected future cash flows from receivables grouped by debtor. To this end, the maturity structures of net receivables and experience relating to derecognition of receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account. In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for German Group companies. The required impairment thus determined reduces the assets' carrying amounts through recognition of an impairment account. The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

Non-current assets and disposal groups held for sale are classified as held for sale, if the related carrying amount will be recovered principally through a sale transaction rather than through continuing use, and if the sale is regarded as highly probable. Measurement of these assets is based on the lower of carrying amount and fair value less costs to sell.

Cash and cash equivalents include cash and call deposits with a maximum remaining term of 90 days as well as short-term and highly liquid financial investments that can be converted to cash immediately and are subject only to minor price fluctuation risks. They are measured at amortized cost. Cash and cash equivalents are reported in accordance with their definition in IAS 7.

Other assets, which are not based on any contractual rights involving the direct or indirect exchange of cash, are recognized under the item **Other assets**.

STADA maintains defined benefit pension plans in various countries, according to which the amount of pension benefits depends on the employees' pensionable remuneration and the length of their service. STADA has plan assets in the context of a reinsurance policy for a small number of former employees. **Pension provisions** are measured in accordance with actuarial principles of the projected unit credit method. Accordingly, the amount recognized in the balance sheet corresponds to the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets adjusted for past service cost not recognized through profit and loss. 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. Percentages contained in individual pension agreements may vary. The interest rate used for determining the present value of the obligations is based on high-quality fixed rate corporate bonds of the respective currency area.

STADA records actuarial gains and losses from adjustments as well as changes in actuarial assumptions in the period in which they occur directly in equity under retained earnings. The relevant amounts are reported separately in the consolidated statement of comprehensive income. Gains on plan assets are reported as interest income. The current service cost is recorded in staff costs of the individual functional areas. Past service cost is only immediately recognized in profit or loss in case of vested entitlements, otherwise it is recognized in profit and loss on a straight-line basis until the benefits become vested.

Other provisions are made by STADA if there are current legal or constructive obligations to third parties arising from past events and probably leading to an outflow of assets that can be reliably determined. An outflow of assets 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 under current 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 prequisite 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. Significant judgments, estimates and changes in estimates

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, the fair value of assets and liabilities assumed is to be determined, in order to subsequently determine goodwill after deduction of acquisition costs. 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, which are based on certain assumptions, are to be determined for this purpose. The application of the discounted cash flow method thus requires the calculation of an individual interest rate for each cash-generating unit. Anticipated cash inflows are determined for each cash-generating unit with a planning horizon of three years or, if applicable, five years, based on approved budgets. Subsequent financial years are included in the calculation with an assumed growth rate in the amount of the respective inflation rate. 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 impairment 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.

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.

Pension obligations at STADA are generally covered with defined benefit plans and are calculated using actuarial methods. These methods are based on assumptions in relation to the interest rate, life expectancy, future salary and pension increases and, if applicable, the expected returns on plan assets. 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.

In 2010, the increase in sales compared to 2009 was primarily a result of good sales development in Russia, various Western European countries and Asia, which more than compensated for the sales decreases in Germany and Serbia, among other countries. In the reporting year, exchange rate effects and portfolio changes had a € 23.9 million influence on sales. For information on how sales are broken down according to segments and regions, please refer to Segment Reporting.

12. Cost of sales

Expenses resulting from write-downs of inventories are recognized, among other things, in cost of sales. The cost of sales in financial year 2010 include a total burden in the amount of € 30.3 million (previous year: € 29.9 million) as a result of valuation allowances. In addition, cost of sales also included all costs for logistics which occurred until the completion of the final product. Total material expenses included in cost of sales amounted to € 702.9 million in financial year 2010 (previous year: € 690.8 million). The cost of sales in the reporting year also included depreciation and amortization in the total amount of € 59.6 million (previous year: € 56.3 million).

13. Selling expenses

Selling expenses comprised in addition to the costs for sales departments and sales force also the costs for advertising and marketing activities including samples for doctors. They also include all costs for logistics that occur for completed final products. Discounts in the form of free retail packages, so-called discounts in kind, – if possible under the legal regulations in a national market – are not included. The resulting expenses are recognized as a part of cost of sales.

In the reporting year, marketing expenses in the amount of € 115.7 million (previous year: € 103.9 million) corresponded to a share of 31% (previous year: 30%) of selling expenses. In addition, selling expenses include depreciation in the amount of € 7.0 million (previous year: € 7.3 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 2010, the general and administrative expenses included depreciation in the amount of € 6.8 million (previous year: € 8.7 million). General and administrative expenses increased in the reporting year by a total of € 0.4 million.

15. Research and development expenses

For information on the composition of research and development expenses, please refer to the details included in Accounting Policies.

In financial year 2010, research and development expenses increased by € 8.3 million compared to the previous year. The increase results, among other things, from expenses due to the suspension of the biosimilar project for the development of monoclonal antibodies. The research and development expenses include depreciation in the amount of € 2.8 million (previous year: € 2.8 million). Development costs for new products in the amount of € 13.3 million (previous year: € 14.8 million) were capitalized in financial year 2010 (see the note on the item “Intangible assets”).

16. Other income

Other income is divided into the following items:

in € 000s	2010	2009
Income from write-ups	1,078	2,701
Income from disposal of fixed assets	-	853
Currency translation gains	10,019	-
Remaining other income	29,289	29,888
Total	**40,386**	**33,442**

In the reporting year, income from write-ups in the amount of € 1.1 million was quantified as a special effect.

In addition, other income included net currency translation income in the amount of € 10.0 million. In the previous year, net currency translation expenses in the amount of € 4.1 million were recognized in other expenses.

In financial year 2010, other income included a net relief on earnings due to currency influences in the form of currency translation income from a Russian subsidiary in connection with loans from an earlier acquisition financing in the amount of € 2.4 million that have since been paid off, which was considered as a special effect in the reporting year.

The remaining other income includes such items as income from insurance compensation, compensation claims and other income not directly associated with functional costs, which comprises many insignificant individual items in the Group companies.

17. Other expenses

Other expenses are broken down as follows:

in € 000s	2010	2009
Expenses from valuation allowances on accounts receivable	27,028	11,242
Losses on the disposal of fixed assets	506	-
Currency translation expenses	-	4,063
Impairment losses on fixed assets excluding goodwill[1)]	21,708	15,208
Impairment losses on goodwill	4,043	-
Remaining other expenses	17,594	16,706
Total	**70,879**	**47,219**

1) In addition, impairment losses in the amount of € 5.8 million were recognized as expenses in connection with the “STADA – build the future” project.

Expenses for valuation allowances on accounts receivable, which are recognized netted with the corresponding write-ups, include write-downs on receivables from Serbian wholesalers as a result of liquidity problems in the amount of € 23.2 million, which were considered by STADA as a special effect of financial year 2010, due to the expected one-time character of these write-downs.

Other expenses include impairment losses in the amount of € 25.8 million, of which € 4.0 were million impairment losses on goodwill, which related to Ciclum Farma LDA and Croma Medic Inc. The impairment losses are considered by STADA as as a special effect of financial year 2010.

Net losses on the disposal of non-current assets amounted to € 0.5 million. In the previous year, net income from the disposal of non-current assets in the amount of € 0.9 million was recognized in other income.

Within remaining other expenses, personnel expenses in the amount of € 5.6 million (previous year: € 5.3 million) are recognized, of which € 2.1 million relates to special effects of financial year 2010 due to management changes at STADA subsidiaries.

The expenses in connection with the “STADA – build the future” project, which were included under general and administrative expenses in the previous year and are now reported separately, amounted in the financial year to € 16.2 million (previous year: € 2.2 million).

18. Financial result

The **result from associated companies** relates to the companies BIOCEUTICALS Arzneimittel AG and Pymepharco Joint Stock Company, which are accounted for using the equity method.

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	2010	2009
Interest income	3,338	4,047
Interest expenses	56,694	51,884
Interest result	**53,356**	**47,837**
thereof: from financial instruments of the valuation categories in accordance with IAS 39:		
• Loans and receivables	3,338	4,047
• Financial assets at fair value through profit an loss	-	-
• Held-to-maturity investments	-	-
• Available-for-sale financial assets	-	-
• Financial liabilities measured at amortized costs	-54,268	-48,916

The interest expense included an amount of € 1.2 million (previous year: € 0.8 million) resulting from the reclassification of the provisions for cash flow hedges.

In addition, the interest result in financial year 2010 included interest expenses from the measurement of pension provisions in the amount of € 2.4 million (previous year: € 2.1 million).

In financial year 2010, the Group refinanced itself at interest rates of between 1.0% p.a. and 19.2% p.a. (previous year: between 1.1% p.a. and 11.0% p.a.). On the balance sheet date of December 31, 2010, the weighted average interest rate for non-current financial liabilities was approx. 5.1% p.a. (previous year: approx. 4.5% p.a.) and for current financial liabilities approx. 7.0% p.a. (previous year: approx. 3.0% p.a.).

Interest payments resulting from interest rate swaps designated by STADA as hedging instruments in cash flow hedges are netted for each swap contract and, depending on the net amount, are recognized as interest income or interest expense in the valuation category of the associated underlying hedged item. For the reporting period, this concerns only financial liabilities that are measured at amortized costs.

Borrowing costs capitalized as part of the cost of qualifying assets amounted to € 0.2 million in financial year 2010 (previous year: € 0.2 million). A capitalization rate of 3.8% for intangible assets (previous year: 5.7%) and 3.6% for property, plant and equipment (previous year: 3.6%) was taken as a basis for this.

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

in € 000s	2010	2009
Other financial income	**480**	**6,883**
thereof:		
• from the measurement of financial instruments	480	6,883
Other financial expenses	**166**	**9,971**
thereof:		
• from the measurement of financial instruments	-	9,971
• from the disposal of financial instruments	166	-

In the reporting period, income from the measurement and expenses from the disposal of financial instruments resulted exclusively from interest rate swaps measured at fair value with an effect on income. There was a net relief on earnings in the amount of € 0.3 million before or € 0.2 million after taxes. In the previous year, there was a burden on earnings from the measurement of derivative financial instruments in the amount of € 3.1 million before or € 2.1 million after taxes. The measurement of interest rate hedge transactions depends on the development of the money market interest rate.

19. Taxes on income

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

in € 000s	2010	2009
Actual taxation	**43,405**	**40,591**
Germany	5,520	7,067
Outside Germany	37,885	33,524
Deferred taxes	**-2,928**	**197**
Germany	3,902	5,203
Outside Germany	-6,830	-5,006

The item “Taxes on income” 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	2010	2009
Actual income taxes	**43,405**	**40,591**
Tax expense in the current period	44,510	38,649
Tax expense from previous periods	23	5,494
Tax income from previous periods	1,128	3,552

The deferred taxes are as follows:

in € 000s	2010	2009
Deferred taxes	**-2,928**	**197**
from temporary differences	-4,307	-1,238
from interest carryforwards	1	-
from loss carryforwards	1,095	1,396
from tax credits	283	39

The income tax rate amounted to 37.1% for financial year 2010. For Germany, this includes corporation tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% on the corporation tax as well as trade income tax with an average assessment rate of 320%. The income tax rate in the previous year was 28.8%. The increase can be attributed, among other things, to a structurally changed regional profit allocation within the scope of improved net profit. For the coming years, a decreasing tax rate is once again anticipated.

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 national tax rates applicable to their various legal forms.

in € 000s	2010	2009
Earnings before taxes	**109,047**	**141,536**
Weighted expected Group average tax rate (in %)	26.1%	25.2%
Expected income tax expense	**28,463**	**35,631**
Adjustments to the expected income tax expense	**-**	**-**
Tax effects from non-deductible impairment on investments	2,317	-
Tax effects from loss carryforwards	656	1,052
Tax effects from previous years	-89	5,045
Effects from tax rate changes	-	-
Tax effects from non-deductible expenses	8,115	14,063
Other tax effects	1,015	-15,003
Income tax expense shown on the income statement	**40,477**	**40,788**
Effective tax rate (in %)	37.1%	28.8%

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

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Income tax receivables	34,943	31,383
Income tax liabilities	30,803	21,823

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Deferred tax assets	29,717	22,517
Deferred tax liabilities	65,018	64,662
Deferred taxes as of December 31	-35,301	-42,145
Difference compared to previous year	6,844	1,880
thereof:		
• recognized in income	2,928	197
• recognized directly in equity	2,554	426
• acquisitions/disposals	123	-1
• currency translation differences	1,239	1,258

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

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

in € 000s	Dec. 31, 2010 Deferred tax assets	Dec. 31, 2009 Deferred tax assets	Dec. 31, 2010 Deferred tax liabilities	Dec. 31, 2009 Deferred tax liabilities
Intangible assets	1,617	1,629	57,962	56,982
Property, plant and equipment	2,210	1,384	11,620	11,703
Financial assets	927	1,274	360	-
Inventories	12,785	9,003	2,461	2,583
Receivables	2,429	2,086	39	84
Other assets	4,609	2,850	8	11
Pension provisions	3,478	1,710	228	-
Other provisions	4,726	1,986	-	172
Liabilities	4,370	6,509	524	447
Loss carryforwards	750	1,406	-	-
Total	**37,901**	**29,837**	**73,202**	**71,982**
Offsetting	-8,184	-7,320	-8,184	-7,320
Deferred taxes as per balance sheet	**29,717**	**22,517**	**65,018**	**64,662**

Tax loss carryforwards are only capitalized if their future utilization is probable. Tax loss carryforwards capitalized as of the December 31, 2010 reporting date amounted to € 5.9 million (previous year: € 10.9 million) in financial year 2010. The deduction of operating expenses for interest, which is limited under German tax law (so-called interest barrier), led to an net interest expense not deductible for tax purposes in the amount of € 14.3 million (previous year: € 16.3 million) in 2010. Deferred taxes could not be recognized, which led to a corresponding additional tax burden of € 3.4 million (previous year: € 3.9 million).

The taxes on income paid or owed were reduced by a total of € 1.0 million through the utilization of tax losses carried forward from previous years and tax credits.

The future usable tax loss carryforwards are listed in the following chart according to their expiry date:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Loss carryforward expiry date within		
• 1 year	836	19
• 2 years	-	-
• 3 years	-	-
• 4 years	-	-
• 5 years	-	-
• more than 5 years	3,787	1,166
• unlimited carryforward	354	9,316

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, 2010	Dec. 31, 2009
Loss carryforward expiry date within		
• 1 year	-	-
• 2 years	-	-
• 3 years	-	-
• 4 years	-	-
• 5 years	-	-
• more than 5 years	2,194	2,414
• unlimited carryforward	-	-
Temporary differences	-	-

A rotational tax audit of STADA Arzneimittel AG for financial years 2003 until 2006 was completed in the reporting year. The results of this audit were taken into account in the consolidated financial statements of the 2010 financial year.

20. Income attributable to non-controlling interests

in € 000s	2010	2009
Earnings after taxes	68,570	100,748
• thereof net income distributable to shareholders of STADA Arzneimittel AG	68,432	100,437
• thereof net income relating to non-controlling interests	138	311

Shares of non-controlling interests are held within the Hemofarm Group, Serbia, as well as in the subsidiary STADA Asiatic. Net income relating to non-controlling interests thus concerns the shares of net income attributable to these minority interests.

21. Earnings per share

The basic and diluted earnings per share are as follows:

Basic earnings per share	2010	2009
Net income (in € 000s)	68,432	100,437
Adjustment	-	-
Adjusted net income (basic) (in € 000s)	**68,432**	**100,437**
Average number of ordinary shares issued (in unit shares)	58,865,610	58,767,320
Average number of treasury shares (in unit shares)	102,118	104,928
Adjusted average number of shares (basic) (in unit shares)	**58,763,492**	**58,662,392**
Basic earnings per share (in €)	**1.16**	**1.71**

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 ordinary shares outstanding.

Diluted earnings per share	2010	2009
Adjusted net income (diluted) (in € 000s)	68,432	100,437
Dilutive effects on profit from share options (after taxes) (in € 000s)	-	-
Adjusted net income (diluted) in € 000s	**68,432**	**100,437**
Adjusted average number of shares (basic) (in unit shares)	58,763,492	58,662,392
Potentially diluting shares from share options (in unit shares)	1,305,110	259,297
Average number of shares (diluted) (in unit shares)	**60,068,602**	**58,921,689**
Diluted earnings per share (in €)	**1.14**	**1.70**

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, taking into account the share price at the reporting date. 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 note on equity.

22. Number of employees and personnel expenses

The average number of employees at STADA developed as follows:

	2010	2009
Sales/marketing	2,546	2,482
Production/procurement	3,760	3,849
Product development	510	491
Administration	1,264	1,242
Entire Group	**8,080**	**8,064**
Personnel expenses (in € million)	**268.6**	**247.2**

The average number of employees was 8,080 in the reporting year (previous year: 8,064) and approximately at the level of the previous year. On the balance sheet date, the STADA Group's number of employees in 2010 totaled 8,024 (previous year: 7,981). Joint ventures that were proportionately consolidated employed an average number of 649 employees in 2010 (previous year: 644).

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, increased in financial year 2010 to € 268.6 million (previous year: € 247.2 million). This total also includes severance compensation for employees affected by the personnel reductions.

23. 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	2010	2009
Depreciation/amortization	**76,316**	**75,132**
Intangible assets	46,077	43,884
Property, plant and equipment	30,239	31,248
Impairment losses	**31,505**	**15,208**
Intangible assets	21,679	13,693
thereof:		
• goodwill	4,043	-
Property, plant and equipment	5,754	1,180
thereof:		
• land and buildings	4,041	1,180
• technical equipment and machinery	1,713	-
Financial assets	4,072	335
thereof:		
• investments	4,072	335

In 2010, the increased impairment compared to the previous year results from the impairment recognized in the reporting year for goodwill of a Portuguese and a Philippine subsidiary, considerably increased impairment for financial assets as well as increased impairment for property, plant and equipment due to the disposal of the Dutch packaging unit in Etten-Leur.

Depreciation and amortization increased by approx. 1.6% compared to the previous year. More information on depreciation, amortization and impairment is included in the notes on fixed assets.

Notes to the Consolidated Balance Sheet

24. Intangible assets

Intangible assets developed as follows in financial year 2010:

in € 000s	Regulatory drug approvals, trademarks, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2010	**850,929**	**351,705**	**129,499**	**1,332,133**
Currency translation	-11,703	-4,218	-467	-16,388
Changes in the scope of consolidation	-	-	-	-
Acquisitions	38,285	-	32,208	70,493
Disposals	3,759	-	486	4,245
Transfers	22,882	-	-22,924	-42
Cost as of Dec. 31, 2010	**896,634**	**347,487**	**137,830**	**1,381,951**
Accumulated amortization as of Jan. 1, 2010	**280,278**	**20,460**	**31,308**	**332,046**
Currency translation	-1,269	109	-	-1,160
Changes in the scope of consolidation	-	-	-	-
Amortization	46,077	-	-	46,077
Impairments	11,096	4,043	6,540	21,679
Disposals	1,384	-	193	1,577
Write-ups	1,078	-	-	1,078
Transfers	48	-	-36	12
Accumulated amortization as of Dec. 31, 2010	**333,768**	**24,612**	**37,619**	**395,999**
Residual carrying amounts as of Dec. 31, 2010	**562,866**	**322,875**	**100,211**	**985,952**
Residual carrying amounts as of Dec. 31, 2009	**570,651**	**331,245**	**98,191**	**1,000,087**

Included in intangible assets was software in the amount of € 10.5 million (previous year: € 11.7 million), which was recognized with the present value of the minimum lease payments in accordance with IAS 17 in the context of a sale-and-leaseback transaction carried out in financial year 2009, and which has since been amortized.

The umbrella brand Hemofarm acquired 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 of December 31, 2010, it has a carrying amount of € 54.6 million (previous year: € 59.9 million), the change compared to the previous year figure is a result of different exchange rates.

Borrowing costs capitalized in 2010 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to € 0.05 million (previous year: € 0.01 million). In financial year 2010, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 3.8% (previous year: 5.7%).

Development costs of € 13.5 million were capitalized in financial year 2010 (previous year: € 14.9 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 2010, these development costs amounted to € 54.9 million (previous year: € 46.6 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 € 46.1 million (previous year: € 43.9 million).

In financial year 2010, impairments on intangible assets were recognized in the total amount of € 21.7 million.

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

Intangible assets developed as follows in the previous year:

in € 000s	Regulatory drug approvals, trademarks, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2009	**812,506**	**364,922**	**119,169**	**1,296,597**
Currency translation	-12,446	-7,770	-733	-20,949
Changes in the scope of consolidation	57	-5,723	-152	-5,818
Additions	30,997	276	42,523	73,796
Disposals	11,246	-	958	12,204
Transfers	31,061	-	-30,350	711
Cost as of Dec. 31, 2009	**850,929**	**351,705**	**129,499**	**1,332,133**
Accumulated amortization as of Jan. 1, 2009	**245,194**	**25,810**	**24,741**	**295,745**
Currency translation	-1,640	191	-	-1,449
Changes in the scope of consolidation	40	-5,541	-72	-5,573
Amortization	43,884	-	-	43,884
Impairments	6,815	-	6,878	13,693
Disposals	11,553	-	-	11,553
Write-ups	2,473	-	228	2,701
Transfers	11	-	-11	-
Accumulated amortization as of Dec. 31, 2009	**280,278**	**20,460**	**31,308**	**332,046**
Residual carrying amounts as of Dec. 31, 2009	**570,651**	**331,245**	**98,191**	**1,000,087**
Residual carrying amounts as of Dec. 31, 2008	**567,312**	**339,112**	**94,428**	**1,000,852**

The following amortization expense is expected for the intangible assets recognized in financial year 2010 in the next five years:

in € million	Expected amortization
2011	43,874
2012	46,165
2013	47,277
2014	48,918
2015	50,602

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

in € million	Residual carrying amount Dec. 31, 2010	Residual carrying amount Dec. 31, 2009
Hemofarm A.D. subgroup, Serbia	108.2	118.5
OAO Nizhpharm/MAKIZ group, Russia	70.2	65.7
Laboratorio STADA S.L., Spain	56.5	56.5
Britannia Pharmaceuticals Ltd., United Kingdom	21.5	18.6
Ciclum Farma Unipessoal LDA, Portugal	20.8	24.3
Clonmel Healthcare Limited, Ireland	10.8	10.8
Other	34.9	36.8
Total	**322.9**	**331.2**

STADA generally defines a cash-generating unit as one country or one company in accordance with the Group's strategic planning and control by region. Goodwill of the MAKIZ group and OAO Nizhpharm, both Russia, are grouped together as one cash-generating unit because of their structural network.

In comparison with the previous year, there were the following significant changes in the carrying amounts of goodwill:

- at the subgroup Hemofarm A.D., Serbia, as well as OAO Nizhpharm/MAKIZ group, Russia, as a result of changes in the currency rates,
- at Ciclum Farma, Unipessoal, LDA, Portugal, as a result of impairment losses.

In the context of the impairment test for capitalized goodwill, the discounted cash flow method is used to determine anticipated cash inflows, applying the following parameters defined for the individual cash-generating units:

in € million	Growth rates in %	Discount rates in %
Hemofarm subgroup A.D., Serbia	8.9%	18.4%
OAO Nizhpharm/MAKIZ group, Russia	7.5%	18.9%
Euro area	0.7% – 3.2%	8.4% – 12.5%
Other	2.8%	19.7%

The discounted cash flow method is used to determine anticipated cash inflows, applying an individual interest rate for each cash-generating unit and a planning horizon of three or, if applicable, five years, based on approved budgets. For the period after this three- or five-year planning horizon, a specific growth rate in the amount of the respective inflation rate is assumed.

Based on existing knowledge and expectations related to the market and competitive environment for Ciclum Farma, Unipessoal, LDA, Paco de Arcos, Portugal, as well as Croma Medic, Inc., Manila, the Philippines, the impairment tests carried out in the reporting year resulted in an impairment requirement in the amount of € 4.0 million. The impairment tests in the previous year had shown no impairment regarding goodwill of any cash-generating unit.

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. If, for example, the underlying discount rates had been 0.5 percentage points higher or lower, impairment losses would have been € 1.2 million higher or € 1.3 million lower as of December 31, 2010. An increase or decrease of the growth rate by 0.5 percentage points, would have resulted in an impairment loss € 0.7 million lower or € 0.6 million higher as of December 31, 2010.

25. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2010:

2010 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, 2010	**229,671**	**175,121**	**81,215**	**20,232**	**506,239**
Currency translation	-5,402	-2,496	-1,641	-79	-9,618
Changes in the scope of consolidation	-	-	-	-	-
Additions	3,071	4,833	5,438	17,426	30,768
Disposals	10,662	11,479	4,508	1,431	28,080
Changes in non-current assets held for sale and disposal groups	582	-	-	-	582
Transfers	15,810	4,876	4,299	-24,507	478
Cost as of Dec. 31, 2010	**233,070**	**170,855**	**84,803**	**11,641**	**500,369**
Accumulated depreciation as of Jan. 1, 2010	**60,131**	**91,071**	**45,993**	**11**	**197,206**
Currency translation	-2,168	-1,560	-1,423	-11	-5,162
Changes in the scope of consolidation	-	-	-	-	-
Amortization	7,332	13,814	9,093	-	30,239
Impairments	4,041	1,713	-	-	5,754
Disposals	10,045	11,410	4,286	-	25,741
Transfers	23	283	-201	-	105
Accumulated depreciation as of Dec. 31, 2010	**59,314**	**93,911**	**49,176**	**-**	**202,401**
Residual carrying amounts as of Dec. 31, 2010	**173,756**	**76,944**	**35,627**	**11,641**	**297,968**
Residual carrying amounts as of Dec. 31, 2009	**169,540**	**84,050**	**35,222**	**20,221**	**309,033**

In the reporting year, property, plant and equipment included vehicles and passenger cars from finance leases in the amount of € 1.2 million, which, in accordance with IAS 17, was recognized at the present value of minimum lease payments and since then subjected to depreciation.

Valuation allowances on land and buildings are due to the disposal of the Dutch packaging unit in Etten-Leur in financial year 2010.

Borrowing costs capitalized in 2010 in property, plant and equipment amounted to € 0.1 million (previous year: € 0.2 million). The capitalization rate taken as a basis for determining borrowing costs eligible for capitalization amounted to 3.6% (previous year: 3.6%).

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

2009 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, 2009	**221,908**	**160,861**	**78,690**	**31,682**	**493,141**
Currency translation	-5,917	-4,644	-1,910	-604	-13,075
Changes in the scope of consolidation	374	111	236	-462	259
Additions	2,113	9,172	8,423	31,121	50,829
Disposals	464	8,716	8,761	415	18,356
Changes in non-current assets held for sale and disposal groups	-3,479	-	-	-	-3,479
Transfers	15,136	18,337	4,537	-41,090	-3,080
Cost as of Dec. 31, 2009	**229,671**	**175,121**	**81,215**	**20,232**	**506,239**
Accumulated depreciation as of Jan. 1, 2009	**53,848**	**86,056**	**46,081**	**535**	**186,520**
Currency translation	-1,747	-2,212	-1,177	364	-4,772
Changes in the scope of consolidation	488	29	5	-	522
Depreciation	8,254	14,646	8,348	-	31,248
Impairments	1,180	-	-	-	1,180
Disposals	412	7,447	7,265	-	15,124
Transfers	-1,480	-1	1	-888	-2,368
Accumulated depreciation as of Dec. 31, 2009	**60,131**	**91,071**	**45,993**	**11**	**197,206**
Residual carrying amounts as of Dec. 31, 2009	**169,540**	**84,050**	**35,222**	**20,221**	**309,033**
Residual carrying amounts as of Dec. 31, 2008	**168,060**	**74,805**	**32,609**	**31,147**	**306,621**

26. Financial assets

Financial assets developed as follows in financial year 2010:

2010 in € 000s	Shares in associated companies and other investments	Other financial assets	Total
Cost as of Jan. 1, 2010	**30,058**	**40**	**30,098**
Currency translation	-1,352	-	-1,352
Changes in the scope of consolidation	-55	-	-55
Additions	7,995	-	7,995
Disposals	285	26	311
Changes in non-current assets held for sale and disposal groups	2,103	-	2,103
Transfers	-10,128	-	-10,128
Cost as of Dec. 31, 2010	**28,336**	**14**	**28,350**
Accumulated impairments as of Jan. 1, 2010	**10,529**	**3**	**10,532**
Currency translation	-685	-	-685
Impairments	4,072	-	4,072
Disposals	-12	-	-12
Accumulated impairments as of Dec. 31, 2010	**13,928**	**3**	**13,931**
Residual carrying amounts as of Dec. 31, 2010	**14,408**	**11**	**14,419**
Residual carrying amounts as of Dec. 31, 2009	**19,529**	**37**	**19,566**

Financial assets developed as follows in the previous year:

2009 in € 000s	Shares in associated companies and other investments	Other financial assets	Total
Cost as of Jan. 1, 2009	31,271	40	31,311
Currency translation	-1,174	-	-1,174
Changes in the scope of consolidation	-138	-	-138
Additions	125	-	125
Disposals	26	-	26
Cost as of Dec. 31, 2009	30,058	40	30,098
Accumulated impairments as of Jan. 1, 2009	10,497	3	10,500
Currency translation	-277	-	-277
Impairments	335	-	335
Disposals	26	-	26
Accumulated impairments as of Dec. 31, 2009	10,529	3	10,532
Residual carrying amounts as of Dec. 31, 2009	19,529	37	19,566
Residual carrying amounts as of Dec. 31, 2008	20,774	37	20,811

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 sale these financial assets. Held-to-maturity financial investments are recognized under other financial assets.

27. Investments in associates

The disclosure relates to the accounting of shares in the associated companies BIOCEUTICALS Arzneimittel AG and for the first time Pymepharco Joint Stock Company using the equity method. These shares developed as follows in financial year 2010 compared with the previous year:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
As of January 1, 2010	7,200	4,388
Increase in investment share	10,128	3,077
Total income from associates	106	-265
Elimination of dividend income	-95	-
Currency translation differences	-7	-
As of December 31, 2010	17,332	7,200

28. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Trade accounts receivable from third parties	495,543	442,094
Trade accounts receivable from non-consolidated companies	8,948	5,141
Valuation allowances vis-à-vis third parties	-55,545	-25,162
Total	**448,946**	**422,073**

Of the total amount of trade receivables, € 44.0 million (previous year: € 2.6 million) are due after one year. The strong increase compared to the previous year is primarily due to a restructuring plan introduced in the third quarter of 2010, in accordance with which receivables from a Serbian wholesaler were re-negotiated. As a result, outstanding receivables are to be paid on a gradual basis over the long-term as part of fixed payment plans.

Non-impaired trade accounts receivable from third parties are hedged in the amount of € 27.6 million, of which € 6.5 million relates to property liens pledged as security.

The following non-impaired trade accounts receivable were past due at the balance sheet date:

			thereof: not impaired as at the balance sheet date and past due in the following time periods:			
in € 000s	Carrying amount	thereof: neither impaired nor past due as at the balance sheet date	up to 30 days	between 31 and 90 days	between 91 and 180 days	more than 180 days
Dec. 31, 2010	448,946	393,292	26,618	12,996	8,228	7,812
Dec. 31, 2009	422,073	365,872	23,759	16,226	8,972	7,244

Non-impaired receivables exist generally with customers of impeccable financial standing. There were no recognizable indications as of the balance sheet date that the debtors would not meet their payment obligations. Therefore, the trade accounts receivable neither impaired nor past due are considered to be unconditionally recoverable.

Overall, valuation allowances on trade accounts receivable developed as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
As of January 1, 2010	25,162	15,798
Added	29,693	12,518
Utilized	107	1,387
Reversed	2,665	1,276
Currency translation differences	3,462	-491
As of December 31, 2010	55,545	25,162

In 2010, the largest special effect reported under other expenses in the amount of € 23.2 million resulted from value adjustments on receivables from Serbian wholesalers due to liquidity problems against the backdrop of the current economic situation as a result of the global financial and economic crisis.

29. Other financial assets

Other financial assets are composed as follows:

	Dec. 31, 2010		Dec. 31, 2009	
in € 000s	Total	thereof: current	Total	thereof: current
Loan receivables	32,407	584	41,200	4,431
Outstanding purchase price receivables	1,746	1,146	3,688	900
Derivative financial assets	109	109	733	733
Available-for-sale financial assets	71	71	63	63
Other financial assets	16,328	14,284	21,879	21,079
Total	50,661	16,194	67,563	27,206

Loans, at € 31.8 million (previous year: € 36.8 million), primarily include loans granted by STADA Arzneimittel AG to BIOCEUTICALS Arzneimittel AG.

The outstanding purchase price receivables recognized in financial year 2010 primarily result, as in the previous year, from a partial amount of the purchase price receivable from the disposal of Health Vision Enterprise Ltd. in the fourth quarter of 2009.

The derivative financial assets include the positive market values of foreign currency derivatives (see also Note 46.7.). Available-for-sale financial assets are shares that are measured at fair value based on market prices.

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

All financial receivables included in other financial assets are neither past due nor impaired.

30. Other assets

Other assets are composed as follows:

in € 000s	Dec. 31, 2010 Total	Dec. 31, 2010 thereof: current	Dec. 31, 2009 Total	Dec. 31, 2009 thereof: current
Other receivables due from the tax authorities	12,094	12,094	8,604	8,604
Prepaid expenses/deferred charges	7,719	6,830	8,662	8,044
Assets from overfunded pension plans	-	-	760	-
Other assets	18,908	18,202	16,780	14,046
Total	**38,721**	**37,126**	**34,806**	**30,694**

In 2009, plan assets of two foreign subsidiaries exceeded their respective pension obligations and assets resulting from over-funded pension plans were recognized under other assets. In financial year 2010, the pension obligations of these companies exceeded the plan assets and were recognized under other non-current provisions.

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

31. Inventories

Inventories can be subdivided as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Materials and supplies	61,870	56,147
Work in progress	15,851	15,972
Finished goods	301,409	297,665
Advance payments	6,958	5,199
Total	**386,088**	**374,983**

In financial year 2010, impairments were made on the net realizable value in the amount of € 30.3 million (previous year: € 29.9 million), which were already deducted from the amounts recognized above through profit and loss.

The total material costs incurred in cost of sales amount to € 702.9 million (previous year: € 690.8 million).

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

The carrying amounts are allocated to the major classes of assets as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Property, plant and equipment	2,884	3,479
Financial assets	-	2,103
Non-current assets and disposal groups held for sale	**2,884**	**5,582**

In financial year 2010, the asset held for sale in the amount of € 2.9 million was property and buildings of a STADA subsidiary in England, which is to be allocated to the brands operating segment. In the previous year, further property, buildings as well as an investment were recognized here, which were reclassified to non-current assets as of the balance sheet date.

33. Cash and cash equivalents

Cash and cash equivalents comprise checks, cash and bank balances. All assets recognized here have an original term of up to three months. 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 of cash and cash equivalents from € 156.9 million as of December 31, 2009 to € 199.1 million as of December 31, 2010 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.

34. Equity

Group equity amounted to € 868.5 million as of the balance sheet date (previous year: € 869.7 million). This corresponds to an equity-to-assets ratio of 34.6% (previous year: 35.5%).

34.1. Subscribed capital

As of December 31, 2010, share capital amounted to € 153,078,536[1)] million and was divided into 58,876,360 registered shares with restricted transferability (previous year: 58,849,820), 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 2010 was due to the exercise of 1,327 options from STADA warrants 2000/2015 in 2010. The number of shares as of December 31, 2010 thereby increased by 26,540 to 58,876,360 and the share capital of STADA Arzneimittel AG increased by € 69,004 to € 153,078,536[1)]. As of December 31, 2010, 175,693 warrants 2000/2015 for the subscription of 3,513,860 STADA ordinary shares continued to be outstanding.

1) Before deducting treasury shares.

Another 95 warrants were exercised prior to the preparation of the financial statements by the Executive Board on March 14, 2011. The number of shares thereby rose by 1,900 to 58,878,260 and the share capital increased by € 4,940 to € 153,083,476[1]. Thus, as of March 14, 2011, 175,598 warrants 2000/2015 for the subscription of 3,511,960 STADA ordinary shares were still outstanding.

As of December 31, 2010, authorized share capital and conditional capital were comprised as follows:

	Amount in €	Registered shares with restricted transferability	Purpose
Authorized capital 2008	76,346,010.00	29,363,850	Increase of share capital (until June 10, 2013)
Conditional capital 2004/I	9,136,036.00	3,513,860	Settlement of subscription rights from share options (STADA warrants 2000/2015)
Conditional capital 2008/II	66,823,458.00	25,701,330	Settlement of options and/or conversion rights (until June 9, 2013) in context with issued bonds with warrants and/or convertible bonds in the total nominal amount of up to € 1.0 billion and a maturity of up to 20 years, or in the scope of a guarantee assumed for bonds with warrants and/or convertible bonds issued by subordinated Group companies

In accordance with a declaration published on the Company's website on June 10, 2008, the Executive Board resolved, with regard to the authorizations listed above

- to increase the share capital from authorized share capital and
- to issue bonds with warrants and/or convertible bonds,

in each case with regard to the exclusion of subscription rights only subject to the following restrictions:
The Executive Board will utilize these authorizations only to an aggregate amount of 20% of the outstanding share capital at the time of the first effective date of one of above-mentioned authorizations or – if this amount is lower – at the time of the first utilization of one of the above-mentioned authorizations. The capital increases by way of excluding the subscription rights of the shareholder on the basis of the aforementioned authorizations are limited to a maximum amount of € 30,538,404.00, corresponding to 11,745,540 registered shares with restricted transferability.

34.2. Capital reserve

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in equity and include in particlar 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.

1) Before deducting treasury shares.

34.3. Retained earnings

Retained earnings include the amounts transferred to retained earnings. In addition, actuarial gains and losses from defined benefit plans that were recognized directly in equity are reported under this item.

34.4. Other provisions

Other provisions comprise net income for the financial year as well as earnings generated in previous periods, provided these were not transferred to retained earnings or distributed. They also include results recognized directly in equity. This relates 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.

34.5. Treasury shares

As of the balance sheet date, the Company held 100,706 treasury shares (previous year: 103,555), each with an arithmetical par value of € 2.60 per share, which is equivalent to 0.2% (previous year: 0.2%) of the share capital. In financial year 2010, 2,849 treasury shares were thereby sold at an average price of € 24.11.

34.6. Shares relating to non-controlling shareholders

Shares of non-controlling shareholders relate to minority interests of other shareholders in companies of the Hemofarm Group as well as in STADA Asiatic.

35. Other non-current provisions

Other non-current provisions related to pension provisions made by STADA as of the balance sheet date in Germany and outside Germany as follows[1)]:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Germany	26,685	19,601
Outside Germany	5,927	4,581
Total	**32,612**	**24,182**

In Germany, STADA has plan assets in the form of a reinsurance policy for a small number of former employees, which is used to serve the pension entitlements of these employees. The pension entitlements of all other employees are covered in the scope of the pension provisions recognized. In addition, there are plan assets in two foreign subsidiaries. Due to an excess of these plan assets, they were recognized in the previous year under other assets. In financial year 2010, the pension obligations of these companies exceeded the plan assets and were recognized under pension provisions. The respective opening balance figures are shown in the following charts as reclassifications of assets in financial year 2010.

1) The following details also include, apart from non-current pension provisons, current pension provisions in the amount of € 723,000 reported under other provisions (previous year: € 692,000).

For German Group companies, pension provisions developed as follows:

Projected benefit obligations for pension commitments in € 000s	2010	2009
As of January 1, 2010	26,142	24,429
Current service cost	759	895
Interest cost	1,418	1,574
Actuarial gains (-)/losses (+)	6,520	-197
Benefits paid	-575	-559
Business combinations	1,122	-
As of December 31, 2010	35,386	26,142

For international Group companies, pension provisions developed as follows:

Projected benefit obligations for pension commitments in € 000s	2010	2009
As of January 1, 2010	4,581	4,560
Current service cost	815	304
Interest cost	1,008	498
Actuarial gains (-)/losses (+)	8,046	-
Benefits paid	-774	-144
Transfer from/to liabilities	1,186	324
Transfer to assets	15,849	-
Employee contributions	46	-
Curtailments	-1,545	-
Currency changes	-2,326	-288
Other	59	-673
As of December 31, 2010	26,945	4,581

The fair value of plan assets underlying the pension obligations developed as follows:

Fair value of plan assets in € 000s	2010	2009
As of January 1, 2010	6,541	5,679
Expected income from plan assets	1,086	281
Actuarial gain (-) / loss (+)	3,176	-19
Employer contributions	1,772	600
Employee contributions	201	-
Pension payments	-545	-
Transfer of assets	15,821	-
Business combinations	1,350	-
As of December 31, 2010	29,402	6,541

The cumulative value of the actuarial losses recognized in equity under retained earnings amounted in financial year 2010 to € 14.2 million (previous year: € 6.1 million).

The amount of the pension provisions recognized as of the balance sheet date is therefore as follows:

in € 000s	2010	2009
Projected benefit obligations for pension commitments	62,331	30,723
Fair value of plan assets	29,402	6,541
Net obligation	**32,929**	**24,182**
Unrealized past service cost	-317	-
Net liability recognized in balance sheet	**32,612**	**24,182**

Expenses for defined benefit plans totaled € 1.7 million in financial year 2010 (previous year: € 3.0 million) and consisted of the following components:

in € 000s	2010	2009
Current service cost	1,574	1,199
Past service cost	218	-
Interest cost	2,426	2,072
Expected return on plan assets	-1,086	-281
Plan curtailments	-1,545	-
Plan settlements	-	-
Other	87	-
Total	**1,674**	**2,990**

The actual return on plan assets amounted to € 0.7 million in financial year 2010 (previous year: € 0.3 million).

The following actuarial parameters were used as a basis for measuring the pension obligations and pension costs:

Parameters for pension obligations for German Group companies	Dec. 31, 2010	Dec. 31, 2009
Discount rate	4.5%	5.25%
Salary trend	2.5%	2.0%
Benefits trend	1.25%	1.25%

Parameters for pension obligations for international Group companies	Dec. 31, 2010	Dec. 31, 2009
Discount rate	3.1% – 4.5%	6.5% – 12%
Salary trend	0% – 6.5%	1.75% – 10%
Benefits trend	0% – 3.25%	1.75% – 10%

Components of periodic pension costs for German Group companies are as follows:

Components of pension costs for German Group companies in € 000s	2010	2009
Service cost	759	895
Interest cost	1,418	1,574
Net pension cost	2,177	2,469

Components of periodic pension cost for international Group companies are as follows:

Components of pension costs for international Group companies in € 000s	2010	2009
Service cost	815	304
Interest cost	1,008	498
Net pension cost	1,823	802

Overall, the development of pension obligations and plan assets was composed as follows for the reporting year and the two previous financial years, each as of the balance sheet date:

in € 000s	2010	2009	2008
Projected pension obligations	62,331	30,723	28,989
Plan assets	29,402	6,541	5,679
Net obligation	**32,929**	**24,182**	**23,310**

Experiential adjustments of the pension obligations and plan assets were as follows in financial year 2010 and the two previous financial years:

in %	2010	2009	2008
Experiential increase (+)/decrease (-) of pension obligation	+12%	-1%	-11%
Experiential increase (+)/decrease (-) of plan assets	-1%	0%	0%

For financial year 2011, payments in the amount of € 1.5 million are expected for employer contributions to defined benefit plans.

36. 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 bonds		Total	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Remaining terms up to 1 year	186,000	150,000	95,685	340,951	-	-	281,685	490,951
Remaining terms over 1 year to 3 years	279,000	230,500	58,816	16,790	-	-	337,816	247,290
Remaining terms over 3 year to 5 years	50,500	244,000	19,685	22,458	350,000	-	420,185	266,458
Remaining terms over 5 years	-	50,500	23,626	1,078	-	-	23,626	51,578
Financial liabilities	**515,500**	**675,000**	**197,812**	**381,277**	**350,000**	**-**	**1,063,312**	**1,056,277**

The contractually agreed undiscounted cash flows, as of the balance sheet date December 31, 2010, from interest payments on financial liabilities for the coming years can be seen in the following chart:

in € 000s	2011			2012			2013–2015		
	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from financial liabilities	39,611	8,987	237,374	32,709	4,149	61,485	68,751	5,261	685,847

The following cash flows were generated in the previous year:

in € 000s	2010			2011			2012–14		
	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from financial liabilities	19,910	14,312	150,000	16,609	14,162	195,500	18,619	31,149	299,000

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 loan were determined based on the interest rate last fixed before December 31, 2010.

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the notes on the management of liquidity risk (Note 46.5.).

37. Trade accounts payable

Trade accounts payable are composed as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Trade accounts payable to third parties	191,768	154,910
Trade accounts payable to non-consolidated Group companies	4,366	2,635
Advances received on orders from third parties	1,124	3,005
Liabilities from outstanding accounts	36,245	70,990
Total	**233,503**	**231,540**

Of the total amount of trade accounts payable, € 1.4 million (previous year: € 0.03 million) are due after one year.

38. Other financial liabilities

Other financial liabilities can be broken down as follows:

	Dec. 31, 2010		Dec. 31, 2009	
in € 000s	Total	thereof: current	Total	thereof: current
Finance lease liabilities	11,390	2,694	11,727	1,977
Liabilities from derivative financial instruments	9,533	641	22,275	11,683
Other financial liabilities	97,714	89,783	63,742	58,343
Total	**118,637**	**93,118**	**97,744**	**72,003**

Finance lease liabilities relate to a sale-and-leaseback transaction for software in the amount of € 9.8 million (previous year: € 11.7 million) as well as other lease liabilities in 2010 for vehicles and passenger vehicles in the amount of € 1.6 million. Considering interest in the amount of € 1.4 million (previous year € 1.7 million), lease installments payable in subsequent years total € 12.8 million (previous year € 13.5 million). The lease liabilities are due as follows:

	Lease installments		Interest		Liabilities finance lease	
in € 000s	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Remaining term up to 1 year	3,299	2,562	605	585	2,694	1,977
Remaining terms over 1 year to 3 years	6,032	5,125	695	828	5,337	4,297
Remaining terms over 3 year to 5 years	3,478	5,775	119	322	3,359	5,453
Remaining terms over 5 years	-	-	-	-	-	-
Total	**12,809**	**13,462**	**1,419**	**1,735**	**11,390**	**11,727**

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 2010, this continued to relate, as in the previous year, to interest rate swaps, which were partly used as hedging instruments (see Note 46.7.). Within the scope of the maturity date analysis, the following contractually agreed remaining terms resulted for these derivative financial liabilities:

	Derivative financial liabilities	
in € 000s	Dec. 31, 2010	Dec. 31, 2009
Remaining term up to 1 year	641	11,683
Remaining terms over 1 year to 3 years	4,875	2,295
Remaining terms over 3 year to 5 years	4,017	4,764
Remaining terms over 5 years	-	3,533
Total	**9,533**	**22,275**

Other financial liabilities comprise many insignificant individual items in the Group companies and become due in the amount of € 89.8 million (previous year: € 58.3 million) within one year as well as in the amount of € 7.9 million after five years (previous year: € 5.2 million after one year and up to five years and € 0.2 million after five years).

The contractually agreed undiscounted cash flows, as of the balance sheet date December 31, 2010, from interest payments on financial liabilities for the coming years can be seen in the following chart:

in € 000s	2011			2012			2013–2015		
	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from liabilities finance leases	605	-	2,694	418	-	2,664	396	-	6,032
Cash flow from derivatives	4,768	-	-	4,017	-	-	5,902	-	-

The following cash flows were generated in the previous year:

in € 000s	2010			2011			2012–14		
	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from liabilities finance leases	585	-	1,977	473	-	2,089	677	-	7,661
Cash flow from derivatives	6,382	1,065	-	5,915	-	-	9,580	-	-

Included were all financial instruments used by STADA which existed as of December 31, 2010 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 45. and Note 46.7.).

39. Other liabilities

Other liabilities were comprised as follows:

in € 000s	Dec. 31, 2010		Dec. 31, 2009	
	Total	thereof: current	Total	thereof: current
Tax liabilities	13,288	13,288	8,056	8,056
Personnel related liabilities	39,157	34,744	36,701	33,584
Other liabilities	32,902	31,614	31,269	30,095
Total	**85,347**	**79,646**	**76,026**	**71,735**

Other liabilities comprise many insignificant individual items in the Group companies.

40. Other provisions

Other provisions are composed as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Current pension provisions	723	692
Provisions set aside for damages	2,632	2,350
Warranties	6,380	7,448
Total	**9,735**	**10,490**

The development of pension provisions is presented in Note 35.

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, 2010	Dec. 31, 2009
As of January 1, 2010	**2,350**	**15,762**
Added	361	1,113
Utilized	85	10,832
Reversed	37	3,679
Currency translation differences	43	-14
As of December 31, 2010	**2,632**	**2,350**

Provisions for warranties developed as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
As of January 1, 2010	**7,448**	**4,139**
Added	1,553	4,529
Reversed	421	-
Utilized	2,200	1,220
As of December 31, 2010	**6,380**	**7,448**

Other Disclosures

41. 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. The decrease in cash flow from operating activities of € 55.7 million compared to the previous year is, assuming a reduced net income, primarily due to a cash-effective increase of inventories and trade accounts receivable. In the corresponding period of the previous year, a higher cash flow from operating activities was due in particular to a cash-effective decrease of these items.

Cash flow from investment activities reflects the cash outflows for investments reduced by the inflows from disposals. This amounted to € -92.4 million in the reporting year (previous year: € -106.5 million).

In financial year 2010, payments for investments in intangible assets in the amount of € 59.1 million were made, of which € 26.9 million (previous year: € 27.4 million) related to significant investments in intangible assets for the short-term expansion of the product portfolio. Acquisition-related sales growth was generally associated with these investments in the reporting year.

Proceeds from the disposal of non-current assets decreased in the financial year to € 4.7 million (previous year: € 27.3 million). In the previous year, proceeds from the disposal of consolidated companies positively influenced the cash flow from investing activities.

A total of € 6.5 million was spent on investments in shares in consolidated companies in financial year 2010 (previous year: € 9.0 million). This relates to the increase of shares in Pymepharco Joint Stock Company which is included as an associated company in the consolidated financial statements in financial year 2010, as well as final payments for the acquisition of the MAKIZ group carried out in 2007. In the previous year, these included payments for increased stakes in Hemofarm Sabac d.o.o. and for the acquisition of the MAKIZ group.

Proceeds from the disposal of shares in consolidated companies related in the reporting year to the last purchase price installment resulting from the disposal of the Forum Products division carried out in 2008. Disclosures from the previous year primarily resulted from the payment receipt of the final purchase price installment from the sale of STADA Inc. in financial year 2006.

Cash flow from financing activities encompasses payments from changes in financial liabilities, dividend payments and payments for treasury shares as well as additions to shareholders' equity.

Proceeds from the taking up of financial liabilities are characterized by the bond in the amount of € 350 million placed in April of financial year 2010, which was largely utilized for the repayment of other financial liabilities in the second half of the year.

Dividend distribution payments of € 32.3 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2009.

Proceeds from the capital increase are the result of the exercise of STADA warrants 2000/2015 (see Note 34.1.).

Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to € 102.4 million in financial year 2010 (previous year: € 144.0 million).

Free cash flow adjusted for significant exceptional items as well as effects from significant investments in intangible assets and shares in consolidated companies and disposals is calculated as follows:

in € 000s		2010	2009
Cash flow from operating activities		194,750	250,496
+	Influence from outside the accounting period due to the utilization of provisions from 2008 as a consequence of the negative patent decision in Germany in connection with the active pharmaceutical ingredient Olanzapine	-	10,700
Cash flow from investing activities		-92,399	-106,483
+	Payments for investments in shares in consolidated companies	6,452	9,019
+	Payments for significant investments in intangible assets for the short-term expansion of the product portfolio	26,896	27,417
./.	Proceeds from the disposal of shares in consolidated companies	744	16,787
./.	Proceeds from the disposal of intangible assets in significant disposals	-	5,000
Adjusted free cash flow		**134,955**	**169,362**

42. Segment Reporting

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. Reporting of the segment liabilities is waived, as this is without relevance for Group monitoring and for Group reporting.

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.

Accordingly, STADA's operating segments are divided into the two core segments, Generics and Branded Products, as well as into the non-core segment Commercial Business.

Pursuant to STADA's segment definition, which has been used since 2006, Generics are products for the health care market – usually with a drug character – which contain one or several active ingredients whose commercial property rights have expired or will expire shortly and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active pharmaceutical ingredient

or

- the product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have usually expired.

According to STADA's segment definition, which has been used since 2006, Branded Products are products for the health care market which contain one or several active ingredients whose commercial property rights have usually expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products,

or

- the product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on different specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

STADA also conducts business and has equity interests in fields outside the core segments. As a rule, the objective of these activities is to supplement and support the Group's activities in the core segments. Transactions that mainly involve trading and selling – such as in wholesaling activities – are grouped together in the Commercial Business segment. All other income, expenses and assets, which cannot be directly allocated to the segments, as well as the elimination of sales between segments are recognized under the reconciliation Group holdings/other and consolidation.

Disclosures on segment assets according to IFRS 8 relate to non-current assets (intangible assets, property, plant and equipment as well as financial assets).

42.1. Information by operating segment

in € 000s		2010/Dec. 31, 2010	2009/Dec. 31, 2009
Generics	**External sales**	**1,124,219**	**1,115,587**
	Sales with other segments	969	1,967
	Total sales	1,125,188	1,117,554
	Operating profit	145,909	156,286
	Depreciation/amortization	40,979	41,721
	Write-ups	-	-
	Assets (Dec. 31)	845,639	900,560
	Additions to intangible assets and property, plant and equipment	51,399	73,013
Branded Products	**External sales**	**424,956**	**392,612**
	Sales with other segments	2,531	3,048
	Total sales	427,487	395,660
	Operating profit	83,675	74,855
	Depreciation/amortization	28,441	24,013
	Write-ups	-	-
	Assets (Dec. 31)	222,614	197,092
	Additions to intangible assets and property, plant and equipment	38,184	30,400

in € 000s		2010/Dec. 31, 2010	2009/Dec. 31, 2009
Commercial Business	External sales	66,933	51,553
	Sales with other segments	300	235
	Total sales	67,233	51,788
	Operating profit	-18,908	2,680
	Depreciation/amortization	1,613	1,003
	Write-ups	-	-
	Assets (Dec. 31)	3,502	3,073
	Additions to intangible assets and property, plant and equipment	89	97
Reconciliation Group holdings/ other and consolidation	External sales	10,868	9,027
	Sales with other segments	-3,800	-5,250
	Total sales	7,068	3,777
	Operating profit	-48,877	-41,904
	Depreciation/amortization	5,283	8,395
	Write-ups	1,078	2,701
	Assets (Dec. 31)	226,583	227,961
	Additions to intangible assets and property, plant and equipment	11,588	21,115
Group	External sales	1,626,976	1,568,779
	Sales with other segments	-	-
	Total sales	1,626,976	1,568,779
	Operating profit	161,799	191,917
	Depreciation/amortization	76,316	75,132
	Write-ups	1,078	2,701
	Assets (Dec. 31)	1,298,338	1,328,686
	Additions to intangible assets and property, plant and equipment	101,260	124,625

42.2. Reconciliation of segment results to net profit

in € 000s	2010	2009
Operating segment profit	210,676	233,821
Reconciliation Group holdings/other and consolidation	-48,877	-41,904
Result from associated companies	128	-287
Investment income	162	831
Financial income	3,818	10,930
Financial expenses	56,860	61,855
Earnings before taxes, Group	**109,047**	**141,536**

42.3. Reconciliation of segment assets to Group assets

in € 000s	Jan. 1 – Dec. 31, 2010	Jan.1 – Dec. 31, 2009
Segment assets	1,071,755	1,100,725
Reconciliation Group holdings/other and consolidation	226,583	227,961
Other non-current assets	83,112	77,888
Current assets	1,125,283	1,045,155
Total assets, Group	**2,506,733**	**2,451,729**

42.4. Information by region

	Development of sales by the client's registered office		Development of sales by the company's registered office		Non-current assets	
in € 000s	01/01-12/31/2010	01/01-12/31/2009	01/01-12/31/2010	01/01-12/31/2009	01/01-12/31/2010	01/01-12/31/2009
Germany	516,428	531,621	536,376	550,419	407,537	443,629
Russia	221,212	191,884	229,081	195,239	174,568	160,124
Italy	136,782	117,057	136,652	116,955	107,941	97,682
Belgium	134,891	125,684	136,333	126,382	106,449	104,881
Serbia	99,076	118,576	117,824	139,859	78,186	98,950
Rest of Europe	445,171	416,206	431,794	403,649	351,304	347,317
Rest of world	73,416	67,751	38,916	36,276	57,934	56,537
Total, Group	**1,626,976**	**1,568,779**	**1,626,976**	**1,568,779**	**1,283,919**	**1,309,120**

In the presentation of sales by the client's registered office, net sales to third parties generated by consolidated Group companies with clients in national markets that are significant for STADA are shown. 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.

Disclosures on assets by region relate to non-current assets (intangible assets, property, plant and equipment). In order to avoid an arbitrary breakdown, the allocation of assets to regions was based on fixed codes linking sales by the clients' registered offices to regions.

42.5. Information on important 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. In the reporting year, this did not relate to any customers. In financial year 2009, this applied to an international pharmaceutical wholesaler group with which STADA generated sales revenues amounting to a total of € 197.3 million in various international markets in the Generics, Branded Products and Commercial Business segments. This corresponds to a sales share of 12.6%.

43. 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.

At STADA, contingent liabilities concern a guarantee amounting to € 25.0 million with respect to 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. The guarantee assumed with respect to Siegfried Ltd., Zofingen, Switzerland, in the amount of € 6.1 million as of December 31, 2009, no longer existed as of the balance sheet date.

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.

In addition, there are contingent liabilities in connection with legal risks from the pending proceedings. This primarily relates to patent risks for certain active pharmaceutical ingredients. The resulting possible obligations amount to approx. € 7.1 million. Provisions were not created for these, as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be of a short-term nature.

44. 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, 2010	Dec. 31, 2009
Operating lease liabilities	46,760	46,897
Remaining financial obligations	10,941	20,054
Total	**57,701**	**66,951**

Liabilities from operating leases relate particulary 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. Liabilities from financial leases related in financial year 2010 to a sale and lease back transaction for software as well as other lease obligations for vehicles and passenger cars (see Note 24.). The resulting liabilities were recognized under other financial liabilities (see Note 38.).

The total of future minimum lease payments under operating leases amounted as of the end of the financial year to € 46.8 million (previous year: € 46.9 million) and can be broken down according to remaining term as follows:

	Operating lease	
in € 000s	Dec. 31, 2010	Dec. 31, 2009
Remaining term up to 1 year	13,389	14,337
Remaining terms over 1 year to 5 years	24,554	28,177
Remaining terms over 5 years	8,817	4,383
Total	**46,760**	**46,897**

Lease payments in the amount of € 18.4 million (previous year: € 17.5 million) were recognized as an expense in financial year 2010.

The remaining financial liabilities related, among other things, to further guarantees assumed by the STADA Group.

45. Disclosures about financial instruments

45.1. 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, 2010	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	199,102	LaR	199,102			
Trade accounts receivable	448,946	LaR	448,946			
Held-to-maturity financial assets	11	HtM	11			
Available-for-sale financial assets	14,479	AfS	14,408	71		
Derivative financial assets with hedging relationship	-	n/a				
Derivative financial assets without hedging relationship	109	FAHfT			109	
Other financial assets	50,481	LaR	50,481			
Equity and liabilities						
Trade accounts payable	196,134	FLAC	196,134			
Amounts due to banks	197,812	FLAC	197,812			
Promissory notes	515,500	FLAC	515,500			
Bonds	350,000	FLAC	350,000			
Liabilities financial leasing	11,390	n/a				11,390
Derivative financial liabilities with hedging relationship	5,541	n/a		5,541		
Derivative financial liabilities without hedging relationship	3,992	FLHfT			3,992	
Other financial liabilities	97,714	FLAC	97,714			
Thereof aggregated according to valuation categories in accordance with IAS 39:						
Loans and receivables	698,529	LaR	698,529			
Held-to-maturity investments	11	HtM	11			
Available-for-sale financial assets	14,479	AfS	14,408	71		
Financial assets held for trading	109	FAHfT			109	
Financial liabilities measured at amortized costs	1,357,160	FLAC	1,357,160			
Financial liabilities held for trading	3,992	FLHfT			3,992	

	Valuation rate balance sheet in accordance with IAS 39					
Fair Value Dec. 31, 2010	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, 2009
199,102	156,936	156,936				156,936
448,946	422,073	422,073				422,073
11	9	9				9
14,479	19,592	19,529	63			19,592
-	-					-
109	733			733		733
50,481	66,758	66,758				66,758
196,134	157,545	157,545				157,545
199,833	381,277	381,277				381,277
538,217	675,000	675,000				675,000
357,875	-					-
11,390	11,728				11,728	11,728
5,541	5,160		5,160			5,160
3,992	17,115			17,115		17,115
97,714	63,741	63,741				63,741
698,529	645,767	645,767				645,767
11	9	9				9
14,479	19,592	19,529	63			19,592
109	733			733		733
1,389,773	1,277,563	1,277,563				1,277,563
3,992	17,115			17,115		17,115

Since cash and cash equivalents and 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 chart in the case of promissory notes, bonds, as well as non-current liabilities to banks with a maturity of five years. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values.

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	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, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Available-for-sale financial assets (AfS)	71	63	-	-	-	-
Financial assets held for trading (FAHfT)	-	-	109	733	-	-
Financial liabilities held for trading (FLHfT)	-	-	3,992	17,115	-	-
Derivative financial liabilities with a hedging relationship	-	-	5,541	5,160	-	-

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 or currency swaps) not part of a hedging relationship. The fair values were determined using appropriate valuation models. This includes the application of the discounted cash flow methods, which are largely based on input parameters observable in the market. The cash flows which are already fixed or calculated by means of the current yield curve are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the balance sheet date. The same applies for the calculation of the fair values of the derivative financial liabilities with a hedging relationship, which reflect the negative market values of the interest rate swaps used as hedging instruments.

45.2. Net earnings from financial instruments by valuation category

Net earnings recognized in income from financial assets and liabilities can be broken down as follows:

Net earnings by valuation category in € 000s	From interest and dividends	From subsequent measurement				Net earnings	
		at fair value	currency translation	valuation allowance	from disposals	Dec. 31, 2010	Dec. 31, 2009
Loans and receivables (LaR)	3,338	-	735	-27,028	-	-22,955	-3,458
Available-for-sale financial assets (AfS)	153	-	-	-4,072	22	-3,897	496
Financial assets held for trading (FAHfT)	-	109	-	-	-651	-542	989
Financial liabilities measured at amortized costs	-54,268	-	6,602	-	-	-47,666	-62,932
Financial liabilities held for trading (FLHfT)	-	480	-	-	2,891	3,371	-2,513
Total	**-50,777**	**589**	**7,337**	**-31,100**	**2,262**	**-71,689**	**-67,418**

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 valuation earnings from interest rate swaps recognized at fair value with an effect on income, which are reported under financial income or financial expenses, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate primarily to interest rate hedge transactions that expired in the financial year as well as an option transaction.

Valuation earnings 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.

46. Risk management, derivative financial instruments and disclosures on capital management

46.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annualy by the Executive Board. All transactions above a relevance threshold determined by the Executive Board additionally require the Executive Board's prior approval, who, in addition, is regularly informed on the nature, scope and the amount of the current risks. Regarding assets, liabilities and scheduled transactions, these risks comprise particularly risks from changes to exchange rates, interest rates and market prices. It is the objective of financial risk management to limit these market risks through the current operative and finance-related activities. For this purpose, depending on the assessment of the financial risk, derivative and nonderivative hedging instruments are used.

However, on principle, only those financial risks are hedged which have significant consequences on the Group's cash flow.

46.2. Currency risks

STADA's currency risks result mainly from operating activities, investments and financing measures.

Foreign currency risks which do not significantly influence the Group's cash remain unhedged while risks due to foreign currencies are usually hedged to the extent that they can significantly influence the Group's cash flows.

In the operating area, the individual Group companies carry out their activities mainly in their individual functional currency. Therefore, from today's perspective, STADA estimates the currency risk from current operating activities as being low, even if forecasts for currency relations cannot be accurately made against the backdrop of the current economic situation. Some Group companies are exposed to foreign currency risks in connection with planned payments outside their functional currencies. These mainly relate to the refinancing of the Serbian Hemofarm group and the Russian subsidiary Nizhpharm.

STADA, on principle, employs different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the 2010 reporting year, STADA Arzneimittel AG made use of foreign-exchange futures contracts, among other things. The maturity dates of futures contracts are selected to match the Company's anticipated cash flows. Generally, however, their terms do not exceed one year. Based on the respective foreign currency planning, a hedge strategy is thereby developed in the context of a risk analysis, making use of the variance-covariance method.

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

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 balances of assets or equity and liabilities 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, 2010			Dec. 31, 2009		
in € 000s	Serbian dinar	Kazakhstani tenge	Ukrainian hryvnia	Russian ruble	US dollar	Serbian dinar
Outstanding foreign currency item	-16,473	-8,868	-5,457	+11,397	-12,261	-10,887
Income (+)/expense (-) from an appreciation of the euro by 10%	-1,647	-887	-546	-6,961	+1,207	-1,089
Income (+)/expense (-) from a depreciation of the euro by 10%	+1,647	+887	+546	+6,961	-1,207	+1,089

Here, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency items recognized here in the reporting year exclusively relate to foreign currency reserves at international Group companies in euro. The risk in connection with currency changes from the Group's perspective results from the functional currency of the respective international Group company.

46.3. Interest rate risks

STADA is primarily exposed to interest rate risks in the euro area, in the United Kingdom as well as in Serbia and Russia. In order to minimize the effects of interest rate fluctuations, STADA manages the interest rate risk, where possible, for the financial liabilities denominated in euro and ruble with derivative hedging instruments in the form of interest rate swaps. Taking into account these hedging transactions, an average of 96% (previous year: 72%) of financial liabilities denominated in euro and 100% (previous year: 100%) of those denominated in ruble had fixed interest rates in 2010.

STADA calculates existing interest rate risks with sensitivity analyses which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as on equity. The following factors are included in the calculation:

- changes in the market interest rate of interest rate derivatives designated as hedging instruments in the context of cash flow hedges,
- changes in the market interest rate of original financial liabilities with variable interest rates that are not hedged against interest rate risks, and
- changes in the market interest rate of interest rate derivatives not part of a hedging relationship.

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Income (+)/expense (-) from an increase in the market interest rate level of 100 basis points	+0.5	-2.7
Income (+)/expense (-) from a decrease in the market interest rate level of 100 basis points	-0.5	+2.6
Equity increase (+)/equity reduction (-) from an increase in the market interest rate level of 100 basis points	+2.5	+3.2
Equity increase (+)/equity reduction (-) from a decrease in the market interest rate level of 100 basis points	-2.6	-3.4

46.4. Default risks

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, such transactions are only concluded with counterparties of impeccable financial standing. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments.

The supply of goods and services to international wholesalers is 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 the financial year.

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 € 28.8 million (previous year: € 31.3 million) as of the balance sheet date (see Note 43.).

46.5. Liquidity risks

The Group's liquidity was guaranteed at all times in financial year 2010. For this purpose and to secure the financial stability of STADA, a liquidity reserve in the form of credit lines and, insofar as it is necessary, cash reserves, are maintained. For this, STADA has concluded bilateral credit contracts with various banks. Detailed information on the remaining terms and maturities of individual fiancial liabilities can be found in the notes on the respective balance sheet items.

46.6. Other price risks

Other price risks exist in relation to market prices. However, as of the balance sheet date, STADA only recognizes available-for-sale assets, whose fair values are determined based on market prices, to a minor extent.

46.7. 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 2010, 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.

Foreign currency derivatives are generally held to hedge the fair value of assets or liabilities. As of the balance sheet date, there is a currency swap, which serves to hedge a foreign currency loan, but which was not designated as a fair value hedge.

	Start	Term	Swap from nominal volume	Swap to nominal volume
Currency swap	Dec. 20, 2010	42 days	7,700,000 GBP	8,276,000 EUR

Gains from the valuation of this hedging transaction in the amount of € 0.1 million were recognized under currency translation income in other comprehensive income.

The total volume of currency and interest rate related derivatives is comprised as follows:

in € 000s	Dec. 31, 2010 Nominal value	Dec. 31, 2010 Fair value	Dec. 31, 2009 Nominal value	Dec. 31, 2009 Fair value
Derivatives without hedging relationship				
Interest rate/currency swaps	-	-	35,061	-6,696
Interest rate swaps	90,000	-3,992	195,000	-5,183
thereof				
• fixed rate payer	90,000	-3,992	145,000	-5,619
• fixed rate recipient	-	-	50,000	436
Other derivatives	8,276	109	41,081	297
Derivatives with hedging relationship				
Interest rate swaps	80,000	-5,541	80,000	-5,160
thereof				
• fixed rate payer	80,000	-5,541	80,000	-5,160
• fixed rate recipient	-	-	-	-
Other derivatives	-	-	-	-
Total	**178,276**	**-9,424**	**351,142**	**-16,742**

The terms of the cash flow hedges existing as of the balance sheet date end between 2013 and 2015.

The effectiveness of hedging relationships is retrospectively and prospectively reviewed on the basis of effectiveness tests. As of the balance-sheet date, all of the hedging relationships presented above were effective. All changes in the fair value of the derivative hedging instruments were therefore recognized directly in equity under “Provisions for cash flow hedges”. In financial year 2010, the resulting expenses amounted to € 0.3 million (previous year: € 1.2 million).

46.8. Disclosures on capital management

With its capital management, STADA in general aims to ensure the going concern, the ability to meet its obligations and to preserve the Company’s financial substance. With regard to the reduction of cost of capital, this in particular also includes the maintenance of an optimal capital structure.

Capital is monitored on the basis of net debt, which results from current and non-current financial liabilities minus cash and cash equivalents. As an important key figure for capital management, the ratio of net debt to adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) is calculated. In financial year 2010, the net debt to adjusted EBITDA ratio decreased compared with the previous year to 2.7 (previous year: 3.1). In general, a target ratio of a maxiumum of 3 is strived for.

The debt-to-equity ratio is another important key figure for capital management and results from the relation of net debt to equity less shares relating to non-controlling shareholders.

In this connection, the net debt to adjusted EBITDA ratio and and the debt-to-equity ratio were as follows:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Non-current financial liabilities	781,627	565,326
Current financial liabilities	281,685	490,951
Gross debt	**1,063,312**	**1,056,277**
Cash and cash equivalents	199,173	157,305
Net debt	**864,139**	**898,972**
EBITDA (adjusted)	**315,890**	**287,480**
Net debt to adjusted EBITDA ratio	**2.74**	**3.13**

47. 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.

47.1. 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 48. 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.

The wife of the Chief Production and Development Officer appointed as of September 16, 2010 is the owner of a pharmacy with which STADA maintains exclusively business relations usual for the industry as with other third parties.

In financial year 2010, Supervisory Board member Constantin Meyer received a payment in the amount of € 1,400 from a direct subsidiary of STADA Arzneimittel AG for consulting services. In addition, Mr. Constantin Meyer received a progress payment in the amount of € 65,000 from an indirect subsidiary of STADA Arzneimittel AG for a formula development contract.

47.2. Transactions with related companies

Within assets and liabilities, the following amounts are primarily related to transactions involving affiliated companies:

in € 000s	Dec. 31, 2010	Dec. 31, 2009
Trade accounts receivable		
Non-consolidated subsidiaries	9,135	5,142
Associated companies	-	-
Joint ventures	180	1,055
Other investors	3	-
Trade accounts payable		
Non-consolidated subsidiaries	4,348	2,615
Associated companies	18	-
Joint ventures	419	363
Other investors	-	21

Expenses and income essentially relate to related party transactions as follows:

in € 000s	2010	2009
Sales		
Non-consolidated subsidiaries	5,426	4,191
Associated companies	-	-
Joint ventures	454	480
Other investors	-	-
Interest income		
Non-consolidated subsidiaries	65	34
Associated companies	1,502	2,157
Joint ventures	22	28
Other investors	2	-
Interest expense		
Non-consolidated subsidiaries	26	-
Associated companies	1	481
Joint ventures	-	-
Other investors	-	-

In addition, the following disclosures on related party transactions are made:

STADA continues to provide the associated company BIOCEUTICALS Arzneimittel AG with a credit line facility[1)] with an interest rate that is partly usual for risk capital and of which a total of € 31.8 million (previous year: € 36.8 million) had been used as of December 31, 2010.

The capital guarantee[2)] from STADA for the benefit of this associated company, of which € 6.0 million had still been used as of December 31, 2009, had not been further utilized as of December 31, 2010. Furthermore, STADA continues to hold a call option which can be exercised yearly from 2011, according to which STADA can acquire all shares in BIOCEUTICALS Arzneimittel AG at a price which is already defined via a formula.

Moreover, 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.

STADA also has various business relations with its fellow partner in the joint ventures STADA Import/Export Ltd., British Virgin Islands, as well as STADA Vietnam J.V. Co., Ltd., Vietnam. As of December 31, 2010, those business relations related to a loan in the amount of € 1.1 million (previous year: € 1.0 million) that was granted by the fellow partner of STADA Import/Export Ltd. to that company and for which corresponding interest expenses were incurred by the joint venture company in the reporting year. In addition, the fellow partners of STADA Vietnam J.V. Co. receive a management remuneration for their activities as general managers of the joint venture company. In financial year 2010, this amounted to € 115,000 (previous year: € 61,000).

48. 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").

1) In financial year 2010, two loans in the amount of € 6.7 million and € 5.5 million respectively were extended until December 31, 2012 and one loan in the amount of € 25.0 million was extended until December 31, 2014.
2) The capital guarantee was extended in financial year 2010 until December 31, 2011. At the same time, the amount of the capital guarantee was reduced from the original € 25.0 million to € 5.0 million.

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:

in € 000s	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	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Members of the Executive Board	4,546[1)]	5,275	1,460	2,028	-	-	941	694	-	-	6,947	7,997
Members of the Supervisory Board	779	871	-	-	-	-	-	-	-	-	779	871

Remuneration to former members of the Executive Board amounted in financial year 2010 to a total of € 1,735,000, of which € 1,460,000 is attributed to the transitional allowance for the Executive Board member Christof Schumann, departed in 2010. Current pension provisions for former Executive Board members in financial year 2010 amounted to € 7,060,000.

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.

49. Events after balance-sheet date

Events after the balance-sheet date are described in the context of the Management Report of the Executive Board in the Supplementary Report.

50. Fees for the auditor

In financial year 2010, the following professional fees were recognized as expenses for services rendered by the auditor of the consolidated financial statements, PKF Deutschland GmbH:

in € 000s	2010	2009
Fees for the auditor	427	372
• thereof for audits	282	257
• thereof for other confirmation services	92	54
• thereof for other services	53	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.

1) Thereof progress payments on variable long-term special remuneration in the amount of € 87,500.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2010.

Other confirmation services include the review of the interim consolidated financial statements as well as the review of the financial statements of STADA Arzneimittel AG and its German subsidiaries, each as of June 30 of the corresponding financial year as well as confirmation services in connection with the placing of the bond.

Other services related to diverse consulting services.

51. 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 German Commercial Law. This amounted to € 24,283,681.32 as of December 31, 2010. The Executive Board of STADA Arzneimittel AG proposes that a dividend of € 0.37 per common share be appropriated from this distributable profit for financial year 2010. In financial year 2010, a dividend in the amount of € 0.55 per common share was distributed to shareholders from the distributable profit of financial year 2009 (financial year 2009: € 0.52 dividend per common share from distributable profit of financial year 2008).

Bad Vilbel, March 14, 2011

H. Retzlaff
Chairman of the Executive Board

H. Kraft
Chief Financial Officer

Dr. A. Müller
Chief Production and Development 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, 2010. 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 14, 2011

PKF Deutschland GmbH
Wirtschaftsprüfungsgesellschaft

Roman Brinskelle
German Public Accountant

Santosh Varughese
German Public Accountant

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 14, 2011

H. Retzlaff
Chairman of the Executive Board

H. Kraft
Chief Financial Officer

Dr. A. Müller
Chief Production and Development Officer

ADDITIONAL INFORMATION

CORPORATE GOVERNANCE REPORT

Declaration of Compliance

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

STADA Arzneimittel AG complies with the recommendations of the German Corporate Governance Code in the version of May 26, 2010 (published on July 2, 2010 in the electronic Federal Gazette) with the following exceptions:

Section 4.2.3 (5):
Arrangements for payments in the case of early termination of Executive Board mandate

The regulations in existing Executive Board contracts with regard to payments in the case of early termination of the Executive Board mandate only do not comply with the German Corporate Governance Code in the case of the Chairman of the Executive Board. For the future, the Supervisory Board will also not rule out concluding Executive Board contracts with regulations which, in this regard, do not comply with the German Corporate Governance Code. It is the position of the Supervisory Board that, for the completion of Executive Board contracts, detailed individual regulations may not be prejudged, but rather that the Supervisory Board must be able to take advantage of the full legal framework in the configuration of Executive Board contracts in order to achieve a situationally optimal filling of Executive Board positions.

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 tasks of a Nomination Panel to the chairmen of the Human Resources Committee and the Audit Committee; the additional remuneration, which pursuant to the Articles of Incorporation would be payable to Supervisory Board members involved in such a committee, is thus avoided.

Section 5.4.1 (2):
Designating goals for the composition of the Supervisory Board

The Supervisory Board began the task of designating concrete goals for its composition and will submit these in due time before the next election of Supervisory Board members.

Section 6.6 (1) and (2):
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 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 shares and the options to purchase and sell such shares held by individual members of the Executive Board and Supervisory Board are not published in the Notes to the Consolidated Financial Statements. The Supervisory Board and the Executive Board are of the opinion that compliance with the legal requirements provides sufficient transparency. Accordingly, details are also not given in the Corporate Governance Report.

Since the most recent Declaration of Compliance issued in the fourth quarter of 2009, STADA Arzneimittel AG has complied with the recommendations of the German Corporate Governance Code in the version applicable at the time, with the following exceptions:

Section 3.8:
D&O insurance – deductible for Supervisory Board members

The D&O insurance policy covering board members and senior management, which is part of a common group insurance policy, does not contain a deductible for Supervisory Board members since it is not customary in international practice to have such a deductible for senior management, and in the opinion of the Supervisory and Executive Board, Supervisory Board members should not be placed in a worse position than the Company's senior management.

Section 4.2.3:
Arrangements for payments in the case of early termination of Executive Board mandate

The regulations in existing Executive Board contracts with regard to payments in the case of early termination of the Executive Board mandate do not comply with the Corporate Governance Code. For the future, the Supervisory Board will also not rule out completing Executive Board contracts with regulations which, in this regard, do not comply with the Corporate Governance Code. It is the position of the Supervisory Board that, for the completion of Executive Board contracts, detailed individual regulations may not be prejudged, but rather that the Supervisory Board must be able to take advantage of the full legal framework in the configuration of Executive Board contracts in order to achieve a situationally optimal filling of Executive Board positions.

Section 5.3.3:
Nominating Committee for Supervisory Board election

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; the additional remuneration, which pursuant to the Articles of Incorporation would be payable to Supervisory Board members involved in such a committee, is thus avoided.

Section 5.4.1:
Age limit for members of the Supervisory Board

The Supervisory Board's rules of order do not provide for an age limit because such an age limit would shorten the voting rights of the shareholders in the Annual Shareholders' Meeting.

Section 6.6:
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 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 on the Company's website in accordance with legal requirements. However, the shares and the options to purchase and sell such shares held by individual members of the Executive Board and Supervisory Board are not published in the Notes to the Consolidated Financial Statements. 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 can occur in which the application of the Code could lead to limitations in the flexibility of the Company or in the proven corporate practice. In these individual cases, contrary to the Declaration of Compliance, deviations from the recommendation of the Code may take place. STADA will, however, regularly review and, if necessary correct compliance with the Code and the above mentioned exceptions.

Bad Vilbel, November 9, 2010

Abend.

Dr. Martin Abend
Chairman of the Supervisory Board

Hartmut Retzlaff
Chairman of the Executive Board

Corporate governance structure

STADA Arzneimittel AG is a joint stock corporation under German law and as such 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, STADA Arzneimittel AG has an Advisory Board according to the Articles of Incorporation.

Executive Board

The Executive Board of STADA Arzneimittel AG manages the Company in its own responsibility. 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 and the rules of procedure for the Executive Board. In addition, the Executive Board informs the Supervisory Board regarding all relevant Group events. The Executive Board comprises at least two people according 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 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.

The Executive Board of STADA Arzneimittel AG included the following members on the balance sheet date:

- Hartmut Retzlaff, Chairman of the Executive Board (under contract until August 31, 2016)
- Helmut Kraft, Chief Financial Officer (under contract until December 31, 2014)
- Dr. Axel Müller, Chief Production and Development Officer (under contract until December 31, 2014)

Effective January 1, 2010, Helmut Kraft assumed his activities as Chief Financial Officer. In addition to the area of finance (Controlling and Accounting, Treasury and Taxes), and internal auditing, Helmut Kraft was also responsible for the areas of Purchasing and IT as of February 15, 2010, as well as for the area of Investor Relations as of September 16, 2010. Since September 16, 2010, the Chief Production and Development Officer has been responsible for Purchasing.

In financial year 2010, the Chief Production and Development Officer, Christof Schumann, left the Executive Board. The Supervisory Board of STADA Arzneimittel AG decided not to extend the contract of Christof Schumann at its meeting on May 10, 2010. On July 26, 2010, Christof Schumann declared that he would resign from his Executive Board responsibilities at STADA Arzneimittel AG effective July 31, 2010. This step was taken on the most agreeable terms with the Supervisory Board, which released Schumann from his employment contract with the regular expiration of the contract as of December 31, 2010. The Supervisory Board and Executive Board expressed their gratitude and recognition to Christof Schumann for his many years of successful commitment.

In a contract dated July 26, 2010, the Supervisory Board agreed with Dr. Axel Müller that he would become the new Chief Production and Development Officer of STADA Arzneimittel AG and that, subject to his personal availability, he would take up his Executive Board responsibilities no later than November 1, 2010. The Supervisory Board appointed Dr. Axel Müller as Executive Board member from his first day of employment until December 31, 2014. Dr. Axel Müller took up his position as Executive Board member on September 16, 2010, and, within the Executive Board, he is responsible for the areas of Production, Research and Development, Purchasing and Procurement, Portfolio Management, Facility Management as well as Quality Assurance and Quality Control.

In addition to his own Executive Board tasks, Hartmut Retzlaff took on the responsibility for the Executive Board functions of Christof Schumann within the period of July 31, 2010 to September 15, 2010.

Hartmut Retzlaff is the Executive Board member responsible for the areas of Marketing and Sales, Corporate Development, Corporate Strategy, Legal, Personnel, Compliance, Corporate Communications and Risk Management.

On September 3, 2010, the Supervisory Board appointed Hartmut Retzlaff for a further five years as a member of the STADA Executive Board until August 31, 2016. His current contract ends on August 31, 2011. From that date the new contract continues until August 31, 2016.

In addition to that, the Supervisory Board, on September 3, 2010, prematurely extended the appointment of Helmut Kraft as Chief Financial Officer for five years, thus until December 31, 2014. His previous contract would have ended on December 31, 2012.

There were no loans outstanding to members of the Executive Board as of the balance sheet date.

The Executive Board members held the following mandates during the financial year 2010:

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

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

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

Supervisory Board

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

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

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

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

On June 8, 2010, the Annual General Meeting elected Carl Ferdinand Oetker as shareholder representative to the Supervisory Board until the end of the original term of office of the departed predecessor, Uwe E. Flach, i.e. until the conclusion of the Annual General Meeting 2013. In a meeting of the Supervisory Board held directly after the Annual General Meeting, Carl Ferdinand Oetker was re-elected Chairman of the Audit Committee. On November 17, 2009, the District Court of Frankfurt am Main had appointed Carl Ferdinand Oetker as member of the STADA Supervisory Board, succeeding the member of the Supervisory Board, Uwe E. Flach, who left the board in 2009, until the end of the following Annual General Meeting 2010.

The Supervisory Board has established rules of procedure. In accordance with this, the following Supervisory Board committees have been formed as of the balance sheet date:

- Audit Committee

  The Audit Committee is composed of two members from the shareholders and one from the employees. The Audit Committee deals in particular with questions of accounting, risk management, compliance, the required independence of 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 Audit Committee included the following members on the balance sheet date: Carl Ferdinand Oetker (Chairman), Dr. Martin Abend, and Karin Schöpper.

- Human Resources Committee

  The Human Resources Committee is made up of two members from the shareholders and one from the employees. The Chairman of the Supervisory Board is also the Chairman of the Human Resources Committee. The Human Resources Committee prepares the personnel decisions from the Supervisory Board and ensures together with the Executive Board that long-term succession planning takes place. Furthermore, it deals with the strategic issues of the Group.

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

Due to the size of STADA's Supervisory Board with six shareholder representatives, the Supervisory Board believes that a Nomination Committee as recommended by the German Corporate Governance Code in the version of May 26, 2010 is structurally superfluous (see "Declaration of Compliance"). Nevertheless, the Supervisory Board set up a Nomination Panel in the reporting year, consisting of the Chairmen of the Human Resources Committee and the Audit Committee. The Nomination Panel has been assigned the task to compile the goals and profiles for the composition of the future Supervisory Board and has taken up work in the meantime.

The Nomination Committee included the following members on the balance sheet date: Dr. Martin Abend and Carl Ferdinand Oetker.

The Supervisory Board regularly reviews the efficiency of its activities. The subject of these efficiency reviews 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 information flow between the committees and the plenary as well as the prompt and sufficient information provision of the Supervisory Board.

There were no loans outstanding to members of the Supervisory Board as of the balance sheet date.

The Advisory Board members held the following mandates during the financial year 2010:

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

Carl Ferdinand Oetker is or was at the same time member of the Advisory Board or Board of Directors of EWABO Chemikalien GmbH & Co. KG (Chairman of the Advisory Board), wink Stanzwerkzeuge GmbH & Co. KG (Chairman of the Advisory Board), wink Danmark A/S (member of the Supervisory Board until September 23, 2010), Lampe Asset Management GmbH (member of the Advisory Board), Dale Investment Advisors GmbH (member of the Advisory Board), Stiftung Hamburger Admiralität (member of the Board of Trustees), Cloverfield Inc. (member of the Board of Directors) and a member of the Board of Trustees of North Rhine-Westphalia of the Stifterverband für die Deutsche Wissenschaft (since June 15, 2010).

The term of all of the shareholder representatives on the Supervisory Board members ends with the completion of the Annual General Meeting 2013.

Annual General Meeting and shareholders

The shareholders[1)] assume their rights in the Annual General Meeting and exercise their voting rights. Every STADA Arzneimittel AG share[2)] has 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 a voting representative from the Company, but bound by instructions. Every shareholder is entitled to participate in the Annual General Meeting, to speak on individual agenda items there and to request information about Company issues, if this is required for the appropriate assessment for 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 any changes to the Articles of Incorporation and capital-changing measures.

Advisory Board

Members of the Advisory Board of STADA Arzneimittel AG are appointed by the Chairman of the Supervisory Board on the proposal 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 had 13 members on the balance sheet date.

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

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.

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.

The consolidated financial statements are made available within 90 days after the financial year end and the interim financial statements within 45 days after the end of the reporting period.

Through a comprehensive Internet presence at www.stada.de and www.stada.com, STADA meets the legal requirements for simultaneous and equivalent information to all market participants about Company events relevant to them. On the STADA website all interested individuals can find all compulsory information such as ad hoc releases and annual or interim reports as well as comprehensive Company and share information such as press releases, Company profile, presentations and current share price information on STADA (including peer group comparisons).

The Company generally publishes current presentations for the capital market on its website.

In 2010, STADA again participated in numerous external corporate presentations and conferences for institutional investors in relevant European and US-American and Asian capital markets. The presentations shown there correspond to the Company presentations published on the Company website, which are regularly updated. The dates of these events are published by STADA retrospectively on the Company website.

The provisions of the German Corporate Governance Code are continuously fulfilled, with few explained exceptions only – see the preceding Declaration of Compliance – which is also published on the Company's website at www.stada.de and www.stada.com.

The Declaration on Corporate Governance is issued within the scope of the separate financial statements of STADA Arzneimittel AG. Here, the opportunity is taken advantage of to reference the declaration published on the STADA website.

Details on the remuneration of the Executive Board and the Supervisory Board are presented in this Annual Report in the Management Report as part of the Remuneration Report as well as in the Notes to the Consolidated Financial Statements in Note 48.

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In financial year 2010, the Supervisory Board of STADA Arzneimittel AG carefully executed the duties imposed on it in accordance with the law and the Articles of Incorporation. The Supervisory Board monitored the management of the Company and advised the Executive Board in the execution of its duties. In all decisions of fundamental importance for the Company, the Executive Board involved the Supervisory Board directly and in a timely manner. The Executive Board informed the Supervisory Board promptly and comprehensively through regular oral and written reports on the progress of business, the strategy and the planning as related to the Company and the STADA Group. The Executive Board briefed the Supervisory Board – also outside of meetings in, among other things, telephone conferences – on the progress of business including the sales development and profitability, important business events and issues of particular importance. In addition, the Supervisory Board reviewed and monitored the risk situation and the measures taken by the Executive Board for risk management. The Executive Board explained in detail to the members of the Supervisory Board eventual deviations in the business development from the plans and objectives.

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

Meetings of the Supervisory Board and focus of activities

The Supervisory Board convened for a total of ten meetings in financial year 2010 (on January 11, February 5, March 26, May 10, June 7, June 8, August 10, October 8, November 9, and December 7).

These meetings focused on the following themes, among others:

- Executive Board issues, in particular the filling of the Executive Board position for Production and Development, the re-appointment of the Chairman of the Executive Board, the early extension of the appointment of the Chief Financial Officer as well as the Executive Board remuneration system which was revised in 2010,
- the Company strategy and its operative implementation,
- the economic situation of the Group, its segments and subsidiaries and, in particular, their respective sales, sales volume, costs and earnings development, the development of working capital, the cash flow, inventories, the balances and terms of receivables as well as the effects of the global financial and economic crisis,
- the situation of the Group in Serbia as a result of liquidity problems at local wholesalers,
- the market structures, development of demand, the competitive situation and the price, conditions and discount development in the individual national markets and in particular the development of market shares of the Group and the relevant competitors,
- the assets situation of the Group and its finance and liquidity situation considering especially the investment plans in the Group, the financing structures and refinancing strategies as well as the development of the debt-to-equity ratio,
- the risk and opportunities management and the significant risks for the Group that were revealed as a result as well as the internal control and auditing systems, contemplated, planned and executed acquisitions and cooperations of the Group as well as the integration of acquired companies in the Group,
- the effects of regulatory state interventions on the Group and/or on the individual subsidiaries and the necessary reactions to these, especially in the German home market with regard to discount agreements with health insurance organizations,
- all significant content as relates to the implementation in 2010 of the Group project “STADA – build the future”,
- the product development and product portfolio of the Group,
- STADA’s capital market position,
- issues on the composition and the efficiency of the Supervisory Board,
- themes of corporate governance including the revised version of the Executive Board rules of procedure as well as the adjustment to the Supervisory Board rules of procedure to changes in the German Corporate Governance Code,

- the Annual Report as well as the interim reports of the Group prior to their respective publication, and
- against the backdrop of the social responsibility of the Group, the increasingly important issue of sustainability.

Further, the Supervisory Board began the task of designating concrete goals for its composition and will submit these in due time before the next election of Supervisory Board members.

Executive Board issues

The Supervisory Board dealt in detail with the requirements of the Law for the Appropriateness of Executive Board Remuneration (VorstAG), particularly Sections 87 and 93 of the Stock Corporation Act (AktG), and the recommendations of the German Corporate Governance Code on Executive Board remuneration with the aid of an independent external remuneration expert. The Human Resources Committee discussed in detail at a number of meetings proposals on the fundamental change in the remuneration system for Executive Board members and prepared the discussion and the resolution regarding the new remuneration system for the Executive Board in the full Supervisory Board. Details concerning the new remuneration system for the Executive Board can be found in the Remuneration Report, which is a part of the Management Report of the Executive Board in this Annual Report.

On May 10, 2010, the Supervisory Board of STADA Arzneimittel AG decided not to extend the contract of Christof Schumann, Chief Production and Development Officer. On July 26, 2010, Christof Schumann announced his resignation from his Executive Board responsibilities effective July 31, 2010. This step was taken on the most agreeable terms with the Supervisory Board, which released Schumann from his employment contract with the regular expiration of the contract on December 31, 2010.

With a contract from July 26, 2010, the Supervisory Board reached agreement with Dr. Axel Müller that he would become new Chief Production and Development Officer of STADA Arzneimittel AG. The Supervisory Board appointed Dr. Axel Müller as new Executive Board member from September 16, 2010 to December 31, 2014.

Helmut Kraft took up his duties as Chief Financial Officer on January 1, 2010.

The schedule of responsibilities for Executive Board members in office in financial year 2010 was as follows:

- Hartmut Retzlaff: Marketing, Sales, Corporate Development, Corporate Strategy, Legal, Human Resources, Compliance, Corporate Communications, Risk Management, R&D (July 31 – September 15, 2010)
- Helmut Kraft: Finance (Controlling, Accounting, Treasury and Taxes), Internal Audit, IT (since February 15, 2010), Investor Relations (since September 16, 2010), Procurement (February 15 – September 15, 2010)
- Dr. Axel Müller: since September 16, 2010, Production, Research and Development, Purchasing and Procurement, Portfolio Management, Facility Management, Quality Assurance and Quality Control

After the Supervisory Board had revised the remuneration system for Executive Board members, it appointed Hartmut Retzlaff on September 3, 2010 to a further five years as Executive Board member until August 31, 2016. To this end, the Supervisory Board agreed with Hartmut Retzlaff a new Executive Board service contract for his new period in office as Executive Board member which will directly follow the current Executive Board contract which ends on August 31, 2011.

In addition, the Supervisory Board, on September 3, 2010, prematurely extended the appointment of Helmut Kraft as Chief Financial Officer for five years, thus until December 31, 2014. His previous Executive Board mandate would have ended on December 31, 2012.

The Executive Board contracts thus end for the Chairman of the Executive Board on August 31, 2016 as well as for the Chief Financial Officer and the Chief Production and Development Officer on December 31, 2014.

Supervisory Board positions

The Annual General Meeting of the Company elected Carl Ferdinand Oetker on June 8, 2010 until the end of the Annual General Meeting which decides on the approval for the 2012 financial year. The District Court of Frankfurt am Main, based on a joint proposal of the Supervisory Board and the Executive Board, appointed Carl Ferdinand Oetker to the Supervisory Board effective November 13, 2009 for departed Supervisory Board Member Uwe E. Flach.

Work of the committees

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

The Audit Committee convened for six meetings in financial year 2010 (on March 16, March 25, May 10, August 9, November 8, and December 7). 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.

At its six meetings in financial year 2010 (March 18, April 29, May 9, June 7, July 16, and August 9) the Human Resources Committee dealt with those thematic areas of relevance to it, in particular with Executive Board personnel issues and changes in the remuneration system of the Executive Board as well as corporate strategy.

Due to the size of STADA's Supervisory Board with six shareholder representatives, the Supervisory Board believes that a Nomination Committee as recommended by the German Corporate Governance Code in the version of May 26, 2010 is structurally superfluous. The Supervisory Board created a Nomination Panel in the reporting year, consisting of the Chairmen of the Human Resources Committee and the Audit Committee. It is the task of the Nomination Panel to develop objectives and a profile for the composition of the future Supervisory Board. The Nomination Panel has now taken up its work.

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

Corporate governance

The Supervisory Board received a detailed monthly written report from the Executive Board on business trends and results in the individual areas of the Group.

In financial year 2010, too, the Supervisory Board and Executive Board consulted in detail on the corporate governance in the Company as well as on the new recommendations and suggestions of the German Corporate Governance Code. Detailed discussions were held on remuneration and insurance-related changes to the German Corporate Governance Code. In this regard, it was also implemented in financial year 2010 that the D&O insurance for Supervisory Board members includes a deductible that complies with the legal framework of this regulation for members of the Executive Board. In addition, the Supervisory Board – insofar as it was necessary – adapted the rules of procedure for the Supervisory Board in accordance with the most recent version of the German Corporate Governance Code.

The new joint Declaration of Compliance pursuant to Article 161 of the German Stock Corporation Act issued by the Executive Board and the Supervisory Board on November 9, 2010 on the basis of the German Corporate Governance Code as amended on May 26, 2010 is printed in this Annual Report in the chapter "Additional Information" 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 financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the Company's Management Report for financial year 2010 were audited by PKF Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion. The main areas of the audit were established by the Supervisory Board within the scope of the commissioning of the auditor. The Audit Committee reviewed the financial statements and consolidated financial statements as well as the Management Report and the Group Management Report as well as the proposal for the appropriation of profits and also included the reports of the auditor on the audit of the financial statements in its review. The auditor reported on significant results of the audit in a meeting of the Audit Committee and was available for questions to the members of the Committee. The members of the Audit Committee dealt intensively with the submissions from the Executive Board and the audit reports and discussed these with the auditor. The Audit Committee raised no objections and recommended to the Supervisory Board to approve the financial statements and the Management Report as well as the Group Management Report and assent to the Executive Board's proposal for the appropriation of profits.

On the basis of the preparation by the Audit Committee, the Supervisory Board examined the financial statements and the consolidated financial statements prepared by the Executive Board, the Management Report and the Group Management Report of the Executive Board on the financial year 2010 as well as the Executive Board's proposal for the appropriation of profits. The Chairman of the Audit Committee reported to the Supervisory Board on the work and the audit results of the Audit Committee. The auditor reported to the Supervisory Board on significant results of the audit and was available to for questions the members of the Supervisory Board. The Supervisory Board discussed the submissions mentioned above and the conclusions of the auditor in detail with the auditor and the Executive Board. Following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the financial statements, the Management Report, the consolidated financial statements and the Group Management Report on the financial year 2010 and concurred with the outcome of the audit.

The Supervisory Board approved the financial statements and the consolidated financial statements prepared by the Executive Board. The financial statements are thus adopted. The Supervisory Board assented to the Executive Board's proposal for the appropriation of profits. In addition, the Supervisory Board assents to the individual assessments of the business situation and to the outlook as given in the Management Report of the Executive Board.

The STADA Group was faced with tremendous challenges in financial year 2010. For one thing, markets that are important for STADA, Serbia and Germany in particular, showed difficult framework conditions. For another thing, the Group had to withstand a high level of one-time special effects – primarily as a result of depreciation and amortization on receivables due to liquidity problems on the part of Serbian wholesalers. The Group-wide efficiency improvement program "STADA – build the future" led to expenses, but STADA was able to record initial successes already in financial year 2010 within the scope of the consistent implementation of this program.

Regardless of this, Group sales in the reporting year rose by 4%. In addition, it was possible to increase all operational key earnings figures, i.e. without consideration of the one-time special effects. The adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) grew by 10%. Adjusted net income showed a plus of 15%. Despite the one-time special effects, the Group's net debt was reduced further.

The Supervisory Board concurs with the proposal of the Executive Board to recommend to the next Annual General Meeting on June 16, 2011 an unchanged dividend ratio as compared to the previous year of approx. 32% of net income for financial year 2010, resulting in a dividend proposal in the amount of € 0.37 per common share. The Supervisory Board shares the evaluation of the Executive Board that with this participation of the shareholders in net income, sufficient leeway remains for the Group for further growth.

In light of the difficult environment, the various challenges and the special influences, the Supervisory Board shares the assessment of the Executive Board that the Group achieved good results in financial year 2010.

For this, the Supervisory Board wishes to express its gratitude and recognition to all employees as well as the Executive Board and the management.

Bad Vilbel, March 25, 2011

Abend.

Dr. Martin Abend
Chairman of the Supervisory Board

BOARDS OF THE COMPANY

The STADA Supervisory Board (as of March 1, 2011)

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

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

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

1) Employee representative.

The STADA Executive Board (as of March 1, 2011)

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

Helmut Kraft
Chief Financial Officer
Executive Board member since 2010
Contract until December 31, 2014

Dr. Axel Müller
Chief Production and Development Officer
Executive Board member since 2010
Contract until December 31, 2014

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

The STADA Advisory Board (as of March 1, 2011)

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, newly appointed for five years from 2009 through 2013, currently includes the following orderly members:

Frank Füßl, Frankfurt am Main (Chairman)
Dr. Thomas Meyer, Seelze (Deputy Chairman)

Rika Aschenbrenner, Mainburg
Wolfgang Berger, Gießen
Gerd Berlin, Haßloch
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Dr. Frank-R. Leu, Gießen
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Jürgen Schneider, Offenbach

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

GLOSSARY FROM A TO Z

Active pharmaceutical ingredient: The pharmaceutically effective component of a drug (also API).

AMNOG: German Pharmaceutical Market Restructuring Act, which became effective as of January 1, 2011.

Approval: Permission under drug laws to market a drug in a national market.

Audit: On the pharmaceutical market: control of equipment and documentation of manufacturers or their suppliers.

Biosimilars: Biopharmaceutical product, i.e. drugs with a protein as biopharmaceutical active ingredient which is produced by genetically modified cell lines which, despite different producing cell lines, compared to an initial supplier product which is already on the market, is so similar that the biosimilar has proven therapeutic equivalence.

Commercial business: Purchase and subsequent sale of third-party products; in the pharmaceutical market this frequently refers to wholesale business or parallel imports.

Commercial property rights: Provide inventors or companies with protection against competition for an invention for a limited time period. The best-known commercial property right is the patent. In addition, SPCs play an important role in the pharmaceutical market.

Co-payment: The patients own share of payment for services to public health care system.

Dosage form: Form in which an active pharmaceutical ingredient has been produced by pharmaceutical manufacturing and in which it is administered to the patient, e.g. tablets, capsules, drops.

Dossier: Documentation required in an application for drug approval that describes the quality, safety, and efficacy of a drug.

EMA: European Medicines Agency, central EU authority for drug evaluation and approval, which are subject to the central approval procedure.

Erythropoietin (abbreviation Epo): Biopharmaceutical active ingredient in protein form, which is produced by living cell lines. Depending on the individual cell lines used and the production process associated with it, so-called glyco structures (oligosaccharide-chains) can differ minimally. Epo-alpha and Epo-beta have been launched on the market among others; the Erythropoietin biosimilar being developed by BIOCEUTICALS is Epo-zeta. Erythropoietin is used, among other things, in nephrology for dialysis patients to stimulate hematopoieses as well as in cancer therapy.

GMP: Good Manufacturing Practice – international production standard in the pharmaceutical industry.

Indication: Diseases for which a certain drug is used.

Label: Term used in the STADA Group for a uniform sales concept for different products.

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: Science that deals with the study of cancer.

Parallel import: Pharmaceutical products are described as parallel import pharmaceuticals when a third party, i.e. a company that is independent of the holder of the approval and/or the manufacturer, acquires them in another EU or EEA member state and imports them to Germany in order to also market them there – parallel to the original pharmaceutical company.

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).

Pharmaceutical production: Conversion of pharmaceutical substances into a dosage form and its packaging into a finished pharmaceutical product, e.g. tablet.

Pharmacovigilance: Ongoing and systematic monitoring of the safety of a proprietary medicinal product with the objective to discover, assess and understand its adverse effects in order to take the necessary measures to minimize risks.

Prescription obligation: The legal requirement specifying that, depending on the potential risk involved, drugs may be dispensed to patients on prescription only.

Protein: Albumen structure.

SPC: Supplementary Protection Certificate – commercial property right in the EU that extends the market exclusivity of the initial supplier by up to five years after patent expiration. SPCs must be applied for in each individual country; the date of the first EU approval is relevant for the beginning of the SPC period. The SPC period can vary from country to country.

FINANCIAL CALENDAR

2011

March 30, 2011	Publication of 2010 results with analysts' and press conference
May 12, 2011	Publication of Q1/2011 results
June 16, 2011	Annual General Meeting
August 11, 2011	Publication of 2011 interim results with analysts' and press conference
November 10, 2011	Publication of Q3/2011 results

2012

March 29, 2012	Publication of 2011 results with analysts' and press conference
May 10, 2012	Publication of Q1/2012 results
May 30, 2012	Annual General Meeting
August 8, 2012	Publication of 2012 interim results with analysts' and press conference
November 8, 2012	Publication of Q3/2012 results

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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Text

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

Publication

The complete Annual Report as well as current information on the STADA Group can be found on the Internet at www.stada.de or www.stada.com.

Design and Realization

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Andreas Koschate, Frankfurt am Main, Germany

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Forward-looking statements

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

Rounding

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

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Group sales in € million	2010	2009	2008	2007	2006
Total Group sales	1,627.0	1,568.8	1,646.2	1,570.5	1,245.1
• Core segment Generics	1,124.2	1,115.6	1,154.5	1,154.4	911.2
• Core segment Branded Products	425.0	392.6	368.9	304.0	259.1
• Commercial Business	66.9	51.6	58.4	69.0	63.7
• Other sales	10.9	9.0	64.4	43.1	11.0

Sales by region[1] in € million	2010	2009	2008	2007	2006
Europe	1,553.6	1,501.0	1,590.6	1,513.1	1,180.6
• Belgium	134.9	125.7	110.7	101.8	109.6
• Bosnia-Herzegovina	11.6	14.8	19.0	19.9	9.3
• Bulgaria	5.9	6.1	5.9	4.6	2.7
• Denmark	34.4	25.9	18.5	22.0	23.6
• Germany	516.4	531.6	564.0	579.8	481.9
• Finland	5.9	5.1	9.2	6.1	5.1
• France	81.0	82.4	91.4	87.0	79.6
• United Kingdom	54.4	51.3	100.9	75.7	40.1
• Ireland	19.7	20.1	25.3	23.5	16.9
• Italy	136.8	117.1	124.2	117.2	109.0
• Macedonia	3.0	2.7	2.7	2.9	1.6
• Montenegro	6.3	6.0	7.4	9.4	2.9
• The Netherlands	47.2	38.2	41.3	40.7	38.9
• Austria	15.0	15.3	14.5	13.1	11.3
• Poland	2.1	3.4	-0.3	5.2	2.7
• Portugal	12.0	11.3	9.1	12.3	10.3
• Romania	4.6	4.1	3.0	6.7	5.8
• Russia	221.2	191.9	183.4	133.8	87.5
• Sweden	4.3	4.8	3.2	2.5	1.9
• Serbia	99.1	118.6	144.5	145.1	46.1
• Slovakia	7.1	5.7	4.9	3.8	2.5
• Spain	82.8	73.9	65.9	62.7	61.1
• Czech Republic	10.3	12.2	10.0	8.9	8.3
• Ukraine	23.3	19.7	17.1	13.0	9.4
• Rest of Europe	14.0	13.0	14.8	15.5	12.7
Africa	9.5	7.1	1.6	4.1	2.6
The Americas	12.5	14.5	5.7	8.1	19.0
• USA	11.9[2]	13.7[2]	3.9[2]	6.5[2]	18.5
• Rest of Americas	0.6	0.8	1.8	1.6	0.5
Asia	51.4	45.9	47.2	44.7	42.9
• China	2.4	2.0	6.8	8.0	5.5
• Kazakhstan	8.6	8.0	6.9	5.4	4.5
• The Philippines	12.2	12.1	11.1	9.8	7.4
• Thailand	2.5	2.2	2.2	3.1	2.0
• Vietnam	11.4	9.8	7.5	7.9	18.4
• Rest of Asia	14.3	11.6	12.7	10.6	5.1
Rest of world	-	0.2	1.1	0.4	-

1) Broken down according to the national market in which the sales were achieved.
2) Exclusively export sales to the USA.

Financial key figures in € million	2010	2009	2008	2007[1]	2006[1]
Operating profit	161.8	191.9	176.4	215.5	180.5
EBITDA	268.8	280.1	255.4	288.6	232.6
Adjusted EBITDA[2]	*315.9*	*287.5*	*294.3*	*315.5*	*233.0*
EBIT	162.1	192.5	175.2	186.8	168.7
Earnings before taxes (EBT)	109.0	141.5	105.5	149.8	145.2
Net income	68.4	100.4	76.2	104.2	91.8
Adjusted net income[2]	*133.3*	*115.8*	*116.0*	*144.9*	*102.1*
Cash flow from operating activities	194.8	250.5	129.3	92.9	-13.0

Asset/capital structure in € million	2010	2009	2008	2007[1]	2006[1]
Total equity and liabilities	2,506.7	2,451.7	2,469.5	2,541.5	2,150.2
Non-current assets	1,381.4	1,406.6	1,412.9	1,499.4	1,294.7
Current assets	1,125.3	1,045.1	1,056.6	1,042.0	855.6
Equity	868.5	869.7	839.7	919.6	863.1
Equity-to-assets ratio in percent	34.6%	35.5%	34.0%	36.2%	40.1%
Non-current liabilities	909.7	683.5	887.7	757.6	795.0
Current liabilities	728.5	898.5	742.1	864.2	492.1
Net debt	864.1	899.0	1.015.7	958.5	773.0

Capital expenditure/depreciation and amortization in € million	2010	2009	2008	2007	2006
Total capital expenditure	109.3	124.8	137.3	193.5	236.3
• on intangible assets	70.5	73.9	60.3	150.5	196.9
• on property, plant and equipment	30.8	50.8	72.2	42.0	26.4
• on financial assets	8.0	0.1	4.8	1.0	13.0
Total depreciation and amortization	107.8	90.3	80.2	101.7	63.9
• on intangible assets	67.7	57.6	49.3	71.0	47.5
• on property, plant and equipment	36.0	32.4	30.9	27.6	16.3
• on financial assets	4.1	0.3	-	3.1	-

Employees	2010	2009	2008	2007	2006
Average number of employees per year[3]	8,080	8,064	8,318	7,792	5,442

Key figures per STADA share	2010	2009	2008	2007[1]	2006[1]
Market capitalization (year-end) in € million	1,494.3	1,424.2	1,204.6	2,469.2	2,531.2
Year-end closing price ordinary share in €	25.38	24.20	20.50	42.05	43.45
Number of shares (average)	58,763,492	58,662,392	58,632,021	58,315,643	53,983,327
Basic earnings per share in €[4]	1.16	1.71	1.30	1.79	1.70
Adjusted earnings per share[2]	*2.27*	*1.97*	*1.98*	*2.48*	*1.89*
Diluted earnings per share in €[5]	1.14	1.70	1.28	1.72	1.62
Dividend per ordinary share in €	0.37[6]	0.55	0.52	0.71	0.62
Total dividend payments in € million	21.7[6]	32.3	30.5	41.6	36.0
Distribution ratio in percent	32%[6]	32%	40%	40%	39%

1) The accounting treatment of shareholdings in BIOCEUTICALS Arzneimittel AG was changed retroactively for the years 2007 to 2001 (see "Financial Situation – Development of the Balance Sheet"). For reasons of the practicability caveat as specified under IAS 8.43 ff., the comparison figures and the key figures for the 2006 to 2001 period were not adapted. Therefore, disclosures made in this Annual Report for financial years 2006 and before do not include the recognition of BIOCEUTICALS Arzneimittel AG as an associated company under the equity method.

2) Adjustment for the one-time special effects as well as effects from currency influences and interest rate hedge transactions respectively incurred.
3) Employees of companies consolidated at only 50% have been included in accordance with their respective consolidation rate.
4) In accordance with IAS 33.10.
5) In accordance with IAS 33.31.
6) Proposed.

STADA
Arzneimittel