Annual Report **2016**

Brands for People

STADA

STADA KEY FIGURES

Key figures for the Group in € million	2016	Previous year	± %
Group sales	2,139.2	2,115.1	+1%
• Generics[1]	1,280.7	1,261.4	+2%
• Branded Products	858.5	853.6	+1%
Group sales adjusted for currency and portfolio effects	*2,167.2*	*2,100.4[2]*	*+3%*
• Generics[1]	*1,287.4*	*1,253.2[2]*	*+3%*
• Branded Products	*879.8*	*847.1[2]*	*+4%*
Operating profit	178.1	223.7	-20%
• Operating segment result Generics[1]	195.2	177.7	+10%
• Operating segment result Branded Products	81.4	130.0	-37%
Operating profit, adjusted[3][4]	*294.4*	*283.8*	*+4%*
• Operating segment result Generics[1], adjusted[3][4]	*214.2*	*182.7*	*+17%*
• Operating segment result Branded Products, adjusted[3][4]	*152.8*	*173.2*	*-12%*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	361.5	377.1	-4%
• EBITDA Generics[1]	255.8	233.2	+10%
• EBITDA Branded Products	186.2	211.8	-12%
EBITDA (Earnings before interest, taxes, depreciation and amortization), adjusted[3][4]	*398.0*	*389.4*	*+2%*
• EBITDA Generics[1], adjusted[3][4]	*264.9*	*232.0*	*+14%*
• EBITDA Branded Products, adjusted[3][4]	*200.7*	*220.1*	*-9%*
EBIT (Earnings before interest and taxes)	178.9	225.3	-21%
EBIT (Earnings before interest and taxes), adjusted[3][4]	*295.1*	*285.3*	*+3%*
EBT (Earnings before taxes)	127.4	157.8	-19%
EBT (Earnings before taxes), adjusted[3][4]	*244.2*	*220.9*	*+11%*
Net income	85.9	110.4	-22%
Net income, adjusted[3][4]	*177.3*	*165.8*	*+7%*
Cash flow from operating activities	333.5	311.7	+7%
Capital expenditure	189.7	177.0	+7%
Depreciation and amortization (net of write-ups)	182.7	151.8	+20%
Employees (average number calculated on the basis of full-time employees)[5]	10,839	10,441	+4%
Employees (as of the balance sheet date calculated on the basis of full-time employees)	10,923	10,532	+4%

Key share figures	2016	Previous year	± %
Market capitalization (year-end) in € million	3,066.3	2,327.9	+32%
Year-end closing price (XETRA®) in €	49.19	37.34	+32%
Number of shares (year-end)	62,342,440	62,342,440	–
Average number of shares (without treasury shares)	62,256,532	61,637,621	+1%
Earnings per share in €	1.38	1.79	-23%
Earnings per share in €, adjusted[3][4]	*2.85*	*2.69*	*+6%*
Diluted earnings per share in €	–	1.79	–
Diluted earnings per share in €, adjusted[3][4][6]	*–*	*2.69*	*–*
Dividend per share in €	0.72[7]	0.70	+3%
Total dividend payments in € million	44.8[7]	43.6	+3%
Distribution ratio as a percentage	52%[7]	39%	+32%

1) Figures for the reporting year and the previous year include the non-core activity "Commercial Business", which was previously disclosed separately.
2) Sales of the previous year adjusted for currency and portfolio effects represent the comparable basis which is relevant for the key figure of the current reporting year.
3) 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.
4) Within the context of this annual report, adjustments in connection with the key earnings figures generally relate to special items.
5) This average number includes changes in the scope of consolidation on a pro-rata basis.
6) Earnings per share will not be diluted in financial year 2016, because the share options from the STADA warrants in connection with the Conditional Capital Increase 2004/I expired on June 26, 2015.
7) Recommendation.

STADA AT A GLANCE

STADA BUSINESS MODEL

- Focus on products with off-patent active pharmaceutical ingredients in the health care and pharmaceutical market
- Segments
  - Generics (59% share in adjusted Group sales)
  - Branded Products (41% share in adjusted Group sales)
- Strategic success factors
  - Orientation on long-term growth markets
  - Comprehensive portfolio of generics including selected biosimilars
  - Attractive-margin branded product portfolio with increased internationalization of successful brands
  - Strong product development including well-filled pipeline
  - Global sales structure with further internationalization potential
  - A focused acquisition policy
  - A functional organizational structure with close-to-market sales companies
  - Continuous cost optimization and efficient cost management
  - Excellent and committed employees

STADA FINANCIAL YEAR 2016

- Reported Group sales increase by 1% to € 2.14 billion – Group sales adjusted for currency and portfolio effects increase by 3% to € 2.17 billion
- Adjusted sales in the Generics segment increase by 3% to € 1,287.4 million
- Adjusted sales in the Branded Products segment record growth of 4% to € 879.8 million – further expansion of the self-pay portfolio
- Reported key earnings figures
  - Reported EBITDA records a decrease of 4% to € 361.5 million
  - Reported net income decreases by 22% to € 85.9 million
- Adjusted key earnings figures
  - Adjusted EBITDA shows an increase of 2% to € 398.0 million
  - Adjusted net income grows by 7% to € 177.3 million
- Strategic further development with numerous initiatives introduced to improve performance
- Fundamental change to reporting structures carried out – management by operating segments
- Successful product development with a total of 665 product launches
- Selected value-enhancing acquisitions to strengthen the Branded Products and Generics segments
- Significant growth in the STADA share price of 32%
- Proposal to increase the dividend by 3% to € 0.72 per STADA share

STADA OUTLOOK

- Guidance for 2017
  - Group sales adjusted for currency and portfolio effects between € 2.280 billion and € 2.350 billion
  - Adjusted EBITDA between € 430 million and € 450 million
  - Adjusted net income between € 195 million and € 205 million
  - Ratio of net debt, excluding further acquisitions, to adjusted EBITDA at a level of nearly 3
- Strategic outlook for 2019
  - Adjusted Group sales between € 2.650 billion and € 2.700 billion
  - Adjusted EBITDA between € 570 million and € 590 million
  - Adjusted net income between € 250 million and € 270 million

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STADA ANNUAL REPORT 2016

LETTER TO SHAREHOLDERS FROM THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear Shareholders, Ladies and Gentlemen,

2016 was, in many ways, a year of transformation for STADA. You, the company's shareholders, elected a new Supervisory Board at what was, for all intents and purposes, a contentious Annual General Meeting. At the same time, you expressed confidence in the Executive Board's ability to initiate a comprehensive strategic development of the company – the fundamental principles of which we were able to introduce to you at the Annual General Meeting.

In an economic and political environment that remains challenging, we took significant steps forward in the second half of 2016 in terms of the implementation of our future program that we have named "STADA Plus":

- We have **optimized the Group structure** and since the third quarter of 2016 have been managing STADA under the two core segments Generics and Branded Products.
- We have **increased transparency** with the new reporting standards and comprehensive internal and external benchmarking. We have taken steps to ensure that we have an improved overview, greater accountability and, as a result, successful management of the business.
- We have begun to **consistently rid our portfolio** of projects and products that, according to cost-benefit analyses, do not make a sufficient contribution to operating profitability. This includes both changes to our sales structures in various markets as well as the disposal of those businesses or products that are no longer in line with our strategic focus. Although these measures had a negative impact on our net profit in 2016, they were nonetheless a necessary step toward consistent and sustainable performance improvement.
- The **focused internationalization of attractive branded products** is another key measure that we introduced in 2016. We have now identified seven branded products that we intend to roll out internationally in the coming years.
- We are taking a targeted approach to **tapping** into further **growth markets**. This includes intensifying our activities in the attractive market for nutritional supplements which we succeeded in moving forward with the announced acquisition of British branded product company Natures Aid in December 2016. In the Generics segment, we are pursuing a risk-averse biosimilar strategy with which we are laying the groundwork for the market launch of four biosimilars for 2019.
- As part of our future program, we have **streamlined** our **M&A strategy** and applied a clear set of investment criteria.
- And, last but not least, we have **initiated** a **cultural transformation** in the company with which we will demand entrepreneurship, knowledge sharing and an open dialogue while fostering performance and innovation in the company.

In the past financial year, STADA thus laid the cornerstones for a sustainably successful future. The already ambitions medium-term goals for the year 2019 that we introduced in the summer of 2016 and for which we provided further details at our Capital Market Day in October were an expression of the tremendous potential that can be found within your company.

STADA showed very sound development in this environment in the past financial year, even slightly exceeding all of the goals for the year. We were able to increase both adjusted Group sales and EBITDA by 3% to € 2.167 billion and by 2% to € 398.0 million respectively, adjusted net income increased by an even more impressive 7% to € 177.3 million. Both core segments, the business with generics and the business with branded products, contributed to the strong result.

The business results show that we are on the right path with the further development of the corporate strategy and our future program "STADA Plus". In this year of transformation, we proved our ability to perform in a difficult environment and have already been able to significantly improve our performance in key areas. STADA is moving forward – and taking giant steps on the path to a sustainably successful future.

We would also like to make sure that you, dear shareholders, again participate to an appropriate degree in the good annual result. We therefore recommend that the Annual General Meeting on June 8, 2017 propose a three percent increase in the dividend to € 0.72 per share. This represents a distribution ratio of around 52% of reported net income, a continuation of a dividend policy that has remained constant for decades.

I would like to take this opportunity to thank all of the customers and patients around the world who have put their trust in STADA's products and brands. You motivate us to do our best every day. But the foundation that allows us to make this performance commitment are the employees of the STADA Group. The success of this company would not be possible without them. I thank you all for your tremendous commitment and for the contribution you make to the strong development of our business. My thanks also go out to our new and former members of the Supervisory Board for their helpful and constructive cooperation.

STADA is on the right path, but we still have a long way to go. 2017 will be another year of transition for your company – but it will also be a year of enhanced growth. To achieve this, we have intensified the work we are doing on our future program "STADA Plus" and have defined further necessary measures to take advantage of additional potentials. We are concentrating on three key levers:

- **Further strengthening of the generics business:** We are harmonizing the product and dosage portfolio and intensifying our sales efforts in selected European markets with substantial growth potential.
- **Further expansion of the branded products business:** We are consistently aligning the organizational structure on the branded products area toward a central management of our internationalization projects. Today, we have already identified additional attractive branded products that to date have been mainly local champions and which we believe can achieve major international success.
- **Consistent cost management:** We are optimizing our supply chain management as well as the procurement process and organization. In addition, we have introduced a number of long term improvement measures with the goal of reducing internal production costs. General and administrative expenses will also be reduced.

Together with the measures we already introduced in the summer of 2016, we have now, in this second step of our future project, developed additional value enhancement potentials with which we want to achieve an even greater improvement in profitability in the medium term than originally planned. We are thus making STADA fit for the future – irrespective of the current structured bidding process that your company finds itself in.

Although there will be one-time burdens in the current and in the coming financial year from restructuring expenses for the measures that have been outlined here, we are confident that we will also be able to deliver a further improved result in 2017. We in the Executive Board anticipate a figure of between € 2.280 billion and € 2.350 billion for Group sales adjusted for currency and portfolio effects, an adjusted EBITDA of between € 430 million and € 450 million and an adjusted net income between € 195 million and € 205 million. From a medium-term perspective, the Executive Board is also determined to increase STADA's profitability, expressed in terms of the adjusted EBITDA margin, to around 23%.

Our future program "STADA Plus" is geared not only toward short and medium-term successes. The potential of our program reaches well beyond the achievement of our growth and profit goals for 2019. Together we are working on a long term and sustainably successful future for your company – on a new and even better STADA. The 125th anniversary of your company in 2020 is not only a symbolically decisive milestone for us. This welcome anniversary is a clear mission to define a viable vision for the future of STADA and to determinedly develop the company in this direction – for the benefit of customers, employees and shareholders.

We hope that you will remain loyal as we continue on this path!

On behalf of the Executive Board

Dr. Matthias Wiedenfels
Chairman of the Executive Board

OVERVIEW OF THE FINANCIAL YEAR

Five-year comparison in € million	2016	2015	2014	2013	2012
Group sales	2,139.2	2,115.1	2,062.2	2,003.9	1,837.5
Operating profit	178.1	223.7	188.5	248.3	202.1
Operating profit, adjusted	*294.4*	*283.8*	*320.7*	*303.1*	*266.2*
EBITDA[1]	361.5	377.1	418.8	382.6	323.7
EBITDA, adjusted	*398.0*	*389.4*	*431.9*	*414.3*	*367.4*
EBIT[2]	178.9	225.3	190.3	252.4	205.9
EBIT, adjusted	*295.1*	*285.3*	*322.4*	*307.1*	*270.0*
EBT[3]	127.4	157.8	124.7	189.3	135.6
EBT, adjusted	*244.2*	*220.9*	*253.3*	*240.7*	*200.5*
Net income	85.9	110.4	64.6	121.4	86.5
Net income, adjusted	*177.3*	*165.8*	*186.2*	*160.6*	*147.9*

Financial year 2016 characterized by significant changes

The Group was able to drive forward significant changes in financial year 2016 in the context of the revised corporate strategy.

Reported Group sales increased by 1% to € 2,139.2 million in the reporting year (previous year: € 2,115.1 million). When effects on sales resulting from changes in the Group portfolio and currency effects are deducted, adjusted Group sales increased by 3% to € 2,167.2 million (previous year: € 2,100.4 million).

Overall, the earnings situation in 2016 was characterized by high special items, particularly through expenses in connection with restructuring decisions. The changes to the corporate structure and resulting changes to reporting structures in July 2016 with which the company is moving away from regional responsibilities and towards central management of the Generics and Branded Products segments, led to a series of structural measures, particularly in relation to personnel decisions, as well as the revaluation of portfolio activities. As a consequence, the development of the reported earnings situation differed from the development of the adjusted key earnings figures. Furthermore, the development of reported operating profit was significantly influenced by negative translation effects that were attributable to a weaker Russian ruble and the increasing weakness of the British pound sterling since the EU referendum.

Reported EBITDA decreased by 4% to € 361.5 million (previous year: € 377.1 million). Reported net income increased by 22% to € 85.9 million (previous year: € 110.4 million). After adjusting the key earnings figures for influences distorting the year-on-year comparison resulting from special items, adjusted EBITDA increased by 2% to € 398.0 million (previous year: € 389.4 million). Adjusted net income grew by 7% to € 177.3 million (previous year: € 165.8 million).

The reported tax rate improved in financial year 2016 to 25.1% (previous year: 25.8%) The adjusted tax rate of 23.9% in the same period was above the level of the previous year (previous year: 22.0%).

Positive development of the financial situation

The financial situation of the STADA Group recorded positive development in the reporting year.

As of December 31, 2016, the equity-to-assets ratio was 30.4% (December 31, 2015: 31.0%) and was satisfactory in the opinion of the Executive Board. Net debt was reduced to € 1,118.2 million as of the reporting date (December 31, 2015: € 1,215.7 million).

The net debt to adjusted EBITDA ratio improved to 2.8 in financial year 2016 (previous year: 3.1).

1) Earnings before interest, taxes, depreciation and amortization.
2) Earnings before interest and taxes.
3) Earnings before taxes.

The long-term refinancing of the Group as of December 31, 2016 was provided for by a five-year bond that was placed in the second quarter of 2013 in the amount of € 350.0 million with an interest rate of 2.25% p.a. as well as a seven-year corporate bond placed in the first quarter of 2015 in the amount of € 300.0 million with an interest rate of 1.75% p.a. Furthermore, as of December 31, 2016, there were promissory note loans with maturities in the area of the beginning of 2017 until 2023 with a total nominal value in the amount of € 709.0 million. In order to ensure a balanced financing structure, promissory note loans are staggered in terms of their volume and duration.

Cash flow from operating activities improved to € 333.5 million in the reporting year (previous year: € 311.7 million). Free cash flow increased to € 160.9 million (previous year: € 133.5 million). Free cash flow adjusted for payments for significant investments or acquisitions and proceeds from significant disposals increased to € 243.0 million (previous year: € 212.4 million).

Changes in the Executive Board and Supervisory Board

On August 15, 2016, the long-standing Chairman of the Executive Board Hartmut Retzlaff resigned from his office as member of the Executive Board with immediate effect. The employment relationship between him and STADA Arzneimittel AG was ended with effect from December 31, 2016 by mutual agreement due to personal circumstances.[1)] The STADA Supervisory Board had already decided on a change at the company's helm at an extraordinary meeting held on June 5, 2016, due to the serious and likely long-term illness of Mr. Retzlaff.[2)] As a result, Dr. Matthias Wiedenfels was appointed as Chairman of the Executive Board.

In addition, the process of reshaping the Supervisory Board ahead of schedule was completed in the reporting year.[3)] Dr. Martin Abend, Dr. Eckhard Brüggemann, Dr. K. F. Arnold Hertzsch, Dieter Koch and Constantin Meyer were succeeded by Dr. Eric Cornut, Rolf Hoffmann, Dr. Birgit Kudlek, Tina Müller and Dr. Gunnar Riemann as new shareholder representatives on the Supervisory Board. Following the Annual General Meeting, the Supervisory Board elected Carl Ferdinand Oetker as its Chairman and Jens Steegers as Vice-Chairman.

Revised corporate strategy to improve performance for the fundamental changing of the reporting structure

In the reporting year, the Executive Board agreed a revised corporate strategy and introduced numerous initiatives to improve the performance of the Group and to increase the enterprise value in the long-term. As part of the program, untapped sales potential will be leveraged, marketing expenses will be optimized, sales efficiency will be enhanced and cost of sales will be reduced. The initiatives will also contribute towards meeting the goals for 2019, set in 2016.

In order to accommodate the growth strategy including central management of the segments, an increased internationalization of the branded product portfolio and stricter cost controls, the Executive Board agreed a fundamental change to reporting structures in financial year 2016. STADA had previously reported according to operating segment and market region. In accordance with the changed reporting structure, the Group is now managed by the two segments Generics and Branded Products. In the course of the change, the non-core activity Commercial Business was integrated into the Generics segment. As a result the figures reported for the Generics segment for financial year 2016, as well as those for the previous year, include the non-core activity Commercial Business, which was previously disclosed separately.

In the course of the strategic development, the organizational and sales structures are to be examined. The German business activities, for example, are to be bundled and made more competitive to improve perception on the market and achieve sales and cost advantages. In this context, STADA GmbH and STADAvita as well as STADApharm and cell pharm are to be merged. At the beginning of the fourth quarter of 2016, the executive management of STADA GmbH and STADAvita as well as STADApharm and cell pharm started negotiations with the Works Council on the details for a merger as well as negotiations on a balancing of interests and a social compensation plan.

Strong product development with a well-filled pipeline

The STADA Group has strong product development and a well-filled pipeline. With the further expansion of the product portfolio and the launch of 665 individual products worldwide in the reporting year (previous year: 578 product launches), STADA once again proved the success of its development and approval activities.

1) See the Company's ad hoc release of August 15, 2016.
2) See the Company's ad hoc release of June 5, 2016.
3) See the Company's press release of August 27, 2016.

In addition, the Group also made further progress in the area of biosimilars. In 2016, STADA was able to sign a contract with mAbxience for the in-licensing of the monoclonal antibody Bevacizumab. STADA and its cooperation partner also received a so-called “positive opinion” from the responsible European approval authority EMA for teriparatide at the end of 2016, before approval was granted by the EU commission in the current financial year 2017.

In light of the well-filled product pipeline, the Executive Board expects to be able to continuously introduce new products to the market in future. The focus here remains on generics in the EU. In the area of biosimilars, STADA will continue to pursue its in-licensing strategy in order to further supplement its portfolio with seleted biosimilars.

Continuation of STADA’s focused acquisition policy

In financial year 2016, the Group continued its focused acquisition policy of targeting organic growth through selected external acquisitions. The focus remains on both the regional expansion of business activities as well as on the expansion and internationalization of branded products in particular.

In order to strengthen the Generics segment, STADA and the STADA subsidiary BEPHA Beteiligungsgesellschaft für Pharmawerte mbH signed a contract for the purchase of the Argentinean generics producer Laboratorio Vannier in the fourth quarter of 2015[1)], with the purchase completed in the first quarter of 2016.

In addition, in the third quarter of 2016, the Serbian STADA subsidiary Hemofarm A.D. acquired a local product portfolio primarily focusing on medication for the treatment of gastrointestinal disorders, to strengthen their position in the area of consumer health.

Furthermore, STADA UK Holdings Ltd. also took over British branded products company Natures Aid Limited, a well-known manufacturer of vitamins, minerals, food supplements and herbal products, in the fourth quarter of 2016.[2)]

Proposal to increase the dividend

Despite the decrease in reported net income, in light of STADA’s dividend policy, which has been consistent for decades, the Executive Board is recommending to the Supervisory Board that a dividend in the amount of € 0.72 per STADA share is proposed for financial year 2016 at the next Annual General Meeting on June 8, 2017 (previous year: € 0.70).[3)] This would represent a dividend increase of 3% compared with the previous year, a total dividend payment of € 44.8 million (previous year: € 43.6 million) and a distribution ratio of around 52% of the reported net income.

Guidance/Strategic outlook

In general, the Group’s future sales and earnings development will be characterized by both growth-stimulating and challenging conditions. In light of the changed corporate structure and repositioned corporate culture, the implementation of the numerous initiatives as part of the revised corporate strategy and the strategic success factors, the positive prospects are however expected to prevail.

For financial year 2017, the Executive Board expects further growth. Group sales adjusted for currency and portfolio effects are to be between € 2.280 billion and € 2.350 billion, adjusted EBITDA between € 430 million and € 450 million and adjusted net income between € 195 million and € 205 million. The Executive Board anticipates the ratio of net debt, excluding further acquisitions, to adjusted EBITDA to be at a level of nearly 3. Detailed information on the guidance is included in the Group Management Report of this Annual Report in the chapter “Report on Expected Developments”.

In the reporting year, the Executive Board approved medium-term growth targets.[4)] In the current first quarter of 2017, the Executive Board increased the strategic outlook for 2019.[5)] In accordance with this outlook, adjusted Group sales of between € 2.650 billion and € 2.700 billion are to be achieved in financial year 2019 (previously around € 2.6 billion). In terms of adjusted EBITDA, the Executive Board expects a range between € 570 million and € 590 million (previously around € 510 million). Adjusted net income is to increase to between € 250 million and € 270 million (previously around € 250 million). The adjusted EBITDA margin is to be nearly 22%. Cash flow from operating activities is to improve to between € 560 million and € 580 million.

1) See the Company’s press release of December 10, 2015.
2) See the Company’s investor news of November 21, 2016.
3) See the Company’s investor news of March 1, 2017.
4) See the Company’s ad hoc release of July 11, 2016.
5) See the Company’s ad hoc release of March 17, 2017.

THE STADA SHARE

STADA share codes

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

Capital structure

As of December 31, 2016, the subscribed share capital of STADA Arzneimittel AG amounted to € 162,090,344.00 (December 31, 2015: € 162,090,344.00) consisting of 62,342,440 registered shares (December 31, 2015: 62,342,440 registered shares[1] with restricted transferability), each with an arithmetical share in share capital of € 2.60.

Capital structure of STADA Arzneimittel AG	Dec. 31, 2016	Dec. 31, 2015
Issued shares	62,342,440	62,342,440

Significant increase in the STADA share price

In 2016, the STADA share price recorded very pleasing development with an increase of 32%. Although the share price closed 2015 at € 37.34, it amounted to € 49.19 at the end of 2016.

The relevant national comparative indices for STADA showed differing share price development during the course of 2016. Whilst the German benchmark index DAX®[2] and the MDAX®[3] (that the STADA share belongs to) increased by 7%[4] compared with the previous year, the price of the Bloomberg Pharmaceutical Index[5] fell by 12%.

At the end of 2016, the market capitalization of STADA amounted to € 3.066 billion. At the end of 2015, it was € 2.328 billion. Based on Deutsche Börse AG's index system, which only considers free float, STADA, in terms of market capitalization, took place 20 in the MDAX® in 2016. In the previous year STADA had occupied position 21.

The average daily volume of the STADA share in terms of the trading volume at the XETRA® trading and the Frankfurt Stock Exchange amounted to a total of € 13.0 million in 2016. In 2015, the average trading volume per day of the STADA share was € 11.6 million. Based on Deutsche Börse AG's index system, STADA occupied place 18 in terms of trading volume in 2016. STADA had been at place 21 in this category in the previous year.

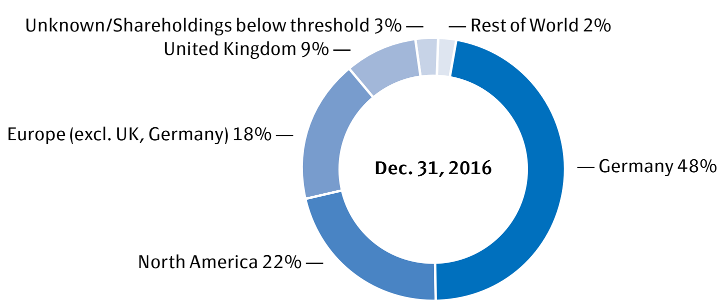
1) On August 26, 2016, the STADA Annual General Meeting resolved to eliminate restrictions on the transferability of registered shares by means of a change to the Articles of Incorporation. The change to the Articles of Incorporation was registered in the commercial register and thereby became effective on December 9, 2016.
2) DAX® is the index of Deutsche Börse AG, largely consisting of the 30 biggest companies by market capitalization and order book volume.
3) 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.
4) Both developments relate to their XETRA® closing prices. XETRA® is the electronic trading system of Deutsche Börse AG.
5) The Bloomberg Pharmaceutical Index is a market capitalization-weighted index of all companies involved in the pharmaceutical sector of the Bloomberg Europe 500 Index. STADA is currently not part of the index.

STADA key share data	2016	2015
Number of shares (year-end)	62,342,440	62,342,440
Number of treasury shares (year-end)	85,043	87,259
Average number of shares (without treasury shares)	62,256,532	61,637,621
Year-end closing price (XETRA®) in €	49.19	37.34
High (XETRA® closing price) in €	50.42	37.42
Low (XETRA® closing price) in €	28.67	25.10
Market capitalization (XETRA®) in € million (year-end)	3,066.3	2,327.9
Earnings per share in €	1.38	1.79
Earnings per share in €, adjusted	*2.85*	*2.69*
Diluted earnings per share in €	–	1.79
Adjusted diluted earnings per share in €	*–*	*2.69*
Dividend per share in €	0.72[1]	0.70

100% free float with broadly based shareholder structure

As of December 31, 2016, approx. 34,000 shareholders held share capital of STADA Arzneimittel AG. Based on results of regularly carried out analyses of the Company's shareholder structure, STADA assumes that approx. 67% of STADA's shares are held by institutional investors. The geographical distribution is as follows: Germany 48%, North America 22%, Europe (excluding the United Kingdom and Germany) 18%, United Kingdom 9%, Unknown/Shareholders below threshold 3% and Rest of World 2%.

Geographical shareholder structure (institutional investors)[2]



As of December 31, 2016, STADA held 85,043 treasury shares, compared to 87,259 shares which were held by the Company on the reporting date of the previous year. As part of an employee share ownership program, STADA sold 2,216 of its own shares in the reporting year at an average price of € 36.31.

In financial year 2016, the Group published all 27 of the received voting rights notices according to Section 26 of the German Securities Trading Act (WpHG). The voting rights notices received by STADA can be viewed on the website at www.stada.de or www.stada.com.

1) Recommendation.
2) Source: Orient Capital Pty Ltd.

Directors' Dealings

In financial year 2016 according to information available to the Company, STADA reported a total of five Directors' Dealings in the form of two sales and three purchases. On June 24, 2016, Luis Paul Retzlaff and Eliza Marie Retzlaff, son and daughter of the then exempted from duty Chairman of the Executive Board Hartmut Retzlaff, each sold 3,000 STADA shares at a price of € 44.207 per STADA share, amounting to a total of € 265,242. In addition, Dr. Kudlek, Member of the Supervisory Board of STADA Arzneimittel AG, purchased STADA shares at € 50.105 per share and a total value of € 10,021, on September 29, 2016 and on November 10, 2016 at a price of € 42.65 per share and a total value of € 8,103.50 and on November 11, 2016 at a price of € 42.274468 per share with a total value of € 9,934.50.

Key results of the Annual General Meeting

On August 26, 2016, the Annual General Meeting formally approved the activities of the Executive Board and Supervisory Board. During their votes, shareholders followed most of the proposals made by the company's management.[1)] As part of the shareholders' decisions, the dividend for financial year 2015 was raised by 6% to € 0.70 per share and the elimination of restrictions on the transferability of registered shares was approved by means of a change to the Articles of Incorporation.[2)] In addition, the process of reshaping the Supervisory Board ahead of schedule was completed. Dr. Martin Abend, Dr. Eckhard Brüggemann, Dr. K. F. Arnold Hertzsch, Dieter Koch and Constantin Meyer were succeeded by Dr. Eric Cornut, Rolf Hoffmann, Dr. Birgit Kudlek, Tina Müller and Dr. Gunnar Riemann as new shareholder representatives on the Supervisory Board. Following the Annual General Meeting, the Supervisory Board elected Carl Ferdinand Oetker as its Chairman and Jens Steegers as Vice-Chairman.

1) See the Company's press release of August 27, 2016.
2) The change to the Articles of Incorporation was registered in the commercial register and became effective on December 9, 2016.


Ladival
Ladival
Ladival
adival
adival
Für Kinder
50+
sehr hoch
Normale bis Empfindliche Haut
30
hoch
Allergische Haut
30
hoch
Plus
20
25

GROUP MANAGEMENT REPORT OF THE EXECUTIVE BOARD 2016

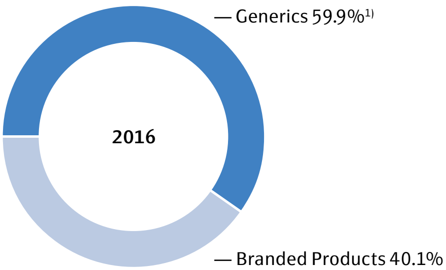
FUNDAMENTAL INFORMATION ABOUT THE GROUP

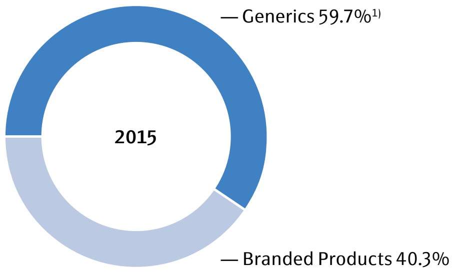
Group's Business Model

Focus on the health care growth market with emphasis on the pharmaceutical market

STADA is an internationally active health care company organized as a stock corporation. The business model of STADA focuses on the health care market and particularly the pharmaceutical market and is oriented towards one of the global growth industries as a result. In the context of general growth drivers such as the global population increase, an aging society in industrialized nations and further medical progress, numerous health care and pharmaceutical markets will continue to offer high growth oppportunities, which are relatively independent from the market in future. With regard to costs and risks, STADA deliberately does not conduct any in-house research on, or marketing of, new active pharmaceutical ingredients, but rather focuses on the development and marketing of products with active ingredients free from commercial property rights, particularly patents.

Share of Generics and Branded Products segments in STADA Group sales





As part of the implementation of the revised corporate strategy, in financial year 2016 the Executive Board also agreed a change to the corporate structure, creating clear areas of responsibility and greater transparency. In order to accommodate the growth strategy including central management of the segments, an increased internationalization of the branded product portfolio and stricter cost controls, management by business segments as well as a fundamental change to reporting structures were agreed. The Group is now managed by the two segments Generics and Branded Products. STADA had previously reported according to operating segment and market region. In the reporting year, Generics contributed around 60% and Branded Products around 40% to Group sales. In light of the fact that Branded Products are subject to less regulatory intervention and are characterized by more attractive margins than Generics, STADA intends to reverse these shares in future.

However, **Generics** will also continue to see growth opportunities in the pharmaceutical market. They represent a lower cost alternative to the often significantly more expensive original products and consequently contribute to counteracting the significant price pressure in individual health care markets. Furthermore, additional growth potentials result from the continuous expiration of patents and other commercial property rights. Within Generics, biosimilars have further growth opportunities as they can make a significant contribution towards cost reduction as a result of the cost intensity of biopharmaceuticals. As part of the implementation of the revised corporate strategy, the Group will continue to expand in the Generics segment in markets with relatively low penetration rates and to supplement the portfolio with selected biosimilars. STADA will in-license certain biosimilars from highly specialized suppliers, as this is a lower-risk and lower-cost path (see "Product Development").

1) The figures in the reporting year and in the previous year include the non-core activity Commercial Business, which was previously reported separately.

Within **Branded Products**, which for STADA primarily comprises non-prescription products (OTC), prescription products (RX) and discretionary prescription products (OTX), the Group is accelerating not only the expansion of the portfolio, but also the increasing internationalization of successful brands. Overall, STADA relies on the advantages of a centralized portfolio management structure.

Whereas generics sales focus on low pricing, branded product marketing focuses on specific product characteristics and, in particular, the brand name.

Apart from the sales positioning, the two segments differ from one another in other areas such as the demand structure, growth and margin expectations as well as the requirements of portfolio expansion and development strategies.

In the Generics segment, the requirements of the product portfolio are strongly oriented towards the regulatory structure in the individual markets in which generics are sold. The product portfolio generally includes numerous dosage forms and dosages for most relevant active pharmaceutical ingredients. The top five generics active ingredients in terms of sales in financial year 2016 were Tilidin Naloxon, Atorvastatin, Pantoprazol, Epoetin zeta and Diclofenac. The eight largest markets in this segment in terms of sales were Germany, Italy, Spain, Russia, Belgium, France, Vietnam and Serbia.

Top 5 Generics active ingredients

Active ingredient	Indication group	Sales 2016 in € million	Change from previous year
Tilidin Naloxon	Pain	43.6	+36%
Atorvastatin	Elevated cholesterol level	24.4	+1%
Pantoprazol	Gastric ulcer/reflux	22.4	+3%
Epoetin zeta	Anemia	22.4	+11%
Diclofenac	Pain/inflamation	20.6	0%
Total		133.4	**+12%**

The eight largest markets in the Generics segment in terms of sales

in € 000s	Sales 2016 in € million	Change from previous year
Germany	308.0	0%
Italy	157.7	+6%
Spain	105.4	-1%
Russia	92.5	+11%
Belgium	90.7	-5%
France	81.9	+2%
Vietnam	69.1	+9%
Serbia	55.8	-24%
Total	961.1	**0%**

In the Branded Products segment, the Group pursues the concept of the so-called “strong brands”, relying on high brand awareness. In general, STADA covers all key indications in this area. In the reporting year, the top five branded products were APO-Go®, Grippostad®, Snup®, Fultium®, and Vitaprost®. The five largest markets in this segment in terms of sales were Germany, the United Kingdom, Russia, Italy and Vietnam.

Top 5 branded products

Branded product	Indication group	Sales 2016 in € million	Change from previous year
APO-Go®	Parkinson’s	66.6	+6%
Grippostad®	Cold	43.7	+4%
Snup®	Rhinitis	24.2	-19%
Fultium®	Vitamin D deficiency	22.6	+10%
Vitaprost®	Prostate disease	20.0	-8%
Total		**177.1**	**0%**

The five largest markets in the Branded Products segment in terms of sales

in € 000s	Sales 2016 in € million	Change from previous year
Germany	177.4	+38%
United Kingdom	175.4	+4%
Russia	150.1	-29%
Italy	43.9	+9%
Vietnam	36.7	+19%
Total	**583.5**	**+1%**

STADA is not equally represented with Generics and Branded Products in all countries in which it does business. Depending on the sales focus, the Group is more active in regulated markets or in self-pay markets.

The key customer groups in the Group include patients and consumers, doctors, pharmacies and pharmacy chains, hospitals, mail-order companies, buying groups, wholesales and other service providers in the health care market as well as cost bearers in the form of public or private health insurance organizations. The sales focus is on different target groups, depending on the individual market.

Operative positioning

In the course of the implementation of the revised corporate strategy, a change to the corporate structure including the aforementioned new reporting structure was carried out in 2016. In accordance with the changed operative alignment, in addition to the areas of product development, procurement, purchasing, production, quality management, finance, risk management, compliance and corporate governance, sales and earnings responsibility in the individual countries as well as the corresponding product portfolio are now subject to central management. With the fundamental reorganization, the Group aims to optimally meet the requirements of the growth strategy.

Product Development

Strategic and organizational orientation of development activities

In view of the business model and strategic positioning, the STADA Group deliberately does not conduct any in-house research for active pharmaceutical ingredients, but rather focuses on the development of products with active ingredients – generally pharmaceutical active ingredients – that are no longer subject to any commercial property rights, particularly patents. One focus of the Group-wide development activities is the development of Generics. In the area of innovative branded products, particularly non-prescription drugs, such as nutritional supplements, STADA is continuously expanding its development activities as a result of the increasing importance of this segment in the Group. In addition, within the branded products area, STADA is targeting the increasing internationalization of successful brands. Additional growth opportunities existing in niche markets and unregulated markets are to be taken advantage of through the introduction of innovative products.

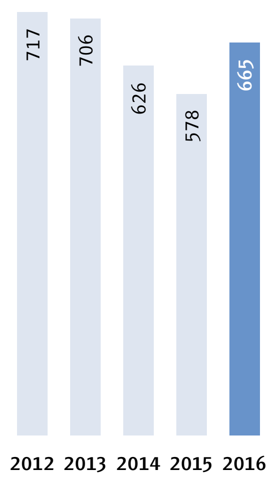
In financial year 2016, STADA began a detailed analysis of its Generics portfolio. The objective is to reduce the complexity of the existing portfolio, which is currently made up of around 18,000 product presentations, in order to reduce manufacturing and marketing expenses. Marketing expenditure is also to be more strongly focused on profitable products.

Market readiness is at the center of development activities for new products. In the case of pharmaceuticals this usually involves obtaining national approval from the responsible approval authorities in the context of differentiated, largely supranational approval processes. In the majority of cases, STADA Arzneimittel AG, as the central development unit, prefers supranational – in particular EU-wide – approval processes in order to achieve numerous national approvals of a product in different countries nearly simultaneously. Approval procedures outside of the EU are carried out, if possible, on the basis of the EU dossier of the individual products that are based on a standardized formulation. The international orientation of the development activities also allows economy of scale effects to be achieved as a result of optimized batch sizes.

In the course of the long-term oriented Group-wide development activities, the Group is already working on the development of generic products with potential launch dates beyond 2025. STADA generally pursues a “time and cheap to market” strategy with the objective of launching new products not only at the earliest point in time, but also at the best possible cost of sales.

For the management of Group-wide development projects, STADA has central project management with interface management which ensures the transparent management of product development in the Group. Group-owned development centers for internationally oriented projects are located in Bad Vilbel, Germany, and Vrsac, Serbia. In order to optimally manage development resources and close technological gaps, STADA also cooperates with external third-party developers from Europe and Asia. In addition to in-house and third-party development, the Group generally takes advantage of a global network of external development partners, through which dossiers or approvals are acquired.

5-year development: Number of product launches



Development and approval strength

The high number of annual product launches shows the development and approval strength of STADA. With the introduction of 665 individual products worldwide (previous year: 578) the Group was able to prove this strength once again in 2016.

The great importance of successful product development can be seen from the 4% share in sales (previous year: 5%) generated with products the Group introduced in the last two years[1)2)].

STADA has a well-filled product pipeline. This is also shown by the high number of ongoing approval procedures as of December 31, 2016 totaling over 1,400 for more than 160 active pharmaceutical ingredients and active ingredient

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

combinations for over 55 countries. This applies in particular to Generics in the EU. In addition, the Group conducts approval activities also in markets outside of the EU where it has its own subsidiaries or is active in the export business.

STADA is also active in the area of biosimilars. The Group currently has two biosimilars on the market: SILAPO®, an epoetin biosimilar, and Grastofil®, a filgrastim product. In addition, STADA has also in-licensed five further biosimilars – pegfilgrastim, rituximab, teriparatide, adalimumab and bevacicumab – the latter in the reporting year. STADA and its cooperation partner also received a so-called "positive opinion" from the responsible European approval authority EMA for teriparatide at the end of 2016, before approval was granted by the EU commission in the current financial year 2017. A significant delay is expected in the approval for pegfilgrastim, as the European approval authority EMA had a different interpretation of one aspect of the results from clinical data and has requested further clinical data. In light of the fact that this was no longer possible in the previously ongoing approval procedure, the license partner Gedeon Richter and STADA agreed in November 2016 to withdraw the approval application for pegfilgrastim. Following successful completion of the data collected, Gedeon Richter and STADA will resubmit the approval application.

Expenses for research and development costs

The research and development costs amounted to € 65.1 million in financial year 2016 (previous year: € 65.0 million) (see "Economic Report – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Earnings Development of the Group"). Since STADA is not active in research for new active pharmaceutical ingredients due to its business model, it is only a matter of development costs. In addition, the Group capitalized development costs for new products in the amount of € 28.4 million in the reporting year (previous year: € 26.1 million) This corresponds to a capitalization rate of 30.4% (previous year: 28.6%). Amortization of capitalized development costs in 2016 amounted to approx. € 8 million (previous year: approx. € 8 million).

Procurement, Production and Quality Management

Centralized needs planning as well as high flexibility and continuous cost optimization within the supply chain and pharmaceutical production

Overall, there are three so-called supply chain hubs in the Group at the locations in Bad Vilbel, Germany, Vrsac, Serbia, and Moscow, Russia. These are managed through STADA Arzneimittel AG and are where the centralized needs planning is carried out for selected top products in the Group.

The Group principally has a high level of flexibility and pays attention to continous cost optimization in the supply chain and pharmaceutical production. As a result of the comprehensive product portfolio of more than 800 active pharmaceutical ingredients and approximately 18,000 product packagings sold by the Group, each different in terms of its active ingredients and/or quantity of the active ingredients and/or dosage forms and/or package sizes, STADA makes use of an international network of internal and external resources for the supply chain and pharmaceutical production.

As a result, the Group generally does not produce any raw and auxiliary materials necessary for pharmaceutical production itself, but instead sources them primarily from low-cost suppliers from low-cost countries, particularly in Asia. In financial year 2016, STADA had procurement offices in Shanghai, China, and in Mumbai, India.

Where STADA has products produced in the context of contract manufacturing, the company is dependent not only on the global development of the purchase prices for the necessary raw and auxiliary materials, but also on the supply prices to be negotiated with the contract manufacturers. The Group involves suppliers in the risk of margin losses due to falling selling prices as much as possible. This occurs, for example, by using price escalation clauses in which procurement prices are linked to selling prices, subsequent negotiations or the agreement of special procurement prices for special sales volumes, such as volumes that are put out to tender by public health insurance organizations in the context of discount agreements.

In terms of the production processes, in financial year 2016 the Group continued to concentrate on its own locations, in line with the policy started several years ago. As a result of the gradual assumption of production volumes from contract manufacturing and the shift of production volumes within Group-owned production facilities, around 75% of the Group-wide production volume is now manufactured in low-cost countries. Overall, as part of the concentration process and the flexible "make or buy" approach, the Group benefits from both structural cost advantages resulting from the use of locations in low-cost countries, and the higher capacity utilization and associated decline in unit prices.

In the reporting year, the STADA Group had 16 production locations, of which those in Germany, the United Kingdom, Russia and Serbia were the most important.

Adequate annual investments are made to ensure that all Group-owned production facilities and test laboratories are maintained at the level required by legal stipulations and technical production considerations. In the reporting year, investments in the expansion and renewal of production facilities and plants as well as test laboratories amounted to € 22.6 million (previous year: € 32.2 million).

Highest quality and safety standards

As an international health care company, STADA always has high requirements for the quality and safety of its products. These requirements apply to the quality of raw materials, products, services and working conditions. The Group-wide control management is carried out centrally through STADA Arzneimittel AG.

In the context of regular and comprehensive audits, the Group-wide quality management reviews the quality standards set by the Group, some of which far exceed the legal requirements, not only at its own production sites, but also in the facilities of suppliers and contract manufacturers.

The responsible national regulatory authorities also carry out regular external inspections. Within the EU, these inspections take place every two to three years. In addition to inspection by national authorities outside the EU, STADA also orders EU Good Manufacturing Practice Compliance inspections (EU GMP compliance inspections) in order to receive three-year extensions of the required EU import authorizations. In this context, the authorities responsible for the Group review whether the inspected production facilities meet the EU GMP standards.

Since the Group also aims to guarantee EU quality standards for drugs in countries outside of the EU, standards that often go beyond local requirements, the Group-owned production facilities not located in the EU in Banja Luka, Nizhny Novgorod, Obninsk, Podgorica, Sabac, Tuy Hoa and Vrsac are set up for the production of certain pharmaceutical dosage forms for EU countries, meaning they are authorized by the responsible EU regulatory authorities for delivery to the EU according to the previously mentioned inspections.

In addition to legal provisions, STADA holds international certifications in accordance with external quality management systems. Accordingly, at numerous production sites, the Group not only focuses on GMP standards but also on the relevant ISO standards.

Sales and Marketing

Functionally organized Group with local and close to market sales companies

The STADA Group has an international sales structure made up of nationally focused sales companies. In accordance with the operative alignment, the subsidiaries, which are active in sales, are centrally organized but still have a high degree of market proximity and therefore extraordinary sales strength. Globally, the Group markets its products in around 125 countries including the export business, of which around 30 countries have their own sales companies.

The sales activities are generally coordinated at an international level in the Group. This includes, for example, the structuring of the portfolio in line with the further internationalization of individual products or certain sales activities such as wholesaling cooperations.

As part of its focused acquisition policy, the Group will continue to expand the existing sales network. Alongside the use of growth potentials, the expansion is also designed to reduce the share of sales activities in the countries which, for example, represent difficult regulatory conditions for generics, in order to reduce the dependency on state regulated and therefore price regulated health care systems.

More information on the development of Group's sales activities in the individual markets carried out in the reporting year is provided under "Economic Report – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Sales Development of the Generics and Branded Products Segments".

Employees

Long-term personnel policy

Through their extensive expertise and strong commitment, STADA´s employees make a substantial contribution to the lasting success of the Group. For this reason, STADA pursues a personnel policy focused on the long-term and geared toward the sustainable development of all employees. "Training and development", "knowledge management", "succession planning for management" and "employee dialog" are all topics that play an important role in this regard. In terms of training, the company offers measures such as language skills support, specialist workshops, seminars and extra-occupational study programs. In addition, the Group offers targeted development and support programs designed for different professional phases and individual career path planning. Examples of this include exchange programs between German and foreign subsidiaries, as well as management programs. All personal development measures aim to continuously provide the skills needed both now and in the future, and to fill management and expert positions from within STADA's own ranks as much as possible.

Employee participation and employee dialog

Employee participation is also an important part of personnel policy at STADA. In order to allow employees to participate to an even greater extent in the company's success, incentives are offered for the purchase of STADA shares in Germany. This investment strengthens employee loyalty which in turn promotes identification with STADA and increases the sense of responsibility to the company and its success.

In order to increase STADA's competitiveness, great importance is attached to employees' creative potential and imagination. STADA recognizes active and systematic participation in the form of an idea management system. Every employee is encouraged to submit their ideas and suggestions using a company suggestion scheme in order to enable this ongoing improvement process.

Another measure is institutionalized employee dialog, which includes direct communication between the workforce and management bodies and exchanges among employees. Furthermore, as part of the implementation of the revised strategy and the corresponding development of the corporate culture, there are further activities that aim to promote communication and cooperation within the Group and to strengthen team spirit further.

Influence of personnel management

STADA's personnel management is decentralized so that the varying needs of employees in the countries the Group operates can be met. In line with company guidelines – particularly compliance guidelines – international subsidiaries are largely independent in many areas of personnel management including recruitment, training and remuneration.

Development of the number of employees

In the reporting year, the number of employees grew both in terms of the average number and the number at the reporting date. In 2016, the average number of employees increased to 10,839 (previous year: 10,441). As of the December 31, 2016 reporting date, the number of employees increased to 10,923 (December 31, 2015: 10,532).

The increase in the number of employees was primarily attributable to the acquisitions of the British BSMW Limited, Argentinean Laboratorio Vannier S.A. and British Natures Aid Limited as well as a local product portfolio of the Serbian IVANCIC I SINOVI DOO with a total of 218 employees.

The regional breakdown of the employees Group-wide shows that in financial year 2016 an average of 1,164 employees were under contract in Germany (previous year: 1,207 employees). The average number of employees located at Group headquarters in Bad Vilbel, Germany amounted to 908 (previous year: 938). The average number of employees at international Group locations amounted to 9,675 (previous year: 9,234).

The Group-wide share of women in management positions in 2016 amounted to approx. 49% (previous year: approx. 48%). Further information on the statutorily prescribed targets for Germany's Law on Equal Participation of Men and Women in Management Positions can be found in the chapter "Corporate Governance Report including the Corporate Governance Declaration for STADA Arzneimittel AG and the Group".

Personnel expenses

Personnel expenses increased in 2016 to € 365.7 million (previous year: € 342.7 million). The ratio of personnel expenses to sales amounted to 17.1% (previous year: 16.2%).

Objectives and Strategies

Sustainable profitable growth and long-term value increase

With its business model STADA aims to generate sustainable profitable growth and to increase the value of the company in the long-term.

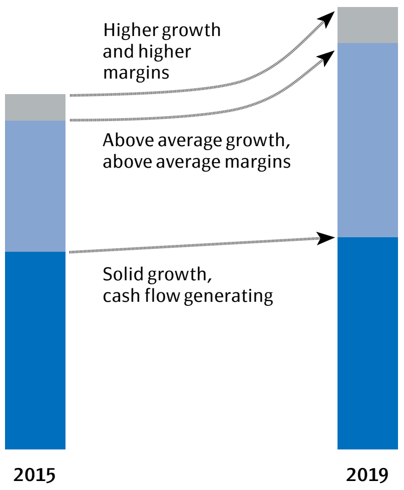
To reach these targets, in financial year 2016 the Executive Board agreed a revised corporate strategy. With an unchanged strategic orientation, numerous initiatives were introduced to improve the performance of the Group with which competitiveness and innovation is to be increased and added value is to be achieved in the long-term. As part of the implementation of the initiatives, untapped sales potential will be leveraged, marketing expenses will be optimized, sales efficiency will be enhanced and cost of sales will be reduced . For example, promising products are to be introduced into more countries in order to take advantage of previously untapped sales opportunities in the Branded Products segment. Within the Generics segment, STADA will benefit from the expiration of further patents and will also supplement the portfolio with selected biosimilars. Furthermore, the number of Group companies and product presentations is to be minimized, the number of suppliers reduced and production processes further optimized. A changed corporate structure with clear areas of responsibility and greater transparency as well as a re-positioned corporate culture with an increased focus on entrepreneurship, extensive knowledge sharing and an open dialog are to contribute towards reaching the objectives. In general, the revised strategy will also make a significant contribution towards reaching the objectives for 2019, presented in 2016 (see "Report on Expected Developments").

Generics segment remains part of the core business – expansion of the attractive-margin Branded Products area

In order to grow further, STADA is relying on both organic growth and value-adding acquisitions. Generics will remain part of STADA's core business, and within it growth potentials particularly exist in the expansion in markets with relatively low penetration rates and in the supplementation of the existing portfolio with selected biosimilars. In the Generics markets, in which the Group is already active with subsidiaries, STADA aims to maintain or take leading positions. With the help of continuous growth in the Generics segment, the Group intends to generate financial means, to further expand the often more attractive-margin Branded Products area and gradually increase the share of this segment in Group sales as a result. Within Branded Products, STADA is aiming for both further expansion and the increasing internationalization of successful brands. Innovative marketing concepts are to be used in this context. Alongside the strengthening of the Generics and Branded Products segments, STADA intends to take advantage of additional growth opportunities in niche and non-regulated markets through the introduction of innovative products.

As part of the strategic development, the organizational and sales structures were reviewed. German business activities, for example, are to be bundled and made more competitive to improve perception on the market and achieve sales and cost advantages. In this context, STADA GmbH and STADAvita as well as STADApharm and cell pharm are to be merged. At the beginning of the fourth quarter of 2016, the management of STADA GmbH and STADAvita as well as STADApharm and cell pharm started negotations with the Works Council about the details of a merger as well as the balancing of interests and a social plan.

Revised Strategy
Build on generics, expand branded product business and strive for additional growth opportunities



Internationalization of brands/biosimilars/niche areas/ special therapy areas

Additional growth opportunities
– Niche markets, non-regulated markets, driven by innovative products

Branded Products

Expand branded base business
– Prioritize attractive brands
– Internationalize selected products
– Make use of innovative marketing concepts
– Further expansion in non-regulated markets

Generics

Expand generics base business
– Core business
– Offers solid reliable growth basis
– Cost leadership and strong market position in selected regions, benefiting from still low penetration rates

Internal Management System

In the STADA Group, the corporate areas are managed using the following financial performance indicators: Adjusted Group sales, adjusted net income, adjusted EBITDA and the net debt to adjusted EBITDA ratio. These key figures are used for operational Group management. While Group sales are managed at segment level, adjusted EBITDA, adjusted net income and the net debt to adjusted EBITDA ratio are managed at Group level.

Despite the fact that STADA is targeting both organic and acquisition-related growth in the implementation of its growth strategy, the essential key figure is **Group sales adjusted for currency and portfolio effects**, which plays a key role in terms of ensuring sustainable Group success.

Adjusted EBITDA[1)] in the STADA Group represents EBITDA adjusted for special items within operating profit with the exception of special items that relate to impairments and write-ups of non-current assets. STADA utilizes adjusted EBITDA to measure its operational performance and the success of the individual segments adjusted for influences distorting the year-on-year comparison resulting from special items. Results from associates and investment income are included.

STADA's **adjusted net income**[1)] represents the net income adjusted for special items. Adjusted net income is used as a key figure for the measurement of the overall success.

The **net debt to adjusted EBITDA ratio** serves as a measure for the debt-to-equity ratio and as a result is an indication of the financial stability, among other things for the borrowing of funds.

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

The financial performance indicators of Group sales adjusted for currency and portfolio effects, adjusted EBITDA, adjusted net income and net debt to adjusted EBITDA ratio are derived as follows in the STADA Group:

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

Responsibility and Sustainability

Corporate responsibility for over 120 years

As a globally active pharmaceutical and health care company, STADA has been committed to taking responsibility for over 120 years. This is also expressed in its “All the Best” mission statement. Alongside care for people’s health and well-being, it includes sustainable and responsible economic activity. With the founding of the Professional Community of German Pharmacists (STADA) in 1895, certain products were prepared in accordance with standardized guidelines for the benefit of patients. STADA continues to take its social responsibility very seriously today. Both segments, Generics and Branded Products, contribute towards this. Through a lower price, Generics contribute towards efficient and affordable health care. Branded Products relieve pressure on health care systems because they are, with only a few exceptions, not reimbursable. STADA will reinforce its commitment to the safety and health of patients, environmental protection, fair working conditions and sustainable and responsible corporate governance with the planned joining of the UN Global Compact.

Value-based corporate governance

Good corporate governance is an important component of business success. Alongside comprehensive opportunities and risk management, this also includes Group-wide binding behavioral guidelines – set out in the Code of Conduct – and topic-oriented corporate policies. Compliance, i.e. the adherence to laws and internal rules, is firmly anchored in the STADA Group. As part of the ongoing optimization of the Compliance Management System, in financial year 2016 a review of the Compliance Management System in the STADA Group (readiness assessment) was started by external experts as planned and will be continued in the current financial year. The subject of compliance is described in detail in the Group Management Report of this Annual Report in the “Corporate Governance Report”. Central purchasing and supplier management as well as comprehensive corporate responsibility management (CR management) and environmental social governance management (ESG management) are further elements of value-oriented corporate governance at STADA. In 2016, for example, an extensive self-disclosure survey of suppliers and service providers on diverse corporate governance related issues was carried out. This information was uploaded into the electronic system for corporate governance supplier assessment. The STADA Steering Group CR ensures the strategic management of CR across all areas and has engaged the CR project group within the organization with the operational implementation.

Global medicine safety system

Medicines are products that have a direct impact on people’s health. As a result of this responsibility towards patients, safe and high quality medicine are the most important goal at STADA. In order to achieve this, quality assurance and quality control in the STADA Group are designed in accordance with the guidelines of the European Good Manufacturing Practice Standard (EU-GMP standard). These GMP standards also apply to all suppliers of the STADA Group. The worldwide STADA subsidiaries are also subject to a central management of quality assurance and quality control, supported by regional quality assurance officers. As part of the global medicine safety system, all subsidiaries also report directly to the central “medicine safety” department. At STADA, the topic of product safety includes safe medicine packaging, the observance of all legal requirements and guidelines, the regular auditing of the global medicine safety system as well as the orientation of development activities in accordance with EU guidelines and national requirements for local in-house developments. Furthermore, in 2013 STADA was the first pharmaceutical company in Germany to introduce 2D bar code labeling on products on a large scale. This simplified product management and increased customer safety, for example in the case of a product recall. In doing so the STADA Group established first measures on the market resulting from the EU directive on falsified medicinal products at an early stage. These must be legally implemented across the EU by February 9, 2019.

Environmental protection at STADA

Environmental protection at STADA is not limited to compliance with applicable laws. In fact, the company is constantly working to optimize procedures and processes to conserve resources and minimize the impact on the environment. Alongside regular GMP certification of the production sites and suppliers, environmental management is supported by Group-wide best practice transfer. Local standards, laws and measures are taken into account through decentralized organization in this area. Furthermore, as a result of its business model (not including the production of active ingredients) STADA does not present any significant emission risks. The Group is currently working on an integrated Corporate Governance report, which is to include Corporate Governance key figures, applicable across the Group.

"All the best" initiative

In order to fully satisfy its "All the best" mission statement, STADA is also involved in numerous social sponsoring projects. The Group is particularly active in the areas of information, education and research, culture and sport. In the case of a disaster, STADA also offers fast support with medication or financial donations.

The "All the best" initiative, founded by STADA in 2014, contributes towards, for example, not only providing people with useful health care information, but also explaining gaps in knowledge or incorrect knowledge. The latest STADA Health Report, published in financial year 2016, looked at the interactions between the body and the mind. In addition, since 2007 STADA has been the main sponsor of dolphin aid e.V., a non-profit organization that offers alternative therapies for ill and disabled children. The company has been supporting Nepal since the severe earthquake in April 2015. Initially, emergency aid took the form of medication and financial donations, and has since been replaced with the means for rebuilding homes and schools. Within the area of "education and research", STADA has been supporting the Hochschule Fresenius since 2003 in the form of a foundation professorship. Furthermore, Group is involved in the so-called "Deutschlandstipendium" (Scholarship of Germany), in cooperation with Charité – Universitätsmedizin Berlin. Within the area of culture, STADA has supported the the Burgfestspiele (castle festival) in Bad Vilbel for the past 29 years. Sport is also important for health. For this reason, STADA is also committed in this area to numerous projects in amateur, disabled and professional sport. These are just some of the numerous examples of the social commitment of the STADA Group.

Digitalization in the health care industry

Like many other companies, STADA is also working intensively in the area of digitalization. As a result, in financial year 2015 STADA joined the Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (Bitkom, Germany's digital association). In this way, the Group would like to become involved in the dialog about important aspects of digitalization of the health care industry, such as the subject of "data protection in the health care system" and the e-health law. Digitalization is also a factor for employer attractiveness. Digital networking and digital knowledge management will become ever more important for STADA in the future in order to offer employees a diverse working environment. In previous years STADA had introduced comprehensive digitalization in the company, among others through the increased use of digital media to provide information about health topics and through the establishment of an IT shared service center, which supports and advises the entire Group with IT services. This development will be further expanded in future. Within Human Resources, the gradual implementation of a new HR IT system is currently ongoing. Linking the individual modules is to increase efficiency, effectiveness and competitiveness.

REPORT ON ECONOMIC POSITION

Macroeconomic and Sector-Specific Environment

Overall economic development

According to information from the International Monetary Fund (IMF), global economic output in 2016 increased moderately by 3.1%.[1] The decision of the United Kingdom to leave the European Union and the long-standing uncertainty regarding the outcome of the US elections as well as the repositioning of China to focus on domestic consumption had a noticeable effect. Commodity prices increased significantly from the beginning of the year, however they generally remained below the average prices of 2015. The economic situation of commodity-exporting countries such as Russia consequently remained difficult.

The following table shows the development of the most important markets for STADA. The countries are sorted in descending order of sales achieved by STADA in 2016.

	Growth rate (GDP) 2016 in %
Germany[1]	1.7
Russia[1]	-0.6
Italy[1]	0.9
United Kingdom[1]	2.0
Spain[1]	3.2
Vietnam[2]	6.1
Belgium[2]	1.4
France[1]	1.3
Serbia[2]	2.5

In Germany, the strong economic development continued at 1.7%. Russia continued to suffer from the low raw material prices. However, its economic output improved from -3.7% to -0.6%. The potential negative consequences of Brexit for the United Kingdom have not yet been reflected in growth figures of 2.0%, although the British pound sterling lost significant value. In Italy, France and Belgium growth rates stabilized at 0.9%, 1.3% and 1.4%. Spain once again benefited from an expansive financial policy and strong growth in tourism, meaning economic ouput remained at the previous year's level of 3.2%. Vietnam was able to maintain the high growth rate of the previous year with 6.1%. In Serbia, growth increased from 0.5% in the previous year to 2.5%.

Sector-specific development

In 2016, sales in the international generics market increased by approx. 7.8%[3] to approx. € 185.3 billion[3] as compared to the previous year. The market share of generics in the global pharmaceutical market amounted to approx. 15.2%[3]. The sales development of generics in the eight largest countries for STADA in terms of sales were as follows in the reporting year: Germany approx. +4.0% [4] to approx. € 6.7 billion[4], Italy approx. +6.6%[4] to approx. € 3.6 billion[4], Spain approx. +6.8%[4] to approx. € 3.1 billion[4], Russia approx. +9.5%[4] to approx. € 2.5 billion[4], France approx. +5.1%[4] to approx. € 5.9 billion[4], Belgium approx. +3.8%[4] to approx. € 0.6 billion[4], Vietnam approx. +5.5%[4] to approx. € 0.6 billion[4] and Serbia approx. +4.8%[4] to approx. € 0.3 billion[5].

Sales in the international OTC market increased by approx. 11.7%[4] to approx. € 79.4 billion[4] in 2016 as compared to the previous year. The market share of OTC products in the global pharmaceutical market amounted to approx. 7.7%[4]. The sales development in OTC products in the five largest countries for STADA in terms of sales developed as follows in 2016: Germany approx. +1.8%[4] to approx. € 5.3 billion[4], United Kingdom approx. +1.8%[4] to approx. € 1.7 billion[4], Russia approx. +5.0%[4] to approx. € 3.8 billion[4], Italy approx. +2.4%[4] to approx. € 1.6 billion[4] and Vietnam approx. +20.1%[4] to approx. € 1.3 billion[4].

1) Source: International Monetary Fund: World Economic Outlook January 2017.
2) Source: International Monetary Fund: World Economic Outlook October 2016.
3) QuintilesIMS Syndicated Analytics Service; prepared for STADA February 2017.
4) QuintilesIMS MIDAS 2016.
5) QuintilesIMS National / Sell-Out.

Effects of macroeconomic and sector-specific environment

With its business model, the STADA Group is oriented toward the health care market, a market that is characterized by a demand that is relatively independent of the economy. In light of this, the global economic conditions generally have fewer direct impacts on the business development of the Group than the respective regulatory environment. There were no signficiant changes, which impacted the development of the Group in the reporting year in terms of the regulatory conditions in the countries where STADA is active.

Economic influences in the markets of the Group have a stronger influence on the self-pay market, as the demand there is to a certain – at times significant – extent, dependent on the financial situation of the population. In 2016, for example, STADA's Branded Products segment in Russia was influenced by continued reluctance to buy among Russian consumers, as this market has a high proportion of self-pay patients, at 94%.

The economic conditions impact the Group development in the form of currency and interest fluctuation. Against this backdrop, STADA takes suitable measures to be able to react appropriately to strong volatility in interest rates and Group-relevant currency relationships. However, this is only possible to a limited extent (see "Opportunities and Risk Report"). The currency influence was particularly noticeable in the reporting year in the development of the reported operating profit. This was strongly affected by negative translation effects due to the weak Russian ruble and the pound sterling, a currency that had become increasingly weaker since the EU referendum (see "Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Earnings Development of the Group").

In terms of the translation of sales and earnings in the most important national currencies for STADA, the Russian ruble, Serbian dinar and British pound sterling, it was observed that these currencies recorded weaker development in 2016 in relation to the Group currency, the euro, and influenced earnings development as a result. Whilst the Russian ruble recorded weaker development and the British pound sterling recorded increasingly weaker development following the EU referendum, the Serbian dinar was only slightly negative in relation to the euro. The Ukrainian hryvnia and Kazakhstani tenge recorded significantly weaker development than the euro, the Vietnamese dong and the Swiss franc recorded weaker development. The currency relations in other countries relevant for STADA only had a minor impact on the translation of sales and earnings in local currencies into the Group currency euro (see "Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Sales Development of the Group").

The development of the British pound and the Russisan ruble in relation to the Group currency, euro, was as follows in 2016 compared with the previous year:

Significant currency relations in local currency to € 1	Closing rate on Dec. 31 in local currency			Average rate for the reporting period		
	2016	2015	±%	2016	2015	±%
Pound sterling	0.85620	0.73390	+17%	0.81886	0.72604	+13%
Russian ruble	64.30000	80.67360	-20%	74.22592	68.01339	+9%

Course of Business and Net Assets, Financial Position and Results of Operations | Development of 2016 Compared to Outlook

For financial year 2016, the STADA Executive Board had forecast slight growth in Group sales adjusted for currency and portfolio effects, adjusted EBITDA and adjusted net income in the report on expected developments of the Annual Report 2015. The Executive Board had expected the ratio of net debt excluding further acquisitions to adjusted EBITDA to be at a level of nearly 3.

Group sales adjusted for currency and portfolio effects increased by 3% to € 2,167.2 million in the reporting year (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Sales Development of the Group). Adjusted EBITDA increased by 2% to € 398.0 million (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Earnings Development of the Group"). Adjusted net income recorded an increase of 7% to € 177.3 million (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Earnings Development of the Group – Results of Operations"). The net debt excluding further acquisitions to adjusted EBITDA ratio was 2.8 (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Net Assets").

With this development, Group sales adjusted for currency and portfolio effects, adjusted EBITDA and adjusted net income in financial year 2016 were slightly above the statements on expected developments in the 2015 Annual Report.

Course of Business and Net Assets, Financial Position and Results of Operations | Development of Financial Performance Indicators and Non-financial Management Metrics

Financial performance indicators of the STADA Group

The development of the STADA Group's financial performance indicators in financial year 2016 was as follows:

Financial performance indicators in € million	2016	2015	±%
Group sales adjusted for currency and portfolio effects	**2,167.2**	**2,100.4**	**+3%**
• Generics	1,287.4	1,253.2	+3%
• Branded Products	879.8	847.1	+4%
EBITDA, adjusted	**398.0**	**389.4**	**+2%**
• Generics	264.9	232.0	+14%
• Branded Products	200.7	220.1	-9%
Net income, adjusted	**177.3**	**165.8**	**+7%**
Net debt to adjusted EBITDA ratio	**2.8**	**3.1**	**-10%**

Details on the development of STADA's financial performance indicators are included in the following explanations of the results of operations.

Non-financial management metrics of the STADA Group

As a supplement to the key figures for the assessment of the financial development of the Group, non-financial metrics are also important for sustainable business success. In this context, the topics "corporate responsibility", "sustainable development and approval strength", "quality assurance and quality control", "environmental protection" and "personnel development and retention" play an important role. Details can be found in the Group Management Report of this Annual Report in the "Product Development", "Procurement, Production and Quality Management", "Employees" and "Responsibility and Sustainability" chapters.

Course of Business and Net Assets, Financial Position and Results of Operations | Results of Operations

Sales Development of the Group

Increase in Group sales under difficult conditions

in € million	2016	2015
Group sales	2,139.2	2,115.1
Group sales adjusted for currency and portfolio effects	2,167.2	2,100.4

Reported Group sales recorded an increase of 1% to € 2,139.2 million in financial year 2016 (previous year: € 2,115.1 million).

When effects on sales based on changes in the **Group portfolio** and **currency effects** are deducted, **adjusted Group sales** increased by 3% to € 2,167.2 million in the reporting year (previous year: € 2,100.4 million).

The reconciliation of reported Group sales to Group sales adjusted for currency and portfolio effects is as follows:

in € million	2016	Comparable period for 2016	±%	2015	Comparable period for 2015	±%
Reported Group sales	**2,139.2**	**2,115.1**	**+1%**	**2,115.1**	**2,062.2**	**+3%**
• Generics	1,280.7	1,261.4	+2%	1,261.4	1,261.7	-0%
• Branded Products	858.5	853.6	+1%	853.6	800.5	+7%
Currency effects	**69.6**	–	–	**64.6**	–	–
• Generics	17.9	–	–	13.2	–	–
• Branded Products	51.7	–	–	51.5	–	–
Portfolio changes	**41.6**	**14.7**	–	**45.9**	**10.0**	–
• Generics	11.2	8.2	–	6.6	6.3	–
• Branded Products	30.4	6.5	–	39.3	3.7	–
Group sales adjusted for currency and portfolio effects	2,167.2	2,100.4	+3%	**2,133.8**	**2,052.2**	**+4%**
• **Generics**	**1,287.4**	**1,253.2**	**+3%**	**1,268.0**	**1,255.4**	**+1%**
• **Branded Products**	**879.8**	**847.1**	**+4%**	**865.8**	**796.8**	**+9%**

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

Portfolio changes totaled € 41.6 million in 2016, primarily due to the acquisition of the Socialites group and Laboratorio Vannier, and € 14.7 million in the previous year, including the retrospective adjustment, which was particularly attributable to the disposal of Laboratoires d’études et de recherches en oligo éléments thérapie SA and the suspension of the commercial business within STADA Nordic. This represents 1.2 percentage points.

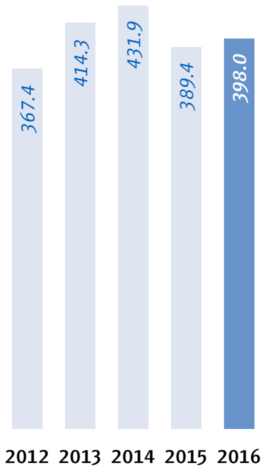
As a result of applying foreign exchange rates from the reporting year compared with the previous year for the translation of local sales contributions into the Group currency euro, STADA recorded a negative **currency effect** for Group sales in the amount of € 69.6 million or -3.3 percentage points because the development of all three of the most important national currencies for STADA was weaker compared to the Group currency euro. Whilst the Russian ruble recorded weaker development and the British pound sterling recorded increasingly weaker development following the EU referendum, the Serbian dinar was only slightly negative in relation to the euro. The Ukrainian hryvnia and Kazakhstani tenge recorded significantly weaker development than the euro, the Vietnamese dong and the Swiss franc recorded weaker development. The currency relations in other countries relevant for STADA only had a minor impact on the translation of sales and earnings in local currencies into the Group currency euro.

To the extent that adjusted sales figures are reported in this annual report, this refers to sales adjusted for these portfolio effects and currency fluctuations in each case.

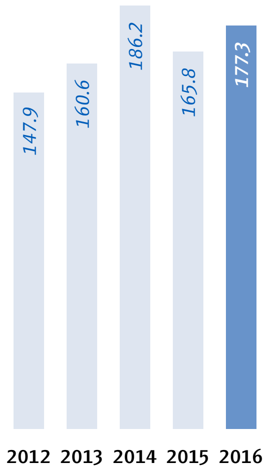
Course of Business and Net Assets, Financial Position and Results of Operations | Results of Operations

Earnings Development of the Group

Adjusted EBITDA in € million



Adjusted net income in € million



Reported adjusted key earnings figures burdened by high special items

Overall, the result of operations in 2016 was influenced by high special items, particularly expenses from reorganization decisions. The changes to the corporate structure and resulting changes to reporting structures in July 2016, with which we are moving away from regional responsibilities and towards central management of the Generics and Branded Products segments, resulted in a series of structural measures, particularly in relation to personnel decisions as well as the revaluation of portfolio activities. The development of the reported key earnings figures therefore differed from the development of the adjusted key earnings figures. The development of reported operating profit was significantly influenced by negative translation effects, which were attributable to a weaker Russian ruble and the increasing weakness of the British pound sterling since the EU referendum.

Reported operating profit showed a decline of 20% to € 178.1 million in the reporting year (previous year: € 223.7 million). **Reported EBITDA** decreased by 4% to € 361.5 million (previous year: € 377.1 million). **Reported net income** decreased by 22% to € 85.9 million (previous year: € 110.4 million).

Adjusted operating profit recorded growth of 4% to € 294.4 million in the reporting year (previous year: € 283.8 million). **Adjusted EBITDA** recorded growth of 2% to € 398.0 million (previous year: € 389.4 million). **Adjusted net income** grew by 7% to € 177.3 million (previous year: € 165.8 million).

The **reported tax rate** improved to 25.1% in financial year 2016 (previous year: 25.8%). The adjusted tax rate at 23.9% in the same period was above the level of the previous year (previous year: 22.0%).

Influence on earnings due to special items

Special items amounted to a net burden on earnings of € 116.7 million before or € 91.4 million after taxes in 2016. The reconciliation of the reported financial key performance indicators and further essential key earnings figures of the STADA Group to those adjusted for special items is as follows:

in € million[1]	2016 reported	Impairments/ write-ups on fixed assets	Effects from purchase price allocations and product acquisitions[2]	Currency effects CIS/ Eastern Europe[3]	Measurement of derivative financial instruments	Portfolio adjustments/ restructuring expenses[4]	Other[5]	*2016 adjusted*
Operating profit	**178.1**	**65.5**	**11.4**	**9.1**	**–**	**28.2**	**2.0**	***294.4***
Result from investments measured at equity	0.7	–	–	–	–	–	–	*0.7*
Investment income	0.0	–	–	–	–	–	–	*0.0*
Earnings before interest and taxes (EBIT)	**178.9**	**65.5**	**11.4**	**9.1**	**–**	**28.2**	**2.0**	***295.1***
Financial income and expenses	51.4	–	–	–	-0.5	–	–	*50.9*
Earnings before taxes (EBT)	**127.4**	**65.5**	**11.4**	**9.1**	**0.5**	**28.2**	**2.0**	***244.2***
Income taxes	31.9	12.8	3.1	1.1	0.1	5.3	4.0	*58.4*
Result distributable to non-controlling shareholders	9.6	0.5	-1.6	–	–	–	–	*8.5*
Result distributable to shareholders of STADA Arzneimittel AG (net income)	**85.9**	**52.2**	**9.9**	**8.0**	**0.4**	**22.9**	**-2.0**	***177.3***
Earnings before interest and taxes (EBIT)	**178.9**	**65.5**	**11.4**	**9.1**	**–**	**28.2**	**2.0**	***295.1***
Balance from depreciation/amortization and impairments/ write-ups of intangible assets (including goodwill), property, plant and equipment and financial assets	182.7	-65.5	-14.3	–	–	–	–	*102.9*
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**361.5**	**–**	**-2.9**	**9.1**	**–**	**28.2**	**2.0**	***398.0***

1) As a result of the presentation in € million, deviations due to rounding may occur in the tables.
2) Relates to additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions taking financial year 2013 as basis.
3) Relates to currency translation effects recorded in the income statement resulting from the fluctuation of the Russian ruble as well as other significant currencies of the region CIS/ Eastern Europe.
4) Relates to miscellaneous extraordinary expenses, among other things, for the restructuring of the German business, the termination of further parts of the aesthetics business, expenses related to the deconsolidation of the Egyptian subsidiary as well as the termination of a distribution contract in Belgium.
5) Relates to miscellaneous extraordinary income and expenses, among other things, from a received milestone payment in the United Kingdom, tax rate changes in the United Kingdom and a severance payment for the previous Chairman of the Executive Board.

In the previous year, there was a net burden on earnings from **special items** of € 63.1 million before or € 55.4 million after taxes. This had the following effects on the reconciliation of the reported financial key performance indicators and further essential key earnings figures of the STADA Group to those adjusted for special items in financial year 2015:

in € million[1]	2015 reported	Impairments/ write-ups on fixed assets	Effects from purchase price allocations and product acquisitions[2]	Currency effects CIS/ Eastern Europe[3]	Measurement of derivative financial instruments	Other[4]	*2015 adjusted*
Operating profit	**223.7**	**33.2**	**9.5**	**16.9**	**–**	**0.4**	***283.8***
Result from investments measured at equity	1.4	–	–	–	–	–	*1.4*
Investment income	0.1	–	–	–	–	–	*0.1*
Earnings before interest and taxes (EBIT)	**225.3**	**33.2**	**9.5**	**16.9**	**–**	**0.4**	***285.3***
Financial income and expenses	67.5	–	–	–	-3.1	–	*64.4*
Earnings before taxes (EBT)	**157.8**	**33.2**	**9.5**	**16.9**	**3.1**	**0.4**	***220.9***
Income taxes	40.6	3.8	-0.6	–	0.2	4.6	*48.6*
Result distributable to non-controlling shareholders	6.8	0.3	-0.5	–	–	-0.1	*6.5*
Result distributable to shareholders of STADA Arzneimittel AG (net income)	**110.4**	**29.1**	**10.6**	**16.9**	**2.9**	**-4.1**	***165.8***
Earnings before interest and taxes (EBIT)	**225.3**	**33.2**	**9.5**	**16.9**	**–**	**0.4**	***285.3***
Balance from depreciation/ amortization and impairments/write-ups of intangible assets (including goodwill), property, plant and equipment and financial assets	151.8	-33.2	-14.5	–	–	–	*104.1*
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**377.1**	**–**	**-5.0**	**16.9**	**–**	**0.4**	***389.4***

In the charts below, further essential key earnings figures of the STADA Group as well as the resulting margins are presented both as reported figures as well as adjusted for aforementioned special items and aforementioned special items for 2016 with the previous year to allow for comparison.

1) As a result of the presentation in € million, deviations due to rounding may occur in the tables.
2) Relates to additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions taking financial year 2013 as basis.
3) Relates to currency translation effects recorded in the income statement resulting from the fluctuation of the Russian ruble as well as other significant currencies of the region CIS/ Eastern Europe.
4) Relates to miscellaneous extraordinary income and expenses, among other things, for damage claim payments made and received, a change to the tax rate in the United Kingdom, a gain on disposal of a French Branded Products company and expenses in connection with the disposal of the German logistics activities.

Development of the STADA Group's reported key earnings figures

in € million	2016	2015	±%	Margin[1] 2016	Margin[1] 2015
Operating profit	178.1	223.7	-20%	8.3%	10.6%
• Operating segment result Generics	195.2	177.7	+10%	15.2%	14.1%
• Operating segment result Branded Products	81.4	130.0	-37%	9.5%	15.2%
EBITDA[2]	361.5	377.1	-4%	16.9%	17.8%
• EBITDA Generics	255.8	233.2	+10%	20.0%	18.5%
• EBITDA Branded Products	186.2	211.8	-12%	21.7%	24.8%
EBIT[3]	178.9	225.3	-21%	8.4%	10.7%
EBT[4]	127.4	157.8	-19%	6.0%	7.5%
Net income	85.9	110.4	-22%	4.0%	5.2%
Earnings per share in €	1.38	1.79	-23%		
Diluted earnings per share in €[5]	–	1.79	–		

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

in € million	*2016*	*2015*	*±%*	*Margin[1] 2016*	*Margin[1] 2015*
Operating profit, adjusted	*294.4*	*283.8*	*+4%*	*13.8%*	*13.4%*
• Operating segment result Generics, adjusted	*214.2*	*182.7*	*+17%*	*16.7%*	*14.5%*
• Operating segment result Branded Products, adjusted	*152.8*	*173.2*	*-12%*	*17.8%*	*20.3%*
EBITDA[2], adjusted	*398.0*	*389.4*	*+2%*	*18.6%*	*18.4%*
• EBITDA Generics, adjusted	*264.9*	*232.0*	*+14%*	*20.7%*	*18.4%*
• EBITDA Branded Products, adjusted	*200.7*	*220.1*	*-9%*	*23.4%*	*25.8%*
EBIT[3], adjusted	*295.1*	*285.3*	*+3%*	*13.8%*	*13.5%*
EBT[4], adjusted	*244.2*	*220.9*	*+11%*	*11.4%*	*10.4%*
Net income, adjusted	*177.3*	*165.8*	*+7%*	*8.3%*	*7.8%*
Earnings per share in €, adjusted	*2.85*	*2.69*	*+6%*		
Diluted earnings per share in €[5], adjusted	*–*	*2.69*	*–*		

Income statement and development

In 2016, **cost of sales** increased to € 1,105.3 million (previous year: € 1,101.7 million), in line with increased sales revenues. Group profit amounted to € 1,033.9 million (previous year: € 1,013.4 million).

Overall, cost of sales in the reporting year include impairment, depreciation and amortization in the amount of € 101.0 million (previous year: € 101.5 million). These primarily resulted from amortization on such intangible assets, representing a necessary condition for the marketing of the products manufactured – in particular drug approvals.

The **cost of sales ratio** in financial year 2016 amounted to 51.7% (previous year: 52.1%). The gross margin improved to 48.3% (previous year: 47.9%). This development was primarily attributable to a lower rate of sales reductions in the German Generics segment (see "Results of Operations – Sales Development of the Generics and Branded Products Segments – Generics – Germany") as well as a continued improvement in cost of sales ratio.

Selling expenses in the reporting year increased to € 488.3 million (previous year: € 482.6 million). This development was primarily based on increased marketing expenses in the Branded Products segment, particularly in Italy, Germany and Belgium. Selling expenses as a percentage of sales amounted to 22.8% (previous year: 22.8%).

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) Earnings per share will not be diluted in financial year 2016, because the share options from the STADA warrants in connection with the Conditional Capital Increase 2004/I expired on June 26, 2015.
6) Adjusted for special items.

General and administrative expenses increased to € 182.7 million in 2016 (previous year: € 178.4 million). Their share of Group sales amounted to 8.5% (previous year: 8.4%). This increase was mainly based on the inclusion of subsidiaries first consolidated in the reporting year or at the end of the previous year.

Research and development costs were € 65.1 million in financial year 2016 (previous year: € 65.0 million). The sales-related ratio of research and development expenses amounted to 3.0% (previous year: 3.1%).

STADA's reported development costs include the non-capitalizable development costs. These are primarily made up of costs associated with regulatory requirements and the optimization of existing products. This cost item does not include payments for the development of new products, as they are usually capitalized by STADA.[1)]

Other expenses increased to € 138.9 million in 2016 (previous year: € 83.7 million). This development was primarily attributable to increased impairments on intangible assets, the termination of significant areas of the aesthetics business, the termination of a distribution contract in Belgium, the restructuring of the German business as well as a severance payment for the previous Chairman of the Executive Board. Lower currency translation expenses, in particular in the Russian subgroup STADA CIS, had an opposite effect.

Within remaining other expenses, personnel expenses are recognized in the amount of € 24.8 million (previous year: € 4.4 million).

The **financial result**, which is primarily made up of financial income and financial expenses, was € -50.7 million in the reporting year (previous year: € -65.9 million). The interest expense in the amount of € 52.9 million (previous year: € 65.6 million) represented the largest single operational item. Furthermore, the financial result also included effects from the measurement of derivative financial instruments that amounted to a net expenses of € 0.5 million (previous year: burden on earnings of € 3.1 million).

In financial year 2016, the Group refinanced itself at interest rates of between 0.7% p.a. and 26.0% p.a. (previous year: between 0.7% p.a. and 16.6% p.a.). On the reporting date of December 31, 2016, the weighted average interest rate for non-current financial liabilities was approx. 1.7% p.a. (December 31, 2015: approx. 2.0% p.a.) and for current financial liabilities approx. 3.1% p.a. (December 31, 2015: approx. 5.1% p.a.). For all of the Group's financial liabilities the weighted average interest amounted to approx. 1.8% p.a. (December 31, 2015: approx. 2.6% p.a.).

Income tax expenses decreased to € 31.9 million in 2016 (previous year: € 40.6 million). The reported tax rate improved to 25.1% (previous year: 25.8%), in particular due to a tax rate change in the United Kingdom and the continued utilization of tax loss carryforwards in Germany. The adjusted tax rate at 23.9% in the same period was above the level of the previous year (previous year: 22.0%).

1) In the reporting year, development expenses for new products in the amount of € 28.4 million (previous year: € 26.1 million) were capitalized.

Course of Business and Net Assets, Financial Position and Results of Operations | Results of Operations

Sales Development of the Generics and Branded Products Segments

In accordance with the fundamental change to reporting structures in 2016, agreed by the Executive Board and briefly described in the "Overview of the Financial Year" chapter, the STADA Group now reports exclusively by the two segments Generics and Branded Products. In the presentation of the two segments, STADA also describes how the largest countries in terms of sales within these two segments have developed.

Reported sales of the **Generics** segment increased by 2% to € 1,280.7 million in financial year 2016 (previous year: € 1,261.4 million). This development was primarily attributable to sales growth in Italy, Russia and Vietnam. Sales of the Generics segment adjusted for portfolio effects and currency influences increased by 3% compared with the previous year to € 1,287.4 million (previous year: € 1,253.2 million) – particularly due to the negative development of currency effects in this segment. Generics contributed 59.9% to Group sales (previous year: 59.7%).

Within the Generics segment, the eight largest countries according to sales developed as follows in 2016:

Sales of generics in **Germany** of € 308.0 million (previous year: € 308.3 million) were at the level of the previous year. Sales generated in the German market with generics had a share of 63% in the overall sales achieved in the German market (previous year: 71%). The market share of generics sold in German pharmacies in the reporting year was approx. 11.5%[1)] (previous year: approx. 12.4%[1)]). As a result, the STADA Group continues to be the clear number 3 in the German generics market.[1)]

Sales of generics in **Italy** increased by 6% to € 157.7 million (previous year: € 149.0 million), in particular as a result of positive volume effects. Generics contributed 78% to local sales (previous year: 79%). With a market share of approx. 14.6% (previous year: approx. 14.8%), STADA occupied position 4 in the Italian generics market in financial year 2016.[2)]

In **Spain**, sales with generics decreased by 1% to € 105.4 million (previous year: € 107.0 million). This development was particularly attributable to a high comparable basis in the previous year as a result of numerous product launches and the legal approval of discounts in the reporting year, which led to a higher rate of sales reductions. Generics contributed 87% to local sales on the Spanish market (previous year: 89%). With a market share of approx. 9.8% (previous year: approx. 9.7%), STADA occupied position 3 in the Spanish generics market in 2016.[2)]

Sales generated with generics in **Russia** increased by 18%, applying the exchange rates of the previous year. Despite a clearly negative currency effect of the Russian ruble, sales in euro grew by 11% to € 92.5 million (previous year: € 83.6 million). Generics contributed 38% to local sales (previous year: 28%). With a market share of approx. 4.7% (previous year: approx. 4.5%), STADA occupied position 1 in the Russian generics market in the reporting year.[2)]

In **Belgium**, sales generated with generics decreased by 5% to € 90.7 million, particularly due to a still-hesitant purchasing and sales strategy of the Belgian sales partner (previous year: € 95.0 million) – where positive sales development was observed in the second half of 2016. Whilst sales in the first six months of 2016 decreased by 37%, an increase of 66% was achieved in the second half of 2016. Generics contributed 89% to local sales (previous year: 91%). With a market share of approx. 44.6% (previous year: approx 43.9%), STADA remained the clear market leader in the Belgian generics market in 2016.[2)] In the current financial year, STADA expects continued positive development in sales generated with generics in Belgium, as STADA ended an existing sales cooperation in December 2016 and now manages the logistics and sales area on its own.

Sales achieved with generics in **France** recorded an increase of 2% to € 81.9 million (previous year: € 80.1 million), which was primarily a result of volume effects, despite continued strong price and discount competition. Generics contributed 96% to local sales (previous year: 89%). With a market share of approx. 3.7% (previous year: approx. 3.6%), STADA occupied position 7 in the French generics market in financial year 2016.[2)]

1) Data from QuintilesIMS Health based on pharmacy sales to customers (source: QuintilesIMS/Pharmascope rational).
2) STADA estimate based on QuintilesIMS data at ex-factory prices.

Despite increased price pressure, sales generated with generics in **Vietnam** grew by 11%, applying the exchange rates of the previous year. As a result of a weaker Vietnamese dong, sales in euro increased by 9% to € 69.1 million (previous year: € 63.2 million). This development resulted, in particular, from local hospital tender processes that were won. Generics contributed 65% to local sales (previous year: 67%).

The sales generated in **Serbia** with generics declined by 23%, applying the exchange rates In euro, sales declined by 24% to € 55.8 million (previous year: € 73.7 million) as a result of a slightly negative currency effect of the Serbian dinar. This development was, among other things, attributable to the decision on declining reimbursement prices. Additionally, wholesalers continued to have high inventories. Generics contributed 76% to Serbian sales (previous year: 79%). Overall, an unchanged general shift from generics to branded products can be observed in the sales mix of the Serbian market. With a market share of approx. 29.7% (previous year: approx. 33.3%), STADA remained the market leader in Serbia in 2016.[1]

With products containing the Group's top five pharmaceutical active ingredients in terms of sales, STADA achieved sales in the amount of € 133.4 million in 2016 (previous year: € 117.9 million). These products thus had a share of 10.4% of sales in the Generics segment (previous year: 9.3%). With sales of € 43.6 million in the reporting year (previous year: € 32.0 million), tilidin naloxon was the strongest selling active pharmaceutical ingredient in the Generics segment.

Reported sales of the **Branded Products** segment increased slightly by 1% to € 858.5 million in financial year 2016 (previous year: € 853.6 million). Despite strong development in Germany and sales growth due to acquisitions in the United Kingdom, this development was particularly attributable to a decline in sales in Russia. Sales of the core segment Branded Products adjusted for portfolio effects and currency influences increased by 4% compared with the previous year to € 879.8 million (previous year: € 847.1 million) — particularly as a result of the negative development of currency effects in this segment. Branded products contributed 40.1% to Group sales (previous year: 40.3%).

Within the Branded Products segment, development of the five largest countries according to sales was as follows in the reporting year:

Sales generated with branded products in **Germany** recorded growth of 38% to € 177.4 million (previous year: € 128.3 million). This development was attributable to optimizations in the product portfolio, strong growth of core products and new product launches. Overall, branded products contributed 37% to sales achieved in the German market (previous year: 29%).

In the **United Kingdom**, sales generated with branded products increased by 17%, applying the exchange rates of the previous year. Despite the negative currency effect as a consequence of the referendum decision in favor of the United Kingdom leaving the European Union, sales in euro increased by 4% to € 175.4 million (previous year: € 168.0 million). The acquisition of the Socialites Group in December 2015 and of BSMW Limited in February 2016 contributed to this growth in sales. However, a weak cough and cold season at the beginning of the year and poor weather in June and July which reduced sales of suncream products had a dampening effect on sales. Branded products accounted for 88% of total sales in the UK market (previous year: 86%). The outlook for the development of the British pound sterling continues to be negative as a result of the United Kingdom's referendum decision in the second quarter of 2016 to leave the European Union and the associated uncertainties. Overall, such a devaluation of the British pound sterling will result in negative translation effects on sales reported in euro for STADA.

In view of the continued difficult conditions, in particular in the self-pay market, sales generated with branded products in **Russia** decreased by 25%, applying the exchange rates of the previous year. As a result of a clearly negative currency effect of the Russian ruble, sales decreased in euro by 29% to € 150.1 million (previous year: € 212.2 million). This development was primarily driven by growing consolidation on the demand side and consequently higher discount burdens. In addition, price increases in the so-called Vital and Essential Drugs List (EDL) could not compensate for the high inflation rate. Branded products had a share in sales of 62% in the Russian market (previous year: 72%). The sales and earnings contributions of Russian STADA business activities will also continue to be primarily affected by the development of the currency relation of the Russian ruble to the euro in the future. In addition, the unchanged bleak prospects for the Russian economy and the strong devaluation of the Russian ruble present an increased risk in terms of consumer sentiment and consumer spending.

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

Sales generated in **Italy** with branded products recorded an increase of 9% to € 43.9 million, in particular due to acquisitions (previous year: € 40.4 million). Branded products contributed 22% to sales in Italy (previous year: 21%).

Sales generated in **Vietnam** with branded products increased by 21%, applying the exchange rates of the previous year. In euro, sales increased by 19% to € 36.7 million (previous year: € 30.8 million) as a result of a slightly negative currency effect of the Vietnamese dong. Branded Products contributed 35% to Vietnamese sales (previous year: 33%).

With the top five branded products in the Group in term of sales, STADA achieved sales in the amount of € 177.1 million in the reporting year (previous year: € 199.7 million). These products thus had a share of 20.6% of sales in the Branded Products segment (previous year: 23.4%).

Course of Business and Net Assets, Financial Position and Results of Operations | Results of Operations

Earnings development of the Generics and Branded Products segments

The **reported operating profit** in the **Generics segment** increased by 10% to € 195.2 million in financial year 2016 (previous year: € 177.7 million). This development resulted from significant growth in the operating result of the German sales companies primarily due to more limited revenue reductions. In addition, the good sales performance in Italy, Switzerland and Vietnam had a positive effect on the key earnings figures. An opposing development occurred in Belgium due to a hesitant purchasing and sales strategy of the Belgian sales partner until the end of 2016. The resulting sales development at the level of the previous year could not be compensated with corresponding cost savings and led to the termination of the distribution agreement with the Belgian partner. The **reported EBITDA** in **Generics** increased by 10% to € 255.8 million (previous year: € 233.2 million). This development was solely attributable to the aforementioned developments in the reported operating profit in the segment. The **reported operating profit margin** of **Generics** amounted to 15.2% (previous year: 14.1%). The **reported EBITDA margin** in **Generics** was 20.0% (previous year: 18.5%).

Adjusted operating profit in the **Generics segment** increased in the reporting year by 17% to € 214.2 million (previous year: € 182.7 million). **Adjusted EBITDA** of **Generics** showed an increase of 14% to € 264.9 million (previous year: € 232.0 million). Both developments were primarily attributable to the aforementioned developments in Germany, Italy, Switzerland and Vietnam. The significantly more positive development of adjusted operating profit as compared to reported operating profit resulted from higher adjustments than in the previous year, which mainly relate to expenses in connection with the termination of the distribution agreement with the Belgian sales partner and with the merging of German sales companies. The **adjusted operating profit margin** of **Generics** was 16.7% (previous year: 14.5%). The **adjusted EBITDA margin** of **Generics** was at 20.7% (previous year: 18.4%).

The **reported operating profit** in the **Branded Products segment** decreased by 37% to € 81.4 million in financial year 2016 (previous year: € 130.0 million). This development mainly resulted from various effects in the Russian market. On the one hand, high inflation affected consumer sentiment and purchasing power of end consumers. On the other hand, increased discount burdens and sales measures in connection with a clearly negative currency effect of the Russian ruble had a negative impact on the operating segment profit of Branded Products. In addition, despite a positive sales performance, negative translation effects resulting from the EU referendum as well as increased expenses in sales and marketing led to a burden on the key earnings figures of the British subgroup Thornton & Ross. Furthermore, a significant increase in segment operating performance in German Branded Products was countered by expenses from portfolio adjustments and restructuring measures. The **reported EBITDA** of **Branded Products** decreased by 12% to € 186.2 million (previous year: € 211.8 million). This development was primarily attributable to the aforementioned developments in the segment operating profit. **Reported operating profit margin** of **Branded Products** was at 9.5% (previous year: 15.2%). The **reported EBITDA margin** of **Branded Products** was 21.7% (previous year: 24.8%).

Adjusted operating segment profit of **Branded Products** recorded a decrease of 12% to € 152.8 million in 2016 (previous year: € 173.2 million). **Adjusted EBITDA** of **Branded Products** decreased by 9% to € 200.7 million (previous year: € 220.1 million). Both developments were based on the reasons relating to the markets of Russia and the United Kingdom already mentioned under reported operating profit of Branded Products. There was higher decrease in reported operating profit than in the adjusted key figure as compared to the previous year due to higher special items, which are primarily attributable to the aforementioned portfolio adjustments and restructuing measures as well as currency translation expenses in the CIS subgroup, recognized in income. The **adjusted operating profit margin** of **Branded Products** amounted to 17.8% (previous year: 20.3%). The **adjusted EBITDA margin** of **Branded Products** was 23.4% (previous year: 25.8%).

Course of Business and Net Assets, Financial Position and Results of Operations | Financial Position

Stable financial position

The STADA Group had a stable financial position in financial year 2016. As a supplement to some of the individual items reported in the cash flow statement, these can be observed in various key figures taken from, among other things, the liquidity analysis contained in this chapter.

Basic principles and objectives of financial management at STADA

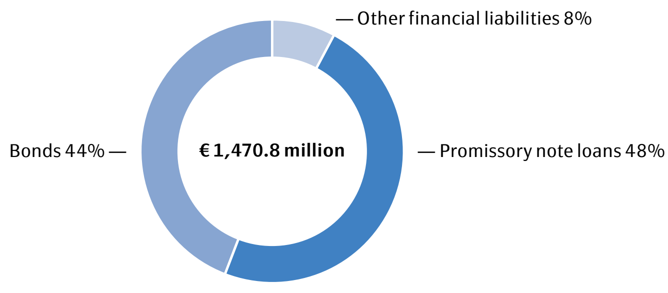
As part of its financing strategy, STADA aims to both secure its financial flexibility and to optimize the weighted average costs of capital. In terms of high financial flexibility, the Group relies on different financial instruments as well as a diversified investor structure. Overall, STADA's maturity profile reflects a broad distribution with a high share of middle and long-term financial instruments. The Group covers its need for financing through a combination of cash flow from operating activities and the borrowing of funds on the short, middle and long-term, as well as factoring programs. STADA also has a liquidity reserve through certain credit lines.

The Group has defined the net debt to adjusted EBITDA ratio as a dynamic debt figure. In principle, this key figure must not exceed three, excluding further acquisitions. If this target is exceeded in the short-term, STADA aims to reverse this within 12 to 18 months.

Existing financial risks in the Group are reduced to a minimum through natural hedges or derivative financial instruments. Derivative financial instruments are principally neither held nor issued for speculation purposes. Financial risks are hedged only if they have significant consequences on the Group's cash flow. Details on the management of individual financial risks can be found in the Group Management Report of this Annual Report in the chapter "Opportunities and Risk Report".

Long-term refinancing secured

Financing mix of the STADA Group as of December 31, 2016



The long-term refinancing of the Group as of December 31, 2016 was provided for by a five-year bond that was placed in the second quarter of 2013 in the amount of € 350.0 million with an interest rate of 2.25% p.a. as well as a seven-year corporate bond placed in the first quarter of 2015 in the amount of € 300.0 million with an interest rate of 1.75% p.a. Furthermore, as of December 31, 2016, there were promissory note loans with maturities in the area of the beginning of 2017 until 2023 with a total nominal value in the amount of € 709.0 million. In order to ensure a balanced financing structure, promissory note loans are staggered in terms of their volume and duration.

Financial liabilities in a currency other than the Group's functional currency primarily exist at one Group company within the region CIS/Eastern Europe.

In financial year 2016, the Group refinanced itself at interest rates of between 0.7% p.a. and 26.0% p.a. (previous year: between 0.7% p.a. and 16.6% p.a.). On the reporting date of December 31, 2016, the weighted average interest rate for non-current financial liabilities was approx. 1.7% p.a. (December 31, 2015: approx. 2.0% p.a.) and for current financial liabilities approx. 3.1% p.a. (December 31, 2015: approx. 5.1% p.a.). For all of the Group's financial liabilities the weighted average interest amounted to approx. 1.8% p.a. (December 31, 2015: approx. 2.6% p.a.).

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

Remaining maturities of financial liabilities due to banks as of Dec. 31, 2016 in € 000s	< 1 year	1–3 years	3–5 years	> 5 years	Total	thereof as of Dec. 31, 2016 > 1 year in %
Promissory note loans	43,993	294,487	307,665	61,314	707,459	94%
Bonds	–	348,912	–	297,918	646,830	100%
Liabilities to banks	90,351	25,575	542	–	116,468	22%
Total	**134,343**	**668,974**	**308,207**	**359,232**	**1,470,757**	**91%**

Liquidity analysis

The Group's liquidity was guaranteed at all times in the reporting year. In 2016, significant sources of liquidity included cash inflows from operating activities as well as financing activity, i.e. the borrowing of funds on the short, middle and long-term. STADA also received cash inflow from factoring programs. Cash inflows from operating activities are influenced by the profitability of business activities and by net working capital, in particular by receivables. In addition to the existing financing through two corporate bonds, long-term credit lines and various promissory note loans, STADA maintains a liquidity reserve in the form of cash and short-term credit lines.

Cash flow analysis

Cash flow statement (abridged) in € 000s	2016	2015
Cash flow from operating activities	333,522	311,748
Cash flow from investing activities	-172,666	-178,217
Free cash flow	**160,856**	**133,531**
Cash flow from financing activities	55,237	-155,089
Non-cash changes in cash and cash equivalents	-6,691	527
Cash flow	**209,402**	**-21,031**

Cash flow from operating activities consists of changes in items not covered by capital expenditure, financing, exchange differences on the conversion of foreign financial statements and transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities improved to € 333.5 million in the reporting year (previous year: € 311.7 million). The cash flow increase from operating activities by € 21.8 million from the previous year mainly resulted from decreased payments for interest and income taxes as well as a significantly lower cash-effective increase in inventories and a cash-effective increase in trade accounts payable, although in the previous year the latter recorded a significantly decreased cash-effective decrease. The resulting positive effects on cash flow from operating activities were partly compensated by cash outflows from other net assets that were significantly higher than the previous year.

Cash flow from investing activities reflects the cash outflows for investments reduced by the inflows from disposals and amounted to € -172.7 million in the reporting year (previous year: € -178.2 million). The cash flow from investing activities was particularly influenced by payments for investments in intangible assets in financial year 2016, which primarily relate to advance payments made for the development of approvals and trademarks as well as licenses in Germany and the United Kingdom. Furthermore, expenses were also incurred for company mergers, particularly from the acquisition of a product portfolio in Serbia and the purchase of the British Natures Aid and the Argentinean Laboratorio Vannier.

For **acquisitions** as well as business combinations in accordance with IFRS 3 as well as for significant investments in intangible assets for the short-term expansion of the product portfolio (generally in the reporting year) – STADA spent a total of € 86.3 million in 2016 (previous year: € 89.0 million).

As a result of **disposals**, cash flow from investing activities recorded an inflow of cash and cash equivalents in the total amount of € 11.0 million in the reporting year (previous year: € 11.8 million).

Investments in other intangible assets, i.e. investments in intangible assets in the context of the ongoing operating business and thus without consideration of significant investments or acquisitions for the short-term expansion of the product portfolio, amounted to € 42.7 million in financial year 2016 (previous year: € 49.2 million) and primarily comprised individual insignificant payments for the development and acquisition of approvals and approval dossiers in the reporting year.

Payments for **investments in property, plant and equipment** amounted to € 49.8 million in 2016 (previous year: € 51.2 million).

Investments in property plant and equipment included investments in production facilities, production sites and test laboratories in the total amount of € 22.6 million (previous year: € 32.2 million).

Payments for **investments in financial assets** were € 4.9 million in 2016 (previous year: € 0.6 million).

Cash flow from financing activities amounted to € 55.2 million in financial year 2016 (previous year: € -155.1 million) and encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity. This development was primarily attributable to the securing of additional promissory note loans in the total amount of € 350.0 million, which will be used for the refinancing of the promissory note loans expiring in financial year 2016 in the total amount of € 188.0 million. In addition, significantly fewer financial liabilities were repaid in the reporting year than in the previous year.

Free cash flow, i.e. cash flow from operating activities plus cash flow from investing activities, increased to € 160.9 million in 2016 (previous year: € 133.5 million). **Free cash flow adjusted** for payments for significant investments or acquisitions and proceeds from significant disposals increased to € 243.0 million (previous year: € 212.4 million).

Cash flow for financial year 2016, net of all inflows and outflows of cash and cash equivalents, amounted to € 209.4 million in 2016 (previous year: € -21.0 million).

Investments

The Group's investments totaled € 189.7 million in the reporting year (previous year: € 177.0 million). Investments in property plant and equipment were € 54.3 million (previous year: € 53.5 million), of which € 4.2 million was attributable to business combinations in accordance with IFRS 3 (previous year: € 0.6 million). In relation to Group sales, the share of investments in property, plant and equipment was 2.5% (previous year: 2.5% of Group sales). Investments in intangible assets amounted to € 130.5 million (previous year: € 122.9 million), of which € 49.0 million was due to business combinations according to IFRS 3 (previous year: € 51.5 million). In financial year 2016, 29% of the total investment volume was used for property, plant and equipment (previous year: 30%) and 69% for intangible assets (previous year: 69%).

Focused acquisition policy with selected purchases

In financial year 2016, the Group continued its focused acquisition policy, targeting continued organic growth through selected external acquisitions. The Group continues to concentrate on both the regional expansion of business activities as well as the expansion and internationalization of branded products in particular. These are subject to less regulatory intervention and are often characterized by more attractive margins than generics.

Regardless of this focused purchasing policy, acquisition projects are principally subject to a strict selection process with uniform criteria and must, in particular, meet defined return specifications in addition to strategic criteria. For larger acquisitions or cooperations with capital investments, appropriate capital measures continue to be imaginable if the burden on the equity-to-assets ratio from such acquisitions or cooperations is too high.

STADA made the following value-enhancing purchases in the context of its focussed acquisition policy in the reporting year:

In order to strengthen the Generics segment, STADA and the STADA subsidiary BEPHA Beteiligungsgesellschaft für Pharmawerte mbH signed a contract for the purchase of the Argentinian generics producer Laboratorio Vannier in the fourth quarter of 2015.[1] The purchase price amounted to a maximum of USD 13.0 million (according to the exchange rate at the date of acquisition approx. € 11.9 million) and will be or has already been paid in cash or cash equivalents. The purchase was completed in the first quarter of 2016. Through the acquisition, STADA also expanded its international sales network in a country that the Group had not yet been represented with its own sales company.

STADA acquired the British BSMW, based in Stockport, in the first quarter of 2016 to expand the presence and sale activities in the British market and in the Branded Products segment. STADA achieved control upon conclusion of the contract on February 5, 2016. The purchase price amount to GBP 3.4 million and was paid completely in cash or cash equivalents.

In the third quarter of 2016, the Serbian STADA subsidiary Hemofarm A.D. acquired a local product portfolio primarily comprising medication for the treatment of gastrointestinal disorders in order to strengthen its position in the area of consumer health. The purchase price for the acquisition of the product portfolio including the associated sales structures amounted to a total of € 21.6 million and will be or has already been completely paid in cash or cash equivalents. The acquired business has been consolidated in the STADA Group since August 1, 2016.

Furthermore, STADA UK Holdings also took over British branded products company Natures Aid Limited, based in Preston, a well-known manufacturer of vitamins, minerals, food supplements and herbal products, in the fourth quarter of 2016.[2] The purchase price amounted to GBP 16.8 million and was completely paid in cash or cash equivalents. As part of the negotiations with the seller of the company, at the same time as the agreed company merger, Natures Aid acquired the building belonging to the production location as well as the associated site for a purchase price of GBP 1.7 million. The purchase price was paid by the company in full in cash. STADA achieved control upon conclusion of the contract on November 21, 2016, and consolidated Natures Aid Limited in the consolidated financial statements at this time.

Continuation of STADA's focused acquisition policy

In the current financial year 2017, the Group intends to continue its focused acquisition policy.

1) See the Company's press release of December 10, 2015.
2) See the Company's press release of November 21, 2016.

Course of Business and Net Assets, Financial Position and Results of Operations | Net Assets

Development of the Balance Sheet

Balance sheet (abridged) Assets	Dec. 31, 2016 in € 000s	Dec. 31, 2016 in %	Dec. 31, 2015 in € 000s	Dec. 31, 2015 in %
Non-current assets	**1,949,543**	**56.7%**	**2,032,309**	**61.8%**
Intangible assets	1,582,361	46.0%	1,649,020	50.2%
Property, plant and equipment	322,715	9.4%	321,617	9.8%
Remaining assets	44,467	1.3%	61,672	1.8%
Current assets	**1,490,901**	**43.3%**	**1,255,106**	**38.2%**
Inventories	484,904	14.1%	501,520	15.2%
Trade accounts receivable	489,071	14.2%	485,901	14.8%
Remaining assets	81,386	2.4%	124,507	3.8%
Cash and cash equivalents	352,580	10.2%	143,178	4.4%
Non-current assets and disposal groups held for sale	82,960	2.4%	–	–
Total assets	**3,440,444**	**100%**	**3,287,415**	**100%**

Equity and liabilities	Dec. 31, 2016 in € 000s	Dec. 31, 2016 in %	Dec. 31, 2015 in € 000s	Dec. 31, 2015 in %
Equity	**1,047,105**	**30.4%**	**1,018,530**	**31.0%**
Non-current borrowed capital	**1,493,712**	**43.4%**	**1,282,577**	**39.0%**
Other non-current provisions	35,997	1.0%	28,869	0.9%
Financial liabilities	1,336,414	38.9%	1,084,213	33.0%
Other liabilities	121,301	3.5%	169,495	5.1%
Current borrowed capital	**899,627**	**26.2%**	**986,308**	**30.0%**
Other provisions	20,273	0.6%	22,532	0.7%
Financial liabilities	134,343	3.9%	274,672	8.4%
Trade payables	336,844	9.8%	328,487	10.0%
Other liabilities	393,589	11.5%	360,617	10.9%
Non-current liabilities and associated liabilities of disposal groups held for sale	14,578	0.4%	–	–
Total assets	**3,440,444**	**100%**	**3,287,415**	**100%**

The net assets of the STADA Group recorded positive development in the financial year 2016. This was reflected in particular in various derived key figures.

Net debt reduced to € 1,118.2 million as of December 31, 2016 (December 31, 2015: € 1,215.7 million).

The **net debt to adjusted EBITDA ratio** improved to 2.8 in the reporting year (previous year: 3.1).

As of the reporting date, the **equity-to-assets ratio** was 30.4% (December 31, 2015: 31.0%) and was satisfactory in the opinion of the Executive Board as a result.

Total assets increased as of December 31, 2016 to € 3,440.4 million (December 31, 2015: € 3,287.4 million). The increase was attributable, among other things, to the assumption of further promissary note loans in the total amount of € 350 million.

Intangible assets decreased by € 66.6 million to € 1,582.4 million as of December 31, 2016 (December 31, 2015: € 1,649.0 million). The decrease primarily resulted from amortization, impairments and reclassifications to non-current assets and disposal groups held for sale in accordance with IFRS 5. In addition, there were high currency effects resulting from the appreciation of the Russian ruble and the depreciation of the British pound.

As of December 31, 2016, intangible assets included goodwill in the amount of € 404.6 million (December 31, 2015: € 391.6 million). There were additions to intangible assets from business combinations in accordance to IFRS 3 – without considering amortization – in the amount of € 49.0 million. Of this, € 18.8 million was attributable to the acquisition of Serbian product portfolio to strengthen the position in the consumer health area, € 11.5 million to the purchase of the Argentinean Laboratorio Vannier S.A. as well as € 3.5 million and € 17.4 million from the purchase of the British BSMW Limited and Natures Aid Limited. In addition, in financial year 2016 development costs in the amount of € 31.0 million were capitalized as internally created intangible assets (December 31, 2015: € 27.5 million). In 2016, STADA recognized impairments on intangible assets in the total amount of € 61.8 million (previous year: € 32.9 million).

Property, plant and equipment increased to € 322.7 million as of December 31, 2016 (December 31, 2015: € 321.6 million). This increase mainly resulted from investments in production facilities in the Serbian subgroup.

Inventories decreased as of December 31, 2016 by € 16.6 million to € 484.9 million (December 31, 2015: € 501.5 million). This development was primarily based on reclassifications to non-current assets and disposal groups held for sale in accordance with IFRS 5 related to two subsidiaries in Asia.

In specific situations STADA puts – following the principle of market proximity – certain range considerations deliberately aside in favor of possible operating opportunities. In individual cases this – if the utilization of opportunities cannot be realized as expected – can lead to value allowances for inventories which burden earnings. Total burdens in the amount of € 28.2 million as of December 31, 2016 were incurred due to value allowances in inventories offset with reversals (December 31, 2015: € 36.5 million).

Trade accounts receivable increased to € 489.1 million as of the reporting date (December 31, 2015: € 485.9 million). Alongside gains in the context of business combinations, this development resulted, among other things, from reporting date effects as well as translation effects in the context of converting financial statements of foreign subsidiaries with a reporting currency other than the Group currency euro, particularly for companies accounting in Russian ruble, which also recorded an increase in this item. In contrast, trade accounts receivable decreased as a result of the reclassification to non-current assets and disposal groups held for sale in accordance with IFRS 5 related to two subsidiaries in Asia.

In certain market situations, the Group accepts, if necessary, higher current trade receivables, if this leads to opportunities for a better market position. In terms of its receivables management, STADA pays thorough attention to the liquidity of customers as a rule. However, defaults can never be entirely ruled out (see “Opportunities and Risk Report”).

Remaining assets contain various items including, among other things, financial assets, shares in associates, deferred tax assets and other financial assets.

Financial assets increased as of December 31, 2016 to € 2.2 million (December 31, 2015: € 1.3 million). This development was primarily based on a capital increases in non-consolidated Group companies in connection with the purchase of two subsidiaries.

Investments measured at equity increased as of the reporting date to € 13.9 million (December 31, 2015: € 13.2 million). The increase of this balance sheet item was mainly based on the contribution to earnings of associates in financial year 2016.

Deferred tax assets decreased as of December 31, 2016 by € 13.3 million to € 20.8 million (December 31, 2015: € 34.1 million). The decrease primarily resulted from netting with deferred tax liabilities as well as the utilization of tax loss carryforwards for which deferred active tax assets were accounted for in the past.

Other financial assets in the amount of € 44.3 million (December 31, 2015: € 83.0 million) include purchase price receivables. This item also comprises the positive market values from derivative financial instruments amounting to € 9.9 million as of the reporting date (December 31, 2015: € 27.5 million) and mainly resulted from cross-currency swaps.

The reduction of income tax receivables as of December 31, 2016 to € 12.8 million (December 31, 2015: € 21.2 million) was primarily a result of payments received from the reimbursement of tax prepayments in Germany.

Cash and cash equivalents, including cash and call deposits as well as current financial investments, increased as of December 31, 2016 to € 352.6 million (December 31, 2015: € 143.2 million). This development was based on both positive cash flow development and on effects related to the reporting date. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

As of December 31, 2016, € 83.0 million in **assets held for sale** as part of a disposal group and € 14.6 million in **related liabilities** were reported in separate line items in the balance sheet of the STADA Group. The disposal group comprises two Asian subsidiaries expected to be sold in financial year 2017. As the carrying amount of the disposal group was below fair value less costs to sell on December 31, 2016, no impairment loss was recorded.

As of December 31, 2016, **equity** recorded an increase of € 1,047.1 million (December 31, 2015: € 1,018.5 million). In the previous year, the Group had recorded proceeds from capital increases from the conversion of STADA warrants in the first half of 2015 in the amount of € 28.2 million, the exercise period of which expired at the end of June 26, 2015.

Retained earnings including net income comprise net income for the financial year as well as earnings generated in previous periods, provided these were not distributed, including amounts transferred to retained earnings. In addition, revaluations of net debt from defined benefit plans that were recognized directly in equity are reported under this item, taking deferred tax liabilities into account. In the context of the measurement of defined benefit obligations as of December 31, 2016, excluding amounts attributable to minority interest, a net expense in the amount of € 4.8 million recognized in other comprehensive income after deferred taxes resulted from the remeasurement. This was primarily due to the reduction in the discount rate applied to the measurement for various defined benefit plans in the STADA Group as of December 31, 2016 compared with December 31, 2015.

Other reserves include results recognized directly in **equity**. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on the income of financial statements of companies included in the Group that are reported in the statement of changes in equity under the currency translation reserve.

The reduction of other reserves compared with the previous year is primarily composed of the following effects: On the one hand, the devaluation of the British pound sterling since December 31, 2015 led to expenses recognized directly in equity from the currency translation of financial statements of companies reporting in British pound sterling. On the other hand, the appreciation of the Russian ruble since December 31, 2015 has resulted in income recognized in equity from the currency translations of financial statements of companies reporting in the respective currency, which only partially compensated for the previously described expenses.

Financial liabilities were at € 1,470.8 million as of December 31, 2016 (December 31, 2015: € 1,358.9 million). The item includes, in particular, promissory note loans with a nominal value in the amount of € 709.0 million (December 31, 2015: € 547.0 million), a bond with a nominal value in the amount of € 350.0 million and a bond with a nominal value of € 300.0 million (December 31, 2015: a bond with a nominal value in the amount of € 350.0 million and a bond with nominal value of € 300.0 million). The increase in financial liabilities was based on the securing of additional promissory note loans in the total amount of € 350.0 million to be used for the refinancing of the promissory note loans that expired in financial year 2016 in the total amount of € 188.0 million.

Trade payables increased as of the reporting date of December 31, 2016 by € 8.3 million to € 336.8 million (December 31, 2015: € 328.5 million). This development was primarily a result of effects relating to the balance sheet date, in particular those in connection with accruals for outstanding invoices. In addition, there was an increase in comparison to the previous year resulting from business combinations recorded in financial year 2016 in accordance to IFRS 3.

Remaining liabilities include deferred tax liabilities, other financial liabilities, other liabilities and income tax liabilities.

Deferred tax liabilities decreased as of December 31, 2016 to € 116.4 million (December 31, 2015: € 160.2 million). This development was a result, in particular, of a change in the tax rate in the United Kingdom as well as impairments to assets from business combinations, leading to a reduction in temporary differences.

Other financial liabilities in the amount of € 217.9 million (December 31, 2015: € 226.0 million) include, among other things, finance lease liabilities and liabilities from derivative financial instruments. The finance lease liabilities amounted to € 3.3 million as of December 31, 2016 (December 31, 2015: € 2.2 million). The liabilities from derivative financial instruments amounted to € 11.9 million on the reporting date (December 31, 2015: € 4.6 million), and resulted from the negative market values of derivatives measured at fair value through profit or loss. Other financial liabilities decreased in comparison to the previous year mainly due to decreased liabilities from discount agreements of German STADA companies.

Other financial liabilities as of December 31, 2016 showed an increase of € 119.9 million (December 31, 2015: € 104.4 million), which was mainly attributable to increased personnel-related liabilities.

Income tax liabilities increased as of the reporting date by € 21.2 million to € 60.6 million (previous year: € 39.4 million). This development was primarily due to the fact that no final assessments exist for previous financial years.

Course of Business and Net Assets, Financial Position and Results of Operations | General Statements of the Executive Board on the Course of Business in 2016

In the context of the revised corporate strategy, the Group was able to drive forward significant changes in financial year 2016. Overall, the outlook published at the beginning of the year was slightly exceeded.

Group sales adjusted for currency and portfolio effects increased by 3% to € 2,167.2 million (previous year: € 2,100.4 million) (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Sales Development of the Group").

EBITDA adjusted for influences distorting the year-on-year comparison from special items increased by 2% to € 398.0 million (previous year: € 389.4 million) (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Earnings Development of the Group").

Net income adjusted for influences distorting the year-on-year comparison from special items recorded growth of 7% to € 177.3 million (previous year: € 165.8 million) (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Earnings Development of the Group").

The **net debt to adjusted EBITDA ratio** improved to 2.8 (previous year: 3.1) (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Net Assets").

REPORT ON POST-BALANCE SHEET EVENTS

This report on post-balance sheet date events includes events that occurred between the end of financial year 2016 and the date of the signing of the Group Management Report and the Consolidated Financial Statements for 2016 and which have a significant, or possibly significant effect on the net assets, financial position and results of operations of the STADA Group.

These were as follows:

- On January 23, 2017, the Supervisory Board announced the appointment of Dr. Barthold Piening as a full Member of the STADA Executive Board with effect from April 1, 2017.[1] He will assume Executive Board responsibility for Production, Research and Development, Biotechnology as well as Quality Assurance and Control.

1) See the Company's Investor News of January 23, 2017.

REPORT ON EXPECTED DEVELOPMENTS

Business model with long-term growth potential

The business model of STADA will continue to be oriented towards the health care and pharmaceutical market, i.e. towards one of the global growth industries. The Group will continue to concentrate on the development and marketing of products with active ingredients that are free of commercial property rights, particularly patents.

Despite the further orientation towards areas with long-term growth potential, sales and earnings development in financial year 2017 will be subject to different and partially opposing influence factors, as the economic, regulatory and competitive conditions can vary from year to year in the different countries. In terms of opportunities management, the Executive Board expects to be able to generate further growth in the future.

Comprehensive opportunities management for the use of existing growth opportunities

With its comprehensive opportunities management, considered by the STADA Group as an ongoing entrepreneurial task, the Group secures and improves existing opportunities and creates new possibilities. STADA management intensively monitors the markets and competitors at all levels and as a result can not only identify and analyze trends, requirements and opportunities in the often fragmented markets, but can also plan its actions accordingly. Furthermore, the individual corporate areas purposefully share their knowledge and experience in order to identify and use additional opportunities and synergies.

On the basis of the continuous implementation of the revised corporate strategy and the strategic success factors of the Group, the management takes advantage of opportunities for the optimum use of existing growth potentials.

As part of its successful product development and active acquisition policy, STADA will continuously expand the Group portfolio in both the Generics and Branded Products segments with value-adding acquisitions. Within Generics, a segment that will remain part of STADA's core business in the future, promising growth opportunities exist in the expansion in markets with relatively low penetration rates in particular. In addition, STADA is also investing in selected biosimilars together with cooperation partners in order to supplement the portfolio. In the Branded Products segment, alongside expansion, the Group is targeting the increasing internationalization of successful brands. Innovative marketing concepts are to be used in this context. STADA also intends to take advantage of additional growth opportunities in niche and non-regulated markets through the introduction of innovative products.

In order to be able to optimally sell the products from the Group portfolio, adapted to the different regulatory and competitive conditions in the individual markets, STADA will gradually expand its international sales network.

With a view to further growth, the functional reporting structures with short decision making channels and, at the same time, strong regional market presence will remain a high priority. A changed corporate structure with clear areas of responsibility and greater transparency as well as a re-positioned corporate culture with an increased focus on entrepreneurship, extensive knowledge sharing and an open dialog will be particularly important.

Employees represent another key opportunity, since they will continue to have a significant share in the sustainable success of the Group in the future with their extensive expertise and their strong commitment.

Numerous initiatives to improve performance will also play a key role in making use of existing growth opportunities. Alongside the leveraging of untapped sales potentials, this also includes the optimization of marketing costs, the increasing of sales efficiency and the reduction of cost of sales.

Challenges and risks

In addition to the challenges and risks already presented, the Group also faces operating challenges and risks that, from the Executive Board's perspective, result from structures and mechanisms of the market segments and are relevant for the development of the Group (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Sales Development of the Generics and Branded Products Segments" as well as "Opportunities and Risk Report"). As they are, to a large extent, inextricably associated with structural growth opportunities, they will however continue to be unavoidable in the future in order to optimally use these growth potentials.

In addition, STADA will continue to be faced with non-operational challenges and risks. Despite the fact that STADA is active in the health care market and this is relatively independent of the economy, in future the Group will continue to be faced with specific impacts of global economic conditions. A key issue here is the development of the currency relations relevant for the Group – particularly those of the Russian ruble, the Ukrainian hryvnia, the Kazakhstani tenge and the British pound sterling to the euro. Furthermore, STADA will continue to be exposed to the effects of the ongoing CIS crisis. The Group certainly continues to prepare itself, within the realms of possibility, for potential risks in this regard, such as a significantly increased default risk of business partners, subsidies to crisis-prone competitors that distort competition or strong volatility in interest rate levels and currency relations that are relevant for the Group. However, in view of the effects of the CIS crisis and the resulting burdens such as special items from impairment losses on intangible assets and property, plant and equipment, payment defaults, non-operational burdens on earnings from currency influences – in particular from the devaluation of the Russian ruble, the Ukrainian hryvnia and the Kazakhstani tenge – as well as curbed or further decreasing demand in the Russian pharmaceuticals market cannot be ruled out. With regard to the current sanctions against Russia, however, STADA does not see any significant direct effects on the Group's business activities from today's perspective.

The outlook for the development of the British pound sterling is negative as a result of the United Kingdom's referendum decision in the second quarter of 2016 to leave the European Union and the associated uncertainties. Overall, such a devaluation of the British pound sterling compared with the euro will result in negative translation effects for STADA. The British companies are fully integrated subsidiaries, whose transactions are primarily made in local currency. Overall, the assets of these companies, whose transaction currency is not the pound sterling, currently exceed the corresponding liabilities, meaning that STADA presently does not expect any significant negative translation effects from the devaluation of the pound sterling. From today's perspective, STADA does not anticipate any substantial currency effects for the income statement as a result of this possible currency development. It is very difficult to provide a prognosis on the possible macroeconomic effects of Brexit since this is an unprecedented event. In general, a decrease in investments and corresponding slower growth is to be expected. The developments and potential effects on the business model of STADA in the United Kingdom will be monitored continuously as a result.

Overall, the Executive Board does not currently see any challenges or risks that would jeopardize the existence of the Group.

Overall economic outlook

For 2017, the IMF expects a moderate increase in economic activity with a rise in global economic growth to 3.4%.[1)]

1) Source: International Monetary Fund: World Economic Outlook January 2017.

The following table shows the economic forecast for the most important markets for STADA. The countries are sorted in descending order of sales achieved by STADA in 2016.

	Prognosis growth rates (GDP) 2017 in %
Germany[1)]	1.5
Russia[1)]	1.1
Italy[1)]	0.7
United Kingdom[1)]	1.5
Spain[1)]	2.3
Vietnam[2)]	6.2
Belgium[2)]	1.4
France[1)]	1.3
Serbia[2)]	2.8

For Germany, the IMF expects growth for 2017, albeit slightly weaker growth than the previous year. Russia may have reached its lowest point and may return to moderate growth. The outlook for the United Kingdom indicates a weakening of the economy. The possible consequences of Brexit remain difficult to estimate, as both the final date and details regarding concrete implementation of the exit from the European Union are under dicussion. Italy, Belgium and France are expected to remain at a low level of growth. The outlook for Spain has been weakened, although the growth forecast is still very good in comparison with the rest of Europe. The outlook for Vietnam remains high and a continuation of the positive growth trend is also expected in Serbia.

Sector-specific outlook

In the context of general growth drivers such as the global population increase, an aging society in industrialized nations and further medical progress, numerous health care and pharmaceutical markets will continue to offer high and relatively market-independent growth opportunities in future. Within the pharmaceutical market, generics in particular is characterized by further growth potentials, as generics represents a lower-cost alternative to the usually significantly more expensive original products and as a result counteract the significant price pressure in the individual health care markets. Furthermore, additional growth opportunities result from the continuous expiration of patents and other commercial property rights. Within generics, biosimilars, among other things, have increasing growth opportunities, as they can make a significant contribution towards cost reduction as a result of the cost intensity of biopharmaceuticals.

In light of these potentials, according to forecasts, sales in the global pharmaceutical market will increase by 5% to 7% per year until 2021.[3)]

For the international generics market, QuintilesIMS forecasts annual growth of up to 8.0%[3)] up to 2021. It should, however, be taken into account that the actual growth rates of reported sales in markets where significant discounts must be granted will be substantially below gross sales generally recorded by the market research institutions before discounts.

In terms of the sales volume for active pharmaceutical ingredients becoming available for generics competition between 2017 and 2020 in the largest pharmaceutical markets by sales in Europe – Germany, France, Italy, the United Kingdom and Spain – which, according to market research figures, amounts to more than € 11.9 billion, the STADA Executive Board continues to expect further growth potentials in the EU generics market.[4)]

1) Source: International Monetary Fund: World Economic Outlook January 2017.
2) Source: International Monetary Fund: World Economic Outlook October 2016.
3) QuintilesIMS Syndicated Analytics Service; prepared for STADA February 2017.

4) STADA estimate of sales volumes in 2016 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 2020, based on data provided by various international market research institutes. STADA's expectations as to the date of availability of active pharmaceutical ingredients for generics competition are continuously being reviewed from a legal perspective and may in the future significantly differ from today's expectations (as of March 1, 2017) 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 circumstances or market structures, among other factors.

This assumption is supported by estimates from QuintilesIMS as well, according to which annual generics growth in the EU (EU 28) amounts to an average of 3.9%[1] from 2017 to 2019. For selected markets in Eastern Europe[2], QuintilesIMS expects annual average generics growth of 6.8%[1] from 2017 until 2021. The Russian generics market as a result is to grow by an average of 6.0%[1] annually between 2017 and 2021.

In the context of regulatory conditions, STADA does not expect any significant changes in financial year 2017 that could have a considerable impact on the business development of the Group in the markets in which the Company is active.

In light of the previously discussed significant potential contribution towards containing costs, analysts estimate the share of biosimilars on the global biologics market to be between 4% and 10% in 2020. This would represent a market value of USD 5 billion to 19 billion.[3]

According to data from QuintilesIMS, annual growth rates of the global OTC market will be up to 6.3% by 2021.[1] The forecast for the European OTC market are at up to 3.0%[1] according to experts.

Basis of the prognosis

The outlook for financial year 2017 was made taking into account the events known when this annual report was prepared. It is also based on the details of the overall economic outlook and the industry-specific outlook.

Additionally, it uses the following assumptions:

- Predominantly unchanged regulatory conditions in the markets most relevant for STADA, not including the regulatory changes and market assessments known at the time the forecast was prepared
- Optimization of procurement prices for primary materials
- The continued possibility of immediately launching new products upon patent expiration
- Largely unchanged tax situation in the countries where STADA is active with Group companies
- Application of forward rates at the time the forecast was prepared for the conversion of currencies other than the Group currency euro

Summarizing outlook

In view of the general and generics-specific growth drivers in the health care and pharmaceutical industry, STADA's business model is principally oriented towards markets with long-term growth potentials.

Inseparably linked to this, however, are operating risks and challenges based in particular on changed or additional state regulation and/or intensive competition. In addition, in the future the Group will continue to be faced with non-operational influence factors such as negative Group-relevant currency relations, the effects of the ongoing CIS crisis or the potentially negative macroeconomic consequences of the decision of the United Kingdom to leave the European Union.

In general, the Group's future sales and earnings development will be characterized by growth-stimulating and challenging conditions.

In light of the changed corporate structure and repositioned corporate culture, the implementation of the numerous initiatives as part of the revised corporate strategy as well as the strategic success factors, however the positive prospects are expected to prevail.

1) QuintilesIMS Syndicated Analytics Service; prepared for STADA February 2017.
2) Russia, Serbia, Ukraine, Kazakhstan, Bosnia-Herzegovina.
3) Source: Pharmazeutische Zeitung, Online Issue 21/2016.

For financial year 2017, the Executive Board expects Group sales of between € 2.280 billion and € 2.350 billion, adjusted for currency and portfolio effects with an adjusted EBITDA between € 430 million and € 450 million and adjusted net income between € 195 and € 205 million. It expects the ratio of net debt excluding further acquisitions to adjusted EBITDA to be at a level of nearly 3.

In the reporting year, the Executive Board approved medium-term growth targets.[1)] In the current first quarter of 2017, the Executive Board increased the strategic outlook for 2019.[2)] In accordance with this outlook, adjusted Group sales of between € 2.650 billion and € 2.700 billion are to be achieved in financial year 2019 (previously around € 2.6 billion). In terms of adjusted EBITDA, the Executive Board expects a range between € 570 million and € 590 million (previously around € 510 million). Adjusted net income is to increase to between € 250 million and € 270 million (previously around € 250 million). The adjusted EBITDA margin is to be nearly 22%. Cash flow from operating activities is to improve to between € 560 million and € 580 million.

The increase in the medium-term growth targets for 2019 is a reflection of the interim results from the "STADA Plus" program to improve performance that was introduced in the summer of 2016. Additional value enhancement potentials have also been identified as part of the strategy project that was launched at the beginning of the year. An expanded package of measures has been defined to leverage these.

On the sales side, STADA anticipates additional growth through a generally stronger base business in both the generics and brands segments. On the cost side, additional savings potentials have been identified in areas including purchasing, through further optimization in production, as well as in the supply chain area. This is on top of the fact that it has been possible to implement the measures more quickly, which means that they will likely contribute to improved profitability earlier than previously assumed. The medium-term growth targets are also based on the following assumptions:

- Organic sales growth in the core segments of Generics and Branded Products
- No significant disposals that would impact sales and earnings
- Forward projection of current currency relations, the current interest rate levels and largely unchanged tax framework conditions in the countries where STADA has Group companies
- Forward projection of current regulatory conditions in markets relevant for STADA

1) See the Company's ad hoc release of July 11, 2016.
2) See the Company's ad hoc release of March 17, 2017.

OPPORTUNITIES AND RISK REPORT

As an internationally active pharmaceutical company, STADA is part of a global business community and as a result is exposed to a variety of risks in a dynamic market environment. These are mandatory consequences of business activity, as one can only take advantage of opportunities if one is prepared to take risks.

As a supplier of pharmaceutical products, STADA is less affected by economic cycles. STADA's international orientation and the diversification of the Branded Products and Generics segments also reduce the dependence on individual negative developments or events. In addition, long-term experience in the pharmaceutical market provides a solid basis for being able to realistically assess risks and take a targeted approach to growth opportunities.

Opportunities management

STADA sees opportunities management as an ongoing entrepreneurial task. As part of its opportunities management, STADA improves the existing situation and creates new possibilities. STADA management intensively monitors the markets and competitors at all levels and can use this information to identify and analyze trends, requirements and opportunities in the often-fragmented markets, and plan its actions accordingly. Furthermore, the individual corporate areas hold a targeted exchange of knowledge in order to identify and use additional opportunities and synergies. The opportunities can be found in the Group Management Report of this Annual Report in the chapter "Report on Expected Developments".

Risk management

STADA also defines the management of risks as an ongoing task of entrepreneurial activities. The **risk strategy** is applied in all business segments of the STADA Group and is closely linked with STADA's corporate strategy, forming the basis of the Executive Board's continuous risk management system. This system is then integrated into the value-based management and existing organizational structure of the Group. STADA's **risk management system** is based on the international risk management system COSO II Enterprise Risk Management – Integrated Framework (2004).

The objective of STADA's risk management system is to ensure across the Group that both business benefits for decision making processes are achieved and that relevant legislation is fully complied with. At the same time, the risk management system is intended to guarantee sufficient security to ensure that STADA's objectives, particularly financial, operational and strategic objectives, can be reached according to plan. The company-wide standard and integrated approach to the management of risks is intended to ensure the efficiency of Group-wide risk management and make it possible to aggregate risks and provide transparent reporting.

STADA's risk strategy is substantiated by risk policy principles. This is to ensure that all risks are fully identified, presented transparently and comparably and are assessed. It obligates those responsible for risks to proactively manage and monitor the risks. The risk policy principles are defined in the risk management guide. The guide also sets out binding methodical and organizational standards for the approach to risks.

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

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

2. the local **risk confidants** who identify and assess risks (including measures) and document and update them in the risk management system and who are integrated in all corporate units and subsidiaries throughout the Group.

3. regular **queries** sent to the responsible risk confidants by the Risk Management department on current topics and the risk situation in the individual areas of the Group.

4. the company-specific **risk management guide** in which risk management terms, risk policy and the risk management system including the risk management process and responsibilities are defined;

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

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

Only risks are recorded in the risk management system. Opportunities are not recorded in the risk management system along the lines of risks. The identification and evaluation of opportunities takes place in the respective business environments. An overarching, systematic classification regarding the probability and effects of the opportunities is not performed.

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

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
Risk identification	**Risk measurement**	**Risk control**	**Risk monitoring**	**Risk aggregation**	**Risk reporting**

The closed, ongoing and IT-supported risk management process begins with risk identification (phase 1), in which all individual risks that could have significant negative impacts on STADA's business model are systematically recorded. These individual risks are identified, on the one hand, via self-assessment of the risk confidants and, on the other hand, via inquiries of the Risk Management department.

Risk measurement (phase 2) is carried out following risk identification. The evaluation of individual risks is based on probability and potential impact; the evaluation should consider potential direct damage as well as indirect results caused by individual risks if they arise.

As part of risk management (phase 3), possible measures for risk avoidance, reduction, transferring and/or compensation are identified. The measures identified can relate to the cause (preventative) as well as to the effect (reactive).

In phases 1 to 3, the Risk Management department ensures the uniform definition of individual risks through plausibility tests and guarantees continuous risk management throughout all departments and countries.

The risk monitoring (phase 4) ensures that the development of risks as well as the implementation and effectiveness of the identified measures are continuously monitored by the risk confidants, who are supported by the Risk Management department when necessary.

Before a risk report is created, the Risk Management department aggregates individual risks with identical or similar causes to increase transparency, following an analysis of the risk causes (phase 5).

In the risk report (phase 6), the Risk Management department creates recipient-oriented risk reports on the identified individual risks for the management and Supervisory Board. Significant individual risks and risk aggregates indicated are jointly discussed by the Executive Board and the Supervisory Board and, if required, further measures to counter risks are addressed. In the case of new significant individual risks or risk aggregates, the Executive Board and the Supervisory Board are also immediately informed through ad-hoc reporting, including outside of the quarterly risk reporting.

Internal Auditing is responsible for the regular monitoring of the risk management system established by the Executive Board. As part of the monitoring of the Executive Board, the Supervisory Board also looks at the efficiency of the risk management system. In the scope of auditing the annual financial statements, STADA's auditor also reviews and evaluates whether the early risk detection system, which is integrated in the risk management system, is generally suitable to recognize risks that may jeopardize the continued existence of the Group at an early stage.

The relevant period for internal risk reporting is principally 24 months. The assessment of the risks in the Group Management Report principally refers to one year, in line with the forward-looking period. The assessment of the individual risks relates to December 31, 2016. There were no relevant changes after the reporting date that would have required a change in the presentation of STADA's risk situation. However, there is no absolute certainty that risks can be fully identified and managed.

Internal control and risk management system for the Group accounting process (report in accordance with Sections 289 (5), 315 (2) No. 5 HGB)

The **Group-wide internal control and risk management system with regard to the financial reporting process (ICRMS)** is a component of STADA's Group-wide risk management system and aims to ensure the accuracy and effectiveness of the accounting and financial reporting. STADA ensures the reliability of the accounting processes and the correctness of the financial reporting with a variety of different measures and internal controls. This includes the preparation of separate and consolidated financial statements and management reports that comply with regulations. The ICRMS is constantly developed and is an integral component of the accounting and financial reporting processes in all relevant legal units and central functions. The system contains principles, processes and preventative and disclosing controls.

It includes:

- Uniform accounting, measurement and account assignment specifications for the entire Group that are continuously examined, updated and regularly communicated,
- Supplementary processes instructions, Group-internal reporting formats as well as IT-based coordination processes for Group-internal balances,
- Processes ensuring the completeness of financial reporting,
- Processes for functional separation, the dual-control principle within the context of the preparation of financial statements and for authorization and access regulations for relevant IT accounting systems,
- External experts, who are consulted when necessary, for example for purchase price allocation in accordance with IFRS 3.

The primary control functions for the most important accounting processes are carried out by the respective plausibility tests integrated in the programs. Outside the software-supported systems, manual plausibility tests and verification of the completeness and accuracy of data and calculations are carried out at all Group levels. The vast majority of the separate financial statements of Group companies (included in STADA's Consolidated Financial Statements) are generally subject to review by the auditor once a year. In addition, the auditor also carries out a review of the half-year reports of the significant consolidated Group companies.

Responsibility for the introduction as well as the functionality of the ICRMS rests with the Executive Board of STADA Arzneimittel AG, who assess its appropriateness and effectiveness at least once every financial year. Its appropriateness and effectiveness are also regularly examined across the Group by Internal Auditing.

Furthermore, the Audit Committee of the STADA Supervisory Board regularly monitors the accounting process and the effectiveness of the control system, the risk management system and the internal auditing system as well as the audit on the basis of Section 107 (3) AktG. The ICRMS for the accounting process cannot, however, offer any absolute security that false statements are not made in accounting.

Business-related risks

Risks that could have a significant influence on the net assets, financial position and results of operations of the STADA Group are described below. Risks are reported in the form of net risks, i.e. risks including the measures taken to manage the risk, and by the individual segments. If no segment is explicitly referenced, the described risks affect both the Branded Products and Generics segments. As yet unknown risks and those that have been assessed as insignificant could also influence net assets, financial position and results of operations.

Industry risks, regulatory and economic risks

a) Industry risks

STADA is subject to the constantly changing market conditions in the individual national markets. In terms of competition, the risks exist on the basis of strong competition in particular in terms of pricing, range of products and services as well as supply and discount conditions of existing and new competitors. In terms of demand, there is also the risk of a potential increase in purchasing power of individual customer groups such as doctors, pharmacists, patients, health insurance organizations, buying groups, pharmacy chains, wholesalers or mail-order companies. Such developments could weaken STADA's competitive position, for example through the (partial) loss of newly planned tenders or through a (partial) loss of previously won tenders, and consequently result in a loss in sales or earnings. However, STADA principally takes advantage of opportunities arising in individual markets or individual products or product groups and is also willing to accept, if necessary, temporary losses, for example, in national markets with major potential for growth or to maintain or expand its market position. Overall, STADA tries to counteract industry risks through a diversification of brands and products.

b) Regulatory risks

The national markets in which STADA is active are characterized by a large number of regulations. The changing, lifting or passing of new regulations could have significant economic and strategic impacts on STADA and the economic success of individual products or investments. Regulations at a national or supranational level are highly significant if, for example, they affect the market structure, pricing, reimbursement or approvals of pharmaceutical products. 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 concerning discounts, reduction or exclusion of cost reimbursement). Furthermore, direct costs for the fulfillment of requirements (e.g. during approval) or increased indirect costs (e.g. through evasive action by competitors or consumers) can be incurred. This can reduce the profitability of individual products in the affected countries and prevent the market launch of a product in individual cases. STADA assumes that the extent of price regulation and pricing pressure will remain, primarily in the Generics segment. STADA counters these risks, among other things, through a targeted expansion of the product portfolio in less regulated areas.

Exact predictions concerning potential changes in national or supranational regulations as well as their effects on STADA's business activities 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. The consequences are influenced to a large degree by the reactions of the market participants affected. Changes in the regulatory environment in STADA's main markets by sales volume are continuously analyzed. Depending on the extent of state regulation, it could become necessary to adjust the business model.

c) Economic risks

STADA's business success is, among other things, dependent on economic influences, as an economic downturn often results in a reduction in purchasing power in the affected market. A reduction in purchasing power can particularly cause a reluctance to buy in the area of Branded Products - primarily a self-pay market. Furthermore, an economic downturn can increase the already prevalent cost pressure in the individual national health care systems. It could subsequently potentially significantly increase the speed and extent of regional regulatory measures to contain costs. As a result, adverse characteristics for STADA such as state-required price reductions, particularly for prescription drugs, cannot be ruled out. In general, STADA is continuously working to counteract potential risks through performance increases or cost reductions.

Since the beginning of the conflict between Russia and Ukraine in 2014, the development of STADA in the Russian market and the former CIS markets has been burdened by this conflict. In financial year 2016, this had a negative impact on STADA due to a reluctance to buy among Russian consumers and wholesalers. In the MENA region, the continued unrest had a negative impact on export business. It is currently unclear how long the political upheaval will last. If these crises continue, this could have further negative impacts on the results of operations and financial position of the STADA Group.

Furthermore, in the referendum of June 23, 2016, voters in the United Kingdom voted in favor of the United Kingdom leaving the European Union ("Brexit"). The negotiations on the conditions of the exit have not yet begun. The economy of the United Kingdom is currently very robust. There is the risk that an economic downturn will occur during the course of or following negotiations, potentially increasing cost pressure in the health care system and, for example, result in price reduction measures. Furthermore, an economic downturn could result in a reluctance to buy among consumers in the self-pay market.

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 products to be added to the product portfolio either cannot be launched on the market, are launched belatedly or only launched at higher development and production costs than originally assumed due to unexpected events or faulty implementation. Reasons for this can include additional requirements of approval authorities, direct government price controls or additional approvals for reimbursement via the relevant national health system. The risks of development and approval processes for new products are continuously identified and evaluated.

Furthermore, in the Generics segment in particular, a significant factor in the development and approval of each product is the meticulous observance of relevant legislation such as commercial property rights. This involves the risk that an individual regulation is violated despite careful investigation of the legal situation and the introduction of a new product is delayed or even hindered. This also applies retrospectively for products already introduced to the market. There is also the risk that, despite intensive investigation, potential side effects or quality defects in products are not uncovered until after approval or that new scientific findings and evaluations lead to a market recall and corresponding legal proceedings.

Legal risks

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

In the Generics core segment in particular, STADA's business activities are associated with an increased risk of legal disputes regarding commercial property rights (particularly patents and supplementary protection certificates), product liability, warranty obligations, breaches of duty of care as well as the allegations of violations of company or trade confidentiality. In order to protect trade and business secrets deemed as confidential, STADA makes use of confidentiality agreements with employees, external cooperation partners, service providers or other contractual partners. As a consequence of these legal disputes, in particular in the cases of such processes in the USA, damage claims, legal fees, a complete or temporary ban on the marketing of products or costs for recalls may be incurred, irrespective of whether a damage claim ultimately exists.

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

Moreover, STADA's business activity in the individual national markets is subject to the applicable national or supranational legal tax regulations. Changes to the tax laws and their jurisdiction as well as different interpretations as part of external audit can result in risks with impacts on tax expenses, tax revenues, tax receivables and tax liabilities. The Group tax department identifies, evaluates and monitors tax risks as early as possible and systematically and initiates measures to reduce risk, where appropriate.

If there is a serious risk of future damage claims, STADA creates case-specific provisions for potential damage claims. However, STADA currently does not expect any negative effects on the net assets, financial position and results of operations from pending processes.

Operational risks

a) Corporate strategy risks

STADA's corporate strategy is mainly focused on growth and internationalization in the pharmaceutical market in the Generics and Branded Products segments. STADA's growth strategy is associated with the risk that companies, products or other assets acquired in the past or in the future may only be able to be integrated with high integration costs or that intended synergy effects cannot be achieved at the desired level. Furthermore, acquired companies or products may not achieve the expected results on the market, as markets or market segments focused on by STADA may develop differently than expected. Although STADA undertakes every effort to minimize these risks through careful analyses, any of the above circumstances can result in necessities for impairments to intangible assets.

b) Performance-related risks

The Group's own production facilities (including product development and logistics) are subject to the risk of defective or inefficient planning and production processes as well as to production faults or breakdowns as a result of this or external influence. As hazardous substances are regularly used within this process, such faults can also damage employees' and third parties' health or result in environmental damage. This could have a materially adverse effect on costs, competitiveness, supply availability and the associated expectations regarding units sold, sales and earnings as well as the image with clients.

STADA's supply availability can also be negatively influenced through the supply unavailability or insolvency of a supplier (see also default risk), as the change in a supplier is generally associated with delays. STADA restricts this risk by partially using more than one resource supply (dual sourcing).

In the Generics segment, individual national markets are increasingly characterized by very large volume fluctuations that regularly arise in the context of tenders by governmental institutions or public health insurance organizations. Although STADA undertakes every effort to avoid delivery bottlenecks or an unintentional increase in inventories, this cannot be ruled out in consideration of the comprehensive portfolio.

STADA is also 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 with 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.

c) Human resources risks

STADA depends to a large extent on the commitment, motivation and abilities of its employees. The loss of specialists and managers as well as an ongoing search for re-appointments in key positions could have significant adverse effects on the development of the Group. STADA's continued success also depends on its ability, in competition with other companies, to attract and retain qualified employees in the future for the long term regardless of demographic challenges. Country, industry and business-specific fluctuation risks must be proactively identified and addressed specifically to maintain and achieve success and critical skills and competencies within the company. STADA counters these risks through global staff development and succession processes through which the potential of employees is systematically identified and promoted. These processes support both young professionals and experienced highly qualified employees in their professional development and to help STADA to develop, promote and retain performance-critical skills in the company.

d) Compliance risks

It is STADA's expressed objective that all business activities are carried out exclusively within the framework of the respective laws and internal guidelines. STADA has therefore implemented a Group-wide compliance system, in which all employees are regularly informed about existing compliance guidelines at STADA, adapted to their individual area of responsibility. STADA believes that the compliance system is sufficient provision for the compliance with, and observance of, national and international regulations. Training courses and compliance guidelines cannot, however, fully guarantee that employees do not accidentally, negligently or deliberately breach laws or internal guidelines. Such breaches can disturb internal business processes and negatively influence the financial position.

e) Risks in relation to information technology

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

Global IT applications consequently form the basis for the delivery of products to the global customers of the STADA Group as agreed upon. Inefficiencies in the IT processes in the Group, the failure of business-critical IT applications as well as the failure of a data center could have a direct impact on STADA's supply availability.

In addition, all IT systems used in the STADA Group could principally be affected by misuse of digital technologies as a means to perpetrate new types of crime, so-called cybercrime (e-crime), that alongside the manipulation or failure of the affected IT systems could also result in the transfer of confidential information to third parties or a revocation of pharmaceutical approval due to the deficient validation of relevant IT systems.

To reduce the risk of failure and to protect against cybercrime, STADA operates a quality management system for IT and redundantly designed data centers.

Financial risks

To the extent that it is possible, STADA counters financial risks with finance policy methods and specific risk management. The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board in the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Executive Board must first be approved by the Executive Board. The Executive Board is also regularly informed of the nature, scope and amount of current risks.

a) Liquidity risks

Liquidity risks may result, for example, from the loss of existing cash items, lack of availability of credit, reduced access to financing markets or fluctuation in the operational course of business. The objective of the liquidity management is to ensure solvency and financial flexibility of the STADA Group at all times by way of maintaining a sufficient supply of liquidity reserves and having free credit lines. STADA finances itself with short-term and long-term borrowings from banks, promissory note loans, bonds and factoring. Furthermore, STADA has solid operating cash flow and further bilateral credit contracts with various banks (credit lines) that can be utilized as needed.

b) Currency risks

Due to the international alignment of business activities, STADA is subject to risks arising from exchange rate fluctuations. These particularly result from fluctuations of the US dollar, Russian ruble, British pound sterling and the Serbian dinar in relation to the euro. A currency risk consists of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency or as a result of exchange rate fluctuation (transaction risk). However, STADA is only subject to this risk to a limited extent, as the company counters risks from currency related fluctuations, alongside natural hedges, through the use of derivative financial instruments. These are used to hedge currency risks from operating activities, financial transactions and investments. In the reporting year, STADA made use of foreign-exchange futures contracts and interest / currency swaps. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. The remaining term of the contracts is currently up to one year.

Furthermore, currency risks also exist in relation to the conversion of the balance sheet items as well as the conversion of earnings and expenses of international Group companies outside of the euro zone (translation risk). In this connection, the current political conflict between Ukraine and the Russian Federation, as well as negotiations between the United Kingdom and the EU over "Brexit", could indirectly continue to have a negative influence on the earnings situation and exchange rates.

A currency sensitivity analysis on the basis of the outstanding foreign currency items as of December 31, 2016 showed that in financial year 2016, an appreciation or devaluation of the functional currency compared with the ruble by 10% with otherwise unchanged conditions changed the EBITDA by approx. € 1.8 million (previous year: € 1.3 million) (translation risk). At the same time, an appreciation or devaluation of the functional currency in relation to the British pound sterling of 10% with otherwise unchanged conditions would lead to a change in EBITDA of approx. € 0.6 million (previous year: € 1.0 million) (translation risk).

c) Interest rate risks

STADA is subject to interest rate risks from financial assets and financial debts, primarily in the euro zone and Russia. STADA calculates existing interest rate risks with sensitivity analyses that show the effects of changes in market interest rates on interest payments, interest income and expenses as well as on equity. Should the sensitivity analysis show that interest rate fluctuations could lead to significant impacts, STADA could use derivative hedging instruments to avoid the risk.

A sensitivity analysis has shown that an increase in market interest rates of 100 basis points in financial year 2016 would have led to a burden on earnings in the amount of € 1.4 million (previous year: € 0.7 million) and a decrease in market interest rates of 100 basis points would have led to a relief on earnings in the amount of € 0.6 million (previous year: € 0.7 million).

d) Default risks

STADA is 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, appropriate credit management processes are in place and such transactions are generally only concluded with counterparties of impeccable financial standing.

Risks of default also exist as a result of the supply of goods and services. STADA therefore strives to maintain business relations only with partners of impeccable financial standing. In addition, STADA partly uses suitable measures such as guarantees, loan insurances or the transfer of assets to safeguard itself against default risk. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through value adjustments. In addition, there is the risk that in a difficult economic and financial environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

e) Transfer price risks

STADA takes advantage of an international network and carries out strategic Group functions centrally through STADA Arzneimittel AG. As a result, an overarching tax transfer-pricing model for the billing of the corresponding Group-internal services is of increasing importance. Potential risks of non-recognition of these transfer prices for tax purposes, for example from retroactive tax claims of the local tax authorities against a subsidiary of the STADA Group, are limited by way of the introduction of corresponding agreement procedures and a comprehensive definition of transfer prices in the form of a Group guideline. However, non-recognition of transfer prices cannot be completely ruled out.

f) Impairment risks

The valuation rates of the assets included in the consolidated balance sheet are subject to changes in market and business relationships and thereby to changes in fair value. As part of an annual or case-related impairment test, significant non-cash burdens on earnings and impacts on balance sheet ratios may result. This particularly applies to goodwill primarily resulting from purchase price allocations linked to previous acquisitions, and for other intangible assets. All relevant risks are considered in the context of the preparation of the consolidated financial.

Other risks

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

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

Evaluation of risk categories

Significant risks that could result in deviations from the planned corporate development within the one-year forward-looking period are shown below:

Probability \ Impact	low	moderate	high
high			
moderate	• Suppliers • Regulatory environment • IT		
low	• Currencies • Legal disputes • Warehousing and logistics	• R&D projects • Approvals and licenses	• Taxes • Market and competition

The scales for the classification of the potential impact and probability are presented in the charts below:

Probability	Classification
Low	> 0% to ≤ 25%
Moderate	> 25% to ≤ 50%
High	> 50% to < 100%

Potential impact	Description of the impact[1)]
Low	Negligible negative impact on the 1-year outlook (0% to 5%)
Moderate	Moderate negative impact on the 1-year outlook (5% to 10%)
High	Significant negative impact on the 1-year outlook (> 10%)

Summary evaluation of risks

The assessment of the overall risk situation is the result of the consolidated consideration of all significant individual risks on the basis of the applied risk management. As a result of the continued tense geopolitical situation in the CIS region, the risk environment of STADA in this region is unchanged. The risk environment of STADA has also become slightly more negative through the upcoming negotiations regarding “Brexit”. 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. From today’s perspective, however, no risks are discernible which, individually or as a whole, could jeopardize the continued existence of the Group. In terms of organization, STADA has created the necessary prerequisites to be informed of possible risk situations early and to be able to take appropriate measures.

1) Deviation in terms of the Guidance on adjusted EBITDA.

TAKEOVER-RELATED DISCLOSURES

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

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

The share capital amounted to € 162,090,344.00 as of December 31, 2016, divided into 62,342,440 registered shares with an arithmetical share in share capital of € 2.60 per share.

Until December 9, 2016, the shares of the company were registered shares with restricted transferability that, in accordance with the Articles of Incorporation, could only be transferred and entered into the share register with the consent of the Executive Board. On August 26, 2016, the STADA Annual General Meeting resolved to eliminate limitations on transferability. Since the entry of this resolution in the commercial register on December 9, 2016, there are now exclusively registered shares that, in accordance with the Articles of Incorporation, grant one vote at 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.

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

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

The Executive Board is appointed and dismissed exclusively in accordance with legal regulations (Sections 84, 85 AktG).

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, in accordance with the legal regulations. In accordance with Section 9 of the Articles of Incorporation, the Executive Board consists of two or more persons. In addition, the Supervisory Board determines the number of Executive Board Members and may appoint deputy Executive Board Members.

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

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

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

Authorizations of the Executive Board to issue or buy back shares

On June 5, 2013 in accordance with Section 6 (1) of the Articles of Incorporation, the Annual General Meeting authorized the Executive Board, with the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions by June 4, 2018, by up to € 77,134,304.00 through the issue of up to 29,667,040 registered shares[1)] with restricted transfer ability against contributions in cash and/or in kind (authorized capital). Shareholders have statutory subscription rights. The Executive Board is nevertheless authorized, with the approval of the Supervisory Board, to exclude the statutory rights of the shareholders in the cases described in the authorization. The Executive Board is authorized, with the approval of the Supervisory Board, to determine the content of the share rights, the individual details of the capital increase as well as the conditions of the share issue, in particular the issue price. The Executive Board has not made use of this authorization to date.

1) On August 26, 2016, the STADA Annual General Meeting resolved to eliminate restrictions on the transferability of registered shares by means of a change to the Articles of Incorporation. The change to the Articles of Incorporation was registered in the commercial register and became effective on December 9, 2016. The authorization of the approved capital in accordance with Section 6 (1) of the Articles of Incorporation therefore no longer refers to registered shares with restricted transferability.

On June 5, 2013, furthermore, the Annual General Meeting authorized the Executive Board, on one or more occasions until June 4, 2018, to issue bearer and/or registered bonds with warrants and/or convertible bonds, participation rights and/or participating bonds (or a combination of these instruments) (collectively "bonds") in an aggregate nominal amount of up to € 1,000,000,000.00 with or without limiting the term, and to grant the holders or creditors of the bonds with warrants and/or convertible bonds a proportionate amount of the share capital of up to € 69,188,340.00 for a total of up to 26,610,900 of the Company's registered shares[1)] in accordance with the more detailed provisions of the terms of the bonds. For the purposes of servicing these bonds, the Annual General Meeting on June 5, 2013 conditionally increased the share capital by up to € 69,188,340.00 in accordance with Section 6 (2) of the Articles of Incorporation by issuing up to 26,610,900 registered shares and carrying a dividend right as of the beginning of the financial year in which they are issued. The Executive Board, with approval of the Supervisory Board, is authorized to determine the further details of implementation of the conditional capital increase (Conditional Capital 2013). The Executive Board has not made use of this authorization to date.

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

Significant agreements on condition of a change of control

In case of a change of control resulting from a takeover offer to the company, there are, in accordance with common business practice, possibilities of termination for certain credit contracts, the lenders of several credit contracts, the issued corporate bonds and the issued promissory note loans (see "Report on Economic Position – Course of Business and Net Assets, Financial Position and Results of Operations – Financial Position").

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

1) As part of the change to the Articles of Incorporation agreed by the STADA Annual General Meeting on August 26, 2016 for the elimination of restrictions on the transferability of registered shares, a corresponding amendment to the authorization of the Executive Board of June 5, 2013, on the issuing of options and/or convertible bonds, participation rights and/or participating bonds was made, so that the affected options or convertible bonds refer to registered shares (rather than registered shares with restricted transferability), effective with entry in the Articles of Incorporation. The associated conditional capital 2013 in accordance with Section 6 (2) was adapted effective from the entry of the change to the Articles of Incorporation in the commercial register, so that it regulates the conditional issue of registered shares rather than the conditional issue of registered shares with restricted transferability. The change to the Articles of Incorporation was registered in the commercial register and thereby became effective on December 9, 2016.

REMUNERATION REPORT

This remuneration report outlines the principles of the remuneration system for members of the Executive Board and Supervisory Board as well as the amount of individual remuneration. It also presents the remuneration of the Advisory Board members of STADA Arzneimittel AG. The report meets the requirements of the German Commercial Code (HGB) and German Accounting Standard No. 17 (DRS 17), the recommendations of the German Corporate Governance Code (GCGC).

Remuneration of the Executive Board

Objective

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. The objective of this Executive Board remuneration system relevant in the financial year is to allow members of the Executive Board to participate appropriately in the increase in enterprise value in accordance with their personal tasks and performance, the overall performance of the Executive Board as well as success-oriented company management under consideration of the competitive environment. Overall, remuneration of the Executive Board in the framework of this remuneration system is performance-oriented and assessed in a way that is competitive both nationally and internationally and therefore presents an attractive basis for committed and successful performance in a dynamic environment. Through the application of appropriate caps, however, the remuneration system avoids excessively strong incentives towards risk-oriented behavior.

The core elements of the system include non-performance related remuneration that takes the tasks and performance of members of the Executive Board into consideration along with a component that depends on the achievement of annual performance goals (“Short Term Incentive”, STI). In addition to the annual performance-related remuneration, members of the Executive Board also receive a remuneration component geared toward the long term (“Long Term Incentive”, LTI), which is measured to a significant extent on the increase in value of the STADA share and therefore sets an incentive for the members of the Executive Board toward a sustainable increase in enterprise value. The objective of the long-term variable remuneration is also to consider the interests of shareholders in the incentive structure of the remuneration in an overall sustainable manner. There are no stock option plans.

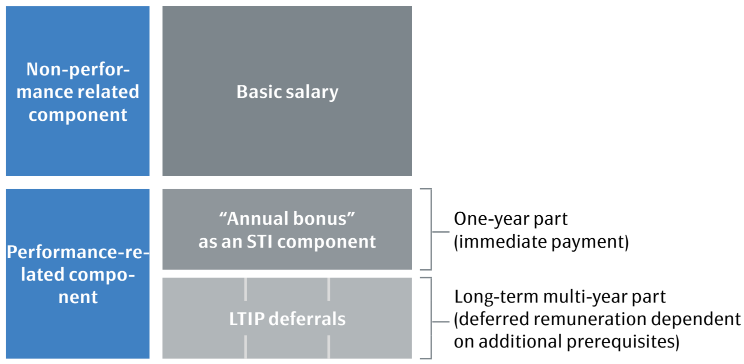
The individual performance-related components are limited to a maximum amount.

The amount and structure of the Executive Board remuneration is reviewed regularly by the Supervisory Board and adjusted whenever necessary. The most recent review took place in December 2016 and included the participation of an independent remuneration consultant.

Structure of the Executive Board remuneration system in financial year 2016

The Executive Board remuneration system relevant in the reporting year took effect from January 1, 2016 with uniform application for all members of the Executive Board.

The following is an overview of the remuneration system relevant in the reporting year for Executive Board members:



Non-performance related component

Annual basic remuneration

The non-performance related remuneration consists of an agreed basic salary paid out in twelve equal monthly installments. This fixed annual salary is determined in accordance with the requirements of stock company law under consideration of usual market remuneration as well as the position and responsibility of the member of the Executive Board.

Fringe benefits

The members of the Executive Board receive other remuneration in the form of fringe benefits, which consist for the most part only of the private use of a company car, contributions to health and nursing care insurance and other insurance services (accident insurance, among other things). The remuneration does not include any company-organized pension plans.

Performance-related component

The performance-related component is structured in the same way for all members of the Executive Board and includes a one-year part (**"annual bonus"** as an STI component) and a multi-year, long-term incentive-oriented part (**"LTIP deferrals"**).

With full target achievement of the performance parameters, the total performance-related remuneration (STI + LTI) amounts to the fixed remuneration of the member of the Executive Board, i.e. the non-performance related remuneration (**"personal target amount"**).

The determination of the amount of the performance-related remuneration as well as the payment dates are discussed below.

Performance parameters for the determination of the mathematical starting amount of the performance-related remuneration awarded for a financial year (STI and LTI)

Both the annual bonus (STI) and the LTIP deferrals are dependent on the target of the Supervisory Board for the **company performance** as well as the **individual Executive Board performance** for the financial year. Depending on the degree of target attainment of these criteria, a starting amount for variable remuneration is calculated (**"mathematical starting amount"**). 50% of this amount is paid as an annual bonus. The remaining half is made up of the starting amount for the determination of the LTIP deferrals, which are also dependent on the performance of the STADA share in relation to the MDAX® over a period of several years (share-dependent multi-year components).

Company performance

Before the beginning of each financial year, the Supervisory Board sets the **targets** for company performance for the full Executive Board in the upcoming financial year (**“performance period”**) for the variable remuneration. The assessment basis for this is the **adjusted net income**, which is determined through the operative planning of the Executive Board for net income for this performance period, and is adjusted for extraordinary expenses and income.

At the end of each financial year, the degree of target achievement of company performance is determined for this performance period. If the target is fully reached, the mathematical starting amount for the variable remuneration of this financial year (STI + LTI) is the personal target amount (i.e. the fixed remuneration of the Executive Board member). If the target was missed by 25 percentage points or more, there is no performance-related remuneration for this financial year (i.e. both the annual bonus and the LTIP deferrals). If the target is exceeded by 20 or more percentage points, the mathematical starting amount of the performance-related remuneration amounts to a maximum of 180% of the personal target amount (i.e. the respective fixed remuneration). Interim values are determined on a linear basis.

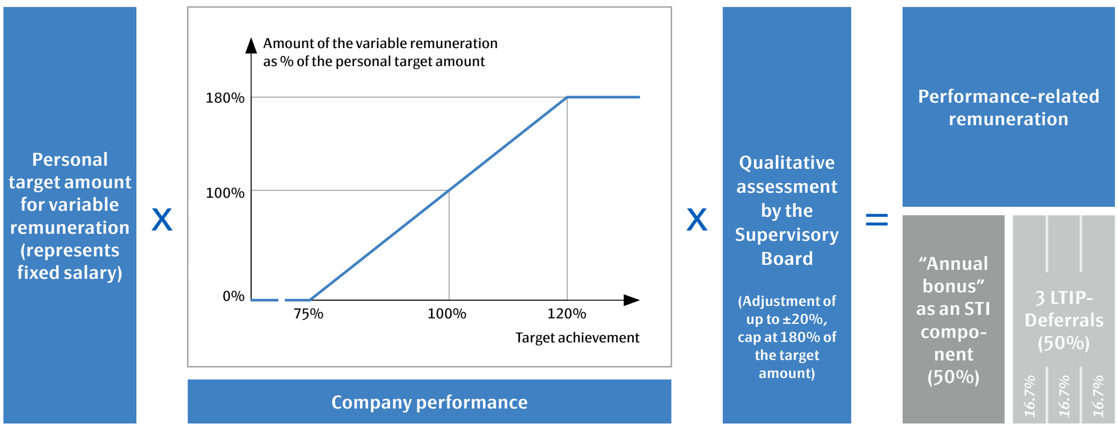
The target set for financial year 2016 and the degree of target achievement are presented together the explanation of remuneration 2016.

Personal performance of an Executive Board member

Under consideration of the personal performance of an Executive Board member, the Supervisory Board has the possibility of increasing or decreasing the mathematical starting amount for the variable remuneration for this financial year (STI and LTI) by up to 20% in accordance with contractual criteria. Uniform qualitative parameters are determined for all Executive Board members for the measurement of exceptional or below average personal performance (e.g. employee satisfaction, exceptional workload, contributions towards the further development of the company).[1] In the case of a significant deviation from the expectations in connection with the personal performance of a member of the Executive Board, the Supervisory Board may exercise its right to make adjustments, whereby this cannot result in the mathematical starting amount exceeds 180% of the personal target amount (i.e. individual fixed remuneration).

The factors determined for the measurement of personal performance in financial year 2016 are presented together with the explanation of remuneration in 2016.

The following overview illustrates how this works:



1) In the course of calendar year 2016, the Supervisory Board decided on a specification of the qualitative parameters for assessment of the individual Executive Board performance retroactively to January 1, 2016 in the course of changes to the Executive Board employment contracts.

Determination and payment of the one-year performance-related remuneration (annual bonus, STI)

Of the mathematical starting amount, as described above, 50% is paid in the following year as an **annual bonus (STI)** for the respective financial year.[1] The STI component of the variable remuneration is thus generally dependent on the performance of the company and – due to the adjustment authority of the Supervisory Board – on the individual Executive Board performance. Due to the cap of the mathematical starting amount at 180% of the personal target amount (i.e. the fixed remuneration), the annual bonus (STI) of an Executive Board member may reach a maximum of 90% of their fixed remuneration (the **upper limit** for the one-year performance-related remuneration, STI).

Determination and payment of the multi-year, long-term incentive-oriented performance-related remuneration (LTIP deferrals) depending on share performance

The other half of the mathematical starting amount calculated on the basis of the criteria presented is divided up into three equal values (**"LTIP deferral 1"**, **"LTIP deferral 2"** and **"LTIP deferral 3"**). Payment of the deferrals is carried out over a period of three to five years. Payments also depend in terms of their amount on the **share performance** of the STADA share in comparison with the MDAX® over a period of several years (multi-year, long-term incentive-oriented performance-related remuneration).

Whether an LTIP deferral is paid and the amount of this payment are determined by the **share performance** of the STADA share compared with the MDAX® during the so-called **deferral periods**. The deferral period for the first deferral is one or two financial years following the performance period, for the second deferral the period of two or three financial years following the performance period and for the third deferral the period of three or four financial years following the performance period. Payment is based on the lower value of the two relevant deferral periods.

The **payment** is made in the financial year following each deferral period.[2] The LTIP deferral 1 is thus paid out after a period of three years, the LTIP deferral 2 after four years and the LTIP deferral 3 after five years. For example, for the performance period 2016 the deferral 1 payment will be made in 2019, the deferral 2 payment will be made in 2020 and the deferral 3 payment in 2021.[3]

To determine the **payment amount** of an LTIP deferral, the stock yield of the STADA share[4] during the deferral period in relation to the performance of the MDAX® is set as a constant, neutrally determined performance index for medium-sized publicly listed companies such as STADA Arzneimittel AG. Particularly in the case that the company is no longer part of the MDAX®, the Supervisory Board may select another more suitable stock index as a basis.

The payment amount for an LTIP deferral corresponds to the initial value, if the yield of the STADA share has developed in line with the MDAX® in the underlying deferral period. If the development of the STADA share yield is 70% or less of the MDAX® development, the LTIP deferral is dropped as part of a **malus regulation** and there is no payment made for this LTIP deferral. If the ratio is at least 130%, the payment amount of a deferral is 130% of the initial value as part of a **bonus regulation**. Interim values are determined on a linear basis. If the maximum amount of 130% per deferral is reached for all three of the LTIP deferrals, a maximum of 117% of the personal target amount (i.e. the fixed remuneration) can result for the multi-year performance related remuneration of a financial year (**upper limit** of the multi-year performance-dependent remuneration, LTIP).

1) Payment is due at the end of the calendar month following the approval of the consolidated financial statements of the respective financial year by the Supervisory Board.
2) Payment is at the end of the calendar month following the approval of the consolidated financial statements of the previous financial year by the Supervisory Board.
3) The Supervisory Board decided on the extension of the basis of measurement for the LTIP deferrals by one year each in the course of the 2016 calendar year retroactively to January 1, 2016. Payment of deferral 1 was previously scheduled to take place already after two years. The extension of the time of payment by one year was implemented by means of the supplement to the Executive Board contracts of Dr. Wiedenfels and Mr. Kraft; for Mr. Retzlaff, who at that point had already left the Executive Board, no such contract adjustment was made.

4) The stock yield also considers distributed dividends in the LTIP deferral period, in addition to price changes. It is calculated as follows:

$$\text{Stock yield} = \frac{\text{Closing price} + \text{Dividend}}{\text{Opening price}}$$

The following graphic shows when the individual components of the performance-related remuneration of a performance period (annual bonus and LTIP deferrals 1–3) are paid:

Financial year 2016	Financial year 2017	Financial year 2018	Financial year 2019	Financial year 2020	Financial year 2021	Financial year 2022	Financial year 2023
= Performance period 2016	= Performance period 2017	= Performance period 2018	= Performance period 2019	= Performance period 2020	= Performance period 2021	= Performance period 2022	= Performance period 2023
	Annual bonus 2016 due	Annual bonus 2017 due	Annual bonus 2018 due	Annual bonus 2019 due	Annual bonus 2020 due	Annual bonus 2021 due	Annual bonus 2022 due
	+		LTIP deferral 1 for PP 2016 due	LTIP deferral 1 for PP 2017 due	LTIP deferral 1 for PP 2018 due	LTIP deferral 1 for PP 2019 due	LTIP deferral 1 for PP 2020 due
	+			LTIP deferral 2 for PP 2016 due	LTIP deferral 2 for PP 2017 due	LTIP deferral 2 for PP 2018 due	LTIP deferral 2 for PP 2019 due
	+				LTIP deferral 3 for PP 2016 due	LTIP deferral 3 for PP 2017 due	LTIP deferral 3 for PP 2018 due

Summary

The Executive Board remuneration system links the remuneration of the Executive Board members with the (short and long-term) development of STADA Arzneimittel AG and thereby creates an incentive for successful and sustainable corporate governance. The connection of the determination of the performance-related remuneration with the adjusted net income takes into account an operating performance indicator, which both represents a key figure and plays an important role in external financial reporting. With the help of a simple and transparent translation of the deviation of the achieved result from the target, the overall performance of the Executive Board has a direct influence on the amount of remuneration. The fixed minimum and upper limits require constant development of the company and appropriate maximum limits (caps) avoid an excessively strong incentive towards risk-oriented behavior. By forgoing the granting of shares or share options, and with corresponding consideration of the relative share performance, the Executive Board remuneration system avoids administrative expenses. Nevertheless, it reflects the sustainable development of the company on the capital market.

Presentation of Executive Board remuneration for financial year 2016

The Executive Board remuneration for financial year 2016 is subsequently presented separately in accordance with two different sets of regulations: The German Corporate Governance Code on the one hand and the applicable German Accounting Standard 17 (DRS 17) on the other hand.

Executive Board remuneration for financial year 2016 in accordance with the German Corporate Governance Code (exemplary charts)

The following presentation of the Executive Board remuneration awarded and paid in financial year 2016 is in accordance with the recommendations of the German Corporate Governance Code, as published on May 5, 2015.

The payment, to be reported in accordance with the German Corporate Governance Code, represents the payment for the respective financial year – irrespective of the exact date of the actual payment. In addition, the LTIP deferrals are share-based remuneration, the allocation of which, in accordance with German tax law, is recognized at the time it is actually paid out.[1)]

1) Payment of LTIP deferral 1 (2016) will be made for Dr. Wiedenfels and Mr. Kraft in 2019, LTIP deferral 2 (2016) will be paid in 2020 and LTIP deferral 3 (2016) in 2021. The three LTIP deferrals for 2016 to which Mr. Retzlaff is entitled to are each due to be paid one year earlier.

Prior to the beginning of financial year 2016, the Supervisory Board determined an adjusted net income in the amount of € 170.1 million and the adjustment items to be considered as a target for the performance-dependent remuneration 2016 for the full Executive Board with regard to the company performance. There was a target achievement of 100.5% for financial year 2016. In order to take into account the personal performance of Dr. Wiedenfels and Mr. Kraft in financial year 2016, the Supervisory Board applied a factor of 0.9 for the individual assessment. For Mr. Retzlaff, a factor of 1.0 was applied in the severance agreement.

The **remuneration** of the individual members of the Executive Board who were active for the Company in financial year 2016, in accordance with the German Corporate Governance Code, is as follows:

	Dr. Matthias Wiedenfels, Chairman of the Executive Board since June 5, 2016 (on the Executive Board since May 2013)					
	Benefits granted				Allocation	
in € 000s	**2016**	**2015**	**2016 (min)**	**2016 (max)**	**2016**	**2015**
Fixed remuneration	1,136	750	1,136	1,136	1,136	750
Fringe benefits	36	33	36	36	36	33
Total	**1,172**	**783**	**1,172**	**1,172**	**1,172**	**783**
One-year variable remuneration	390	350	0	765	390	350
Multi-year variable remuneration						
• Long-term targets 2016	–	394	–	–	761[1)]	0
• LTIP deferral 1 (2016)	58	–	0	332	0	–
• LTIP deferral 2 (2016)	53	–	0	332	0	–
• LTIP deferral 3 (2016)	49	–	0	332	0	–
Other	–	–	–	–	–	–
Total	**550**	**744**	**0**	**1,761**	**1,151**	**350**
Service cost	–	–	–	–	–	–
Total remuneration	1,722	**1,527**	1,172	2,933	2,323	**1,133**

Explanations:

In the reporting year, Dr. Wiedenfels received a **fixed salary** of € 850,000 plus fringe benefits and, after assuming the office of the Chairman of the Executive Board for the period from June 5, 2016, an additional fixed remuneration of € 286,000.

Benefits granted from **variable remuneration for financial year 2016** are reported in accordance with the Executive Board employment contract applicable in the reporting year as one-year variable remuneration of the annual bonus 2016 and as multi-year variable remuneration in the form of the fair values of the three LTIP deferrals 2016. The values are determined using the presented degree of target attainment for the company performance of 100.5% and a factor of 0.9 for personal performance. Based on the personal target value of € 850,000 (which corresponds to the fixed salary of Dr. Wiedenfels), applying the linear calculation formula results in a starting amount for variable remuneration of € 781,000, of which half (€ 390,000) is granted as an annual bonus for 2016. The remaining half represents the starting amount for benefits presented as LTIP deferrals 1–3 (2016), which are measured using a recognized statistical measurement model (Monte Carlo Model) as of December 31, 2016.

From the previous Executive Board employment contract with Dr. Wiedenfels of May 3, 2013 ("old contract"), which was replaced with the new employment contract effective from January 1, 2016, Dr. Wiedenfels is entitled to a residual amount of € 761,000 for the period of actual implementation of the old contract up to December 31, 2015 from the final calculation of the multi-year variable **long-term special remuneration "long-term goals 2016"** (based on adjusted EBITDA 2016). As agreed, at the end of financial year 2016 as the target year of the "long-term goals 2016", the total amount for the original contract period of May 3, 2013 to December 31, 2016 was to be calculated on the basis of actual target achievement (€ 1,459,000[2)] based on the

1) Payment of the residual amount of the multi-year variable remuneration component "long-term targets 2016" granted in accordance with the former Executive Board employment contract for the period from May 3, 2013 to December 31, 2015 is carried out on the basis of the final calculation of the long-term targets 2016 and therefore reported as inflow in the remuneration table for the reporting year.

2) The residual amount of € 1,445,000 of the provisional benefit from the long-term special remuneration 2016 based on 44 months reported in financial year 2015 was based on the then outlook for target achievement, which was slightly below the actual target achievement.

original 44 months), which as a result of the change in contract is only partially granted for the period of actual contract implementation from May 3, 2013 to December 31, 2015, i.e. in the amount of 32/44 (i.e. € 1,061,000). Subtracting the progress payments already made in 2013 and 2014 of a total of € 300,000, a residual amount of € 761,000 results, which is reported as an inflow for the current financial year.

	Helmut Kraft, Chief Financial, Marketing & Sales Officer (on the Executive Board since January 2010)					
	Benefits granted				Allocation	
in € 000s	2016	2015	2016 (min)	2016 (max)	2016	2015
Fixed remuneration	1,097	800	1,097	1,097	1,097	800
Fringe benefits	34	30	34	34	34	30
Total	**1,131**	**830**	**1,131**	**1,131**	**1,131**	**830**
One-year variable remuneration	425	350	0	833	425	350
Multi-year variable remuneration						
• Long-term targets 2018	–	303	–	–	0[1)]	0[1)]
• LTIP deferral 1 (2016)	63	–	0	361	0	–
• LTIP deferral 2 (2016)	57	–	0	361	0	–
• LTIP deferral 3 (2016)	53	–	0	361	0	–
Other	–	–	–	–	–	–
Total	**598**	**653**	**0**	**1,916**	**425**	**350**
Service cost	–	–	–	–	–	–
Total remuneration	**1,729**	**1,483**	**1,131**	**3,047**	**1,556**	**1,180**

Explanations:

In the reporting year, Mr. Kraft received a fixed salary of € 925,000 plus fringe benefits and, after partially assuming the tasks for the former Chairman of the Executive Board Hartmut Retzlaff for the period from June 5, 2016, an additional fixed remuneration of € 172,000.

Benefits granted from **variable remuneration for financial year 2016** are reported in accordance with the Executive Board employment contract applicable in the reporting year as one-year variable remuneration of the annual bonus 2016 and as multi-year variable remuneration in the form of the fair values of the three LTIP deferrals 2016. The values are determined using the presented degree of target attainment for the company performance of 100.5% and a factor of 0.9 for personal performance. Based on the personal target value of € 925,000 (which corresponds to the fixed salary of Mr. Kraft), applying the linear calculation formula results in a starting amount for variable remuneration of € 850,000, of which half (€ 425,000) is granted as an annual bonus for 2016. The remaining half represents the starting amount for benefits presented as LTIP deferrals 1–3 (2016), which are measured using a recognized statistical measurement model (Monte Carlo Model) as of December 31, 2016.

From the previous Executive Board employment contract, applicable from January 1, 2015 ("old contract"), which was replaced with the new employment contract effective from January 1, 2016, for the period of actual implementation of the old contract from January 1, 2015 to December 31, 2015, Mr. Kraft has partial entitlement from the final calculation of the multi-year variable **long-term special remuneration "long-term goals 2018"**, which will be calculated on the basis of actual target achievement at the end of financial year 2018 as the target year of the "long-term goals 2018", as agreed.

1) Any amount paid out following the final statement of the long-term targets for 2018 will be disclosed in the 2018 Annual Report.

	Hartmut Retzlaff (Member of the Executive Board until August 15, 2016)					
	Benefits granted				Allocation	
in € 000s	2016	2015	2016 (min)	2016 (max)	2016	2015
Fixed remuneration	1,247	2,000	1,247	1,247	1,247	2,000
Fringe benefits	23	35	23	23	23	35
Total	1,270	2,035	1,270	1,270	1,270	2,035
One-year variable remuneration	503	589	0	918	503	589
Multi-year variable remuneration						
• Long-term targets 2016	–	971[1)]	–	–	991[2)]	0
• LTIP deferral 1 (2016)	154	–	0	398	133	–
• LTIP deferral 2 (2016)	153	–	0	398	133	–
• LTIP deferral 3 (2016)	151	–	0	398	133	–
Other	–	–	–	–	–	–
Total	961	1,560	0	2,112	1,893	589
Service cost	–	–	–	–	–	–
Total remuneration	2,231	3,595	1,270	3,382	3,163	2,624

Explanations:

Under consideration of the time of departure from the Executive Board of Mr. Retzlaff, in terms of the presentation of all grants and disclosures within the code table, a pro rata figure is derived for the time until the end of his Executive Board mandate on August 15, 2016.

In the reporting year, for the period until the end of his Executive Board mandate on August 15, 2016, Mr. Retzlaff received a **fixed salary** in the amount of € 1,247,000 (pro rata amount on the basis of an annual fixed salary of € 2,000,000) plus fringe benefits.

The chart also shows the benefits granted and inflows from the **variable remuneration**, pro rata for the period until August 15, 2016, **for the past financial year 2016** (pro rata annual bonus 2016 as well as pro rata LTIP deferrals 2016).

In the termination agreement signed with Mr. Retzlaff on August 15, 2016, a lump sum fixed amount for the one-year variable remuneration as well as the LTIP deferrals of € 800,000 was defined for the first half of 2016 and has, in this connection, already been paid out. In the benefits and inflows for 2016 presented above, a total amount is allocated to the period until June 30, 2016 of € 400,000 to the one-year variable remuneration and € 133,000 each to the multi-year variable remuneration in the form of three LTIP deferrals 2016. For the second half of 2016 (i.e. from July 1, 2016), the termination agreement includes the calculation of the partial variable remuneration 2016, applying the actual degree of target achievement for the company performance (i.e. 100.5%) and fixed personal target achievement measured with a factor of 1.0. For the period from July 1, 2016 to August 15, 2016, this represents a partial annual bonus for 2016 of € 103,000 (total reported partial annual bonus 2016 for the period January 1, 2016 to August 15, 2016 therefore € 503,000). Benefits reported until the LTIP deferrals 1–3 (2016) are measured using a recognized statistical measurement model (Monte Carlo Model) at the current time, broken down into the period July 1, 2016 to August 15, 2016 and supplemented with the fixed payment as part of the termination agreement (each € 133,000, see above).

From the earlier Executive Board employment contract with Mr. Retzlaff until December 31, 2015, the final calculation of the multi-year variable **long-term special remuneration "long-term goals 2016"** on the basis of adjusted EBITDA 2016, a residual amount of € 991,000 results. As agreed, at the end of financial year 2016 as the target year of the "long-term goals 2016", the total amount for the original period on which the long-term goals 2016 were based, of January 1, 2015 to August 31, 2016 was to be calculated on the basis of actual target achievement (€ 1,651,000[3)] based on the original 20 months), which as a result of the change in contract is only partially granted for the period of actual contract implementation from January 1, 2015 to December 31, 2015, i.e. in the amount of 12/20 (i.e. € 991,000).

1) The benefit for 2015 reported for the multi-year variable remuneration component "long-term goals 2016" was based on the outlook for target achievement of the time, which was slightly below the actual target achievement.
2) Payment of the residual amount of the multi-year variable remuneration component "long-term targets 2016" granted in accordance with the former Executive Board employment contract for the period from January 1, 2015 to December 31, 2015 is carried out on the basis of the final calculation of the long-term targets 2016 and therefore reported as inflow in the remuneration table for the reporting year.
3) The residual amount of € 1,618,000 of the provisional benefit from the long-term special remuneration 2016 based on 20 months reported in financial year 2015 was based on the then outlook for target achievement, which was slightly below the actual target achievement. The amount of € 971,000 reported as a benefit for 2015 in the last Annual Report corresponds to the expected value of the time based on 12 months.

In **connection with the termination** of his employment on August 15, 2016, in accordance with employment contract provisions (termination of contract as of December 31, 2016), as part of his termination contract, Mr. Retzlaff also continued to receive salary in the total amount of € 1,253,000 (thereof € 762,000 non-performance related including € 9,000 in fringe benefits as well as € 491,000 performance-related[1)]) as well as a severance payment in the amount of € 5,885,000 (thereof € 3,285,000 fixed and € 2,600,000 variable components in arithmetical terms).

Executive Board remuneration for financial year 2016 in accordance with DRS 17

The following details on the remuneration granted to Executive Board members in financial year 2016 are provided in accordance with the requirements of DRS 17. In contrast with the presented regulations of the German Corporate Governance Code, the disclosure of the payments for multi-year variable remuneration components, which are not granted as share-based payment (LTIP deferrals), in accordance with DRS 17 is made in full in the year the final target is reached, rather than on a pro rata basis. If a payment is made in the year before the final targets are achieved (e.g. as a progress payment), then the amount is to be recorded as an advance in the year of payment.

The **remuneration** of the individual members of the Executive Board who were active for the Company in financial year 2016, in accordance with DRS 17, is as follows:

	Dr. Matthias Wiedenfels, Chairman of the Executive Board since June 5, 2016 (on the Executive Board since May 2013)	
	Benefits granted	
in € 000s	**2016**	**2015**
Fixed remuneration	1,136	750
Fringe benefits	36	33
Total	**1,172**	**783**
One-year variable remuneration	390	350
Multi-year variable remuneration		
• Long-term targets 2016	1,061	–
• LTIP deferral 1 (2016)	58	–
• LTIP deferral 2 (2016)	53	–
• LTIP deferral 3 (2016)	49	–
Other	–	–
Total	**1,611**	**350**
Service cost	–	–
Total remuneration	**2,783**	**1,133**

Because financial year 2016 corresponded to the defined target year in the context of long-term targets 2016, payments made to Dr. Wiedenfels as part of long-term special remuneration in 2016 were fully disclosed in financial year 2016. Accordingly, this also included the contractually agreed progress payments for the long-term special remuneration in the total amount of € 300,000 upon achievement of the interim goals in the previous years.

1) Derived from the actual target achievement or the adjusted net profit 2016 as well as the evaluation of the deferrals carried out as of December 31, 2016 for the period from 2018–2020.

in € 000s	Helmut Kraft, Chief Financial, Marketing & Sales Officer (on the Executive Board since January 2010) Benefits granted 2016	2015
Fixed remuneration	1,097	800
Fringe benefits	34	30
Total	**1,131**	**830**
One-year variable remuneration	425	350
Multi-year variable remuneration		
• Long-term targets 2018	–	–
• LTIP deferral 1 (2016)	63	–
• LTIP deferral 2 (2016)	57	–
• LTIP deferral 3 (2016)	53	–
Other	–	–
Total	**598**	**350**
Service cost	–	–
Total remuneration	**1,729**	**1,180**

The defined target year for the multi-year variable remuneration “long-term targets 2018” is financial year 2018, as a result of which benefits for these remuneration components are to be fully disclosed in the corresponding financial year in accordance with DRS 17.

in € 000s	Hartmut Retzlaff (Member of the Executive Board until August 15, 2016 Benefits granted 2016	2015
Fixed remuneration	1,247	2,000
Fringe benefits	23	35
Total	**1,270**	**2,035**
One-year variable remuneration	503	589
Multi-year variable remuneration		
• Long-term targets 2016	991	–
• LTIP deferral 1 (2016)	154	–
• LTIP deferral 2 (2016)	153	–
• LTIP deferral 3 (2016)	151	–
Other	–	–
Total	**1,952**	**589**
Service cost	–	–
Total remuneration	**3,222**	**2,624**

Because financial year 2016 corresponded to the defined target year in the context of long-term targets 2016, payments made to Mr. Retzlaff as part of long-term special remuneration in 2016 were fully disclosed in financial year 2016.

Members of the Executive Board received no performance-based advances in financial year 2016 on top of the remuneration above. In the previous year, there were performance-related advances[1] totaling € 200,000 attributable entirely to Dr. Matthias Wiedenfels.

1) Contractually agreed performance-related progress payments of the long-term special remuneration upon achieving the respective interim goals.

The percentage ratio between non-performance related and performance-related remuneration of members of the Executive Board ranges in the area of approx. 39% to approx. 65% non-performance related and approx. 35% to approx. 61% performance-related remuneration.

Commitments to members of the Executive Board

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

The Executive Board contracts as of the reporting date also contain a severance payment regulation for a more closely-defined change of control, which, in accordance with the German Corporate Governance Code, is not higher than the value of the remaining term of the Executive Board contract, and is limited in amount to a maximum of three years' remuneration.

Should an Executive Board contract be terminated early, no commitment is made to a severance payment. However, a severance payment can result from a termination agreement, which is made in individual cases. For the Executive Board contracts in the reporting year, it was agreed that any payments to Executive Board members with early termination of contract including fringe benefits may not exceed two years' remuneration (severance cap) and may not be compensated with more than the remuneration for the remaining period of the contract in accordance with the specifications of the German Corporate Governance Code.

Other commitments

The Executive Board contracts include the provision that, in the case of invalidity due to illness or accident, the Company will continue to pay the salary, for the duration of the invalidity, up to a maximum of three years, whereby the amount of the continued payment in the first year after the occurrence of invalidity corresponds to the fixed annual salary and the variable remuneration and, in the second and third year of invalidity, to the fixed annual salary. Payment continues until the end of the Executive Board contract at the latest.

The Company has concluded an accident insurance for each of the members of the Executive Board.

In the context of a group insurance for all of the Executive Board members, a so-called D&O insurance exists 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

Third parties outside the Group have neither promised nor granted benefits to Executive Board members with regard to their position in the Executive Board in financial year 2016.

Supervisory Board remuneration

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

The remuneration system of the Supervisory Board is governed by Section 18 of STADA Arzneimittel AG's Articles of Incorporation. In accordance with this, the members of the Supervisory Board receive the following remuneration, in addition to the reimbursement of their expenses in the previous financial year:

- an annual fixed sum of € 48,000.00 and

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

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

In addition, Supervisory Board members receive an annual fixed remuneration of € 15,000.00 for their committee activities for the past financial year. The Chairman of a committee receives twice this amount in remuneration. Members of the nomination committee do not receive any special remuneration.

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

Remuneration of the Supervisory Board in financial year 2016

The remuneration of the individual members of the Supervisory Board who were active for the Company in financial year 2016 is as follows:

Current members of the Supervisory Board

- Carl Ferdinand Oetker € 210,976.49 (thereof € 146,762.30 non-performance related and € 64,214.19 performance-related) (previous year: € 188,906.26 thereof € 126,000.00 non-performance related and € 62,906.26 performance-related)

- Jens Steegers € 116,672.71 (thereof € 79,786.89 non-performance related and € 36,885.82 performance-related) (previous year: € 79,453.13 thereof € 48,000.00 non-performance related and € 31,453.13 performance-related)

- Dr. Eric Cornut € 34,295.17 (thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board since the end of the Annual General Meeting, August 26, 2016)

- Halil Duru € 90,328.37 (thereof € 63,000.00 non-performance related and € 27,328.37 performance-related) (previous year: € 79,453.13, thereof € 48,000.00 non-performance related and € 31,453.13 performance-related)

- Rolf Hoffmann € 34,295.17 (thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board since the end of the Annual General Meeting, August 26, 2016)

- Dr. Birgit Kudlek € 34,295.17 (thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board since the end of the Annual General Meeting, August 26, 2016)

- Tina Müller € 34,295.17 (thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board since the end of the Annual General Meeting, August 26, 2016)

- Dr. Ute Pantke € 79,303.78 (thereof € 51,975.41 non-performance related and € 27,328.37 performance-related) (previous year: € 79,453.13, thereof € 48,000.00 non-performance related and € 31,453.13 performance-related)

- Dr. Gunnar Riemann € 34,295.17 (thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board since the end of the Annual General Meeting, August 26, 2016)

Members of the Supervisory Board who left the Board in financial year 2016

- Dr. Martin Abend € 176,954.75 (thereof € 123,418.03 non-performance related and € 53,536.72 performance-related) (previous year: € 283,359.38 thereof € 189,000.00 non-performance related and € 94,359.38 performance-related) (Member of the Supervisory Board until the end of the Annual General Meeting, August 26, 2016)

- Dr. Eckhard Brüggemann € 49,189.83 (thereof € 31,344.26 non-performance related and € 17,845.57 performance-related) (previous year: € 79,453.13 thereof € 48,000.00 non-performance related and € 31,453.13 performance-related) (Member of the Supervisory Board until the end of the Annual General Meeting, August 26, 2016)

- Dr. K.F. Arnold Hertzsch € 58,984.92 (thereof € 41,139.34 non-performance related and € 17,845.58 performance-related) (previous year: € 94,453.13 thereof € 63,000.00 non-performance related and € 31,453.13 performance-related) (Member of the Supervisory Board until the end of the Annual General Meeting, August 26, 2016)

- Dieter Koch € 58,984.92 (thereof € 41,139.34 non-performance related and € 17,845.58 performance-related) (previous year: € 94,453.13 thereof € 63,000.00 non-performance related and € 31,453.13 performance-related) (Member of the Supervisory Board until the end of the Annual General Meeting, August 26, 2016)

- Constantin Meyer € 58,984.92 (thereof € 41,139.34 non-performance related and € 17,845.58 performance-related) (previous year: € 94,453.13 thereof € 63,000.00 non-performance related and € 31,453.13 performance-related) (Member of the Supervisory Board until the end of the Annual General Meeting, August 26, 2016)

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, a so-called D&O insurance exists for all members of the Supervisory Board, with a deductible for the Supervisory Board members, which reflects the legal framework of the deduction of the Executive Board members.

Remuneration of the Advisory Board

In accordance with Section 9 of the bylaws of the Advisory Board of STADA Arzneimittel AG, members of the Advisory Board receive a flat fee of € 1,000 per meeting of the Advisory Board and for participation in the Annual General Meeting, plus sales tax and reimbursement of their expenses. Time for travel to and from meetings is not considered part of the meeting. The Chairman of the Advisory Board also receives a flat rate annual compensation for allowances in the amount of € 3,000 plus sales tax and his deputy receives € 2,500 plus sales tax.

CORPORATE GOVERNANCE REPORT INCLUDING THE CORPORATE GOVERNANCE DECLARATION FOR STADA ARZNEIMITTEL AG AND THE GROUP

The Corporate Governance Report pursuant to Section 3.10 of the German Corporate Governance Code (GCGC) and the Corporate Governance Declaration for STADA Arzneimittel AG and the Group pursuant to Section 315 (5) in conjunction with Section 289a of the German Commercial Code (HGB) are available on the STADA website at www.stada.de/cg and www.stada.com/cg.

Corporate Governance Declaration for STADA Arzneimittel AG and the Group

The corporate governance declaration for STADA Arzneimittel AG and the Group in accordance with Section 315 (5) in conjunction with Section 289a of the German Commercial Code (HGB) includes the explanation of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG), the relevant information on corporate management practices, a description of the working practices of the Executive Board and Supervisory Board as well as the composition and working practices of the Supervisory Board committees, the specifications pursuant to Section 76 (4) and Section 111 (5) of the German Stock Corporation Act as well as the information whether the specified targets were met during the reference period or not and, if not, details on the reasons.

1. Declaration of Compliance

The Executive Board and Supervisory Board agreed a new Declaration of Compliance in accordance with the German Corporate Governance Code on March 2, 2017. Both the current Declaration of Compliance and the Declaration of Compliance issued in the reporting year on July 14, 2016 are included below:

Declaration of Compliance March 2017

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

STADA Arzneimittel AG ("STADA") had complied with the recommendations of the German Corporate Governance Code in the version of May 5, 2015 (published on June 12, 2015 in the Federal Gazette) since the last Declaration of Compliance on July 14, 2016, with the exception of the deviations as mentioned there, and STADA will comply with the recommendations of the German Corporate Governance Code in this version in future with the following deviations:

In the last Declaration of Compliance dated July 14, 2016, the STADA Executive Board and Supervisory Board, as a matter of mere precaution, disclosed a deviation from the recommendations pursuant to Section 4.2.3 Para. 2 Sentence 4, Section 4.2.3 Para. 2 Sentence 6 and Section 4.2.3 Para. 2 Sentence 8 GCGC based on the system for remuneration of Executive Board members current at this point of time. Even on the basis of the system for remuneration of Executive Board members current at this point of time such disclosure would not have been necessary from a strictly legal point of view. Nevertheless, the Executive Board and the Supervisory Board of STADA had decided to include the information in the Declaration of Compliance 2016 in accordance with the results of a previously completed extensive Corporate Governance audit of STADA and to increase transparency for investors and the capital market. In December 2016, the Supervisory Board of STADA again reviewed the system for remuneration of Executive Board members and proposed a new remuneration system that does not give any grounds to disclose, even as a matter of mere precaution, a deviation at least from the recommendations pursuant to Section 4.2.3 Para. 2 Sentence 4 and Section 4.2.3 Para. 2 Sentence 8 GCGC. The Executive Board members of STADA are to be remunerated in line with this new remuneration system in future. The service contract concluded with Dr. Barthold Piening as a future Executive Board member has also already been based on the new remuneration system. The service contracts of the Executive Board members currently in office are still based on the remuneration system that was current at the time the Declaration of Compliance 2016 was issued. In view of the aforesaid, the Executive Board and Supervisory Board therefore disclose the following deviations, again as a matter of mere precaution:

Section 4.2.3 Para. 2 Sentence 4: Positive and negative development

If the target is fallen short of by 25 percentage points or more, the variable remuneration of the members of the Executive Board is reduced to 0%. If the target is exceeded by more than 20 percentage points, the variable remuneration amounts to 180%. If more than 75% but a maximum of 120% of the target is achieved, the variable remuneration is calculated applying a formula. In addition, no parameters have been agreed through which any positive or negative development is reported, as the members of the Executive Board already participate in any positive or negative development with the regulation mentioned above.

Section 4.2.3 Para. 2 Sentence 6: Caps

The variable remuneration components which the company grants to the Executive Board members in addition to a fixed annual salary are limited in terms of amount by way of specified, clear mathematical formulae. In addition, customary fringe benefits are granted to each member of the Executive Board. These include in particular a company car the private use of which is also permitted, as well as insurances which STADA makes financial contributions to and/or bears the costs of. As regards the amounts of such fringe benefits, no caps have been determined since such costs vary and are not precisely foreseeable, and such determination would appear to be dispensable in line with the intent and purpose of the GCGC recommendation.

Section 4.2.3 Para. 2 Sentence 8: No repricing

The contracts of the members of the Executive Board do not exclude subsequent changes to the performance targets or comparative parameters. The Executive Board contracts stipulate, among other things, that the Supervisory Board may choose a suitable share index other than the MDAX when calculating the deferral payment amount of the long-term variable remuneration, e.g. in the case that STADA is not an MDAX-listed company anymore. The regulations stipulated in the contracts of the members of the Executive Board which allow such changes enable the Supervisory Board to avoid any positive or negative disincentives that could result from any unpredicted development.

Bad Vilbel, March 2, 2017

signed	signed
Carl Ferdinand Oetker	Dr. Matthias Wiedenfels
Chairman of the Supervisory Board	Chairman of the Executive Board

Declaration of Compliance 2016

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

STADA Arzneimittel AG ("STADA") had complied with the recommendations of the German Corporate Governance Code in the version of May 5, 2015 (published on June 12, 2015 in the Federal Gazette) since the last Declaration of Compliance on October 8, 2015, with the exception of the deviations as mentioned there, and STADA will comply with the recommendations of the German Corporate Governance Code in this version in future with the following deviations.

The STADA Executive Board and Supervisory Board are of the opinion that the following disclosures made on Section 4.2.3 Para. 2 Sentence 4, Section 4.2.3 Para. 2 Sentence 6 and Section 4.2.3 Para. 2 Sentence 8 would not be necessary from a strictly legal point of view. However, the Executive Board and the Supervisory Board of STADA have decided to include the information in the Declaration of Compliance 2016 in accordance with the results of the extensive Corporate Governance audit of STADA and to increase transparency for investors and the capital market.

Section 4.2.3 Para. 2 Sentence 4: Positive and negative development

If the target is fallen short of by 25 percentage points or more, the variable remuneration of the members of the Executive Board is reduced to 0%. If the target is exceeded by more than 20 percentage points, the variable remuneration amounts to 180%. If more than 75% but a maximum of 120% of the target is achieved, the variable remuneration is calculated applying a formula. In addition, no parameters have been agreed through which any positive or negative development is reported, as the members of the Executive Board already participate in any positive or negative development with the regulation mentioned above.

Section 4.2.3 Para. 2 Sentence 6: Caps

The company grants fringe benefits to each member of the Executive Board, in particular a company car. Private use of the car is also permitted. Any costs incurred for the maintenance and use of the vehicle are covered by STADA. Moreover, STADA grants the members of the Executive Board financial contributions to and/or pays for insurances. As regards the amounts of such fringe benefits, there are no caps as such costs vary and are not precisely foreseeable. Since no caps with regard to the amounts have been determined, there are also no caps for the amount of the remuneration in general. There are, however, caps for variable remuneration. These do not indicate amounts but are to be calculated applying mathematical formulae. Since the mathematical formulae are very comprehensible, this presentation serves to improve readability of the Executive Board contracts.

Section 4.2.3 Para. 2 Sentence 8: No repricing

The contracts of the members of the Executive Board do not exclude subsequent changes to the performance targets or comparative parameters. The Executive Board contracts stipulate, among other things, that the Supervisory Board may choose a suitable share index other than the MDAX when calculating the deferral payment amount of the long-term variable remuneration, e.g. in the case that STADA is not an MDAX-listed company anymore. The regulations stipulated in the contracts of the members of the Executive Board which allow such changes enable the Supervisory Board to avoid any positive or negative disincentives that could result from any unpredicted development.

Section 5.4.1 Para. 2 Sentence 1: Age limit and regular length of membership for the members of the Supervisory Board

The objectives specified by the Supervisory Board regarding its composition do not contain an age limit or a regular limit of length of membership of the Supervisory Board. To date, the Supervisory Board has been of the opinion that age is not a suitable criterion for choosing qualified candidates. However, it has been considered to comply with the recommendation in Section 5.4.1, Para. 2, Sentence 1, which suggests an age limit, in the future. This is to be decided shortly. Furthermore, in the view of the Supervisory Board, the expertise of long-standing and experienced Supervisory Board members shall in principle also be made available to the company. A limit of maximum length of membership defined in advance is not considered appropriate by the Supervisory Board.

Bad Vilbel, July 14, 2016

signed	signed
Dr. Martin Abend	Dr. Matthias Wiedenfels
Chairman of the Supervisory Board	Chairman of the Executive Board

2. Relevant information on Company practices

Corporate governance

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

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

Risk Management and Internal Auditing

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

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

Strong compliance culture

Compliance comprises all actions taken by a company in line with legal requirements as well as the drafting and monitoring of internal regulations which a company places on itself. The goal of all compliance efforts is to avoid possible damage to the company and to prevent wrong-doing. At STADA, compliance is embedded in the mission statement of a responsible company leadership and corporate governance. The Compliance Office is responsible for the constant development of a Compliance Management System within STADA. The Compliance Office is an independent consultant and advisor for all departments and all employees of STADA.

STADA's Code of Conduct establishes binding Group-wide behavioral guidelines for the entire management and staff of the STADA Group. The aim of the Code of Conduct is to support all employees in legal and ethical challenges in their daily work and to provide them with orientation for correct behavior. Furthermore, internal guidelines, the so-called Corporate Policies, make these behavioral guidelines clearer for specific topics.

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

The Chief Compliance Officer, who is responsible for the Compliance Management System, reports to the Chairman of the Executive Board and Supervisory Board as well as the Audit Committee. The Chief Compliance Officer coordinates the entire system and receives complaints and information – anonymously if necessary – and follows up on suspected compliance breaches. Any suspicious cases reported are assessed and evaluated. If necessary, appropriate measures are introduced and processes are adapted. Disciplinary measures are also taken. These can range from a simple warning to the dismissal of the employee. The officer is supported in Germany and internationally by Compliance Managers, and by an external Ombudsman in Germany. In reporting year 2016 the compliance organization was further strengthened and the international exchange of compliance officers was intensified. In order to guarantee the adherence to legal regulations and internal company policies of compliance in an effective manner, STADA regularly controls and further develops the Compliance Management System based on risk.

The Code of Conduct, the contact information of the Ombudsman along with further information regarding compliance, can be found on the company website at www.stada.de or www.stada.com in the Sustainability section of "Corporate Management".

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

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

More detailed information on the discussed corporate governance practices at STADA as well as further information can also be found on the company website at www.stada.de or www.stada.com in the Sustainability section.

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

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

a) Executive Board

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

Tasks and responsibilities

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

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

The following changes occurred at Executive Board level in financial year 2016: On August 15, 2016, the long-standing Chairman of the Executive Board Hartmut Retzlaff resigned from his office as member of the Executive Board with immediate effect. The employment relationship between him and STADA Arzneimittel AG was ended with effect from December 31, 2016 by mutual agreement due to personal circumstances.[1)] The STADA Supervisory Board had already decided on a change at the company's helm at an extraordinary meeting held on June 5, 2016, due to the serious and likely long-term illness of Mr. Retzlaff.[2)] The two remaining Executive Board members initially assumed his tasks on a temporary basis.

1) See the Company's ad hoc release of August 15, 2016.
2) See the Company's ad hoc release of June 5, 2016.

As of the reporting date, the Executive Board consisted of two members responsible for the following areas:

- Dr. Matthias Wiedenfels, Chairman of the Executive Board (under contract until December 31, 2020) is the member of the STADA Executive Board responsible for Strategy, Business Development, Corporate Communications, Corporate Governance, Human Resources, Legal, IP/Patents, Corporate Compliance and Export Control, Quality Assurance and Quality Control, Research and Development as well as Production.

- Helmut Kraft, Chief Financial, Marketing & Sales Officer (under contract until December 31, 2019), is responsible for, in addition to the area of finance (Corporate Accounting and Controlling, Corporate Treasury and Taxes) Marketing and Sales, Investor Relations, Internal Revision, Corporate IT, Business Excellence and Business Transformation, Purchasing and Supply Chain, Portfolio Management, Biotechnology, Market Research and Risk Management.

On January 23, 2017, the Supervisory Board announced that it had appointed Dr. Barthold Piening as a full Member of the Executive Board.[1)] Dr. Piening will take up his position on April 1, 2017 and will assume responsibility for Production, Research and Development, Biotechnology and Quality Assurance and Control.

Working practices of the Executive Board

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

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

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

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

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

Conflicts of interest

According to the rules of procedure of the Executive Board, every member of the Executive Board is required to disclose conflicts of interest without delay to the Supervisory Board and to inform the other members of the Executive Board of this (Section 4.3.3 of the German Corporate Governance Code, GCGC). Carrying out ancillary activities, particularly taking on Group-external Supervisory Board positions, requires the prior approval of the Supervisory Board.

Remuneration report

The Remuneration Report, which can be found in the Group Management Report of the Executive Board, presents the principles of the remuneration system of the Executive Board of STADA as well as individual details of the remuneration of individual members of the Executive Board. It is also published on the Company's website at www.stada.de or www.stada.com in the Corporate Governance section.

1) See the Company's investor news of January 23, 2017.

b) Supervisory Board

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

The Supervisory Board included the following members on the reporting date:

- Carl Ferdinand Oetker, Managing Partner of FO Holding GmbH, Bielefeld (Chairman)
- Jens Steegers, Chairman of the Worker's Council released from duty, Frankfurt am Main (Deputy Chairman; Employee representative)
- Dr. Eric Cornut, Independent Consultant, Binningen, Switzerland
- Halil Duru, Deputy Chairman of the Worker's Council released from duty, Frankfurt am Main (Employee Representative)
- Rolf Hoffmann, Adjunct Professor at University of North Carolina Kenan-Flagler Business School (Chapel Hill, USA), Weggis, Switzerland
- Dr. Birgit Kudlek, Manager in the Pharma Industry, Bad Soden
- Tina Müller, Chief Marketing Officer/Member of the Managing Directors Board Opel Group GmbH, Vice President, General Motors, Frankfurt am Main
- Dr. Ute Pantke, Director Special Brand Projects, Wettenberg (Employee Representative)
- Dr. Gunnar Riemann, Independent Business Consultant in the Life Science Industry, Berlin

The term in office of the shareholder representatives Carl Ferdinand Oetker and Dr. Eric Cornut will end with the completion of the Annual General Meeting 2018. The remaining shareholder representatives in the Supervisory Board were elected by the Annual General Meeting on August 26, 2016 until completion of the Annual General Meeting 2021. The employee representatives have been appointed until completion of the Annual General Meeting 2019.

Tasks and responsibilities

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

Working practices of the Supervisory Board

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

The Chairman of the Supervisory Board convenes the Supervisory Board in writing at least 14 days, which may be reduced in exceptional cases, prior to a meeting according to need. Meetings of the Supervisory Board should convene at least once per quarter and must convene twice within a half year (see also Section 16 (5) of the Articles of Incorporation). The meetings of the Supervisory Board and its committees shall as a rule be by personal attendance. In exceptional cases with good reason, the Chairman of the Supervisory Board can elect to hold the meetings of the Supervisory Board and its committees in the form of a telephone or video conference, or permit individual members of the Supervisory Board to participate via telephone or video connection.

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

Composition and working practices of the Supervisory Board committees

The Supervisory Board had four Supervisory Board committees in the reporting year: an Audit Committee, a Human Resources Committee, a Strategy Committee and a Nomination Committee.

- Audit Committee

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

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

  As of the reporting date, the Audit Committee consisted of the Supervisory Board members Dr. Gunnar Riemann (Chairman), Dr. Birgit Kudlek, Carl Ferdinand Oetker and Jens Steegers. As Chairman of the Audit Committee, Dr. Gunnar Riemann fulfills the above requirements of a so-called independent financial expert.

- Human Resources Committee

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

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

  The members of the Human Resources Committee on the reorting date were the Supervisory Board members Carl Ferdinand Oetker (Chairman), Halil Duru, Rolf Hoffmann and Tina Müller.

- Strategy Committee

  The Supervisory Board established a Strategy Committee on September 26, 2016. In cooperation with the Executive Board, the Strategy Committee advises on strategic perspectives, positioning and further development of the company and prepares fundamental decisions of the entire Supervisory Board. It deals with fundamental questions of Group strategy including the operating policy and business orientation of the Group. It monitors the competitive situation of the company and advises on possible strategy changes together with the Executive Board in this context. It supervises strategic processes and strategy implementation.

  As of the reporting date, the Strategy Committee consisted of Supervisory Board members Dr. Eric Cornut (Chairman), Rolf Hoffmann, Dr. Birgit Kudlek, Tina Müller and Dr. Ute Pantke.

- Nomination Committee

  In accordance with the German Corporate Governance Code, the Supervisory Board established a Nomination Committee on May 22, 2016. Its task is to make recommend suitable candidates for the election of shareholder representatives to Supervisory Board through the Annual General Meeting to the Supervisory Board and to manage the objectives for the composition of the Supervisory Board. The Nomination Committee deals exclusively with shareholder representatives. It meets when required. Its members do not receive any special committee remuneration.

  As of the reorting date, the Nomination Committee consisted of the shareholder representatives Carl Ferdinand Oetker (Chairman), Rolf Hoffmann and Tina Müller.

Prior to May 22, 2016, a Nomination Committee, consisting of the Chairman of the Human Resources Committee and the Audit Committee existed, with the task of developing objectives and a profile for the composition of the Supervisory Board.

The Supervisory Board Report contains more detailed information on its meetings and the focus of the Supervisory Board's activities and its committees.

Individualized disclosure of meeting participation

The Supervisory Board considers the individualized disclosure of participation in meetings of the Supervisory Board Plenum and the Supervisory Board committees as part of good corporate governance.

	Meeting participation	Attendance in %
Supervisory Board Plenum		
Dr. Martin Abend[1)]	9/9	100
Dr. Eckhard Brüggemann[1)]	8/9	88.88
Dr. Eric Cornut[2)]	7/7	100
Halil Duru	15/16	93.75
Dr. Arnold Hertzsch[1)]	9/9	100
Rolf Hoffmann[2)]	7/7	100
Dieter Koch[1)]	8/9	88.88
Dr. Birgit Kudlek[2)]	7/7	100
Constantin Meyer[1)]	9/9	100
Tina Müller[2)]	6/7	85.71
Carl Ferdinand Oetker	15/16	93.75
Dr. Ute Pantke	15/16	93.75
Dr. Gunnar Riemann[2)]	7/7	100
Jens Steegers	15/16	93.75

1) Member of the Supervisory Board until the end of the Annual General Meeting, August 26, 2016.
2) Member of the Supervisory Board since the end of the Annual General Meeting, August 26, 2016.

	Meeting participation	Attendance in %
Audit Committee		
Dr. Martin Abend[1)]	5/5	100
Dr. Arnold Hertzsch[1)]	5/5	100
Dr. Birgit Kudlek[2)]	3/3	100
Carl Ferdinand Oetker	8/8	100
Dr. Gunnar Riemann[2)]	3/3	100
Jens Steegers	7/8	87.5

	Meeting participation	Attendance in %
Human Resources Committee		
Dr. Martin Abend[1)]	3/3	100
Halil Duru	8/8	100
Rolf Hoffmann[2)]	5/5	100
Dieter Koch[1)]	3/3	100
Constantin Meyer[1)]	2/3	66.6
Tina Müller[2)]	5/5	100
Carl Ferdinand Oetker[3)]	5/5	100

	Meeting participation	Attendance in %
Strategy Committee (since September 26, 2016)		
Dr. Eric Cornut[2)]	1/1	100
Rolf Hoffmann[2)]	1/1	100
Dr. Birgit Kudlek[2)]	1/1	100
Tina Müller[2)]	1/1	100
Dr. Ute Pantke	1/1	100

	Meeting participation	Attendance in %
Nomination Committee (since May 22, 2016)		
Dr. Martin Abend[1)]	4/4	100
Rolf Hoffmann[2)]	0/0	–
Dieter Koch[1)]	3/4	75
Tina Müller[2)]	0/0	–
Carl Ferdinand Oetker	4/4	100

1) Member of the Supervisory Board until the end of the Annual General Meeting, August 26, 2016.
2) Member of the Supervisory Board since the end of the Annual General Meeting, August 26, 2016.
3) Member of the Human Resources Committee since September 26, 2016.

Objectives for the composition of the Supervisory Board

The Supervisory Board is to be composed in a manner that its members as a whole have the required knowledge, abilities and specialist experience in order to appropriately assume the tasks. Prior to the elections at the Annual General Meeting in 2013, the Supervisory Board established objectives for its composition and punctually updated these objectives in 2015.[1)] In terms of its composition and as part of the early new election of some of the shareholder representatives in financial year 2016, the Supervisory Board established the following requirements for the shareholder representatives:

1. General objectives, which apply to all Supervisory Board members

The members of the Supervisory Board are to fulfill the following general criteria:

- Fulfillment of the requirements of the German Stock Corporation Act and German Corporate Governance Code
- Professional excellence
- Independence in terms of STADA Arzneimittel AG and its major stakeholders
- Sufficient availability and commitment
- Very good knowledge of German and English
- Integrative communication, persuasiveness, common creative drive
- Modern understanding of business ethics and overall responsibility

2. Professional requirements that at least one Supervisory Board member must fulfill

The following professional criteria are each to be fulfilled by at least one Supervisory Board member:

- Pharmaceutical perspective, ideally trained as a pharmacist, pharmacologist or pharmaceutical-related natural scientist or a medical doctor
- Leadership experience in the European pharma industry
- Understanding of eastern European markets with a focus on CIS
- Expertise in the market for generics and biosimilar
- Leadership experience with various distribution channels, in particular in the non-food/fast-moving consumer goods sector
- Experience with trademarks/branding issues
- Strong finance background (e.g. experience in accounting, auditing financial statements, financing and capital market issues)
- Knowledge of relevant corporate law questions and important regulatory issues.

3. Balance criteria that the Supervisory Board (shareholder representatives) must fulfill overall as a Board

The following criteria must be fulfilled by the Supervisory Board (shareholder representatives) overall as Board:

- Age: Majority of the shareholder representatives born in 1956 or later, if possible no member born before 1951
- Board experience: Two to four of the shareholder representatives to be or have been on the Supervisory Board of a listed company
- Knowledge transfer and stability: At least two of the shareholder representatives to have been on the Supervisory Board of STADA Arzneimittel AG for several years
- Gender: At least two shareholder representatives are to be male/female.

The Supervisory Board continually monitors the currentness and implementation of the objectives for its composition.

With the current composition following the election of five new shareholder representatives by the Annual General Meeting of August 26, 2016, the Supervisory Board believes that the stated objectives in terms of the shareholder representatives are fulfilled.

1) See the 2015 Annual Report, page 41 ff.

As regards the number of independent members in accordance with Section 5.4.2 GCGC, the Supervisory Board continues to believe that all shareholder representatives in the Supervisory Board of STADA Arzneimittel AG should be independent. In the view of the Supervisory Board, this applies to all shareholder representatives with the exception Dr. Eric Cornut, who was elected to the Supervisory Board on the recommendation of shareholder Active Ownership Fund SICAV-FIS SCS.

At the beginning of financial year 2017, the newly composed Supervisory Board agreed the following general age limits and limits for the duration of membership of the Supervisory Board: "Supervisory Board members shall generally not hold their position for longer than the Annual General Meeting in the year after they turn 75 (general age limit). Election recommendations are to take into account the duration of membership of the Supervisory Board of three full terms (generally 15 years)." This stipulation is met in the current composition of the Supervisory Board.

The newly composed Supervisory Board decided in December 2016 as a Board to carry out, and detailed the decision in January 2017, a comprehensive effectiveness and efficiency audit in financial year 2017 that goes beyond the usual methods (see below), and plans to incorporate the findings in the designation process when the specific goals for its composition are updated. In connection with this, work on the competencies profile shall be extended to the Board as a whole. Competencies are distributed among the shareholders as follows:

Professional criteria[1]	Carl Ferdinand Oetker (Chair)	Dr. Eric Cornut	Rolf Hoffmann	Dr. Birgit Kudlek	Tina Müller	Dr. Gunnar Riemann
Pharmaceutical perspective (pharmacist/ pharmacologist)				■		■
Leadership experience in the European pharma industry		■	■	■		■
Understanding of Eastern European markets/CIS		■	■		□	■
International corporate background		■	■	□	■	■
Expertise in the market in Generics and Biosimilars	□		□	■		□
Leadership experience with various distribution channels, in particular non food/fast-moving consumer goods	□		□		■	□
Marketing/Branding know how		□			■	□
Financial expertise	■			□		■
Experience on public company Supervisory Boards	■		□	■	■	
Experience with M&A	■	□	□	□		□
Regulatory Experience (focus: pharma)		■	□	■		
Corporate Governance, Corporate Law & Compliance	□	■		□	□	

Conflicts of interest

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

1) ■ = fully applies.
□ = partially applies.

Efficiency review

The Supervisory Board regularly reviews the efficiency of its activities in accordance with Section 5.6 of the German Corporate Governance Code GCGC. Due to the major changes in its composition in financial year 2016, the Supervisory Board agreed in its December meeting to carry out a comprehensive effectiveness and efficiency audit in financial year 2017 that goes beyond the usual method of questionnaires, and to also enlist the services of an independent, external auditor (among other things to carry out structured one-on-one interviews, analyses and have discussions with the Board). The efficiency audit serves to evaluate the effectiveness and efficiency of the Supervisory Board. The objective is to critically evaluate the working practices and composition of the Board as well as to derive possible suggestions for improvement, including, in terms of optimizing work processes, the organization of the reporting system, as well as the improvement of the performance of the Supervisory Board as a monitoring body and the lawfulness of the Board's work.

Remuneration report

The principles of the remuneration system of the STADA Supervisory Board as well as individual details of the remuneration of individual members of the Supervisory Board are discussed in the Group Management Report of this Annual Report in the "Remuneration Report" chapter.

c) Advisory Board

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

4. Specifications of Section 76 (4) and Section 111 (5) AktG as well as information regarding whether the set targets were reached during the reference period and justification if not reached

In accordance with Section 76 (4) AktG and Section 111 (5) AktG, the Executive Board and the Supervisory Board have agreed the following targets for the proportion of women in the Supervisory Board, the Executive Board and the subsequent two management levels. The initial deadline for implementation is June 30, 2017.

a) Specifications by the Executive Board in accordance with Section 76 (4) AktG

In financial year 2015, the Executive Board agreed unanimously on the following targets for the proportion of women in the two management levels below the Executive Board of STADA Arzneimittel AG, in accordance with Section 76 (4) AktG:

The existing proportion of women in the first management level at 23.5% and at 25% in the second management level should at least be maintained for the period up to June 30, 2017. The first management level includes employees of STADA Arzneimittel AG who have personnel responsibility and a direct reporting line to the Executive Board, the second management level includes employees of STADA Arzneimittel AG with personnel responsibility and a direct reporting line to the first management level. As before, the Executive Board will continue to ensure an appropriate promotion of women to continually increase the proportion of women in management positions. The proportion of women of over 50% across the entire workforce of the STADA Group forms the basis for this. However, management positions are awarded primarily based on the professional and personal qualifications of the candidate, rather than based on gender.