STADA Arzneimittel Aktiengesellschaft

Annual Financial Statements as of December 31, 2016 and Management Report for **Financial Year 2016**

Brands for People

STADA

ANNUAL FINANCIAL STATEMENTS OF DECEMBER 31, 2016

MANAGEMENT REPORT FOR FINANCIAL YEAR 2016

FURTHER INFORMATION 2016

BALANCE SHEET

Balance Sheet as of December 31 in € Assets	Dec. 31, 2016	Dec. 31, 2015
A. Non-current assets		
I. Intangible assets		
1. Concessions acquired against payment, commercial property rights and similar rights and values as well as licenses for such rights and values	206,958,893.46	229,954,468.21
2. Goodwill	42,764,862.11	56,490,137.08
3. Advance payments	57,649,987.73	68,827,743.56
	307,373,743.30	**355,272,348.85**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings including buildings on third-party land	38,295,937.13	40,743,081.84
2. Plant and tools and machinery equipment	9,996,392.65	11,931,551.94
3. Other fixtures and fittings, tools and equipment	10,639,587.93	10,983,957.54
4. Advance payment and construction in progress	419,815.10	670,617.22
	59,351,732.81	64,329,208.54
III. Financial assets		
1. Shares in associates	1,278,411,933.86	1,270,760,911.51
2. Loans to associates	558,298,291.05	559,363,183.43
3. Investments	19,349,690.51	11,934,883.51
	1,856,059,915.42	**1,842,058,978.45**
	2,222,785,391.53	**2,261,660,535.84**
B. Current assets		
I. Inventories		
1. Materials and supplies	8,117,297.44	9,368,382.77
2. Work in progress	5,029,725.12	6,070,157.15
3. Finished goods and merchandise	34,740,870.47	44,075,869.07
4. Advance payments	1,460,800.37	2,201,914.11
	49,348,693.40	**61,716,323.10**
II. Receivables and other assets		
1. Trade accounts receivable	2,624,112.46	2,526,518.74
2. Receivables from associates	471,846,947.57	371,775,892.35
3. Receivables from associates and other participating interests	175,613.70	201,683.96
4. Other assets	10,785,662.96	26,648,347.53
	485,432,336.69	**401,152,442.58**
III. Cash on hand and balances with banks	**179,898,335.71**	**5,610,451.60**
	714,679,365.80	**468,479,217.28**
C. Prepaid expenses/deferred charges	**3,422,134.28**	**4,965,962.26**
	2,940,886,891.61	**2,735,105,715.38**

BALANCE SHEET

Balance Sheet as of December 31 in € Equity and Liabilities	Dec. 31, 2016	Dec. 31, 2015
A. Equity		
I. Share Capital	**162,090,344.00**	**162,090,344.00**
Treasury shares	-221,111.80	-226,873.40
Issued capital **– Conditional Capital: € 69,188,340 (previous year: € 69,188,340)**	**161,869,232.20**	**161,863,470.60**
II. Capital reserve	**519,579,535.61**	**519,538,625.57**
III. Retained earnings		
1. Statutory reserve	376,883.98	376,883.98
2. Other retained earnings	150,551,551.00	150,517,757.00
IV. Distributable profit	**67,032,635.51**	**59,139,388.83**
	899,409,838.30	**891,436,125.98**
B. Provisions		
1. Provisions for pensions and similar obligations	7,830,730.99	7,627,938.91
2. Tax provisions	17,730,433.85	1,929,879.07
3. Other provisions	88,355,741.93	116,114,570.52
	113,916,906.77	**125,672,388.50**
C. Liabilities		
1. Bonds, of which convertible € 0.00 (previous year € 0.00)	650,000,000.00	650,000,000.00
2. Liabilities to banks	779,000,021.41	672,926,911.93
3. Liabilities to other suppliers	31,475,434.74	33,015,062.72
4. Liabilities to associates	434,792,467.73	321,945,863.03
5. Liabilities to associates and other participating interests	0.00	8,920,000.00
6. Other liabilities – thereof from taxes: € 2,722,755.90 (previous year: € 1,359,297.96) – thereof in the context of social security: € 0.00 (previous year: € 0.00)	32,292,222.66	31,189,363.22
	1,927,560,146.54	**1,717,997,200.90**
	2,940,886,891.61	**2,735,105,715.38**

INCOME STATEMENT

Income statement for the period of Jan. 1 to Dec. 31 in €	2016	2015
1. Sales	438,111,407.48	393,338,531.75
2. Increase in inventories of finished goods and work in progress	794,962.58	0.00
Decrease in inventories of finished goods and work in progress	0.00	2,091,100.04
3. Other operating income – thereof from currency translation: € 40,978,477.14 (previous year: € 51,636,909.26)	80,046,009.62	111,229,461.40
	518,952,379.68	**502,476,893.11**
4. Cost of materials		
a) Cost of materials and supplies and goods purchased	159,513,031.63	164,449,759.00
b) Expenses for services	16,172,934.69	0.00
	175,685,966.32	**164,449,759.00**
5. Personnel expenses		
a) Salaries	85,425,742.80	78,057,327.45
b) Social security contributions and expenses for retirement benefits and support – thereof for retirement benefits: € 1,021,524.89 (previous year: € 1,751,691.51)	11,062,937.12	12,208,795.84
	96,488,679.92	**90,266,123.29**
6. Amortization/depreciation on non-current intangible assets and property, plant and equipment	87,720,091.68	74,300,584.70
7. Other operating expenses – thereof from currency translation: € 40,723,922.25 (previous year: € 51,879,360.56)	237,823,330.56	257,323,759.54
8. Investment income – thereof from associates: € 51,018,471.59 (previous year: € 60,300,000.00)	51,018,471.59	60,300,000.00
9. Income from profit transfer agreements	73,481,176.27	61,855,894.08
10. Income from loans – thereof from associates: € 36,750,433.02 (previous year: € 35,589,324.58)	36,750,433.02	35,597,427.36
11. Other interest and similar income – thereof from associates: € 26,340,740.49 (previous year: € 30,967,645.05)	28,372,411.80	33,923,718.48
12. Depreciation on financial assets	9,777,411.15	20,153,598.73
13. Interest and similar expenses – thereof from associates: € 74,092.33 (previous year: € 64,524.29)	35,659,814.74	40,634,078.12
14. Taxes on income and earnings	13,853,462.43	-2,391,999.13
15. **Earnings after taxes**	**51,566,115.56**	**49,418,028.78**
16. Other taxes	93,304.88	-358,591.98
17. **Net profit**	**51,472,810.68**	**49,776,620.76**
18. Profit brought forward from the previous year	15,559,824.83	9,362,768.07
19. **Distributable profit**	67,032,635.51	**59,139,388.83**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2016 OF STADA ARZNEIMITTEL AG

Accounting requirements applied

In accordance with Section 267 HGB, STADA Arzneimittel AG, Bad Vilbel, Germany (District Court Frankfurt am Main, HRB 71290) is a major incorporated body. In addition to general requirements to the books of account (Sections 238 ff. of the German Commercial Code in the German Accounting Directive Implementation Act, BilRUG), the supplementing requirements for incorporated bodies with regard to annual financial statements and management report (Sections 264 ff. of the German Commercial Code) and the supplementing regulations of the German Stock Corporation Act (Aktiengesetz, AktG) apply.

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

Accounting policies

Intangible assets acquired against payment are recognized at cost less scheduled, and, to the extent necessary, unscheduled amortization, generally with application of the straight-line method. Intangible assets are amortized over a useful lifetime of three to 15 years. Intangible assets reported by STADA Arzneimittel AG include drug approvals, brands, licenses, marketing rights, software and goodwill. Internally-created intangible assets are not capitalized.

Property, plant and equipment are also recognized at cost less depreciation over their useful life and generally depreciated using the straight-line method. The cost of self-constructed assets includes directly attributable costs as well as appropriate proportions of overhead costs. To the extent necessary, unscheduled depreciation was carried out.

Useful life of property, plant and equipment:	Expected depreciation
Factory and office buildings	15 to 50 years
Operating facilities	10 to 15 years
Plant and office furniture and equipment	3 to 13 years

Movable assets with a limited life of up to € 150 are fully depreciated in the year they were added. Independently usable movable assets with a limited life from € 150 to € 1,000 are allocated to a compound item that is reversed over five years. At the time they become fully amortized, these assets are reported as a disposal in the assets analysis. For simplification, the compound tax item method is also reported in the commercial balance sheet.

Financial assets are recognized at cost or in the case of expected long-term impairment, if it is lower than cost, at fair value. If the reasons for impairment are completely or partially inapplicable and if a value adjustment was carried out in the previous years, a reversal of an impairment loss is carried out, up to a maximum of the historical cost.

Inventories are measured at cost. Alongside individual costs, cost includes production overheads, material overheads and depreciation and amortization on fixed assets as well as administrative expenses on a pro rata basis. Cost does not include interest on borrowings. The inventories are written down at the end of the reporting period provided the market value is lower. Inventory risks resulting from the storage period are taken into account.

Receivables, other assets and cash are recognized at nominal value. For receivables, identifiable risks are accounted for through appropriate individual valuation adjustments. General credit risks are sufficiently accommodated with a general bad debt provision. Low-interest or non-interest-bearing items with a remaining maturity of more than one year are discounted. Existing cash and cash equivalents in foreign currency are measured at the mean spot exchange rate.

For financial instruments that are hedged (hedged item and hedging transaction), the net hedge presentation or the real-time update method was used. In the real-time update method, unrealized losses were not booked that resulted from hedged risks provided they are matched with unrealized gains in the same amount.

Prepaid expenses include the discount that resulted from the difference between the settlement amount and the lower issue price of a financial liability. The discount is depreciated over the period of the financial liability.

Pension provisions were measured using actuarial techniques in accordance with the Projected Unit Credit Method (PUC). In the case of pension obligations, use was made of the option to apply as a discount rate the average market interest rate determined and published by the German Central Bank with a 15-year term. The covered funds were offset against the pension provisions. The offset-covered funds are measured at fair value.

Tax and other provisions are recognized at the settlement amount necessary based on reasonable commercial judgment, taking into account any identifiable risks and uncertain obligations. Price and cost increases expected in the future were taken into account. Provisions with a remaining term of over one year were discounted in accordance with the average market interest rate of the last seven years.

Liabilities are reported at nominal value or the higher settlement amount.

Foreign currencies are translated on the day they originate, at their bid price for receivables and their asking price for liabilities.

Receivables and liabilities in foreign currencies were measured at nominal value or the settlement amount at the mean spot exchange rate as of the reporting date. Gains are only taken into account if they relate to receivables and liabilities with a remaining term of up to one year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2016

Balance Sheet

1. Fixed assets

For the development of fixed assets in 2016 including cumulated cost and cumulated depreciation, please see the following assets analysis.

Statement of changes in non-current assets of STADA Arzneimittel AG as of Dec. 31, 2016 in €	As of Jan. 1, 2016	Historic costs of acquisition Additions 2016	A	Disposals Reclassifications 2016	D R	As of Dec. 31, 2016
Non-current assets						
I. Intangible assets						
1. Concessions acquired against payment, commercial property rights and similar rights and values, as well as licenses for such rights and values	597,187,098.53	11,629,524.89	A	313,675.14 30,177,711.98	D R	638,680,660.26
2. Goodwill	94,848,304.33	0.00	A	0,00		94,848,304.33
3. Advance payments made	103,325,017.73	20,927,107.83	A	250,000.00 30,177,711.98	D R	93,824,413.58
	795,360,420.59	**32,556,632.72**		**563,675.14**		**827,353,378.17**
II. Property, plant and equipment						
1. Land, leasehold rights and buildings including buildings on third-party land	70,126,265.24	26,763.17	A	0.00		70,153,028.41
2. Plant and tools and machinery equipment	33,691,749.89	521,881.21	A	243,804.31	D	33,969,826.79
3. Other fixtures and fittings, tools and equipment	44,074,957.52	2,090,987.52	A	154,464.45 74,434.45	D R	46,085,915.04
4. Advance payment and construction in progress	670,617.22	419,683.24	A	596,050.91 74,434.45	D R	419,815.10
	148,563,589.87	**3,059,315.14**		**994,319.67**		**150,628,585.34**
III. Financial assets						
1. Shares in associates	1,353,741,124.12	9,684,995.60	A	5,500,000.00	D	1,357,926,119.72
2. Loans to associates	559,363,183.43	0.00	A	1,064,892.38	D	558,298,291.05
3. Investments	19,349,690.51	0.00	A	0.00	D	19,349,690.51
	1,932,453,998.06	**9,684,995.60**		**6,564,892.38**		**1,935,574,101.28**
	2,876,378,008.52	**45,300,943.46**		**8,122,887.19**		2,913,556,064.79

As of Jan. 1, 2016	Accumulated amortization: Additions Write-ups 2016	A W	Accumulated amortization: Disposals Reclassifications 2016	D R	As of Dec. 31, 2016	Residual carrying amount Dec. 31, 2016	Residual carrying amount Dec. 31, 2015
367,232,630.32	64,319,300.03	A	247,970.64 417,807.09	D R	431,721,766.80	206,958,893.46	229,954,468.21
38,358,167.25	13,725,274.97	A	0.00	D	52,083,442.22	42,764,862.11	56,490,137.08
34,497,274.17	2,344,958.77	A	250,000.00 417,807.09	D R	36,174,425.85	57,649,987.73	68,827,743.56
440,088,071.74	**80,389,533.77**		**497,970.64**		**519,979,634.87**	**307,373,743.30**	**355,272,348.85**
29,383,183.40	2,473,907.88	A	0.00	D	31,857,091.28	38,295,937.13	40,743,081.84
21,760,197.95	2,379,153.89	A	165,917.70	D	23,973,434.14	9,996,392.65	11,931,551.94
33,090,999.98	2,477,496.14	A	122,169.01	D	35,446,327.11	10,639,587.93	10,983,957.54
0.00	0.00	A	0.00	D	0.00	419,815.10	670,617.22
84,234,381.33	**7,330,557.91**		**288,086.71**		**91,276,852.53**	**59,351,732.81**	**64,329,208.54**
82,980,212.61	9,777,411.15 11,345,067.85	A W	1,898,370.05	D	79,514,185.86	1,278,411,933.86	1,270,760,911.51
0.00	0.00	A	0.00	D	0.00	558,298,291.05	559,363,183.43
7,414,807.00	7,414,807.00	W	0.00	D	0.00	19,349,690.51	11,934,883.51
90,395,019.61	**-8,982,463.70**		**1,898,370.05**		**79,514,185.86**	**1,856,059,915.42**	**1,842,058,978.45**
614,717,472.68	78,737,627.98		2,684,427.40		690,770,673.26	2,222,785,391.53	**2,261,660,535.84**

The useful life of twelve years for goodwill takes account of the future economic benefits in the intangible assets. The useful lives of individual items of goodwill were determined on the basis of the expected economic benefits of acquired businesses and are oriented towards the useful lives of product rights purchased via acquisition and evaluated by an expert.

2. Trade accounts receivable

The item includes receivables in the amount of € 0.00 (previous year: € 0.00) with a remaining term of more than one year.

3. Receivables from associates and participating interests

As of the reporting date, there are loan receivables in the amount of € 2,287,931.47 (previous year: € 63,362,959.74) with a remaining term of more than one year. All other trade receivables (€ 201,287,714.65; previous year: € 141,496,519.35) and additional loans to associates (€ 268,271,301.45; previous year: € 166,916,413.26) have a remaining term of up to one year.

The item "Receivables from associates and other participating interests" exclusively comprises, as in the previous year, trade accounts receivable with a remaining term of up to one year (€ 175,613.70; previous year: € 201,683.96).

4. Other assets

The item in the amount of € 10,785,662.96 (previous year: € 26,648,347.53) includes tax receivables in the amount of € 84,214.57 (previous year: € 9,887,137.15). Other receivables from associates in the amount of € 5,161,140.78 (previous year: € 2,692,285.69) were recorded. Other assets include receivables with a term of more than one year in the amount of € 234,141.26 (previous year: € 117,070.63).

5. Accrued items

As of the reporting date, there are accrued receivables from accruals of interest-bearing transactions in the amount of € 2.1 million and deferred liabilities in the amount of € 19.0 million.

6. Prepaid expenses/deferred charges

Prepaid expenses/deferred charges include a discount in the amount of € 1,920,800.15 (previous year: € 2,584,433.92) as well as proportionate expenses for the next year in the amount of € 1,501,334.13 (previous year: € 2,381,528.34).

7. Deferred taxes

From 2010, deferred taxes are created for temporary differences between the commercial and tax valuation rates of assets, liabilities or prepaid expenses/deferred charges. The income tax rate (consisting of corporation tax, solidarity surcharge and trade tax) used for deferral of taxes amounts to 28.32%. In the case of deferred taxes, use is made of the option not to recognize the active excess resulting from the comparison of balance sheet items after offsetting the deferred tax assets and liabilities.

Deferred taxes are therefore also not included in tax expenses.

Deferred tax liabilities primarily result from differing valuation rates of tangible assets and financial assets. Deferred tax assets primarily result from differing valuation rates of intangible assets.

8. Equity

Share capital

Share capital amounts to € 162,090,344.00 (previous year: € 162,090,344.00) and is divided into 62,342,440 registered shares, each with an arithmetical share in share capital of € 2.60 and was thereby unchanged from the previous year. Offsetting against treasury shares in the amount of € 221,111.80 results in a recognized share capital of € 161,869,232.20 as of December 31, 2016.

As of December 31, 2016, the Company had knowledge of the following notices on voting rights of at least 3%:

The Goldman Sachs Group Inc., Wilmington, Delaware, USA, reported, in accordance with Section 25a (1) WpHG in the version valid until November 25, 2015, a share in voting rights of 4.64% since June 2, 2015.

Société Générale Effekten GmbH, Frankfurt, Germany, reported, in accordance with Section 25 (1) of the WpHG in the version valid to November 25, 2015, a share in voting rights of 4.87% since October 2, 2015.

Société Générale S.A., Paris, France, reported, in accordance with Section 25 (1) WpHG in the version valid from November 26, 2015, a share in voting rights of 3.70% since December 18, 2015.

In accordance with Section 21 (1) and Section 22 WpHG, Mr. Florian Schuhbauer reported a share in voting rights of 6.98% since March 24, 2016, of which 5.05% was attributable to the shareholder in accordance with Section 22 (1) Sentence 1 No. 6 of the WpHG.

In accordance with Section 21 (1) and Section 22 WpHG, Mr. Klaus Röhrig reported a share in voting rights of 6.98% since March 24, 2016, of which 5.05% was attributable to the shareholder in accordance with Section 22 (1) Sentence 1 No. 6 of the WpHG.

BNY Mellon Service Kapitalanlage-Gesellschaft mbH, Frankfurt, Germany, reported, in accordance with Section 21 (1) and Section 22 of the WpHG, a share in voting rights of 7.02% since March 24, 2016, of which 5.09% was attributable to the shareholder in accordance with Section 22 (1) Sentence 1 No. 6 of the WpHG.

Deutsche Bank Aktiengesellschaft, Frankfurt, Germany, reported, in accordance with Section 21 (1) WpHG, a share in voting rights of 4.63% since May 24, 2016.

The Company had not received any further notices from the aforementioned companies by December 31, 2016.

Authorized Capital

In accordance with the resolution of the Annual General Meeting of June 5, 2013, there is Authorized Capital in the amount of € 77,134,304.00. According to this resolution, the Executive Board, with approval of the Supervisory Board, is authorized until June 4, 2018 to increase the Company's share capital once or repeatedly by up to € 77,134,304.00 by issuing up to 29,667,040 registered shares[1)] against cash or non-cash contributions.

Conditional Capital

The share capital is conditionally increased by up to € 69,188,340.00 by issuing up to 26,610,900 registered shares[1)] and carrying a dividend right as of the beginning of the financial year in which they are issued. The Conditional Capital increase serves the purpose of granting shares to the holders or creditors of bonds with warrants and/or convertible bonds issued by the Company or a subordinated group company on the basis of the authorization of the Annual General Meeting of June 5, 2013 (Conditional Capital 2013).

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. 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.

Capital reserve

Capital reserve amounts to € 519,579,535.61 (previous year: € 519,538,625.57). The change compared to the previous year results from the gain on disposal of treasury shares in the context of an employee stock ownership program (€ 40,910.04).

Retained earnings

Other retained earnings in the amount of € 150,551,551.00 (previous year: € 150,517,757.00) primarily include allocations from net profit. The change compared to the previous year results from disposal of treasury shares in the context of an employee stock ownership program (€ 33,794.00).

Treasury shares

As of the reporting date, the Company held 85,043 treasury shares, each with an arithmetical par value of € 2.60. This is equivalent to a share capital of € 221,111.80 or 0.14% of share capital. As of December 31, 2015, the Company held 87,259 treasury shares.

In 2016, 2,216 shares were sold and no shares were purchased. The resulting gain in the amount of € 40,910.04 was added to the capital reserve. Treasury shares were exclusively issued to employees in the context of an employee stock ownership program. The proceeds from the disposal of treasury shares led to an inflow to the operating business.

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

Following the resolution adopted at the Annual General Meeting on June 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.

Disposal of treasury shares

Disposal date	Number	% of share capital	Arithmetical share in share capital (in €)	Disposal price (in €)	Disposal earnings (in €)
January	167	0.0%	434.20	5,809.19	2,828.24
February	1,008	0.0%	2,620.80	30,606.51	12,613.71
March	164	0.0%	426.40	5,141.29	2,213.89
September	98	0.0%	254.80	4,731.94	2,982.64
October	12	0.0%	31.20	568.80	354.60
November	283	0.0%	735.80	12,456.07	7,404.52
December	484	0.0%	1,258.40	21,151.84	12,512.44
Total	2,216	0.0%	5,761.60	80,465.64	40,910.04

9. Provisions

Pension provisions were calculated in accordance with actuarial principles based on the biometric accounting principles of the 2005 G mortality tables by Dr. Klaus Heubeck as well as based on an interest rate of 4.01% p.a. and a pension trend of 1.75% p.a.

As a result of the new regulations of the law for the implementation of the mortgage credit directive, pension obligations were discounted using the average market interest rate of the past ten years, as calculated and published by the German Central Bank. In the previous year, the average market interest rate of the past seven years, as published by the German Central Bank, was applied. The difference totaled € 1,245,000 in accordance with Section 253 (6) HGB Sentence 1. The difference from the change compared with the beginning of the year as a result of the BilMOG in the amount of € 602,000 was fully recognized through profit and loss.

Liabilities from pension commitments are partially secured by assets (reinsurance policy). Assets removed from the claims of other creditors were offset against the underlying liabilities.

The total settlement amount of pension commitments amounts to € 11,891,000. The fair value of the pledged reinsurance policy amounts to € 4,060,000. € 460,000 was offset against income in the amount of € 129,000 in the financial result in the reporting year.

Other provisions particularly include expenses in the area of personnel of € 16,275,000 (previous year: € 11,921,000), for warranties of € 6,855,000 (previous year: € 11,162,000), for outstanding accounts of € 19,289,000 (previous year: € 13,916,000) and for outstanding settlements from health insurance organizations resulting from discount agreements with these insurance organizations of € 16,589,000 (previous year: € 49,529,000).

10. Bonds

In 2013, a non-convertible bond with a nominal value of € 350 million was issued. The bond has a term of five years.

A second, also non-convertible bond with a nominal value of € 300 million was issued in 2015. This bond also has a term of seven years.

11. Liabilities to banks

Remaining maturities of financial liabilities due to banks in € million	**up to 1 year (previous year)**	**1 to 5 years (previous year)**	**over 5 years (previous year)**
Amounts due to banks	89.0 (238.9)	628.5 (434.0)	61.5 (0.0)

12. Trade and other payables

Remaining maturities of trade payables in € million	**up to 1 year (previous year)**	**1 to 5 years (previous year)**	**over 5 years (previous year)**
Liabilities to associates	434.8 (321.9)	0.0 (0.0)	0.0 (0.0)
Liabilities to associates and other participating interests	0.0 (8.9)	0.0 (0.0)	0.0 (0.0)
Liabilities to other suppliers	31.5 (33.0)	0.0 (0.0)	0.0 (0.0)
Other participating interest	32.3 (31.1)	0.0 (0.1)	0.0 (0.0)

Liabilities to associates include loan liabilities in the amount of € 273 million (previous year: € 232 million), the remaining liabilities result from trade accounts, as in the previous year.

Liabilities to associates and other participating interests related to loan liabilities in the previous year.

Other liabilities to associates in the amount of € 6,246,928.36 (previous year: € 11,306,410.77) were recorded.

13. Income statement

Sales in 2016 of STADA Arzneimittel AG of € 438,111,000 were recorded in accordance with the new definition of Section 277 (1) HGB of BilRUG and include an international share of € 152,578,000, of which € 141,945,000 was attributable to Europe, € 4,532,000 to MENA and € 6,101,000 to Asia. As a result of a change to Section 277 (1) HGB, in 2016 revenue from trade receivables, which are not typical for the company, were recorded in sales for the first time. Sales can be broken down into the following activities:

in € 000s	2016	2015 (Section 277 [1], revised edition)	2015
Sales from the delivery of goods	301,136	288,652	288,652
License revenue	29,274	24,755	24,755
Sale of approvals	0	0	0
Services	107,701	109,086	79,932
Total	**438,111**	**422,493**	**393,339**

The prior year's figure of € 393,339,000 was adjusted by € 29,154,000 to € 422,493,000. In line with the reclassifications of sales in accordance with Section 277 (1) HGB (revised), in the previous year expenses of € 19,740,000 were incurred for services, which are not typical for business activities, and were reported under other operating expenses. In 2016, these expenses were presented in cost of materials.

Other operating income included income outside of the reporting period from credits in the amount of € 94,000 (previous year: € 154,000) as well as € 6,047,000 (previous year: € 1,893,000) from the reversal of provisions.

In addition, other operating income from the sale of non-current assets in the amount of € 142,000 (previous year: € 0) as well as income from write-ups of financial assets in the amount of € 18,760,000 are recognized (previous year: € 2,242,000).

Unscheduled depreciation on non-current assets was at € 46,242,000 in financial year 2016 (previous year: € 31,174,000). Unscheduled amortization of financial assets amounted to € 9,777,000 in financial year 2016 (previous year: € 20,154,000).

Other operating expenses include expenses from outside of the reporting period for additional payments of € 77,000 (previous year: € 324,000).

14. Other notes and disclosures

In 2016, the average number of employees was 877, including

- 3 employees in warehousing and shipping,
- 290 employees in production and packaging,
- 584 employees in administration.

The appointment and dismissal of Executive Board members is subject to the provisions of Section 84 of the German Stock Corporation Act. The members of the Executive Board are or were:

- Dr. Matthias Wiedenfels, Chairman since June 5, 2016
- Helmut Kraft, Chief Financial, Marketing & Sales Officer
- Hartmut Retzlaff (Chairman until June 5, 2016, left the company August 15, 2016)

The Executive Board members held the following mandates during the financial year 2016:

Dr. Matthias Wiedenfels was Managing Director of STADA LUX S.à. R.L. (until December 31, 2016) and a Member of the Board of Directors of Spirig HealthCare AG and Pegach AG (until November 15, 2016).

Helmut Kraft is also member of the Regional Advisory Board Central of Commerzbank AG, Member of the Supervisory Board of BIOCEUTICALS Arzneimittel AG, Member of the Supervisory Board/Board of Directors of STADA Vietnam J.V. Co., Ltd., S.A. Eurogenerics N.V. (since June 5, 2016) and Clonmel Healthcare Ltd. (since June 6, 2016).

Hartmut Retzlaff was a Member of the Executive Board of STADA Arzneimittel AG until August 15, 2016, Member of the Administrative Board of HSBC Trinkaus & Burkhardt AG, Member of the Supervisory Board/Board of Directors of SA Eurogenerics N.V. (until June 5, 2016), STADA Pharmaceuticals (Asia) Ltd. (until August 15, 2016), Clonmel Healthcare Limited (until June 6, 2016), STADA Financial Investments Limited (until June 6, 2016) and an Authorized Representative in Members Council of STADA Vietnam J.V. Co., Ltd. (until December 31, 2016).

15. Remuneration of the Executive Board and the Supervisory Board

In financial year 2016, total compensation paid to the Executive Board amounted to € 7,734,000 for STADA Arzneimittel AG (previous year: € 4,937,000[1)]).

In financial year 2016, total compensation paid to the Supervisory Board amounted to € 1,072,000 for STADA Arzneimittel AG (previous year: € 1,073,000).

Remuneration to former members of the Executive Board amounted to a total of € 7,435,000 in financial year 2016.

Current pension provisions for former Executive Board members for financial year 2016 amounted to € 9,264,000 before the netting with the actuarial reserve.

There were no loans granted to members of the Executive Board and Supervisory Board at STADA Arzneimittel AG as of the reporting date, nor has STADA taken on any contingent liabilities for the benefit of the Board members of STADA Arzneimittel AG.

1) No progress payments on the variable long-term special remuneration were made for financial year 2015.

16. Information on the Company's Supervisory Board

Composition of the Supervisory Board and its committees

The members of the Supervisory Board during financial year 2016 were:

- Carl Ferdinand Oetker, Managing Partner of FO Holding GmbH, Bielefeld (Chairman since August 26, 2016; Deputy Chairman until August 26, 2016)
- Jens Steegers, Chairman of the Worker's Council released from duty, Frankfurt am Main (Deputy Chairman since August 26, 2016; Employee representative)
- Dr. Eric Cornut, Independent Consultant, Binningen, Switzerland, member since August 26, 2016
- 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, member since August 26, 2016
- Dr. Birgit Kudlek, Manager in the Pharma Industry, Bad Soden, member since August 26, 2016
- Tina Müller, Chief Marketing Officer / Member of the Managing Directors Board Opel Group GmbH, Vice President, General Motors, Frankfurt am Main, member since August 26, 2016
- Dr. Ute Pantke, Director Special Brand Projects, Wettenberg (Employee Representative)
- Dr. Gunnar Riemann, Independent Business Consultant in the Life Science Industry, Berlin, member since August 26, 2016
- Dr. Martin Abend, Attornay, Dresden (Chairman until August 26, 2016), member until August 26, 2016
- Dr. med. Eckhard Brüggemann, Doctor, in retirement, Herne, member until August 26, 2016
- Dr. K. F. Arnold Hertzsch, Self-employed pharmacist, Dresden, member until August 26, 2016
- Dieter Koch, Pharmacist, Kiel, member until August 26, 2016
- Constantin Meyer, Self-employed pharmacist, Seelze, member until August 26, 2016

Halil Duru, Dr. Ute Pantke and Jens Steegers are Supervisory Board members who were elected by the employees as their representatives.

Mandates of Supervisory Board members

Carl Ferdinand Oetker

- Membership in German supervisory boards that are to be constituted by law
  - König & Bauer AG (Member of the Supervisory Board and the Audit Committee until December 31, 2016)
- Membership in comparable German and foreign boards with controlling authority of commercial enterprises
  - Cloverfield Inc. (Chairman of the Board of Directors, non-executive)
  - Erfurter Teigwaren GmbH (Member of the Advisory Board)
  - EWABO Chemikalien GmbH & Co. KG (Chairman of the Advisory Board until January 9, 2017)
  - Hela Gewürzwerk Hermann Laue GmbH (Member of the Advisory Board)
  - Wink Stanzwerkzeuge GmbH & Co. KG (Member and Chairman of the Advisory Board until December 31, 2016)

Rolf Hoffmann

- Membership in comparable German and foreign boards with controlling authority of commercial enterprises
  - Genmab A/S, Denmark (Board Observer in the Supervisory Board since August 3, 2016)

Dr. Birgit Kudlek

- Membership in German supervisory boards that are to be constituted by law
  - WILEX AG (Member of the Supervisory Board)

Tina Müller

- Membership in German supervisory boards that are to be constituted by law
  - MLP AG (Member of the Supervisory Board)

The remaining members of the Supervisory Board do not hold any additional mandates in connection with memberships in supervisory boards that are to be constituted by law or in comparable German and foreign boards with controlling authority of commercial enterprises.

17. Information on the Company's Advisory Board

Composition of the Advisory Board

The members of the Advisory Board during financial year 2016 were:

- Dr. Thomas Meyer, Pharmacist, Seelze (Chairman)
- Dr. med. Frank-R. Leu, Doctor, Giessen (Deputy Chairman)
- Rika Aschenbrenner, Pharmacist, Mainburg
- Wolfgang Berger, Pharmacist, Giessen
- Gerd Berlin, Pharmacist, Hassloch
- Alfred Böhm, Pharmacist, Munich
- Jürgen Böhm, Doctor, Kirchhain
- Axel Boos, Pharmacist, Darmstadt
- Dr. Wolfgang Schlags, Pharmacist, Mayen
- Jürgen Schneider, Manager, Offenbach
- Reimar Michael von Kolczynski, Pharmacist, Stuttgart

18. Contingent liabilities pursuant to Section 251 of the German Commercial Code

At the reporting date, there were contingent liabilities pursuant to Section 251 of the German Commercial Code of € 46,184,407.43 (previous year: € 52,164,337.45). Of this, € 18,150,481.98 (previous year: € 26,481,752.19) relates to contingent liabilities from guarantees to associates.

Due to an ongoing evaluation of the risk situation and in view of the findings gathered until the reporting date, STADA Arzneimittel AG assumes that the liabilities underlying the contingent liabilities will be met. Utilization of contingent liabilities is considered to be unlikely.

19. Transactions not included in the balance sheet and other financial obligations

Remaining other financial liabilities from lease, rental and other service agreements amount to € 31,581,565.71.

Maturities of remaining other financial liabilities:

in € million	
2017	15.4
2018	5.7
2019	5.0
2020	4.7
2021	0.8
After 2021	0.0

As of the reporting date, STADA Arzneimittel AG had transferred the majority of trade accounts receivable for the improvement of liquidity to an external third party. As the contract also transferred the risks of collectability to the buyer (real factoring), there are no liabilities to be recognized by STADA Arzneimittel AG from this transfer.

There is an order obligation from liabilities for future expenses and investments in the amount of € 43.6 million.

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

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

1) Direct investments of STADA Arzneimittel AG

	Earnings 2016	Equity	Equity interest in %
Germany[1]			
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel	EUR 0	kEUR 253	100%
BIOCEUTICALS Arzneimittel AG, Bad Vilbel	kEUR 6,193	kEUR 42,107	15.86%
Mobilat Produktions GmbH, Pfaffenhofen	EUR 0	kEUR 256	100%
STADA Aesthetics Deutschland GmbH, Bad Homburg	kEUR 147	kEUR 172	100%
STADA GmbH, Bad Vilbel	EUR 0	kEUR 359	100%
STADA Pharma International GmbH, Bad Vilbel	EUR 0	kEUR 31	100%
STADApharm GmbH, Bad Vilbel	EUR 0	kEUR 154	100%
International[2]			
AO Nizhpharm, Nizhny Novgorod, Russia[3]	kRUB 2,139,595	kRUB 17,217,309	100%
Ciclum Farma, Unipessoal, LDA, Paco de Arcos, Portugal	kEUR 356	kEUR 4,711	100%
Crinos S.p.A., Milan, Italy	kEUR -1,151	kEUR 25,417	96.77%
EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, France	kEUR -1,511	kEUR 46,737	100%
EG S.p.A., Milan, Italy	kEUR 5,204	kEUR 68,413	98.87%
Grunenthal Ukraine LLC, Kiev, Ukraine[4]	–	–	100%
Laboratorio STADA, S.L., Barcelona, Spain	kEUR 3,568	kEUR 61,555	100%
Laboratorio Vannier S.A., Buenos Aires, Argentina	kARS 8,324	kARS 44,542	85%
OOO Hemofarm, Obninsk, Russia	kRUB 363,928	kRUB 2,760,145	10%
OOO STADA Marketing, Nizhny Novgorod, Russia[3]	kRUB -17,788	kRUB 4,493	10%
SCIOTEC Diagnostic Technologies GmbH, Tulln an der Donau, Austria[3]	kEUR 7,977	kEUR 9,444	100%
STADA Aesthetics Belgique (BVBA), Brussels, Belgium[4]	–	–	100%
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria[3]	kEUR 729	kEUR 5,858	100%
STADA d.o.o., Ljubljana, Slovenia	kEUR 42	kEUR 467	100%
STADA d.o.o., Zagreb, Croatia	kHRK 553	kHRK 4,281	100%
STADA Egypt Ltd., Cairo, Egypt[4]	–	–	83.33%
STADA LUX S.à R.L., Luxembourg, Luxembourg	kEUR 1	kEUR 7	100%
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria[4]	–	–	100%
STADA PHARMA CZ s.r.o., Prague, Czech Republic	kCZK 4,432	kCZK 240,688	100%
STADA Pharma Services India Private Limited, Mumbai, India[4]	–	–	85%
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia	kEUR 337	kEUR 2,884	100%
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, People's Republic of China	kHKD 45,271	kHKD 191,778	100%
STADA Pharmaceuticals Australia Pty Ltd, Sydney, Australia[4]	–	–	100%
STADA Poland Sp. z o.o. Piaseczno, Poland	kPLN 1,274	kPLN 7,702	100%
STADA Service Holding B.V., Etten-Leur, Netherlands	kEUR 21,444	kEUR 662,020	100%
STADA (Shanghai) Company Management Consulting Co. Ltd., Shanghai, People's Republic of China	kCNY 128	kCNY 927	100%
STADA UK Holdings Ltd., Reading, United Kingdom	kEUR 27,764	kEUR 438,930	100%

1) There is a profit and loss transfer contract for German companies with a result of 0.
2) For foreign companies, equity is shown both in local currency and in accordance with local law.
3) Figures from financial year 2015.
4) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 No. 1 of the German Commercial Code.

2) Indirect investments of STADA Arzneimittel AG

	Earnings 2016	Equity	Equity interest in %
Germany[1]			
ALIUD PHARMA GmbH, Laichingen	EUR 0	kEUR 52	100%
Blitz F15-487 GmbH, Bad Vilbel	EUR 0	kEUR 414	100%
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel	EUR 0	kEUR 229	100%
Grippostad GmbH, Bad Vilbel	EUR 0	kEUR 25	100%
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg	kEUR 748	kEUR 717	100%
PharmaSwyzz Deutschland GmbH, Bad Homburg	kEUR -1	kEUR 13	100%
STADAvita GmbH, Bad Homburg	EUR 0	kEUR 25	100%
STADA CEE GmbH, Bad Vilbel	EUR 0	kEUR 223	100%
STADA Medical GmbH, Bad Vilbel	EUR 0	kEUR 103	100%
International[2]			
AELIA SAS, Saint Brieuc, France[3]	kEUR 540	kEUR 1,497	20%
Britannia Pharmaceuticals Ltd., Reading, United Kingdom	kGBP 14,603	kGBP 74,094	100%
Brituswip Limited (J.V.), Newbury, United Kingdom	kGBP 8	kGBP 129	50%
BSMW Limited, Stockport, United Kingdom	kGBP 312	kGBP 1,938	100%
Centrafarm B.V., Etten-Leur, Netherlands	kEUR 5,501	kEUR 11,903	100%
Centrafarm Nederland B.V., Etten-Leur, Netherlands	kEUR -223	kEUR 25,236	100%
Centrafarm Services B.V., Etten-Leur, Netherlands	kEUR 1,736	kEUR 10,124	100%
Clonmel Healthcare Limited, Clonmel, Ireland	kEUR 21,986	kEUR 41,333	100%
CNRD 2009 Ireland Ltd., Dublin, Ireland	kEUR -20	kEUR 89	50%
Crinos S.p.A., Milan, Italy	kEUR -1,151	kEUR 25,417	3.23%
Croma Medic, Inc., Manila, Philippines	kPHP 23,693	kPHP 305,211	100%
Crosspharma Ltd., Belfast, United Kingdom	kEUR 143	kEUR 1,965	100%
Dak Nong Pharmaceutical JSC, Dak Nong, Vietnam[3]	kVND 264,642	kVND 2,359,521	43%
DIALOGFARMA LLC, Moscow, Russia[3]	kRUB -3,597	kRUB 14,965	50%
EG S.p.A., Milan, Italy	kEUR 5,204	kEUR 68,413	1.13%
Fresh Vape Electronic Cigarettes Limited, Chesterfield, United Kingdom	kGBP 7	kGBP 5	100%
Genus Pharmaceuticals Holdings Ltd., Huddersfield, United Kingdom	kGBP 0	kGBP 12,472	100%
Genus Pharmaceuticals Ltd., Huddersfield, United Kingdom	kGBP 0	kGBP 34,399	100%
Healthypharm B.V., Etten-Leur, Netherlands	kEUR 639	kEUR 3,381	100%
Hemofarm A.D., Vrsac, Serbia[3]	kRSD 2,950,193	kRSD 25,600,534	100%
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina[3]	kBAM 3,167	kBAM 58,144	91.5%
Hemofarm Komerc d.o.o., Skopje, Macedonia[4]	–	–	99.18%
Hemofarm S.à.r.l., Constantine, Algeria[4]	–	–	40%
Hemomont d.o.o., Podgorica, Montenegro[3]	kRSD -425	kRSD 16,542	71.02%
HTP Huisapotheek B.V., Etten-Leur, Netherlands	kEUR 0	kEUR 11	100%
Internis Pharmaceuticals Limited, Huddersfield, United Kingdom	kGBP 8,356	kGBP 11,151	100%
Jinan Hemofarm Pharmaceuticals, Jinan, People's Republic of China[4]	–	–	35.5%
Laboratorio Vannier S.A., Buenos Aires, Argentina	kARS 8,324	kARS 44,542	15%
LAS Trading Limited, Chesterfield, United Kingdom	kGBP 0	kGBP 1	100%
LCM Limited, Huddersfield, United Kingdom	kGBP 0	kGBP 0	100%
Lowry Solutions Limited, Huddersfield, United Kingdom	kEUR 1,399	kGBP 47	100%
Natures Aid Ltd., Preston, United Kingdom	kGBP 5,673	kGBP 173	100%
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan	kKZT -1,219,034	kKZT 518	100%

1) There is a profit and loss transfer contract for German companies with a result of 0, with the exception of Blitz F15-487 GmbH and Grippostad GmbH.
2) For foreign companies, equity is shown both in local currency and in accordance with local law.
3) Figures from financial year 2015.
4) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 No. 1 of the German Commercial Code.

	Earnings 2016	Equity	Equity interest in %
International[1]			
Nizhpharm-Ukraine DO, Kiev, Ukraine	kUAH -270,402	kUAH -19,150	100%
OOO Aqualor, Moscow, Russia[2]	kRUB 58	kRUB 162	100%
OOO Hemofarm, Obninsk, Russia	kRUB 363,928	kRUB 2,760,145	90%
OOO STADA CIS, Nizhny Novgorod, Russia[2]	kRUB -16,162	kRUB -120,452	100%
OOO STADA Marketing, Nizhny Novgorod, Russia[2]	kRUB -17,788	kRUB 4,493	90%
OOO STADA PharmDevelopment, Nizhny Novgorod, Russia	kRUB 13,002	kRUB 45,522	100%
Pegach AG, Egerkingen, Switzerland	kCHF -3	kCHF 355	100%
Pharm Ortho Pedic SAS, Trélazé, France[2]	kEUR 379	kEUR 3,040	25%
Phu Yen Export Import Pharmaceuticals JSC, Phu Yen, Vietnam[2]	kVND 550,013	kVND 25,074,594	20%
PYMEPHARCO JOINT STOCK COMPANY, Tuy Hoa, Vietnam	kVND 239,258,579	kVND 1,326,176,644	59%
Quang Tri Pharmaceutical Joint Stock, Quang Tri Province, Vietnam[2]	kVND 508,738	kVND 4,347,090	22%
Quatropharma Holding B.V., Etten-Leur, Netherlands	kEUR 0	kEUR 329	100%
S.A. Eurogenerics N.V., Brussels, Belgium	kEUR 1,384	kEUR 80,879	100%
Slam Trading Limited, Chesterfield, United Kingdom	kGBP 1,071	kGBP 43	100%
Socialites E-Commerce Limited, Huddersfield, United Kingdom	kGBP 127	kGBP 125	100%
Socialites Nederlands BV, Beuningen, Netherlands	kEUR 0	kEUR 0	100%
Socialites Retail Limited, Chesterfield, United Kingdom	kGBP -614	kGBP -498	100%
Spirig HealthCare AG, Egerkingen, Switzerland	kCHF 424	kCHF 5,797	100%
STADA (Thailand) Co. Ltd., Bangkok, Thailand	kTHB 16,962	kTHB 63,919	60%
STADA Aesthetics AG, Bottighofen, Switzerland[3]	–	–	100%
STADA Aesthetics Italia S.R.L., Verona, Italy[3]	–	–	100%
STADA Aesthetics UK Limited, Kent, United Kingdom[3]	–	–	100%
STADA Egypt Ltd., Cairo, Egypt[3]	–	–	16.67%
STADA Financial Investments Limited, Clonmel, Ireland	kEUR -5	kEUR 91,412	100%
STADA Genericos, S.L., Barcelona, Spain	kEUR 0	kEUR 2	100%
STADA HEMOFARM S.R.L., Temeswar, Romania[2]	kRON 738	kRON 14,846	100%
STADA Import/Export International Ltd., Hong Kong, People's Republic of China	kUSD 1,314	kUSD 2,259	51%
STADA IT Solutions d.o.o., Belgrade, Serbia[2]	kRSD 17,351	kRSD 54,676	100%
STADA M&D S.R.L., Bucharest, Romania	kRON 173	kRON 6,841	100%
STADA MENA DWC-LLC, Dubai, United Arab Emirates	kAED -1,278	kAED 39,799	100%
STADA Nordic ApS, Herlev, Denmark[2]	kDKK 4,896	kDKK 112,058	100%
STADA Pharma Services India Private Limited, Mumbai, India[3]	–	–	15%
STADA Pharmaceuticals (Beijing) Ltd., Beijing, People's Republic of China	kCNY 7,275	kCNY 61,935	83.351%
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam	kVND 300,760,835	kVND 959,963,868	50%
STADA, LDA, Paco de Arcos, Portugal	kEUR -6	kEUR -24	100%
STAdata LLC, Kiev, Ukraine[3]	–	–	100%
Sundrops Limited, Huddersfield, United Kingdom	kGBP 2,957	kGBP 3,427	100%
Thornton & Ross Ireland Limited, Clonmel, Ireland	kEUR 0	kEUR 0	100%
Thornton & Ross Limited, Huddersfield, United Kingdom	kGBP 37,644	kGBP 29,371	100%
UAB STADA-Nizhpharm-Baltiya, Vilnius, Lithuania	kEUR 64	kEUR 1,227	100%
Velefarm A.D., Belgrade, Serbia[3]	–	–	19.65%
Vetfarm A.D., Belgrade, Serbia[3]	–	–	15%
Well Light Investment Services JSC, Ho Chi Minh City, Vietnam	kVND -31,937	kVND 134,387,846	49%
ZAO Makiz-Pharma, Moscow, Russia	kRUB -7,567	kRUB 1,065,980	100%
ZAO Skopinpharm, Ryazanskaya obl., Russia	kRUB -5,224	kRUB 332,202	100%
Zeroderma Limited, Huddersfield, United Kingdom[3]	–	–	100%

1) For foreign companies, equity is shown both in local currency and in accordance with local law.
2) Figures from financial year 2015.
3) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 No. 1 of the German Commercial Code.

21. Conversion rates

The exchange rates underlying the currency translation of currencies outside of the euro zone that are important for STADA Arzneimittel AG developed as follows:

	Average rate		Closing rate	
in €	**2016**	**2015**	**Dec. 31, 2016**	**Dec. 31, 2015**
1 Swiss franc (CHF)	0.91728	0.93664	0.93119	0.92293
1 Pound sterling (GBP)	1.22121	1.37733	1.16795	1.36258
1 Hong Kong dollar (HKD)	0.11641	0.11624	0.12232	0.11852
1 Serbian dinar (RSD)	0.00812	0.00828	0.00810	0.00822
1 Russian ruble (RUB)	0.01347	0.01470	0.01555	0.01240
1 US dollar (USD)	0.90367	0.90114	0.94868	0.91853

22. External auditor fees

Total fees charged by the external auditors for the financial year pursuant to Section 285 No. 17 of the German Commercial Code are disclosed in the relevant Note to the Consolidated Financial Statements.

23. German Corporate Governance Code

In accordance with Section 161 of the German Stock Corporation Act, the Executive and Supervisory Boards have issued their annual joint declaration of compliance with the German Corporate Governance Code. Shareholders are provided with permanent access to this declaration on the Company's website www.stada.de (German website) and www.stada.com (English website). The Company also publishes the declaration in its Annual Report.

24. Financial instruments

Derivative financial instruments

Risks from interest rate and currency-related fluctuations in cash flow are countered with derivative financial instruments that are exclusively used to hedge interest and currency risks resulting from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculation purposes.

Derivatives are used to offset changes in fair values and/or interest payment cash flows from the underlying hedged items (receivables from associates, interest liabilities and a future investment).

STADA concludes currency forwards and currency options in order to limit currency risks. In 2016, exchange-rate hedging was primarily undertaken for the Russian ruble, the US dollar and the British pound sterling. As of the reporting date, the currency forwards were either hedged with loans or liabilities to associates or loans were allocated to associates without hedging.

In order to hedge cash flows from loans to associates (interest and currency risk), STADA concluded interest rate/currency swaps. As of the reporting date, all interest rate/currency swaps were individually hedged with loans to associates.

The valuation of interest rate hedge transactions results from the present value of the discounted cash flows, i.e. fixed interest rates against variable interest rates.

Hedged items:

Hedged item	Market values – Hedged risk	Market values – Secured amount of the hedged item (carrying amount) in € million
Assets	Interest rate change/currency risk	48.6
	Currency risk	182.0
Liabilities	Interest rate risk	0.0
	Currency risk	-2.8
		227.8

The market values of the derivative financial instruments were as follows:

in € million	2016	2015
Currency forwards	-8.5	3.1
Interest rate swaps	0.0	-1.3
Interest rate/currency swaps	6.5	21.0
	-2.0	**22.7**

All hedges are micro-hedges.

All hedges are expected to be highly effective as the important features are nearly identical (critical terms match).

Hedged risks – pending loss provisions not created, write-ups on liabilities in foreign currencies and write-downs of receivables in foreign currencies:

in € million	2016
Interest rate/currency risk currency risk	-6.7
Total hedged balance sheet risk	4.4
Gesamt abgesichertes bilanzielles Risiko	-2.3

The effectiveness of hedges is evaluated on the reporting date according to the critical terms match method.

In the future, the risks being hedged will likely be offset, because the hedged items and hedging transactions are subject to the same risk, which is influenced by identical factors in the same way and because the hedging transactions do not exhibit any other risks than the hedged items. Settlement shall be completed to the greatest extent by December 31, 2017.

25. Resolution on the distribution of profits

Appropriation of profits of financial year 2016

Pending approval of the Supervisory Board, the Executive Board of STADA Arzneimittel AG, Bad Vilbel, Germany, made the following unanimous resolution via written circulation:

The Executive Board and the Supervisory Board will recommend to the Annual General Meeting of STADA Arzneimittel AG of June 8, 2017 the following appropriation of profits for financial year 2016:

in €	
Dividend distribution of EUR 0.72 per share entitled to a dividend (with 62,258,129 shares entitled to a dividend)	44,825,852.88
Balance carried forward to new account	22,206,782.63
Distributable profit	**67,032,635.51**

26. Report on post-reporting date events

This report on post-reporting date events includes events that occurred between the end of financial year 2016 and the date of the signing of the 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 Arzneimittel AG.

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.

Bad Vilbel, March 27, 2017

STADA Arzneimittel Aktiengesellschaft
The Executive Board

Dr. M. Wiedenfels	H. Kraft
Chairman of the Executive Board	Chief Financial, Marketing & Sales Officer

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

MANAGEMENT REPORT FOR FINANCIAL YEAR 2016

BASIS OF THE COMPANY

Business Model and Company Structure

STADA Arzneimittel AG (subsequently STADA) is an internationally oriented company with a focus on products with off-patent active ingredients in the health care and the pharmaceutical market. As a publicly-listed parent company, STADA directly and indirectly holds shares in the companies that belong to the STADA Group.

In the evaluation of the results of STADA, the operating profit of the activities of the Group companies in the Generics and Branded Products segments should be taken into account. Profit or loss is significantly affected by the services, such as the delivery of goods to other Group companies, resulting from the function of the AG as a parent company or holding company of the STADA Group. The costs for these strategic services are covered by the Group companies taking advantage of them and are accounted for under sales at STADA. STADA's net profit is also influenced by investment income.

In financial year 2016, the Executive Board agreed a fundamental change to corporate structures in order to meet the requirements of the growth strategy including central management of the segments, increased internationalization of the product portfolio and stricter cost controls. STADA had previously reported according to operating segment and market region. In accordance with the changed organizational structure, the Group is now managed exclusively by operating segment, i.e. the two segments Generics and Branded Products, whereby biosimilars are part of Generics. As a result, 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, STADA aims to optimally meet the requirements of the growth strategy.

Internal Management System

STADA's key performance indicators are sales and net profit.

Sales is a measure for ensuring the success of STADA. Sales are primarily influenced by intercompany transactions, sales with third parties as well as payments for strategic services.

Net profit as a financial performance indicator represents the key figure for the success of STADA and determines STADA's ability to provide a dividend.

Research and Development

STADA deliberately does not conduct any research based on the business model. The focus is generally on the development of finished pharmaceutical products that are not subject to commercial property rights. The basis for profitable growth and long-term company success is the continuous market introduction of generics products at the earliest point in time following the expiration of patents and at the best possible cost of sales in the individual countries. The Group's own development centers play a significant role in the process, and they are supplemented by subcontracted development and cooperations with external development partners. One decisive strategic success factor in the timely product development includes the coordination of an international network of internal and external development partners.

STADA continuously expands its product pipeline in the generics area. This currently includes five biosimilar products that are developed in cooperation with highly specialized partners. STADA focuses on marketing for reasons of risk and cost consideration.

The Branded Products area has strategic priority, since it is generally subject to less regulatory intervention and is characterized by more attractive profit margins than the Generics segment. The change in organizational structure with central management of the branded products area will increase momentum in this process.

Employees

The long-term success of STADA is largely attributable to its employees with their specialist knowledge, their experience and their commitment as well as diversity. Personnel management at STADA generally follows a long-term personnel policy with the goal of optimally supporting employees as well as attracting and retaining the best talents. STADA offers internships to young people as well as various career training programs in the pharmaceuticals area. Training, language skills support and specialist workshops and seminars also contribute to staff development and to the up-to-date knowledge of employees in various specialist departments.

For more information about STADA's personnel policy, please see the "Employees" chapter in the Group Management Report of the 2016 STADA Annual Report.

The average number of employees of STADA decreased by 4.5% compared to the previous year to 877, primarily as a result of the transfer of operations of the logistics activities to service provider DHL in 2015 (previous year: 918 employees).

Responsibility and Sustainability

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 also 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. 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.

For more information on the activities in STADA, in particular in terms of environmental protection and safety, please see the "Responsibility and Sustainability" chapter in the Group Management Report of the 2016 STADA Annual Report.

REPORT ON ECONOMIC POSITION

Macroeconomic and Sector-Specific Environment

Macroeconomic environment

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 continued uncertainty surrounding the result of the US elections had a noticeable impact, as well as China's repositioning to focus on domestic consumption. Commodity prices increased significantly from the beginning of the year, however they generally remained below the average prices in 2015. The economic situation of commodity-exporting countries such as Russia therefore remained difficult.

In Germany, strong economic development continued, achieving a growth rate of 1.7% in 2016.[1] Russia continued to suffer from the low raw material prices. As a consequence, its economic output declined by 0.8%. However, compared with -3.7% in the previous year, this demonstrated significant improvement.[1] The potential negative consequences of Brexit for the United Kingdom have not yet been reflected in growth figures, although the British pound sterling lost significant value. In Italy, France and Belgium growth stabilized at a low level. Spain benefited from an expansive financial policy and strong growth in tourism, once again. Vietnam was able to maintain the high growth rates of the previous year.[2] In Serbia, economic output increased by 2.5%, representing a significant improvement compared with the previous year.[2]

Sector-specific environment

The health care and pharmaceuticals market generally benefits from global growth in the population, the demographic development of an aging society and from medical progress. The global health care and pharmaceutical markets recorded further increase in 2016.

Sales in the global generics market increased by approx. 7.8% to approx. € 185.3 billion in 2016 as compared to the previous year. The market share of generics in the global pharmaceutical market amounted to 15.2%.[3] Growth drivers of the industry include the continuous expiration of patent rights. In addition, the penetration of generics is still relatively low in several European countries where STADA has a leading role, and penetration is expected to grow against the backdrop of the pressure to reduce health care costs. In certain markets, however, this growth in volume will be partially eaten away by governmental intervention in pricing. The volume of the generics market is growing in Germany. However, this growth is being diminished by intensive price competition, particularly with tenders for discount agreements with the statutory health insurance organizations. The German generics market recorded a slight increase of 4% in euro – considering the list prices – in 2016.[4]

Sales of the global OTC market increased by approx. 11.7% to € 79.4 billion compared with the previous year. The market share of OTC products on the global pharmaceutical market was 7.7%.[4] The branded product area is hardly affected by government price regulations and is largely dependent on the demand and purchasing power of so-called "self-pay patients" and the marketing materials used. The segment can generally benefit from relatively free pricing conditions. In spite of this, the branded product portfolio is subject to seasonal fluctuations primarily resulting from weather influences (e.g. cold portfolio, sunscreen). STADA GmbH's OTC product range within STADA AG in Germany recorded an increase of 4%, adjusted for special items, compared with the positive development of the market in Germany (3.2%[5]).

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/Pharmascope national.

Effects of macroeconomic and sector-specific environments

Changes in the regulatory environment are generally more noticeable in the Generics segment than in the Branded Products segment, whereas economic fluctuations can influence the demand on branded products.

Economic development in terms of currency and interest volatility can also impact the net assets, financial position and results of operations of STADA. This is particularly noticeable in the financial result and currency translation income and expense. STADA regularly takes precautionary measures in order to react appropriately to strong volatility.

Course of business

Sales increased significantly in 2016 and exceeded the expectations of the 2015 report on expected developments (slight decline).

Gross sales decreased as compared to the previous year. This reduction was partially overcompensated by a lower rate of sales deductions in connection with the decision to only take part in tenders for discount agreements with one subsidiary in the German generics business. Increasing inter-company revenue from delivery of goods and license revenue also had a positive effect on sales development. In addition, the first application of the German Accounting Directive Implementation Act (BilRUG) resulted in a reclassification of strategic services to sales, having been reported as other operating income in the previous year.

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

in € million	2016	2015
Sales	438.1	393.3
Net profit	51.5	**49.8**

Net profit

The sales of STADA recorded growth in 2016 of 11% to € 438.1 million. Net revenues from the delivery of goods to third parties increased as a result of a lower rate of sales reductions. Discounts to health insurance organizations declined by € 60.9 million as a result of the decision to only participate in tenders with one company, leading to a significant decrease in the rate of sales reductions in particular.

Intercompany services including strategic services increased significantly, among other things, due to the reclassification effect of BilRUG.

Other operating income declined to € 31.2 million, primarily as a result of a decrease in exchange gains of € 10.7 million as well as a decline in other operating income of € 40.5 million, among other things due to a reclassification as consequence of BilRUG. In contrast, write-ups of € 18.8 million were recorded in the financial year.

Despite increased sales, the cost of materials and supplies as well as goods purchased declined slightly (-3%), whilst personnel expenses increased by 7% due to severance payments. The lower cost of materials is particularly attributable to lower sales volumes in the generics business as a result of the decision to only participate in health insurance organization tenders with one company. In contrast, as a result of the reclassifications of BilRUG, a one-time expense for services was incurred. Impairments to intangible assets and property, plant and equipment increased by 18%. This primarily relates to impairment losses on approvals and brands as well as goodwill in the total amount of € 46.2 million, particularly related to the continuing difficult situation in the CIS region. In contrast, amortization and impairment of financial assets decreased by € 10.4 million. Other operating expenses also decreased by 8% due to the change in BilRUG as well as lower currency effects.

Income from profit transfer agreements and associates increased by € 11.6 million due to positive earnings development in German sales companies, whereas investment income decreased by € 9.3 million. Earnings from loans to associates remained at € 37 million. Other interest and similar income declined by € 5.5 million, primarily due to a reduction in interest rates of intercompany loans. In contrast, interest and similar expenses decreased € 5.0 million, particularly as a result of refinancing at more favorable terms.

After tax, net profit increased by 3% to € 51.5 million. Tax expense increased to a total of € 13.9 million, representing 21.2% of the net profit before tax. The deviation of 28.32% from the higher nominal tax rate is primarily attributable to the tax exemption of investment income in accordance with German tax law.

Net Assets, Financial Position and Results of Operation | Net Assets

in € million	2016	2015
Fixed assets	2,222.8	2,261.7
Current assets	714.7	468.5
Equity	899.4	891.4
Provisions	113.9	125.7
Liabilities	1,927.6	1,718.0

The balance sheet total of € 2,940.9 million in 2016 was 8% higher than the previous year.

Non-current assets declined by a total of € 39 million. The decrease in intangible assets (€ 48 million) and property, plant and equipment (€ 5 million) could not be compensated by the slight increase in financial assets (€ 14 million). Within intangible assets, the amount of concessions acquired against payment and commercial property rights decreased by € 23 million, particularly due to an increased need for amortization. Goodwill decreased due to amortization and impairment by € 14 million. In terms of financial assets, shares in associates increased (€ 8 million), while loans to associates decreased by € 1 million. The shareholding value in associates increased to (€ 7 million). Loans to associates primarily served to finance acquisitions in the region Central Europe.

Current assets increased substantially by € 246 million. This effect was mainly attributable to an increase in receivables from associates and increased balances with banks. Whilst other assets decreased, primarily as a result of tax refunds (€ 16 million), receivables from associates increased by € 100 million. These resulted from short-term lending to subsidiaries. In contrast, inventories (€ 12 million) decreased, among other things due to a stock optimization project.

Equity increased by € 8 million, primarily due to the net profit of € 51 million. The dividend payment for 2015 amounted to € 44 million. The equity-to-assets ratio declined slightly to 31%.

Provisions decreased by 9% to € 114 million, primarily as a result of reduced health insurance discounts.

Total liabilities increased significantly by 12% to € 1,928.0 million due to the placement of a promissory note loan as well as increased intercompany cash pooling liabilities. Trade payables decreased slightly to € 31.5 million and other liabilities increased to € 32.3 million. In addition to assets recognized in the balance sheet, STADA takes advantage of off-balance sheet assets. These primarily include leased or rented items within the usual framework such as company cars and rented building space. STADA primarily has factoring as off-balance sheet financing instruments.

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

Cash flow from operating activities amounted to € 91.9 million in 2016 (previous year: € 32.2 million). This increase is primarily attributable to lower payments for inventories and receivables from associates as well as other assets. Furthermore, increased liabilities to associates had a positive effect on cash flow. Provisions decreased by € 12 million, particularly as a result of the transfer of the German discount business to a subsidiary.

Cash flow from investing activities totaled € -26.5 million in 2016 (previous year: € -37.7 million) and primarily resulted from lower payments for investments in intangible assets and financial assets, as well as reduced proceeds from the disposal of intangible assets.

Cash flow from financing activities amounted to € 108.9 million (previous year: € -39.2 million). The net change in financial liabilities (credit and promissory note loans) was € 106.0 million and increased notably as compared to the previous year (previous year: € 20.4 million). Cash inflow was recorded from the increase in intercompany cash pool liabilities. The payment of dividends (€ 43.6 million) had an opposing effect. In the previous year, payments were also made for bonds, while cash inflow was recorded from the exercise of options.

As a result of the cash flows described, cash and cash equivalents increased from € 5.6 million to € 179.9 million. The primary goal of financial management is to ensure liquidity at all times and to limit the risks associated with financing. The mid to long-term borrowed capital financing is capital market-oriented and primarily relates to two corporate bonds in euro which mature in 2018 and 2022 and promissory note loans with maturities until 2023. The goal is to maintain a balanced maturity dates profile with a diversified investor basis and optimized financing conditions. The average capital weighted interest rate of the interest-bearing financial liabilities of STADA was 1.69% as of December 31, 2016.

General Statements on the Course of Business

In financial year 2016, STADA recorded an overall business development that exceeded the outlook published in the report on expected developments 2015 in terms of net profit.

Positive sales effects in the Branded Products segment as well as a lower rate of rate of sales reductions and the good performance of the German subsidiaries contributed towards this. As a result of these developments, net profit increased from € 49.8 million in 2015 to € 51.5 million in 2016 and was significantly higher than the forecast made in 2015 (slight increase).

STADA's earnings in financial year 2016 were due to structural improvements, particularly the decision to only participate in health insurance tenders with one company and an increased focusing of the business model on branded products with long-term growth potential and limited government regulation. This strategic plan will sustainably support the profitability of STADA Arzneimittel AG. STADA indirectly benefits from investment income from associates who focus on regions that also have long-term growth potential. This development is currently overshadowed by the challenging economic situation in the CIS region, which may have a direct or indirect effect on the business, financial and earnings situation of STADA Arzneimittel AG.

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 and as a result towards one of the global growth industries. STADA will continue to concentrate on the development and marketing of products with active ingredients free from commercial property rights, particularly patents.

Despite the further orientation towards areas with long-term growth potential, the development of investment income, income from profit transfer agreements and sales for services in financial year 2017 will be subject to different and partially opposing influence factors, as the economic, regulatory and competitive framework 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 future.

Comprehensive opportunities management for the use of existing growth opportunities

With its comprehensive opportunities management, which STADA considers an ongoing entrepreneurial task, the Group secures and improves existing opportunities and creates new possibilities. Organization and management are decentralized and regionally structured. STADA intensively monitors the markets and competitors and 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 hold a targeted exchange of knowledge 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, 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 portfolio in both the Generics and Branded Products segments with value-adding acquisitions. STADA is also investing in selected biosimilars together with cooperation partners, in order to supplement the portfolio. In addition, STADA intends to take advantage of growth opportunities in niche markets through the introduction of innovative products.

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 are to be particularly important.

The 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.

Macroeconomic outlook

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

For Germany[1)], the IMF expects growth for 2017, although slightly weaker growth than the previous year. Russia[1)] may have reached its lowest point and may return to moderate growth. The outlook for the United Kingdom[1)] indicates a weakening of the economy. The possible consequences of Brexit remain difficult to estimate, as both the date and the concrete implementation of the exit from the European Union are still unknown. Italy[1)], Belgium[2)] and France[1)] 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[2)] remains high and a continuation of the positive growth trend is also expected in Serbia[2)].

1) Source: International Monetary Fund: World Economic Outlook January 2017.
2) Source: International Monetary Fund: World Economic Outlook October 2016.

Sector-specific outlook

Growth of health care markets is generally supported by population growth, demographic development and medical progress. The expected growth in emerging markets is anticipated to further increase the purchasing power of patients and therefore also the demand for branded products, which are generally not reimbursable. For the global OTC market, QuintilesIMS Health forecasts annual growth of up to 3.6% until 2020.[1] For the European OTC market, experts anticipate an increase of up to 2.5%. This is supported by the increasing number of so-called self-improvers, who rely on self-medication and are willing to spend an increasing amount of money on this, particularly in Western industrialized nations. However, risks in connection with consumer sentiment and consumer-spending have increased due to the conflict between Russia and Ukraine, the falling oil price and the associated weakness of the Russian currency. The growth opportunities for the generics sector will continue to be based on specific drivers such as continuously expiring patents and – in the context of the pressure to reduce costs in the health care system – incentives and laws to increase prescriptions of low-cost generics. This has led to significant growth in sales volume in countries with a relatively low penetration. However, STADA assumes that further regulatory measures to reduce costs in the health care system will burden the sales development in individual national markets as a result of price pressure. The stable high number of tenders in the Generics segment will also dampen the potential of sales. Overall, market research institutes such as QuintilesIMS anticipate annual growth in sales for the global generics market of up to 7.9% until 2020. Since so-called biosimilars will have an increasing share in the future health costs, STADA has consistently relied on the expansion of a biosimilar portfolio. However, in order to minimize risks in connection with the development and manufacturing of these more complex products and to concentrate on its marketing and sales competences, STADA pursues an in-licensing approach with specialized partners.

The resulting opportunities and risks are described in the corresponding chapter.

Basis of the prognosis

The following assumptions were primarily made for the prognosis:

- Predominantly unchanged regulatory market conditions in the most important markets of each market region, 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 to immediately launch products upon patent expiration
- Largely unchanged tax situation in the countries where STADA AG investments are located or operate
- Largely unchanged currency ratios and interest rates for Group activities which primarily have an indirect influence on the success of STADA AG within investment income

Summarizing outlook

For 2017, the Executive Board expects a slight increase in sales.

In terms of revenues from the delivery of goods to third parties, a significant decline in sales is expected, as sales with third parties will no longer be recorded by STADA AG following a change to the German sales structure. This effect is more than compensated for by an increased in intercompany sales, a one-time effect from inventory sales and increased revenue from payments for strategic services.

In consideration of this development, the Executive Board expects almost unchanged net profit for financial year 2017 as compared to the previous year.

1) QuintilesIMS Health Syndicated Analytics Service; prepared for STADA February 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, the 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 intensively monitors the markets and competitors and can thereby 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 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**, which is applied in all business segments, is closely linked with STADA's corporate strategy and forms the basis of the Executive Board's continuous risk management system, and is 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 standard COSO II Enterprise Risk Management – Integrated Framework (2004).

The aim of STADA's risk management system is to ensure 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 goals, particularly financial, operational and strategic goals, 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 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, which also sets out binding methodical and organizational standards for the approach to risks.

The **fundamental components of the risk management system** are:

1. the **Risk Management department**, which is vertically and horizontally integrated in the Company and 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**, which defines the risk management terms, risk policy and the risk management system including the risk management process and responsibilities;

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

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 reporting (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 company at an early stage.

The relevant period for internal risk reporting is principally 24 months. The reporting of risks in the management report relates to the reporting date of December 31, 2016 and principally based on a forward-looking period of one year. 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 accounting process (report in accordance with Section 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 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. 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, which are continuously examined, updated and regularly communicated,
- supplementary processes instructions, internal reporting formats as well as IT-based coordination processes for internal balances,
- processes that ensure 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 can be contacted if necessary.

The primary control functions for the significant 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 levels.

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 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 STADA are described below. Risk reporting is principally done by the individual segments. If no segment is explicitly referenced, the described risks affect both the Branded Products and Generics segments. Risks, which are not yet known or have been assessed as insignificant, could also influence the net assets, financial position and results of operations.

Sector risks, regulatory and economic risks

a) Sector 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 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, to maintain or expand its market position. Overall, STADA tries to counteract industry risks through a diversification of products.

b) Regulatory risks

The change or lifting of existing regulations 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 the prices of pharmaceutical products are regulated 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 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 and 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 are continuously analyzed. Depending on the extent of 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. A reduction in purchasing power can particularly cause a reluctance to buy in the area of Branded Products, which is primarily a self-pay market. Furthermore, an economic downturn can increase the already prevalent cost pressure in the health care systems. It could 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.

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, indirect government influence on 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, which are to be treated with confidentiality, STADA makes use of confidentiality agreements with employees, external alliance 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.

Moreover, STADA's business activity 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 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 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, which STADA focuses on, 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

STADA'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, the German market is increasingly characterized by very large volume fluctuation that regularly arises in the context of tenders by 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 STADA'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 Company. STADA's continued success also depends on its ability, in competition with other companies, to attract and keep qualified employees in the future for the long-term regardless of demographic challenges. Country, 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 (employer branding) through which the potential of the employees is systematically identified and promoted. These processes support both young and experienced highly qualified employees in their career development and to help STADA to develop and retain performance-critical skills in the company.

d) Compliance risks

It is STADA's expressed goal 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 by optimal alignment and appropriate support using a variety of IT systems and processes. Therefore, STADA has to make continuous investments to appropriately adapt these complex and high-performing systems to changing business processes.

Global IT applications form the basis for the delivery of products to the global customers of the STADA Group as agreed upon. Inefficiencies in the IT processes, 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 by STADA could principally be affected by misuse of digital technologies as a means to perpetrate new types of crime, so-called cybercrime (e-crime), which alongside the manipulation of 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 development of business. The goal of the liquidity management is to ensure solvency and financial flexibility of STADA 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, which 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 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 investment income and income from profit transfer agreements (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.

c) Interest rate risks

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

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. Furthermore, 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

The STADA Group takes advantage of an international network and carries out strategic Group functions centrally through STADA Arzneimittel AG. This means 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 STADA 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, which primarily results 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 financial statements.

Other risks

STADA is 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.

Evaluation of risk categories

Significant risks, which 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	• Personnel		• Taxes
low	• Suppliers • Warehousing and logistics	• Legal disputes	• Market and competition • Approvals and licenses • R&D projects

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 15%)
Moderate	Moderate negative impact on the 1-year outlook (15% to 30%)
High	Significant negative impact on the 1-year outlook (> 30%)

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 Company'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 Company. 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.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289a HGB

The Corporate Governance Declaration and the Corporate Governance Report pursuant to Section 289a of the German Commercial Code (HGB) are available on the STADA Arzneimittel AG website at:
www.stada.com/investor-relations/corporate-governance.html

TAKEOVER-RELATED DISCLOSURES

In accordance with Section 289 (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 – 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.

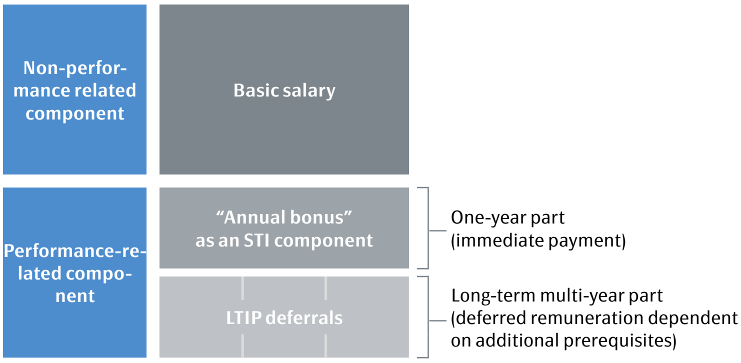
The individual performance-related components are limited to a maximum amount.

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.

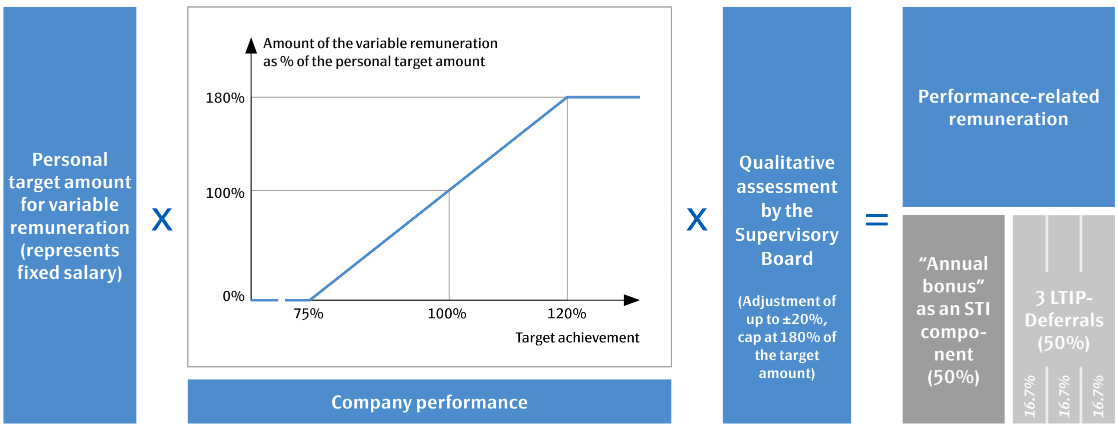
The target set for financial year 2016 and the degree of target achievement are presented together the explanation of remuneration 2016.

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:

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

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.

in € 000s	Hartmut Retzlaff (Member of the Executive Board until August 15, 2016)					
	Benefits granted				Allocation	
	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.

FURTHER INFORMATION 2016

RESPONSIBILITY STATEMENT

To the best of our knowledge and in accordance with the applicable financial reporting principles, the Annual Financial Statements give a true and fair view of the net assets, financial position and results of operations of STADA Arzneimittel AG, and the Management Report includes a fair review of the course of business and business performance and the net assets, financial position and results of operations of STADA Arzneimittel AG, together with a description of the principal opportunities and risks associated with STADA Arzneimittel AG's expected development.

Bad Vilbel, March 27, 2017

Dr. M. Wiedenfels Chairman of the Executive Board	H. Kraft Chief Financial, Marketing & Sales Officer

AUDITOR'S REPORT

We have audited the financial statements comprising balance sheet, income statement and notes in view of the accounting and the management report prepared by STADA Arzneimittel AG, Bad Vilbel for the financial year from January 1 to December 31, 2016. Accounting and the preparation of the financial statements and the management report in accordance with German commercial law are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on these financial statements in view of accounting and on the management report based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and results of operations in the financial statements in accordance with generally accepted accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in accounting, financial statements and management report are examined primarily on a test basis within the framework of the audit.

The audit comprises assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and the management report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the financial statements comply with the legal requirements and, in accordance with generally accepted accounting standards, give a true and fair view of the net assets, financial position and results of operations of the company. The management report is in accordance with the financial statements, complies with the legal requirements and provides on the whole a suitable understanding of the company's position and suitably presents the opportunities and risks of future development.

Frankfurt, March 27, 2017

PKF Deutschland GmbH
Wirtschaftsprüfungsgesellschaft

Arno Kramer
German Public Accountant

Annika Fröde
German Public Accountant

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board looks back on an unusual, eventful financial year 2016. A year that brought far-reaching changes to the Board itself and to the entire company, particularly in the second half.

The starting point for the changes was a process by one individual investor, which in May of last year accelerated the already ongoing discussions about a personnel restructuring of the Supervisory Board through an application to dismiss all Supervisory Board members at the Annual General Meeting, originally planned for June. On the basis of intensive discussions with further investors, the Supervisory Board agreed to accept the request and bring forward the reappointment of the Board by the Annual General Meeting in a structured and transparent process. In order to allow sufficient time for this process, the Executive Board decided to postpone the Annual General Meeting until August 26, 2016. The Supervisory Board welcomed this decision.

Four Supervisory Board members resigned from their positions at the end of the Annual General Meeting, paving the way for a personnel realignment of the Board. The Annual General Meeting elected Mr. Rolf Hoffmann, Dr. Birgit Kudlek, Ms. Tina Müller and Dr. Gunnar Riemann to the Supervisory Board. The Annual General Meeting also received a request to dismiss the former Chairman of the Supervisory Board, Dr. Martin Abend, and elected Dr. Eric Cornut as a new member of the Board. The Supervisory Board would like to take this opportunity to thank Dr. Martin Abend, Dr. Eckhard Brüggemann, Dr. K. F. Arnold Hertzsch, Dieter Koch and Constantin Meyer for their many years of successful work.

Following the Annual General Meeting, the newly appointed Supervisory Board elected Mr. Carl Ferdinand Oetker as its Chairman and Mr. Jens Steegers as its Deputy Chairman. The new Board began work immediately and, in addition to the integration of the new Supervisory Board members, set new focuses. The Supervisory Board is consistently pursuing an open and dialog-oriented communication with investors about the strategy that was introduced in summer 2016. The Board also restructured its cooperation with the Executive Board. The Supervisory Board supports the Executive Board in an advisory capacity with its extensive professional and operating expertise, but also takes its supervisory duties very seriously with a clear understanding of corporate governance. This partnership approach was expressed, among other things, by the founding of the Strategy Committee, which supports and monitors the Executive Board in the development of the corporate strategy. The competencies of the Supervisory Board members were optimally applied in the appointment of the other committees.

In June 2016, the long-standing Chairman of the Executive Board of STADA Arzneimittel AG, Hartmut Retzlaff, stepped down from his position for health reasons and in August he agreed with the Supervisory Board that he would leave the company at the end of the year. The Supervisory Board reacted quickly and consistently to this situation and initially appointed Dr. Matthias Wiedenfels as the new Chairman of the Executive Board. The Supervisory Board also immediately began the process of searching for a replacement Executive Board member for marketing and sales (Chief Sales & Marketing Officer, CSMO) as well as an Executive Board member for production and technology (Chief Technology Officer, CTO). As part of this process, the Supervisory Board placed great importance on creating the best team and a personal fit with the existing Executive Board team that enhances its competencies. Highly renowned specialist Dr. Barthold Piening was appointed to the position of CTO – he will start his work at STADA on April 1, 2017. The search for a CSMO is continuing.

A further important task of the new Supervisory Board was the revision of the remuneration system for the Executive Board, which was rejected by the Annual General Meeting in August. The Human Resources Committee has dealt intensively with this issue under the leadership of Supervisory Board member Mr. Hoffmann. In addition to the focus on market standards and competitiveness, in future an increased orientation towards the capital market will be ensured through the use of specific key figures (including return on capital employed, ROCE) as well as the expansion of the peer group comparison through the addition of diverse companies from the pharmaceutical industry. In order to increase its performance-dependent nature, the remuneration structure has been changed to include greater variable portions with a focus on longer-term components (LTI). The clauses on the withholding or recovery of variable remuneration components (so-called "hold back"/ "claw back") have also been developed. The new remuneration system is to be presented to the Annual General Meeting for approval and will be described in more detail at that time.

The Supervisory Board of STADA Arzneimittel AG carefully executed the duties imposed on it in accordance with the law and the Articles of Incorporation. The Supervisory Board continuously monitored the management of the Company and regularly advised the Executive Board, particularly on the course of business and business policy, corporate planning including financial, investment and personnel planning, accounting, and the position and strategy of the Company and the Group. In all decisions of fundamental importance for the Company, the Executive Board involved the Supervisory Board in accordance with the requirements of the German Stock Corporation Act. The Executive Board briefed the Supervisory Board – also between the regular meetings – regarding all questions related to strategy, planning, business development, the risk situation, risk management, the internal control system and compliance.

The Supervisory Board dealt with the issues submitted to it and reviewed these procedures in detail and discussed them with the Executive Board, whereby the focus was regularly placed on the benefits, risks and effects of the respective procedure.

Meetings of the Supervisory Board and focus of activities

In financial year 2016, the Supervisory Board convened for a total of sixteen meetings. All members of the Supervisory Board attended at least half of the meetings of the Board and of the committees to which they belong. The average participation rate for meetings of the Supervisory Board and its committees was approximately 96% in financial year 2016. Individual attendance is detailed in the corporate governance report under "individualized disclosure of meeting participation" in this Annual Report. With the exception of specific Supervisory Board issues, the members of the Executive Board regularly participated in the meetings of the Supervisory Board.

In the past financial year, the Supervisory Board dealt with the following topics in particular:

In an intensive exchange with the Executive Board, it examined the business development of the Company and the Group, the fundamental corporate strategy, particularly in terms of the positioning of the two core segments Generics and Branded Products, corporate planning of the Company and the Group as well as the position of the Group, especially the net assets and financial position. The Supervisory Board talked regularly to the Executive Board about the Group's financial and liquidity situation, considering especially the investment plans in the Group, the financing structures and refinancing strategies as well as the development of the debt-to-equity ratio. A common subject of meetings in the past financial year also included the economic and political developments in the region CIS/Eastern Europe, particularly considering the CIS crisis as a result of the devaluation of the Russian ruble, the Ukrainian hryvnia and the Kazakhstani tenge. The referendum in the United Kingdom on leaving the European Union and the resulting new opportunities and risks were also discussed in detail.

The Supervisory Board had the Executive Board report to it regularly on the market structures, development of demand, the competitive situation and the price, conditions and discount development, in particular the development of the Group's market share and that of its relevant competitors. An important role in this regard was played by the effects of regulatory state interventions on the Group and/or on the individual subsidiaries and the necessary reactions to these, especially in the German home market with regard to discount agreements with health insurance organizations. In addition, the Supervisory Board regularly gained an overview of the product development and product portfolio of the Group. It discussed with the Executive Board the possibilities related to cost, tax and process optimization.

The Supervisory Board also dealt intensively with risk and opportunities management in the Group, the internal control and auditing system, the compliance management system, considered, planned and executed acquisitions, disposals and cooperations of the Group as well as with the integration of acquired companies and products into the Group.

The Annual General Meeting 2016 was the subject of intensive discussion of the Supervisory Board and Executive Board in the past financial year. Prior to the Annual General Meeting 2016, the former Chairman of the Supervisory Board, Dr. Martin Abend, had held discussions on significant Supervisory Board issues with investors as part of a governance roadshow (including the early realignment of the Supervisory Board, Executive Board remuneration and the auditor). The presentation used for these discussions was published on the Company's website prior to the Annual General Meeting. The new Chairman of the Supervisory Board, Carl Ferdinand Oetker, also continued the dialog with investors about Supervisory Board issues.

In the reporting year, the Supervisory Board also dealt with the completion of the legal process for the appointment of a special auditor. Following the Annual General Meeting 2015, Professor Strenger, together with other shareholders, requested that as part of a special audit the Frankfurt am Main district court examine the benefits granted to the former Chairman of the Executive Board Hartmut Retzlaff by the Supervisory Board for financial year 2014 as well as the transfer of his pension entitlements to an external pension fund. The process, which had been inactive, was completed and declared resolved as a result of a mutually agreed settlement submitted to the court on January 31, 2017.[1)] The mutual agreement was based on an examination at the end of December 2016 by Professor Dr. Hans-Joachim Böcking (Professor of Business Administration, with a focus on auditing and corporate governance, at the Goethe-Universität Frankfurt am Main), appointed by the applicants, as well as a document-based legal discussion with representatives of STADA in the presence of Professor Strenger and Professor Dr. Böcking. On the basis of the documents and information provided, Professor Dr. Böcking reached the conclusion that there was no evidence that the Supervisory Board had not fulfilled its duty of diligence as regards the issue in question, although the remuneration received by the former Chairman of the Executive Board Hartmut Retzlaff in 2014 was above the average for the MDAX®. Professor Dr. Böcking believed that the transfer of pension obligations to an external pension fund and the associated significant reduction in pension obligations in 2014 was an appropriate compromise for both sides. The fringe benefits received by Hartmut Retzlaff in 2014 were also the subject of investigation. In the 2014 Annual Report, of a reported figure of € 142,000, around € 106,000 was attributable to consulting services on the personal tax consequences of the pension change, which were reimbursed to Hartmut Retzlaff as part of the transfer of pension obligations. Professor Dr. Böcking considered this to be standard practice. The investigation also included the mutual termination of position and termination of contract of Hartmut Retzlaff in August 2016, which had been excluded from the original special auditing mandate. As part of this investigation, Professor Dr. Böcking also did not find any indication that the Supervisory Board had not met its duty of diligence. The Supervisory Board was always informed of the status of the discussions held and welcomed the settlement that was reached.

1) See notification of the conclusion of proceedings in the Federal Gazette of February 3, 2017.

At its financial statements review meeting on **March 22, 2016**, the Supervisory Board dealt especially intensively with the business situation and earnings development in the previous financial year 2015 as well as with the Annual and Consolidated Financial Statements as of December 31, 2015. Following a detailed review of the documentation for the financial statements and after discussions with the auditor, the Supervisory Board, based on the recommendation of the Audit Committee, adopted the Consolidated and Annual Financial Statements for financial year 2015. The auditor participated in the consultations and reported prior to the resolution on the significant results of the audit. The Supervisory Board discussed and approved the agenda for the Annual General Meeting 2016, originally planned for June 9, 2016, and adopted the Report of the Supervisory Board to the Annual General Meeting for financial year 2015.

In its meeting of **May 10, 2016**, the Supervisory Board discussed, among other things, the current status of the process for the request for special audit at the Frankfurt am Main district court as well as requests received from shareholders for additions to the agenda for the Annual General Meeting 2016 in accordance with Article 122 (2) AktG.

At its meeting on **May 18, 2016**, the Supervisory Board, based on reporting from the Audit Committee as well as from the Executive Board, dealt with the results from the first quarter of financial year 2016 and with the current business development. In addition to the Executive Board report on current developments in the individual areas of responsibility of the Executive Board, the Supervisory Board also discussed selected business areas of STADA Arzneimittel AG.

In its extraordinary meeting on **May 22, 2016**, the Supervisory Board agreed to bring forward the structured process to significantly renew the Supervisory Board and to establish a Nomination Committee (on the basis of the current Nomination Panel). The Executive Board declared its intention to postpone the Annual General Meeting originally scheduled for June 9, 2016 to August 26, 2016 in order to ensure an orderly and transparent process for the selection of candidates and for the preparation of the election of the new Supervisory Board members. The Supervisory Board acknowledged and approved this approach.

In its extraordinary meeting of **June 5, 2016**, the Supervisory Board agreed a change at the Company's helm due to the serious and likely long-term illness of Chairman of the Executive Board Hartmut Retzlaff.

In its meeting of **July 14, 2016**, the Supervisory Board dealt with the strategy and performance update as well as the medium-term growth targets for 2019, which had previously been agreed and presented by the Executive Board. It also discussed preparations for the Annual General Meeting on August 26, 2016 as well as the report of the Human Resources Committee, among other things. Finally, the Supervisory Board also discussed the submission of the declarations of compliance pursuant to the German Corporate Governance Code.

At its meeting on **August 2, 2016**, the Supervisory Board, based on reports from the Audit Committee as well as from the Executive Board, dealt with the results from the first half of financial year 2016 and with the current business development. The Supervisory Board also acknowledged the changed reporting structure to the core segments Branded Products and Generics in place of the previous division by market regions, as presented by the Executive Board. The Supervisory Board once again discussed Executive Board personnel issues without the presence of the Executive Board.

In its meeting of **August 15, 2016**, the Supervisory Board particularly dealt with the termination of the employment of the former Chairman of the Executive Board Hartmut Retzlaff including the severance agreement.

On the day prior to the Annual General Meeting, on **August 25, 2016**, members of the Supervisory Board convened for a meeting to discuss issues related to the upcoming Annual General Meeting 2016.

In the meeting immediately following the Annual General Meeting 2016 on **August 26, 2016**, the Supervisory Board elected Carl Ferdinand Oetker as its new Supervisory Board chairman and Jens Steegers as the new deputy chairman.

In its meeting of **September 26, 2016**, the newly appointed Supervisory Board discussed general topics related to Supervisory Board work and organization as well as its rights and obligations. During this meeting, the Supervisory Board also agreed the establishment of a Strategy Committee and the appointment of all four Supervisory Board committees.

On **October 6, 2016** and **October 7, 2016**, the newly appointed Supervisory Board met with the Executive Board and extended management level for an intensive and detailed discussion as part of an in-depth onboarding process. These discussions particularly included the presentation and introduction of the operating business, key financial figures and the Group strategy of the Generics and Branded Products segments by the members of the Executive Board as well as the presentation of the risk management, internal auditing, corporate compliance, business excellence and transformation corporate departments by the heads of department.

In its meeting of **November 2, 2016**, the Supervisory Board dealt in detail with the financial results for the first nine months of financial year 2016, as presented by the Executive Board, the APAC and MENA and Russia/CIS regions as well as the Generics business in Germany. The Executive Board also informed the Supervisory Board of current M&A projects.

On **November 30, 2016**, the Supervisory Board received a detailed report on national and international compliance developments, measurements and benchmarks as well as the cultural change from the Executive Board.

At its last meeting of the reporting year on **December 13, 2016**, in addition to topics related to individual business areas and current M&A projects, the Supervisory Board particularly discussed the Group budget for financial year 2017, as presented by the Executive Board.

Composition of the Executive Board and the Supervisory Board

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 stepped down 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 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 Hartmut Retzlaff.[2)]

As of the reporting date, the Executive Board comprised Dr. Matthias Wiedenfels as Chairman and Helmut Kraft as Chief Financial, Marketing & Sales Officer. The Supervisory Board also appointed Dr. Barthold Piening as a full member of the Executive Board, effective from April 1, 2017.

The following changes occurred in the Supervisory Board in financial year 2016: Effective from the end of the Annual General Meeting on August 26, 2016, the long-standing Supervisory Board members Dr. Eckhard Brüggemann, Dr. K. F. Arnold Hertzsch, Dieter Koch and Constantin Meyer stepped down from their positions as shareholder representatives. At the recommendation of the Supervisory Board, the Annual General Meeting 2016 elected Rolf Hoffmann, Dr. Birgit Kudlek, Tina Müller and Dr. Gunnar Riemann to the Supervisory Board. At the request of the shareholders, the Annual General Meeting also agreed to dismiss the former Chairman of the Supervisory Board, Dr. Martin Abend, as well as the election of Dr. Eric Cornut. The Supervisory Board elected Carl Ferdinand Oetker as its new Chairman and Jens Steegers as the new Vice-Chairman.

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

Work of the committees

The consultative committees established by the Supervisory Board, the Audit Committee, Human Resources Committee, Strategy Committee and Nomination Committee supported the Supervisory Board in its duties.

The **Audit Committee** convened for eight meetings in financial year 2016 (on March 18, May 18, June 23, July 14, August 1, November 2, November 11 and December 12), in which all members of the Executive Board generally participated. The auditor took part in the financial statements review meeting on March 22, 2016 as well as in the meetings on August 1, 2016 and November 11, 2016. It was agreed that in future the auditor is generally to participate in all meetings of the Audit Committee. The Chairman of the Audit Committee and the Chairman of the Supervisory Board also maintained an exchange with the auditor between the meetings. Both Dr. Gunnar Riemann (Chairman of the Audit Committee) and Audit Committee member Carl Ferdinand Oetker have the necessary expertise in accounting and auditing as required by the German Stock Corporation Act.

The focus of the committee's work was, in particular, the review of the Annual and Consolidated Financial Statements from financial year 2015 together with the Management Report and the Group Management Report, the proposal for the appropriation of profits and the report of the auditor as well as the preparation of the Supervisory Board resolutions on these items. In addition, the condensed Interim Consolidated Financial Statements and Group Interim Management Report as of June 30, 2016 under consideration of the report of the auditor on the review of the financial statements were discussed in detail. The interim reports on the first quarter of 2016 and the first nine months of 2016 were also subjects that were dealt with by the committee. In addition, the Audit Committee dealt primarily with the operating results, key figures, accounting, Group financing principles, internal risk management, internal audit as well as compliance in the Group. The Audit Committee received detailed reports from both the Executive Board and the Chief Compliance Officer on developments and optimizations of the compliance managements system on the basis of external benchmarks (including the analysis and recommendations of an external auditor).

In the reporting year, the Audit Committee agreed to implement the process for the selection of the auditor as part of the changed EU auditing regulation and to publicly tender the audit of the Annual and Consolidated Financial Statements for STADA for financial year 2017 in a diligent and transparent selection process in accordance with Article 16 of the EU regulation. The Audit Committee was always involved as the responsible Board in all significant process and decision stages of the tender process. On the basis of its preferred election recommendation, the Supervisory Board will make the Annual General Meeting 2017 a recommendation for financial year 2017.

The **Human Resources Committee** convened for eight meetings in financial year 2016 (on February 19, June 14, June 21, October 10, November 1, November 2, November 15 and December 16). Alongside numerous discussions outside of meetings, these meetings also dealt with questions of Executive Board remuneration and Executive Board employment contracts, general Executive Board issues and strategic personnel issues as well as consultation on the termination of the employment of the former Chairman of the Executive Board Hartmut Retzlaff including questions concerning his replacement in the Executive Board. Finally, the Human Resources Committee prepared the appointment of Dr. Barthold Piening as Member of the Executive Board.

The **Strategy Committee** held one meeting in financial year 2016 on December 14, 2016, in which all five committee members took part. At this meeting, the Strategy Committee discussed the Branded Products core segment, portfolio management and the internationalization strategy. After an in-depth introduction from the Executive Board, the entire Supervisory Board in its new composition also dealt with the corporate strategy.

The **Nomination Committee** convened at four meetings in financial year 2016 (on May 25, May 26, May 30 and June 2, 2016) and held discussions outside of the meetings in order to manage the early process for the renewal of the Supervisor Board, advise on suitable election recommendations for the Annual General Meeting 2016 in accordance with the selection criteria developed by the Supervisory Board and to prepare proposed resolutions of the Supervisory Board to the Annual General Meeting.

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

Corporate governance

In financial year 2016, the Supervisory Board and Executive Board also dealt in detail with the further development of corporate governance in the Company while taking the current version of the German Corporate Governance Code into account. The joint Declaration of Compliance 2016 issued on the basis of the German Corporate Governance Code of May 5, 2015 by the Executive Board and the Supervisory Board on July 14, 2016 in accordance with Article 161 of the German Stock Corporation Act as well as the new Declaration of Compliance of March 2017 issued on March 2, 2017 in accordance with Article 161 of the German Stock Corporation Act is included in this Annual Report in the "Corporate Governance Report including Declaration of Compliance for STADA Arzneimittel AG and the Group" chapter and is publicly available on the Company's website in the Investor Relations/Corporate Governance section at www.stada.de and www.stada.com together with past Declarations of Compliance.

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

Annual and Consolidated Financial Statements, audit

The Annual Financial Statements of STADA Arzneimittel AG and the Consolidated Financial Statements as of December 31, 2016 as well as the Company's Management Report for financial year 2016 were audited by PKF Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion. The legal requirements and rotation obligations from Sections 319 and 319a of the German Commercial Code (Handelsgesetzbuch – HGB) are complied with. In addition to these legal requirements, the responsible auditor should in future not be active for a period longer than five years. Annika Fröde was appointed as the responsible auditor for the audit of the Annual and Consolidated Financial Statements 2016 for the first time (previous auditor Santosh Varughese).

The Supervisory Board had no doubts with regard to the independence of the auditor. The auditor submitted the Statement of Independence as required by the German Corporate Governance Code. The main areas of the audit were established by the Supervisory Board within the scope of the commissioning of the auditor. The Audit Committee reviewed the Financial Statements and Consolidated Financial Statements as well as the Management Report and the Group Management Report as well as the proposal for the appropriation of profits and also included the reports of the auditor on the audit of the Financial Statements in its review. The auditor reported on significant results of the audit in a meeting of the Audit Committee and was available for questions to the members of the Committee. The members of the Audit Committee dealt extensively with the submissions from the Executive Board and the audit reports and discussed these with the auditor. The Audit Committee raised no objections and recommended to the Supervisory Board to approve the Financial Statements and the Management Report as well as the Group Management Report and assent to the Executive Board's proposal for the appropriation of profits.

On the basis of the preparation by the Audit Committee, the Supervisory Board examined the Financial Statements and the Consolidated Financial Statements prepared by the Executive Board, the Management Report and the Group Management Report of the Executive Board on the financial year 2016 as well as the Executive Board's proposal for the appropriation of profits. The Chairman of the Audit Committee reported to the Supervisory Board on the work and the audit results of the Audit Committee. The auditor reported to the Supervisory Board on significant results of the audit and was available for questions from members of the Supervisory Board. The Supervisory Board discussed the submissions mentioned above and the conclusions of the auditor in detail with the auditor and the Executive Board. Also following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the Annual Financial Statements, the Management Report, the Consolidated Financial Statements and the Group Management Report on the financial year 2016 and concurred with the outcome of the audit. The auditor also determined that the Executive Board had implemented an appropriate information and monitoring system which, in its concept and use, is suitable for the early recognition of any developments that could threaten the continuation of the Company.

The Supervisory Board approved the Annual Financial Statements and the Consolidated Financial Statements prepared by the Executive Board. The Annual Financial Statements are thus adopted. The Supervisory Board concurred with the individual assessments of the business situation and the outlook as given in the Management Report of the Executive Board and with the proposal of the Executive Board for the appropriation of profits that provides for a dividend of € 0.72 per STADA share.

Conclusion

Although the Supervisory Board was newly appointed at the end of August 2016, we can draw an extremely positive conclusion for the past financial year. The Supervisory Board has largely achieved its targets for 2016: the pre-selection and integration of the new members following their election by the Annual General Meeting, the reorganization of the Board and intensive integration, the appointment of a new Chief Technology Officer, the intensive dialog with shareholders, the tendering of the audit of the Consolidated Financial Statements and finally a new, modern remuneration system for the Executive Board. The Supervisory Board has also supported all corporate governance issues, which affect it as a Board (introduction of a general age limit and limit for membership of the Board; introduction of a structured and comprehensive efficiency review with external support). There is of course still a lot to do, the completion of the Executive Board with a Chief Sales & Marketing Officer is just one example. The Supervisory Board is aware of its responsibility and will continue to carry out its work with determination, a professional approach and a high level of personal commitment.

We look forward to future cooperation with all employees of the Group, the Executive Board and management and thank you all for your tremendous commitment in financial year 2016.

Bad Vilbel, March 27, 2017

Carl Ferdinand Oetker
Chairman of the Supervisory Board

PUBLISHING INFORMATION

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Forward-looking statements

These STADA Arzneimittel AG (hereinafter “STADA”) financial statements as of December 31, 2016 and this management report for financial year 2016 contain certain statements regarding future events that are based on the current expectations, estimates and forecasts on the part of the company management of STADA as well as other currently available information. They imply various known and unknown risks and uncertainties, which may result in actual earnings, the net assets, financial position and results of operations, growth or performance being materially different from the estimates expressed or implied in the forward-looking statements. Statements with respect to the future are characterized by the use of words such as “expect”, “intend”, “plan”, “anticipate”, “believe”, “estimate” and similar terms. STADA may, where appropriate, also make forward-looking statements in other reports, in presentations, in material delivered to shareholders, in investor news and in press releases. Furthermore, our representatives may from time to time make forward-looking statements verbally. STADA is of the opinion that the expectations reflected in forward-looking statements are appropriate; however, it cannot guarantee that these expectations will actually materialize. Risk factors include in particular: The influence of regulation of the pharmaceutical industry; the difficulty in making predictions concerning approvals by the regulatory authorities and other supervisory agencies; the regulatory environment and changes in the health-care policy and in the health care system of various countries; acceptance of and demand for new drugs and new therapies; the results of clinical studies; the influence of competitive products and prices; the availability and costs of the active ingredients used in the production of pharmaceutical products; uncertainty concerning market acceptance when innovative products are introduced, presently being sold or under development; the effect of changes in the customer structure; dependence on strategic alliances; exchange rate and interest rate fluctuations, operating results, as well as other factors detailed in the annual reports and in other Company statements. STADA does not assume any obligation to update these forward-looking statements.

Rounding

In the general portion of these financial statements as of December 31, 2016 and this management report for financial year 2016, STADA key figures are, as a rule, rounded to millions of euro, while the Notes present these figures, as a rule, with greater accuracy in thousands of euro. Due to rounding of these figures, differences may arise in individual figures between the general portion and the Notes, as well as from figures actually achieved in euro; these differences cannot be considered material.