STADA
ANNUAL REPORT
2017

STADA

STADA KEY FIGURES

Key figures for the Group in € million	2017	2016	±%
Group sales	2,313.9	2,139.2	+8%
• Generics	1,361.7	1,280.7	+6%
• Branded Products	952.2	858.5	+11%
Operating profit	192.3	178.1	+8%
• Generics	233.2	195.2	+19%
• Branded Products	99.3	81.4	+22%
EBITDA	363.8	361.5	+1%
• Generics	292.5	255.8	+14%
• Branded Products	204.9	186.2	+10%
Net income	85.3	85.9	-1%
Group sales adjusted for currency and portfolio effects	*2,255.3*	*2,128.7[1)]*	*+6%*
• Generics	*1,324.4*	*1,272.5[1)]*	*+4%*
• Branded Products	*930.9*	*856.2[1)]*	*+9%*
Operating profit, adjusted[2)3)]	*322.3*	*294.4*	*+9%*
• Generics	*248.8*	*214.2*	*+16%*
• Branded Products	*156.2*	*152.8*	*+2%*
EBITDA, adjusted[2)3)]	*433.9*	*398.0*	*+9%*
• Generics	*302.8*	*264.9*	*+14%*
• Branded Products	*207.4*	*200.7*	*+3%*
Net income, adjusted[2)3)]	*195.6*	*177.3*	*+10%*
Cash flow from operating activities	262.9	333.5	-21%
Investments	113.6	189.7	-40%
Depreciation and amortization (net of write-ups)	169.2	182.7	-7%
Employees (average number – based on full-time employees)[4)]	10,832	10,839	0%
Employees (as of the reporting date – based on full-time employees)	10,176	10,923	-7%

Key share figures	2017	2016	±%
Market capitalization (year-end) in € million	5,500.4	3,066.3	+79%
Year-end closing price (XETRA®) in €	88.23	49.19	+79%
Number of shares (year-end)	62,342,440	62,342,440	0%
Average number of shares (without treasury shares)	62,258,051	62,256,532	0%
Earnings per share in €	1.37	1.38	-1%
Dividend per share in €	0.11[5)]	0.72	-85%
Total dividend payments in € million	6.8[5)]	44.8	-85%
Distribution ratio as a percentage	8[5)]	52	-85%
Earnings per share in €, adjusted[2)3)]	*3.14*	*2.85*	*+10%*

1) Sales of the corresponding period of the previous year adjusted for currency and portfolio effects represent the comparable basis which is relevant for the key figure of the current reporting period.
2) The elimination of effects which have an impact on the presentation of STADA's results of operations and the derived key figures improves the comparability of key figures from previous years. To achieve this, STADA uses adjusted key figures, which, as so-called pro forma figures, are not governed by the accounting requirements in accordance with IFRS. As other companies may not calculate the pro forma figures presented by STADA in the same way, STADA's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.
3) Within the context of this annual report, adjustments in connection with the earnings figures generally relate to special items.
4) This average number includes changes in the scope of consolidation on a pro-rata basis.
5) Proposal.

STADA PROFILE

STADA Business Model

- Focus on growing health care market with emphasis on pharmaceuticals
- Segments
  - Generics (59% share in adjusted Group sales)
  - Branded Products (41% share in adjusted Group sales)
- Strategic success factors
  - Positioning toward relatively non-cyclical pharmaceutical market
  - Comprehensive generics portfolio including selected biosimilars
  - Attractive margin branded products
  - Strong product development and well-filled pipeline
  - International sales network
  - Numerous initiatives to further enhance efficiency
  - Highly-qualified and committed employees

2,255.3
Adjusted Group sales in € million

19
Production sites

~50
Sales companies

~130
Countries in which STADA products are sold

STADA Highlights 2017

- Strong growth in Group sales – driven by both segments
- Significant increase in adjusted EBITDA – margin improvement in Generics
- Improved gross margin
- Growing internationalization of successful branded products
- Introduction of 670 products
- Transformation process progressing well – implementation of further efficiency enhancement initiatives for sustainable growth
- Significant increase in share price
- Successful takeover by Nidda Healthcare Holding (acquiring company of Bain Capital and Cinven)

Top 5 Branded Products 2017

APO-Go®
Sales: € 68.2 million

Grippostad®
Sales: € 43.3 million

Aqualor®
Sales: € 40.3 million

Snup®
Sales: € 36.6 million

Vitaprost®
Sales: € 32.5 million

TABLE OF CONTENTS

LETTER TO SHAREHOLDERS FROM THE STADA CEO

Dr. Claudio Albrecht, Chairman of the Executive Board of STADA Arzneimittel AG

Dear Shareholders, Ladies and Gentlemen,

2017 was an eventful, but also successful year for STADA. The takeover process took many months to complete and has made Bain Capital and Cinven our majority shareholder. We now also have, in part, new members on the management team and the Supervisory Board.

Despite the many changes, we performed well in the past financial year. Excellent business development in the Belgian and Italian generics and the Russian branded products segments played a key role here. Both core segments significantly bolstered Group sales. The key earnings figures also saw very sound developments at segment level. We were able to improve both the Generics margins and the gross margin. The number of product launches also increased compared to the previous year. The fact that STADA is able to produce these results even in times of change proves the strength of our Group.

However, even if – or precisely because – you are successful, you must continue to initiate and implement changes to ensure that STADA continues on its growth path. For this reason, the last quarter of 2017 in particular saw us implement a large number of sustainable initiatives to increase efficiency as part of our transformation process. We bundled organizational and sales structures, further optimized the product portfolio, and advanced the internationalization of regionally successful branded

products. Moreover, we introduced cost-cutting measures in the area of procurement and launched projects for the optimization of the production and supply chain worldwide. In the Generics segment, we continued to work on further expanding our product portfolio.

In the last quarter of 2017, we worked with the new team to develop a vision for the STADA Group which will lead to a realignment of corporate strategy in 2018. As a result, we will be focusing more closely on biosimilars, international marketing of our successful OTC products as well as more efficient processes. In the area of biosimilars, we have so far pursued an in-licensing strategy, as this is a lower-risk and more cost-effective way than carrying out in-house developments. In the future, we will expand our product portfolio by increasingly working with partner companies to develop biosimilars, as this is generally associated with greater earnings potential. In principle, the focus should be on products for the indications groups of oncology, the central nervous system, diabetes and ophthalmology. In addition to biosimilars, the internationalization of successful branded products is one of the business areas with the greatest growth potential, and we therefore intend to promote this far more than we have done in the past. Hedrin®, the head lice remedy, is an example of this. It is our first pan-European product, and points the way to us adopting the same route with some of our other strong products such as Fultium® or ViruProtect®. In the course of increasing the efficiency of processes, we will focus on bundling supplier contracts, harmonizing the packaging area, and carrying out further process optimization in production. These measures are just examples of numerous initiatives that we will be rapidly implementing during the course of the realignment.

"Together with our employees, we will successfully develop our Group and focus on sustainable growth."

In addition to all the operational changes, we have also introduced a cultural change. 2017 was no easy year for our employees, as change always comes with uncertainty. This is why we appreciate all the more the active support our employees have given in helping us to achieve these great results. For us to be able to continue to develop our Group and focus on sustainable growth, we will continue to need employees who are intimately familiar with STADA and are ready to tackle the new challenges with a positive attitude. In order to strengthen this stance, we have therefore begun to make significant improvements to the way in which we communicate in the Group, with our more than 10,000-strong workforce. We will do our upmost to bring about a better corporate and role model culture in addition to carrying out the specialist tasks ahead of us. Transparency, individual responsibility, cross-departmental teamwork and open communication are for me the important keywords in this respect.

The past financial year has seen us lay a solid foundation for the sustainable, successful future that lies ahead for STADA. We are on the right path, but we still have a lot to achieve. We will need to make further changes that are absolutely essential. But I am sure that we will achieve our goals if we continue to combine our efforts. The past has shown us that these objectives can only be achieved if we work together. I would therefore like to thank our employees for their outstanding dedication and commitment. I would also like to thank the former members of the Supervisory Board and Executive Board, as well as the new members of the Supervisory Board. And, finally, I want to thank the Advisory Board, who also provided us with vital support. When I look at this outstanding team, I feel very optimistic about the 2018 financial year.

Dr. Claudio Albrecht
CEO

REPORT OF THE SUPERVISORY BOARD

Dr. Günter von Au,
Chairman of the Supervisory Board of STADA Arzneimittel AG

Dear Shareholders,

As the Supervisory Board of STADA Arzneimittel AG, we look back again at an unusual and eventful financial year 2017 – a year that was shaped especially by the takeover process that began in February 2017 and was completed in August 2017 and in the second half of which we saw renewed personnel changes at Executive Board level and in the Supervisory Board.

In reporting year 2017, the Supervisory Board carefully executed the duties incumbent upon it in accordance with the law and the Articles of Incorporation. It 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. The Supervisory Board was involved directly and at an early stage in all decisions of fundamental importance for the Company. The Executive Board briefed the Supervisory Board regularly, in a timely manner and comprehensively – at times 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 matter in question.

Meetings of the Supervisory Board and focus of activities

In financial year 2017, the Supervisory Board convened for a total of twenty-three meetings. All members of the Supervisory Board generally participated in more than half of the meetings of the Plenum and of the committees to which they belong with the exception of Ms. Müller, who was prevented from attending the only meeting of the Strategy Committee. The average participation rate at the meetings of the Supervisory Board and its committees in financial year 2017 was about 95%. We show them individually 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 positioning of the corporate strategy, corporate planning of the Company and the Group as well as the position of the Company and 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.

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 optimizations.

The Supervisory Board also dealt intensively with risk and opportunities management in the Group, the internal control and auditing systems, 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. It was regularly informed by the Executive Board on current M&A projects.

In the reporting year, the Supervisory Board also dealt intensively with the Annual and Consolidated Financial Statements as of December 31, 2016 and with the ongoing financial reporting of financial year 2017. At its financial statements review meeting in March 2017, the Supervisory Board dealt in detail with the business situation and earnings development in the previous financial year 2016 as well as with the Annual and Consolidated Financial Statements as of December 31, 2016. 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 2016. The auditor participated in the consultations and reported prior to the resolution on the significant results of the audit. The Supervisory Board also approved the Report of the Supervisory Board to the General Meeting for financial year 2016. Furthermore, 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, the first half year and second quarter as well as the first 9 months and the third quarter of financial year 2017 and with the respective business development.

In the past financial year, the Supervisory Board closely supported the structured bidding and takeover process. In many meetings, working meetings and telephone conferences, it especially also dealt intensively with the takeover bid that was successful in the second attempt from Nidda Healthcare Holding AG (now GmbH), the bidding company from Bain Capital and Cinven, and with questions regarding the valuation of the Company for an assessment of the appropriateness of the bid price. In this regard, it was supported by external legal and financial advisers and also established an ad hoc committee in order to more efficiently prepare and accompany the process. In its former composition, the Supervisory Board issued its approval for the conclusion of the investor agreement (indirectly) with Bain Capital and Cinven as well as its renewal in connection with the renewed takeover bid. It passed a resolution on the issue of the two reasoned joint statements from the Executive Board and the Supervisory Board in the original and in the renewed takeover bid pursuant to Section 27 of the German Securities Acquisition and Transfer Act (WpÜG). Therein, both boards supported the transaction because, in their view, it was in the best interests of STADA and its

stakeholders. The Supervisory Board, together with the Executive Board, also dealt with the exemption of the bidding company from the one-year exclusion period pursuant to Section 26 (2) WpÜG by the German Federal Financial Supervisory Authority (BaFin) which made the renewed takeover bid possible. The Supervisory Board welcomed the successful takeover by Bain Capital and Cinven. With the extensive industry expertise of the new owners and their access to a worldwide network in the health care sector, STADA's position as a globally-active pharmaceutical company should be sustainably strengthened.

Following the successful completion of the takeover, the Supervisory Board, in its new composition, dealt with the planned conclusion of the domination and profit and loss transfer agreement between STADA and Nidda Healthcare GmbH and the associated valuation issues. Approval of the contract conclusion itself was issued on December 19, 2017 by the Ad-hoc-DPLA Committee, which the Supervisory Board had established to efficiently and neutrally support the process. The Supervisory Board is of the opinion that the conclusion of the domination and profit and loss transfer agreement is in the best interests of STADA and its stakeholders and that the settlement and compensation payment offered to minority shareholders were appropriate. As a result of the domination and profit and loss transfer agreement concluded on December 19, 2017, a closer and more effective cooperation between STADA and its majority shareholder, Nidda Healthcare GmbH, as well as the companies controlled by Bain Capital and Cinven is ensured. The contract received the approval of STADA's Extraordinary General Meeting on February 2, 2018 and thus takes effect with entry in the Commercial Register.

The Supervisory Board also dealt intensively and following detailed discussions with the Executive Board with the Annual General Meeting that was postponed to August 30, 2017, including questions regarding the agenda as well as with the Extraordinary General Meeting of February 2, 2018 and made all resolutions in connection with these.

The subject of intensive discussions on the part of the Supervisory Board in the past financial year was also the review of issues in the past, particularly relating to former members of the Executive Board. At the initiative of the Supervisory Board and the Executive Board in its former composition, the Annual General Meeting 2017 decided to postpone approval of former members of the Executive Board for financial year 2016. The Supervisory Board in its new composition on November 8, 2017 established its own Compliance Committee which, with the support of an external law firm, is impartially undertaking a neutral and final appraisal of the situations. This appraisal is being carried forward with a high degree of intensity but in the interest of an unprejudiced and full clarification is still ongoing. Therefore, without being able to anticipate the results, the Supervisory Board is nonetheless confident that initial results should ideally be available by the Annual General Meeting on June 6, 2018.

In the reporting year, the Supervisory Board also dealt repeatedly and intensively with Executive Board issues as well as the search for new Executive Board members.

Following the taking of office of the judicially appointed members of the Supervisory Board on September 26, 2017, the new Supervisory Board got together with the Executive Board for an intensive and detailed exchange. The Supervisory Board also revised its rules of procedure. Further, it developed new goals for its composition and the competence profile for the entire committee pursuant to Section 5.4.1 (2) of the German Corporate Governance Code (GCGC) and, in this connection, developed a diversity concept in accordance with Section 289f (5) HGB for the Executive Board and the Supervisory Board. As part of this process, the Supervisory Board also set new targets for the proportion of women in the Supervisory Board and the Executive Board. The aspects mentioned are described in greater detail in the Corporate Governance Report including the Declaration on Corporate Governance for STADA Arzneimittel AG and the Group.

At the end of the reporting year, the Supervisory Board also dealt thoroughly with the Group budget for financial year 2018 presented by the Executive Board.

Personnel changes in the Supervisory Board and Executive Board

The following changes in the Supervisory Board and Executive Board occurred in financial year 2017:

Following the successful takeover, on August 25, 2017, the Chairman of the Supervisory Board at the time, Carl Ferdinand Oetker and Supervisory Board members at the time Rolf Hoffmann, Dr. Birgit Kudlek, Tina Müller and Dr. Gunnar Riemann resigned their positions in the Supervisory Board with effect from the end of September 25, 2017 in accordance with the resignation period stipulated by the Articles of Incorporation. The Supervisory Board would like to take this opportunity to thank the former members of the Supervisory Board for their work in the Supervisory Board during their respective periods in office.

On September 26, 2017, the District Court of Frankfurt am Main, with immediate effect, appointed Dr. Günter von Au, Jan-Nicolas Garbe, Benjamin Kunstler, Bruno Schick, Dr. Michael Siefke as members of the Supervisory Board. At its constituent meeting on September 27, 2017, the Supervisory Board elected Dr. Günter von Au as its new Chairman and immediately took up its work.

On July 4, 2017, the former Chairman of the Executive Board Dr. Matthias Wiedenfels and Chief Financial, Marketing & Sales Officer Helmut Kraft stepped down from their respective offices. It was possible for the Supervisory Board at the time to quickly fill the positions with immediate effect through interim members of the Executive Board Engelbert Coster Tjeenk Willink as Chairman of the Executive Board and Dr. Bernhard Düttmann as Chief Financial Officer. Following the successful takeover, Engelbert Coster Tjeenk Willink and Dr. Bernhard Düttmann stepped down from their respective offices with effect as of September 27, 2017. The newly composed Supervisory Board appointed Dr. Claudio Albrecht as new Chairman of the Executive Board and Mark Keatley as Chief Financial Officer both with immediate effect as of September 27, 2017. The Supervisory Board would like to thank the former Executive Board members who held office in financial year 2017 for their work during their respective times in office.

As of the balance sheet date, the Executive Board thus consisted of Dr. Claudio Albrecht as Chairman of the Executive Board, Mark Keatley as Chief Financial Officer and Dr. Barthold Piening as Chief Technical Officer.

Work of the committees

The committees established by the Supervisory Board supported the Supervisory Board in its duties over the course of the reporting year.

The **Audit Committee** convened for six meetings in financial year 2017 at which the auditor and in general also the members of the Executive Board participated. The Chairman of the Audit Committee and the Chairman of the Supervisory Board also maintained an exchange with the auditor between the meetings. Both the former Chairman of the Audit Committee, Dr. Gunnar Riemann, as well as the newly-elected Chairman of the Audit Committee Dr. Michael Siefke have the particular knowledge and experience in the areas of accounting and auditing that is required by the German Stock Corporation Act.

The focus of the committee's work in financial year 2017 was, in particular, the review of the Annual and Consolidated Financial Statements from financial year 2016 together with the Management Report and the Group Management Report for financial year 2016, the proposal for the appropriation of profits and the reports 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, 2017 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 2017 and the first nine months and the third quarter of 2017 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.

Already in the previous reporting year, the Audit Committee had 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. On the basis of its preferred election recommendation, the Supervisory Board will make the General Meeting 2017 a recommendation for financial year 2017, according to which the auditing firm PricewaterhouseCoopers GmbH was elected new auditor and Group auditor by the General Meeting for financial year 2017. The Audit Committee also dealt in detail with the planned focuses of the audit by the auditor and Group auditor for financial year 2017 as well as with the new legal requirements for the publication of the audit of the financial statements.

The Audit Committee also dealt with the preparations for the Supervisory Board Plenum with the Combined Non-Financial Report pursuant to Section 289 HGB in connection with Section 315b HGB which was to be issued for the first time in financial year 2017 by the Executive Board and reviewed by the Supervisory Board, which also dealt with the process of its preparation. It proposed to the Supervisory Board Plenum, in line with Section 111 (2) Sentence 4 AktG, that the Combined Non-Financial Report be subjected to a review of its contents by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

In addition, the Audit Committee, in a meeting held in November 2017 at which the members of the Ad-hoc DPLA Committee also participated, was informed by valuation experts ValueTrust Financial Advisors SE on the current status of the calculation of the enterprise value for the purposes of the planned conclusion of a domination and profit and loss transfer agreement between STADA and Nidda Healthcare GmbH.

The **Human Resources Committee** convened for four meetings in financial year 2017 as well as for many working meetings and telephone conferences arranged at short notice. The subject of the meetings and discussions outside of the meetings were questions of Executive Board remuneration and Executive Board employment contracts, the composition of the Executive Board, general Executive Board matters as well as consultations on the terminations of the periods in office of former Chairman of the Executive Board Dr. Matthias Wiedenfels and Chief Financial, Marketing & Sales Officer Helmut Kraft including questions related to succession in the Executive Board through interim Executive Board members Engelbert Coster Tjeenk Willink as Chairman of the Executive Board and Dr. Bernhard Düttmann as Chief Financial Officer. In this connection, the Human Resources Committee held interviews with the candidates and introduced them to the Plenum. On October 23, 2017, the Supervisory Board decided on the dissolution of the Human Resources Committee, with their tasks being transferred to the newly-formed Chairman's Committee.

The **Strategy Committee** held one meeting in financial year 2017. At this meeting, it discussed what is new in the Branded Products core segment, portfolio management and the internationalization strategy. Furthermore, the Strategy Committee dealt with the introduced transformation program and the planned strategy review in the area of production and development. On October 23, 2017, the Supervisory Board decided on the dissolution of the Strategy Committee, with its tasks being transferred to the newly-formed Chairman's Committee.

At its only meeting in financial year 2017, the **Nomination Committee** dealt with the recommendations of the German Corporate Governance Code with regard to the definition of an age limit for membership of the Supervisory Board and a standard limit for the duration of membership in the Supervisory Board and then voted unanimously in favor of a relevant resolution recommendation to the Supervisory Board Plenum.

On February 15, 2017, the Supervisory Board decided, in the course of the execution of the structured bidding process in the takeover procedure, on the establishment of an **Ad-hoc Takeover Committee** in order to facilitate a fast and close exchange between the two organs Executive Board and Supervisory Board, the ability to act at short notice as well as the fast and efficient decision-making ability of the Supervisory Board. The Committee got together for many working meetings, discussions and telephone conferences, often arranged at short notice. Together with the Executive Board, it took part in personal meetings with the bidder consortiums and discussed the investor agreements. It dealt in a preparatory manner for the Supervisory Board Plenum, among other things, intensively with the takeover bids, associated questions of the valuation of the Company for the assessment of the appropriateness of the bid price, the communication strategy as well as the reasoned joint statements together with the Executive Board. Following the completion of the takeover of the Company by Bain Capital and Cinven, the Ad-hoc-Takeover Committee, with the resolution of September 3, 2017, was dissolved with immediate effect.

On October 23, 2017, the Supervisory Board decided on the establishment of a **Chairman's Committee**. The Chairman's Committee convened in financial year 2017 for its inaugural meeting and dealt intensively in working meetings and through the holding of interviews with the search for a suitable successor for Dr. Claudio Albrecht. At the beginning of 2018, it was possible to attract Peter Goldschmidt as new Chairman of the Executive Board from September 1, 2018, an outstanding successor who will continue to pursue the successful path of renewal at STADA.

On October 23, 2017, in the course of the planned completion of a domination and profit and control transfer agreement between STADA and Nidda Healthcare GmbH, a **DPLA Committee** was established as an ad-hoc committee for the efficient and neutral process support and delegated the approval of the Supervisory Board for the conclusion of the domination and profit and loss transfer agreement. The members of the Committee concluded, after intensive discussions, that the conclusion of the domination and profit and loss transfer agreement is in the best interests of STADA and that the settlement and compensation payment offered to minority shareholders were appropriate. The members of the DPLA Committee in November 2017, among other things, participated in a meeting of the Audit Committee at which the valuation experts informed them on the ongoing enterprise valuation. At its meeting on December 19, 2017, the Committee, following an explanation by the valuation experts and the contract auditors as well as detailed discussions with the Executive Board, issued its approval for the conclusion of the domination and profit and loss transfer agreement.

The **Compliance Committee** established on November 8, 2017 held three meetings in the reporting year exchanged information outside of the meetings in numerous telephone conferences. The Committee dealt intensively with the specific status of the handling of past issues relating in particular to former members of the Executive Board and was supported by an external law firm dealing with the neutral clarification. It prepared the decisions to be taken in these matters by the full Supervisory Board.

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 2017, 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. In March 2017, the Supervisory Board together with the Executive Board, initially on the basis of the version of the German Corporate Governance Code from May 5, 2015 (published on June 12, 2015 in the Federal Gazette) issued the Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act and updated it in July 2017. In December 2017, the Executive Board and the Supervisory Board also issued a new Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act on the basis of the German Corporate Governance Code in the version from February 7, 2017 (published in the Federal Gazette on April 24, 2017 and published in the corrected version on May 19, 2017) and thus took into account the new version of the German Corporate Governance Code. The formerly usual declaration frequency thus returned at the end of the year. This Declaration of Compliance is printed in this Annual Report in the chapter "Corporate Governance Report including the Declaration of Corporate Governance for STADA Arzneimittel AG and the Group" and available to the public on the website of the Company at www.stada.de or www.stada.com under Investor Relations/Corporate Governance together with all previous Declarations of Compliance and updates.

No conflicts of interest arose in the reporting year which had to be disclosed to the Supervisory Board and about which the General Meeting must be informed. Because, however, the Supervisory Board could not entirely rule out a potential conflict of interest in relation to the domination and profit and loss transfer agreement, it established the DPLA Committee as a precaution, in order to ensure in any case a neutral resolution with regard to the conclusion of the domination and profit and loss transfer agreement.

Annual and Consolidated Financial Statements, audit; Non-Financial Report

The Annual Financial Statements of STADA Arzneimittel AG and the Consolidated Financial Statements as of December 31, 2017 as well as the Combined Management Report for the AG and the Group for financial year 2017 were audited by Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and issued with an unqualified audit opinion. The legal requirements and rotation obligations from Sections 319 and 319a of the German Commercial Code (HGB) are complied with. In addition to legal requirements, the Company also ensures that the responsible auditor is not active for more than five years. For the audit of the Annual and Consolidated Financial Statements 2017, for the first time auditor Dr. Bernd Roese, Pricewater-houseCoopers GmbH was the responsible auditor (formerly auditor Annika Fröde, PKF Deutschland GmbH).

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 Combined Management Report for the AG and the Group 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 that the Supervisory Board approve the financial statements and the Combined Management Report for the AG and the Group 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 Combined Management Report for the AG and the Group on the financial year 2017 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. In addition, following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the Financial Statements, the Consolidated Financial Statements and Combined Management Report for the AG and the Group on the financial year 2017 and concurred with the outcome of the audit. The new 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 and with the proposal of the Executive Board for the appropriation of profits that provides for a dividend of € 0.11 per STADA share as given in the Combined Management Report for the AG and the Group.

Furthermore, the Audit Committee and the Supervisory Board dealt with the Combined Separate Non-Financial Report for STADA Arzneimittel AG and the Group prepared by the Executive Board for financial year 2017. Auditing firm Pricewaterhouse-Coopers GmbH conducted an audit to obtain limited assurance and issued an unqualified audit opinion. The documents were carefully reviewed by the Audit Committee and Supervisory Board at its balance sheet meetings in March 2018. The Executive Board explained the reports in detail at both meetings. Representatives of the auditor took part in both meetings in which they reported on the significant results of their audit and answered additional questions from the members of the Supervisory Board. Following their review, the Supervisory Board had no objections.

The report prepared by the Executive Board pursuant to Section 312 AktG on relationships of STADA Arzneimittel AG with affiliated companies was submitted to the Supervisory Board. In its conclusion, the report contains the following declaration of the Executive Board, which is also included in the Management Report:

"Our Company, STADA Arzneimittel AG, received an appropriate consideration for each transaction listed in the report on relations with affiliated companies for the period from August 22 until December 31, 2017, under the circumstances known to us at the time the transactions were made. Measures requiring disclosure were neither taken nor did the Company refrain from taking such measures in the reporting period."

The auditor reviewed the report on relations with affiliated companies and issued the following audit opinion:

"Following our proper audit and evaluation, we confirm that

1. the actual disclosures in the report are correct
2. for the legal transactions listed in the report, the payment from the company was not inappropriately high."

The auditor took part in the meeting of the Supervisory Board in March 2018 about the report on relations with affiliated companies and was available to provide the Supervisory Board with any supplementary information. Following its own review, the Supervisory Board agrees with the assessment of the auditor and had no objections to the declaration of the Executive Board on relations with affiliated companies at the end of the report and integrated into the Management Report.

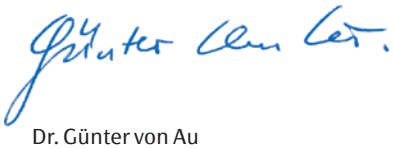
Conclusion

Although the Supervisory Board only reconstituted at the end of September 2017, we have drawn a generally positive conclusion for the past financial year, a year that was associated with intensive phases for the entire STADA Group and all of its employees. For the successful profitable growth of a company, one in which our customers see the partner of their choice and in which our colleagues enjoy working and are committed, not only is a carefully thought-out strategy and professional implementation an important condition, but also personnel continuity.

I personally am thoroughly convinced that, in recent months, we have laid the foundation for the positive future of our Company.

The Supervisory Board wishes to express its gratitude to all of the Group's employees, the Executive Board and management for their tremendous commitment in financial year 2017.

Bad Vilbel, March 8, 2018



Dr. Günter von Au
Chairman of the Supervisory Board

OVERVIEW OF THE FINANCIAL YEAR

STADA showed good business development in 2017. Group sales increased significantly driven by both segments. Earnings figures developed positively at segment level, but were impacted at Group level by special items. Both the Generics margin and the gross margin improved. The takeover by Nidda Healthcare Holding (acquiring company of Bain Capital and Cinven) was successful.

Good business development

STADA showed good business development in the reporting year. In particular, contributing to this were the very positive developments in the Belgian and Italian generics segment as well as the Russian branded product segment. Earnings figures developed positively at segment level but at Group level they were impacted by special items particularly attributable to consultancy services in connection with the takeover by Bain Capital and Cinven that was completed in 2017 and to severance payments.

Reported Group sales increased in financial year 2017 by 8% to € 2,313.9 million (previous year: € 2,139.2 million). When effects on sales attributable to changes in the Group portfolio and currency effects are deducted, adjusted Group sales increased by 6% to € 2,255.3 million (previous year: € 2,128.7 million).

Reported EBITDA increased by 1% to € 363.8 million (previous year: € 361.5 million). Adjusted EBITDA recorded growth of 9% to € 433.9 million (previous year: € 398.0 million). Reported net income declined by 1% to € 85.3 million (previous year: € 85.9 million). Adjusted net income increased by 10% to € 195.6 million (previous year: € 177.3 million).

The Executive Board and the Supervisory Board propose to the General Meeting on June 6, 2018 that a dividend of € 0.11 per STADA share be distributed for financial year 2017.

The financial position of the STADA Group recorded positive development in the reporting year. The equity ratio as of December 31, 2017 was 31.4% (December 31, 2016: 30.4%). Net debt amounted to € 1,054.7 million as of the balance sheet date (December 31, 2016: € 1,118.2 million). In financial year 2017, the net debt to adjusted EBITDA ratio improved to 2.4 (previous year: 2.8).

Cash flow from operating activities in 2017 decreased to € 262.9 million (previous year: € 333.5 million). Free cash flow was € 140.2 million (previous year: € 161.8 million). Free cash flow adjusted for payments for significant investments or acquisitions and proceeds from significant disposals decreased to € 181.2 million (previous year: € 243.9 million).

Successful takeover offer

After the takeover offer published on April 27, 2017 by Nidda Healthcare Holding AG (with entry from October 23, 2017 now Nidda Healthcare Holding GmbH), the acquiring company of Bain Capital and Cinven, did not reach the minimum acceptance threshold, Nidda Healthcare Holding AG made STADA shareholders a renewed and improved takeover offer on July 19, 2017 following the exemption from the exclusion period granted by BaFin and approved by STADA. This offer was successful after 63.85% of the STADA shares outstanding were tendered to the acquiring company and the minimum acceptance threshold was thus exceeded.

Changes in the Executive Board and Supervisory Board

In financial year 2017, there were changes in both the STADA Executive Board and the STADA Supervisory Board.

On April 1, 2017, Dr. Barthold Piening, Chief Technical Officer, took up his position as member of the STADA Executive Board.

At the beginning of the third quarter of 2017, changes were made to the STADA Executive Board after the STADA Supervisory Board at its meeting on July 4, 2017 consented to the resignation of Dr. Matthias Wiedenfels as Chairman of the Executive Board and Helmut Kraft as member of the Executive Board with immediate effect. At the same time, the Supervisory Board appointed Engelbert Coster Tjeenk Willink as Chairman of the Executive Board and Dr. Bernhard Düttmann as a member of the Executive Board and Chief Financial Officer. Both of the new Executive Board members were appointed with immediate effect and for a period until December 31, 2017.

On August 25, 2017, STADA gave notice that Carl Ferdinand Oetker, Chairman of the Supervisory Board, Rolf Hoffmann, Dr. Birgit Kudlek, Tina Müller and Dr. Gunnar Riemann resigned from their positions on the Supervisory Board with effect from the end of September 25, 2017 in accordance with the resignation period provided by the Articles of Incorporation. On September 27, 2017, STADA announced that Jan-Nicolas Garbe, Benjamin Kunstler, Bruno Schick, Dr. Michael Siefke and Dr. Günter von Au with effect from September 26, 2017 were appointed by the court as successors of the STADA Supervisory Board members who had resigned. In addition, the Company also announced that the Supervisory Board in its constituent meeting elected Dr. Günter von Au as new Chairman of the Supervisory Board.

At its meeting on September 27, 2017, the Supervisory Board consented to the resignation of Engelbert Coster Tjeenk Willink as Chairman of the Executive Board and Dr. Bernhard Düttmann as member of the Executive Board with immediate effect. Further, the Supervisory Board on the same day appointed Dr. Claudio Albrecht as new Chairman of the Executive Board and Mark Keatley as new Chief Financial Officer.

Transformation process including numerous initiatives for further efficiency enhancement progressing well

As part of the transformation process, in the reporting year and in particular in the fourth quarter of 2017, STADA sustainably implemented the numerous initiatives for further efficiency enhancement. Within the scope of this process, organizational and sales structures were bundled, the project portfolio further optimized and progress was made in the internationalization of regionally successful branded products. In addition, the Group introduced measures for cost reduction in the procurement area and launched projects for the further optimization of production and the supply chain. In the Generics segment, STADA continued the successful development for expansion of the product pipeline. In addition, a cultural transformation was introduced in order to achieve significantly closer collaboration among those employed by the Group.

In the fourth quarter of 2017, the Executive Board, together with the new team, developed a vision for the STADA Group that will lead to a repositioning of the corporate strategy in 2018. As part of this approach, the Group is increasingly relying on biosimilars, an international marketing of its successful OTC products and more efficient processes. In terms of the further expansion of the biosimilar portfolio, the Group intends to increasingly develop biosimilars in cooperation with partner companies because this is generally associated with greater earnings opportunities. Because the internationalization of successful products is, in addition to biosimilars, one of the business areas with the greatest growth potential, STADA will push this forward much more intensively than in the past. In the course of improving the efficiency of processes the Group is relying, among other things, on the bundling of supply contracts, harmonization in the packaging area as well as further process optimizations in production

THE STADA SHARE

In stock market year 2017, the STADA share recorded an exceedingly positive development – mainly due to takeover speculation. With € 88.23 it achieved a new all-time high in December. In light of an increase of 80%, the STADA share developed significantly better than the MDAX®.

Substantial price increase – STADA share reaches new all-time high

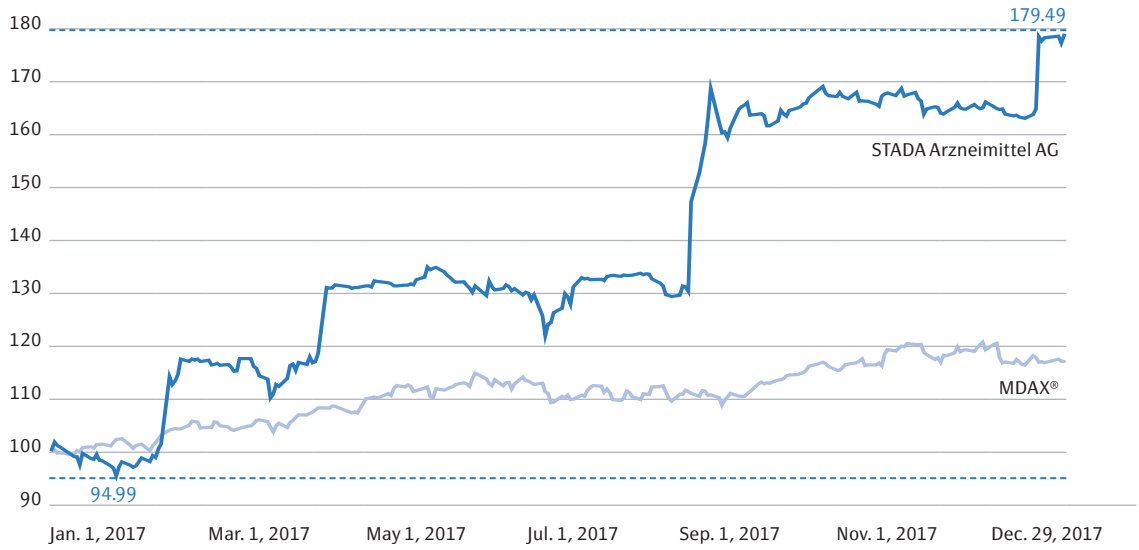
While international stock exchange indices like the Dow Jones, the Nikkei or the DAX® reached record levels in 2017, the STADA share also hit a new all-time high. In total, STADA's share price increased by 80% in stock market year 2017. Although the share price closed 2016 at € 49.19, it was € 88.23 at the end of 2017. This development was influenced initially by the ongoing takeover speculation. Following the achievement of the minimum acceptance threshold, so-called short-selling transactions as well as speculation regarding a higher settlement offer for the remaining shareholders also contributed.

The relevant national comparative indices for STADA showed differing share price development in 2017. The German benchmark index DAX®[1)] increased by 13%[2)], the MDAX®[3)], of which the STADA share is a part, rose by 18%[2)] and the price of the MSCI Small Cap Europe[4)], which also includes the STADA share, recorded an increase of 36%.

STADA's market capitalization increased from € 3.066 billion to € 5.500 billion in 2017. Based on Deutsche Börse AG's index system, which only considers free float, STADA, in terms of market capitalization, took place 43 in the MDAX® (2016: position 20). It should be kept in mind in this regard that STADA's free float decreased from 100% in 2016 to approximately 35% in 2017 as a result of the takeover.

Average daily volume of the STADA share in XETRA® trading and the Frankfurt Stock Exchange in 2017 totaled € 21.1 million (previous year: € 13.0 million). STADA thus ranked 9 in terms of trading volume in accordance with the Deutsche Börse AG index systematic (previous year: position 18).

Share price development 2017 STADA share vs. MDAX® in %



1) DAX® is the index of Deutsche Börse AG, largely consisting of the 30 biggest companies by market capitalization and order book volume.
2) The development relates to the XETRA® closing price. XETRA® is the electronic trading system of Deutsche Börse AG.
3) MDAX® the index of Deutsche Börse AG for midcap companies, largely consisting of the 50 next-biggest companies by market capitalization and order book volume below the DAX®, thus also including the STADA share.
4) The MSCI Small Cap Europe is made up of about 14% of the smallest companies by market capitalization in the MSCI Europe Investable Market Index and is based on market capitalization by free float.

Capital structure

As of December 31, 2017, the subscribed share capital of STADA Arzneimittel AG amounted to € 162,090,344.00 (December 31, 2016: € 162,090,344.00) consisting of 62,342,440 registered shares (December 31, 2016: 62,342,440 registered shares) each with an arithmetical share in share capital of € 2.60.

Key results of the Annual General Meeting

At the STADA Annual General Meeting held on August 30, 2017, the approval of the actions of the Executive Board for financial year 2016 was postponed. For the remaining agenda items, the General Meeting voted in accordance with the administrative proposals. A decision was thus made to increase the dividend by 2 cents per share to € 0.72 for financial year 2016. In addition, the General Meeting also appointed auditing company PricewaterhouseCoopers GmbH as new auditor of the Annual and Consolidated Financial Statements for financial year 2017.

An Extraordinary STADA General Meeting took place on February 2, 2018. Further details can be found in the "Report on Post-Balance Sheet Date Events".

Dividend

The Executive Board and the Supervisory Board propose to the General Meeting on June 6, 2018 that a dividend of € 0.11 per STADA share be distributed for financial year 2017. This would represent total dividend payments of € 6.8 million (previous year: € 44.8 million) and a distribution ratio of 8% of the reported net income (previous year: 52%).

STADA key share data

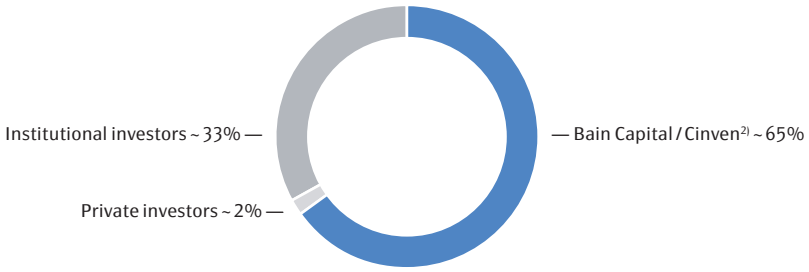
STADA key share data	2017	2016
Number of shares (year-end)	62,342,440	62,342,440
Number of treasury shares (year-end)	84,311	85,043
Average number of shares (without treasury shares)	62,258,051	62,256,532
Year-end closing price (XETRA®) in €	88.23	49.19
High (XETRA® closing price) in €	88.23	50.42
Low (XETRA® closing price) in €	46.69	28.67
Price-earnings ratio (PE)[1] in %	28.1	17.3
Market capitalization (XETRA®) in € million (year-end)	5,500.4	3,066.3
Average daily trading volume[2] in € million	21.1	13.0
Earnings per share in €	1.37	1.38
Earnings per share adjusted[3] in €	*3.14*	*2.85*
Dividend per share[4] in €	0.11	0.72
Dividend yield[4] in %	0.1	1.5
Dividend distribution[4] in € million	6.8	44.8
Distribution ratio[4] in %	8	52
Free cash flow adjusted[4] per share in €	*2.9*	*3.9*
Ratio price[5] to adjusted[6] free cash flow	*30.3*	*12.6*

1) Reference value is the year-end closing price and earnings per share adjusted.
2) Average, XETRA® trading.
3) The elimination of effects which have an impact on the presentation of STADA's results of operations and the derived key figures improves the comparability of key figures from previous years. To achieve this, STADA uses adjusted key figures, which, as so-called pro forma figures, are not governed by the accounting requirements in accordance with IFRS. As other companies may not calculate the pro forma figures presented by STADA in the same way, STADA's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.
4) Proposal.
5) Adjusted for payments for significant investments and acquisitions and proceeds from significant disposals.
6) Reference value is the year-end closing price.
7) Adjusted for payments for significant investments and acquisitions and proceeds from significant disposals.

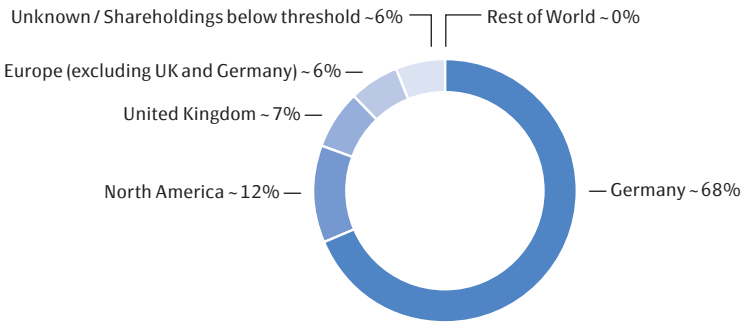
Shareholder structure

As of December 31, 2017, approximately 8,500 shareholders held share capital of STADA Arzneimittel AG. The shareholder structure, which is based on regularly carried out analyses, can be seen in the following graphics:

Shareholder types[1)]



Geographical shareholder structure (institutional investors)[1)]



As of December 31, 2017, STADA held 84,311 of its own shares (previous year: 85,043). As part of an employee share ownership program, STADA sold 732 of its own shares in the reporting year at an average price of € 51.72.

The voting rights notices received by STADA can be viewed on the website at www.stada.de or www.stada.com.

Directors' Dealings

In financial year 2017, according to information available to the Company, STADA reported a total of two Directors' Dealings. For details concerning these dealings, please refer to www.stada.de or www.stada.com.

1) Source: Orient Capital; shareholder analysis based on share register as of December 29, 2017.
2) Held by Nidda Healthcare Holding GmbH.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COMBINED MANAGEMENT REPORT OF THE EXECUTIVE BOARD

Table of Contents

Fundamental Information about the Group

Group's Business Model

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

STADA is an internationally active health care company organized as a stock corporation. The business model of STADA focuses on the health care market and particularly the pharmaceutical market. The Group is thus active in a global growth industry that is relatively independent of the economy. The significant general growth drivers include a global population increase, an aging society in industrialized nations and further medical progress. For reasons related to costs and risks, STADA does not concentrate on the research and development of innovative active pharmaceutical ingredients, but rather on the development and marketing of pharmaceutical products that are free from commercial property rights, particularly patents (so-called "generics").

The Group is managed under the two core segments **Generics** and **Branded Products**. In financial year 2017, Generics contributed around 59% and Branded Products around 41% to Group sales. STADA intends to reverse this relationship in the long term, because branded products are subject to fewer regulatory interventions and often have more attractive margins than generics.

But there are also further growth potentials in **generics** because they represent a more affordable alternative to the often much more expensive original products and thus help to ease the financial burden on health care markets. Furthermore, growth opportunities result from the continuous expiration of patents and other commercial property rights. Substantial growth opportunities are also attributed to biosimilars because, in comparison with cost-intensive biopharmaceuticals, they can make a significant contribution to cost reductions. In consideration of this potential, in the Generics segment STADA intends, on the one hand, to expand in markets with relatively low penetration rates and, on the other hand, to add selected biosimilars to its existing portfolio. In terms of the latter, the Group plans to increasingly develop biosimilars also in cooperation with partner companies (see "Product Development").

The area of **branded products** at STADA includes in particular non-prescription products (OTC), prescription products (RX) and discretionary prescription products (OTX). In addition to the ongoing expansion of the portfolio, STADA is increasingly moving forward with the internationalization of successful brands.

While within the scope of the marketing of generics the focus is on low pricing, the sales focus for branded products, in addition to the product characteristics, is mainly on the brand name. In this segment, the Group pursues the concept of the so-called "strong brands", relying on high brand awareness.

Top 5 generics active ingredients

Active ingredient	Indication group	Sales 2017 in € million	Change from previous year
Tilidin Naloxon	Pain	36.5	-16%
Atorvastatin	Elevated cholesterol level	25.4	+4%
Epoetin zeta	Anemia	24.6	+10%
Diclofenac	Pain/inflamation	21.2	+3%
Pantoprazol	Gastric ulcer/reflux	21.2	-5%
Total		128.9	-3%

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

	Sales 2017 in € million	Change from previous year
Germany	297.3	-3%
Italy	170.5	+8%
Belgium	120.8	+33%
Russia	106.3	+15%
Spain	105.5	0%
Serbia	94.3	+69%
France	78.9	-4%
Vietnam	64.6	-7%
Total	**1,038.2**	**+8%**

Top 5 branded products

Branded product	Indication group	Sales 2017 in € million	Change from previous year
APO-Go®	Parkinson's	68.2	+2%
Grippostad®	Cold	43.3	-1%
Aqualor®	Rhinitis/sore throat	40.3	+116%
Snup®	Rhinitis	36.6	+51%
Vitaprost®	Prostate disease	32.5	+63%
Total		**220.9**	**+25%**

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

	Sales 2017 in € million	Change from previous year
Russia	236.8	+58%
Germany	172.8	-3%
United Kingdom	165.3	-6%
Italy	43.0	-2%
Vietnam	37.9	+3%
Total	**655.8**	**12%**

In light of the fact that STADA is not equally represented with generics and branded products in all of the countries in which the Group is active, the sales focus is either more on regulated markets or self-pay markets. Concentration is on different target groups depending on the individual markets. The key customer groups include patients and consumers, doctors, pharmacies and pharmacy chains, hospitals, mail-order companies, buying groups, wholesales and other service providers in the health care market as well as cost bearers in the form of public or private health insurance organizations.

Operative positioning

In accordance with the operational positioning of the Group, the areas of product development, procurement, purchasing, production, quality management, finance, risk management, compliance and corporate governance as well as sales and earnings responsibility are managed centrally.

Product Development

The Group demonstrated its successful product development again in 2017 with the introduction of a total of 670 products. In addition, it was possible to move further forward with the internationalization of successful branded products. STADA continues to have a well-filled product pipeline.

Strategic and organizational basis of development activities

On the basis of the business model and the strategic positioning, the Group concentrates on the development of products which generally have active pharmaceutical ingredients for which there are no longer any commercial property rights, especially patents. One focus of the Group-wide development activities is the development of generics. In light of the increasing Group-wide importance of branded products, STADA has nevertheless been continuously expanding its development activities also in this area. These include, on the one hand, development efforts for innovative branded products, especially non-prescription medications, nutritional supplements and cosmetics. They also include, on the other hand, the development activities for successful branded products in the course of the further internationalization.

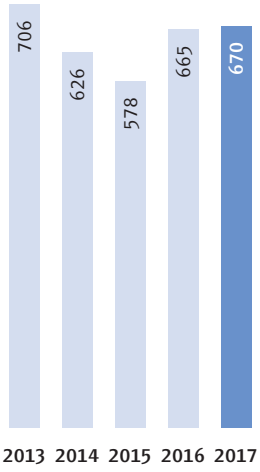
In financial year 2016, STADA began a comprehensive analysis of its product portfolio. The objective is to reduce the complexity of the existing portfolio in order to reduce cost of sales and marketing expenses. Furthermore, the marketing expenditures will, as a result, be focused on more profitable products. In the reporting year, STADA was able to identify more than 1,000 product stock-keeping units so that, for efficiency reasons, the portfolio can be streamlined.

In the area of approvals, STADA prefers in particular EU-wide approval processes in order to achieve numerous national approvals of a product in different countries nearly simultaneously. Approval procedures outside of the EU are carried out, if possible, on the basis of the EU dossier of the individual products that are based on a standardized formulation.

Already today, the Group is working on the development of generic products with potential launch dates beyond 2026. STADA generally pursues a so-called "time and cheap to market" strategy which is targeted toward introducing new product launches as early and as cheaply as possible.

STADA has a central project management that ensures a transparent management of Group-wide development projects. For globally-oriented projects, there are development centers in Bad Vilbel and Vrsac. STADA also works with external third-party developers in Europe and Asia in order to optimally manage the development resources and to close any technological gaps. Apart from in-house and third-party development, the Group uses a global network of external development partners, through which it acquires dossiers or approvals.

5-year development: Number of product launches



Strong development and approval competences

With the introduction of 670 individual products worldwide (previous year: 665) the Group was able to demonstrate its development and approval strength once again in 2017. STADA continues to have a well-filled product pipeline. This is shown by the high number of ongoing approval procedures as of December 31, 2017 totaling

over 1,200 for more than 170 active pharmaceutical ingredients and active ingredient combinations for over 55 countries. This applies both to all relevant generics as well as for numerous branded products.

Continuous expansion of the Branded Products segment and increasing internationalization of successful brands

For Branded Products, STADA relies, on the one hand, on the accelerated expansion of the segment. On the other hand, the Group is driving the increasing internationalization of successful branded products. As part of this approach, selected products that have to date mainly held leading positions at a regional level will also be introduced in other markets. The following table provides an overview of the introductions of branded products carried out in the reporting year in markets other than their original markets:

Internationalization of successful branded products

Branded product	Product group	Market
Fultium®	Vitamin D3 product	Belgium and Portugal
Ombe® Drink	Probiotic	Austria
Flexitol®	Dermatological product	France
DAOSiN®	Histamine intolerance product	Croatia
Histasolv®	Histamine intolerance product	Poland
Mobiflex® CaD3	Nutritional supplement	Belgium
GlucoCare®	Nutritional supplement blood sugar level	Poland
Hedrin® Once	Head lice treatment	Germany
ViruProtect®	Cold medicine	Germany, Austria and Belgium
Ombe® immun	Probiotic	Austria
Grippostad® Forte	Cold medicine	Austria

Gradual expansion of the biosimilar portfolio

Because biosimilars, as a result of the cost intensity of biopharmaceutical products, can make a significant contribution towards cost reduction in the health care systems, they are credited with substantial growth potential (see "Report on Expected Developments"). With a view to these growth opportunities, the Group is increasingly expanding its biosimilar portfolio. In this context, STADA has to date pursued an in-licensing strategy which consisted of the in-licensing of selected biosimilars from highly-specialized providers because this represents a lower-risk and lower-cost approach than conducting in-house developments. STADA is currently on the market with two biosimilars – SILAPO®, an erythropoetin biosimilar, and Grastofil®, a filgrastim product. In addition, STADA has also in-licensed four further biosimilars – pegfilgrastim, rituximab, teriparatide and bevacicumab. After STADA and its cooperation partner received the approval at the beginning of 2017 from the EU Commission for Teriparatide, its introduction in the EU and several non-EU countries is planned following expiration of the patent in 2019. In terms of the further expansion of the biosimilar portfolio, STADA intends to increasingly develop biosimilars in cooperation with partner companies because this is generally associated with greater earnings opportunities. Fundamentally, the focus in this regard will be on products for the indication groups oncology, central nervous system (CNS), diabetes and ophthamology.

Expenses for research and development costs

Research and development costs, which due to the business model are only development costs, amounted to € 67.5 million in the reporting year (previous year: € 65.1 million) (see "Economic Report – Course of Business and Net Assets, Financial Position and Results of Operations – Results of Operations – Earnings Development of the Group"). In addition, the Group capitalized development costs for new products in the amount of € 21.5 million (previous year: € 28.4 million). This corresponds to a capitalization rate of 24.2% (previous year: 30.4%). Not included in this amount are the capitalized borrowing costs and the capitalization of software in the total amount of € 2.5 million (previous year: € 2.5 million). Amortization of capitalized development costs amounted to approximately € 10 million (previous year: approx. € 8 million).

Procurement, Production and Quality Management

In the area of procurement, STADA reduced the number of supply contracts and suppliers. In addition, the Group initiated projects for the worldwide optimization of the production and supply chain areas with which a greater integration of the various services and a central, global supply chain management is expected to be achieved.

Centralized needs planning and cost reduction in the supply chain

The Group has three so-called supply chain hubs in Bad Vilbel, Vrsac, and Moscow that are managed through STADA Arzneimittel AG and where centralized needs planning is carried out for selected top products in the Group.

In light of the comprehensive product portfolio consisting of more than 800 active pharmaceutical ingredients, STADA makes use of an international network for the supply chain and pharmaceutical production. The Group generally does not produce any raw and auxiliary materials necessary for pharmaceutical production itself, but instead sources them primarily from low-cost suppliers from low-cost countries. In financial year 2017, there were centrally-managed STADA procurement offices in Shanghai and in Mumbai. Within the scope of the initiatives introduced for efficiency enhancement, a focus is on the reduction of costs in the area of the supply chain. Relevant measures were launched in the reporting year (see "Fundamental Information about the Group – Objectives and Strategies").

In the area of production, STADA began several years ago to concentrate the processes at the Group's own locations. About 75% of the Group-wide production volume is now manufactured in low-cost countries. The so-called "make or buy" approach allows not only for structural cost advantages that result from the use of locations in low-cost countries, but also a reduction in the unit costs as a consequence of a higher capacity utilization. In financial year 2017, there were a total of 19 production locations in the Group.

STADA continuously invests in the Group-owned production facilities and test laboratories. Investments in the expansion and renewal of production facilities and plants, as well as test laboratories, amounted to € 36.3 million in 2017 (previous year: € 22.6 million).

Highest safety and quality requirements

As an internationally active health-care group, STADA is bound by the strictest requirements in the areas of quality and safety. Quality management is carried out centrally in the Group through STADA Arzneimittel AG. With the help of regular comprehensive audits, the Group-wide quality management reviews the quality standards set by the Group, which in part by far exceed the legal requirements, not only at its own production sites, but also in the facilities of suppliers and contract manufacturers.

Furthermore, inspections are carried out at regular intervals by the respective nationally responsible regulatory authorities. Within the EU, these inspections take place every two to three years. In addition to inspection by national authorities outside the EU, STADA also orders EU Good Manufacturing Practice Compliance inspections (EU GMP compliance inspections) in order to receive extensions of the required EU import authorizations valid for three years each. In this regard, it is reviewed to determine whether the inspected production facilities meet the requirements of the EU GMP quality standards.

Also the non-EU based production locations at STADA in Banja Luka (Bosnia Herzegovina), Nizhny Novgorod (Russia), Obninsk (Russia), Podgorica (Montenegro), Sabac (Serbia), Tuy Hoa (Vietnam), Ho Chi Minh (Vietnam) and Vrsac (Serbia) are equipped for the production of certain pharmaceutical dosage forms for EU countries and in this regard are approved for delivery into the EU by the responsible EU regulatory authorities.

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

Sales and Marketing

International Group structure with nationally-focused sales companies

The STADA Group has an international sales structure made up of nationally focused sales companies. In accordance with the operative alignment, the subsidiaries that are active in sales are centrally organized but still have a high degree of market proximity and therefore extraordinary sales strength. Worldwide, including the export share, the Group markets its products in about 130 countries – thereof in about 30 countries through its own sales companies.

Sales activities are coordinated internationally in the Group. This applies in particular to structuring the portfolio in the context of the further internationalization of successful branded products or for certain sales activities such as wholesaling cooperative agreements.

Further information on the development of the Group's sales activities in the individual markets can be found in the "Economic Report – Results of Operations – Sales and Earnings Development of the Generics Segment" as well as in the "Economic Report – Results of Operations – Sales and Earnings Development in the Branded Products Segment".

Employees

Long-term oriented personnel management

With their high level of expertise and their strong commitment, employees have played a key role in the longstanding successful development of the Group. STADA pursues a long-term oriented personnel management to secure this success factor and for the sustainable development of employees.

Personnel policy is currently still organized decentrally at STADA. In line with company guidelines – particularly compliance guidelines – international subsidiaries are currently still largely independent in many areas of personnel management including recruitment, training and remuneration. Within the scope of the increasingly stronger centralization, the Human Resources area will in future be positioned much more internationally, however. In light of the current situation, the measures outlined below relate primarily to employees working in Germany.

As part of the personnel policy with a focus on the long-term, STADA places particular importance on the topics "training and education", "knowledge management", and "succession planning for managers". In terms of training, the company offers measures such as language skills support, specialist workshops, seminars and extra-occupational study programs. Furthermore, the Group offers its employees targeted development and support programs that are geared toward various professional phases as well as individual career planning. These include, for example, exchange programs between German and international subsidiaries or management programs. On the one hand, personnel development measures aim to convey certain skills. On the other hand, they are designed to fill management and specialist positions internally to the greatest extent possible.

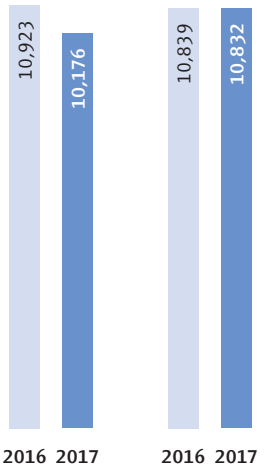
Participation and internal communication as instruments of successful personnel policy

Participation and internal communication also play an important role at STADA. In this regard, STADA offers employees working in Germany, for example, the opportunity to purchase subsidized shares in the Company. Through this measure, a greater bond to the Company and a stronger sense of responsibility should be achieved. In the area of internal communications, there are a range of measures such as an idea management system in the form of an operational suggestion scheme, a global intranet or a Group-wide newsletter that is published regularly, to mention just a few examples.

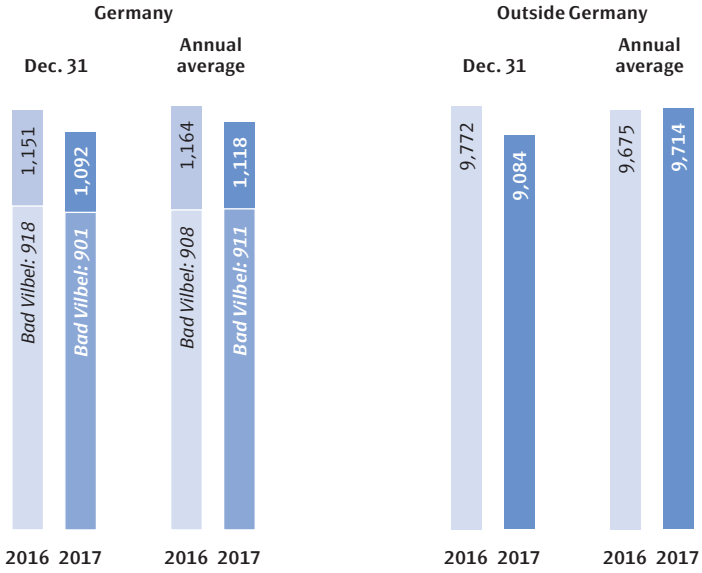
At the end of 2017, STADA began to significantly expand existing measures in the area of employee communication. This should help to further develop the corporate culture and, above all, achieve a closer cooperation within the Group as well as a considerable strengthening of team spirit.

Development in the number of employees and personnel expenses

Development in the number of employees



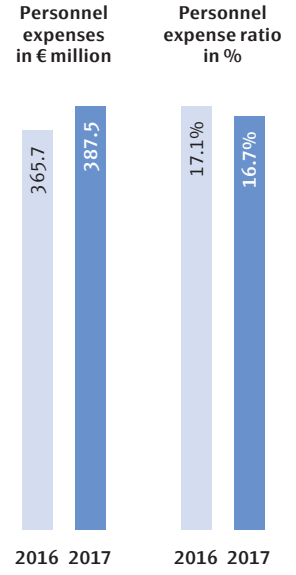
Regional distribution of Group employees



In the reporting year, the number of employees as of the balance sheet date December 31, 2017 decreased to 10,176 (previous year: 10,923). This decrease was primarily attributable to the deconsolidation of STADA Vietnam J.V. as of November 30, 2017. This was countered by additions in the number of employees based on the acquisition of a Serbian product portfolio including the associated sales structures, the purchase of the British branded product company Natures Aid and the assumption of sales activities in Belgium. Although all three measures were attributable to financial year 2016, they nevertheless resulted in an increase in personnel mainly in the reporting year. Furthermore, an increase also resulted from the initial consolidation of the Serbian wholesaler Velexfarm d.o.o. in 2017. The average number of employees in financial year 2017 was approximately at the level of the previous year.

The proportion of women in management positions in the Group amounted to approximately 53% in the reporting year (previous year: approx. 49%). Further information on the statutorily prescribed targets for Germany's Law on Equal Participation of Men and Women in Management Positions can be found in the chapter "Corporate Governance Report including the Corporate Governance Declaration for STADA Arzneimittel AG and the Group".

Development in personnel expenses



Objectives and Strategies

The transformation process is progressing well. The many initiatives for further efficiency enhancement were sustainably implemented and initial results were visible. In the fourth quarter of 2017, the Executive Board, together with the new team, developed a vision for the STADA Group that will lead to a repositioning of the corporate strategy in 2018.

Sustainable profitable growth and long-term value increase

The business model of the Group aims to generate sustainable profitable growth and to increase the value of the company in the long-term.

To achieve these goals, in the reporting year and particularly in the fourth quarter of 2017, STADA sustainably implemented the numerous initiatives to further enhance efficiency. The measures are geared toward a leveraging of untapped sales potentials, the optimizing of marketing costs, an improvement in sales efficiency and a reduction in the cost of sales. Overall, the competitiveness should be raised as a result, innovative strength increased and more value created over the long term.

As part of the implementation of the initiatives, STADA was able to identify more than 1,000 stock-keeping units so that the portfolio can be streamlined. Furthermore, the Group made progress with the internationalization of regionally successful branded products and introduced eleven products in additional countries (see "Product Development"). In the area of procurement, STADA introduced measures for cost reduction in order to achieve further savings potentials and to reduce the number of supply contracts and suppliers on an ongoing basis. In addition, the Group initiated projects for the worldwide optimization of the production and supply chain areas with which a greater integration of the various services and a central, global supply chain management is expected to be achieved. In the Generics segment, STADA continued the successful development for expansion of the product pipeline – by adding partially more complex products. With the goal of eliminating redundant structures and strengthening the organization, the legal merger of the German companies STADA GmbH and STADAvita GmbH as well as STADApharm GmbH and cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH. To improve STADA's performance and ensure sustainable growth, the Group has also started to initiate a cultural transformation that is targeted toward generating closer cooperation among the employees in the Group.

In the fourth quarter of 2017, the Executive Board, together with the team, developed a vision for the STADA Group that will lead to a repositioning of the corporate strategy in 2018. As part of this approach, the Group is increasingly relying on biosimilars, an international marketing of its successful OTC products and more efficient processes. In the area of biosimilars, STADA has to date pursued an in-licensing strategy which consisted of the in-licensing of selected biosimilars from highly-specialized providers because these represent a lower-risk and lower-cost approach than carrying out own developments. In terms of the further expansion of the biosimilar portfolio, the Group intends to increasingly develop biosimilars in cooperation with partner companies because this is generally associated with greater earnings opportunities. Fundamentally, the focus in this regard will be on products for the indication groups oncology, central nervous system (CNS), diabetes and ophthamology. Because the internationalization of successful products is, in addition to biosimilars, one of the business areas with the greatest growth potential, STADA will pursue this much more intensively than in the past. One example is the head lice treatment Hedrin®, which is the first pan-European product in the Group and which is showing the path forward that STADA intends to follow with other strong products like Fultium® or ViruProtect®. In the course of improving the efficiency of processes the Group is relying on the bundling of supply contracts, harmonization in the packaging area as well as further process optimizations in production – whereby these measures are merely representative of the many others that STADA will continue to quickly implement as part of the repositioning.

Internal Management System

In the STADA Group, the financial key performance indicators **adjusted Group sales**, **adjusted EBITDA**, **adjusted net income** as well as the **net debt to adjusted EBITDA ratio** were used in the reporting year for the operational management of the corporate areas. While adjusted Group sales and adjusted EBITDA are managed at segment level, management of adjusted net income and the net debt to adjusted EBITDA ratio are each managed at Group level.

To secure the sustainable success of the Company, **Group sales adjusted for currency and portfolio effects** plays an important role in the Group. **Adjusted EBITDA**[1] at STADA represents EBITDA adjusted for special items with the exception of special items that relate to impairments and write-ups within non-current assets. STADA utilizes adjusted EBITDA to measure its operational performance and the success of the individual segments adjusted for influences distorting the year-on-year comparison resulting from special items. Results from associates and investment income are included. In terms of **adjusted net income**[1], which is used as a key figure for the measurement of the overall success, this relates at STADA to net income adjusted for special items. The **net debt to adjusted EBITDA ratio** serves as a measure for the debt-to-equity ratio and as a result as an indication of the financial stability, among other things for the borrowing of funds.

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

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

Disclosures Pursuant to Section 315b HGB

Pursuant to Section 315b (1) of the German Commercial Code (HGB), STADA Arzneimittel AG is obligated to provide non-financial group reporting. To meet this requirement, STADA Arzneimittel AG prepares a combined separate Non-Financial Report pursuant to Section 289b HGB in connection with Section 315b (3) HGB.

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

Economic Report

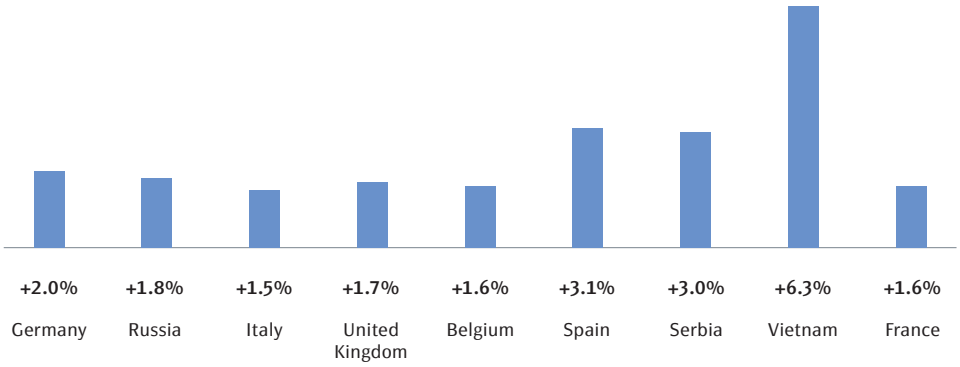
Macroeconomic and Sector-Specific Environment

Macroeconomic development

According to information from the International Monetary Fund (IMF), the recovery in the global economy continued in 2017 with an increase in worldwide gross domestic product of 3.6% following an increase of 3.1% in the previous year.[1)]

The following table shows the economic development of the most important markets for STADA. The countries are sorted in descending order of sales achieved by STADA in the reporting year.[1)]

Growth rates gross domestic product 2017[1)] in %



In Germany, the moderate economic upward trend from the previous year continued. Growth drivers included for the most part increasing exports and rising private consumption.[2)] After the economic development in Russia declined in the previous year, it increased significantly in 2017 as a result of stable oil prices and rising commodity exports.[1)] Development in Italy was also positive in light of increasing domestic demand. It was buoyed in particular by reforms carried out in the labour market which led to an improvement in the employment rate.[2)] In the United Kingdom, economic development slowed slightly – due for the most part to the referendum on the exit from the EU. The drop in value of the British pound sterling burdened the real income of private households and led to a corresponding drop in consumption.[1)] Economic growth in Belgium was boosted, on the one hand, by higher growth investments and, on the other hand by an increase in private spending.[2)] As was the case in the prior year, Spain benefited from an expansive fiscal policy and continued strong growth in the tourism sector. As a result of political unrest in connection with the referendum on the independence of Catalonia that was held in the third quarter of 2017, economic growth was, however, slightly below the level of the previous year.[2)] In addition to export, growth drivers in Serbia included in particular private consumption which was supported by increased income and employment figures.[2)] The ongoing expansion in the Vietnamese economy continued to be supported by a strong export business.[1)] Due to the general economic upswing in the euro zone, economic growth also accelerated in France, which is influenced to a large extent by exports in the euro zone.[1)]

Sector-specific development

In the financial year 2017, sales in the global generics market increased by 3.0% to approximately € 182.4 billion as compared to the previous year.[3)] The share of generics in the global pharmaceutical market amounted to approximately 18.7%.[3)]

1) Source: International Monetary Fund: World Economic Outlook October 2017.
2) Source: European Commission: European Economic Forecast – Autumn 2017.
3) IQVIA Syndicated Analytics Service; prepared for STADA February 2018.

The sales development of generics in the eight largest countries for STADA in terms of sales were as follows in the reporting year:

Sales development of generics in the eight largest countries for STADA in terms of sales in € million[1)]	2017	Change from previous year
Germany	6,823.2	+3.7%
France	6,122.0	+4.5%
Italy	3,497.2	+1.0%
Spain	3,191.6	+5.4%
Russia	2,837.7	+11.4%
Vietnam	1,049.5	+11.9%
Belgium	612.7	+4.8%
Serbia	85.8	+12.6%

Sales in the global OTC market increased by approximately 4.3% to approximately € 68.9 billion in 2017 as compared to the previous year.[1)] The share of OTC products in the global pharmaceutical market amounted to approximately 7.1%.[1)]

The sales development of OTC products in the five largest countries for STADA in terms of sales were as follows in the reporting year:

Sales development of OTC products in the five largest countries for STADA in terms of sales in € million[1)]	2017	Change from previous year
Germany	5,357.9	+1.6%
Russia	4,234.1	+4.1%
United Kingdom	1,653.9	+1.0%
Italy	1,514.1	-0.2%
Vietnam	1,123.4	+6.7%

Effects of macroeconomic and sector-specific environments

The STADA Group is active in the health care market and thus largely independent of economic conditions. For that reason, global economic conditions generally have less influence on the business development of the Group than the respective regulatory requirements in the individual national health care systems. In financial year 2017, there were no significant changes to the regulatory conditions in those countries in which STADA is active that could have had a substantial impact on the development of the Group.

Generally speaking, economic developments in those markets that are among the self-pay markets have a greater impact on the activities of the Group. In such markets, demand depends, among other things, on the financial situation or purchasing power of the relevant population.

In light of the fact that the economic framework conditions in the form of currency and interest volatility have an impact on the development of the Group, STADA takes relevant precautionary measures to ensure it is in a position to react appropriately to strong fluctuations. However, this is only possible to a limited extent (see "Opportunities and Risk Report").

With a view to the translation of sales and earnings in relation to the Group currency euro, the British pound sterling, the Russian ruble and the Serbian dinar are among the significant national currencies in the STADA Group. In addition, the Kazakhstani tenge, the Swiss franc, the Ukrainian hryvnia and the Vietnamese dong are also of importance. The currency relationships in other countries that are relevant for STADA have only a limited impact in this regard. In the reporting year, the earnings of the Group were negatively impacted by ongoing weak development of the British pound sterling in relation to the euro as a result of the referendum decision in favor of the exit of the United Kingdom from the EU. The significantly stronger development of the Russian ruble in comparison to the euro, on the other hand, had a positive impact.

1) IQVIA Syndicated Analytics Service; prepared for STADA February 2018.

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

In financial year 2017, the Group was able to fully achieve a majority of the goals it had set.

Development of 2017 Compared to Outlook

For the financial year 2017, the Executive Board, in the Report on Expected Developments in the Annual Report 2016, had forecast Group sales adjusted for currency and portfolio effects a range of between € 2.280 billion and € 2.350 billion, for adjusted EBITDA a range of between € 430 million and € 450 million and for adjusted net income a range of between € 195 million and € 205 million. The Executive Board had expected the ratio of net debt excluding further acquisitions to adjusted EBITDA to be at a level of nearly 3. In light of the takeover that was carried out in 2017, STADA did not issue a forecast for the key figure mentioned above in the Interim Report on the First Nine Months and the Third Quarter of 2017.

Group sales adjusted for currency and portfolio effects increased by 6% to € 2,255.3 million in the reporting year. **Adjusted EBITDA** increased by 9% to € 433.9 million. **Adjusted net income** rose by 10% to € 195.6 million.

With this development, Group sales adjusted for currency and portfolio effects in financial year 2017 were slightly below the corridor forecast by the Executive Board in the Report on Expected Developments in the 2016 Annual Report, adjusted EBITDA and adjusted net income were within the corridor forecast.

Development of Financial Performance Indicators

Financial performance indicators of the STADA Group

The development of the STADA Group's financial performance indicators in financial year 2017 was as follows:

Financial performance indicators in € million	2017	2016	±%
Group sales adjusted for currency and portfolio effects	**2,255.3**	**2,128.7**	**+6%**
• Generics	1,324.4	1,272.5	+4%
• Branded Products	930.9	856.2	+9%
EBITDA, adjusted	**433.9**	**398.0**	**+9%**
• Generics	302.8	264.9	+14%
• Branded Products	207.4	200.7	+3%
Net income, adjusted	**195.6**	**177.3**	**+10%**
Net debt to adjusted EBITDA ratio	**2.4**	**2.8**	**+14%**

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

Results of Operations – Sales Development of the Group

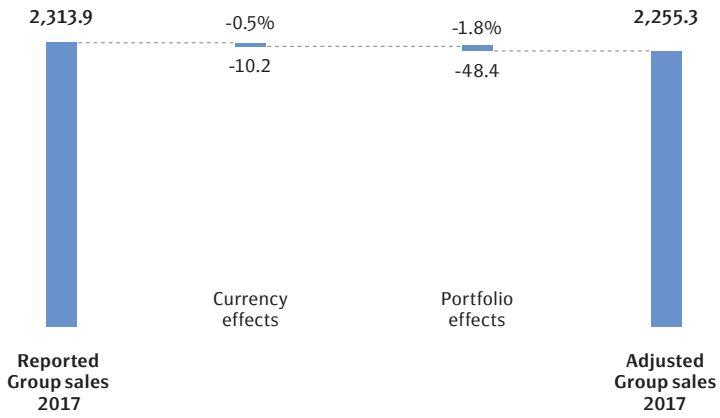
Significant increase in Group sales

Reported Group sales increased in the reporting year by 8% to € 2,313.9 million (previous year: € 2,139.2 million). The increase resulted primarily from the rise in the Belgian, Italian and Serbian generics segment as well as in the Russian branded products segment.

When effects on sales attributable to changes in the **Group portfolio** and **currency effects** are deducted, **adjusted Group sales** increased by 6% to € 2,255.3 million (previous year: € 2,128.7 million). This growth was primarily attributable to sales increases in Belgian and Italian generics segment as well as the Russian branded products segment.

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

Reconciliation of reported Group sales to Group sales adjusted in € million



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

Portfolio changes in 2017 amounted to a total of € 48.4 million – primarily as a result of the acquisition of the Serbian wholesaler Velexfarm and the British Natures Aid – and in the retroactive consideration as adjustment for the previous year totaling € 10.5 million – due mainly to the deconsolidation of STADA Vietnam J.V. and the sale of STADA Import/Export International Ltd. This corresponds to 1.8%.

Applying the exchange rates of the year under review compared with the previous year for the translation of local sales contributions into the Group currency euro, STADA recorded a positive **currency effect** on Group sales in the amount of € 10.2 million or 0.5%.

The most important national currencies for STADA, the British pound sterling, Russian ruble and Serbian dinar in relation to the Group currency euro developed as follows in 2017 compared with the previous year:

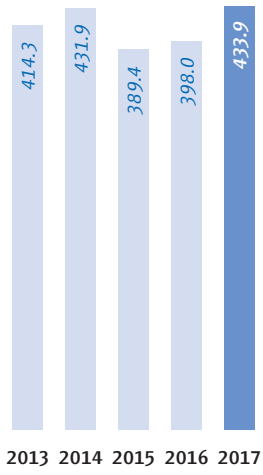
Significant currency relations in local currency to € 1	Closing rate on Dec. 31 in local currency			Average rate for the reporting period		
	2017	2016	±%	2017	2016	±%
Pound sterling	0.88723	0.85620	+4%	0.87614	0.81886	+7%
Russian ruble	69.39200	64.30000	+8%	65.88766	74.22592	-11%
Serbian dinar	118.47270	123.47230	-4%	121.41395	123.10467	-1%

In light of the fact that the currency relations in other countries that are important for STADA had only a limited impact on the translation of sales and earnings from the local currencies into the Group currency euro, there is no presentation in this Annual Report.

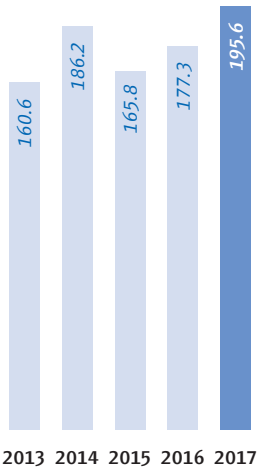
Insofar as adjusted sales figures are shown in this Annual Report, these are each adjusted for portfolio and currency effects.

Results of Operations – Earnings Development of the Group

Adjusted EBITDA in € million



Adjusted net income in € million



Positive development in earnings figures at segment level

Earnings figures developed well at segment level. At Group level, however, they were impacted by special items that were particularly attributable to consultancy services in connection with the takeover by Bain Capital and Cinven completed in 2017 as well as severance payments.

The increase in **reported operating profit** achieved in financial year 2017 of 8% to € 192.3 million (previous year: € 178.1 million) was primarily based on an increase in operating profit in the Belgian generics segment following the December 2016 termination of the previous distribution agreement with Omega Pharma, improved operating profit in the German and Spanish generics segment as well as strong sales development and positive translation effects in Russia. Growth in **adjusted operating profit** of 9% to € 322.3 million (previous year: € 294.4 million) resulted primarily from the previously mentioned improvements in operating profit in Belgium, Germany, Spain and Russia. The increase in **reported EBITDA** of 1% to € 363.8 million (previous year: € 361.5 million) was shaped by opposing effects. On the one hand, there were the previously mentioned improvements in operating profit in Belgium, Germany, Spain and Russia. On the other hand, the reported EBITDA was impacted by high consulting expenses in connection with the takeover that was completed in 2017. The increase in **adjusted EBITDA** of 9% to € 433.9 million (previous year: € 398.0 million) was mainly attributable to the effects already mentioned for operating profit. The decrease in **reported net income** of 1% to € 85.3 million (previous year: € 85.9 million) was based, in addition to the previously mentioned effects for EBITDA, on an increased tax rate in particular due to a changed allocation of the pre-tax earnings with significantly increased earnings contributions in Germany and the Russian Federation. In addition, there were negative effects on the tax rate from the deconsolidation of STADA Vietnam J.V. The increase in **adjusted net income** of 10% to € 195.6 million (previous year: € 177.3 million) resulted primarily from the positive development of operating profit in Belgium, Germany, Spain and Russia.

As a result of tax deferrals, the reported tax rate was at 35.9% in the reporting year (previous year: 25.1%). This development is based mainly on a changed allocation of the pre-tax earnings with significantly increased earnings contributions in Germany and the Russian Federation. In addition, there were negative effects on the tax rate from the deconsolidation of STADA Vietnam J.V. The adjusted tax rate was 26.5%((previous year: 23.9%).

Influence on earnings due to special items

In financial year 2016, STADA carried out other adjustments in the adjusted earnings figures than was the case in financial year 2017 (see table below "Influence on earnings due to special items").

In **financial year 2017**, **special items** added up to an earnings burden in the amount of € 130.0 million before or € 110.3 million after taxes. The reconciliation of reported financial key performance indicators and further essential earnings figures of the STADA Group to those adjusted for special items were as follows:

in € million[1]	2017 reported	Impairments/ write-ups on non-current assets	Effects from purchase price allocations and product acquisitions[2]	Consultancy services in connection with the takeover process	Other[3]	*2017 adjusted*
Operating profit	**192.3**	**46.4**	**9.4**	**45.0**	**29.2**	***322.3***
Result from investments measured at equity	2.3	–	–	–	–	*2.3*
Investment income	0.0	–	–	–	–	*0.0*
Earnings before interest and taxes (EBIT)	**194.6**	**46.4**	**9.4**	**45.0**	**29.2**	***324.6***
Financial income and expenses	46.8	–	–	–	0.0	*46.8*
Earnings before taxes (EBT)	**147.7**	**46.4**	**9.4**	**45.0**	**29.2**	***277.8***
Income taxes	53.0	8.8	0.9	12.8	-2.1	*73.5*
Result distributable to non-controlling shareholders	9.4	0.2	-0.9	–	–	*8.7*
Result distributable to shareholders of STADA Arzneimittel AG (net income)	**85.3**	**37.4**	**9.4**	**32.2**	**31.3**	***195.6***
Earnings before interest and taxes (EBIT)	**194.6**	**46.4**	**9.4**	**45.0**	**29.2**	***324.6***
Balance from depreciation/ amortization and impairments/ write-ups of intangible assets (including goodwill), property, plant and equipment and financial assets	169.2	-46.4	-13.6	–	–	*109.3*
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**363.8**	**–**	**-4.2**	**45.0**	**29.2**	***433.9***

1) As a result of the presentation in € million, deviations due to rounding may occur in the tables.
2) Relates to additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions taking financial year 2013 as basis.
3) Relates, among other things, to severance payments for departed members of the Executive Board and restructuring measures, the deconsolidation effects of a Vietnamese subsidiary and deferred taxes within the income statement.

In **financial year 2016**, the Group recorded a net burden on earnings from **special items** in the amount of € 116.7 million before or € 91.4 million after taxes. The reconciliation of reported financial key performance indicators and further key earnings figures of the STADA Group to those adjusted for special items had the following effect:

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

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

In the following charts, further key earnings figures of the STADA Group as well as the resulting margins are presented both on a reported and an adjusted basis for 2017 and the previous year.

Development of the STADA Group's reported earnings figures

in € million	2017	2016	±%
Operating profit	192.3	178.1	+8%
• Generics	233.2	195.2	+19%
• Branded Products	99.3	81.4	+22%
Operating profit margin[1)]	8.3%	8.3%	
• Generics	17.1%	15.2%	
• Branded Products	10.4%	9.5%	
EBITDA	363.8	361.5	+1%
• Generics	292.5	255.8	+14%
• Branded Products	204.9	186.2	+10%
EBITDA margin[1)]	15.7%	16.9%	
• Generics	21.5%	20.0%	
• Branded Products	21.5%	21.7%	
EBIT	194.6	178.9	+9%
EBIT margin[1)]	8.4%	8.4%	
EBT	147.7	127.4	+16%
EBT margin[1)]	6.4%	6.0%	
Net income	85.3	85.9	-1%
Net income margin[1)]	3.7%	4.0%	
Earnings per share in €	1.37	1.38	-1%

Development of the STADA Group's adjusted[2)] earnings figures

in € million	*2017*	*2016*	*±%*
Operating profit, adjusted	*322.3*	*294.4*	*+9%*
• *Generics*	*248.8*	*214.2*	*+16%*
• *Branded Products*	*156.2*	*152.8*	*+2%*
Operating profit margin[1)], adjusted	*13.9%*	*13.8%*	
• *Generics*	*18.3%*	*16.7%*	
• *Branded Products*	*16.4%*	*17.8%*	
EBITDA, adjusted	*433.9*	*398.0*	*+9%*
• *Generics*	*302.8*	*264.9*	*+14%*
• *Branded Products*	*207.4*	*200.7*	*+3%*
EBITDA margin[1)], adjusted	*18.8%*	*18.6%*	
• *Generics*	*22.2%*	*20.7%*	
• *Branded Products*	*21.8%*	*23.4%*	
EBIT, adjusted	*324.6*	*295.1*	*+10%*
EBIT margin[1)], adjusted	*14.0%*	*13.8%*	
EBT, adjusted	*277.8*	*244.2*	*+14%*
EBT margin[1)], adjusted	*12.0%*	*11.4%*	
Net income, adjusted	*195.6*	*177.3*	*+10%*
Net income margin[1)], adjusted	*8.5%*	*8.3%*	
Earnings per share in €, adjusted	*3.14*	*2.85*	*+10%*

1) Related to relevant Group sales.
2) Adjusted for special items.

Income statement and cost development

Cost of sales increased in 2017 – in line with increased sales – to € 1,178.0 million (previous year: € 1,105.3 million). In this regard, the cost of sales increased at a rate lower than the increase in sales. The primary reasons for this were improvements in purchasing conditions as well as positive translation effects. The **cost of sales ratio** amounted to 50.9% (previous year: 51.7%).

Gross profit rose to € 1,135.9 million (previous year: € 1,033.9 million). The gross margin improved to 49.1% (previous year: 48.3%). This development was particularly attributable to an improved discount rate in the German generics segment, for example as a result of the STADApharm discount agreements, which nearly fully expired in December 2016, as well as in the generics and branded products segments in the Serbian subgroup. In addition, within the scope of the reorganization of the distribution model following the termination of the previously existing distribution agreement with Omega Pharma, an associated change to the discount strategy in the Belgian generics segment had a positive impact. Also making positive contributions here were positive volume and price effects in the Russian Federation.

Selling expenses recorded an increase to € 514.5 million (previous year: € 488.3 million). The key reasons for this development were higher marketing and sales expenses in the Branded Products segment, especially in Russia and Italy as well as in the generics and branded products segments in the Serbian subgroup. The **selling expenses ratio** was 22.2% (previous year: 22.8%).

The **general and administrative expenses** showed an increase to € 199.7 million (previous year: € 182.7 million). Its share of Group sales amounted to 8.6% (previous year: 8.5%). This increase is based for the most part on increased consulting expenses in connection with various restructuring processes.

Research and development costs were € 67.5 million (previous year: € 65.1 million). The sales-related ratio of research and development costs amounted to 2.9% (previous year: 3.0%).

STADA's reported development costs include the non-capitalizable development costs. These are primarily made up of costs associated with regulatory requirements and the optimization of existing products. This cost item does not include payments for the development of new products, as they are usually capitalized by STADA. In the reporting year, development expenses for new products in the amount of € 21.5 million (previous year: € 28.4 million) were capitalized. This corresponds to a capitalization rate of 24.2% (previous year: 30.4%). Not included in this amount are the capitalized borrowing costs and the capitalization of software in the total amount of € 2.5 million (previous year: € 2.5 million).

Other expenses increased to € 203.3 million (previous year: € 138.9 million). This development primarily resulted from increased consulting expenses in connection with the takeover completed in 2017 as well as write-downs on trade accounts receivable.

The remaining other expenses included personnel expenses in the amount of € 20.8 million (previous year: € 24.8 million).

Financial expenses decreased to € 50.5 million (previous year: € 54.1 million) – in particular as a result of lower expenses from the evaluation of derivative financial instruments and lower interest expenses.

The **financial result**, which is primarily made up of financial income and financial expenses, was € -44.5 million (previous year: € -50.7 million). The interest expense in the amount of € 50.5 million (previous year: € 52.9 million) represented the largest single operational item. Furthermore, the financial result of the previous year also included effects from the measurement of derivative financial instruments that amounted to a net expense of € 0.5 million.

In financial year 2017, the Group refinanced itself at interest rates of between 0.8% p.a. and 27.0% p.a. (previous year: between 0.7% p.a. and 26.0% p.a.). As of the balance sheet date December 31, 2017, the weighted average interest rate for non-current financial liabilities was approximately 25.51% p.a. (previous year: approx. 1.66% p.a.). The strong increase over the previous year is attributable to the high interest rates in Argentina. The non-current financial liabilities reported as of December 31, 2017 in the STADA Group relate exclusively to the Argentinian Laboratorio Vannier S.A. As of the balance sheet date December 31, 2017, the weighted average interest rate for current financial liabilities was approximately 1.78% p.a. (previous year: approx. 3.12% p.a.).

Income tax expenses increased to € 53.0 million (previous year: € 31.9 million). The reported tax rate was 35.9% (previous year: 25.1%). This development was particularly attributable to a changed allocation of pre-tax earnings with a significant increase in earnings contributions in Germany and the Russian Federation. There were also negative effects on the tax rate from the deconsolidation of STADA Vietnam J.V. The adjusted tax rate was 26.5% (previous year: 23.9%).

Sales and Earnings Development of the Generics Segment

Reported sales of the **Generics** segment increased in the reporting year by 6% to € 1,361.7 million (previous year: € 1,280.7 million) – which was mainly attributable to the first-time consolidation of the Serbian wholesaler Velexfarm. In addition, increased segment sales in the Belgian and Italian markets also contributed. Sales of the Generics segment adjusted for portfolio and currency effects increased by 4% to € 1,324.4 million (previous year: € 1,272.5 million). The share of sales generated with generics was 58.8% (previous year: 59.9%).

Within the Generics segment, development of the eight largest countries by sales in financial year 2017 was as follows:

Sales generated in **Germany** with generics decreased by 3% to € 297.3 million (previous year: € 308.0 million). This development was based on opposing effects. While ALIUD PHARMA recorded a sales increase as a result of discount agreement tenders won, sales at STADAPHARM were – as expected – below the level of the previous year. The development at STADAPHARM was mainly attributable to the discount agreements which nearly fully expired in December of 2016. Business outside of discount agreement tenders at STADAPHARM, which has also included sales by the former cell pharm since July 1, 2017, showed positive development. This includes, among other things, sales with oncology products. Sales generated in the German market with generics had a share of 63% in the overall sales achieved in the German market (previous year: 63%). The market share of generics sold in German pharmacies by volume in the reporting year was approximately 11.1%[1)] (previous year: approx. 11.5%[1)]). The STADA Group thus continued to hold third place in the German generics market.[1)]

In **Italy**, sales generated with generics recorded growth – despite strong competition – of 8% to € 170.5 million (previous year: € 157.7 million) mainly due to positive volume growth, new product launches and price effects. Generics made a contribution of 80% to sales in the Italian market (previous year: 78%). With a market share of approximately 14.8% (previous year: approx. 14.6%), STADA continued to occupy position 4 in the Italian generics market in financial year 2017.[2)]

Sales achieved in **Belgium** with generics recorded an increase of 33% to € 120.8 million (previous year: € 90.7 million). This development resulted in particular from positive volume effects related to the independent execution of sales activities that have been carried out since January 2017 as well as a declining discount rate following the termination of the previously existing distribution agreement. Generics contributed 91% to sales in the Belgian market (previous year: 89%). With a market share of approximately 44.0% (previous year: approx. 44.5%), the local STADA generics unit remained the clear market leader in the Belgian generics market in 2017.[2)]

Sales generated in **Russia** with generics increased by 4%, applying the exchange rates of the previous year. This development was primarily influenced by positive volume effects. As a result of the very positive currency effect of the Russian ruble, sales increased in euro by 15% to € 106.3 million (previous year: € 92.5 million). Generics contributed 31% to local sales (previous year: 38%). With a market share of approximately 4.6% (previous year: approx. 4.7%), STADA occupied first place among national manufacturers in the Russian generics market in the reporting year.[2)]

In **Spain**, sales of € 105.5 million were approximately at the level of the previous year (previous year: € 105.4 million) despite a generally declining Spanish generics market. The share of generics in local sales was 86% (previous year: 87%). With a market share of approximately 9.3% (previous year: approx. 9.5%), STADA held third place in the Spanish generics market in the reporting year.[2)]

In **Serbia**, sales with generics recorded an increase of 67% applying the exchange rates of the previous year. Sales in euro increased by 69% to € 94.3 million (previous year: € 55.8 million). This development particularly resulted from the initial consolidation of the Serbian wholesaler Velexfarm. Furthermore, it is also based on the change to the distribution model in the Serbian generics market. The share of generics in sales generated in the Serbian market amounted to 81% (previous year: 76%). With a market share of approximately 30.3% (previous year: approx. 30.5%), STADA remained the market leader in the Serbian market in the reporting year.[2)]

1) Data from IMS Health based on pharmacy sales to customers (source: IQVIA/Pharmascope national).
2) STADA estimate based on IQVIA data.

Sales generated with generics in **France** declined – mainly as a result of continued strong price and discount competition – by 4% to € 78.9 million (previous year: € 81.9 million). Generics contributed 93% to sales in the French market (previous year: 96%). With a market share of approximately 3.4% (previous year: approx. 3.5%), STADA continued to occupy position 7 in the French generics market in financial year 2017.[1)]

Sales generated in **Vietnam** with generics decreased by 2% applying the exchange rates of the previous year. In euro, sales recorded a decrease of 7% to € 64.6 million (previous year: € 69.1 million). This development was based, among other things, on the fact that for STADA Vietnam J.V. only sales from January to November 2017 are included because, as a result of the contract concluded in the fourth quarter of 2017 for the sale of shares held by STADA in this company as of December 31, 2019, since December 2017, STADA Vietnam J.V. is no longer accounted for as a subsidiary in accordance with IFRS 10, but rather as an associate pursuant to IAS 28. Generics contributed 63% to sales generated in Vietnam (previous year: 65%).

With products containing the Group's **top five pharmaceutical active ingredients** in terms of **sales**, STADA achieved sales in the amount of € 128.9 million in the reporting year (previous year: € 133.4 million). These products thereby contributed 9.5% to sales in the Generics segment (previous year: 10.4%). With sales of € 36.5 million achieved in 2017 (previous year: € 43.6 million), tilidin naloxon (pain indication) was the strongest selling active pharmaceutical ingredient in the Generics segment.

Reported operating profit in the **Generics** segment increased by 19% to € 233.2 million in financial year 2017 (previous year: € 195.2 million). This development was particularly a result of improved operating profit in the Belgian generics segment – following the termination of the previous distribution agreement in December 2016 with Omega Pharma – as well as improved operating profit in the German and Spanish generics segment. **Reported EBITDA** in the **Generics** segment increased by 14% to € 292.5 million (previous year: € 255.8 million). This development was attributable to the aforementioned development of the reported operating segment profit in Belgium, Germany and Spain. **Reported operating profit margin** of **Generics** amounted to 17.1% (previous year: 15.2%). The **reported EBITDA margin** in **Generics** was 21.5% (previous year: 20.0%).

Adjusted operating profit in the **Generics** segment increased in the reporting year by 16% to € 248.8 million (previous year: € 214.2 million). **Adjusted EBITDA** in the **Generics** segment increased by 14% to € 302.8 million (previous year: € 264.9 million). Both developments were mainly based on the aforementioned improvement in the reported operating profit in Belgium, Germany and Spain. The **adjusted operating profit margin** of **Generics** was 18.3% (previous year: 16.7%). The **adjusted EBITDA** margin of Generics was 22.2% (previous year: 20.7%).

Sales and Earnings Development of the Branded Products Segment

The **reported sales** of the **Branded Products** segment showed an increase in 2017 of 11% to € 952.2 million (previous year: € 858.5 million). For the most part, this development was based on strong growth in segment sales in Russia. It was also attributable to an increased sales contribution of the Serbian subgroup. **Sales** of the **Branded Products** segment **adjusted** for portfolio and currency effects increased by 9% to € 930.9 million (previous year: € 856.2 million). Branded Products contributed 41.2% to Group sales (previous year: 40.1%).

Within the Branded Products segment, the five largest countries by sales developed as follows in 2017:

In **Russia**, sales generated with branded products in the reporting period recorded an increase of 43% applying the exchange rates of the previous year. Most of the sales increase was attributable to growth in volume, particularly for top branded products. In light of a very positive currency effect of the Russian ruble, sales in euro recorded growth of 58% to € 236.8 million (previous year: € 150.1 million). The share of branded products in sales generated in the Russian market amounted to 69% (previous year: 62%). The further development of the currency relation of the Russian ruble to the euro and thus consumer sentiment and consumer spending will in the future continue to have a strong influence on sales and earnings contributions of the Russian STADA business activities.

In **Germany**, sales achieved with branded products decreased in the reporting year by 3% to € 172.8 million (previous year: € 177.4 million). This development was based on opposing effects. The branded products business of STADA GmbH developed increasingly positive over the course of 2017 and showed a slight increase as compared to the previous year – also as a result of the two successful new product launches for Hedrin® and ViruProtect®. The overall sales decrease seen in this segment was

1) STADA estimate based on IQVIA data.

particularly attributable to the development of the German business with the Parkinson's treatment APO-Go®. A sales reorganization planned for 2018 also had an impact here. Branded products contributed 37% to sales achieved in the German market (previous year: 37%).

In the **United Kingdom**, sales generated with branded products recorded an increase of 1%, applying the exchange rates of the previous year. Due to the negative currency effect as a consequence of the referendum decision in favor of the United Kingdom leaving the EU, sales in euro decreased by 6% to € 165.3 million (previous year: € 175.4 million). The decline in sales was based for the most part on levels of stock in the supply chain in the fourth quarter of 2016 as well as a weak cough and cold season in the first half of 2017 and could be only partially compensated for by the sales contribution from the branded products company Natures Aid, which was acquired in November 2016. Branded products had a share of 88% in sales generated on the British market (previous year: 88%). The outlook for the development of the British pound sterling continues to be negative as a result of the United Kingdom's referendum decision to leave the EU and the uncertainties associated with this decision. Overall, such a devaluation of the British pound sterling results in negative translation effects on sales reported in euro for the Group.

Sales generated with branded products in **Italy** decreased by 2% to € 43.0 million (previous year: € 43.9 million). This development was mainly attributable to a license agreement that was terminated in the second half of 2017 and the associated negative volume effects. Branded products contributed 20% to sales in Italy (previous year: 22%).

Sales generated in **Vietnam** recorded an increase of 8% applying the exchange rates of the previous year. In light of a negative currency effect, sales in euro recorded growth of 3% to € 37.9 million (previous year: € 36.7 million). This development resulted in particular from positive volume effects – in both the OTC and hospital businesses. Branded products contributed 37% to sales generated in Vietnam (previous year: 35%).

With the **top five branded products** in the Group in terms of **sales**, STADA achieved sales in the amount of € 220.9 million in financial year 2017 (previous year: € 177.1 million). These products thus had a share of 23.2% of sales in the Branded Products segment (previous year: 20.6%). With sales generated in the reporting period in the amount of € 68.2 million (previous year: 66.6 Mio. €) the Parkinson's treatment APO-Go® was the best-selling product in the Branded Products segment.

Reported operating profit in the **Branded Products** segment increased in the reporting year by 22% to € 99.3 million (previous year: € 81.4 million). This development was particularly attributable to strong sales development and positive currency translation effects in Russia. **Reported EBITDA** in the **Branded Products** segment grew by 10% to € 204.9 million (previous year: € 186.2 million). This development was primarily attributable to the aforementioned development of the reported operating segment profit in Russia. **Reported operating profit margin** of **Branded Products** was at 10.4% (previous year: 9.5%). The **reported EBITDA margin** of **Branded Products** was 21.5% (previous year: 21.7%).

Adjusted operating profit in the **Branded Products** segment increased in 2017 by 2% to € 156.2 million (previous year: € 152.8 million). **Adjusted EBITDA** in the **Branded Products** segment increased by 3% to € 207.4 million (previous year: € 200.7 million). Both developments were mainly attributable to the aforementioned development of reported operating profit in Russia. The **adjusted operating profit margin** of **Branded Products** was 16.4% (previous year: 17.8%). **Adjusted operating profit margin** of **Branded Products** was 21.8% (previous year: 23.4%).

Financial Position

Stable financial position

The financial position of the STADA Group was stable in 2017. In addition to a number of items presented in the cash flow statement, this was also demonstrated by various key figures that are included in this chapter, among other areas in the liquidity analysis.

Basic principles and objectives of financial management at STADA

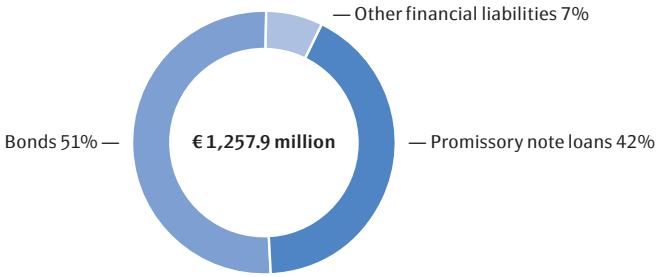
In terms of its financing strategy, STADA focuses on both the securing of financial flexibility as well as the optimization of the weighted average cost of capital. In order to maintain financial flexibility, the Group uses various financial instruments. Accordingly, the maturity profile of STADA is broadly diversified. To date STADA had made use of a large share of medium and long term financing instruments. In light of the takeover that was carried out in financial year 2017, a reclassification of the promissory

note loans, bonds and financial liabilities due to banks in place at STADA Arzneimittel AG was undertaken. As a consequence, the short-term financial liabilities increased and the long-term financial liabilities decreased (see "Net Assets"). In addition to these financial instruments, the Group also covers its financing needs mainly through cash flow from operating activities.

The Group reduces existing financial risks to as great an extent as possible through a natural hedging and derivative financial instruments. Derivative financial instruments are principally neither held nor issued for speculation purposes. Financial risks are hedged only if they have significant consequences on the Group's cash flow. Details concerning the management of individual financial risks are included in the "Opportunities and Risk Report".

Long-term refinancing secured

Financing mix of the STADA Group as of December 31, 2017



For the refinancing of the Group, there were two corporate bonds as of December 31, 2017: one bond with a volume of € 350.0 million and an interest rate of 2.25% p.a. as well as a bond in the amount of € 300.0 million with an interest rate of 1.75% p.a. Furthermore, as of December 31, 2017, the Group has promissory note loans with a total nominal value in the amount of € 526.0 million. The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Due to STADA's financing agreements, the Company anticipates that repayment could take place in the short term which is why a relevant reclassification of the financial liabilities in the balance sheet from non-current to current liabilities was undertaken. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming.

Financial liabilities in a currency that deviates from the functional currency of the Group existed in the reporting year primarily relate to the Serbian Hemofarm A.D. and the Argentinean Laboratorio Vannier S.A.

In financial year 2017, the Group refinanced itself at interest rates of between 0.8% p.a. and 27.0% p.a. (previous year: between 0.7% p.a. and 26.0% p.a.). As of the balance sheet date December 31, 2017, the weighted average interest rate for non-current financial liabilities was approximately 25.51% p.a. (previous year: approx. 1.66% p.a.). The strong increase over the previous year is attributable to the high interest rates in Argentina. The non-current financial liabilities reported as of December 31, 2017 in the STADA Group relate exclusively to the Argentinian Laboratorio Vannier S.A. As of the balance sheet date December 31, 2017, the weighted average interest rate for current financial liabilities was approximately 1.78% p.a. (previous year: approx. 3.12% p.a.).

For all of the Group's financial liabilities the weighted average interest amounted to approximately 1.79% p.a. (previous year: approx. 1.78% p.a.).

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

Remaining maturities of financial liabilities due to banks as of Dec. 31, 2017 in € k	< 1 year	1–3 years	3–5 years	> 5 years	Total	thereof as of Dec. 31, 2017 > 1 year in %
Promissory note loans	525,112	–	–	–	525,112	–
Bonds	647,986	–	–	–	647,986	–
Liabilities to banks	84,007	816	–	–	84,823	1%
Total					1,257,921	**0%**

Liquidity analysis

The Group's liquidity was guaranteed at all times in the reporting year. STADA received liquidity primarily through cash inflows from operating activities and through the borrowing of funds. Cash inflows from operating activities were influenced by the profitability of business activities and the net working capital and by receivables in particular. In addition to the existing financing through two corporate bonds, credit lines and various promissory note loans, STADA also has a liquidity reserve in the form of cash.

Cash flow analysis

Cash flow statement (abridged) in € k	2017	2016
Cash flow from operating activities	262,881	333,522
Cash flow from investing activities	-122,644	-171,763
Free cash flow	**140,237**	**161,759**
Cash flow from financing activities	-227,838	54,334
Non-cash changes in cash and cash equivalents	-21,784	-6,691
Cash flow	-109,385	**209,402**

Cash flow from operating activities consists of changes in items not covered by investments, financing, exchange differences on the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities decreased to € 262.9 million in the reporting year (previous year: € 333.5 million). This development resulted primarily from significantly higher cash outflows as compared with the previous year in connection with inventories, trade receivables as well as trade payables. The cash-effective increase in inventories was attributable, among other things, to additions at ALIUD PHARMA to secure the ability to deliver within the scope of health insurance tenders. Trade receivables were also strongly marked by declining factoring volume.

Cash flow from investing activities, which reflects the cash outflows for investments reduced by the inflows from disposals amounted to € -122.6 million in financial year 2017 (previous year: € -171.8 million).

Cash flow from investing activities was mainly influenced by payments for investments in intangible assets in the amount of € 70.2 million (previous year: € 76.1 million). Within the scope of business combinations, there were pay-outs for the acquisition of Serbian pharmaceutical wholesaler Velexfarm as well as for the final purchase price payment for the acquisition of Argentinian Laboratorio Vannier and a Serbian product portfolio. In the previous year, there were significantly higher pay-outs for business combinations, mainly for the acquisition of a product portfolio in Serbia as well as the acquisition of the British Natures Aid and the Argentinian Laboratorio Vannier.

For **acquisitions** – within the scope of business combinations in accordance with IFRS 3 as well as for significant investments in intangible assets for the short-term expansion of the product portfolio – STADA spent a total of € 42.3 million in 2017 (previous year: € 86.3 million).

Investments in other intangible assets, i.e. investments in intangible assets in the context of the ongoing operating business and thus without consideration of significant investments or acquisitions for the short-term expansion of the product portfolio, amounted to € 30.7 million in 2017 (previous year: € 42.7 million). They include, in particular, individual insignificant payments for the development and acquisition of approvals and approval dossiers.

Payments for **investments in property, plant and equipment** amounted to € 55.0 million in the reporting year (previous year: € 48.9 million). Also included here are production facilities, production sites and test laboratories for which in financial year 2017 additions in the amount of € 36.3 million (previous year: € 22.6 million) were recorded.

Payments for **investments in financial assets** amounted to € 0.3 million in financial year 2017 (previous year: € 4.9 million).

As a result of **disposals**, STADA, in terms of cash flow from investing activities, recorded an inflow of cash and cash equivalents in the total amount of € 5.7 million in financial year 2017 (previous year: € 11.0 million). Proceeds from the disposal of shares in consolidated companies related exclusively to the sale of shares in the Chinese STADA Import/Export International Ltd. The selling price was € 6 k and was paid in cash. Assets in the total amount of € 1.7 million and liabilities in the total amount of € 1.7 million were hereby disposed of.

Cash flow from financing activities in the reporting year amounted to € -227.8 million (previous year: € 54.3 million). This development was particularly attributable to a significantly lower borrowing of funds compared with the previous year. The repayment and borrowing of funds in 2017 shown in the cash outflow from financing activities was effected by the following facts: the financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, a loan in the amount of € 40.0 million was already granted by Nidda Healthcare Holding GmbH in this connection. The resulting cash inflows were allocated to cash flow from financing activities.

Free cash flow, i.e. cash flow from current business activities plus cash flow from investing activities, amounted in 2017 to € 140.2 million in the reporting year (previous year: € 161.8 million). **Free cash flow adjusted** for payments for significant investments or acquisitions and proceeds from significant disposals decreased to € 181.2 million (previous year: € 243.9 million).

Cash flow for financial year 2017 net of all inflows and outflows from cash flow from operating activities, cash flows from investing and financing activities as well as changes in cash and cash equivalents due to exchange rates and/or the scope of consolidation amounted to € -109.4 million in the reporting year (previous year: € 209.4 million).

Investments

The Group's investment volume totaled € 113.6 million in the reporting year (previous year: € 189.7 million). In this regard, investments in property, plant and equipment totaled € 56.0 million (previous year: € 54.3 million). Of this amount, € 0.1 million is accounted for by business combinations in accordance with IFRS 3 (previous year: € 4.2 million). In relation to Group sales, the share of investments in property, plant and equipment was 2.4% (previous year: 2.5% of Group sales). Investments in intangible assets were € 57.3 million (previous year: € 130.5 million). Of this amount, € 0.3 million is attributable to business combinations in accordance with IFRS 3 (previous year: € 49.0 million). In financial year 2017, 49% of the total investment volume was used for property, plant and equipment (previous year: 29%) and 50% for intangible assets (previous year: 69%).

Acquisitions

The Group did not make any significant acquisitions in the reporting year.

Net Assets

Development of the Balance Sheet

Balance sheet (abridged) Assets	Dec. 31, 2017 in € k	Dec. 31, 2017 in %	Dec. 31, 2016 in € k	Dec. 31, 2016 in %
Non-current assets	**1,880,574**	**58.7%**	**1,949,543**	**56.7%**
Intangible assets	1,474,342	46.0%	1,582,361	46.0%
Property, plant and equipment	332,738	10.4%	322,715	9.4%
Remaining assets	73,494	2.3%	44,467	1.3%
Current assets	**1,323,952**	**41.3%**	**1,490,901**	**43.3%**
Inventories	499,012	15.6%	484,904	14.1%
Trade accounts receivable	520,441	16.2%	489,071	14.2%
Remaining assets	59,478	1.8%	81,386	2.4%
Cash and cash equivalents	243,194	7.6%	352,580	10.2%
Non-current assets and disposal groups held for sale	1,827	0.1%	82,960	2.4%
Total assets	**3,204,526**	**100%**	**3,440,444**	**100%**

Equity and liabilities	Dec. 31, 2017 in € k	Dec. 31, 2017 in %	Dec. 31, 2016 in € k	Dec. 31, 2016 in %
Equity	**1,006,406**	**31.4%**	**1,047,105**	**30.4%**
Non-current borrowed capital	**157,572**	**4.9%**	**1,493,712**	**43.4%**
Other non-current provisions	35,293	1.1%	35,997	1.0%
Financial liabilities	816	0.0%	1,336,414	38.9%
Other liabilities	121,463	3.8%	121,301	3.5%
Current borrowed capital	**2,040,548**	**63.7%**	**899,627**	**26.2%**
Other provisions	23,507	0.7%	20,273	0.6%
Financial liabilities	1,257,105	39.2%	134,343	3.9%
Trade payables	340,642	10.6%	336,844	9.8%
Other liabilities	419,294	13.2%	393,589	11.5%
Non-current liabilities and associated liabilities of disposal groups held for sale	–	–	14,578	0.4%
Total assets	**3,204,526**	**100%**	**3,440,444**	**100%**

The assets situation of the STADA Group developed positively in 2017. This is also reflected in the following three derived key figures as a supplement to the items reported in the balance sheet.

Net debt as of December 31, 2017 was reduced to € 1,054.7 million (December 31, 2016: € 1,118.2 million). The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, a loan in the amount of € 40.0 million was already granted by Nidda Healthcare Holding GmbH in this connection. This loan is included in the calculation of net debt.

In the reporting year, the **net debt to adjusted EBITDA ratio** improved to 2.4 (previous year: 2.8).

The **equity ratio** as of the balance sheet date was 31.4% (December 31, 2016: 30.4%).

The balance sheet total as of December 31, 2017 decreased to € 3,204.5 million (December 31, 2016: € 3,440.4 million). Significant balance sheet changes are described below.

Intangible assets decreased by € 108.0 million to € 1,474.3 million as of December 31, 2017 (December 31, 2016: € 1,582.4 million). This development was attributable, among other things, to currency effects and scheduled amortization as well as impairments.

As of December 31, 2017, intangible assets included goodwill in the amount of € 396.5 million (December 31, 2016: € 404.6 million). There were additions to intangible assets from business combinations in accordance with IFRS 3 – without including amortization – in the amount of € 0.3 million. This resulted from the acquisition of the Serbian pharmaceutical wholesaler Velexfarm. In addition, in financial year 2017, development costs in the amount of € 21.4 million were capitalized as internally created intangible assets (previous year: € 31.0 million). In 2017, STADA recognized impairments, net of write-ups, on intangible assets in the total amount of € 41.7 million (previous year: € 61.8 million).

Property, plant and equipment rose to € 332.7 million as of the balance sheet date (December 31, 2016: € 322.7 million). The increase primarily resulted from investments in production facilities in the Serbian subgroup.

Inventories increased to € 499.0 million as of December 31, 2017 (December 31, 2016: € 484.9 million). This development was particularly attributable to additions in the Serbian subgroup, partially related to the acquisition of the Serbian wholesaler Velexfarm as well as at ALIUD PHARMA to secure the ability to deliver within the scope of health insurance tenders.

In specific situations STADA puts – following the principle of market proximity – certain range considerations deliberately aside in favor of possible operating opportunities. In individual cases this – if the utilization of opportunities cannot be realized as expected – can lead to value allowances for inventories which burden earnings. Total burdens in the amount of € 43.2 million as of December 31, 2017 were incurred due to impairments net of reversals (December 31, 2016: € 28.2 million).

Trade accounts receivable increased to € 520.4 million as of the reporting date (December 31, 2016: € 489.1 million). This development was primarily attributable to a significantly reduced factoring volume as compared to December 31, 2016, additions within the scope of the acquisition of the Serbian wholesaler Velexfarm as well as reporting date effects.

Insofar as there exists the opportunity to attain a better market position, the Group accepts in exceptional cases, if necessary, higher current trade receivables. In terms of its receivables management, STADA pays careful attention to the liquidity of customers as a general rule. However, defaults can never be entirely ruled out (see "Opportunities and Risk Report").

Other assets comprises various items including, among other things, financial assets, investments accounted for at equity, deferred tax assets, other financial assets, other assets as well as income tax receivables.

Financial assets fell to € 2.0 million as of December 31, 2017 (December 31, 2016: € 2.2 million) due, among other things, to impairments.

Investments measured at equity increased as of the balance sheet date to € 41.5 million (December 31, 2016: € 13.9 million). This development was primarily based on the accounting of the former Vietnamese subsidiary STADA Vietnam J.V. as an associate as a result of a contract concluded in the fourth quarter of 2017 for the sale of the shares in this company held by STADA as of December 31, 2019. For STADA, this was associated with the loss of control in this company.

Deferred tax assets increased as of December 31, 2017 to € 27.6 million (December 31, 2016: € 20.8 million). The increase resulted, among other things, from additions within the scope of the initial consolidation of the Australian subsidiary STADA Australia as well as the acquisition of the Serbian wholesaler Velexfarm.

Other financial assets in the amount of € 10.9 million (December 31, 2016: € 44.3 million) included, among other things, the positive market values of derivative financial instruments which were € 0.7 million as of the balance sheet date (December 31, 2016: € 9.9 million) and which in 2017 consisted only of currency forwards. Furthermore, also included in this position are receivables from factoring transactions which for the German Group companies amount to € 5.5 million (December 31, 2016: € 6.4 million).

Other assets increased as of December 31, 2017 to € 36.7 million (December 31, 2016: € 31.8 million). This was mainly attributable to an increase in other tax receivables in Serbia.

The increase of income tax receivables as of December 31, 2017 to € 14.3 million (December 31, 2016: € 12.8 million) was based primarily on advance income tax payments made by STADA Arzneimittel AG.

Cash and cash equivalents, including cash and call deposits as well as current financial investments, decreased as of December 31, 2017 to € 243.2 million (December 31, 2016: € 352.6 million). This development was based on the effects described as part of the explanations on the consolidated cash flow statement. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

As of December 31, 2017, **intangible assets included goodwill** in the amount of € 1.8 million (December 31, 2016: € 83.0 million). **Liabilities in connection with the assets** (December 31, 2016: € 14.6 million) no longer existed as of December 31, 2017. In the previous year, as part of a disposal group of assets and liabilities held for sale of the two subsidiaries STADA Vietnam J.V., Ho Chi Minh City, Vietnam, and STADA Import/Export International Ltd., Hong Kong, China, were presented in a separate line item in the balance sheet because at that point a sale in the near term was viewed as highly-probable. As of December 31, 2017 there was no longer, in relation to these two companies, any recognition of non-current assets and disposal groups held for sale as well as liabilities in connection with the assets. This resulted on the one hand from the sale completed in the first quarter of 2017 of the company STADA Import/Export International Ltd. On the other hand, with regard to the subsidiary STADA Vietnam J.V., a contract was signed for the sale of the shares held in the company by STADA as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale. As of December 31, 2017, assets held for sale in the STADA Group consisted for the most part of a building held for sale by a German subsidiary as well as an intangible asset held for sale by an Italian subsidiary were presented in a separate line item in the balance sheet.

Equity decreased as of December 31, 2017 to € 1,006.4 million (December 31, 2016: € 1,047.1 million).

Retained earnings including net income comprise net income for financial year 2017 as well as earnings generated in previous periods, provided these were not distributed, including amounts transferred to retained earnings. In addition, revaluations of net debt from defined benefit plans that were recognized through other comprehensive income are reported under this item, taking deferred taxes into account. In the context of measuring the defined benefit obligations as of December 31, 2017, net income in the amount of € 3.5 million after deferred taxes – not considering amounts attributable to non-controlling interests – resulted from the remeasurement. It is mainly based on the increase in the discount rate for various defined benefit plans in the STADA Group underlying the measurement of December 31, 2017 in comparison with December 31, 2016. Also included in this position are currency translation differences related to the revaluation of net debt recognized in equity from performance-oriented pension plans as well as the deferred taxes they incur which, in financial year 2017 amounted to income recognized in equity of € 0.1 million.

Other provisions include results recognized directly in **equity**. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are reported in the statement of changes in equity under the currency translation reserve. The decrease in other provisions in the reporting year can be allocated primarily to the depreciation of the Russian ruble, the Vietnamese dong and British pound sterling since December 31, 2016 as well as the resulting expenses with no effect on income from the currency translation of companies accounted for in this currency.

As of December 31, 2017, the Group's **current and non-current financial liabilities** in the amount of € 1,257.1 million and € 0.8 million (December 31, 2016: € 134.3 million and € 1,336.4 million) particularly include promissory note loans that have a nominal value in the amount of € 526.0 million (December 31, 2016: € 709.0 million), a bond with a nominal value in the amount of € 350.0 million and a bond with a nominal value in the amount of € 300.0 million (December 31, 2016: a bond with a nominal value in the amount of € 350.0 million and a bond with a nominal value in the amount of € 300.0 million). The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. The increase in current financial liabilities as well as the decrease in non-current financial liabilities was based on the reclassification of the promissory note loans, bonds and financial liabilities

currently in place at STADA Arzneimittel AG. Due to STADA's financing agreements, the Company anticipates that repayment could take place in the short term which is why a relevant reclassification of the financial liabilities in the balance sheet from non-current to current liabilities was undertaken. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming.

Trade accounts payable increased to € 340.6 million as of the balance sheet date December 31, 2017 (December 31, 2016: € 336.8 million). In addition to reporting date effects, this development relates mainly to the acquisition of the Serbian wholesaler Velexfarm.

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

Deferred tax liabilities increased only slightly as of December 31, 2017 to € 116.5 million (December 31, 2016: € 116.4 million).

Other financial liabilities in the amount of € 230.1 million (December 31, 2016: € 217.9 million) included liabilities from discount agreements of German STADA companies in the amount of € 140.8 million (previous year: € 166.3 million) and also included, among other things, finance lease liabilities and liabilities from derivative financial instruments. The finance lease liabilities amounted to € 3.4 million as of December 31, 2017 (December 31, 2016: € 3.3 million). The liabilities from derivative financial instruments amounted to € 1.3 million on the reporting date (December 31, 2016: € 11.9 million), and resulted from the negative market values of derivatives measured at fair value through profit or loss. The increase in other financial liabilities as compared to the previous year was primarily due to a loan granted by Nidda Healthcare Holding GmbH in the amount of € 40.0 million. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming.

Income tax liabilities increased to € 69.7 million as of the balance sheet date (December 31, 2016: € 60.6 million). This development was particularly attributable to the tax deferrals for future tax liabilities carried out.

Other liabilities increased as of December 31, 2017 to € 124.5 million (December 31, 2016: € 119.9 million). This was mainly attributable to increases in other tax liabilities and personnel related liabilities, especially in the scope of severance payments.

Results of Operations, Financial Position and Net Assets of STADA Arzneimittel AG

Introduction

STADA Arzneimittel AG is the parent and lead company of the STADA Group. It directly and indirectly holds shares in the companies that belong to the STADA Group.

In the evaluation of the results of STADA Arzneimittel AG, 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, which result 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 Arzneimittel AG. STADA Arzneimittel AG's net profit is also influenced by investment income.

For STADA Arzneimittel AG, sales as well as net profit are used as a basis for the ability to pay a dividend of key financial performance indicators and management metrics.

For further information on the business activities of STADA Arzneimittel AG, in particular with regard to the topics of "research and development", "employees", "macroeconomic and sector-specific environment" as well as "opportunities and risks", reference is made to the statements regarding the STADA Group included in this Combined Management Report.

The Annual Financial Statements of STADA Arzneimittel are prepared in accordance with the provisions of the German Commercial Code (HGB) under consideration of the supplementing requirements of the German Stock Corporation Act (AktG). The provisions for major capital corporations apply.

The full Annual Financial Statements of STADA Arzneimittel are available on the STADA website at www.stada.de or www.stada.com.

Results of Operations

Results of operations in € k	2017	2016
Revenue	446,944	438,111
Net profit	39,062	**51,473**

Sales of **STADA Arzneimittel AG** increased in financial year 2017 by 2% to € 446.9 million (previous year: € 438.1 million).

In this regard, sales to third parties decreased considerably as compared to the previous year. Key reasons for this were the legal mergers carried out in 2017 of STADA GmbH and STADAvita GmbH as well as STADApharm GmbH and cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH. STADAvita GmbH was subsequently renamed STADA GmbH and cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH was subsequently renamed STADAPHARM GmbH.

In connection with the legal mergers, the so-called commission agent model was dissolved. As a result of this step, invoicing of customers since that time is no longer done through STADA Arzneimittel AG, rather through the subsidiaries STADA GmbH and STADAPHARM GmbH. Until June 30, 2017, STADA Arzneimittel AG acted as principal. Furthermore, at the time of the receivables with the external customers, there was an assignment of the receivables from the two subsidiaries to STADA.

Internal Group sales developed positively – due, on the one hand, to an increased flow of goods following the mergers between STADA Arzneimittel AG and the two subsidiaries mentioned above and, on the other hand, due to increased sales volumes.

Other operating income decreased to € 61.6 million (previous year: € 80.0 million) mainly as a result of a decline in exchange gains in the amount of € 12.0 million (previous year: € 41.0 million) as well as lower income from cost transfers in the amount of € 2.3 million (previous year: € 9.7 million). This was countered in the reporting year by write-ups in the amount of € 21.8 million (previous year: € 18.9 million).

Notwithstanding the slight increase in sales, the cost of materials and supplies as well as goods purchased decreased to € 162.1 million (previous year: € 175.7 million). The declining cost of materials is based mainly on the dissolution of the commission agent model with the transfer of inventories to the companies STADAPHARM and STADA GmbH. The decrease also resulted from reduced sales volumes in the Generics segment prior to the merger in the first half of 2017 on the basis of the decision, taken for reasons related to profitability, to participate in health insurance organization tenders with only one company. Personnel expenses of € 96.9 million were approximately at the level of the previous year (previous year: € 96.5 million). Amortization/depreciation on non-current intangible assets and property, plant and equipment decreased to € 52.5 million (previous year: € 87.7 million). For the most part, this decline was attributable to lower unscheduled amortization on approvals and brands as well as goodwill. Depreciation on financial assets, on the other hand, increased to € 20.7 million (previous year: € 9.8 million). Other operating expenses increased to € 245.7 million (previous year: € 237.8 million), largely as a result of an increase in consultancy services in the course of the takeover completed in 2017. This was countered by a reduction in other operating expense with regard to the elimination of margin compensation based on the merger and the associated dissolution of the commission agent model.

Income from profit transfer agreements and associates increased as a result of a positive earnings development in the German sales companies to € 79.3 million (previous year: € 73.5 million), whereas investment income decreased to € 22.3 million (previous year: € 51.0 million). Earnings from loans to associates increased by 1% € 37.3 million (previous year: € 36.8 million).

Other interest and similar income declined to € 22.8 million (previous year: € 28.3 million), mainly because of the decreasing interest rates in the loans to subsidiaries. Interest and similar expenses declined to € 26.3 million (previous year: € 35.7 million), mainly because of the repayment of existing loans.

Net profit for **STADA Arzneimittel AG** in 2017 – with respect to the developments previously described – decreased by 18% to € 39.1 million (previous year: € 51.5 million). In total, the tax expense rose to € 21.7 million (previous year: € 13.9 million) thus corresponding to 35.6% of pre-tax net profit.

Financial Position

Cash flow from operating activities of **STADA Arzneimittel AG** in the reporting year increased to € 108.5 million (previous year: € 91.9 million). This increase is primarily based on higher provisions and liabilities for consulting services and trade taxes with an offsetting decline due to the concentration of German discount agreement business to one subsidiary. Depreciation and amortization decreased to € 51.4 million (previous year: € 78.7 million).

Cash flow from investing activities amounted to € 43.6 million (previous year: € -26.5 million) and resulted mainly from a decline in loans to associates and lower payments for investments in intangible assets and financial assets.

Cash flow from financing activities was € -233.9 million (previous year: € 108.9 million). The net change in financial liabilities (credit and promissory note loans) amounted to € -228.0 million and decreased notably (previous year: € 106.1 million). Cash inflow was recorded from the intercompany cash pool liabilities. The payment of dividends in the amount of € 44.8 million (previous year: € 43.6 million) led to an opposing effect.

As a result of the cash flows described, cash and cash equivalents decreased to € 98.1 million (previous year: € 179.9 million). The primary goal of financial management is to ensure liquidity at all times and to limit the risks associated with financing. Short-term borrowed capital financing is capital market-oriented and primarily relates to two corporate bonds in euro which mature in 2018. 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 Arzneimittel AG was 1.71% as of December 31, 2017 (December 31, 2016: 1.69%).

Net Assets

Net assets in € million	2017	2016
Non-current assets	2,139.7	2,222.8
Current assets	567.4	714.7
Equity	893.7	899.4
Provisions	121.7	113.9
Liabilities	1,694.6	1,927.6

Non-current assets of **STADA Arzneimittel AG** decreased in 2017 to € 2,139.7 million (previous year: € 2,222.8 million). The reason for this development was particularly the decrease in intangible assets to € 294.6 million (previous year: € 307.3 million) in property, plant and equipment to € 55.7 million (previous year: € 59.3 million) and in financial assets to € 1,789.3 million (previous year: € 1,856.1 million). Goodwill decreased to € 35.6 million (previous year: € 42.8 million). In terms of financial assets, the investments in associates decreased to € 1,274.8 million (previous year: € 1,278.4 million). Loans to associates, which served mainly to finance acquisitions in the Central Europe region, decreased to € 495.1 million (previous year: € 558.3 million).

Current assets of **STADA Arzneimittel AG** declined in financial year 2017 to € 567.4 million (previous year: € 714.7 million). This development was primarily based on the reduction of bank balances as a result of the payment of promissory note loans to € 98.1 million (previous year: € 179.9 million). In addition, receivables from associates decreased to € 422.5 million (previous year: € 471.8 million), resulting from the reduction of short-term lending to subsidiaries. This was countered by a reduction in inventories based on the dissolution of the commission agent model to € 26.5 million (previous year: € 49.3 million).

Equity of **STADA Arzneimittel AG** decreased in the reporting year to € 893.7 million (previous year: € 899.4 million), mainly as a result of declining net profit of € 39.1 million. The dividend payment for 2016 amounted to € 44.8 million. The equity-to-assets ratio increased slightly to 33% (previous year: 31%).

Provisions of **STADA Arzneimittel AG** increased in 2017 to € 121.7 million (previous year: € 113.9 million), mainly as a result of the establishment of trade tax provisions in the amount of € 36.5 million (previous year: € 17.7 million). This was countered by the reduction in provisions for health insurance organization discounts (previous year: € 16.6 million). This development resulted, on the one hand, from the discount agreements of STADApharm that fully expired in December 2016 and, on the other hand, from the presentation of the remaining provisions in STADAPHARM following the legal mergers. By contrast, the provisions on the basis of higher accruals for consultancy services in connection with the takeover completed in 2017 increased.

Liabilities of **STADA Arzneimittel AG** amounted to € 1,694.6 million in financial year 2017 and were thus well below the level of the previous year (previous year: € 1,927.6 million). The decrease resulted primarily from the repayment of promissory note loans. Trade payables increased slightly to € 42.5 million (previous year: € 31.5 million) and other liabilities decreased to € 18.6 million (previous year: € 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.

The **balance sheet total** of **STADA Arzneimittel AG** decreased in 2017 to € 2,710.0 million (previous year: € 2,940.9 million).

General Statements of the Executive Board on the Course of Business in 2017

In financial year 2017, the STADA Group was able to press ahead with the transformation process and, in this context, continued to implement a range of initiatives for efficiency enhancement. The course of business was generally positive and it was possible to meet the published forecast for the most part.

Group sales adjusted for currency and portfolio effects increased by 6% to € 2,255.3 million (previous year: € 2,128.7 million). **Adjusted EBITDA** increased by 9% to € 433.9 million (previous year: € 398.0 million). **Adjusted net income** increased by 10% to € 195.6 million (previous year: € 177.3 million).

Report on Post-Balance Sheet Date Events

This report on post-balance sheet date events includes events that occurred between the end of financial year 2017 and the date of the signing of the Combined Management Report and the Consolidated Financial Statements for 2017 and which have a significant, or possibly significant effect on the net assets, financial position and results of operations of the STADA Group.

These were as follows:

- The Extraordinary General Meeting of STADA Arzneimittel AG on February 2, 2018 with a majority of 99% approved the conclusion of the domination and profit and loss transfer agreement (DPLA) of December 19, 2017 between Nidda Healthcare GmbH as controlling entity and STADA as dependent company.[1)] The DPLA provides for an annual compensation payment for the remaining STADA shareholders of € 3.82 gross or currently € 3.53 net as well as a settlement in the amount of € 74.40 per STADA share. The agreement must be entered into the Commercial Register before it takes effect.

- Due to the takeover in 2017, creditors of STADA Arzneimittel AG, pursuant to the financing conditions, have the right to prematurely redeem bonds, promissory note loans and bank loans. In this connection, a partial amount of € 360.2 million was called due prematurely during the first quarter of 2018. For the refinancing of these transactions, STADA received loans from Nidda Healthcare Holding GmbH in the amount of € 347.0 million and used own cash. There was also a repayment of promissory note loans in the amount of € 9.5 million from own cash.

  The remaining outstanding amount of € 891.0 million is comprised as follows:

Financial instruments following exercise of put rights and additional repayment in € million	Outstanding	Maturity
Bond	347.1	Jun. 5, 2018
Promissory note loans	86.5	Jan. 23, 2019
Promissory note loans	18.5	Nov. 7, 2019
Promissory note loans	70.5	Apr. 26, 2021
Bond	289.7	Apr. 8, 2022
Promissory note loans	19.0	Apr. 26, 2023
	831.3	
Further bank loans	59.7	Rolled
Total financial liabilities	**891.0**	

  The increase in current financial liabilities in the fourth quarter of 2017 was attributable to the reclassification of promissory note loans, bonds and financial liabilities due to banks of STADA Arzneimittel AG. Following the early repayment of amounts called due in the first quarter of 2018 a corresponding reclassification of the financial liabilities from short-term to short and long-term liabilities was carried out in the first quarter of 2018.

- The Supervisory Board of STADA Arzneimittel AG appointed Peter Goldschmidt as new Chairman of the Executive Board as of September 1, 2018. Peter Goldschmidt will take over from Dr. Claudio Albrecht who has been the CEO at STADA since September 27, 2017.[2)]

1) See the Company's investor News of February 2, 2018.
2) See the Company's ad hoc release and press release of February 2, 2018.

Report on Expected Developments

Business model with long-term growth potential

STADA's business model will, also in the future, remain concentrated on the health care market with a focus on pharmaceuticals. The Group will thus continue to be active in one of the world's growth industries. Notwithstanding the unchanged positioning toward areas with long-term growth opportunities, the sales and earnings development of STADA will be subject to partially opposing factors also in financial year 2018. Economic, regulatory and competitive framework conditions can vary from country to country and from year to year. Detailed information on risks can be found in the "Opportunities and Risk Report". In light of the transformation process that has been launched including the broad range of initiatives for efficiency enhancement, the newly-positioned corporate strategy and corporate culture as well as the comprehensive opportunities management, the Executive Board expects to achieve growth, also in the future. Details on the Group's opportunities management are also included in the "Opportunities and Risk Report".

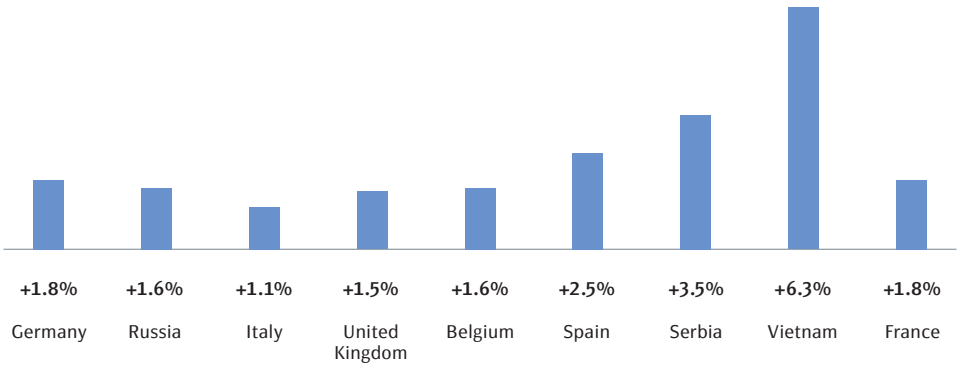
As part of its successful product development and active acquisition policy, STADA will continuously expand the Group portfolio in both the Generics and Branded Products segments with value-adding acquisitions. Within Generics, a segment that will remain part of STADA's core business in the future, promising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

Macroeconomic outlook

The IMF expects that the recovery in the global economy will continue in 2018 and forecasts an increase of 3.7% after 3.6% in the previous year.[1)]

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

Growth rates gross domestic product[1)] 2018 in %



For Germany, Russia, Italy, the United Kingdom and Spain, the IMF expects renewed growth in 2018 although the rates will be weaker in comparison to the previous year. In Italy, decreasing government spending in particular will have a dampening effect on economic development. The slowing of economic growth in the United Kingdom and Spain is expected to stem primarily

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

from a significant weakening of respective domestic demand as a result of the Brexit vote and the referendum on the independence of Catalonia. According to information from the IMF, economic growth in Belgium is expected to be at the level of the previous year. Due to increasing spending among private households, it is forecast that growth in the Serbian economy will accelerate in 2018. For Vietnam, a continuation of the growth trend at the prior year level is expected. In light of a declining unemployment rate and an associated increase in private consumption, moderate economic growth is anticipated in France.[1)]

Sector-specific outlook

In view of general growth drivers such as a global increase in population, an increasingly aging society in industrialized nations and further medical progress, many health care and pharmaceutical markets will also in future offer strong and relatively non-cyclical growth opportunities. There are further growth potentials within the pharmaceutical market, especially in generics because they represent a more affordable alternative to the often much more expensive original products and thus help to ease the financial burden on health care systems. Furthermore, growth opportunities result from the continuous expiration of patents and other commercial property rights. Substantial growth opportunities are also attributed to biosimilars because, in comparison with cost-intensive biopharmaceuticals, they can make a significant contribution to cost reductions.

With a view to these potentials, the international market research institute IQVIA forecasts an average annual sales growth of 4–5% for the global pharmaceutical market between 2018 and 2022.[1)]

For the global generics market, the forecasts call for average annual sales growth of 5.1% from 2018 to 2022.[1)] It should, however, be taken into account that the actual growth rates of reported sales in markets where significant discounts must be granted are substantially below gross sales generally recorded by the market research institutions before discounts.

The average annual sales volume for newly available active pharmaceutical ingredients introduced into generics competition between 2018 and 2022 in the largest national markets by sales in Europe Germany, France, Italy, the United Kingdom and Spain will be over € 2.8 billion.[2)]

This assumption is supported by estimates from IQVIA as well, according to which average annual generics growth in the EU (EU 28) will amount to an average of 4.4%[1)] from 2018 to 2022. For selected markets in Eastern Europe[3)] IQVIA predicts average generics growth of 8.5%[1)] for this period. Average annual growth of the Russian generics market is expected to be 8.0%[1)].

For the markets in which STADA is active, no significant changes in the current financial year 2018 are expected in the context of regulatory framework conditions that could have a considerable impact on the business development of the Group.

Due to the previously mentioned significant savings potential of biosimilars, their share in the global market for biopharmaceuticals for 2018 is estimated at 4% and thus at a market value of USD 8 billion.[4)] According to these forecasts, these figures should be at 14% and USD 36 billion in 2022.[4)]

According to experts, the average annual growth rates for sales in the international OTC markets from 2018 until 2022 will be 5.4%.[1)] The forecast for the average annual sales growth in the European OTC market (geographic Europe) in this period according to information from IQVIA is 4.4%.[1)]

Basis of the outlook

The outlook for financial year 2018 was made taking into account the events known when this Annual Report was prepared. It is also based on the details of the overall economic outlook and the sector-specific outlook.

1) IQVIA Syndicated Analytics Service; prepared for STADA February 2018.
2) STADA estimate of sales volumes in 2017 at ex-factory prices for active pharmaceutical ingredients for which STADA from today's perspective expects the patents or other commercial property rights relevant for generics competition to expire by 2022, based on data provided by various international market research institutes. STADA's expectations as to the date of availability of active pharmaceutical ingredients for generics competition are continuously being reviewed from a legal perspective and may in the future significantly differ from today's expectations (as of March 1, 2018) as expressed in this data. The actual sales volumes becoming available for generics competition at the respective dates are subject to fluctuations as a result of changing market success, legal circumstances or market structures, among other factors.
3) Russia, Serbia, Ukraine, Kazakhstan, Bosnia-Herzegovina.
4) Source: netscribes, "Biosimilar Market Landscape Analysis", July 26, 2017.

The outlook is also supported by the following assumptions:

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

Outlook for STADA Arzneimittel AG

For financial year 2018, the Executive Board expects a significant decline in sales for STADA Arzneimittel AG.

The reason for this development is likely to be a significant decrease in sales from the delivery of goods to third parties because, following changes in the German distribution structure, sales to third parties are no longer recognized in STADA Arzneimittel AG. This effect will, however, be partially compensated by an increase in internal Group sales.

In the context of the Extraordinary General Meeting on February 2, 2018, approval was issued for the conclusion of a domination and profit and loss transfer agreement between Nidda Healthcare GmbH and STADA Arzneimittel AG. Once the domination and profit and loss transfer agreement takes effect, this means that STADA Arzneimittel AG will no longer disclose net profit for financial years from 2018.

Summarizing outlook

As a result of the general and generics-specific growth drivers in the health-care and pharmaceutical industry as well as the growth forecasts in the area of branded products, STADA's business model is geared toward markets with long-term growth potential.

Linked to this, however, are operating risks and challenges based in particular on changed or additional state regulation (e.g. additional statutory requirements for clinical studies that could lead to longer development periods for products such as biosimilars) and/or intensive competition. Overall, the Group will also in the future be faced with non-operational influence factors such as negative currency relations relevant for the Group and the effects of the ongoing Ukraine conflict and related sanctions to Russia. In addition, the potential negative macroeconomic consequences in connection with the United Kingdom's decision to leave the EU and the potential negative effects on sales of Group products in Spain resulting from the political turbulence following the recent referendum on the independence of Catalonia will also play a role.

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

In light of the transformation process that has been initiated, including the broad range of initiatives for efficiency enhancement, the newly-positioned corporate strategy and culture as well as the strategic success factors, however, the positive prospects should outweigh the negative.

The Executive Board expects further Group growth for financial year 2018 as compared to the prior year. Group sales adjusted for currency and portfolio effects are expected to be € 2.495 billion +/- 5%, adjusted EBITDA € 480 million +/- 5% and adjusted net income € 230 million +/- 5%.

In terms of the strategic outlook for 2019, the Executive Board expects to be able to achieve adjusted Group sales of € 2.575 billion +/- 5%, adjusted EBITDA of € 540 million +/- 5% and adjusted net income of € 275 million +/- 5%.

Opportunities and Risk Report

As an internationally active pharmaceutical company, STADA is part of a global business community and thus subject to a range of risks. These are necessary consequences of business activity, as the Group can only take advantage of opportunities if it is also prepared to take risks.

In view of the fact that the health-care and pharmaceutical areas are relatively non-cyclical, economic cycles have only a limited impact on the Group. In addition, the dependence on negative developments or events is reduced by the international positioning as well as the diversified focus on branded products and generics. Generally speaking, decades long activity in the pharmaceutical market forms a stable foundation for realistically assessing risks and for taking selected advantage of growth opportunities.

Comprehensive opportunities management to take advantage of existing growth opportunities

Opportunities management at STADA is an ongoing task. Within the scope of these efforts, the Group secures and improves existing opportunities and creates new ones. With the goal of being in a position to recognize and analyze changing requirements, trends and especially opportunities in the often fragmented markets and to adapt its actions accordingly, the STADA management continuously observes markets and competitors. Moreover, there is a regular exchange of experiences within the individual departments which helps to identify and take advantage of additional opportunities and synergies.

On the basis of the ongoing implementation of the numerous initiatives of the initiated transformation process and with a view to the strategic success factors, opportunities management serves to take optimal advantage of growth opportunities.

Important strategic success factors of the STADA Group

As part of its successful product development, the Group will continuously expand its product portfolio in the two segments Generics and Branded Products. In Generics, this also includes in part more complex products that are difficult to copy. Furthermore, STADA will expand into markets with relatively low penetration rates. In terms of high-growth biosimilars, the Group intends to increasingly develop biosimilars in cooperation with partner companies because this would lead to greater earnings opportunities. Generally speaking, the focus in this regard will be on products for the indication groups oncology, central nervous system (CNS), diabetes and ophthalmology. In the area of Branded Products, in addition to the accelerated expansion, STADA will also press forward with the increasing internationalization of successful brands.

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

The previously mentioned ongoing implementation of the initiatives launched for further efficiency enhancement will play a key role in the utilization of existing growth opportunities. These include in particular measures with which untapped sales potential will be leveraged, marketing expenses will be optimized, sales efficiency will be enhanced and cost of sales will be reduced.

Continued substantial importance will, also in the future, be given to highly-qualified and extraordinarily committed employees because they play a key role in the sustainably successful development of the Group.

Risk management

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

The goal of risk management is to ensure, throughout the Group, that risks are recognized at an early stage, evaluated, managed and minimized using targeted measures and to ensure that all relevant regulatory requirements of the risk management system are fully complied with. The company-wide standard and integrated approach to risk management is intended to ensure the efficiency of Group-wide risk management and make it possible to aggregate risks and provide transparent reporting.

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

The **fundamental components of the Group-wide risk management system** which calls for quarterly regular reporting are:

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

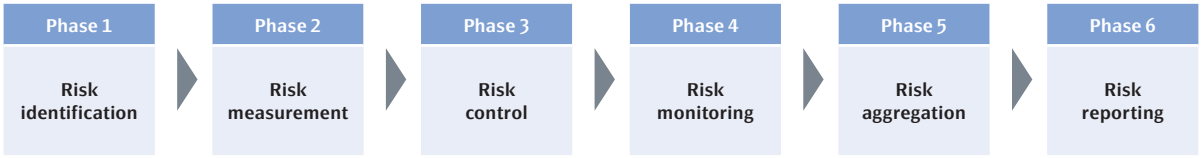
4. the company-specific **risk management guide**, which defines the risk management terms, risk policy and the risk management system including the risk management process and responsibilities;

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

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

Opportunities are not recorded in the risk management system. The identification and evaluation of opportunities takes place in the respective business environments. A comprehensive, 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.



The ongoing 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. Identification of individual risks is carried out, on the one hand, through decentralized self-assessments and, on the other hand, through centralized inquiries.

Risk measurement is carried out following risk identification (phase 2). This occurs on the basis of probability and potential impact; the evaluation should consider potential direct damage as well as indirect results caused by individual risks if they arise. Objective criteria or historical data are used in the evaluation to as great an extent as possible.

As part of risk management (phase 3), suitable 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, Corporate Risk Management ensures the uniform definition of individual risks through plausibility tests and thus guarantees continuous risk management throughout all departments and countries. Furthermore, Corporate Risk Management ensures, through the ongoing risk monitoring (phase 4), that changes in individual risks and any corresponding need for adjustment in risk management are recognized at an early stage.

Before a risk report is created, the Corporate 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 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 Audit conducts regular company internal and independent system audits with the focus on effectiveness, appropriateness and economic efficiency of the STADA risk management system established by the Executive Board. As part of the monitoring of the Executive Board, the Supervisory Board also looks at the effectiveness 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 regular reporting to the Executive Board is two years. In addition, there is an area-related internal recording and monitoring of long-term risks beyond this relevant period. The assessment of the individual risks as well as the overall risk situation of STADA in the Combined Management Report relates to December 31, 2017. There were no relevant changes after the balance-sheet date that would have necessitated an amended presentation of STADA's risk situation. There is, however, no way to fully identify and manage risks with absolute certainty.

Internal Control and Risk Management System for the Group accounting process (report in accordance with Sections 289 (5), 315 (2) No. 5 HGB)

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

It includes, among other things:

- Uniform accounting, measurement and account assignment specifications for the entire Group that are continuously examined, updated and regularly communicated,
- Supplementary processes instructions, Group-internal reporting formats as well as IT-based coordination processes for Group-internal balances,
- Processes 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 are consulted when necessary, for example for purchase price allocation in accordance with IFRS 3.

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 Group levels. The vast majority of the separate financial statements of Group companies (included in STADA's Consolidated Financial Statements) are generally subject to review by the auditor once a year. In addition, the auditor also carries out a review of the half-year reports of the significant consolidated Group companies.

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

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

Evaluation of risk categories

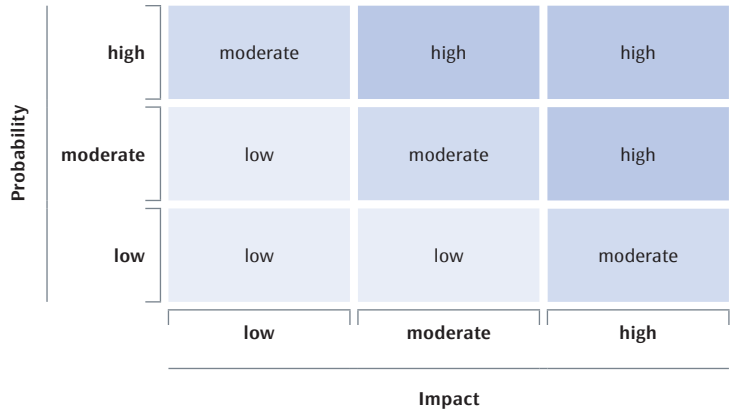
The evaluation of individual risks is generally conducted for individual segments in the form of net risks, i.e. the individual risks are evaluated under consideration of implemented and effective management and control instruments. If no segment is explicitly referenced, the described risks affect both the Branded Products and Generics segments.

Within the risk management process described above, at STADA individual risks are evaluated on the basis of the probability of occurrence and a potentially negative impact on the forecast financial targets in relation to the adjusted EBITDA.

The underlying scale for the classification of the probability of occurrence and the potential impact is presented in the following diagram:

Scale for the classification of risk categories	low	moderate	high
Probability	> 0% to ≤ 30%	> 30% to ≤ 70%	> 70% to < 100%
Impact 24 months	up to ≤ € 2.5 million	> € 2.5 million up to ≤ € 10 million	> € 10 million

The combination of these two factors leads to the risk matrix presented below in which the risk categories of the combined individual risks as well as aggregated risks are classified and presented according to their importance for the Group:



STADA classifies the identified risks in the risk reporting in accordance with the risk categories presented below. The chart shows all relevant risk categories in accordance with the STADA evaluation scheme. Individual risks and aggregate risks that were classified as "high" as of the balance-sheet date December 31, 2017 are to be considered particularly relevant.

Risk category	Risk sub-category (individual risk or aggregate risk)	Probability	Net impact
Sector risks	market (competition)	moderate	high
Regulatory risks	politics (Ukraine/Russia)	high	high
Economic risks	no relevant risks	no relevant risks	no relevant risks
Product portfolio risks	no relevant risks	no relevant risks	no relevant risks
Legal risks	patents (patent violation)	moderate	high
	contracts (licensing agreements)	moderate	high
Corporate strategy risks	no relevant risks	no relevant risks	no relevant risks
Performance-related risks	no relevant risks	no relevant risks	no relevant risks
Personnel risks	no relevant risks	no relevant risks	no relevant risks
Compliance risks	no relevant risks	no relevant risks	no relevant risks
Risks in relation to information technology	no relevant risks	no relevant risks	no relevant risks
Financial risks	taxes (company audit)	moderate	high
Other risks	no relevant risks	no relevant risks	no relevant risks

As a supplement to the tabular presentation and independent of the degree of evaluation, the current main risk categories for the STADA business model, based on the general risk reporting from Risk Management as of December 31, 2017, are explained in detail below.

Business-related risks

Risks that could have a significant influence on the net assets, financial position and results of operations of the STADA Group are described below. Risks, which are not yet known or have been assessed as insignificant, could also influence the net assets, financial position and results of operations.

Industry risks, regulatory and economic risks

a) Industry risks

According to the STADA evaluation scale, this is a relevant risk.

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

Since the beginning of the conflict between Russia and Ukraine in 2014, business development of STADA has been impaired in both the Russian and Ukrainian markets. In financial year 2017, the situation improved to the extent that the general reluctance to buy in the Russian market gave way to a partial reluctance to buy. As a result of the lack of momentum in the development of real income, the buying power of the Russian population remains limited and pressure on the pricing remains.

In the MENA region, the continued unrest in the reporting year continued to have a negative impact on export business in this region. It is currently unclear how long the political upheaval will last and, as a result, the still remaining export business could continue to be negatively impacted.

Furthermore, the escalation of the conflict related to the independence of Catalonia from Spain led to boycott campaigns against products and suppliers that are headquartered in Catalonia, from which STADA is also effected. STADA has taken necessary counter-measures in order to keep potential negative effects from the Catalonia crisis to an absolute minimum in the future. It cannot be ruled out, however, that there will be further boycott campaigns – whether they be in Catalonia or in the rest of Spain – against the products of the Spanish STADA subsidiary. For this reason, STADA has defined further counter-measures and is prepared to implement them if needed.

In connection with the exit of the United Kingdom from the EU, there is the risk that in the further course of negotiations or upon their completion. There could be an economic downturn that would increase price pressure in the healthcare system and, as a consequence, lead to price-cutting measures. There is also the risk, in the case of a downturn, it could cause hesitation on the part of consumers in the self-payer area.

If these crises continue, this could have further negative impacts on the results of operations and financial position of the STADA Group.

b) Regulatory risks

According to the STADA evaluation scale, this is a relevant risk.

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

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

Based on the conflict between Ukraine and Russia, regulatory obstacles for the importation of products produced in Russia have occurred that have led to delays in delivery and thus to bottlenecks. Should these obstacles continue to occur in the future or even become more pronounced, this could have additional negative effects on the results of operations and financial position of the STADA Group.

c) Economic risks

According to the STADA evaluation scale, these are not relevant risks.

STADA's business success is, to a certain extent, dependent on economic influences, as an economic downturn often results in a reduction in purchasing power in the affected market. A reduction in purchasing power can particularly cause a reluctance to buy in the area of Branded Products, which is primarily a self-pay market. Furthermore, an economic downturn could intensify the already dominant cost pressure in individual national health care systems and thus significantly increase the speed and scope of regional regulatory measures to contain costs. For STADA, this could result in significant disadvantages with reimbursable pharmaceutical products or in state-required price reductions and the elimination of reimbursability for individual products. In general, STADA is continuously working to counteract potential risks through performance increases or cost reductions.

In the referendum decision held on June 23, 2016, a majority of voters in the United Kingdom voted in favour of the United Kingdom leaving the EU ("Brexit"). The progress of negotiations on the conditions of the departure have to date been slow and it is not yet foreseeable what the conditions of the departure will be or even if there will be an orderly departure. Up to this point, the British economy has shown itself to be relatively robust. There is, however, the risk that an economic downturn will occur during the course of or following negotiations, potentially increasing cost pressure in the health care system and, for example, result in price reduction measures. In addition, in the case of an economic downturn, there is also the risk of a reluctance to buy on the part of consumers in the self-payer area.

Product portfolio risks

According to the STADA evaluation scale, these are not relevant risks.

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

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

Legal risks

According to the STADA evaluation scale, these are relevant risks.

STADA's business activities are subject to risks resulting from existing or potential future legal disputes. 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.

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

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

According to the STADA evaluation scale, these are not relevant risks.

STADA's corporate strategy is mainly focused on growth and internationalization in the pharmaceutical market in the Generics and Branded Products segments. STADA's growth strategy is associated with the risk that companies, products or other assets acquired in the past or in the future may only be able to be integrated with high integration costs or that intended synergy effects cannot be achieved at the desired level. Furthermore, acquired companies or products may not achieve the expected results on the market, as markets or market segments, which STADA focuses on, may develop differently than expected. STADA reduces these risks by means of careful analyses. Nevertheless, it cannot be ruled out that each of the situations mentioned above could lead to an impairment requirement on intangible assets or that expected results in individual markets cannot be achieved.

b) Performance-related risks

According to the STADA evaluation scale, these are not relevant risks.

The Group's own production facilities (including product development and logistics) are subject to the risk of defective or inefficient planning and production processes as well as to production faults or breakdowns as a result of this or external influence. As hazardous substances are regularly used within these processes, 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.

Furthermore, STADA's ability to deliver can also be negatively influenced by the inability to deliver of a supplier, 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).

A further negative influence factor on the ability to deliver is the increasing volume volatility in individual national markets in the Generics segment which regularly arise in the environment of tenders from state institutions or public health insurance organizations. Although STADA undertakes every effort to avoid delivery bottlenecks or an unintentional increase in inventories, this cannot be ruled out in consideration of the comprehensive portfolio.

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

c) Human resources risks

According to the STADA evaluation scale, these are not relevant 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 a prolonged search for reappointments in key positions could have significant adverse effects on the development of the Group. STADA's continued success also depends on its ability, in competition with other companies, to attract and 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 through which the potential of employees is systematically identified and promoted. These processes support both young professionals and experienced highly qualified employees in their professional development and to help STADA to develop, promote and retain performance-critical skills in the company.

d) Compliance risks

According to the STADA evaluation scale, these are not relevant 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

According to the STADA evaluation scale, these are not relevant risks.

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

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

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

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

Financial risks

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

a) Liquidity risks

According to the STADA evaluation scale, these are not relevant 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 the STADA Group at all times by way of maintaining a sufficient supply of liquidity reserves and having free credit lines. STADA finances itself with short-term and long-term borrowings from banks, promissory note loans, bonds and factoring. Furthermore, STADA has solid operating cash flow.

b) Currency risks

According to the STADA evaluation scale, these are not relevant risks.

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

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

A currency sensitivity analysis on the basis of the outstanding foreign currency items as of December 31, 2017 showed that in financial year 2017, an appreciation or devaluation of the functional currency compared with the ruble by 10% with otherwise unchanged conditions would change the EBITDA by approximately € 0.3 million (previous year: € 1.8 million) (translation risk). At the same time, an appreciation or devaluation of the functional currency in relation to the British pound sterling of 10% with otherwise unchanged conditions would lead to a change in EBITDA of approximately € 0.1 million (previous year: € 0.6 million) (translation risk).

c) Interest rate risks

According to the STADA evaluation scale, these are not relevant risks.

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

A sensitivity analysis has shown that an increase in market interest rates of 100 basis points in financial year 2017 would have led to a burden on earnings in the amount of € 1.2 million (previous year: € 1.4 million) and a decrease in market interest rates of 100 basis points would have led to a relief on earnings in the amount of € 0.6 million (previous year: € 0.6 million).

d) Default risks

According to the STADA evaluation scale, these are not relevant 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. Alongside the implementation of appropriate credit management processes, such transactions are generally only concluded with counterparties of impeccable financial standing to avoid default risks in financing activities.

Default risks 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 the creation of valuation 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) Tax risks

According to the STADA evaluation scale, this is a relevant risk.

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

Furthermore, STADA 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 retro-active 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.

f) Impairment risks

According to the STADA evaluation scale, these are not relevant risks.

The valuation rates of the assets included in the Group 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 Consolidated Financial Statements.

Other risks

According to the STADA evaluation scale, these are not relevant risks.

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

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

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. In light of STADA’s broadly diversified product and customer portfolio, the risk situation in the reporting year 2017 did not change significantly in comparison to the previous year despite the varying regional economic developments. The risks from the slow pace of negotiations on the conditions of the United Kingdom’s exit from the EU (“Brexit”) have been offset by the relatively robust course of economic situation in the United Kingdom. Furthermore, the geopolitical situation in the CIS region continues to be tense. Nevertheless, the purchasing behavior in the Russian market – a market that is important for STADA – improved. The improvement of this risk situation is, however, offset by the worsening of the risk situation in Spain in the wake of the Catalonian crisis.

In the event that one or more of the above-mentioned risks should materialize or newly occur in the development of business, this could respectively have materially adverse effects on the Group’s business activities. In particular, respectively material adverse effects on STADA’s net assets, financial position and results of operations could arise as a result. From today’s perspective, however, no risks are discernible which, individually or as a whole, could jeopardize the continued existence of the Group. In terms of organization, STADA has created the necessary prerequisites to be informed of possible risk situations early and to be able to take appropriate measures.

Takeover-Related Disclosures

Pursuant to Sections 289a (1) and 315a (1) HGB STADA is obligated to disclose the following information:

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

Share capital amounted to € 162,090,344.00 as of the balance sheet date, divided into 62,342,440 registered shares with an arithmetical share in share capital of € 2.60 per share.

The shares of STADA Arzneimittel AG are exclusively registered shares that, in accordance with the Articles of Incorporation, grant one vote at the General Meeting. A shareholder is exclusively a person who is registered as such in the share registry and only such a person is authorized to participate in the General Meetings of the company 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 generally subjected to a three-year lockup period. In the context of the original takeover offer Nidda Healthcare Holding AG (with entry from October 23, 2017 now Nidda Healthcare Holding GmbH) from April 27, 2017 the Executive Board of STADA Arzneimittel AG waived the 36-month lockup period for employees who, as part of the subsidized employee participation plan had purchased shares up to and including March 3, 2017 and placed these shares at the employees' disposal. This was intended to enable to the employees to tender the employee shares to the bidder prior to expiration of the three-year lockup or, alternatively, to sell the shares. A lockup on the purchase of employee shares that was valid from March 4, 2017 was removed following the Annual General Meeting on August 30, 2017. Since August 31, 2017, employees once again have the possibility to purchase STADA shares. These newly acquired shares are again subject to a 36-month lockup period.

Direct or indirect investments in share capital exceeding 10% of the voting rights

According to information available to[1)] STADA Arzneimittel AG, on the balance sheet date there were the following direct or indirect investments in share capital exceeding 10% of the voting rights:

In accordance with the voting rights notice received on August 31, 2017, Bain Capital Investors, LLC, Wilmington, Delaware, USA, and Cinven Capital Management (VI) General Partner Limited, Saint Peter Port (Guernsey), Channel Islands, on August 25, 2017 held 64.5% of the shares in STADA Arzneimittel AG and exercise joint control over the subsidiary Nidda Topco S.à r.l., which in turn pursuant to Section 22 WpHG[2)] indirectly holds the shares in the following subsidiaries – Nidda Midco S.à r.l., Nidda German Topco GmbH, Nidda German Midco GmbH, Nidda BondCo GmbH and Nidda Healthcare Holding AG – through the direct shareholder Nidda Healthcare GmbH. The voting rights of the two companies Bain and Cinven are thus directly attributable to the majority shareholder Nidda Healthcare GmbH.

On August 31, 2017, Paul E. Singer informed STADA Arzneimittel AG that on August 25, 2017 he held a 15.24% share of voting rights and had thus exceeded the 15% threshold. As of this date, he and the companies attributed to him, pursuant to Section 22 WpHG[2)] indirectly held shares in the amount of 13.26% and pursuant to Section 25 (1) No. 2 WpHG[2)] financial instruments in the amount of 1.98%.

In addition, on September 19, 2017, STADA received from Paul E. Singer and the associates Elliott Asset Management LLC, Braxton Associates, Inc., Elliott Capital Advisors, L.P., Elliott International Capital Advisors Inc., Hambledon, Inc. and Elliott International, L.P. voting rights notices pursuant to Section 27a (1) WpHG[2)]. These are available on the Company's website at www.stada.de or www.stada.com.

1) The voting rights notices received by STADA can be viewed on the Company's website at www.stada.de or www.stada.com.
2) WpHG in the version valid until January 2, 2018.

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 appointments and dismissals. 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 General Meeting.

Amendments take 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 General Meeting, provided no other majority is foreseen, a majority of three-fourths of the share capital represented in the vote pursuant to Section 179 (2) AktG. Insofar as a change to the purpose of the company is affected, the Articles of Incorporation may call for a large majority. The Articles of Incorporation exercises in Section 23 (1) the possibility of a deviation pursuant to Section 179 (2) AktG allowing for resolutions, unless otherwise provided for according to the regulations of the Stock Corporation act, to 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)] 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.

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[2)] 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.

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 entered in the commercial register on December 9, 2016 and took effect on this date. Therefore, since that time, the authorization from approved capital pursuant to Section 6 (1) of the Articles of Incorporation therefore relates to registered shares with no transferability restrictions.

2) 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) of the Articles of Incorporation 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 entered in the commercial register on December 9, 2016 and took effect on this date.

Significant agreements on condition of a change of control

As a consequence of the change control subsequent to the takeover of STADA completed in 2017 there are, in line with usual business practice, termination possibilities for certain supply contracts, financing agreements with banks, corporate bonds and promissory note loans (see "Economic Report – Course of Business and Net Assets, Financial Position and Results of Operations – Financial Position" and "Economic Report – Course of Business and Net Assets, Financial Position and Results of Operations – Net Assets").

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".

Dependency report

As a result of the holdings of Nidda Healthcare GmbH in the amount of 65.28%[1)] STADA Arzneimittel AG is a dependent company. There was no domination and profit and loss transfer agreement in place as of the balance sheet date.

The Executive Board of STADA Arzneimittel AG therefore, pursuant to Section 312 (3) AktG, prepares a dependency report on relations with associates. At the end of the report, the Executive Board issued the following statement: "Our company, STADA Arzneimittel AG, received an appropriate consideration for each transaction listed in the report on relations with affiliated companies for the period from August 22 until December 31, 2017, under the circumstances known to us at the time the transactions were made. Measures requiring disclosure were neither taken nor did the company refrain from taking such measures in the reporting period."

1) See Joint Contract Report pursuant to Section 293a AktG from Dec. 19, 2017, p. 10, No. 4.6.

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) as well as the recommendations of the German Corporate Governance Code (GCGC).

Remuneration of the Executive Board

The full Supervisory Board determines the Executive Board remuneration system and the remuneration of individual Executive Board members upon the proposal of the Human Resources or Chairman's Committee and reviews these regularly. The objective of the various Executive Board remuneration systems relevant in the financial year is to allow members of the Executive Board to participate appropriately in the sustainable 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, the 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 thus presents an attractive basis for committed and successful performance in a dynamic environment. Through the application of appropriate caps, the remuneration system avoids excessively strong incentives towards risk-oriented behavior.

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 2017.

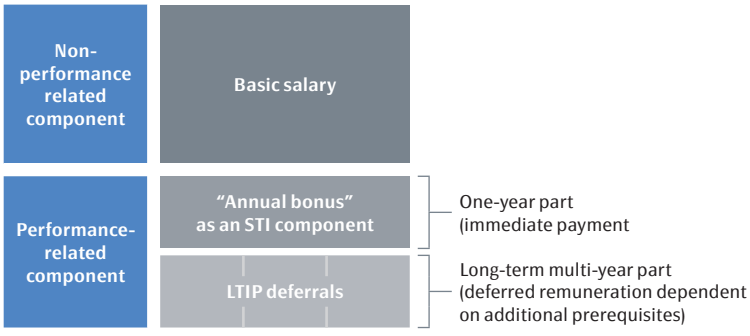
Different Executive Board remuneration systems in financial year 2017

Different remuneration systems were applied in financial year 2017. The following is a chronological overview of the remuneration systems applied in the reporting year for Executive Board members.

I. Structure of the remuneration for Executive Board members departed in 2017, Dr. Matthias Wiedenfels and Helmut Kraft

Dr. Matthias Wiedenfels and Helmut Kraft served as members of the Executive Board at STADA Arzneimittel AG until July 4, 2017. The core elements of the system for Dr. Matthias Wiedenfels and Helmut Kraft 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, the system calls for the members of the Executive Board to 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 which thus 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.

Remuneration system of the Executive Board members Dr. Matthias Wiedenfels und Helmut Kraft



Non-performance related components

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 was determined in accordance with the requirements of the German Stock Corporation Act 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 components

The performance-related component is structured in the same way for both 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 comparison 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**[1)], 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.

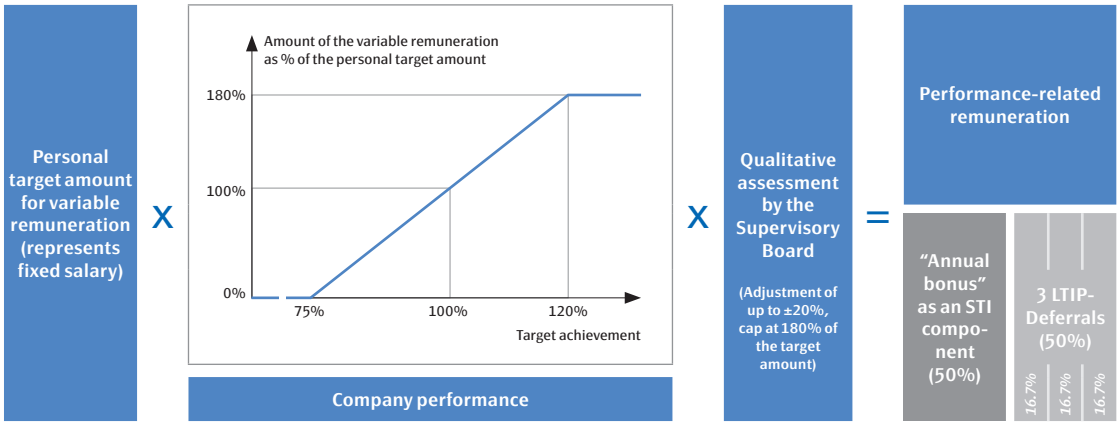
Personal performance of an Executive Board member

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 in the employment contracts for both 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). In the case of a significant

1) Adjusted for extraordinary effects.

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 exceeding 180% of the personal target amount (i.e. individual fixed remuneration).

The following overview illustrates how this interaction of the evaluation factors for the personal performance and remuneration of Executive Board members Dr. Matthias Wiedenfels and Helmut Kraft worked in 2017:



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 respective 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 is 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.

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.

To determine the **payment amount** of an LTIP deferral, the stock yield of the STADA share[1)] 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, the multi-year performance-related remuneration for a financial year overall (i.e. for all three deferrals combined) can reach a maximum of 117% of the respective fixed remuneration (**upper limit** of the multi-year performance-dependent remuneration, LTIP).

Summary

The Executive Board remuneration system for the two departed Executive Board members Dr. Matthias Wiedenfels and Helmut Kraft links the remuneration with the (short and long-term) development of STADA Arzneimittel AG and thereby creates an incentive for successful and sustainable corporate governance. The linking of the determination of the performance-related remuneration with the adjusted net income[2)] 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.

II. Structure of the remuneration for member of the Executive Board Dr. Barthold Piening

Dr. Barthold Piening has served on the Executive Board of STADA Arzneimittel AG since April 1, 2017. The core elements of the system to be used for Dr. Barthold Piening, following a review of the former remuneration system by the Supervisory Board in the fourth quarter 2016 in consultation with an independent remuneration expert include non-performance related annual 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, the member of the Executive Board also receives 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 which thus sets an incentive for the member 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.

Remuneration structure

As a consequence of the previously-mentioned review of the remuneration system, the Supervisory Board first considered the remuneration structure and subsequently revised the **weighting of the remuneration components (fixed and variable)**. While the fixed remuneration in the previous remuneration system accounted for 50% of the total remuneration, the share of fixed (non-performance related) remuneration in this remuneration system is about 44% of the total remuneration. The Supervisory Board has thus increased the share of performance-related remuneration in total remuneration as compared to the previous system in order to more intensively focus remuneration on the performance of the Company.

The Supervisory Board also defined future target percentages for the short and long-term performance-related remuneration. In the case of a one-hundred percent achievement of all underlying targets, with short-term performance-related remuneration ("Short-Term Incentive", STI) shall account for 50% of the individual fixed salary. For maximum target achievement, the annual bonus shall be limited to an amount of 100% of the individual fixed remuneration. The multi-year performance-related

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

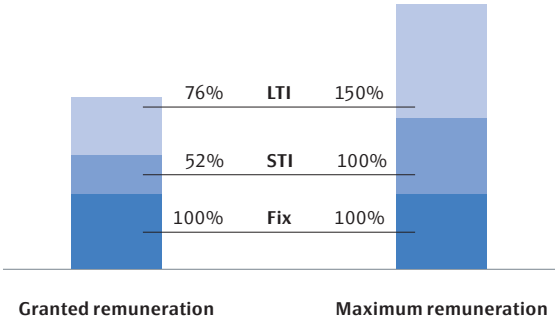
$$\text{Stock yield} = \frac{\text{Closing price + Dividend}}{\text{Opening price}}$$

2) Adjusted for extraordinary effects.

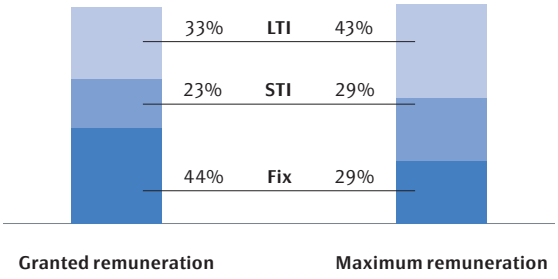
remuneration ("Long-Term Incentive", LTI) in the case of one-hundred percent achievement of all targets in this system shall amount to 75% of the individual fixed remuneration and be limited to a figure of 150% of the individual fixed remuneration (see illustration).[1)]

The ratio of short-term to long-term performance-related remuneration in the case of achievement of all underlying targets shall amount to 40% (STI) to 60% (LTI).

Share of the individual remuneration components in fixed remuneration of Dr. Barthold Piening in %



Share of the individual remuneration components in total remuneration of Dr. Barthold Piening in %



In the interests of greater transparency and comprehensibility, the annual and multi-year performance-related remuneration components are clearly separated from one another in terms of their structure in this system. In this system, there is no link between STI and LTI by the same mathematical starting amount as was the case in previously valid remuneration systems as a result of the LTIP deferrals.

Non-performance related components

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 the German Stock Corporation Act under consideration of usual market remuneration as well as the position and responsibility of the member of the Executive Board.

1) Smaller deviations in the amount of a few percentage points can arise from the rounding up or down of target amounts to round figures.

Fringe benefits

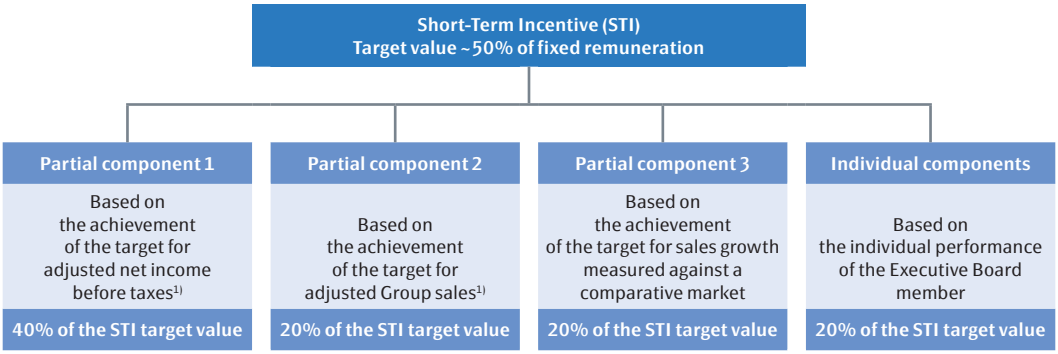
The Executive Board member receives fringe benefits such as a company car, contributions to health and nursing care insurance, conclusion and payment of premiums for accident insurance and other payments in kind that are part of the salary as well as further contributions and payments necessary for the fulfillment of the Executive Board responsibilities. The taxable benefit arising from the private use of the company car is to be taxed by the member of the Executive Board.

There is no company pension for the member of the Executive Board.

Performance-related component

Annual performance-related components

Components of the short-term performance-related remuneration (STI) of Dr. Barthold Piening



The short-term performance-related remuneration is oriented toward the achievement of four partial targets of which three partial components are geared toward differently weighted Group targets and one partial component is measured on personal targets of the member of the Executive Board derived from the corporate strategy of STADA Arzneimittel AG. The Group components make up a total of 80% of the STI target amount for the short-term performance-related remuneration. The three Group-related partial components are:

- adjusted net income before taxes[1)] (40% of the STI target amount),
- adjusted Group sales[1)] (20% of the STI target amount) as well as
- sales growth as compared to the comparative market defined by the Supervisory Board (20% of the STI target amount).

The payment amount of the individual partial components is oriented toward the achievement of measurable defined individual targets that are derived from the corporate strategy of STADA Arzneimittel AG and which allow the Supervisory Board to objectively determine the target achievement of the member of the Executive Board. Prior to the beginning of the financial year, the Supervisory Board defines the target requirements for the so-called Group-related and individual STI assessment bases.

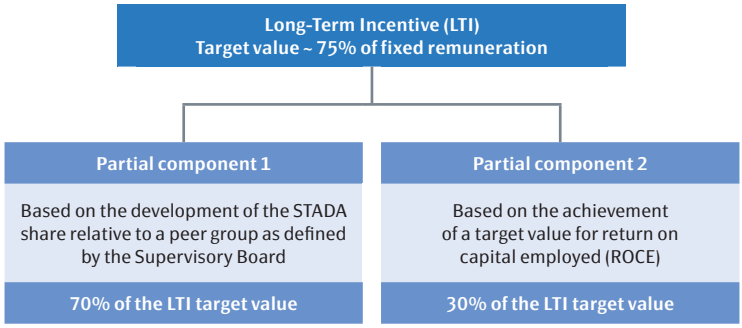
The payment amount of all partial components of the STI is capped at 200% of the target amount. If the degree of achievement of the individual STI partial components is less than 80% of the target requirement, there will be no payment with regard to the relevant STI share. The individual components each stand alone and cannot compensate for one another. The total volume of the STI payment amount for the respective financial year is the result of adding the calculated payment amounts of the four STI partial components. Payment of the STI is made exclusively in cash.

1) Adjusted for extraordinary effects.

Multi-year performance-related components

The multi-year performance-related remuneration consists of a rolling bonus system with a performance period of three years. The amount of the payment for the respective performance period is oriented toward the achievement of two partial components:

Components of the long-term performance-related remuneration (LTI) of Dr. Barthold Piening



The LTI payment is measured, on the one hand, based on the development of the STADA share price in comparison to a selected peer group (70% of the LTI target amount). The peer group as well as the relevant stock exchange for the determination of the respective share prices of these companies are defined by the Supervisory Board prior to the beginning of a performance period. In the performance period that is relevant for financial year 2017 (2017 to 2019) the peer group consists of 13 comparable national and international companies in the pharma, chemicals and health care industries.[1)] If the Supervisory Board redefines a peer group prior to the beginning of a performance period, the peer groups from current performance periods shall remain unaffected by this change from the Supervisory Board.

The degree of target achievement is defined by the Supervisory Board following the conclusion of the third and last financial year of each performance period, initially separately for each of the financial years. In this regard, a comparison of the share prices of the Company along with the companies in the peer group is undertaken at the beginning and end of a financial year. On the basis of the percentage development of the STADA share and the development of the share prices of the companies in the peer group that results from a comparison of the respective beginning and final price, a range is prepared from among the companies (including STADA). The company with the highest percentage price increase is put in first place, the other companies follow in the places afterwards in descending order according to the percentage share price development.

The degree of target achievement for the partial component 1 of the LTI is calculated as follows for the respective financial year:

Position	Degree of target achievement
1	200%
2	200%
3	180%
4	160%
5	140%
6	120%
7	100%

Position	Degree of target achievement
8	80%
9	60%
10	0%
11	0%
12	0%
13	0%
14	0%

1) The Supervisory Board can decide, prior to the beginning of each performance period, that companies shall be added to the peer group or that companies shall no longer be a part of the peer group. Such a change in the make-up of the peer group can also be associated with an increase or reduction in the number of companies that are part of the peer group, whereby the number may not be lower than ten.

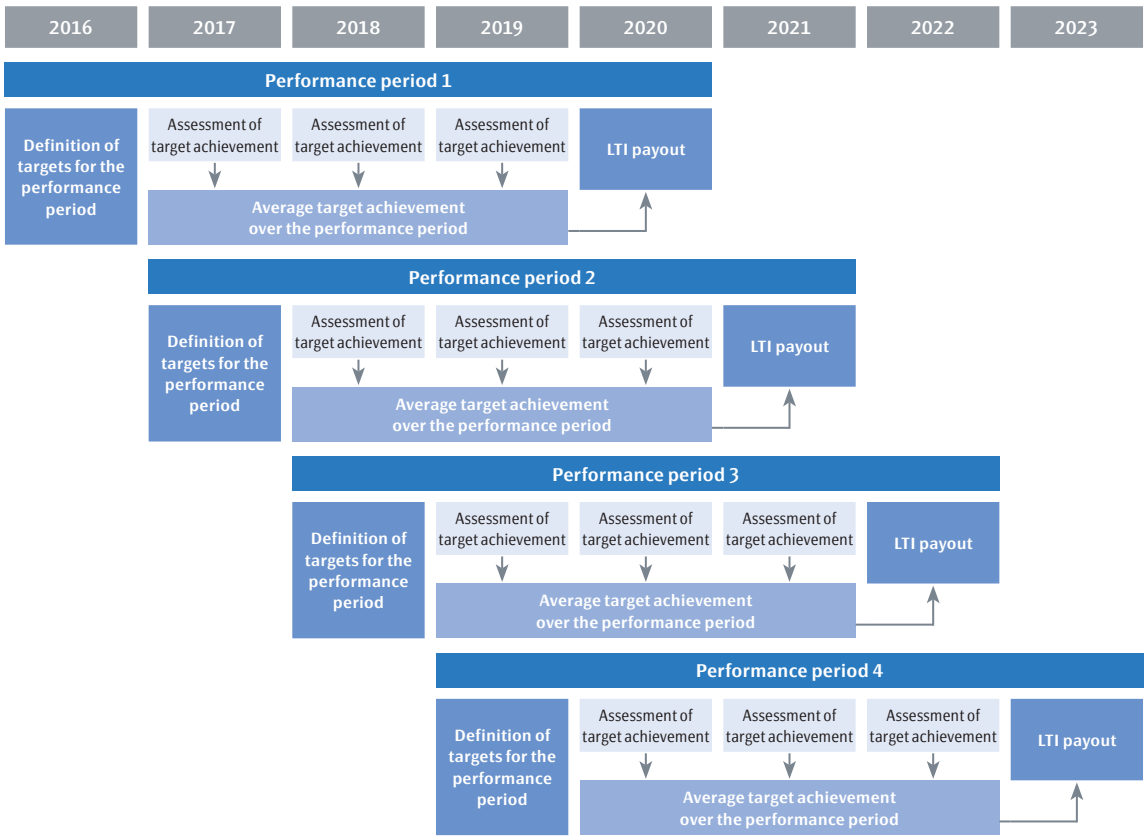
Following the determination of the degree of target achievement for the three financial years in a performance period, the target achievement for the entire performance period is determined using the arithmetic mean of the target achievement for the three financial years. The degree of target achievement is capped at 200% in each financial year and each performance period. Below position 9, the target achievement falls to 0%.

The extent of the LTI payment amount of 30% of the LTI target amount is calculated on the basis of the return on capital employed (ROCE) in the three financial years of a performance period.[1)] The ROCE for the respective financial year is the result of the earnings before interest and taxes (EBIT) divided by the capital employed in the respective financial year. Prior to the beginning of a performance period, the Supervisory Board defines a target requirement for the respective ROCE ("target ROCE") for the three financial years of a performance period.

The degree of target achievement is defined by the Supervisory Board for the relevant financial year following the adoption of the Consolidated Financial Statements from the third and final financial year of a performance period. The degree of target achievement is the result of the average percentage ratio between the actual achieved ROCE ("actual ROCE") and the target ROCE in the three financial years of a performance period. In the calculation of the target achievement, it should be observed that the target achievement falls to zero if the actual ROCE in one financial year is less than 80% of the target ROCE. If the ratio of the actual ROCE to the target ROCE is at least 80% and maximum 200%, the degree of target achievement corresponds to the ratio of actual ROCE to target ROCE. The degree of target achievement is capped at 200% in each financial year and each performance period.

The total volume of the LTI payment amount for the respective financial year or the respective performance period is the result of adding the calculated payment amounts of the two LTI partial components. Payment of the LTI is made exclusively in cash.

Presentation of the performance periods of the LTI program of Dr. Barthold Piening



1) As a key figure, ROCE covers the perspective of the investors because it provides information on the performance for the total capital employed and allows for a management effect with regard to an efficient capital employed. In addition, the key figure is easily derived from the Consolidated Financial Statements.

The amount of severance in the case of a change of control is limited to a maximum of two annual remunerations as well as the remuneration from the remaining period of the employment contract.

Beyond this, the employment contract calls for so-called "hold back" and "claw back" clauses. In accordance with these clauses, the Supervisory Board can determine, at its discretion, that not yet paid out remuneration components of the STI and LTI can be partially or entirely withheld ("hold back"). The condition for such a step is serious misconduct on the part of the member of the Executive Board as a result of which material or immaterial damage to the disadvantage of STADA (particularly damage to reputation) is incurred or, due to specific evidence can be expected with a sufficient degree of certainty.

In certain cases in which a hold back is considered, there is also the possibility of a "claw back". The Supervisory Board can, as a reaction to certain cases of serious misconduct, at its discretion demand that already paid out amounts of the LTI for up to three preceding financial years be returned.

III. Structure of the remuneration for departed Executive Board members Engelbert Coster Tjeenk Willink and Dr. Bernhard Düttmann

For Executive Board members Engelbert Coster Tjeenk Willink and Dr. Bernhard Düttmann, who were appointed only on an interim basis and who departed in 2017, the Supervisory Board believed that a remuneration system that deviates from the one to be used for Dr. Barthold Piening was appropriate. With a view to the short period of the appointment, this in particular does not include any performance-related remuneration. Engelbert Coster Tjeenk Willink and Dr. Bernhard Düttmann served as members of the Executive Board at STADA Arzneimittel AG from July 4, 2017 until September 27, 2017.

Basic monthly remuneration

The agreed non-performance related remuneration consists of a fixed basic monthly salary. This fixed monthly salary was determined in accordance with the requirements of the German Stock Corporation Act under consideration of usual market remuneration as well as the position and responsibility of the respective member of the Executive Board.

Fringe benefits

Other remuneration in the form of fringe benefits with the exception of the private use of a company car are not part of the remuneration agreed with Engelbert Coster Tjeenk Willink and Dr. Bernhard Düttmann. The taxable benefit arising from the private use of the company car is to be taxed by the member of the Executive Board. Dr. Bernhard Düttmann was also granted the limited assumption of costs for a second apartment.

There is no company pension for the members of the Executive Board.

IV. Structure of the remuneration for member of the Executive Board Dr. Claudio Albrecht

Dr. Claudio Albrecht was appointed as Chairman and a member of the Executive Board at STADA Arzneimittel AG with effect from September 27, 2017 for a limited period until September 26, 2018. As a result of this only interim appointment, the Supervisory Board believed a remuneration to be appropriate which reflects the specific situation. With a view to the short period of the appointment, this in particular does not include any performance-related remuneration. The agreed remuneration will be paid to Dr. Claudio Albrecht through Albrecht, Prock & Partners AG.

Basic monthly remuneration

The agreed non-performance related remuneration consists of a fixed basic monthly salary. This fixed monthly salary was determined in accordance with the requirements of the German Stock Corporation Act under consideration of usual market remuneration as well as the position and responsibility of the member of the Executive Board.

Fringe benefits

Dr. Claudio Albrecht does not receive any other remuneration for his service on the Executive Board in the form of fringe benefits. Dr. Claudio Albrecht was also granted the limited assumption of costs for accommodations.

There is no company pension for the member of the Executive Board.

V. Structure of the remuneration for Executive Board member Mark Keatley

Mark Keatley has served on the Executive Board of STADA Arzneimittel AG since September 27, 2017. With a view to the changed shareholder structure of the Company and the associated already significantly reduced free float of the shares of the Company, the Supervisory Board believes, following a detailed review, that application of the remuneration system valid for Dr. Barthold Piening was not appropriate and therefore, with effect from January 1, 2018, planned a new system.

The core elements of the system for Mark Keatley from January 1, 2018 include non-performance related remuneration that takes the tasks and performance of the member 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 annual performance-related remuneration, the member of the Executive Board receives a long-term oriented remuneration component ("Long-Term Incentive", LTI). The individual performance-related components are limited to a maximum amount. In the case of a 100% achievement of all targets, the performance-related remuneration for one financial year (STI + LTI) corresponds to the annual fixed salary. Because at the time of the appointment financial year 2017 was nearly completed, the remuneration for the service of Mark Keatley only foresees a non-performance related remuneration in financial year 2017.

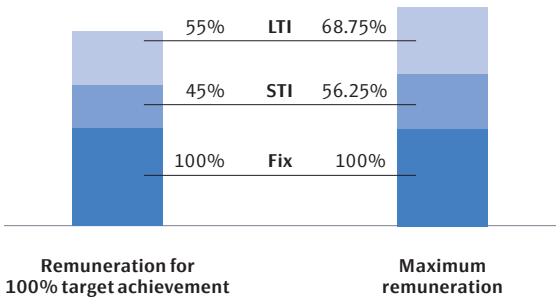
Remuneration structure

As a result of the previously mentioned review of the remuneration system, the Supervisory Board also considered the remuneration structure. and subsequently redesigned the structure of the variable, performance-related remuneration components. The variable remuneration in the case of a 100% achievement of all targets thus amounts to 50% of the total remuneration and is thus closely aligned with the success of the company.

The Supervisory Board also defined future target amounts for the short and long-term performance-related remuneration. In the case of a 100% achievement of all underlying targets, with short-term performance-related remuneration ("Short-Term Incentive", STI) shall account for 45% of the individual fixed salary. For maximum target achievement, the annual bonus shall be limited to an amount of 56.25% of the individual fixed remuneration. The multi-year performance-related remuneration ("Long-Term Incentive", LTI) in the case of 100% achievement of all target in this system shall amount to 55% of the individual fixed remuneration and be limited to a figure of 68.75% of the individual fixed remuneration (see illustration).[1)] In the case of a 100% achievement of all underlying targets, the performance-related remuneration (STI + LTI), in terms of amount thus corresponds to the annual fixed salary; in the case of the maximum target achievement of all underlying targets, a performance-related remuneration (STI+ LTI) of 125% of the fixed salary can be achieved.

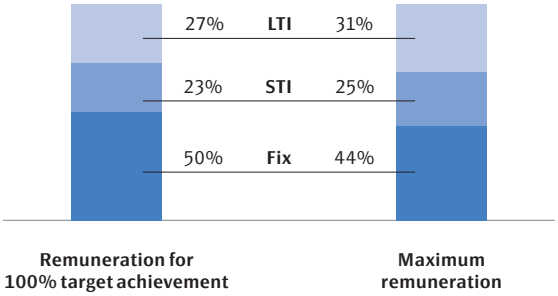
The ratio of short-term to long-term performance-related remuneration in the case of a one-hundred percent achievement of all underlying targets shall amount to 45% (STI) to 55% (LTI).

Share of the individual remuneration components in fixed remuneration of Mark Keatley in %



1) Smaller deviations in the amount of a few percentage points can arise from the rounding up or down of target amounts to round figures.

Share of the individual remuneration components in total remuneration of Mark Keatley in %



Non-performance related components

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 the German Stock Corporation Act under consideration of usual market remuneration as well as the position and responsibility of the member of the Executive Board.

Fringe benefits

The Executive Board member receives fringe benefits such as a company car, contributions to health and nursing care insurance, conclusion and payment of premiums for accident insurance and other payments in kind that are part of the salary as well as further contributions and payments necessary for the fulfillment of the Executive Board responsibilities. The taxable benefit arising from the private use of the company car is to be taxed by the member of the Executive Board. For the period of up to six months, the member of the Executive Board also receives a limited contribution for accommodations at the location of the Company. The Executive Board member is also given a one-time reimbursement for any necessary moving costs up to a defined maximum amount.

There is no company pension for the member of the Executive Board.

Performance-related component

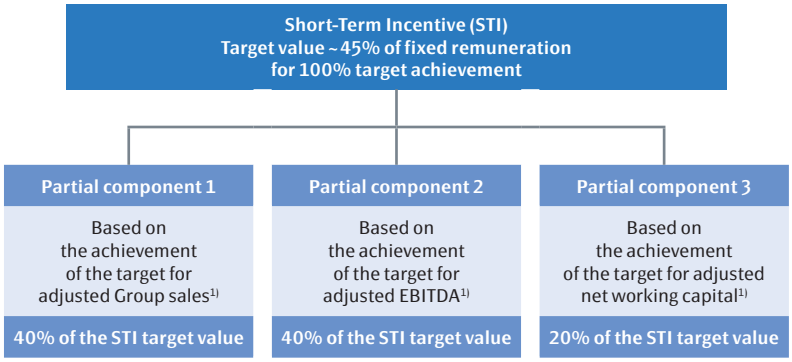
Annual performance-related components

The short-term performance-related remuneration is structured toward the achievement of three partial targets which are measured based on differently weighted Group-oriented targets. The three partial components are:

- Adjusted Group sales[1)] (40% of the STI target amount)
- Adjusted EBITDA[1)] (40% of the STI target amount)
- Adjusted net working capital[1)] (20% of the STI target amount).

1) Adjusted for extraordinary effects.

Components of the short-term performance-related remuneration (STI) of Mark Keatley



The payment amount of the individual partial components is thus oriented toward the achievement of measurable defined individual targets that are derived from the corporate strategy of STADA Arzneimittel AG and which allow the Supervisory Board to objectively determine the target achievement of the member of the Executive Board. Prior to the beginning of the financial year, the Supervisory Board defines the target requirements for the so-called STI assessment bases.

The payment amount of the STI is determined according to the respective degree of target achievement of the three partial components. The degree of target achievement is calculated on the basis of the relation between the actual target achievement for the respective targets of the three partial components; it is, however, capped at 125% of the target amount. If the degree of achievement of the individual STI partial components is less than 90% of the target requirement, an operand of 0% will be applied and thus there will be no payment with regard to the relevant STI share. The following calculation will be undertaken:

Degree of target achievement	Operand
110% ≥	125%
105%	110%
100%	100%
95%	90%
90% ≥	80%
< 90%	0%

The individual components each stand alone and cannot compensate for one another. The total volume of the STI payment amount for the respective financial year is the result of adding the calculated payment amounts of the three STI partial components. Payment of the STI is made exclusively in cash.

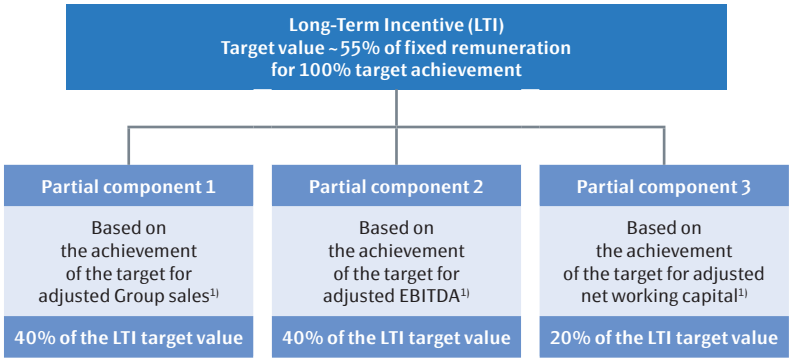
Multi-year performance-related components

The multi-year performance-related remuneration consists of a rolling bonus system with a performance period of two years. The amount of the payment for the respective performance period is oriented toward the achievement of three partial components. The three partial components are here also:

- Adjusted Group sales[1)] (40% of the LTI target amount)
- Adjusted EBITDA[1)] (40% of the LTI target amount)
- Adjusted net working capital[1)] (20% of the LTI target amount).

1) Adjusted for extraordinary effects.

Components of the long-term performance-related remuneration (LTI) of Mark Keatley



Prior to the beginning of the financial year, the Supervisory Board defines the target requirements for the so-called LTI assessment bases. The LTI is initially determined in the same manner as the STI but is supplemented by a multi-year effect.

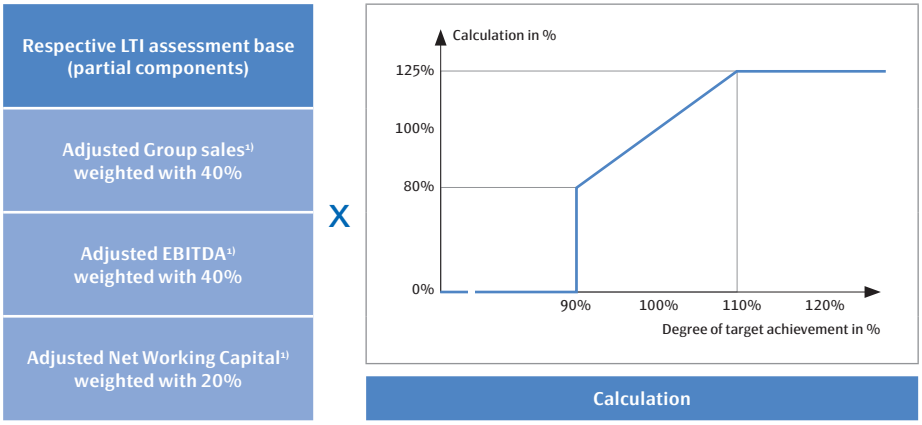
The degree of target achievement is calculated on the basis of the relation between the actual target achievement for the respective targets and is determined by the Supervisory Board for the three LTI assessment bases after the conclusion of each of the two financial years of each performance period separately for each financial year. If the degree of target achievement for the respective LTI assessment base in one financial year is at least 90% and at most 110%, the operands to be calculated as a result are determined for this financial year in accordance with the scheme presented in the following table:

Degree of target achievement	Operand
110% ≥	125%
105%	110%
100%	100%
95%	90%
90% ≥	80%
< 90%	0%

If the degree of target achievement for the respective LTI assessment base in a financial year is more than 110%, an operand for the respective LTI assessment base of 125% is applied (cap), if the degree of target achievement is less than 90%, an operand of 0% is applied. The calculated operands flow with the respective weighting of the partial components into the annual value to be calculated.

1) Adjusted for extraordinary effects.

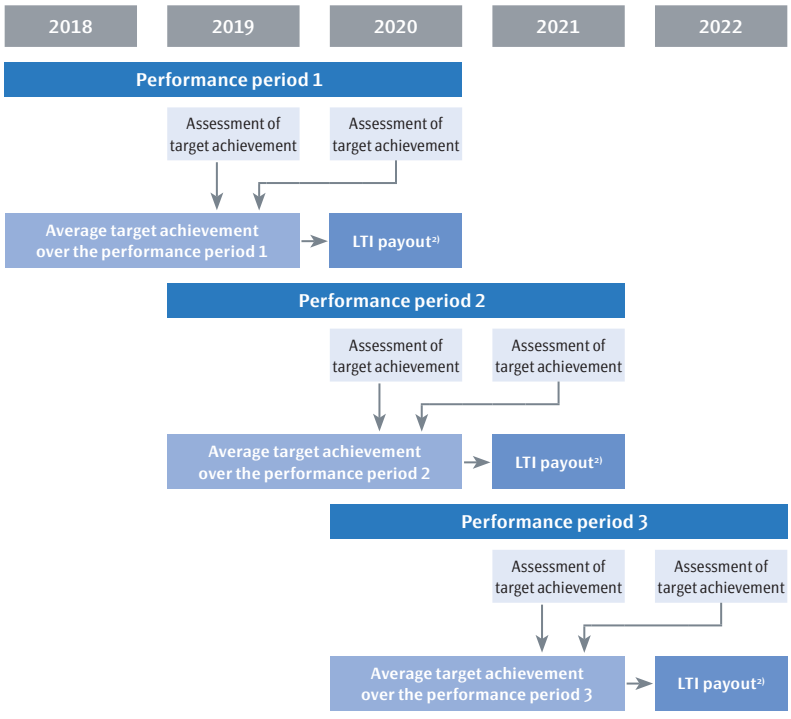
Calculation of the respective annual value LTI of Mark Keatley



The actual LTI payment amount for each performance period is calculated by first adding the two annual values and dividing the total by two and subsequently multiplying the resulting figure by the target amount of the LTI. There will, however, only be a payment of the LTI for a performance period if the mathematical mean for the two annual values of this performance period is more than 75%.

Payment of the LTI is made exclusively in cash.

Presentation of the performance periods of the LTI program of Mark Keatley



1) Adjusted for extraordinary effects.
2) Payment of the LTI only if the mathematical mean of the two annual values for this LTI performance period ≥75%, i.e.: (annual value 1 + annual value 2) : 2 ≥ 75%.

The Executive Board member, in the case of a premature termination of the employment contract, receives a severance payment in the maximum amount of 1.5 annual salaries, whereby a lump sum is taken for the variable remuneration. If the remaining period of the contract at the time of the termination is less than 1.5 years, a pro-rata cut in the severance payment is carried out.

The remuneration system also calls for a post-contractual competition and non-solicitation agreement for a period of two years which is remunerated on the basis of the fixed salary at the time of departure.

Presentation of Executive Board remuneration for financial year 2017

The Executive Board remuneration for financial year 2017 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 No. 17 (DRS 17) on the other hand.

Executive Board remuneration for financial year 2017 in accordance with the German Corporate Governance Code (exemplary charts)

The following presentation of the Executive Board remuneration awarded and paid in financial year 2017 is in accordance with the recommendations of the German Corporate Governance Code, as published on February 7, 2017.

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, in 2016 the LTIP deferrals for Dr. Matthias Wiedenfels and Helmut Kraft were share-based remuneration the allocation of which, in accordance with German tax law, is recognized at the time it is actually paid out.

The **remuneration** of the individual members of the Executive Board who were active for the Company in financial year 2017, in accordance with the German Corporate Governance Code, is as follows:

Dr. Matthias Wiedenfels, Chairman of the Executive Board until July 4, 2017 (on the Executive Board since May 3, 2013)

	Benefits granted				Allocation	
in € k	2017	2016	2017 (min)	2017 (max)	2017	2016
Fixed remuneration	557	1,136	557	557	557	1,136
Fringe benefits	14	36	14	14	14	36
Total	**571**	**1,172**	**571**	**571**	**571**	**1,172**
One-year variable remuneration	–	390	–	–	–	390
Multi-year variable remuneration						
• Long-term targets 2016	–	–	–	–	–	761
• LTIP (2016)	–	160[1)]	–	–	–	–
Other	–	–	–	–	–	–
Total	**571**	**1,722**	**571**	**571**	**571**	**2,323**
Service cost	–	–	–	–	–	–
Total remuneration	**571**	**1,722**	**571**	**571**	**571**	**2,323**

Explanations:

Under consideration of the time of departure from the Executive Board of Dr. Matthias Wiedenfels, 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 July 4, 2017.

1) Summary of the three figures of the LTIP deferral (2016) as reported in the remuneration report 2016 (separately) on the basis of the Monte Carlo Model.

In the reporting year, for the period until the end of his Executive Board mandate on July 4, 2017, Dr. Matthias Wiedenfels received a fixed salary in the amount of € 557 k[1] plus fringe benefits.

Because negotiations with Dr. Matthias Wiedenfels on the consequences of the termination of his period in office are not yet completed, with regard to the employment relationship, the remuneration resulting from it (including the pro rata one-year and multi-year variable remuneration for financial year 2017) and fringe benefits as well as any potential severance payment, it is currently not possible to make any further entries in the code table or any other disclosures.

Helmut Kraft, Chief Financial, Marketing & Sales Officer until July 4, 2017 (on the Executive Board since January 1, 2010)

	Benefits granted				Allocation	
in € k	**2017**	**2016**	**2017 (min)**	**2017 (max)**	**2017**	**2016**
Fixed remuneration	545	1,097	545	545	545	1,097
Fringe benefits	15	34	15	15	15	34
Total	**560**	**1,131**	**560**	**560**	**560**	**1,131**
One-year variable remuneration	233	425	–	233[2]	233	425
Multi-year variable remuneration						
• Long-term goals 2018[3] for FY 2015	–	–	–	–	346	–
• LTIP (2016)	–	173[4]	–	552[2]	552[5]	–
• LTIP (2017)	233	–	–	233[2]	233	–
Other	–	–	–	–	–	–
Total	**1,026**	**1,729**	**560**	**1,578**	**1,924**	**1,556**
Service cost	–	–	–	–	–	–
Total remuneration	**1,026**	**1,729**	**560**	**1,578**	**1,924**	**1,556**

Explanations:

Under consideration of the time of departure from the Executive Board of Helmut Kraft, 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 July 4, 2017.

In the reporting year, for the period until the end of his Executive Board mandate on July 4, 2017, Helmut Kraft received a fixed salary in the amount of € 545 k[6] plus fringe benefits.

The table also shows the pro rata granting of benefits accounted for by the period from January 1, 2017 until July 4, 2017 or inflows from the variable remuneration for the past financial year 2017 (pro rata annual bonus 2017 as one-year variable remuneration component as well as a pro rata LTIP deferral 2017 as multi-year variable remuneration component), for which in the termination contract with Helmut Kraft a 100% target achievement was agreed.

In **connection with the termination** of his employment on July 4, 2017, as a result of employment contract provisions (termination of contract as of September 30, 2017), it was agreed with Mr. Kraft that he would also continue to receive salary in the total amount of € 463 k (thereof € 224 k non-performance related plus € 6 k in fringe benefits as well as € 233 k performance-related) as well as a severance payment in the amount of € 997 k.

1) The pro rata amount for the period from January 1, 2017 until July 4, 2017 on the basis of an annual fixed salary of € 850 k plus monthly supplementary remuneration in the amount of € 41.6 k per month for the period from January 1, 2017 until March 31, 2017 until the addition of Dr. Piening as third member of the Executive Board.
2) Due to the agreement in the termination contract with Mr. Kraft, for "max" the actual amount paid out is also shown, which is identical to the "Inflow".
3) From the previous Executive Board employment contract with Mr. Kraft which was valid from January 1, 2015, there was, for financial year 2015, still a pro rata entitlement from the final calculation of the multi-year variable long-term special remuneration "long-term goals 2018" which would have been payable at the end of the 2018 financial year. In the termination contract with Helmut Kraft it was agreed that his entitlement from this would be settled early with an amount of € 346 k as of September 30, 2017.
4) Summary of the three figures of the LTIP deferral (2016) as reported in the remuneration report 2016 (separately) on the basis of the Monte Carlo Model.
5) Amount of the payment which results from application of the termination contract with Mr. Kraft for the settlement of the LTIP 2016.
6) The pro rata amount for the period from January 1, 2017 until July 4, 2017 on the basis of an annual fixed salary of € 925 k plus month supplementary remuneration in the amount of € 25 k per month for the period from January 1, 2017 until March 31, 2017 until the addition of Dr. Piening as third member of the Executive Board.

Dr. Barthold Piening, Chief Technical Officer (on the Executive Board since April 1, 2017)

	Benefits granted				Allocation	
in € k	2017	2016	2017 (min)	2017 (max)	2017	2016
Fixed remuneration	450	–	450	450	450	–
Fringe benefits	14	–	14	14	14	–
Total	**464**	**–**	**464**	**464**	**464**	**–**
One-year variable remuneration	225	–	0[1)]	450[2)]	225	–
Multi-year variable remuneration	338[1)4)]	–	0[1)]	675[1)3)]	–	–
Other	–	–	–	–	–	–
Total	**1,027[1)4)]**	**–**	**464[1)]**	**1,589[1)]**	**689**	**–**
Service cost	–	–	–	–	–	–
Total remuneration	**1,027[1)4)]**	**–**	**464[1)]**	**1,589[1)]**	**689**	**–**

Explanations:

In the reporting year, for his nine-month period in office from April 1, 2017, Dr. Barthold Piening received a proportionate fixed salary of € 450 k p.a. plus fringe benefits. Benefits granted from variable remuneration for the past financial year 2017 are listed as one-year variable remuneration for the STI 2017 as well as the value of the multi-year variable remuneration (LTI) with a three-year performance period (2017–2019) (each on a pro-rata basis for the nine-month period in office from Dr. Piening in financial year 2017). For financial year 2017, the Supervisory Board set the degree of target achievement for Dr. Barthold Piening, in relation to both his variable remuneration with a one-year performance period as well as in relation to his variable remuneration with a three-year performance period each at a fixed level of 100%. Thus, for the nine-month period in office of Dr. Piening in financial year 2017, there is a payment of € 225 k in relation to the STI. The LTI for the nine-month period in office with 100% target achievement is currently € 338 k and, pursuant to current contract provisions, would be due for payment in 2020.[4)]

Engelbert Coster Tjeenk Willink, Chairman of the Executive Board until September 27, 2017 (on the Executive Board since July 4, 2017)

	Benefits granted				Allocation	
in € k	2017	2016	2017 (min)	2017 (max)	2017	2016
Fixed remuneration	952	–	952	952	952	–
Fringe benefits	10	–	10	10	10	–
Total	**962**	**–**	**962**	**962**	**962**	**–**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**962**	**–**	**962**	**962**	**962**	**–**
Service cost	–	–	–	–	–	–
Total remuneration	**962**	**–**	**962**	**962**	**962**	**–**

1) For financial year 2017, the Supervisory Board set the degree of target achievement for Dr. Barthold Piening, in relation to both the STI and the LTI at a fixed level of 100%.
2) The annual target amount for Dr. Barthold Piening for the STI with a 100% target achievement is € 300 k; a maximum STI of 200%, i.e. € 600 k, can be achieved in the year. Under consideration of the nine-month period in office of Dr. Barthold Piening in financial year 2017, this results in a proportionate maximum amount of € 450 k.

3) For a 100% target achievement, the target amount for the LTI over the three-year performance period is € 450 k. On the basis of a target achievement capped at 200% (or more), pursuant to current contractual provisions, a maximum value amount of € 900 k can be achieved for the entire three-year performance period. The maximum amount shown in the table of € 675 k is based on a proportionate consideration of financial year 2017 for the nine-month period in office of Dr. Piening. In the case of the retention of the current LTI regulation, this amount can rise, fall or be eliminated depending on the target achievement.
4) In the case of the retention of the current LTI regulation, this amount could rise, fall or be eliminated depending on the determined degree of target achievement. According to the current status of planning, it is intended to replace the previous LTI regulations with a new multi-year remuneration component (in particular without a relation to the share price). In this case, no further performance periods would begin.

Explanations:

Under consideration of the date of departure from the Executive Board of Mr. Tjeenk Willink, 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 September 27, 2017.

In the reporting year, for the period until the end of his Executive Board mandate on September 27, 2017, Mr. Tjeenk Willink received a fixed salary in the amount of € 952 k (pro rata amount on the basis of a monthly fixed salary of € 333 k) plus fringe benefits.

In **connection with the termination** of his employment on September 27, 2017, as a result of employment contract provisions (termination of contract as of September 30, 2017), as part of his termination contract, Mr. Tjeenk Willink also continued to receive salary in the total amount of € 32 k as well as a severance payment in the amount of € 1.0 million.

Dr. Bernhard Düttmann, Chief Financial Officer until September 27, 2017 (on the Executive Board since July 4, 2017)

	Benefits granted				Allocation	
in € k	**2017**	**2016**	**2017 (min)**	**2017 (max)**	**2017**	**2016**
Fixed remuneration	429	–	429	429	429	–
Fringe benefits	8	–	8	8	8	–
Total	**437**	**–**	**437**	**437**	**437**	**–**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**437**	**–**	**437**	**437**	**437**	**–**
Service cost	–	–	–	–	–	–
Total remuneration	**437**	**–**	**437**	**437**	**437**	**–**

Explanations:

Under consideration of the time of departure from the Executive Board of Dr. Düttmann, 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 September 27, 2017.

In the reporting year, for the period until the end of his Executive Board mandate on September 27, 2017, Dr. Düttmann received a fixed salary in the amount of € 429 k (pro rata amount on the basis of a monthly fixed salary of € 150 k) plus fringe benefits.

In **connection with the termination** of his employment on September 27, 2017, as a result of employment contract provisions (termination of contract as of September 30, 2017), as part of his termination contract, Dr. Düttmann also continued to receive salary in the total amount of € 14 k as well as a severance payment in the amount of € 450 k.

Dr. Claudio Albrecht, Chairman of the Executive Board (on the Executive Board since September 27, 2017)

	Benefits granted				Allocation	
in € k	2017	2016	2017 (min)	2017 (max)	2017	2016
Fixed remuneration	388	–	388	388	388	–
Fringe benefits	–	–	–	–	–	–
Total	**388**	**–**	**388**	**388**	**388**	**–**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**388**	**–**	**388**	**388**	**388**	**–**
Service cost	–	–	–	–	–	–
Total remuneration	**388**	**–**	**388**	**388**	**388**	**–**

Explanations:

In the reporting year, Dr. Albrecht received a fixed salary of € 388 k through Albrecht, Prock & Partners AG.

Mark Keatley, Chief Financial Officer (on the Executive Board since September 27, 2017)

	Benefits granted				Allocation	
in € k	2017	2016	2017 (min)	2017 (max)	2017	2016
Fixed remuneration	314	–	314	314	314	–
Fringe benefits	10	–	10	10	10	–
Total	**324**	**–**	**324**	**324**	**324**	**–**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**324**	**–**	**324**	**324**	**324**	**–**
Service cost	–	–	–	–	–	–
Total remuneration	**324**	**–**	**324**	**324**	**324**	**–**

Explanations:

In the reporting year, Mr. Keatley received a fixed remuneration of € 314 k plus fringe benefits.

Executive Board remuneration for financial year 2017 in accordance with DRS 17

The following details on the remuneration granted to Executive Board members in financial year 2017 are provided in accordance with the requirements of DRS 17. In contrast with the requirements previously presented from the German Corporate Governance Code, disclosure of the payments for multi-year variable remuneration components, which are not granted as share-based payment, 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.

Remuneration of the individual members of the Executive Board active for the Company in financial year 2017, in accordance with DRS 17, is as follows:

Dr. Matthias Wiedenfels, Chairman of the Executive Board until July 4, 2017 (on the Executive Board since May 3, 2013)

in € k	2017	2016
Fixed remuneration	557	1,136
Fringe benefits	14	36
Total	**571**	**1,172**
One-year variable remuneration	–	390
Multi-year variable remuneration		
• Long-term targets 2016	–	1,061
• LTIP deferral (2016)	–	160
• LTIP deferral (2017)	–	–
Other	–	–
Total	**–**	**1,611**
Total remuneration	**571**	**2,783**

Helmut Kraft, Chief Financial, Marketing & Sales Officer until July 4, 2017 (on the Executive Board since January 1, 2010)

in € k	2017	2016
Fixed remuneration	545	1,097
Fringe benefits	15	34
Total	**560**	**1,131**
One-year variable remuneration	233	425
Multi-year variable remuneration		
• Long-term goals 2018	346	–
• LTIP deferral (2016)	379	173
• LTIP deferral (2017)	233	–
Other	–	–
Total	**1,191**	**598**
Total remuneration	**1,751**	**1,729**

Pursuant to the termination agreement concluded with Mr. Kraft, remuneration in lieu of the long-term targets 2018 in the amount of € 346 k was agreed. Non share-based remuneration, in accordance with DRS 17, is recognized as remuneration in the year in which the service was provided that effects the remuneration entitlement. This is carried out through the closed termination agreement in 2017 for the long-term targets 2018. In addition, in the termination agreement, compensation for for the LTIP 2016 in the amount of € 552 k was agreed. Because this is a change to the exercise conditions of the LTIP 2016, a recalculation of the fair value in the amount of the compensation of € 552 k is carried out. The remuneration listed in the table

above in the amount of € 379 k corresponds to the difference between the total amount of € 552 k as well as the fair value of the remuneration reported in the previous year in the amount of € 173 k. In addition, in the termination agreement, compensation for the LTIP 2017 in the amount of € 233 k was agreed.

Dr. Barthold Piening, Chief Technical Officer (on the Executive Board since April 1, 2017)

in € k	2017	2016
Fixed remuneration	450	–
Fringe benefits	14	–
Total	**464**	**–**
One-year variable remuneration	225	–
Multi-year variable remuneration	–	–
Other	–	–
Total	**225**	**–**
Total remuneration	**689**	**–**

The multi-year variable remuneration of Dr. Piening will be reported in the year in which the service was provided that effects the remuneration entitlement.

Engelbert Coster Tjeenk Willink, Chairman of the Executive Board until September 27, 2017 (on the Executive Board since July 4, 2017)

in € k	2017	2016
Fixed remuneration	952	–
Fringe benefits	10	–
Total	**962**	**–**
One-year variable remuneration	–	–
Multi-year variable remuneration	–	–
Other	–	–
Total	**–**	**–**
Total remuneration	**962**	**–**

Dr. Bernhard Düttmann, Chief Financial Officer until September 27, 2017 (on the Executive Board since July 4, 2017)

in € k	2017	2016
Fixed remuneration	429	–
Fringe benefits	8	–
Total	**437**	**–**
One-year variable remuneration	–	–
Multi-year variable remuneration	–	–
Other	–	–
Total	**–**	**–**
Total remuneration	**437**	**–**

Dr. Claudio Albrecht, Chairman of the Executive Board (on the Executive Board since September 27, 2017)

in € k	2017	2016
Fixed remuneration	388	–
Fringe benefits	–	–
Total	**388**	**–**
One-year variable remuneration	–	–
Multi-year variable remuneration	–	–
Other	–	–
Total	**–**	**–**
Total remuneration	**388**	**–**

Mark Keatley, Chief Financial Officer (on the Executive Board since September 27, 2017)

in € k	2017	2016
Fixed remuneration	314	–
Fringe benefits	10	–
Total	**324**	**–**
One-year variable remuneration	–	–
Multi-year variable remuneration	–	–
Other	–	–
Total	**–**	**–**
Total remuneration	**324**	**–**

The percentage ratio between non-performance related and performance-related remuneration of members of the Executive Board ranges in the area of approximately 32% to approximately 100% non-performance related and approximately 0% to approximately 68% 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

Of the Executive Board contracts in place as of the reporting date, only the contract of Dr. Barthold Piening contains 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 two years' remuneration.

In the case of a premature termination of the Executive Board service, there is also a severance payment guarantee in the Executive Board contract of Mark Keatley which, for a premature termination of the employment contract, receives a severance payment in the maximum amount of 1.5 annual salaries, whereby a lump sum is taken for the variable remuneration. If the remaining period of the contract at the time of the termination is less than 1.5 years, a pro rata cut in the severance payment is carried out. The remuneration system for Mark Keatley also calls for a post-contractual competition and non-solicitation agreement for a period of two years which is remunerated on the basis of the fixed salary at the time of departure.

A severance payment can also result from a termination agreement, which is made in individual cases. Insofar as the Executive Board contracts in place in the reporting year, except in cases of a change of control, there is no severance payment provision, it was agreed that any payments to Executive Board members with early termination of contract including fringe benefits may not exceed a maximum of 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 of Dr. Barthold Piening, Dr. Matthias Wiedenfels and Helmut Kraft include or included 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 Executive Board contracts with Engelbert Coster Tjeenk Willink and Dr. Bernhard Düttmann stipulate that the Company, in the case of invalidity due to illness or accident, shall continue to pay the remuneration for the duration of the invalidity, at maximum however the duration of six weeks, whereby the amount of payment corresponds to the fixed monthly salary. Payment continues until the end of the Executive Board contract at the latest.

The Executive Board contract with Mark Keatley stipulates that the Company, in the case of invalidity due to illness or accident, shall continue to pay the remuneration for the duration of the invalidity, at maximum however the duration of four months, whereby the amount of payment corresponds to the proportionate share of the annual fixed salary and the proportionate share of the variable remuneration. Payment continues until the end of the Executive Board contract at the latest.

Dr. Claudio Albrecht receives no remuneration from Albrecht, Prock & Partners AG in the case of invalidity due to illness or accident.

The Company generally arranges accident insurance for all members of the Executive Board. In financial year 2017, this applied for all members of the Executive Board with the exception of the three interim members of the Executive Board Engelbert Coster Tjeenk Willink, Dr. Bernhard Düttmann and Dr. Claudio Albrecht as well as Mark Keatley.

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. The amount of the deductible for the D&O insurance is based on the currently valid legal regulations and at this time amounts to 10% of the respective total damages up to at least the level of one and a half times the annual fixed salary.

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

In financial year 2017, to the Company's knowledge, 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 the financial year.

Supervisory Board remuneration

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

The remuneration system of the Supervisory Board is governed by Section 18 of STADA Arzneimittel AG's Articles of Incorporation. 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 double the amount.

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 as well as the Compliance Committee receive no separate remuneration.

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

Remuneration of the Supervisory Board in financial year 2017

The remuneration of the individual members of the Supervisory Board who were active for the Company in financial year 2017 is as follows:

Current members of the Supervisory Board

- Dr. Günter von Au € 72,786.72 (thereof € 49,775.34 non-performance related and € 23,011.38 performance-related) (Member of the Supervisory Board since September 26, 2017)
- Jens Steegers € 167,616.54 (thereof € 109,890.41 non-performance related and € 57,726.13 performance-related) (previous year: € 116,672.71 thereof € 79,786.89 non-performance related and € 36,885.82 performance-related)
- Dr. Eric Cornut € 109,986.35 (thereof € 81,123.29 non-performance related and € 28,863.06 performance-related) (previous year: € 34,295.17 thereof € 24,737.70 non-performance related and € 9,557.47 performance-related)
- Halil Duru € 90,753.48 (thereof € 61,890.41 non-performance related and € 28,863.07 performance-related) (previous year: € 90,328.37 thereof € 63,000.00 non-performance related and € 27,328.37 performance-related)
- Jan-Nicolas Garbe € 0 (Supervisory Board member waives remuneration entitlement) (Member of the Supervisory Board since September 26, 2017)
- Benjamin Kunstler € 0 (Supervisory Board member waives remuneration entitlement) (Member of the Supervisory Board since September 26, 2017)
- Dr. Ute Pantke € 98,972.66 (thereof € 70,109.59 non-performance related and € 28,863.07 performance-related) (previous year: € 79,303.78 thereof € 51,975.41 non-performance related and € 27,328.37 performance-related)
- Bruno Schick € 0 (Supervisory Board member waives remuneration entitlement) (Member of the Supervisory Board since September 26, 2017)
- Dr. Michael Siefke € 0 (Supervisory Board member waives remuneration entitlement) (Member of the Supervisory Board since September 26, 2017)

Members of the Supervisory Board who left the Board in financial year 2017

- Carl Ferdinand Oetker € 218,788.78 (thereof € 155,210.96 non-performance related and € 63,577.82 performance-related) (previous year: € 210,976.49 thereof € 146,762.30 non-performance related and € 64,214.19 performance-related) (Member of the Supervisory Board until the end of September 25, 2017)

- Rolf Hoffmann € 78,463.84 (thereof € 57,271.23 non-performance related and € 21,192.61 performance-related) (previous year: € 34,295.17 thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board until the end of September 25, 2017)

- Dr. Birgit Kudlek € 86,683.02 (thereof € 65,490.41 non-performance related and € 21,192.61 performance-related) (previous year: € 34,295.17 thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board until the end of September 25, 2017)

- Tina Müller € 86,683.02 (thereof € 65,490.41 non-performance related and € 21,192.61 performance-related) (previous year: € 34,295.17 thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board until the end of September 25, 2017)

- Dr. Gunnar Riemann € 78,463.84 (thereof € 57,271.23 non-performance related and € 21,192.61 performance-related) (previous year: € 34,295.17 thereof € 24,737.70 non-performance related and € 9,557.47 performance-related) (Member of the Supervisory Board until the end of September 25, 2017)

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.

Advisory Board remuneration

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 General Meetings, plus sales tax and reimbursement of their expenses. Time for travel to and from meetings is not considered part of the meeting. The Chairman of the Advisory Board also receives a flat rate annual compensation for allowances in the amount of € 3,000 plus sales tax and his deputy receives € 2,500 plus sales tax.

Corporate Governance Report including the Corporate Governance Declaration for STADA Arzneimittel AG and the Group

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

Corporate Governance Declaration for STADA Arzneimittel AG and the Group

The Corporate Governance Declaration for STADA Arzneimittel AG and the Group in accordance with Section 315d in conjunction with Section 289f of the German Commercial Code (HGB) includes the explanation of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG), the relevant information on corporate management practices, a description of the working practices of the Executive Board and Supervisory Board as well as the composition and working practices of the Supervisory Board committees (including competence profile), the specifications pursuant to Section 76 (4) and Section 111 (5) of the German Stock Corporation Act as well as the information on whether the specified targets were met during the reference period or not and, if not, details on the reasons and a description of the diversity concept which is followed in terms of the composition of the Executive Board and Supervisory Board as well as the goals of this diversity concept, the manner of its implementation and the results achieved in financial year 2017.

1. Declaration of Compliance

The Executive Board and Supervisory Board agreed a new Declaration of Compliance in accordance with the German Corporate Governance Code in December 2017. This, as well as earlier Declarations of Compliance or updates can be found on the Company's website at www.stada.de/cg or www.stada.com/cg.

"Declaration of Compliance December 2017

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

STADA Arzneimittel AG ("STADA") had complied with the recommendations of the German Corporate Governance Code in the version of February 7, 2017 (published on April 24, 2017 in the Federal Gazette and published in the corrected version on May 19, 2017) since the last Declaration of Compliance on March 2, 2017, amended on July 13, 2017, with the exception of the deviations as mentioned there, and STADA will comply with the recommendations of the German Corporate Governance Code in this version in future with the following deviations:

Section 4.2.3 (2) Sentence 2: Fixed and variable remuneration components

Section 4.2.3 (2) Sentence 2 of the German Corporate Governance Code (GCGC) recommends that the monetary components of the Executive Board remuneration should not only comprise fixed but also variable components. The remuneration of the Chairman of the Executive Board, Dr. Albrecht, differs from this recommendation because it only includes fixed remuneration elements. Dr. Albrecht was appointed as Chairman and member of the Executive Board of STADA Arzneimittel AG with effect from September 27, 2017 and limited until September 26, 2018. Given that his appointment is only of an interim nature, the Supervisory Board decided to grant a remuneration which is adequate to this specific situation. This includes, because of the short appointment, in particular no performance-related remuneration. As a result, it is also differed from other recommendations included in the GCGC referring to a variable remuneration.

Equally, the remuneration of Mr. Keatley for the financial year 2017 deviates from the recommendation. Mr. Keatley was also appointed as member of the Executive Board of STADA with effect from September 27, 2017. Against the background that the financial year 2017 had largely passed at that time, remuneration for the services of Mr. Keatley in financial year 2017 is non-performance related consisting of a fixed salary paid monthly as well as a fixed bonus.

Section 4.2.3 (4) Sentence 3: Severance cap shall be calculated on the basis of the total remuneration

Pursuant to Section 4.2.3 (4) Sentence 3 GCGC, the severance cap shall be calculated on the basis of the total remuneration paid for the previous financial year and, if appropriate, shall take into account the expected total remuneration for the current financial year. According to the service agreement with Mr. Keatley, the severance cap is not to be calculated based on the total remuneration but as lump sum of the variable remuneration.

Section 5.3.2 (3) Sentence 2: Independence of the Chairman of the Audit Committee

Pursuant to Section 5.3.2 (3) Sentence 2 GCGC, the Chairman of the Audit Committee shall be independent. The Supervisory Board has elected Dr. Siefke as chairman of the Audit Committee. Dr. Siefke, as a result of his professional career, has special knowledge and experience in the fields of accounting and auditing. As managing director of Bain Capital Private Equity Beteiligungsberatung GmbH, Munich, a company associated with the controlling shareholder Nidda Healthcare GmbH, he is, however, not independent. In its current composition, the Supervisory Board was not able to elect an independent member with financial expertise as Chairman of the Audit Committee.

Section 5.4.3 Sentence 2: Limitation of the application for the judicial appointment of Supervisory Board members

Pursuant to Section 5.4.3 Sentence 2 GCGC an application for the judicial appointment of Supervisory Board Members shall be limited to the next General Meeting. On August 29, 2017, Nidda Healthcare GmbH i.Gr. applied at the local court (Amtsgericht) of Frankfurt am Main for the judicial appointment of five members of the Supervisory Board until the end of the next Annual General Meeting of STADA. Because of the limitation of the application to the next "Annual" General Meeting and because it is ambiguous whether Extraordinary General Meetings need also to be considered in the timely limitation of the application recommended by the GCGC, a deviation is declared as a precautionary measure.

Bad Vilbel, December 2017

signed	signed
Dr. Günter von Au	Dr. Claudio Albrecht
Chairman of the Supervisory Board	Chairman of the Executive Board"

2. Relevant Disclosures on Corporate Governance Practices

Corporate Governance

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

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

Risk Management and Internal Auditing

The responsible handling of risks is an element of good corporate governance. STADA has systematic risk management and a control system that puts the Executive Board in the position to recognize risks and market trends at an early stage and to immediately react to relevant changes in the risk profile. STADA's risk management and control system thus contributes to the

success of the Company. Risk management is part, in regular intervals, of the annual audit of financial statements as well as Internal Auditing. Details can be found in the "Opportunities and Risk Report".

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

Strong compliance culture

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

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

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

The Executive Board has established a comprehensive compliance management system and an internal Compliance department as an organizational part of the Legal Department. It coordinates the entire system and receives complaints and information – anonymously if necessary – and follows up on suspected compliance breaches. Any suspicious cases reported are assessed and evaluated. If necessary, appropriate measures are introduced and processes are adapted. Disciplinary measures are also taken. These can range from a simple warning to the dismissal of the employee. It is supported in Germany and internationally by Compliance Managers, and by an external Ombudsman in Germany. In the reporting year, the international exchange of compliance managers was further intensified. In order to guarantee the adherence to legal regulations and internal company policies of compliance in an effective manner, STADA regularly controls and further develops the Compliance Management System based on risk.

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

Quality and safety, sustainability and environment

Details on the topics "quality" and "safety" can be found in the chapter "Procurement, Production and Quality Management", and on the topics "sustainability" and "environment" in the "Separate Non-Financial Report".

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

3. Description of the Working Practices of the Executive Board and the Supervisory Board as well as the Composition and Working Practices of their Committees

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

a) Executive Board

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

Tasks and responsibilities

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

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

In financial year 2017, there were the following changes at Executive Board level: On April 1, 2017, Dr. Barthold Piening, Chief Technical Officer, took up his position as member of the STADA Executive Board.[1)] At its meeting of July 4, 2017, the STADA Supervisory Board consented to Dr. Matthias Wiedenfels resigning from office as Chairman of the Executive Board and to Helmut Kraft resigning from office as a member of the Executive Board. Both resigned from office with immediate effect. At the same time, the Supervisory Board appointed Engelbert Coster Tjeenk Willink as Chairman of the Executive Board and Dr. Bernhard Düttmann as a member of the Executive Board and Chief Financial Officer. Both of the new Executive Board members were appointed with immediate effect and for a period up to December 31, 2017.[2)] At its meeting on September 27, 2017, the Supervisory Board consented to the resignation of Engelbert Coster Tjeenk Willink as Chairman of the Executive Board and Dr. Bernhard Düttmann as member of the Executive Board with immediate effect. Furthermore, the Supervisory Board on September 27, 2017 appointed Dr. Claudio Albrecht as new Chairman of the Executive Board and Mark Keatley as new Chief Financial Officer with immediate effect.[3)]

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

- Dr. Claudio Albrecht, Chairman of the Executive Board (contract until September 26, 2018), is the member of the STADA Executive Board responsible for Marketing & Sales (including biotechnology), Business Development (portfolio management, market research, licenses and IP rights/patents, biosimilar licensing, project management), Corporate Communications, Human Resources, Legal (including Corporate Governance, Corporate Compliance, Risk Management) and Corporate Quality Assurance.

- Mark Keatley, Chief Financial Officer (contract until September 26, 2020), is also responsible for the Finance area (Corporate Accounting and Controlling, Corporate Treasury and Taxes), Corporate IT, Corporate Development and M&A, Internal Audit and Investor Relations.

- Dr. Barthold Piening, Technical Officer (contract until March 31, 2020), is the member of the STADA Executive Board responsible for Production (including Local Quality, Engineering & Facility Management), Environment and Occupational Safety, Global Supply Chain Management, Procurement, Regulatory & Medical & Clinical Affairs, Pharmaceutical Development and R&D Project Management.

1) See the Company's Investor News of January 23, 2017.
2) See the Company's ad hoc release and Investor News of July 4, 2017.
3) See the Company's Investor News of September 28, 2017.

Working practices of the Executive Board

Members of the Executive Board bear joint responsibility for the overall management of the company. They work together in a collegial manner and continually keep each other up to date with regard to important measures and events in their area of responsibility. The distribution of the business areas to individual members of the Executive Board results from a schedule of responsibilities that is a component of the rules of procedure for the Executive Board. The overall responsibility of all members of the Executive Board is subject to all matters in which, in accordance to applicable law, the Articles of Incorporation or rules of procedure for the Executive Board, a resolution from the full Executive Board is required.

Pursuant to the rules of procedure for the Executive Board, it is up to the Chairman of the Executive Board, in addition to his other tasks, to coordinate all areas of responsibility assigned to the Executive Board. The Chairman of the Executive Board represents the Executive Board and the Company in public matters, in particular concerning public authorities, economic organizations and publication outlets.

The Executive Board regularly holds Executive Board meetings that are convened by the Chairman of the Executive Board. Each member can also demand the convening of a meeting under notification of the item to be discussed within a period of notice of three working days. The Executive Board shall constitute a quorum when all of its members have been invited and at least a majority of its members – including the Chairman or a member of the Executive Board named by the Chairman – take part in the meeting. The Executive Board passes resolutions with a simple majority of votes cast. Absent members of the Executive Board can cast their votes in written form (Section 126 b of the German Civil Code, BGB), orally or by telephone. Resolutions of the Executive Board can also be taken outside of meetings by means of video or telephone conferences or comparable common telecommunication means or in the context of a circulation procedure through voting in text format (Section 126 b BGB), orally or via telephone if the Chairman of the Executive Board decides this and a majority of the members of the Executive Board take part in the resolution. In case of a tie, the Chairman of the Executive Board shall have the deciding vote.

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

Conflicts of interest

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

Remuneration report

The principles of the remuneration system of the STADA Executive Board as well as individual details of the remuneration of individual members of the Executive Board are presented in the "Remuneration report". It is also published on the Company's website at www.stada.de or www.stada.com in the Corporate Governance section.

b) Supervisory Board

In accordance with the provisions of the One-Third Participation Act, the STADA Supervisory Board is comprised of nine members of which six are representatives of the shareholders and three represent the employees. The General Meeting elects the shareholder representatives in accordance with the German Stock Corporation Act and employees elect employee representatives in accordance with the German One-Third Participation Act. On September 26, 2017, the District Court of Frankfurt am Main, with immediate effect, appointed five new members of the Supervisory Board after the former Chairman of the Supervisory Board as well as four other members stepped down from their positions with effect from the end of September 25, 2017.

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

- Dr. Günter von Au, Vice President of the Administrative Board, Clariant AG (Switzerland), Munich, Germany (Chairman)
- Jens Steegers, Chairman of the Worker's Council released from duty, Frankfurt am Main, Germany (Deputy Chairman; Employee representative)
- Dr. Eric Cornut, Independent Consultant, Binningen, Switzerland
- Halil Duru, Deputy Chairman of the Worker's Council released from duty, Frankfurt am Main, Germany (Employee Representative)
- Jan-Nicolas Garbe, Investment Manager at Cinven GmbH, Frankfurt am Main, Germany
- Benjamin Kunstler, Managing Director at Bain Capital Europe LLP, London, United Kingdom
- Dr. Ute Pantke, Director Internal Communications & Brand Architecture, Wettenberg, Germany (Employee Representative)
- Bruno Schick, Managing Director at Cinven GmbH, Frankfurt am Main, Germany
- Dr. Michael Siefke, Managing Director at Bain Capital Private Equity Beteiligungsberatung GmbH (Munich), Gräfelfing, Germany

The term of all shareholder representatives ends with the completion of the Annual General Meeting 2018. The employee representatives have been appointed until completion of the Annual General Meeting 2019.

Tasks and responsibilities

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

Working practices of the Supervisory Board

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

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

The Supervisory Board generally passes resolutions in meetings. Outside of meetings, resolutions made via telephone or in written form (via telefax or with the aid of other common means of communication such as e-mail) as well as in combination with all of the above-mentioned methods are permitted, insofar as this is mandated by the Chairman of the Supervisory Board and no member objects to this procedure. The Supervisory Board shall constitute a quorum if at least two thirds of its members, including the Chairman of the Supervisory Board or the deputy, are present, or absent members have had another member of the Supervisory Board or a third party submit their vote in writing, by telefax or by means of electronic telecommunications. Supervisory Board resolutions are passed with a simple majority of votes cast. In case of a tie, the chairman of the meeting shall have the casting vote.

The regulations outlined above apply accordingly for the working practices of the committees with the stipulation that the Chairman of the Committee appears in place of the Chairman of the Supervisory Board.

Goals for the composition of the Supervisory Board

The Supervisory Board at its meeting on December 1, 2017 pursuant to Section 5.4.1 (2) GCGC, set the following objectives for its composition, described in detail below, and developed a competence profile for the full committee. In this connection, the Supervisory Board also developed a diversity concept in accordance with Section 289f (5) HGB, which it follows in terms of its composition and which it has integrated into the goals for its composition – and for the competence profile. When making

proposals for nomination to the General Meeting, both the Nomination Committee as well as the Supervisory Board shall consider these objectives and endeavour to fulfill the competence profile for the full committee. The Supervisory Board continually monitors the currentness and implementation of the goals for its composition. With the current composition, the objectives mentioned are, in the assessment of the Supervisory Board, fulfilled.

Competence profile for the full committee

The Supervisory Board is to be composed in a manner that its members as a whole have the required knowledge, abilities and specialist experience in order to appropriately assume the tasks. The members of the Supervisory Board in its entirety must be familiar with the pharmaceutical and health care sector and should also be familiar with the responsibilities and requirements of the two-tier board structure of German stock corporation law. In accordance with the requirements of Section 5.4.1 GCGC, the Supervisory Board at its December meeting prepared a competence profile for the entire committee that covers general, professional and personal competences. In addition to competences that all members of the Supervisory Board should possess, the competence profile also includes requirements that at least one member should have. In its current composition, the competence profile for the entire Supervisory Board is fulfilled.

Diversity

The Supervisory Board is of the view that a heterogeneous and diverse composition of the committee positively impacts the work of the Supervisory Board through input from various perspectives. Emphasis is therefore given to a heterogeneous and diverse composition. To this end, it has also prepared a Diversity Concept as laid out in Section 289f (2) No. 6 HGB that includes objectives for its composition related to age structure/experience, gender diversity, educational and professional background as well as cultural diversity and internationality. The diversity concept that the Supervisory Board fulfills in its current composition is described in greater detail under point 5.

Appropriate number of independent members of the Supervisory Board

The Supervisory Board of STADA should include an appropriate number of independent members, whereby the ownership structure should be taken into account. A Supervisory Board member is not to be considered independent in particular if he/she has personal or business relations with the company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial and not merely temporary conflict of interests. In light of the ownership structure and the dependence of STADA on its majority shareholder, Nidda Healthcare GmbH, the Supervisory Board believes it is appropriate if two shareholder representatives are independent. In the view of the Supervisory Board, Dr. Günter von Au and Dr. Eric Cornut are to be viewed as independent shareholder representatives in terms of Section 5.4.2 GCGC.

General age limit and duration of membership

The Supervisory Board is of the view that its members, subject to special reasons, should not be in office longer than the end of the Annual General Meeting in the year after they turn 75 (general age limit). Election nominations are to take into account the duration of membership of the Supervisory Board of three full terms (generally 15 years). This stipulation is met in the current composition of the Supervisory Board.

Target for the representation of women/increasing the representation of women

As part of the Diversity Concept, the Supervisory Board seeks to increase the number and strengthen the position of women. In accordance with the statutory regulations, the Supervisory Board has determined to at least maintain the proportion of women of currently one for the period until December 31, 2022. In addition, the Supervisory Board will strive to continue to promote the proportion of women on its committee, whereby the professional and personal qualifications of the candidate rather than the gender are considered most important.

Composition and working practices of the Supervisory Board committees

The Supervisory Board in its composition until September 25, 2017 had four Supervisory Board committees in the reporting year: an Audit Committee, a Human Resources Committee, a Strategy Committee and a Nomination Committee. There was also an Ad-hoc-Takeover Committee in the period from February 15, 2017 until September 3, 2017.

The newly-formed Supervisory Board on October 23, 2017 established or re-staffed the following committees: an Audit Committee, a Chairman's Committee, a Nomination Committee as well as an Ad-Hoc-DPLA Committee. It also established a Compliance Committee on November 8, 2017.

- Audit Committee

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

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

  Until September 25, 2017, the Audit Committee consisted of the Supervisory Board members Dr. Gunnar Riemann (Chairman), Dr. Birgit Kudlek, Carl Ferdinand Oetker and Jens Steegers. Following the new composition of the Supervisory Board, the Audit Committee has included, since October 23, 2017, Supervisory Board members Dr. Michael Siefke (Chairman), Benjamin Kunstler, Jan-Nicolas Garbe and Jens Steegers.

  During his time as Chairman of the Audit Committee, Dr. Gunnar Riemann was independent and had particular knowledge and experience in the application of accounting principles and internal control procedures. As Chairman of the Audit Committee, Dr. Michael Siefke also has this particular knowledge and experience. As a result of his position as Managing Director of a company associated with Nidda Healthcare GmbH, he is viewed as not independent in accordance with Section 5.3.2 (3) Sentence 2 GCGC.

- Nomination Committee

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

  Until September 25, 2017, the Nomination Committee consisted of the shareholder representatives Carl Ferdinand Oetker (Chairman), Rolf Hoffmann and Tina Müller. Following the new composition of the Supervisory Board, the Audit Committee has included, since October 23, 2017, Supervisory Board members Dr. Günter von Au (Chairman), Bruno Schick and Dr. Michael Siefke.

- Human Resources Committee (until September 25, 2017)

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

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

  The members of the Human Resources Committee until September 25, 2017 were the Supervisory Board members Carl Ferdinand Oetker (Chairman), Halil Duru, Rolf Hoffmann and Tina Müller.

- Strategy Committee (until September 25, 2017)

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

  Until September 25, 2017, the Strategy Committee consisted of Supervisory Board members Dr. Eric Cornut (Chairman), Rolf Hoffmann, Dr. Birgit Kudlek, Tina Müller and Dr. Ute Pantke.

- Ad-hoc-Takeover Committee (from February 15, 2017 until September 3, 2017)

  In the course of the execution of the structured bidding process in the takeover procedure, the Supervisory Board in February 2017 established an Ad-hoc-Takeover Committee in order to support the Executive Board in the protection of the Company's interests and to secure a fast and close exchange of information between the Executive Board and the Supervisory Board. In addition, the Ad-hoc-Takeover Committee was able to ensure fast and efficient decision-making in the case of transactions requiring approval.

  The Ad-hoc-Takeover Committee consisted of Supervisory Board members Carl Ferdinand Oetker (Chairman), Dr. Eric Cornut, Dr. Birgit Kudlek, Tina Müller and Dr. Ute Pantke.

- Chairman's Committee (since October 23, 2017)

  The Chairman's Committee newly-established by the Supervisory Board in its current composition assumes the tasks of the former Human Resources Committee and is additionally responsible for the preparation of meetings of the Supervisory Board, coordination of communication with the Executive Board , monitoring execution of resolutions taken by the Supervisory Board, preparation of the examination of efficiency of the Supervisory Board and the preparation (including recommended resolutions) of the decision from the Supervisory Board on the handling of conflicts of interest in the Executive Board (e.g. the approval from the Supervisory Board regarding business transactions with a member of the Executive Board or a related party also outside of Section 112 of the German Stock Corporation Act (AktG); approval from the Supervisory Board for the assumption of sideline activities outside of the Group). In addition, the Chairman's Committee decides on behalf of the Supervisory Board on transactions requiring approval, insofar as these are assigned to it and in cases for which, to avoid significant disadvantages for the company, a postponement until the next meeting of the Supervisory Board does not appear reasonable and also through a vote outside of a meeting no decision from the Supervisory Board can be obtained within the required period of time. For all further transactions requiring approval that are not assigned solely to the Chairman's Committee, this committee prepares a recommendation for resolution for the Supervisory Board.

  The Chairman's Committee has included, since October 23, 2017, Supervisory Board members Dr. Günter von Au (Chairman), Halil Duru, Bruno Schick and Dr. Michael Siefke.

- Ad-hoc-DPLA Committee (since October 23, 2017)

  In the context of the planned conclusion of a domination and profit and loss transfer agreement (DPLA) between STADA and Nidda Healthcare GmbH the Supervisory Board in its current composition, for efficient and neutral process support, has formed a DPLA Committee as an ad hoc Committee. The task of the committee is the evaluation regarding whether the conclusion of the domination and profit and loss transfer agreement is in the best interests of STADA and whether the fixed compensation offered to the minority shareholders as well as the severance payment are appropriate in the view of the committee. In place of the full Supervisory Board, the committee issued its approval for the conclusion of the domination and profit and loss transfer agreement and decided on the proposed resolution to be presented to the General Meeting with regard to the approval for the conclusion of the DPLA.

  The Ad-hoc-DPLA Committee includes Supervisory Board members Dr. Günter von Au (Chairman), Dr. Eric Cornut and Dr. Ute Pantke.

- Compliance Committee (since November 8, 2017)

  The Compliance Committee is responsible for monitoring adherence to legal standards and internal company guidelines through the company and its boards. Within the scope of its activities, the Committee is particularly responsible for the introduction and monitoring of procedures related to potential compliance violations and the preparation of relevant decisions of the Supervisory Board in these matters. The Compliance Committee meets when necessary and involves external consultants when needed. Its members do not receive any special committee remuneration.

  The Compliance Committee includes Supervisory Board members Dr. Günter von Au (Chairman), Dr. Eric Cornut, Bruno Schick and Dr. Michael Siefke.

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

Individualized disclosure of meeting participation

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

Supervisory Board Plenum	Meeting participation	Attendance in %
Dr. Günter von Au[1)]	4/4	100
Dr. Eric Cornut	21/23	91.30
Halil Duru	22/23	95.65
Jan-Nicolas Garbe[1)]	4/4	100
Rolf Hoffmann[2)]	13/19	68.42
Dr. Birgit Kudlek[2)]	18/19	94.74
Benjamin Kunstler[1)]	4/4	100
Tina Müller[2)]	16/19	84.21
Carl Ferdinand Oetker[2)]	19/19	100
Dr. Ute Pantke	23/23	100
Dr. Gunnar Riemann[2)]	19/19	100
Bruno Schick[1)]	4/4	100
Dr. Michael Siefke[1)]	4/4	100
Jens Steegers	23/23	100

Audit Committee	Meeting participation	Attendance in %
Jan-Nicolas Garbe[1)]	1/1	100
Dr. Birgit Kudlek[2)]	5/5	100
Benjamin Kunstler[1)]	1/1	100
Carl Ferdinand Oetker[2)]	5/5	100
Dr. Gunnar Riemann[2)]	5/5	100
Dr. Michael Siefke[1)]	1/1	100
Jens Steegers	5/6	83.33

1) Member of the Supervisory Board since September 26, 2017.
2) Member of the Supervisory Board until September 25, 2017.

Nomination Committee	Meeting participation	Attendance in %
Dr. Günter von Au[1)]	0/0	–
Rolf Hoffmann[2)]	1/1	100
Tina Müller[2)]	1/1	100
Carl Ferdinand Oetker[2)]	1/1	100
Bruno Schick[1)]	0/0	–
Dr. Michael Siefke[1)]	0/0	–

Human Resources Committee (until September 25, 2017)	Meeting participation	Attendance in %
Halil Duru	4/4	100
Rolf Hoffmann[2)]	4/4	100
Tina Müller[2)]	4/4	100
Carl Ferdinand Oetker[2)]	4/4	100

Strategy Committee (until September 25, 2017)	Meeting participation	Attendance in %
Dr. Eric Cornut	1/1	100
Rolf Hoffmann[2)]	1/1	100
Dr. Birgit Kudlek[2)]	1/1	100
Tina Müller[2)]	0/1	0
Dr. Ute Pantke	1/1	100

Ad-hoc-DPLA Committee (since October 23, 2017)	Meeting participation	Attendance in %
Dr. Günter von Au[1)]	1/1	100
Dr. Eric Cornut	1/1	100
Dr. Ute Pantke	1/1	100

Compliance Committee (since November 8, 2017)	Meeting participation	Attendance in %
Dr. Günter von Au[1)]	3/3	100
Dr. Eric Cornut	2/3	66.67
Bruno Schick[1)]	3/3	100
Dr. Michael Siefke[1)]	3/3	100

1) Member of the Supervisory Board since September 26, 2017.
2) Member of the Supervisory Board until September 25, 2017.

Conflicts of interest

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

Examination of Efficiency

The Supervisory Board regularly reviews the efficiency of its activities in accordance with Section 5.6 of the German Corporate Governance Code (GCGC). The examination of efficiency serves to evaluate the effectiveness and efficiency of the Supervisory Board. The objective is to critically evaluate the working practices and composition of the Board as well as to derive possible suggestions for improvement, including, in terms of optimizing work processes, the organization of the reporting system, as well as the improvement of the performance of the Supervisory Board as a monitoring body and the lawfulness of the Board's work. In financial year 2017, the Supervisory Board in its previous composition, with the support of an independent external consultant, conducted an examination of efficiency.

Remuneration Report

The principles of the remuneration system of the STADA Supervisory Board as well as individual details of the remuneration of individual members of the Supervisory Board are presented in the "Remuneration Report".

c) Advisory Board

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

4. Specifications of Section 76 (4) and Section 111 (5) AktG as well as Information regarding whether the Set Targets were reached during the Reference Period and Justification if not reached

In accordance with Section 76 (4) AktG and Section 111 (5) AktG, the Executive Board and the Supervisory Board have agreed the following targets for the proportion of women in the first and second management levels below the Executive Board and for the proportion of women in the Executive Board and the Supervisory Board.

a) Specifications by the Executive Board in accordance with Section 76 (4) AktG for the proportion of women in the two management levels below the Executive Board and target achievement

Proportion of women at the first management level

In financial year 2015, in line with legal requirements pursuant to Section 76 (4) AktG, the Executive Board had decided, for the proportion of women in the first management level below the Executive Board, to at least maintain the proportion of women at 23.5% until June 30, 2017.

With a proportion of women at the first management level of 25.0% as of June 30, 2017, the target set in 2015 was exceeded. In June 2017, the Executive Board set a new target for the proportion of women at the first management level of at least maintaining the status quo of 25.0% with an implementation deadline until December 31, 2018.

Proportion of women at the second management level

In financial year 2015, the Executive Board had decided, for the proportion of women in the second management level below the Executive Board, to at least maintain the proportion of women at 25% until June 30, 2017.

With a proportion of women at the second management level of 25.6% as of June 30, 2017, the target set in 2015 was just exceeded. In June 2017, the Executive Board set a new target for the proportion of women at the second management level of at least maintaining the status quo of 25.6% with an implementation deadline until December 31, 2018.

Outlook

Within the scope of succession planning for managers of STADA Arzneimittel AG, the Executive Board continues to pay close attention to an appropriate promotion of women for an ongoing increase in the proportion of women. The proportion of women as of December 31, 2017 of approximately 53% across the entire workforce of the STADA Group forms the basis for this. Management positions are still awarded primarily based on the professional and personal qualifications of the candidate, rather than based on gender.

b) Specifications by the Supervisory Board in accordance with Section 111 (5) AktG and report on target achievement

Targets for the proportion of women in the Executive Board

In 2015, in line with legal requirements pursuant to Section 111 (5) AktG, the Supervisory Board, with regard to the proportion of women on the Executive Board, decided to initially maintain the status quo of 0% for the period up to June 30, 2017. The actual proportion of women in the Executive Board as of June 30, 2017 remained at 0%.

The Supervisory Board decided in June 2017 that, for the proportion of women in the Executive Board, the status quo of 0% shall continue to be maintained for an initial period only until December 31, 2017. The actual proportion of women in the Executive Board as of December 31, 2017 remained at 0%.

The Supervisory Board in its new composition decided in December 2017 that, for the proportion of women in the Executive Board, the status quo of 0% shall be maintained until December 31, 2022. In the filling of future Executive Board positions the Supervisory Board will make every effort to consider an appropriate proportion of women, whereby positions are awarded primarily based on the professional and personal qualifications of the candidate, rather than based on gender.

Targets for the proportion of women in the Supervisory Board

In 2015, the Supervisory Board, in line with legal requirements pursuant to Section 111 (5) AktG, with regard to the proportion of women on the Supervisory Board, set targets for the period up to June 30, 2017 of at least maintaining the status quo of one woman, i.e. 11.11%. In the course of the partially early elections to the Supervisory Board held in 2016, two female candidates were elected to the Supervisory Board by the General Meeting on August 26, 2016 so that the proportion of women in the Supervisory Board amounted to 33.33% as of June 30, 2017. The target set in 2015 was thus exceeded.

The Supervisory Board decided in June 2017, for the proportion of women in the Supervisory Board, to maintain the status quo at the time of 33.33% for an initial period only until December 31, 2017. Due to the resignations and judicial appointment of five Supervisory Board members in September 2017, the actual proportion of women as of December 31, 2017 was one woman (11.11%).

In its new composition, the Supervisory Board decided in December 2017 to at least maintain the proportion of women of currently one for the period until December 31, 2022. In addition, the Supervisory Board will strive to continue to promote the proportion of women on its committee, whereby the professional and personal qualifications of the candidate rather than the gender are considered most important.

5. Description of the Diversity Concept for the Supervisory Board and the Executive Board

a) Diversity concept for the Supervisory Board

aa) Aspects and objective

The Supervisory Board is of the view that a heterogeneous and diverse composition of the committee positively impacts the work of the Supervisory Board through input from various perspectives. It therefore attaches great importance to a diverse composition, in particular as relates to the aspects age structure and length of experience, gender diversity, educational and professional background as well as cultural diversity and internationality. With regard to the aspects mentioned, the Supervisory Board pursues the following goals:

Age structure and length of experience

In its composition, the Supervisory Board attaches importance to a **balanced age structure** of younger and more experiences members so that, on the one hand, an "aging" of the Supervisory Board as a full committee can be avoided. On the other hand, care should be taken to ensure that there are members with sufficient **experience** represented within the Supervisory Board, both in terms of age and years of professional experience and in terms of experience as a member in supervisory or controlling bodies.

Gender diversity

With a view to **gender diversity**, the Supervisory Board has set itself the goal of promoting the number of women in its committee. It seeks to at least maintain the current proportion of women of one woman. In addition, the Supervisory Board will strive to continue to promote the proportion of women on its committee, whereby the professional and personal qualifications of the candidate rather than the gender are considered most important.

Educational and professional background

The Supervisory Board, in its composition, pays attention to diversity in terms of the **educational and professional background** of its members. In addition to a professional background in the pharmaceutical and health care industry, persons with professional experience in other industries that are also commercial in nature should also be represented, whereby the members of the Supervisory Board in its entirety must be familiar with the pharmaceutical and health care sector. In terms of educational background, both persons with completed degrees in the natural sciences, chemistry and pharmaceutical fields as well as persons with a business and/or legal degree should be represented. Furthermore, membership for persons both with and without experience at management levels is desired (in particular employees).

Cultural diversity and internationality

All members must be open to the international orientation of the Group. As a committee of an internationally active Group, the STADA Supervisory Board attaches significant importance to **cultural diversity and internationality**. Several members should have extensive international experience, for example as a result of their activities abroad, education obtained abroad or as a result of their origin.

bb) Manner of implementation and results achieved

In the assessment of the Supervisory Board, it adheres in its current composition to the described Diversity Concept as follows.

Age structure and length of experience

The members of the Supervisory Board were born in the years from 1951 and 1981 and thereby have an age difference from the youngest to the oldest member of 30 years with an average age of 50 years and thus meet the requirements of a **heterogeneous age and experience structure**.

Gender diversity

The proportion of women in the Supervisory Board is currently one woman and thus corresponds to the self-defined minimum goal. In addition, the Supervisory Board will strive to continue to promote the proportion of women on its committee, whereby the professional and personal qualifications of the candidate rather than the gender are considered most important.

Educational and professional background

The various **professional and educational backgrounds** of the members of the Supervisory Board corresponds to the defined diversity criteria. There is a balanced relationship between members with degrees in natural sciences/chemistry and those with degrees in business and/or law. In addition, the members of the Supervisory Board have a range of different professional experience both within and outside the industry of the company and are in their entirety familiar with the pharmaceutical and health care sector. The Supervisory Board includes members who have management experience and members who don't.

Cultural diversity and internationality

Many members of the Supervisory Board have international professional experience obtained abroad. In addition, the Supervisory Board also includes three members who are foreign nationals.

b) Diversity concept for the Executive Board

aa) Aspects and objective

STADA's Executive Board consists of three persons. The respective Executive Board positions primarily require very specific and detailed specialist knowledge and experience in the business area for which they are responsible, the presence of such qualifications for a candidate in the interests of the company has priority over diversity considerations. The Supervisory Board therefore, in the preparation of the Diversity Concept for the Executive Board, placed the emphasis in particular on the aspects education and professional background as well as internationality. In addition, the Supervisory Board pays attention to the promotion of women in the Executive Board, whereby positions are awarded primarily based on the professional and personal qualifications of the candidate, rather than based on gender.

Educational and professional background

With a view to the aspect of **educational and professional background**, the Supervisory Board attaches importance to ensuring that the members of the Executive Board have varied university degrees and, hereby, in particular have expertise in the pharmaceutical/natural sciences field as well as in the business and/or law subject areas. Furthermore, the members of the Executive Board should have gained previous professional experience in various management positions at several companies, both in the health care sector as well as in other industries in order to contribute the respective experience to the management of STADA and, in this way, to complement one another.

Internationality

The Supervisory Board also takes care to ensure that each member of the Executive Board has **international experience** in the business area for which he is responsible. In order to increase the internationality of the committee as a whole, the Executive Board should include members with international experience (degree and professional experience) in various countries.

Representation of women

Despite the target-setting prescribed by law, the Supervisory Board will take care to consider an appropriate proportion of women in the filling of future Executive Board positions, whereby positions are awarded primarily based on the professional and personal qualifications of the candidate, rather than based on gender.

bb) Manner of implementation and results achieved

In the assessment of the Supervisory Board, the Executive Board in its current form meets the described diversity criteria.

Shareholders and the General Meeting

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

The Annual General Meeting takes place annually in the first eight months of the financial year and passes resolutions, among other things, on the allocation of profits, the approval of the Executive Board and Supervisory Board, the selection of the auditor as well as on any changes to the Articles of Incorporation and capital-changing measures.

Securities Transactions Subject to Reporting and Shares Held by the Executive Board and Supervisory Board

As of the reporting date, the total number of shares of STADA Arzneimittel AG held by Executive Board and Supervisory Board members amounted to less than 1% of the shares issued by the company. The Executive Board members did not receive any STADA Arzneimittel AG shares. Members of the Supervisory Board held a total of 25 shares, this corresponds to 0.00004% of the share capital of STADA Arzneimittel AG. The 25 shares were held on the balance sheet date by Supervisory Board member Jens Steegers.

In accordance with Article 19 of the EU Directive No. 596/2014 of the European Parliament and Council of April 16, 2014 on market abuse (Market Abuse Directive), Members of the Executive Board and Supervisory Board as well as closely related persons are obligated to disclose share transactions or debt and equity securities of STADA Arzneimittel AG or related financial instruments if the value of the transactions reaches or exceeds € 5,000 within one calendar year. The transactions reported in the past financial year were published on the company's website at www.stada.de/investor-relations/aktie/directors-dealings or www.stada.com/investor-relations/stock/directors-dealings.

Transparent Corporate Governance

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

In order to ensure the equal treatment of all users and to provide market participants the same information in terms of content and in due time, STADA provides all the important documentation on the company's website at www.stada.de and www.stada.com. There, all interested individuals are provided access, in particular, to all compulsory information such as financial reports (annual and interim reports) and ad hoc releases, voting rights notices, reports in accordance with Article 19 of the Market Abuse Directive (Director's Dealings), information on the General Meeting, as well as other comprehensive Company and share information such as investor news, press releases, Company profile, financial calendar, presentations and current share price information on STADA (including peer group comparisons).

The reporting about the position and earnings of STADA Arzneimittel AG as well as the STADA Group is provided by means of the annual and interim financial reports that can be viewed on the Group's website at www.stada.de or www.stada.com.

Financial Reporting and Financial Statement Audit

STADA prepares the Consolidated Financial Statements and the Consolidated Interim Financial Statements in accordance with the relevant international financial reporting standards and the Annual Financial Statements of STADA Arzneimittel AG in accordance with the rules and regulations of the German Commercial Code.

1) For capital and shareholder structure see "The STADA Share".

2) In accordance with the Articles of Incorporation, registered STADA shares grant one vote at the 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 General Meetings of the company and to exercise voting rights. No shareholder and no shareholder group shall have any special rights.

The Supervisory Board audits the Consolidated Financial Statements and the Consolidated Interim Financial Statements for the first half of the year provided by the Executive Board. The Audit Committee discusses the Annual and Interim Financial Reports with the Executive Board prior to their publishing.

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

The Annual Financial Statements of STADA Arzneimittel AG and the Consolidated Financial Statements as of December 31, 2017 as well as the Management Report and the Combined Management Report for financial year 2017 were audited for the first time by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. Dr. Bernd Roese was the responsible auditor for the audit of the Annual and Consolidated Financial Statements.

The Company does not have a stock option plan.

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

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

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

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

The auditor participates in the meetings of the Supervisory Board regarding the Semi-annual, Annual and Consolidated Financial Statements and reports the significant results of the audit.

COMBINED SEPARATE NON-FINANCIAL REPORT

STADA is issuing a Non-Financial Report for STADA Arzneimittel AG and the Group in 2017 for the first time, thus taking into account the requirements of the CSR Directive Implementation Act.

Reporting has been prepared within the scope of a combined separate Non-Financial Report (hereinafter "Non-Financial Report") pursuant to Section 289b of the German Commercial Code (HGB) in conjunction with Section 315b (HGB). Because no voluntary sustainability reporting was conducted in the past, a framework in accordance with Section 289d (HGB) was not applied.

In addition to the content required by law, the Company has expanded its reporting to include aspects necessary for an understanding of business development, business results as well as the position of the Company and the impact its activities have on both society and the environment.

Taking the requirements for the CSR Directive Implementation Act as a basis and against the backdrop of its business model, STADA's Non-Financial Report includes the following aspects:

- Product safety and quality (social matters)
- Contributions to society (social matters)
- Responsible corporate governance and compliance including anti-corruption and anti-bribery measures
- Employee matters
- Environmental protection and ecological sustainability (environmental matters)
- Observance of human rights

While topics such as product safety and quality, portfolio development as well as internal control and risk management are centralized and regulated by corporate policies that are valid throughout the Group, the individual national companies assume responsibility for other CSR matters as part of what is mainly a decentralized approach. Accordingly, the reporting that follows distinguishes between the circumstances that are described and their concepts for the Group, its parent Company or individual national companies.

References to disclosures outside of the Consolidated Financial Statements and the Combined Management Report is additional information and not part of this Non-Financial Report.

Quantitative and qualitative statements made in the Non-Financial Report have been subjected to an external business assessment in accordance with ISAE 3000 (Revised) on a voluntary basis with limited assurance through the auditor. A corresponding report regarding this business assessment can be found in the chapter "Further Information".

STADA, under application of the net method, did not identify any significant reportable risks in the reporting period linked to its own business activity or to its business relations, products and services which very probably have or will have serious negative effects on the non-financial aspects mentioned previously. Additionally, there are no correlations to report between the non-financial aspects and the Consolidated and Annual Financial Statements.

More than 120 years of corporate responsibility

As early as 1895, the founders of the Professional Community of German Pharmacists (STADA) set a goal to care for the well-being of its patients by preparing certain medicines in accordance with standardized guidelines. The safekeeping of society's greatest asset, its health, has always been the focus of STADA's business activities. More than 120 years after the founding of the Company, STADA contributes to efficient and affordable health care and preventative health care and, at the same time, helps to ease the burden on health-care systems.

The Company's mission statement "All the best" is based on this care for the well-being of people and sums up STADA's contribution to a healthy society. For STADA, "All the best" not only means taking on responsibility for the health of society but, in the same manner, assuming responsibility for sustainable corporate governance, for its employees and for the efficient and environmentally-friendly handling of resources. "All the best" expresses what STADA wishes for each individual and his environment, even in challenging times for the Company.

Business Model and Strategy

STADA is an internationally active health-care company organized as a stock corporation with more than 50 independent sales companies worldwide. STADA Arzneimittel AG, based in Bad Vilbel, is the parent Company of the Group. With around 10,800 employees, STADA achieved adjusted Group sales of € 2,255.3 million, an adjusted EBITDA of € 433.9 million and adjusted net income of € 195.6 million in financial year 2017.

Two-pillar strategy

STADA follows a two-pillar strategy based on the business segments of Generics – including future-oriented biosimilars – as well as Branded Products. With its portfolio, the Company is oriented towards the health-care market and especially the area of pharmaceuticals.

Generics are pharmaceutical drugs that constitute a copy of a medication that is already on the market under a specific brand name with identical active ingredients. A generic can be differentiated from the original preparation in regards to the auxiliary materials contained within and the technology used in production. It must, however, be therapeutically equivalent to the original product in the indication taken – i.e. it has the same level of effectiveness and safety. Biosimilars, on the other hand, are secondary products from biotechnologically produced medicines, so-called biopharmaceuticals, whose patent has expired. Their active ingredient is comparable to the active ingredient of the reference product that has already been approved.

For reasons of cost and risk, STADA does not conduct any research and development on innovative active ingredients, but rather focuses on the development and marketing of active pharmaceutical ingredients that are now free from commercial property rights, particularly patents (so-called generics). STADA's strategy in the Generics segment is aimed at expanding into markets with relatively low penetration rates. Furthermore, the Group is pursuing an expansion of its portfolio to include selected biosimilars.

STADA's branded products portfolio primarily comprises non-prescription products (OTC), as well as a number of prescription (RX) and discretionary prescription products (OTX). In the Branded Products segment, STADA pursues the goal of continuously expanding its portfolio and, in particular, to internationalize regionally successful brands.

Focus on growth markets

As a health company with a focus on the pharmaceutical market, STADA is active in one of the world's growth industries. Significant growth drivers include the continuously growing and aging world population, increasingly improved access to health care, particularly in emerging markets, and the availability of new medications – including those for so far untreatable or hard to treat diseases.

Both generics and biosimilars offer additional growth opportunities within the pharmaceutical market. Because of the comparably low research and development costs attributable to them, they generally represent a low-cost alternative to the significantly more expensive original products and consequently contribute to counteracting the significant price pressure in individual health-care markets.

The Branded Products segment benefits particularly from a change in demographics and from increasing health awareness associated with the willingness and desire to personally make provisions for one's own health – because in a society that is aging, mental and physical fitness will increasingly become a key resource. Through individual health management, peoples' need to live happier, healthier and longer lives grows accordingly.

Product Safety and Quality

Pharmaceutical drugs are products that have a direct impact on peoples' health. For this reason, STADA, as a pharmaceutical and health-care company, is responsible for ensuring the Group-wide safety of its products and thus also the safety of patients.

Good clinical practice

To ensure product safety and quality, STADA adheres to legal requirements and guidelines in the course of its development activities as well as national regulations in the case of local in-house developments and in the planning and execution of clinical trials also follows so-called Good Clinical Practice (GCP). GCP is an international ethical and scientific standard for the planning, execution, documenting and reporting of clinical trials on human subjects. Compliance with this standard ensures the rights, safety and health of individuals in clinical trials in accordance with the Declaration of Helsinki, as well as the credibility of the data gathered from the clinical trial. Contract research organizations for the execution of clinical trials in Germany and internationally are qualified by STADA and regularly audited in order to ensure GCP compliance during the conduct of a study. In addition, all clinical trials are monitored at trial sites so that any deviations from the GCP standard can be recognized at an early stage and corrected if necessary.

Good manufacturing practices

In addition to the Good Clinical Practice, STADA also follows the so-called Good Manufacturing Practice (GMP) for its quality assurance and control. They represent the guidelines for quality assurance in terms of both the processes and the environment in the production of pharmaceuticals and active ingredients as well as cosmetics . STADA is also certified in accordance with external, international quality management systems and, at its numerous production sites, not only focuses on GMP standards, but also on all relevant ISO standards. Group-wide quality management is carried out centrally through STADA Arzneimittel AG, whereby individual, national companies are supported by regional quality assurance officers.

In the context of GMP audits, Quality Management regularly reviews both compliance with quality standards set by the Group for its production sites as well as the facilities of suppliers and contract manufacturers. In addition, inspections are conducted at regular intervals by the responsible national regulatory authorities – within the EU these take place every two to three years. STADA requests additional EU GMP compliance inspections for production sites outside of the EU.

Good pharmacovigilance practices

As part of a Group-wide global pharmaceutical safety system – the so-called STADA Global Pharmacovigilance System – the safety of all STADA pharmaceuticals worldwide is monitored and ensured through the collection and evaluation of all reported pharmaceutical risks. Here, STADA's subsidiaries work in accordance with standard operating procedures (SOPs) issued by the central department of Corporate Pharmacovigilance. In accordance with Good Pharmacovigilance Practices (GVP) and as part of the Global Pharmacovigilance Quality System, adherence with legal requirements and STADA standard operating procedures is monitored globally by means of a pharmacovigilance auditing system. Pharmacovigilance audits required in accordance with GVP are conducted by auditors from the Medical Affairs/Corporate Pharmacovigilance department. Additionally, STADA's GVP conformity is regularly inspected by authorities such as the German Federal Institute for Drugs and Medical Devices (BfArM). In this regard, key persons responsible for pharmacovigilance are present on-site for pharmacovigilance inspections worldwide.

In 2013, STADA was the first pharmaceutical company in Germany to introduce 2D bar code labeling for its products on a large scale, thus simplifying product management and increasing customer safety – in the case of a product recall, for example. With this step, STADA has already established an initial measure on the market which, according to the EU Directive on Falsified Medicinal Products, are first set to be legally implemented throughout the EU by February 9, 2019.

In addition to the assurance of product safety, quality and effectiveness, STADA is also equally responsible for the safe use of its products by patients. In this context, the readability and comprehensibility of a drug's package insert take on a special meaning. During a pharmaceutical approval procedure, readability tests for package inserts – so-called "readability user tests" – are conducted early on with representative test subjects. Through the optimization of the layout, explanations for technical terms and the use of simple sentence structures it is possible to ensure that patients can easily read and understand the package insert. As a result, compliance is not only increased, but misuse also avoided.

Contributions to Society

As a pharmaceutical and health-care company, STADA not only has an obligation to ensure the safety and quality of its products but, with its generics portfolio, it has also assumed a responsibility for providing society with access to affordable medical care and prevention. The Company thus makes a critical contribution to society: it allows people to protect their most important asset, their health.

At the same time, the Company helps to alleviate the cost pressures that burden health-care systems: Due to the relatively low research and development costs attributable to generics and biosimilars, they generally represent a low-cost alternative to the significantly more expensive original products and STADA passes this cost benefit on to its consumers and the health-care systems.

According to a study from the association Pro Generika e.V., in 2016 the use of generics was able to cover 77% of the pharmaceutical demand in public health insurance in Germany, for example, while their share of the actual costs for pharmaceuticals made up less than 10%. According to the latest figures, the association estimates that savings in the amount of around € 18 billion were realized through the substitution of generics in 2017.

With its branded products portfolio, which primarily includes non-prescription OTC products, STADA contributes not only to health care, but to preventative health care in particular, thus satisfying society's growing need for private health-care management (see "Fundamental Information about the Group – Group's Business Model").

Product portfolio and development

To meet to its social responsibility and to secure its competitive position over the long term, STADA's product portfolio is continuously expanded and optimized.

STADA's business model is focused on supplying the global health-care market with a near comprehensive portfolio, comprising products with patent-free active ingredients at competitive prices. In the Generics segment, STADA pursues the goal of launching a generic in the respective market directly following the expiration of the original product's patent protection. In the Branded Products segment, which also generally includes active ingredients that are no longer protected, the focus is on additional benefits for patients.

STADA has implemented a Group-wide "idea-to-market" process for the execution of this concept. As part of this process, a detailed evaluation of all product ideas for the Generics and Branded Products segments is carried out from a technical, regulatory and commercial standpoint and according to a global market analysis. All applicable quality requirements regarding the safety and efficacy of a product are reviewed during the development cycle and particularly in the context of the approval process. At the end of a product life cycle, relevant products are actively removed from the portfolio as part of an organ process.

This entire process is accompanied by the Executive Board. This ensures that the current portfolio composition follows the Group strategy as a whole. The continuous optimization of the product portfolio is monitored via the corresponding number of new product launches and the number of ongoing approval processes (see "Fundamental Information about the Group – Group's Business Model").

STADA as a health partner

STADA believes that it is not only responsible for providing society access to safe and affordable health care, but also further considers its role as a health-care partner. In this way, the Company also aims to increase society's health competence and create awareness for dealing responsibly with one's own health. In this context, STADA has for many years made a contribution to the education of society through the publication of high-quality health-care information.

Along with a health portal on its website, a customer magazine and its presence in social networks, STADA initiated the "All the best" initiative in 2014. At the core of the initiative, which is supported by experts in medicine, science, sports and lifestyle, is an annual health report, which in 2017 dealt with the health education of young adults in Germany. In 2018, STADA also plans to conduct a survey that was previously only conducted in the German language in other countries in and outside of Europe for the first time.

Responsible Corporate Governance and Compliance

As an internationally active Group, STADA is subject to a wide range of legal framework conditions. Adherence to these conditions forms the foundation of responsible, sustainable and successful corporate governance – because unlawful behavior or even the appearance of a breach of law can damage the reputation and market position of the Company in a lasting manner and cause significant financial loss. For this reason, the principles of transparent, responsible and value-oriented corporate governance determine the actions of STADA's Executive and Supervisory Boards. Furthermore, in addition to legal requirements and further regulations such as the German Corporate Governance Code, for instance, the regulatory framework in which the Company operates encompasses the provisions of its Internal Control and Risk Management System, the STADA Code of Conduct and corporate policies on specific topics derived from it.

STADA's Code of Conduct, its Corporate Governance Report including the Declaration of Compliance from the Executive and Supervisory Boards, as well as the Corporate Governance Declaration for STADA AG and the Group are published on the Company's website at www.stada.com or www.stada.de.

STADA Code of Conduct

STADA's Code of Conduct and corporate policies not only serve the Company itself, but also its employees in particular as guidance for correct behavior when confronting legal or ethical challenges in their daily work. Furthermore, they help to prevent corrupt behavior, among other things. The Code of Conduct contains binding behavioral guidelines on topics such as anti-corruption, fair competition, social aspects regarding tolerance and respect as well as dealing with media. In order to familiarize employees with the contents of the Code of Conduct, they are instructed by a compliance officer, for example, in the context of an interactive e-learning seminar including practical examples. Special guidelines have also been created for cooperation with members of the medical care profession and serve as a behavioral measure for appropriately dealing with, for instance, gifts, invitations and similar items, thus preventing any sort of misconduct.

An updated and expanded version of the Code of Conduct will be published in financial year 2018, taking into account local circumstances at international subsidiaries. The Code of Conduct is valid for all employees as well as for the members of the STADA Arzneimittel AG Executive Board and for all national and international subsidiaries controlled directly or indirectly by STADA.

Compliance Management

In order to ensure compliance with applicable law, STADA implemented a comprehensive Compliance Management System comprising the main areas of anti-corruption, competition law, export control, money laundering and data protection.

A key component of the Compliance Management System at STADA is the Corporate Compliance Office, which acts as an independent and objective advisor. Its function is to protect the Company from damage to its financial position and reputation, to safeguard STADA's management and employees from personal liability and to prevent the occurrence of competitive disadvantages. It pursues internal and external indications, clarifies issues while taking into account the principle of proportionality, issues recommendations on the optimization of intra-Group processes and regularly conducts exchanges of information with other corporate departments, particularly with Internal Auditing and Risk Management. Additionally, an Ombudsman is available to employees as well as business partners and other third parties as a neutral and independent contact person for reporting suspicious cases. The Ombudsman's contact details can be accessed on the Company's website at www.stada.de or www.stada.com. His task is to receive confidential information and, with the consent of the information provider or anonymously, to forward it to the Compliance Office.

There are separate compliance departments that manage the topic locally in a decentralized manner and act as contact partners onsite. They support the Corporate Compliance Office and maintain an intensive dialog with it.

Through a regular review of the existing Compliance Management System, it is continuously optimized and the international exchange between compliance officers is intensified. In financial year 2017, an expanded reporting system for the subsidiaries was set up at the Compliance Office. As part of it, disclosures from subsidiaries regarding individual compliance topics are collected and evaluated in order to, in turn, derive new optimization measures from them. At the same time, an assessment and systematic review of the situation at individual locations regarding their deployments within the area of compliance ("readiness assessment") has taken place since 2016 – with the goal of gradually strengthening the Group-wide compliance organization. At the end of 2017, this assessment was carried out in Germany, as well as at three international subsidiaries. This process will continue in financial year 2018.

Social compliance questionnaire

STADA also aims to increasingly place the same expectations on its business partners as it does on its own corporate governance. For this reason, in 2015, STADA created a social compliance questionnaire based on the Business Social Compliance Index (BSCI), with which, as a first step, the Company asked key suppliers about working conditions, ethical standards, environmental management systems as well as occupational health and safety, among other things. After the most important direct Asian suppliers were surveyed in reporting year 2017, the questionnaire will gradually be expanded to include all direct and, where appropriate, indirect suppliers.

STADA's Serbian sales company Hemofarm, which has been carrying out this type of survey since 2014 and whose own company practices demonstrably met the BSCI Code of Conduct to a percentage of 97.6% in financial year 2016, serves as a model for the creation and implementation of the questionnaire.

In the current financial year 2018, the Company will release a Corporate Policy on the topic of "Environment, Health and Safety" (EHS) valid throughout the Group and implement a system that monitors compliance with the policy. The Corporate Policy will apply throughout the Group and specify directives on the topics of EHS and sustainability. Using these measures, the results of the questionnaire should, in the future, be observed in the supplier evaluation process and be adopted into the choice of suppliers.

Many contracts negotiated since 2016 and which have been concluded in connection with the production of finished goods include additional clauses on the topic of social responsibility. As part of this, STADA and its suppliers pledge to comply with the ten principles of the UN Global Compact.

Internal Control and Risk Management System

Further, STADA's Internal Control and Risk Management System which has been designed to ensure the responsible handling of risks represents the basis for responsible corporate governance. It puts the Executive Board in a position to recognize Group-wide risks and market tendencies so that it can immediately react to relevant changes in the risk profile. In this regard, all departments are connected to the Risk Management System, thus allowing for comprehensive risk monitoring, including the monitoring of potential risks from non-financial areas.

The Internal Control and Risk Management System is subject, at regular intervals, to the annual audit, as well as Internal Auditing. The Internal Auditing department also supports the Executive Board as an independent body outside of daily business operations by evaluating Group-wide internal procedures and processes from an objective perspective and with the necessary distance. The goal is to optimize business processes, reduced costs, realize efficiency increases and to achieve internally determined goals by way of improved internal controls (see "Opportunities and Risk Report").

Employee Matters

STADA's personnel policy is currently still organized decentrally. This means that the international subsidiaries in particular – in accordance with Company Guidelines and standards, especially the Compliance Guidelines – remain largely independent in many areas of personnel management such as personnel selection, qualification and remuneration. Within the scope of the increasingly stronger centralization, the Human Resources area will in future be positioned much more internationally.

Employee motivation and retention also took on significant meaning in the reporting year due to the takeover of STADA by a new majority shareholder in the third quarter of 2017. In this regard, internal communication was an important instrument in counteracting the uncertainty within the workforce accompanying the takeover process. The entire process, from takeover bid to its conclusion, was accompanied by regular electronic communication on behalf of the Executive Board. Management was also provided information materials such as discussion guidelines and questionnaires in order to engage in a dialog with their respective team members. In financial year 2017, STADA also issued invitations to five employee meetings at Company headquarters, which could be accessed by all domestic and international companies via a webcast and was translated simultaneously into English. It was possible for all employees to ask questions concerning the takeover directly onsite, via chat or to submit them beforehand anonymously and in written form.

Employee recruitment and retention

A company's success is primarily dependent on the competence, commitment and motivation of its workforce. In order to recruit and retain qualified employees, STADA offers its staff, in Germany for example, a wide range of social and financial benefits.

Equal opportunities and family-friendly framework conditions are important factors in the success of every company and fundamentally contribute to competitiveness. For this reason, STADA supports its employees in establishing a work-family balance by allowing for flexible work hours, or by granting employees benefits from contributions to childcare costs and consultation services on the topic of caring for dependents.

In addition to contributions to childcare costs, STADA's financial contributions include, among other things, subsidies for the purchase of employee shares through the employee stock ownership program, payments or subsidies for the commute to the workplace, supplementary occupational disability insurance in the chemical industry (BUC) for every full-time employee covered by collective agreements and those covered by similar agreements, the promotion of the ChemiePensionfonds, as well as group accident insurance, which also covers private accidents.

In order to deal responsibly with the labour of each individual employee – one of the Company's key resources – STADA also established company health management at its headquarters in Bad Vilbel, which supports the workforce in staying physically fit.

As a result of the takeover process, employee recruitment was a significant challenge for the Company in financial year 2017 despite this diverse range of measures and services. This was especially true for management-related positions that needed to be newly-filled.

Employee rights and occupational safety

With due regard to local laws, STADA respects the rights of its employees throughout the Group and ensures their safety at the workplace by complying with common standards.

The Company commits itself to the principal of equal treatment and pursues violations against the German Non-Discrimination Act (AGG) with disciplinary consequences. In order to promote protection against discrimination at the workplace, employees at German locations are, for example, instructed in the applicable non-discrimination policy upon entering the Company and an internal complaints office serves as a contact point.

The Company continues to place importance on the fair involvement of employee representatives and expresses a clear commitment to the freedom of association as well as to the right of its workforce to membership in a union.

With a view to the safety of employees, the prevention of accidents and emergency situations as well as the planning of emergency measures take on great importance. Should an accident still occur, its course of events is discussed decentrally in the production locations under the guidance of local production managers and afterwards in the production management team to raise awareness among the team onsite, and to define suitable preventive measures.

STADA also achieves the best safety possible through trustful collaboration with its employees, whose knowledge and experience form the basis for continuous improvements in occupational safety.

Training and development

STADA attaches great importance to training and development. Particularly against the backdrop of covering its own need for qualified young talent and, with it, securing and strengthening the competitiveness of the Company, STADA makes use of internal promotion and targeted programs. The individual development of employees is defined and coordinated by the respective departments on a needs-oriented basis and in accordance with individual targets.

In 2017, eleven people were in an apprenticeship or a dual studies program at STADA. As part of its development program, the Company also offers students the opportunity to collect practical experience in the pharmaceutical industry with an internship or clerkship.

Fostering equal opportunity

STADA values the diversity in personal qualities, talents and performance within its workforce. The future viability of the Company largely depends on how this diversity is promoted and utilized. As an internationally active Group with locations in over 30 countries worldwide, cultural diversity is an important part of the company.

With regard to equal opportunity for women and men, STADA places importance on the balanced representation of both genders. And also as part of the succession planning for managers, the Executive Board ensures to an appropriate promotion of female employees for a constant increase in the proportion of women. When it comes to filling management positions, however, the professional and personal qualifications of the candidates are always at the forefront and not their gender.

In relation to the STADA Group's total workforce, the proportion of women as of December 31, 2017 was approximately 58%. The Group-wide percentage of women in the first and second management levels below the Executive Board was at 25.0% and 25.6% respectively as of June 30, 2017. As a target for the proportion of women, the Executive Board in June 2017 determined to at least maintain the relevant status quo with an implementation deadline of December 31, 2018 (see "Corporate Governance Report including the Corporate Governance Declaration for STADA Arzneimittel AG and the Group".)

Environmental Protection and Ecological Sustainability

STADA's operational environmental protection generally covers the areas of energy, gas, water and waste, focusing in this regard on statutory requirements which are fully complied with. The Company, for example, maintains location-related energy balances and in 2015 conducted energy audits at all locations in Germany in accordance with the Energy Services Act (Energiedienstleistungsgesetz). In this regard, STADA's energy balance was above average in an industry comparison. Subsequent audits are planned at regular intervals and the potentials for improvement that are identified through the energy audits and energy inspections flow successively into the planning of renovation and modernization measures.

Within the scope of its production processes, STADA works with active ingredients and auxiliary materials the improper handling of which could have a potential impact on the environment. In order to consistently prevent impurities as well as contaminations from wastewater, the air or the soil, the Company follows EU-GMP guidelines for its manufacturing practices and produces exclusively at GMP certified facilities worldwide. At the same time, STADA maintains long-term business relations to those suppliers, whose manufacturing processes also conform to the GMP standards (see Product safety and quality – Good Manufacturing Practices). In addition, STADA sources its active ingredients and auxiliary materials from suppliers with established Environmental, Health and Safety (EHS) programs and takes measures to survey, review and evaluate its existence and implementation (see Responsible Corporate Governance and Compliance – "Social Compliance Questionnaire").

Resource efficiency

STADA strives to continuously optimize the environmental balance of its plants. For this reason, the Company observes a high technological standard and considers resource-saving equipment for new and replacement investments in plants in Germany and abroad. Budget administration for this takes place centrally at Group headquarters.

STADA generally follows a two-phase concept in order to identify and realize any possible efficiency increases:

- The preventative environmental protection concept is integrated into production and starts in the planning phase for manufacturing as well as production facilities. It occurs in the conception phase of a manufacturing process and takes into account material and energy efficiency. This is reflected in the specification sheet sent to the respective equipment manufacturer. Furthermore, formulations which contain raw materials with little negative impact on the environment, such as organic solvents, are generally sought when developing new products so that the production process causes the least possible amount of emissions.

- With regard to existing production facilities, a retrospective evaluation and assessment takes place where appropriate. In this way, depending on the criticality of the environmental impact at each location, existing production units are replaced with new, state-of-the-art solutions, which are also more environmentally friendly.

Environmental management process

Beginning with reporting year 2018, STADA's environmental management process is oriented toward the so-called PDCA cycle (Plan-Do-Check-Act). Accordingly, continuous planning, controlling, monitoring and the improvement of selected operational processes take place. In so doing, the following steps are continuously repeated with the target of realizing consistent improvement.

- **Plan:** The consumption figures for energy, water, oil and gas are collected each year to identify potential improvements. The aim here is to first establish a target in that area, for which practical improvements can be achieved with appropriate financial expense.
- **Do:** Location-dependent measures are carried out to achieve the target efficiently.
- **Check:** A variance analysis takes place regarding the targets achieved and those planned.
- **Act:** Interim reviews are carried out during the reference period in order to estimate target achievement, and, in the case of an impending failure to meet the target, a review takes place as to whether the requirements and framework conditions need adjustment. In this way, adjustments can still be made during the general assessment phase in order to achieve the target.

In financial year 2017, STADA carried out a centralized inquiry into the use of certain energy carriers for its major production locations. This data inquiry is set to be continued in future and expanded, where appropriate, in order to identify potential optimizations and to validate resource efficiency. For the current financial year 2018, the Company set as its goal a reduction in the use of power and energy in KWh per packaging unit by 1% in comparison to the reporting year. This objective applies to STADA's most active production locations in Bad Vilbel, Germany, Nizhny Novgrod, Russia, Huddersfield, United Kingdom, and Vrsac, Serbia.

Observance of Human Rights

For STADA, good corporate governance means that the focus is not only on the achievement of goals, but also on the way in which these goals are achieved. The Company goal, to achieve economic success in line with ethical responsibility, is also mirrored in STADA's Code of Conduct, which provides guidance to employees particularly for correct behavior when facing legal or ethical challenges. It includes, for example, behavioral guidelines for dealing with each other and with third parties as well as rules regarding tolerance, respect and discrimination.

Since financial year 2016, STADA has begun to increasingly obligate itself and its suppliers in their contracts to adhere to the ten principles of the UN Global Compact. This is associated with an obligation to, among other things, respect and support the protection of international human rights and ensure that neither party is complicit in any violations of human rights and commits to the removal of all forms of compulsory labor and to the elimination of child labor. At the same time, in the context of a social compliance questionnaire, STADA also increasingly queries its suppliers regarding their handling of the universal rights of each individual (see Responsible Corporate Governance and Compliance).

Further, a person's right to integrity is taken into account using the application of GCP in STADA's development and manufacturing practices (see Product Safety and Quality) or using EHS evaluations for example (see "Fundamental Information about the Group –Product Development").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STADA CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

Consolidated Income Statement

Consolidated Income Statement in € k	2017	2016	Note
Sales	2,313,928	2,139,220	11.
Cost of sales	1,177,994	1,105,313	12.
Gross profit	**1,135,934**	**1,033,907**	
Selling expenses	514,478	488,323	13.
General and administrative expenses	199,701	182,696	14.
Research and development expenses	67,471	65,111	15.
Other income	41,265	19,279	16.
Other expenses	203,260	138,933	
Operating profit	**192,289**	**178,123**	
Result from investments measured at equity	2,304	703	
Investment income	-1	24	
Financial income	3,629	2,716	
Financial expenses	50,475	54,137	
Financial result	**-44,543**	**-50,694**	18.
Earnings before taxes	**147,746**	**127,429**	
Income taxes	52,985	31,938	19.
Earnings after taxes	**94,761**	**95,491**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income)	85,323	85,904	
• distributable to non-controlling shareholders	9,438	9,587	20.
Earnings per share in € (basic)	1.37	1.38	21.

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income in € k	2017	2016	Note
Earnings after taxes	**94,761**	**95,491**	
Items to be recycled to the income statement in future:			
Currency translation gains and losses	**-58,987**	**-13,914**	34.
thereof			
• income taxes	-4,250	-1,493	19.
Gains and losses on hedging instruments (cash flow hedges)	**–**	**913**	45.
thereof			
• income taxes	–	-360	19.
Items not to be recycled to the income statement in future:			
Revaluation of net debt from defined benefit plans	**3,478**	**-4,980**	35.
thereof			
• income taxes	-706	1,226	19.
Other comprehensive income	**-55,509**	**-17,981**	
thereof			
• attributable to disposal groups held for sale in accordance with IFRS 5	-176	–	
Consolidated comprehensive income	**39,252**	**77,510**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG	37,985	66,520	
• distributable to non-controlling shareholders	1,267	10,990	

Consolidated Balance Sheet

Consolidated Balance Sheet in € k Assets	Dec. 31, 2017	Dec. 31, 2016	Note
Non-current assets	**1,880,574**	**1,949,543**	
Intangible assets	1,474,342	1,582,361	24.
Property, plant and equipment	332,738	322,715	25.
Financial assets	1,978	2,236	26.
Investments measured at equity	41,528	13,872	27.
Other financial assets	1,087	4,450	29.
Other assets	1,330	3,095	30.
Deferred tax assets	27,571	20,814	19.
Current assets	**1,323,952**	**1,490,901**	
Inventories	499,012	484,904	31.
Trade accounts receivable	520,441	489,071	28.
Income tax receivables	14,346	12,816	19.
Other financial assets	9,809	39,880	29.
Other assets	35,323	28,690	30.
Cash and cash equivalents	243,194	352,580	32.
Non-current assets and disposal groups held for sale	1,827	82,960	33.
Total assets	3,204,526	**3,440,444**	

Equity and liabilities	Dec. 31, 2017	Dec. 31, 2016	
Equity	**1,006,406**	**1,047,105**	34.
Share capital	162,090	162,090	
Capital reserve	514,206	514,189	
Retained earnings including net income	717,364	673,253	
Other provisions	-430,013	-379,074	
Treasury shares	-1,405	-1,418	
Equity attributable to shareholders of the parent	**962,242**	**969,040**	
Shares relating to non-controlling shareholders	44,164	78,065	
Non-current borrowed capital	**157,572**	**1,493,712**	
Other non-current provisions	35,293	35,997	35.
Financial liabilities	816	1,336,414	36.
Other financial liabilities	4,032	3,916	38.
Other liabilities	950	969	39.
Deferred tax liabilities	116,481	116,416	19.
Current borrowed capital	**2,040,548**	**899,627**	
Other provisions	23,507	20,273	40.
Financial liabilities	1,257,105	134,343	36.
Trade accounts payable	340,642	336,844	37.
Income tax liabilities	69,663	60,625	19.
Other financial liabilities	226,108	214,031	38.
Other liabilities	123,523	118,933	39.
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	–	14,578	33.
Total equity and liabilities	3,204,526	**3,440,444**	

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement in € k	Dec. 31, 2017	Dec. 31, 2016	Note
Net income	94,761	95,491	
Depreciation and amortization net of write-ups of non-current assets	169,226	182,657	23.
Income taxes	52,985	31,938	19.
Income tax paid	-56,588	-18,580	
Interest income and expenses	47,013	50,175	18.
Interest and dividends received	3,829	4,161	
Interest paid	-45,447	-50,548	
Result from investments measured at equity	-2,304	-703	18.
Result from the disposal of non-current assets	5,131	1,438	16./17.
Additions to / reversals of other non-current provisions	8,307	3,127	35.
Currency translation income and expenses	1,966	9,379	16./17.
Other non-cash expenses and gains[1)]	279,527	237,668	
Gross cash flow	**558,406**	**546,203**	
Changes in inventories	-64,610	-18,012	31.
Changes in trade accounts receivable	-31,505	1,248	28.
Changes in trade accounts payable	-27,009	13,576	37.
Changes in other net assets, unless attributable to investing or financing activities[1)]	-172,401	-209,493	
Cash flow from operating activities	**262,881**	**333,522**	41.
Payments for investments in			
• intangible assets	-70,174	-76,127	24.
• property, plant and equipment	-54,999	-48,862	25.
• financial assets	-270	-4,869	26.
• business combinations in accordance with IFRS 3	-2,854	-52,901	8.
Proceeds from the disposal of			
• intangible assets	2,311	4,000	24.
• property, plant and equipment	3,336	6,142	25.
• financial assets	–	–	26.
• shares in consolidated companies	6	854	
Cash flow from investing activities	**-122,644**	**-171,763**	41.
Borrowing of funds	71,326	494,145	36.
Settlement of financial liabilities	-250,292	-389,973	36.
Settlement of finance lease liabilities	-1,350	-903	
Dividend distribution	-46,048	-50,616	34.
Capital increase from share options	–	–	34.
Changes in non-controlling interests	-1,504	1,623	34.
Changes in treasury shares	30	58	34.
Cash flow from financing activities	**-227,838**	**54,334**	41.
Changes in cash and cash equivalents	**-87,601**	**216,093**	41.
Changes in cash and cash equivalents due to the scope of consolidation	-12,920	-3,431	
Changes in cash and cash equivalents due to exchange rates	-8,864	-3,260	
Net change in cash and cash equivalents	**-109,385**	**209,402**	32.
Balance at beginning of the period	**352,580**	**143,178**	
Balance at end of the period	**243,195**	**352,580**	

1) Non-cash additions to accruals for discounts to health insurance organizations in 2017 in the amount of € 136.5 million (2016: € 188.8 million) are recognized in gross cash flow and are therefore not included in changes in other net assets.

Consolidated Statement of Changes in Shareholders' Equity

Consolidated Statement of Changes in Shareholders' Equity in € k 2017	Number of shares	Share capital	Capital reserve	Retained earnings including net income
Balance as of Dec. 31, 2017	**62,342,440**	**162,090**	**514,206**	**717,364**
Dividend distribution				-44,826
Capital increase from share options				
Changes in treasury shares			17	
Changes in retained earnings				
Changes in non-controlling interests				
Changes in the scope of consolidation				13
Other income				3,601
Net income				85,323
Balance as of Jan. 1, 2017	**62,342,440**	**162,090**	**514,189**	**673,253**
Previous year				
Balance as of Dec. 31, 2016	**62,342,440**	**162,090**	**514,189**	**673,253**
Dividend distribution				-43,580
Capital increase from share options				
Changes in treasury shares			18	
Changes in retained earnings				
Changes in non-controlling interests				
Changes in the scope of consolidation				
Other income				-4,415
Net income				85,904
Balance as of Jan. 1, 2016	**62,342,440**	**162,090**	**514,171**	**635,344**

Provisions for currency translation	Provisions for cash flow hedges	Treasury shares	Equity attributable to shareholders of the parent	Shares relating to non-controlling shareholders	Group equity
-430,013	**–**	**-1,405**	**962,242**	**44,164**	**1,006,406**
			-44,826	-4,009	-48,835
			–	–	–
		13	30	–	30
			–	–	–
			–	2,746	2,746
			13	-33,905	-33,892
-50,939			-47,338	-8,171	-55,509
			85,323	9,438	94,761
-379,074	**–**	**-1,418**	**969,040**	**78,065**	**1,047,105**
-379,074	**–**	**-1,418**	**969,040**	**78,065**	**1,047,105**
			-43,580	-7,036	-50,616
			–		–
		40	58		58
			–		–
			–	1,623	1,623
			–		–
-15,882	913		-19,384	1,403	-17,981
			85,904	9,587	95,491
-363,192	**-913**	**-1,458**	**946,042**	**72,488**	**1,018,530**

Notes to the Consolidated Financial Statements

Table of Contents

General Information

1. Corporate information

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

The Consolidated Financial Statements of STADA Arzneimittel AG for financial year 2017 were approved for publication by the Executive Board on March 6, 2018.

2. Basis of preparation of the financial statements

The Consolidated Financial Statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2017, were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC), as applicable in the European Union (EU), as well as in accordance with the supplementary provisions pursuant to Section 315a (1) of the German Commercial Code (HGB).

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

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

The Consolidated Financial Statements are prepared in euro. Unless otherwise indicated, figures in the notes are shown in euro thousands (€ k). Rounding is thus necessary, although this of course is not significant in its nature.

3. Consequences of new or amended standards and interpretations

In financial year 2017, STADA observed and, if relevant, applied the pronouncements and amendments to pronouncements published by the IASB and endorsed by the EU which were first applicable as of January 1, 2017. The changes had no or no significant effect on the presentation of STADA's net assets, financial position and results of operations.

The following IFRS standards, which are not yet applicable, have been published by the IASB:

In July 2014, IASB published the standard IFRS 9 "Financial Instruments". The standard replaces IAS 39 and introduces new rules for the classification, recognition and valuation of financial instruments. Furthermore, IFRS 9 also includes guidelines on the accounting of hedging transactions. IFRS 9 is to be applied for financial years beginning on or after January 1, 2018. STADA will apply the new standard for the first time as of January 1, 2018, pursuant to the transitional regulations of IFRS 9, an adjustment of prior-year figures is waived. Accordingly, the cumulative effect from initial application of IFRS 9 as of January 1, 2018 will be recognized in equity with no effect on profit or loss. This will likely result in the following impacts for the Consolidated Financial Statements of STADA:

The new regulations for the classification of financial assets will lead to changes for the receivables that can be factored in terms of their measurement and presentation as a result of the underlying business model. In the future, these will no longer be measured at amortized cost, but rather at fair value through profit or loss. Changes in the fair value of these receivables will in future be recognized directly in equity. Within the scope of the initial application as of January 1, 2018, this will result in no material effects.

Due to the new regulations on impairment, expected losses will in future be recognized as expenses earlier. In this context, STADA will apply the simplified approach for trade receivables as well as contract assets. As a result of the initial application of the impairment regulations in accordance with IFRS 9, as of January 1, 2018, the volume of impairments, on the basis of an analysis that is still to be finalized, will likely increase to somewhere in the magnitude of between € 6 million and € 9 million.

In May 2014, the IASB published the new standard IFRS 15 "Revenue from Contracts with Customers". IFRS 15 governs revenue recognition for contracts with customers in a 5-step model and in particular replaces the existing standards IAS 11 "Construction Contracts" and IAS 18 "Revenue". IFRS 15 is to be applied for financial years beginning on or after January 1, 2018. Earlier application is permitted. STADA will apply the new standard for the first time as of January 1, 2018. In this context, STADA will exercise its right to choose the simplified initial application. Accordingly, the contracts that were not fully completed as of January 1, 2018 will be accounted for as if the new standard IFRS 15 were already applied when these contracts began so that the cumulative effect from the change will be recognized directly in equity. There is no adjustment of the comparable figures from the prior-year period.

In accordance with the preliminary analysis, from the initial application of IFRS 15 there is an increased cumulative effect in the likely amount of € 0.4 million to be recognized in retained earnings. The effect resulted primarily from the to be accounted contractual assets which in future are to be shown within the scope of return regulations and the deferred taxes to be established as a result. Furthermore, there will be reclassifications as result of down payments received from the trade payables and payments in the contractual liabilities in the likely amount of € 0.6 million. The new standard on revenue recognition will thus have little impact on sales accounting, as sales are largely realized in the Consolidated Financial Statements as a result of routine transactions. There are no agreements in the Group which regulate multiple services within one contract or within several contracts (multi-element arrangements). There will be no changes in the accounting of licensing agreements, which amounted to less than 2% of the total sales revenue in financial year 2017. All of STADA's license agreements are either bound to the achieved sales of the licensee or further activities are necessary on the part of STADA that would allow the use of the right by the licensee. If this were not the case for such license agreements, the result, due to the new IFRS 15 standard, future sales would be realized in the amount of the entire license fee with the granting of a license and therefore no longer, as they are presently, divided over the term of the license.

In January 2016, the IASB published the new IFRS 16 "Leases" standard, which determines the recognition of contractual rights (assets) and obligations (financial liabilities) associated with leases in the balance sheet for lessees. Lessees must therefore no longer classify leases as finance leases or operating leases. IFRS 16 is to be applied for financial years beginning on or after January 1, 2019. Earlier application is permitted. STADA will apply the new standard for the first time from January 1, 2019 and thereby likely modified retroactively, i.e. an adjustment of the prior-year figures will be waived. In this context, the rights of use will likely be equated with lease liabilities at the time of the change.

An examination of the impact of the application of IFRS 16 on the Consolidated Financial Statements has not yet been fully completed. As a result of the accounting of assets and liabilities in the lessee's balance sheet, as required by IFRS 16, a significant increase in the balance sheet total is expected at the point of initial application. In accordance with the currently existing leasing agreements and the currently available investigation results, STADA expects an accounting of use of rights in the amount of approximately € 40 million as well as recognition of leasing obligations in the amount of € 40 million. Instead of leasing expenses, as a result of amendments to IFRS 16, future depreciation and amortization and interest expenses will be recorded in the income statement – with a corresponding positive impact on the EBITDA. STADA, pursuant to the current status of the investigation, assumes that the depreciation of the currently existing leasing agreements will in future amount to approximately € 40 million. In addition, STADA expects future interest expenses in the amount of approximately € 10 million. In accordance with the previous requirements of IAS 17 "Leases", these expenses would have been fully recognized in operating profit as a leasing expense and as a reduction of EBITDA. The changeover effect relates at STADA for the most part to leased real estate, company vehicles as well as office and business equipment.

Furthermore, in May 2017, IFRIC 23 "Uncertainty over Income Tax Treatments" was issued by the IASB, through which a clarification of the requirements of the approach and measurement of uncertain earnings positions arose. According to this, a company within the scope of the assessment of the uncertainty must estimate how probable the acceptance of the tax treatment

of business transactions in the respective tax jurisdictions is. The interpretation is to be applied for financial years which begin on or after January 1, 2019, whereby earlier application is permitted. STADA currently finds itself in the evaluation on the impact of IFRIC 23 on the Consolidated Financial Statements of the Company.

From today's perspective, no or no significant effects on the Consolidated Financial Statements are expected from the future application of the further standards and interpretations not yet applied.

4. Changes in accounting policies

There were no changes to accounting policies with significant consequences for the presentation of STADA's net assets, financial position and results of operations or cash flow in financial year 2017.

5. Scope of consolidation

All significant subsidiaries, joint ventures and associates are included in the Consolidated Financial Statements. Subsidiaries are companies that are directly or indirectly controlled by STADA and are therefore fully consolidated. Control exists if STADA Arzneimittel AG or its subsidiaries are in control of an investee, are exposed to variable backflows and, due to control over existing rights, are able to substantially influence the investee's variable backflows. Control is usually substantiated by a share of voting rights of more than 50%.

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

Associates are companies over which STADA can have significant influence and are not subsidiaries or joint ventures. They are included in the Consolidated Financial Statements using the equity method.

Subsidiaries, joint ventures and associates whose influence, both individually and as a whole, on the business, financial and earnings situation of the STADA Group is insignificant, are not consolidated or accounted for using the equity method. Investments in these companies are accounted for either at fair value or at amortized cost under financial assets. Accumulated, the sales and balance sheet total of these companies make up about 1% of total Group sales and/or the balance sheet total.

Changes in the scope of consolidation resulted regarding the number of subsidiaries, joint ventures and associates included in financial year 2017 and are as follows:

Number of companies in the scope of consolidation	Germany	Outside Germany	Total
January 1, 2017	**12**	**76**	**88**
Acquisitions	–	2	2
Disposals	2	4	6
December 31, 2017	**10**	**74**	**84**

As of January 1, 2017, the subsidiary STADA Pharmaceuticals Australia, Sydney, based in Australia, was included in the scope of consolidation.

Furthermore, the acquisition of Serbian Velexfarm d.o.o., Belgrade, was completed in accordance with corporate law in the first quarter of 2017. The company was consolidated as a subsidiary for the first time on January 1, 2017.

STADA Import/Export International Ltd., Hong Kong, China, was also sold in the first quarter of 2017. The transaction was completed on March 29, 2017. The assets and liabilities of the company were reported as non-current assets and disposal groups held for sale and associated liabilities as of December 31, 2016. A gain of € 0.2 million was recorded with the deconsolidation of the company as of March 31, 2017.

Furthermore, on June 30, 2017, the legal merger of the German branded products companies STADA GmbH and STADAvita GmbH, subsequently trading as STADA GmbH, was completed as was the merger of STADApharm GmbH and cell pharm Gesellschaft für pharmaceutische und diagnostische Präparate mbH, subsequently trading as STADAPHARM GmbH.

In the second quarter of the reporting year, there was an increase in the shareholding to 100% of the shares in the Thailand-based STADA subsidiary STADA (Thailand) Company Ltd.

In addition, as of July 19, 2017, the legal merger of the two Russian companies OOO STADA PharmDevelopment and OOO STADA CIS into OOO STADA Marketing and the continuation of the company name OOO STADA Marketing.

In October 2017, there was also a legal dissolution of the Dutch subsidiary HTP Huisapotheek B.V.

In the Consolidated Financial Statements of the STADA Group, 79 companies were consolidated as subsidiaries and five companies as associates as of the reporting date on December 31, 2017.

Unchanged from the previous year, BIOCEUTICALS Arzneimittel AG is included in the Consolidated Financial Statements as an associate in accordance with the equity method. STADA holds 15.86% of the shares in this company. The significant influence is therefore not directly due to the amount of shares held, but instead is a result of STADA's representation in the supervisory body of BIOCEUTICALS as well as distribution rights granted for Epo-zeta in Germany through STADAPHARM GmbH and the associated significant business transactions.

In addition, as was the case in the previous year, the two French companies Pharm Ortho Pedic SAS and AELIA SAS as well as the Russian Dialogfarma LLC were recognized as associates in accordance with the equity method in the Consolidated Financial Statements.

For the former Vietnamese subsidiary STADA Vietnam J.V., a contract was signed in the fourth quarter of 2017 for the sale of the shares held by in the company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale.

The following condensed financial information is given for these five associates:

in € million	2017	2016
Share of result from continuing operations	2.3	0.7
Share of result from discontinued operations	–	–
Share of other comprehensive income	–	–
Share of comprehensive income	**2.3**	**0.7**
Status change of STADA Vietnam J.V.	25.3	–
Aggregate carrying amount	**41.5**	**13.9**

Significant non-controlling interests exist in the STADA Group as of December 31, 2017 in the Vietnamese subsidiaries Pymepharco Joint Stock Company. In the previous year, there were also significant non-controlling interests in the Vietnamese subsidiary STADA Vietnam J.V. which is now consolidated as an associate in the Consolidated Financial Statements.

Below, the influence of other shareholders in Pymepharco Joint Stock Company as of December 31, 2017 is presented:

Name of subsidiary	Headquarters/ place of founding	Share in voting rights of non-controlling interests	Result of non-controlling interests in 2017 in € k	Accumulated non-controlling shares as of Dec. 31, 2017 in € k
Pymepharco	Vietnam	41%	3,964	32,126

The disclosures for the previous year are as follows:

Name of subsidiary	Headquarters/ place of founding	Share in voting rights of non-controlling interests	Result of non-controlling interests in 2016 in € k	Accumulated non-controlling shares as of Dec. 31, 2016 in € k
Pymepharco	Vietnam	41%	3,459	32,114
STADA Vietnam J.V.	Vietnam	50%	4,935	32,266

In the following, the combined financial information of Pymepharco as of December 31, 2017 and for financial year 2017 is presented:

	Assets as of Dec. 31, 2017		Liabilities as of Dec. 31, 2017	
in € k	current	non-current	current	non-current
Pymepharco	46,500	58,267	6,238	10,737

		Earnings after taxes in 2017			
in € k	Sales	distributable to STADA	distributable to non-controlling interests	Total earnings in 2017	Dividends to non-controlling interests in 2017
Pymepharco	63,105	5,705	3,964	-1,457	2,379

For the previous year, the following disclosures are made regarding the summarized financial information for Pymepharco and STADA Vietnam J.V.:

	Assets as of Dec. 31, 2016		Liabilities as of Dec. 31, 2016	
in € k	current	non-current	current	non-current
Pymepharco	54,332	52,465	7,652	9,887
STADA Vietnam J.V.	44,111	39,482	6,087	7,715

in € k	Sales	Earnings after taxes in 2016 distributable to STADA	Earnings after taxes in 2016 distributable to non-controlling interests	Total earnings in 2016	Dividends to non-controlling interests in 2016
Pymepharco	60,576	4,978	3,459	10,370	1,623
STADA Vietnam J.V.	41,856	4,935	4,935	11,515	4,561

In the following, information on the cash flow for Pymepharco for financial years 2017 and 2016 is presented. Due to the deconsolidation of STADA Vietnam in financial year 2017, no information is included for the current reporting year.

in € k	Cash flow from operating activities 2017	Cash flow from operating activities 2016	Cash flow from investing activities 2017	Cash flow from investing activities 2016	Cash flow from financing activities 2017	Cash flow from financing activities 2016
Pymepharco	9,070	8,870	-2,075	-2,094	–	–
STADA Vietnam J.V.	–	10,605	–	-2,679	–	-9,366

Subsidiaries, joint ventures and associates as well as all non-consolidated and other investments pursuant to the regulations of Section 313 (2) HGB are included in the Consolidated Financial Statements as investments and listed below.

Direct investments of STADA Arzneimittel AG:

Name of the company, registered office	Share in capital	Form of consolidation
AO Nizhpharm, Nizhny Novgorod, Russia	100%	subsidiary
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany	15.86%	associate
Ciclum Farma, Unipessoal, LDA, Paco de Arcos, Portugal	100%	subsidiary
Crinos S.p.A., Milan, Italy	96.77%	subsidiary
EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, France	100%	subsidiary
EG S.p.A., Milan, Italy	98.87%	subsidiary
Laboratorio STADA, S.L., Barcelona, Spain	100%	subsidiary
Laboratorio Vannier S.A., Buenos Aires, Argentina	85%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany	100%	subsidiary
OOO Hemofarm, Obninsk, Russia	10%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia	10%	subsidiary
SCIOTEC Diagnostics Technologies GmbH, Tulln, Austria	100%	subsidiary
Socialites Retail Germany GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA Aesthetics Belgique (BVBA), Zaventem, Belgium	100%	subsidiary/not included
STADA Aesthetics Deutschland GmbH, Bad Homburg, Germany	100%	subsidiary/not included
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria	100%	subsidiary
STADA d.o.o., Ljubljana, Slovenia	100%	subsidiary
STADA d.o.o., Zagreb, Croatia	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt[1)]	83.33%	subsidiary/not included
STADA LUX S.à R.L., Luxembourg, Luxembourg	100%	subsidiary/not included
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria	100%	subsidiary
STADA PHARMA CZ s.r.o., Prague, Czech Republic	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India	85%	subsidiary/not included
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China	100%	subsidiary
STADA Pharmaceuticals Australia Pty. Ltd., Sydney, Australia	100%	subsidiary
STADA Poland Sp. z o.o., Piaseczno, Poland	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, Netherlands	100%	subsidiary
STADA (Shanghai) Company Management Consulting Co. Ltd., Shanghai, China	100%	subsidiary/not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand	50.9999%	subsidiary
STADA UK Holdings Ltd., Reading, United Kingdom	100%	subsidiary

1) Currently in the process of liquidation.

Indirect investments of STADA Arzneimittel AG through STADA PHARMA Bulgaria EOOD:

Name of the company, registered office	Share in capital	Form of consolidation
STADA M&D S.r.L., Bucharest, Romania	0.00006%	subsidiary

Indirect investments of STADA Arzneimittel AG through EG Labo - Laboratoires Eurogenerics SAS:

Name of the company, registered office	Share in capital	Form of consolidation
AELIA SAS, Saint Brieuc, France	20%	associate
Pharm Ortho Pedic SAS, Trélazé, France	25%	associate

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
BSMW Ltd., Huddersfield, United Kingdom	100%	subsidiary
Clonmel Healthcare Ltd., Clonmel, Ireland	100%	subsidiary
Fresh Vape Electronic Cigarettes Ltd., Huddersfield, United Kingdom	100%	subsidiary
Internis Pharmaceuticals Ltd., Huddersfield, United Kingdom	100%	subsidiary
Lowry Solutions Ltd., Huddersfield, United Kingdom	100%	subsidiary
Natures Aid Ltd., Huddersfield, United Kingdom	100%	subsidiary
Pegach AG, Egerkingen, Switzerland	100%	subsidiary
Slam Trading Ltd., Huddersfield, United Kingdom	100%	subsidiary
Socialites E-Commerce Ltd., Huddersfield, United Kingdom	100%	subsidiary
Socialites Retail Ltd., Huddersfield, United Kingdom	100%	subsidiary
Sundrops Ltd., Huddersfield, United Kingdom	100%	subsidiary
Thornton & Ross Ltd., Huddersfield, United Kingdom	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and Thornton & Ross Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
LCM Ltd., Huddersfield, United Kingdom	100%	subsidiary
Thornton & Ross Ireland Ltd., Clonmel, Ireland	100%	subsidiary
Zeroderma Ltd., Huddersfield, United Kingdom	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Slam Trading Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
LAS Trading Ltd., Huddersfield, United Kingdom	100%	subsidiary
Socialites Nederlands B.V., Beuningen, Netherlands	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH:

Name of the company, registered office	Share in capital	Form of consolidation
ALIUD PHARMA GmbH, Laichingen, Germany	100%	subsidiary
Blitz F15-487 GmbH, Bad Vilbel, Germany	100%	subsidiary/not included
Crinos S.p.A., Milan, Italy	3.23%	subsidiary
Croma Medic, Inc., Manila, Philippines	100%	subsidiary
EG S.p.A., Milan, Italy	1.13%	subsidiary
Grippostad GmbH, Bad Vilbel, Germany	100%	subsidiary/not included
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany	91.67%	subsidiary
Laboratorio Vannier S.A., Buenos Aires, Argentina	15%	subsidiary
PharmaSwyzz Deutschland GmbH, Bad Homburg, Germany	100%	subsidiary/not included
STADA Aesthetics AG, Bottighofen, Switzerland	100%	subsidiary/not included
STADA CEE GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt[1)]	16.67%	subsidiary/not included
STADA GmbH, Bad Vilbel, Germany[2)]	100%	subsidiary
STADA Nordic ApS, Herlev, Denmark	100%	subsidiary
STADAPHARM GmbH, Bad Vilbel, Germany[3)]	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India	15%	subsidiary/not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand	49%	subsidiary
STADA-Ukraine, Kiev, Ukraine	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH and through STADA Aesthetics AG:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Aesthetics Italia S.R.L., Verona, Italy	100%	subsidiary/not included
STADA Aesthetics UK Limited, West Wickham, United Kingdom	100%	subsidiary/not included

Indirect investments of STADA Arzneimittel AG through STADA GmbH:

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

1) Currently in the process of liquidation.
2) As of June 30, 2017, the legal merger of the German brands company STADA GmbH and STADAvita GmbH, subsequently trading as STADA GmbH.
3) As of June 30, 2017, the legal merger of the German company STADApharm GmbH and cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, subsequently trading as STADAPHARM GmbH, was carried out.

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

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm Nederland B.V., Etten-Leur, Netherlands	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia	100%	subsidiary
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam	49%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	90%	subsidiary
STADA MENA DWC-LLC, Dubai, United Arab Emirates	100%	subsidiary

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

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm Services B.V., Etten-Leur, Netherlands	100%	subsidiary
Healthypharm B.V., Etten-Leur, Netherlands	100%	subsidiary
Quatropharma Holding B.V., Etten-Leur, Netherlands	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	10%	subsidiary

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

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm B.V., Etten-Leur, Netherlands	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China	83.35%	subsidiary
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam	50%	associate
STADA (Thailand) Company, Ltd., Bangkok, Thailand	0.0001%	subsidiary
Well Light Investment Services JSC, Ho Chi Minh City, Vietnam[1)]	49%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd. and through Well Light Investment Services JSC:

Name of the company, registered office	Share in capital	Form of consolidation
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam	10%	subsidiary

1) The subsidiary is consolidated based on a contractual voting majority.

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and through Pymepharco JSC and/or indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd., through Well Light Investment Services JSC and through Pymepharco JSC:

Name of the company, registered office	Share in capital	Form of consolidation
Dak Nong Pharmaceutical JSC, Dak Nong, Vietnam	43%	associate/not included
Phu Yen Export Import Pharmaceutical JSC, Phu Yen, Vietnam	20%	associate/not included
Quang Tri Pharmaceutical JSC, Quang Tri, Vietnam	37.44%	associate/not included

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Clonmel Healthcare Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
CNRD 2009 Ireland Ltd., Dublin, Ireland	50%	associate/not included
Crosspharma Ltd., Belfast, United Kingdom	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Huddersfield, United Kingdom	100%	subsidiary
STADA Financial Investments Ltd., Clonmel, Ireland	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd., through Clonmel Healthcare Ltd. and through Genus Pharmaceuticals Holdings Ltd.:

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

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd., through Clonmel Healthcare Ltd., through Genus Pharmaceuticals Holdings Ltd. and through Britannia Pharmaceuticals Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
Brituswip Ltd., Reading, United Kingdom	50%	associate/not included

Indirect investments of STADA Arzneimittel AG through AO Nizhpharm:

Name of the company, registered office	Share in capital	Form of consolidation
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan	100%	subsidiary
OOO Aqualor, Moscow, Russia	100%	subsidiary
OOO Dialogfarma, Moscow, Russia	50%	associate
OOO Hemofarm, Obninsk, Russia	90%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia[1)]	90%	subsidiary
UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania	100%	subsidiary
ZAO Makiz-Pharma, Moscow, Russia	100%	subsidiary
ZAO Skopinpharm, Ryazanskaya obl., Russia	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through Ciclum Farma, Unipessoal, LDA:

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

Indirect investments of STADA Arzneimittel AG through Laboratorio STADA, S.L.:

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

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

Name of the company, registered office	Share in capital	Form of consolidation
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina	91.50%	subsidiary
Hemofarm Komerc d.o.o., Skopje, Macedonia[2)]	99.18%	subsidiary/not included
Hemofarm S.à.R.L., Constantine, Algeria	40%	associate/not included
Hemomont d.o.o., Podgorica, Montenegro	71.02%	subsidiary
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany	8.33%	subsidiary
Jinan Pharmaceuticals Co., Jinan, China	35.50%	associate/not included
STADA HEMOFARM S.R.L., Temeswar, Romania	100%	subsidiary
STADA IT Solutions d.o.o., Belgrade, Serbia	100%	subsidiary
STADA M&D S.r.L., Bucharest, Romania	99.99994%	subsidiary
Velefarm A.D., Belgrade, Serbia	19.65%	Other investments/ not included
Velexfarm d.o.o., Belgrade, Serbia	100%	subsidiary
Vetfarm A.D., Belgrade, Serbia	15%	Other investments/ not included

1) As of July 19, 2017, the legal merger of the two Russian companies OOO STADA PharmDevelopment and OOO STADA CIS into OOO STADA Marketing, subsequently trading as OOO STADA Marketing.

2) Currently in the process of liquidation.

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Pegach AG:

Name of the company, registered office	Share in capital	Form of consolidation
Spirig HealthCare AG, Egerkingen, Switzerland	100%	subsidiary

The exemption rule stated in Section 264 (3) of the HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, STADA GmbH, STADA Medical GmbH, STADA CEE GmbH, STADAPHARM GmbH, STADA Pharma International GmbH and Mobilat Produktions GmbH.

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

According to IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full – irrespective of the amount of the shareholding – as of the acquisition date at their fair values. If the historical costs of the subsidiary acquired exceed the proportionate newly measured net assets of the acquiree, STADA recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized through profit or loss in the period of the acquisition. In a business combination achieved in stages, it is necessary to carry out a revaluation through profit or loss of the shares previously held at the date control was achieved. The shares of non-controlling interests are disclosed in the amount of their share in net assets of the subsidiary.

The acquisition of additional shares from an existing controlling position in a subsidiary is recognized through other comprehensive income in accordance with IFRS 10, as it is a transaction between the equity investors.

Subsidiaries are generally included in the Consolidated Financial Statements from the acquisition date to the end of control by the parent company. Receivables, liabilities, expenses, income and earnings between the companies included in the Consolidated Financial Statements are eliminated, intercompany value adjustments and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Shares in associates are recognized according to the equity method at acquisition cost on the date when joint control is established (joint ventures) or when significant influence was established (associates) and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the carrying amount of the investment in the associate. A negative difference is recognized in income in the period of the acquisition in the results from associates. Profit and loss from transactions with associates is recognized in the Consolidated Financial Statements only according to the share of minority interests.

If indications arise from the application of IAS 39 that the carrying amount determined using the equity method might be impaired, an impairment test is carried out and, if applicable, an impairment loss in the amount of the difference between the carrying amount and the recoverable amount is recognized. The recoverable amount is the higher of the fair value less cost to sell and the value in use of the shares in an associate.

7. Currency translation

The functional currency of STADA Arzneimittel AG is the euro and represents the reporting currency of the Group.

In the separate financial statements of companies included in the Consolidated Financial Statements, foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transactions. On every balance sheet date, monetary items are translated using the closing rate and non-monetary items are translated using the transaction rate. Resulting currency translation differences are recognized in income as exchange gains or losses.

The translation of the companies with a functional currency other than the euro included in the Consolidated Financial Statements into the Group functional currency is carried out using the closing rate method. Assets and liabilities are generally translated using the closing rate, while individual components of equity are translated using the historical rates at their respective dates of inflow from the Group's perspective. The income and expenses of the income statements are translated – and thereby also the resulting translation of the annual results to be entered in equity – using the average exchange rate of the period.

Currency translation differences arising from the use of different exchange rates are recognized directly in equity in the "Provisions for currency translation". These provisions are released and recognized in income if Group companies leave the scope of consolidation.

The exchange rate development of currencies important to STADA to the euro can be seen in the following chart:

Significant currency relations in local currency to € 1	Closing rate on Dec. 31 in local currency			Average rate for the reporting period		
	2017	2016	±%	2017	2016	±%
Pound sterling	0.88723	0.85620	+4%	0.87614	0.81886	+7%
Swiss franc	1.17020	1.07390	+9%	1.11156	1.09018	+2%
Russian ruble	69.39200	64.30000	+8%	65.88766	74.22592	-11%
Serbian dinar	118.47270	123.47230	-4%	121.41395	123.10467	-1%
Ukrainian hryvnia	33.73180	28.42260	+19%	30.03099	28.28164	+6%
US dollar	1.19930	1.05410	+14%	1.12928	1.10660	+2%

8. Business combinations

In financial year 2017, the following significant business combinations in the sense of IFRS 3 occurred, for which the preliminary purchase price allocation is described in more detail below.

The Serbian subsidiary of STADA Arzneimittel AG, Hemofarm A.D., acquired Serbian pharmaceutical wholesaler Velexfarm d.o.o., based in Belgrade, Serbia, to strengthen the business activities on the Serbian market. The acquisition was completed with the aim of vertical integration in the Serbian market. The purchase price for the acquisition will total a maximum of € 1.0 million and will be or has already been fully paid in cash. The purchase was completed on January 6, 2017 after the competition authorities approved the purchase contract signed in October 2016.

The provisional purchase price allocation from this merger resulted in goodwill of € 0.1 million, which was attributable to the following:

in € million	
Purchase price for 100% of the shares of the company approx.	1.0
Proportionate fair values of the assets and liabilities acquired approx.	0.9
Goodwill	0.1

Goodwill resulted primarily from vertical integration in the Serbian market.

The following fair values were applied at the acquisition date for the assets acquired and liabilities assumed in the context of business combinations:

Fair values in € million	
Non-current assets	0.4
Inventories	17.3
Trade receivable	10.1
Other assets	2.8
Other current assets	0.0
Cash and cash equivalents	0.1
Assets	**30.7**
Deferred tax liabilities	0.0
Financial liabilities	1.9
Trade payables	27.4
Other current financial liabilities	0.5
Liabilities	**29.8**

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

The gross value of the trade receivables is € 10.2 million. € 0.1 million was deemed not recoverable. Trade accounts receivable were recorded at their fair value in the amount of € 10.1 million.

Sales generated with Velexfarm amounted to around € 61.9 million in financial year 2017. The operating profit of this business combination adjusted for the effects of the purchase price allocation (around € 0.7 million) amounted to around € 0.1 million in the reporting year.

Business relationships with Serbian Hemofarm A.D. had already existed before the acquisition. In financial year 2016, these sales amounted to € 8.9 million.

9. Accounting policies

STADA's Consolidated Financial Statements are based on uniform accounting policies. The basis for these are the accounting requirements which are mandatory for all companies included in the Consolidated Financial Statements and which are described in more detail below insofar as they are significant for the Consolidated Financial Statements of STADA or for which option rights are exercised.

Sales are recognized when goods have been delivered or services rendered. This is on condition that it is reasonably probable that measurable economic benefits will flow to the entity and that the substantial risks and rewards of ownership have been transferred to the buyer. It must also be possible to reliably measure the Company's own costs incurred or to be incurred.

Sales are recognized before taxes and after deduction of revenue reductions (rebates or discounts) at fair value of the consideration received or receivable. Expenses from the creation of provisions for returns are deducted from sales on the basis of estimated amounts. The estimates are based on experience regarding amounts used in the past. The estimated expense from the creation of provisions is determined as a percentage of sales. Discounts to health insurance organizations are also recognized with a reduction on sales based on the respective contract in force.

Income and expenses from the same transactions are generally recognized in the same period. Expenses related to accruals for future revenue reductions are thus recorded in the period in which the sales are realized.

Cost of sales includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. The expense is recognized in the period in which the associated income is realized. In addition, cost of sales also includes costs directly attributable to the commercial goods (e.g. cost of materials and personnel expenses), overhead costs (e.g. scheduled depreciation of production equipment and regulatory drug approvals and licenses) as well as value adjustments of excess or obsolete inventories.

Development costs consist of expenses involved initially in the technical implementation of theoretical discoveries in production and production processes and ultimately their commercial implementation.

As a rule, the objective of a development process at STADA is to obtain national or multinational regulatory drug approval. Downstream from the development process is an evaluation process at the end of which a decision on the actual execution of a development is made. Within the development process itself, development costs relative to approvals for new drugs obtained by STADA result in capitalization as intangible assets if all the following preconditions are met:

- It is technically possible to complete the asset (generally, achieve regulatory approval), enabling it to become available for use or sale.
- The intention and ability, as well as the necessary resources, exist to complete the asset and to use (i.e. usually to market it oneself) or sell it in the future.
- The intangible asset provides the Group with a future economic benefit.
- It is possible to reliably calculate the development costs of the intangible asset.

STADA immediately recognizes development costs not eligible for capitalization as expense in the periods in which they are incurred. These include expenses for technical and regulatory maintenance of products marketed.

Goodwill is not amortized over the period of useful life. Instead, an impairment test is performed at least once per year (impairment-only approach). For this purpose, goodwill is allocated to cash-generating units aggregated into operating segments, where a cash-generating unit corresponds to a market region within the two operating segments of the STADA Group for the purpose of an impairment test of goodwill.

STADA carries out impairment tests for capitalized goodwill at least once a year. Additional reviews also take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit including the carrying amount of goodwill to be tested. If the recoverable amount of a cash- generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% the expected long-term inflation rate is assumed. Significant assumptions made in order to determine the value in use include assumptions regarding sales development, regulatory conditions, investments, the discount rate, currency relations as well as the growth rate. These assumptions are made individually according to the individual situations for every cash-generating unit and are partly based on internally determined assumptions that both reflect past experience and include external market data.

Other intangible assets with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of their useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar

rights is between three and 30 years. Expenses from scheduled amortization of intangible assets are allocated to the relevant functional costs and generally reported within cost of sales. If on the reporting date, there are indications that these assets are impaired, the recoverable amount of the asset is re-evaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indeterminable useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of these assets are compared with their carrying amounts and if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell was determined using the relief from royalty method. At STADA, this affects the umbrella brand Hemofarm capitalized in the context of the acquisition of the Hemofarm group, the umbrella brand Pymepharco capitalized in the context of achieving control over Pymepharco, and the umbrella brand Vannier capitalized in the context of the acquisition of Laboratorio Vannier. Impairment tests are carried out for the umbrella brands with indefinite useful lives at the level of the individual company or, for the umbrella brand Hemofarm, at the level of the individual companies that generate sales under the Hemofarm umbrella brand. Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Internal development costs are capitalized in accordance with the criteria in IAS 38. Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs, external services and directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years).

Property, plant and equipment is reported at cost less depreciation and any impairment losses plus write-ups. Depreciation shall begin when the asset is available for use and is accordingly in the condition necessary for it to be capable of operating. Subsequent acquisition costs are capitalized. Capitalization requires that a future economic benefit will flow to the company and that the cost of the asset can be reliably measured. Expenses for repairs and maintenance that do not represent significant replacement investments are recognized as expenses in the financial year in which they are incurred.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, eight to 20 years in the case of technical facilities and three to 14 years for other plant and office furniture and equipment. The component approach, according to which every significant component of property, plant and equipment with different useful lives, must be depreciated separately, is not applied at STADA due to a lack of relevance. To the extent necessary, impairment losses are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of the intangible asset or property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original historical costs.

Impairments on other intangible assets and property, plant and equipment exist when the recoverable amount of an asset is lower that its carrying amount. At each reporting date, STADA assesses whether indications for impairment are apparent. If this is the case, e.g. if certain defined critical values are exceeded, the asset's recoverable amount is determined. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for two operating segments with specific parameters. Expenses arising from impairments are recognized under "Other expenses".

For the purpose of impairment tests of other intangible assets and property, plant and equipment, cash-generating units within the STADA Group are defined at the level of individual assets within the reportable segments of Branded Products and Generics.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the item "Other income".

Inventories include such assets that are held for sale in the ordinary course of business (finished goods), that are in the process of production for such sale (work in progress), and that are consumed in the production process or in the rendering of services (materials and supplies). Inventories are measured at the lower of cost and net realizable value. Historical costs or costs of sales are determined based on weighted average costs. Costs of sales include both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included, but are instead recognized as an expense in the period in which they occur. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Financial assets can be broken down into the following categories in accordance with IAS 39: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are accounted for and measured pursuant to IAS 39. Accordingly, financial assets are, as a rule, initially recognized at fair value. In addition, for all financial assets which are subsequently measured at amortized costs, transaction costs directly attributable to the acquisition are to be taken into account. Different measurement policies apply for subsequent measurement in accordance with the applicable categories for financial assets pursuant to IAS 39. Cash transactions with financial assets are accounted for as of the settlement date.

Trade accounts receivable are measured at amortized cost less impairments using the effective interest rate method. Impairments are made in the form of individual impairments and general individual impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the expected default risk, STADA determines the expected future cash flows from receivables grouped by debtor. To this end, the maturity structures of net receivables and experience relating to derecognition of receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account. In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for various Group companies. The required impairment determined reduces the assets' carrying amounts through recognition of an impairment account.

The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

Financial liabilities are measured on initial recognition at fair value plus transaction costs directly attributable to the acquisition. For financial liabilities that subsequently continue to be measured at fair value, any transaction costs are recognized as an expense in the period in which they occur. This relates to the accounting of derivative financial instruments with negative market values that are not part of an effective hedging relationship and allocated to the category "at fair value through profit or loss" in accordance with IAS 39. STADA reports these financial liabilities in the "Other financial liabilities" item. Here, those derivative financial instruments are also included which serve to hedge interest rate and currency risks resulting from operating activities, financial transactions and investments, and which are also measured at fair value in accordance with the regulations of IAS 39 on hedge accounting. Unless market prices are available, fair value is determined with measurement models based on discounted cash flow models.

Fair value hedges serve to hedge against the risk of market value fluctuations. The results from the hedging instruments are generally recognized in the items of the income statement in which the hedged underlying transaction is also reflected. Within the scope of fair value hedge accounting, in addition to the fair value change in the derivative, the opposing fair value change in the underlying transaction is recognized in profit or loss, insofar as it is attributable to the hedged risk.

STADA has so far not made use of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

10. Estimates, assumptions and discretion in the application of accounting principles

The presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements is determined by recognition and valuation methods. To a certain extent, STADA makes estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly re-evaluated, estimates derived in this way may differ from actual circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets evaluated according to IFRS 3 and the consideration transferred plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods are used for this that are primarily based on estimates and assumptions.

STADA carries out an impairment test for capitalized goodwill at least once a year. The discounted future cash flows of the cash-generating units, aggregated into operating segments, which are based on certain assumptions, are to be determined for this purpose. In this regard, both an allocation from "Corporate Assets" to the carrying amounts of the respective cash-generating units and an allocation from "Corporate Costs" are carried out in the calculation of the respective value in use on the basis of individual appropriate distribution keys. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years based on approved budgets. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% the expected long-term inflation rate is assumed. The budget values for future financial years, which are subject to some uncertainty due to unforeseeable future legal developments and developments in the health care market, as well as the parameters determined in the context of current market information but also as a best possible estimate mean that the assessment of impairment may differ from actual circumstances, and despite good forecasts in the reporting year an impairment requirement may be necessary in subsequent years.

For items of property plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are reported as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

STADA makes valuation allowances on receivables in order to anticipate losses expected in relation to insolvency of customers. The maturity structure of the net receivables and past experience in relation to bad debts as well as the customers' creditworthiness are used as the criteria for evaluating the appropriateness of the valuation allowances. This does not, however, exclude

the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial position of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in CEE countries.

STADA operates in various countries and is obliged to pay respective income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred taxes in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain items according to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on actual and deferred taxes and thus on the business, financial and earnings situation of the Group in the respective period. Furthermore, increasing importance within the STADA Group is being allotted to a comprehensive tax transfer-pricing model for the payment of intercompany services. Potential risks of non-recognition of these transfer prices for tax purposes is limited by way of the introduction of corresponding agreement procedures and a comprehensive definition of transfer prices in the form of a Group guideline.

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows, which are already fixed or calculated by means of the current yield curve using so-called "forward rates", are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the reporting date.

The amount of pension obligations from defined benefit plans is calculated using actuarial methods. This procedure is based upon assumptions, among other things, regarding the discount rate, life expectancy and future salary and pension increases. Changes to these assumptions can significantly influence the amount of future pension costs. For German Group companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2005G mortality tables. Outside Germany, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. The discount rate shall be based on long-term rates of return on high quality corporate bonds with fixed interest rates at the reporting date. In countries where there is no liquid market in such corporate bonds, the discount rate is determined on the basis of market yields on government bonds.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. STADA creates provisions if there is a present external obligation and a probable outflow of resources, i.e. if it is more likely to occur than not. Provisions in relation to pending legal disputes are created based on how STADA estimates the prospects of success of these methods. The determination of provisions for damages is also associated with substantial estimates and can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual expenses for returns may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g. discounts to health insurance organizations) prescribed by law and due to other regulatory requirements. These are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.

Notes to the Consolidated Income Statement

11. Sales

Sales at STADA primarily resulted from the supply of products and, to a much lesser extent, from license revenues. For information on the reporting of sales, please refer to the details included in Accounting Policies.

In financial year 2017, there was an increase in sales based primarily on strong sales development in the Belgian, Italian and Serbian generics business as well as in the Russian branded products business. Exchange rate effects and portfolio changes had a total influence of € 58.6 million on sales in the reporting year. For information on how sales are broken down according to segments, please refer to the "Segment reporting" in Note 42.

12. Cost of sales

Cost of sales is divided into the following items:

in € k	2017	2016
Material expenses	930,042	883,480
Impairment, depreciation and amortization	106,900	100,976
Expenses from inventory write-downs	43,215	28,207
Remaining cost of sales	97,837	92,650
Total	**1,177,994**	**1,105,313**

Impairment, depreciation and amortization in the amount of € 106.9 million (previous year: € 101.0 million) mainly included amortization on intangible assets, the ownership of which represents a necessary condition for the marketing of the products manufactured – in particular drug approvals.

Expenses from inventory write-downs included inventories written down to net realizable value netted with reversals. The reversals amounted to € 7.2 million in financial year 2017 (previous year: € 7.7 million).

13. Selling expenses

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

In the reporting year, marketing expenses in the amount of € 220.7 million (previous year: € 210.4 million) corresponded to a share of 43% in selling expenses (previous year: 43%). In addition, selling expenses included depreciation in the amount of € 7.3 million (previous year: € 6.9 million).

14. General and administrative expenses

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

In 2017, the general and administrative expenses included depreciation in the amount of € 6.5 million (previous year: € 7.0 million).

General and administrative expenses increased in the reporting year by a total of € 17.0 million. The increase primarily resulted from increased consulting expenses in connection with various restructuring processes.

15. Research and development expenses

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

In financial year 2017, research and development expenses increased by € 2.4 million compared to the previous year.

The research and development expenses included depreciation in the amount of € 2.2 million (previous year: € 2.3 million). Development costs for new products in the amount of € 21.5 million (previous year: € 28.4 million) were capitalized in financial year 2017 (see the Notes on the item "Intangible Assets").

16. Other income

Other income is divided into the following items:

in € k	2017	2016
Income from write-ups	13,995	3
Income from the reversal of impairments on receivables	7,234	–
Income from the disposal of non-current assets	2,026	–
Remaining other income	18,010	19,276
Total	**41,265**	**19,279**

Income from write-ups in financial year 2017 is made up of many individual items in the Group companies and related to the Generics segment with € 8.5 million and the Branded Products segment with € 5.5 million. The write-ups relate for the most part to various pharmaceutical approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

In the previous year, income from the reversal of impairments on receivables as well as income from disposal of non-current assets were presented net of the relevant position within other expenses, whereas in the reporting year a gross presentation of the positions mentioned was undertaken.

Income from disposal of non-current assets includes an amount of € 0.2 million which results from the sale of the subsidiary STADA Import/Export International Ltd. carried out in the first quarter of 2017. This resulted in a positive effect from the reversal of the currency translation reserve in the amount of € 0.2 million.

The remaining other income includes, among other things, income from a settled compensation agreement reached as part of a legal dispute in Spain in the Generics segment as well as other income that cannot be directly allocated to the functional costs and which are made up of many immaterial individual items in the Group companies.

17. Other expenses

Other expenses are broken down as follows:

in € k	2017	2016
Expenses from valuation allowances on accounts receivable	44,913	5,972
Currency translation expenses	1,966	9,379
Impairment losses on non-current assets excluding goodwill	60,356	65,480
Impairment losses on goodwill	–	–
Losses from the disposal of non-current assets	7,157	1,438
Remaining other expenses	88,868	56,664
Total	**203,260**	**138,933**

Other expenses include impairment losses in the amount of € 60.4 million (previous year: € 65.5 million) that exclusively relate to impairment losses on non-current assets excluding goodwill in the reporting year as well as the largest single position Fultium® D3 vitamin drops. In the previous year, impairment losses were primarily due to reorganization decisions in connection with the adapted corporate strategy. The impairment losses relate for the most part to various pharmaceutical approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

The item also included net currency translation expenses in the amount of € 2.0 million in the reporting year (previous year: € 9.4 million), made up of currency translation income of € 32.3 million (previous year: € 59.5 million) and currency translation expenses of € 34.3 million (previous year: € 68.9 million). This development was based in particular on opposing developments in the significant currencies in the regions CIS, whereas these currencies recorded a strong downward movement in the comparable period.

In other expenses, in the reporting year there are expenses from impairments on receivables in the amount of € 44.9 million (previous year: € 6.0 million) which for the most part relate to impairments due to payment defaults of a customer in Russia. In the previous year, this position was netted of income from the reversal of impairments on receivables, whereas in the current reporting period a gross presentation in other income as well as other expenses was undertaken.

Losses on the disposal of non-current assets resulted for the most part from the following situation: for the subsidiary STADA Vietnam J.V., a contract was concluded on the sale of the shares held by STADA in this company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale. In connection with the loss of control in this company, there was a loss in the total of € 5.5 million. This resulted in a positive effect from the reversal of the currency translation reserve in the amount of € 1.2 million.

Within remaining other expenses, personnel expenses are recognized in the amount of € 20.8 million (previous year: € 24.8 million) which in the reporting year mainly related to severances for former members of the Executive Board as well as restructuring expenses. In the previous year, this was particularly due to a severance payment for the former Chairman of the Executive Board Hartmut Retzlaff as well as further personnel expenses in connection with the merging of the German sales companies. The recurring personnel expenses are appropriately allocated to the respective specialist departments. The remaining other expenses in the previous year were influenced by the termination of the distribution agreement with the Belgian sales partner Omega Pharma and the associated damage payments.

In the reporting period, the item for remaining other expenses included consulting services in connection with the 2017 takeover by Bain Capital and Cinven in the amount of € 45.0 million, which is considered a special item in the financial year. Other consulting expenses are appropriately allocated to the respective specialist departments.

The item "other expenses" included in the previous year expenses in the amount of € 21.6 million in connection with the termination of substantial parts of the aesthetics business. These expenses particularly resulted from impairments to intangible assets, impairments to financial assets, a payment for the termination of the distribution agreement, the reduction in inventories, outstanding rental payments and severance payments.

18. Financial result

The **result from investments measured at equity** in financial year 2017 relates to the companies BIOCEUTICALS Arzneimittel AG, Pharm Ortho Pedic SAS and AELIA SAS as well as Dialogfarma LLC and are accounted for using the equity method.

Investment income primarily relates to profit distributions from companies not included in the Consolidated Financial Statements.

Financial income and financial expenses are composed of the interest result and other financial income and other financial expenses.

The interest result developed as follows:

in € k	2017	2016
Interest income	3,462	2,716
Interest expense	50,475	52,891
Interest result	**47,013**	**50,175**
thereof from financial instruments of the valuation categories in accordance with IAS 39:		
• loans and receivables	3,462	2,716
• financial assets and liabilities at fair value through profit and loss	-14,258	-12,711
• held-to-maturity investments	–	–
• available-for-sale financial assets	–	–
• financial liabilities measured at amortized costs	-35,304	-39,120

In addition, the interest result in financial year 2017 included a net interest expense from other non-current provisions, which comprises interest income on plan assets as well as interest expenses from pension obligations and other non-current provisions, in the amount of € 0.9 million (previous year: € 1.1 million).

In financial year 2017, the Group refinanced itself at interest rates of between 0.8% p.a. and 27.0% p.a. (previous year: between 0.7% p.a. and 26.0% p.a.). As of the balance sheet date December 31, 2017, the weighted average interest rate for nun-current financial liabilities was approximately 25.51% p.a. (previous year: approx. 1.66% p.a.). The strong increase over the previous year is attributable to the high interest rates in Argentina. The non-current financial liabilities reported as of December 31, 2017 in the STADA Group relate exclusively to the Argentinian Laboratorio Vannier S.A. As of the balance sheet date December 31, 2017, the weighted average interest rate for current financial liabilities was approximately 1.78% p.a. (previous year: approx. 3.12% p.a.).

Borrowing costs capitalized as part of the cost of qualifying assets amounted to € 1.5 million in financial year 2017 (previous year: € 1.4 million). A capitalization rate of 1.6% for intangible assets (previous year: 2.0%) was taken as a basis.

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

in € k	2017	2016
Other financial income	**167**	**–**
thereof		
• from the measurement of financial instruments	167	–
• from the disposal of financial instruments	–	28
Other financial expenses	**–**	**1,246**
thereof		
• from the measurement of financial instruments	–	518
• from the disposal of financial instruments	–	728

The result from the measurement of financial instruments in the reporting year resulted from interest rate swaps and interest rate/currency swaps measured at fair value through profit or loss which expired in the fourth quarter of 2017 as planned. The measurement of interest rate hedge transactions thereby depends on the development of the money market interest rate.

Earnings from the disposal of financial instruments resulted in the previous year within the scope of the early utilization of interest rate swaps.

19. Income taxes

The item income taxes includes taxes on income and earnings paid or owed in the individual countries as well as deferred tax liabilities. Other taxes that cannot be meaningfully attributed to the sales, administration or research and development functions are included in other expenses.

Actual income taxes recognized in the income statement can be divided according to timing as follows:

in € k	2017	2016
Actual income taxes	**61,603**	**54,212**
Tax expense in the current period	59,677	50,288
Tax expense from previous periods	2,490	4,619
Tax income from previous periods	564	695

Deferred taxes recognized in the income statement are made up of the following:

in € k	2017	2016
Deferred taxes	**-8,618**	**-22,274**
• from temporary differences	-10,909	-30,073
• from loss/interest carryforwards	2,291	7,799
• from tax credits	–	–
• from others	–	–

The effective income tax rate amounted to 35.9% for financial year 2017. The effective income tax rate in the previous year was 25.1%. The nominal income tax rate amounted to 28.3% in financial year 2017 for STADA Arzneimittel AG in Germany, this includes corporation tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% as well as trade income tax with an assessment rate of 357%. The nominal income tax rate of STADA Arzneimittel AG is thus unchanged as compared to the previous year.

For temporary differences from undistributed earnings of subsidiaries in the amount of € 17.6 million, no deferred tax liabilities were established, because these profits will be reinvested for an indefinite period.

The following overview explains how the effective income tax expense reported in the income statement was derived from the expected income tax expense. The expected income tax expense is calculated by applying the nominal tax rate of a corporation headquartered in Bad Vilbel to earnings before taxes. The tax effects of the respective tax rates to be applied locally depending on their applicable national and legal forms are reported in a separate reconciliation.

in € k	2017	2016
Earnings before taxes	**147,746**	**127,429**
Nominal income tax rate of STADA Arzneimittel AG (in %)	28.3%	28.3%
Expected income tax expense	**41,842**	**36,088**
Deviation in local tax rate	-12,356	-8,701
Tax effects from non-deductible impairment on investments and goodwill	–	–
Tax effects from loss carryforwards, interest carryforwards and prior-year taxes	8,456	-9,743
Effects from tax rate changes	-89	-4,157
Tax effects from non-deductible expenses and tax-free earnings	9,187	19,436
Tax effects from deconsolidation	5,788	–
Other tax effects	157	-985
Income tax expense shown on the income statement	**52,985**	**31,938**
Effective income tax rate (in %)	35.9%	25.1%

Deviations in the local tax rate resulted for the most part from low nominal tax rates in the United Kingdom and Russia.

Tax effects from loss/interest carryforwards resulted for the most part from unusable interest expenses due to the interest barrier rule that was newly-introduced in the United Kingdom in 2017.

Tax effects from tax rate changes resulted, as was the case in the previous year, for the most part from a lowering of the tax rate in the United Kingdom as of April 1, 2017.

The tax effects from the deconsolidation resulted from the change of control at STADA Vietnam J.V. and the change of status associated with it.

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

in € k	Dec. 31, 2017	Dec. 31, 2016
Income tax receivables	14,346	12,816
Income tax liabilities	69,663	60,625

in € k	2017	2016
Deferred tax assets	24,472	20,814
Deferred tax liabilities	113,382	116,416
Deferred taxes as of December 31	-88,910	-95,602
Difference compared to previous year	6,692	30,566
thereof		
• recognized in income	8,618	22,274
• recognized through other comprehensive income	-4,956	-627
• acquisitions/disposals/changes in the scope of consolidation	-4,774	-3,276
• reclassifications in accordance with IFRS 5	4,916	5,490
• currency translation differences	2,888	6,705

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

in € k	Dec. 31, 2017 Deferred tax assets	Dec. 31, 2016 Deferred tax assets	Dec. 31, 2017 Deferred tax liabilities	Dec. 31, 2016 Deferred tax liabilities
Intangible assets	3,078	2,684	117,434	123,318
Property, plant and equipment	1,764	1,816	7,524	6,187
Financial assets	791	830	591	652
Inventories	14,081	10,824	1,201	909
Receivables	8,484	8,896	374	3,919
Other assets	2,956	2,180	41	28
Other non-current provisions	2,438	5,079	708	464
Other provisions	3,337	1,966	4,528	6,715
Liabilities	1,736	4,713	1,184	367
Loss carryforwards	6,010	7,969	–	–
Total	**44,675**	**46,957**	**133,585**	**142,559**
Offsetting	-17,104	-26,143	-17,104	-26,143
Deferred taxes as per balance sheet	**27,571**	**20,814**	**116,481**	**116,416**

Deferred tax liabilities reported by STADA resulted, among other things, from deferred taxes in the context of purchase price allocations carried out under IFRS 3. The reduction in deferred tax liabilities from intangible assets compared with the previous year was primarily a result of scheduled amortization on intangible assets with purchase price allocations measured in accordance with IFRS 3, as well as from impairments on such assets.

Tax advantages that are expected from the future utilization of tax loss carryforwards are reported under "Tax loss carryforwards", insofar as their utilization is probable. Tax loss carryforwards capitalized as of the balance sheet date on the December 31, 2017 reporting date amounted to € 25.7 million in financial year 2017 (previous year: € 30.9 million).

Tax effects from loss and interest carryforwards led in the financial year to an increase in the income tax expense in the amount of € 3.1 million (previous year: reduction in the income tax expense by € 6.1 million). This development was primarily influenced by British tax law which, from April 1, 2017 for the first time limits the deduction of operating expenses for interest (interest barrier) which led to an interest carryforward for which no deferred tax assets were established.

The future usable tax loss carryforwards and similar items are listed in the following chart according to their expiry date:

in € k	Dec. 31, 2017	Dec. 31, 2016
Loss carryforward expiry date within		
• 1 year	865	–
• 2 years	248	799
• 3 years	–	–
• 4 years	23	–
• 5 years	5,914	707
• more than 5 years	1,168	416
• unlimited carryforward	17,455	28,936

No deferred taxes were recognized for the following tax loss carryforwards and similar items as it is not probable that they will be realized in the foreseeable future:

in € k	Dec. 31, 2017	Dec. 31, 2016
Expiry date for loss carryforwards and similar items within		
• 1 year	250	–
• 2 years	692	–
• 3 years	642	–
• 4 years	789	–
• 5 years	284	–
• more than 5 years	10,223	19,470
• unlimited carryforward	17,872	84,055
Temporary differences	–	-426

20. Income attributable to non-controlling interests

in € k	Dec. 31, 2017	Dec. 31, 2016
Earnings after taxes	**94,761**	**95,491**
• thereof distributable to shareholders of STADA Arzneimittel AG (net income)	85,323	85,904
• thereof distributable to non-controlling interests	9,438	9,587

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

21. Earnings per share

The basic earnings per share were as follows:

Basic earnings per share	2017	2016
Net income (in € k)	85,323	85,904
Adjustment	–	–
Adjusted net income (basic) (in € k)	**85,323**	**85,904**
Average number of registered shares[1)] issued (in unit shares)	62,342,440	62,342,440
Average number of treasury shares (in unit shares)	84,389	85,908
Adjusted average number of shares (basic) (in unit shares)	**62,258,051**	**62,256,532**
Basic earnings per share (in €)	**1.37**	**1.38**

Basic earnings per share are calculated by dividing the adjusted net income distributable to the shareholders of STADA Arzneimittel AG by the time-weighted average number of registered shares with restricted transferability outstanding[1)].

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 entered in the commercial register on December 9, 2016 and took effect on this date. Therefore, since that time, the authorization from approved capital pursuant to Section 6 (1) of the Articles of Incorporation therefore relates to registered shares with no transferability restrictions.

22. Number of employees and personnel expenses

The average number of employees at STADA by functional area and functional sub-area is as follows:

	2017	2016
Marketing/Sales	3,102	3,089
Logistics	434	360
Finance/IT	724	707
Production/Quality Assurance	4,675	4,809
Procurement/Supply Chain	338	340
Product Development	618	623
Administration	941	911
Entire Group	**10,832**	**10,839**
Personnel expenses (in € million)	**387.5**	**365.7**

The average number of employees in the reporting year was approximately at the level of the previous year at 10,832 (previous year: 10,839). The significant additions to the number of employees reached are based on the acquisition of a Serbian product portfolio including the associated sales structures, the purchase of the British branded product company Natures Aid and the assumption of sales activities in Belgium. Although all three measures were attributable to financial year 2016, they nevertheless resulted in an increase in personnel mainly in the reporting year. Furthermore, there was an increase in the number of employees resulting from the initial consolidation of the Serbian wholesaler Velexfarm d.o.o. in 2017. This was countered by the deconsolidation of STADA Vietnam J.V. as of November 30, 2017 and the average number of employees thus remained at the level of the previous year. As of the balance sheet date, the STADA Group's number of employees in 2017 decreased by 7% to 10,176 (previous year: 10,923), this reduction resulted mainly from the deconsolidation of STADA Vietnam J.V.

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, increased in financial year 2017 to € 387.5 million (previous year: € 365.7 million). The increase resulted, among other things, from the increase in the number of employees in Belgium, the United Kingdom and Serbia.

23. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses were incurred on intangible assets and property plant and equipment as follows:

in € k	2017	2016
Depreciation/amortization	**122,865**	**117,180**
Intangible assets	86,470	83,506
Property, plant and equipment	36,395	33,674
Impairment losses	**60,356**	**65,480**
Intangible assets	55,681	61,807
thereof		
• goodwill	–	–
Property, plant and equipment	4,268	223
thereof		
• land and buildings	3,242	36
• plant and machinery	268	97
• other fixtures and fittings, tools and equipment	332	90
• down payments	426	–
Financial assets	407	3,450
thereof		
• investments	407	3,450

While depreciation and amortization are included in expenses of the individual functional areas according to their functional relevance, there is a presentation within other expenses for impairment losses.

The impairment of intangible assets concerns various drug approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

Impairment losses on financial assets recognized in the reporting year relate to a number of items which, individually, were immaterial. In the previous year, impairment losses resulted for the most part from the termination of substantial parts of the aesthetics business.

Depreciation and amortization increased by 4.9% compared to the previous year. More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

Notes to the Consolidated Balance Sheet

24. Intangible assets

Intangible assets developed as follows in financial year 2017:

2017 in € k	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2017	**1,907,273**	**478,826**	**214,526**	**2,600,625**
Currency translation	-40,684	-9,256	-1,850	-51,790
Changes in the scope of consolidation	-26,584	-5,097	–	-31,681
Additions	12,171	–	44,856	57,027
Additions from business combinations according to IFRS 3	248	80	–	328
Disposals	4,797	–	1,050	5,847
Reclassifications from non-current assets and disposal groups held for sale	30,387	5,785	–	36,172
Reclassifications to non-current assets and disposal groups held for sale	2,395	–	–	2,395
Reclassifications	37,250	–	-37,221	29
Cost as of Dec. 31, 2017	**1,912,869**	**470,338**	**219,261**	**2,602,468**
Accumulated depreciation as of Jan. 1, 2017	**877,124**	**74,242**	**66,898**	**1,018,264**
Currency translation	-10,638	-463	-449	-11,550
Changes in the scope of consolidation	-8,258	-608	–	-8,866
Scheduled amortization	86,470	–	–	86,470
Impairment	42,452	–	13,229	55,681
Disposals	3,788	–	574	4,362
Write-ups	13,995	–	–	13,995
Reclassifications from non-current assets and disposal groups held for sale	7,169	690	–	7,859
Reclassifications to non-current assets and disposal groups held for sale	1,375	–	–	1,375
Reclassifications	77	–	-77	0
Accumulated amortization as of Dec. 31, 2017	**975,238**	**73,861**	**79,027**	**1,128,126**
Residual carrying amounts as of Dec. 31, 2017	**937,631**	**396,477**	**140,234**	**1,474,342**
Residual carrying amounts as of Dec. 31, 2016	**1,030,149**	**404,584**	**147,628**	**1,582,361**

Additions from business combinations according to IFRS 3, which relate to the fair value calculated in the context for the purchase price allocations resulted in the reporting year from the acquisition of the Serbian wholesaler Velexfarm d.o.o.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to STADA Vietnam J.V., which in the previous year was considered as IFRS 5 reporting.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to an approval for an Italian branded product.

The umbrella brand Hemofarm capitalized in 2006 in the context of the acquisition of the Hemofarm group is included in recognized trademarks as an intangible asset with an indefinite useful life, as STADA intends to make continuing use of it. As at December 31, 2017, this umbrella brand has a carrying amount of € 38.9 million (previous year: € 37.4 million). In the context of the impairment test of December 31, 2017, a royalty rate of 2% and a discount rate of 10.8% were used. There was no necessity for impairment in the reporting year. In addition, the change compared to the previous year figure of € 1.5 million is attributable to different exchange rates.

Furthermore, in the context of the control achieved over Pymepharco in 2013, the umbrella brand Pymepharco was capitalized as an intangible asset with an indefinite useful life as a trademark, as STADA intends to continue to use the trademark. As at December 31, 2017, these have a carrying amount of € 8.6 million (previous year: € 9.7 million). The change is a result of different exchange rates. In the context of the impairment test of December 31, 2017, a royalty rate of 2% and a discount rate of 12.5% were used. There was no necessity for impairment for the reporting year.

As part of the acquisition of Laboratorio Vannier in the previous year, the umbrella brand Vannier was capitalized as an intangible asset and an indefinite useful life as a trademark as STADA intends to continue to use the trademark. As at December 31, 2017, this umbrella brand has a carrying amount of € 0.2 million (previous year: € 0.3 million). In the context of the impairment test of December 31, 2017, a royalty rate of 2% and a discount rate of 17.8% were used. There was no necessity for impairment for the reporting year.

Borrowing costs capitalized in 2017 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to € 1.5 million (previous year: € 1.4 million). In financial year 2017, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 1.6% (previous year: 2.0%).

Development costs of € 23.9 million were capitalized in the reporting year (previous year: € 31.0 million). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years). STADA immediately recognizes development costs that do not qualify for capitalization as expense in the period in which they are incurred (see Note 15.). In financial year 2017, these development costs amounted to of € 67.5 million (previous year: € 65.1 million).

Amortization on intangible assets mainly relates to regulatory drug approvals as well as trademarks and is recognized in the income statement primarily under cost of sales. In the reporting year, this related to an amount of € 86.5 million (previous year: € 83.5 million).

In financial year 2017, impairments on intangible assets were recognized in the total amount of € 55.7 million (previous year: € 61.8 million). As in the previous year, no valuation allowances on goodwill were recorded in the reporting year.

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

Intangible assets developed as follows in the previous year:

2016 in € k	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2016	**1,854,400**	**465,034**	**201,653**	**2,521,087**
Currency translation	-12,653	2,137	-102	-10,618
Changes in the scope of consolidation	-51	-927	–	-978
Additions	484	–	81,037	81,521
Additions from business combinations according to IFRS 3	30,585	18,367	–	48,952
Disposals	3,085	–	375	3,460
Reclassifications to non-current assets and disposal groups held for sale	30,387	5,785	–	36,172
Reclassifications	67,980	–	-67,687	293
Cost as of Dec. 31, 2016	**1,907,273**	**478,826**	**214,526**	**2,600,625**
Accumulated depreciation as of Jan. 1, 2016	**739,059**	**73,422**	**59,586**	**872,067**
Currency translation	8,855	1,510	987	11,352
Changes in the scope of consolidation	-51	–	–	-51
Scheduled amortization	83,506	–	–	83,506
Impairment losses	54,677	–	7,130	61,807
Disposals	2,241	–	359	2,600
Write-ups	–	–	3	3
Reclassifications to non-current assets and disposal groups held for sale	7,169	690	–	7,859
Reclassifications	488	–	-443	45
Accumulated amortization as of Dec. 31, 2016	**877,124**	**74,242**	**66,898**	**1,018,264**
Residual carrying amounts as of Dec. 31, 2016	**1,030,149**	**404,584**	**147,628**	**1,582,361**
Residual carrying amounts as of Dec. 31, 2015	**1,115,341**	**391,612**	**142,067**	**1,649,020**

In 2016, the reclassifications of non-current assets and disposal groups held for sale relate to two subsidiaries in Asia.

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

in € k	Expected amortization
2018	82,561
2019	82,572
2020	80,598
2021	83,583
2022	84,947

The following table shows which cash-generating units the capitalized goodwill can be attributed to:

Residual carrying amount as of Dec. 31, 2017 in € million	
Generics	183.7
Branded Products	212.8
Total	**396.5**

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

Residual carrying amount as of Dec. 31, 2016 in € million	
Generics	188.7
Branded Products	215.9
Total	**404.6**

In comparison with the previous year, there were changes in the carrying amounts of goodwill which were for the most part exclusively currency related. The only addition resulted from the acquisition of the Serbian wholesaler Velexfarm in the amount of € 0.1 million which was mainly allocated to the Generics segment.

In the context of the regular impairment tests for capitalized goodwill of September 30, 2017, the discounted cash flow method was used to determine anticipated cash inflows, applying the following parameters defined for the individual cash-generating units according to segment:

According to segment, defined as cash-generating unit	Growth rates of the forward-project phase 2017 in %	WACCs 2017 in %
Generics	1.3%	9.6%
Branded Products	1.5%	10.0%

In the previous year, the applied parameters were as follows:

According to segment, defined as cash-generating unit	Growth rates of the forward-project phase 2016 in %	WACCs 2016 in %
Generics	2.4%	10.3%
Branded Products	2.7%	10.0%

The discounted cash flow method is used to determine the value in use of the cash-generating units, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. This detailed planning period reflects the assumptions for short and medium-term market developments. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% of the expected long-term inflation rate is assumed. The detailed planning period for the determination of the value in use is based on assumptions in light of past experience, supplemented by current internal developments and verified through external market data and analyses. The most important assumptions include the development of future sales prices, amounts and costs, the influence of the regulatory market environment, investments, market shares, exchange rates and growth rates. Significant changes to the above-described assumptions would influence the determination of the value in use of the cash-generating units. The discount rates applied are determined on the basis of external factors derived from the market and adjusted for the respective predominant risks of the cash-generating units.

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. A sensitivity analysis was therefore carried out for the different cash-generating units with a 1.0 percentage points higher discount rate, a decrease in the growth rate of 0.5 percentage points and a decrease in EBIT of 10.0 percentage points. Using these assumptions, there was also no necessity for an impairment to any cash-generating unit.

25. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2017:

2017 in € k	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
Cost as of Jan. 1, 2017	**250,048**	**222,875**	**108,726**	**33,227**	**614,876**
Currency translation	-526	-3,840	-1,197	289	-5,274
Changes in the scope of consolidation	-10,302	-9,428	-889	-49	-20,668
Additions	2,430	7,858	7,064	38,477	55,829
Additions from business combinations according to IFRS 3	17	–	122	–	139
Disposals	1,472	947	6,038	156	8,613
Reclassifications from non-current assets and disposal groups held for sale	11,693	9,915	1,010	49	22,667
Reclassifications to non-current assets and disposal groups held for sale	2,985	–	–	–	2,985
Transfers	14,940	21,679	6,087	-42,536	170
Cost as of Dec. 31, 2017	**263,843**	**248,112**	**114,885**	**29,301**	**656,141**
Accumulated depreciation as of Jan. 1, 2017	**87,185**	**131,524**	**73,452**	**–**	**292,161**
Currency translation	842	-1,512	-301	–	-971
Changes in the scope of consolidation	-1,739	-5,328	-565	–	-7,632
Amortization	6,795	18,837	10,763	–	36,395
Impairments	3,242	268	332	426	4,268
Disposals	467	712	4,617	-15	5,781
Write-ups	–	–	–	–	–
Reclassifications from non-current assets and disposal groups held for sale	1,527	4,857	559	–	6,943
Reclassifications to non-current assets and disposal groups held for sale	2,179	–	–	–	2,179
Transfers	246	249	-296	–	199
Accumulated amortization as of Dec. 31, 2017	**95,452**	**148,183**	**79,327**	**441**	**323,403**
Residual carrying amounts as of Dec. 31, 2017	**168,391**	**99,929**	**35,558**	**28,860**	**332,738**
Residual carrying amounts as of Dec. 31, 2016	**162,863**	**91,351**	**35,274**	**33,227**	**322,715**

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to STADA Vietnam J.V. which in the previous year was considered as IFRS 5 reporting.

Property, plant and equipment included assets from finance leases, primarily relating to cars and vehicles, in the amount of € 4.4 million (previous year: € 4.4 million), which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since been subjected to scheduled depreciation.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale within property, plant and equipment related to one property including building structures in Germany and a real-estate property in Bosnia-Herzegovina.

As in the previous year, no borrowing costs were capitalized for property, plant and equipment in financial year 2017.

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

2016 in € k	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
Cost as of Jan. 1, 2016	**263,806**	**225,444**	**102,389**	**27,780**	**619,419**
Currency translation	1,193	3,555	2,235	-11	6,972
Changes in the scope of consolidation	–	–	-122	–	-122
Additions	2,242	7,956	8,035	31,894	50,127
Additions from business combinations according to IFRS 3	1,519	2,047	628	–	4,194
Disposals	18,061	16,733	7,796	148	42,738
Reclassifications to non-current assets and disposal groups held for sale	11,693	9,915	1,026	49	22,683
Transfers	11,042	10,521	4,383	-26,239	-293
Cost as of Dec. 31, 2016	**250,048**	**222,875**	**108,726**	**33,227**	**614,876**
Accumulated depreciation as of Jan. 1, 2016	**95,410**	**132,349**	**70,043**	**–**	**297,802**
Currency translation	806	3,274	669	–	4,749
Changes in the scope of consolidation	–	–	-119	–	-119
Scheduled depreciation	6,796	16,574	10,304	–	33,674
Impairment losses	36	97	90	–	223
Disposals	14,335	15,911	6,925	–	37,171
Write-ups	–	–	–	–	–
Reclassifications to non-current assets and disposal groups held for sale	1,527	4,858	567	–	6,952
Transfers	-1	-1	-43	–	-45
Accumulated amortization as of Dec. 31, 2016	**87,185**	**131,524**	**73,452**	**–**	**292,161**
Residual carrying amounts as of Dec. 31, 2016	**162,863**	**91,351**	**35,274**	**33,227**	**322,715**
Residual carrying amounts as of Dec. 31, 2015	**168,396**	**93,095**	**32,346**	**27,780**	**321,617**

In 2016, the reclassifications of non-current assets and disposal groups held for sale related to two subsidiaries in Asia.

26. Financial assets

Financial assets developed as follows in financial year 2017:

2017 in € k	Shares in associates and other investments	Other financial assets	Total
Cost as of Jan. 1, 2017	**20,243**	**–**	**20,243**
Currency translation	385	–	385
Changes in the scope of consolidation	-407	–	-407
Acquisitions	275	–	275
Disposals	–	–	–
Reclassifications from non-current assets and disposal groups held for sale	–	–	–
Transfers	-1,438	–	-1,438
Cost as of Dec. 31, 2017	**19,058**	**–**	**19,058**
Accumulated impairments as of Jan. 1, 2017	**18,007**	**–**	**18,007**
Currency translation	509	–	509
Changes in the scope of consolidation	-407	–	-407
Impairment losses	407	–	407
Disposals	-2	–	-2
Write-ups	–	–	–
Reclassifications from non-current assets and disposal groups held for sale	–	–	–
Transfers	-1,438		-1,438
Accumulated impairments as of Dec. 31, 2017	**17,080**	**–**	**17,080**
Residual carrying amounts as of Dec. 31, 2017	**1,978**	**–**	**1,978**
Residual carrying amounts as of Dec. 31, 2016	**2,236**	**–**	**2,236**

Financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices. There is currently no intention to sell these financial assets. Impairment losses on financial assets recognized in the reporting year related to several immaterial items.

Financial assets developed as follows in the previous year:

2016 in € k	Shares in associates and other investments	Other financial assets	Total
Cost as of Jan. 1, 2016	**16,085**	**–**	**16,085**
Currency translation	-157	–	-157
Changes in the scope of consolidation	0	–	0
Additions	4,869	–	4,869
Disposals	554	–	554
Reclassifications from non-current assets and disposal groups held for sale	–	–	–
Transfers	–	–	–
Cost as of Dec. 31, 2016	**20,243**	**–**	**20,243**
Accumulated impairments as of Jan. 1, 2016	**14,746**	**–**	**14,746**
Currency translation	-183	–	-183
Changes in the scope of consolidation	–	–	–
Impairment losses	3,450	–	3,450
Disposals	6	–	6
Write-ups	–	–	–
Reclassifications from non-current assets and disposal groups held for sale	–	–	–
Transfers	–	–	–
Accumulated impairments as of Dec. 31, 2016	**18,007**	**–**	**18,007**
Residual carrying amounts as of Dec. 31, 2016	**2,236**	**–**	**2,236**
Residual carrying amounts as of Dec. 31, 2015	**1,339**	**–**	**1,339**

27. Investments measured at equity

The disclosure relates to the accounting of shares in the associates BIOCEUTICALS Arzneimittel AG, as well as Pharm Ortho Pedic SAS, AELIA SAS and Dialogfarma LLC using the equity method.

For the former Vietnamese subsidiary STADA Vietnam J.V. , a contract was signed in the fourth quarter of financial year 2017 for the sale of the shares held by in the company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now also be consolidated as an associate in the Consolidated Financial Statements until the time of the sale.

Investments measured at equity developed as follows in financial year 2017 compared with the previous year:

in € k	2017	2016
As of Jan. 1	**13,872**	**13,168**
Status change of STADA Vietnam J.V.	25,352	–
Result from associates	2,304	704
Elimination of dividend income	–	–
Currency translation differences	–	–
As of Dec. 31	**41,528**	**13,872**

The increase in investments accounted for at equity resulted in financial year 2017 from the inclusion of the company STADA Vietnam J.V. as an associate. The equity carrying amount corresponds to the contractually agreed selling price for the sale on December 31, 2019 of the shares held by STADA under consideration of a relevant discounting effect. Changes in the equity carrying amount arise for this company exclusively from discounting effects, eventual dividend distributions and from currency translation.

28. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Trade accounts receivable from third parties	665,191	589,952
Trade accounts receivable from non-consolidated companies	1,078	6,923
Valuation allowances vis-à-vis third parties	-145,828	-107,804
Total	**520,441**	**489,071**

As of December 31, 2017, there are trade accounts receivable due after one year in the amount of € 0.2 million (previous year: € 3.3 million).

Collateral exists for a portion of trade accounts receivable whose value was not impaired in the form of bank or corporate guarantees as well as pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

The following non-impaired trade accounts receivable were past due at the reporting date:

			thereof: not impaired as at the reporting date and overdue in the following time range			
in € k	Carrying amount	thereof: neither impaired nor past due as at the reporting date	up to 30 days	between 31 and 90 days	between 91 and 180 days	more than 180 days
Dec. 31, 2017	520,441	473,215	27,404	12,863	3,693	3,266
Dec. 31, 2016	489,071	415,318	17,453	32,191	18,058	6,051

There were no recognizable indications as of the reporting date that the debtors would not meet their payment obligations. Therefore, the trade accounts receivable that are not impaired and not past due are considered to be unconditionally recoverable. There are also no indications of impairment for the overdue receivables that have not been impaired.

Overall, valuation allowances on trade accounts receivable developed as follows:

in € k	2017	2016
As of Jan. 1	**107,804**	**105,061**
Added	44,332	8,564
Utilized	3,154	3,248
Reversed	5,340	2,304
Additions from business combinations in accordance with IFRS 3	74	–
Changes in the scope of consolidation and reclassifications in accordance with IFRS 5	4	-33
Currency translation differences	2,108	-236
As of Dec. 31	**145,828**	**107,804**

29. Other financial assets

Other financial assets are composed as follows:

	Dec. 31, 2017		Dec. 31, 2016	
in € k	Total	thereof: current	Total	thereof: current
Loan receivables	371	20	234	–
Outstanding purchase price receivables	–	–	1,070	765
Derivative financial assets	678	678	9,914	9,914
Other financial assets	9,847	9,111	33,112	29,201
Total	**10,896**	**9,809**	**44,330**	**39,880**

There were no outstanding purchase price receivables in financial year 2017. The outstanding partial amounts of the previous year from the sale of a product portfolio in Italy were collected in the reporting year.

The derivative financial assets include the positive market values of currency forwards (see Note 45.1.).

The remaining financial assets include receivables from the factoring business in the amount of € 7.8 million and also comprise many insignificant individual items in the Group companies.

As of December 31, 2017, other financial assets included impairments in the amount of € 11.4 million (previous year: € 11.4 million). There were no outstanding amounts for non-impaired other financial assets as in the previous year.

30. Other assets

Other assets are composed as follows:

in € k	Dec. 31, 2017 Total	Dec. 31, 2017 thereof: current	Dec. 31, 2016 Total	Dec. 31, 2016 thereof: current
Other receivables due from the tax authorities	16,307	16,280	12,495	12,253
Prepaid expenses/deferred charges	14,357	13,858	11,982	10,780
Assets from overfunded pension plans	16	–	18	–
Other assets	5,973	5,185	7,290	5,657
Total	**36,653**	**35,323**	**31,785**	**28,690**

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

There are no impairments for the remaining assets.

31. Inventories

Inventories can be subdivided as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Materials and supplies	91,638	93,156
Work in progress	26,662	20,686
Finished goods and merchandise	372,075	364,483
Advance payments to suppliers	8,637	6,579
Total	**499,012**	**484,904**

In financial year 2017, impairments netted with reversals were made on the net realizable value of inventories in the amount of € 43.2 million (previous year: € 28.2 million), which were already deducted from the amounts shown above through profit and loss. In financial year 2017, reversals here amounted to € 7.2 million (previous year: € 7.7 million).

32. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits as well as current and highly liquid financial investments with a maximum term of 90 days from the purchase date. In certain countries, specific transactions are subjected to special monitoring in the context of the requirements of the respective national bank or foreign exchange acts in force. Restrictions on disposal for cash and cash equivalents amount to € 2.7 million (previous year: € 2.3 million) and, as in the previous year, exclusively relate to cash and cash equivalents in China.

The decrease in cash and cash equivalents from € 352.6 million as of December 31, 2016 to € 243.2 million as of December 31, 2017 resulted from the effects described as part of the explanations of the consolidated cash flow statement. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

33. Non-current assets and disposal groups held for sale as well as associated liabilities

As of December 31, 2017, in the STADA Group, an asset held for sale in the amount of € 1.8 million presented in a separate line item in the balance sheet. This includes, among other things, a building from a German subsidiary that is held for sale as well as an intangible asset from an Italian subsidiary that is held for sale.

In the previous year as part of a disposal group of assets held for sale in the amount of € 83.0 million or liabilities in the amount of € 14.6 million from the two subsidiaries STADA Vietnam J.V. , Ho Chi Minh City, Vietnam and STADA Import/Export International Ltd., Hong Kong, China were presented in a separate line item in the balance sheet because at that point in time a disposal in the near term was seen as highly probable. As of December 31, 2017 there was no longer, in relation to these two companies, any recognition of non-current assets and disposal groups held for sale as well as liabilities in connection with the assets.

This resulted on the one hand in the sale in the first quarter of 2017 of the subsidiary STADA Import/Export International Ltd. Here there was a gain from the deconsolidation of this company in the amount of € 0.2 million, which is recognized in income from the disposal of non-current assets within other income.

On the other hand, with regard to the subsidiary STADA Vietnam J.V., a contract was signed for the sale of the shares held in the company by STADA as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale. In connection with the loss of control in this company, there was a total loss in the amount of € 5.5 million which is recognized in losses from the disposal of non-current assets within other expenses.

34. Equity

Group equity amounted to € 1,006.4 million as of the balance sheet date (previous year: € 1,047.1 million). This corresponds to an equity ratio of 31.4% (previous year: 30.4%).

34.1. Share capital

As of December 31, 2017, share capital amounted to € 162,090,344.00 (December 31, 2016: € 162,090,344.00) and was divided into 62,342,440 registered shares (December 31, 2016: 62,342,440), each with an arithmetical share of share capital of € 2.60 per share, and is fully paid. Each share grants one vote in the General Meeting.

As of December 31, 2017, Authorized Share Capital and Conditional Capital were comprised as follows:

	Amount in €	Shares	Purpose
Authorized Capital	77,134,304.00	29,667,040	Increase of share capital (until June 4, 2018)
Conditional Capital 2013	69,188,340.00	26,610,900	Settlement of options and/or conversion rights (until June 4, 2018) in connection with issued bonds with warrants and/or convertible bonds, participation rights and/or participating bonds in the total nominal amount of up to € 1.0 billion, or in the scope of a guarantee assumed for bonds with warrants and/or convertible bonds, participation rights and/or participating bonds issued by subordinate Group companies

34.2. Capital reserve

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in equity and particularly include the capital reserve of STADA Arzneimittel AG. Differences from the capital reserve determined according to the provisions of German commercial law primarily result from the recognition at their market value of the shares of STADA Arzneimittel AG newly issued in 2003 as well as the associated treatment of issuing costs, which were deducted from the capital reserve.

Changes in the capital reserve were solely the result of the change in treasury shares in financial year 2017, as was the case in the previous year.

34.3. Retained earnings including net income

Retained earnings including net income comprise net income for the financial year as well as earnings generated in previous periods, provided these were not distributed, including amounts transferred to retained earnings. In addition, re-valuations of net debt from defined benefit plans that were recognized through other comprehensive income are reported under this item, taking deferred taxes into account.

In the context of measuring the defined benefit obligations as of December 31, 2017, net income in the amount of € 3.5 million after deferred taxes – not considering amounts attributable to non-controlling interests – resulted from the remeasurement. It is mainly based on the increase in the discount rate for various defined benefit plans in the STADA Group underlying the measurement of December 31, 2017 in comparison with December 31, 2016. In addition, this position also includes currency translation differences related to the revaluation of net debt recognized in equity from performance-oriented pension plans as well as the deferred taxes they incur which, in financial year 2017, amounted to income recognized in equity of € 0.1 million.

34.4. Other reserves

Other reserves include results recognized directly in equity. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are reported in the statement of changes in equity under the currency translation reserve. The provision for cash flow hedges include the measurement results from cash flow hedges from the effective portion of the hedge, allowing for respective deferred taxes.

The reduction of other reserves compared to the previous year primarily resulted from the depreciation of the Russian ruble and the British pound sterling since December 31, 2016, which has led to expenses from the currency translation of the companies that are accounted for in the Russian ruble and the pound sterling.

34.5. Treasury shares

As of the balance sheet date, the Company held 84,311 treasury shares (previous year: 85,043), each with an arithmetical par value of € 2.60, which is equivalent to 0.14% (previous year: 0.14%) of the share capital. In financial year 2017, 732 treasury shares were sold at an average price of € 51.72 per share within the scope of an employee stock option program.

34.6. Shares relating to non-controlling shareholders

Shares relating to non-controlling interests as of December 31, 2017 related to the minority interests of other shareholders in the subsidiaries Hemofarm Banja Luka, Hemomont, Pymepharco, STADA Pharmaceuticals (Beijing) and Well Light Investment Services. As a result of the deconsolidation of the company STADA Import/Export International Ltd. and the deconsolidation of STADA Vietnam J.V. as a subsidiary in financial year 2017, there are no longer any minority interests of other shareholders included in these items as of December 31, 2017. The minority interests in STADA Thailand are also no longer included as of December 31, 2017 due to the increase in the shareholding to 100% of the shares in the second quarter of 2017.

35. Other non-current provisions

Other non-current provisions made by STADA as of the balance sheet date in Germany and outside Germany include pension provisions and other non-current provisions in the form of anniversary provisions and provisions for working time accounts as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Germany	15,305	13,157
Outside Germany	19,988	22,840
Total	**35,293**	**35,997**

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

In financial year 2017, the plan assets of one international subsidiary exceeded their pension obligations, with the result that these assets in excess were reported under other assets as assets from overfunded pension plans in the amount of € 0.02 million (previous year: € 0.02 million).

Plan assets were divided according to investment type as follows:

Share of plan assets in € k	2017	2016
Cash and cash equivalents	1,006	1,245
Equity securities	6,976	6,045
Debt securities	19,696	18,983
Real estate	1,945	1,813
Derivatives	–	–
Shares in investment funds	14,013	13,075
Insurance policies	75,297	77,009
Other	–	459
Total	**118,933**	**118,629**

The plan assets, which have a quoted market price, consist of the following:

Share of plan assets (quoted market price) in € k	2017	2016
Cash and cash equivalents	1,006	1,245
Equity securities	6,976	6,045
Debt securities	19,696	18,983
Real estate	1,945	1,813
Derivatives	–	–
Shares in investment funds	14,013	13,075
Insurance policies	–	–
Other	–	459
Total	**43,636**	**41,620**

For German Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € k	2017	2016
As of Jan. 1	**57,598**	**48,748**
Current service cost	43	36
Past service cost	–	–
Plan settlements	–	–
Interest cost	966	1,163
Benefits paid from plan assets	-1,210	-114
Benefits paid by employer	-454	-471
Revaluations:		
• Gains (-) / losses (+) due to changed demographic assumptions	–	–
• Gains (-) / losses (+) due to changed financial assumptions	-2,057	7,054
• Gains (-) / losses (+) due to experience-based changes	-609	1,182
As of Dec. 31	**54,277**	**57,598**

For international Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € k	2017	2016
As of Jan. 1	**93,342**	**81,583**
Current service cost	2,846	2,719
Past service cost	1,719	752
Plan settlements	-47	-472
Interest cost	1,911	2,256
Benefits paid from plan assets	-1,100	-1,333
Benefits paid by employer	-748	-279
Employee contributions	538	492
Insurance premiums for death and disability benefits	-251	-217
Business combinations	–	–
Disposals	-323	-113
Reclassifications	513	-528
Revaluations:		
• Gains (-) / losses (+) due to changed demographic assumptions	302	-1,124
• Gains (-) / losses (+) due to changed financial assumptions	-2,500	12,688
• Gains (-) / losses (+) due to experience-based changes	-340	205
Currency changes	-2,743	-3,191
Other	-105	-96
As of Dec. 31	**93,014**	**93,342**

The past service cost is accounted for in the reporting year for the most part by a special event in the United Kingdom with the following background: At the company Thornton & Ross Ltd., the performance-oriented pension plan was concluded as of June 30, 2002 and frozen in such a way that the funds paid into it up to that point would no longer grow with the salary, but in accordance with the statutory entitlement adjustment requirement. A review in 2017 showed that the plan participants could interpret the closing regulation in a way that would mean that the connection of the payments to the salary development was still in place. On the basis of this interpretation of the regulation, the obligation was increased by € 1.8 million as past service cost.

The fair value of plan assets underlying the pension obligations developed as follows for German group companies:

Fair value of plan assets in € k	2017	2016
As of Jan. 1	**44,441**	**37,314**
Interest income	739	766
Employer contributions	264	-29
Employee contributions	–	–
Pension payments	-1,210	-114
Actuarial gains (+) / losses (-) on plan assets (not included in interest result)	-1,714	6,504
Other	–	–
As of Dec. 31	**42,520**	**44,441**

The fair value of plan assets underlying the pension obligations developed as follows for international Group companies:

Fair value of plan assets in € k	2017	2016
As of Jan. 1	**74,188**	**67,645**
Interest income	1,417	1,816
Employer contributions	2,987	2,195
Employee contributions	538	492
Pension payments	-1,100	-1,333
Insurance premiums for death and disability benefits	-251	-217
Business combinations	–	–
Disposals	–	–
Reclassifications	–	–
Actuarial gains (+) / losses (-) on plan assets (not included in interest result)	646	7,228
Currency changes	-1,891	-3,456
Other	-121	-182
As of Dec. 31	**76,413**	**74,188**

The amount of the pension provisions recognized as of the reporting date for companies with plan assets was therefore as follows:

in € k	2017	2016
Projected benefit obligations for pension commitments	135,357	137,452
Fair value of plan assets	118,933	118,629
Net obligation	**16,424**	**18,823**
Effect from the limit on a defined benefit asset according to IFRIC 14	–	–
Net liability recognized in balance sheet	**16,424**	**18,823**

The amount of the pension provisions recognized as of the reporting date for companies without plan assets was therefore as follows:

in € k	2017	2016
Projected benefit obligations for pension commitments	11,934	13,488
Net liability recognized in balance sheet	**11,934**	**13,488**

Expenses for defined benefit plans amounted to net expenses in the total amount of € 5.3 million in financial year 2017 (previous year: € 4.0 million) and consisted of the following components:

in € k	2017	2016
Current service cost	2,889	2,755
Past service cost	1,719	752
Plan settlements	-47	-472
Net interest expense:		
• Interest expense (DBO)	2,877	3,419
• Interest income (plan assets)	-2,156	-2,582
• Interest income from reimbursement	–	–
• Interest expense (+) / interest income (-) from the limit on an asset	–	–
Administration costs	64	153
Other	–	–
Total	**5,346**	**4,025**

Gains from plan assets amounted to € -1.0 million in financial year 2017 (previous year: € +7.3 million) for German Group companies and € 2.1 million for international Group companies (previous year: € 9.0 million).

The reduction in income of plan assets for German Group companies is mainly due to an increase of the plan assets of an approval to the level of the gross obligation as a result of existing reinsurance; this decreased as a consequence of the increased actuarial interest rate in financial year 2017. The reduction of the plan assets outside Germany is mainly attributable to a worse performance of the plan assets in the United Kingdom and a decrease in the income of the plan assets in the Netherlands. In the Netherlands, the amount of the plan assets is calculated on the basis of an actuarial measurement and thus depends decisively on the development of the actuarial interest rate. In financial year 2017, the actuarial interest rate increased; this led to a reduction of the plan assets and the income.

The following actuarial parameters were used as a basis for measuring the German pension obligations and pension costs:

Parameters for pension obligations for German Group companies (weighted)	Dec. 31, 2017	Dec. 31, 2016
Discount rate	1.9%	1.7%
Salary trend	3.0%	3.0%
Benefits trend	1.4%	1.4%
Inflation	1.8%	1.8%

The following actuarial parameters were used as a basis for measuring the international pension obligations and pension costs:

Parameters for pension obligations for international Group companies (weighted)	Dec. 31, 2017	Dec. 31, 2016
Discount rate	2.1%	2.1%
Salary trend	2.1%	2.7%
Benefits trend	0.9%	0.9%
Inflation	1.8%	2.0%

A sensitivity analysis was carried out in which only one assumption was changed in each case and all other assumptions were not changed. In the following, the change in the defined benefit obligation of the pension obligations (DBO) for German Group companies is presented according to a change in the discount rate, salary trends and pension trends:

Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2017 (€ 54,277 k) according to changed assumption in € k	Dec. 31, 2017	Dec. 31, 2016
Discount rate +0.5%	-4,681	-5,376
Discount rate -0.5%	5,376	6,019
Salary trend +0.5%	8	16
Salary trend -0.5%	-6	-11
Pension trend +0.5%	5,294	6,111
Pension trend -0.5%	-4,613	-5,284

The salary trend is largely insignificant after the last active plan participant in a pension plan receives a pension since 2017.

In the following, the change in the defined benefit obligation of the pension obligations (DBO) for international Group companies is presented according to a change in the discount rate, salary trends and pension trends:

Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2017 (€ 93,014 k) according to changed assumption in € k	Dec. 31, 2017	Dec. 31, 2016
Discount rate +0.5%	-7,234	-7,618
Discount rate -0.5%	8,026	8,575
Salary trend +0.5%	731	867
Salary trend -0.5%	-915	-814
Pension trend +0.5%	4,708	4,850
Pension trend -0.5%	-1,804	-1,256

As of December 31, 2017, the weighted duration of the pension obligations amounted to 18 years (previous year: 20 years) for German Group companies and 17 years (previous year: 17 years) for international Group companies.

In the coming financial years, the following payments from the Company and from plan assets overall are expected for defined benefit plans:

Expected pension payments according to maturity dates in € k	Germany	Outside Germany
Less than 1 year	1,680	4,380
Between 1 and 2 years	1,962	2,987
Between 2 and 3 years	1,958	2,842
Between 3 and 4 years	1,968	2,968
Between 4 and 5 years	1,963	3,326
Between 5 and 10 years	9,834	19,459

For the coming financial year, employer contributions, consisting of direct pension payments and contributions to the plan, are expected in the amount of € 0.8 million for German Group companies and € 3.6 million for international Group companies.

The regulations of IAS 19 require a presentation of the benefit plans that generate obligations for the company. For the STADA Group, pension plans in Germany, the Netherlands, the United Kingdom and Switzerland account for the largest share of total obligations with 83%. Accordingly, the following details focus more on these countries.

In Germany, the legal framework for company pension plans is provided by the Company Pensions Act (Betriebsrentengesetz – BetrAVG) in which minimum legal requirements are attached to company pension plans. Regulation and legal precedents within labor law must also be followed. The retirement benefit plans are predominantly based upon the final salary and are concluded with newly hired employees. Plan participants are primarily beneficiaries. Benefits are paid out in the form of a pension. In the calculation of the amount of the pension obligations, the Heubeck 2005G mortality tables were used as a basis for consideration of mortality and fluctuation.

In Germany, STADA has plan assets in the form of reinsurance policies and in the form of assets in a pension fund. As of December 31, 2017, plan assets amounted to € 42.5 million and were composed of three different plans. There were no plan assets for two additional plans.

In the context of risk assessment, the life expectancy of plan participants plays a smaller role in Germany, as the material obligation regarding its amount and including associated risks was outsourced externally. Furthermore, there is also the common risk of the interest rate development and the risk that the real future salary development exceeds the salary development derived from assumptions taken in the evaluation.

The pension commitment for the former Chairman of the Executive Board Hartmut Retzlaff was transferred to a pension fund in full in financial year 2014. Despite the transfer, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as a defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly in the balance sheet. The existing plan assets lead to a provision of zero due to offsetting that must be carried out at the time of the plan amendment for this benefit plan. Because the pension commitment is fully funded, no further provisions are expected in the future.

Pension legislation in the Netherlands requires pension plans to be backed by assets to such an extent that the vested benefits are completely covered. The underlying average career pension plan in the Netherlands is, in part, financed via insurance contributions that are designed to fulfill the aforementioned requirement. The plan is open for new employees and contains benefits that fall due in case of retirement or early death.

In the Netherlands, the pension plan is, in part, financed via contributions to an insurance company. Assets received by the insurance company thereby cannot be allocated to specific participating companies. The assets cannot be determined by a quoted active market price, instead they are determined according to the amount of vested benefit obligations. As of December 31, 2017, plan assets amounted to € 26.3 million.

The Dutch company pays annual pension contributions. In the process, life expectancy risk and interest rate risk are transferred to the insurance company. The insurance company also assumes the risk of investing the contributions. These risks are assumed by the insurance company for the entire term of the contract. If, for example, the discount rate used by the insurance company in its calculations should change, a new contract could be concluded that applies the new discount rate to underlie only future contributions received.

Not all risks have been transferred to the insurance company. Dutch law specifies that former employees have the right to transfer their pension entitlements to the pension plan of a new employer. If the evaluation assumptions applied in the transfer differ from the originally applied assumptions of the insurance, the company could be required to pay an additional contribution payment. In the calculation of the amount of the pension obligations and plan assets, the assumptions of the AG forecast table 2016 were used as a basis for consideration of the mortality. Company-specific age-related annual fluctuation rates serve as a fluctuation assumption.

In the United Kingdom, STADA provides its employees with defined benefit plans that are concluded for new hires. The employees can also no longer earn an additional increase in their entitlements. The pension plan plans are subject to the UK Trust Law and the UK Pension Regulator. The pension plans are monitored by trustees who determine the investment strategy. The trustees are also responsible for fulfilling the legally required pension plan funding and thereby ensuring sufficient assets to cover the technical provisions of the plan. The pension plan is subject to risks relating to the discount rate and participant life expectancy as well as inflation risk, if these values develop contrary to expectations. If the discount rate is low, the level of funding decreases, which may require the payment of additional contributions. There is a financing risk in plan assets in that plan assets could develop contrary to expectations and plan assets could therefore only compensate in part for changes in the obligations.

In the long-term, 40% of the plan assets in the United Kingdom should be invested in so-called matching assets, which guarantee the fulfillment of future pension obligations under changing market conditions. In accordance with target allocation, the remaining 60% should be invested in so-called growth assets, for which an above-average return is expected in comparison with the obligation development. As of December 31, 2017, plan assets amounted to € 23.5 million. All assets have quoted market prices on an active market. In the calculation of the amount of the pension obligations, the mortality tables of the S2 Series (S2PA) were used as a basis for consideration of the mortality also including the projection table CMI 2015 as well as the long-term trend toward improved mortality of 1.25%. Fluctuation assumptions are no longer relevant for the pension plan.

In Switzerland, every employer must offer its employees a pension plan according to federal pension law (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG). Employees whose salary exceeds the entry limit are obliged to be insured – this is re-determined periodically. The BVG requires a minimum plan (the "BVG minimum") that must always be covered. STADA's Swiss benefit plan includes benefits in case of death, disability, departure and upon reaching retirement age. The annual pension is calculated based on a savings account and conversion rate determined according to the age of retirement. Plan participants can opt for a capital option. In the calculation of the amount of the pension obligations, the BVG 2015 GT mortality tables were used as a basis for consideration of mortality and fluctuation.

Various Group companies additionally grant their employees defined contribution plans. Here, Group companies pay defined contributions to independent institutions due to legal or contractual requirements or on a voluntary basis; liabilities beyond this do not exist. The contributions for defined contribution plans, which are reported as expense in the respective period in the relevant functional areas, amounted to € 26.8 million in financial year 2017 (previous year: € 23.2 million).

The other non-current provisions developed as follows:

Other non-current provisions in € k	2017	2016
As of Jan. 1	**3,668**	**3,434**
Current service cost	385	295
Past service cost	3,361	-203
Plan settlements	–	–
Interest cost	192	223
Benefits paid	-460	-330
Business combinations	7	–
Revaluations		
• gains (-) / losses (+) due to changed demographic assumptions	-40	22
• gains (-) / losses (+) due to changed financial assumptions	-406	472
• gains (-) / losses (+) due to experience-based changes	158	-230
Currency changes	54	-15
Reclassifications	–	–
As of Dec. 31	**6,919**	**3,668**

In Germany, anniversary obligations were accounted for the first time in 2017. This resulted in a one-time past service cost in the amount of € 3.3 million.

36. Financial liabilities

Financial liabilities are comprised as follows in accordance with their remaining terms as of the balance sheet date:

	Liabilities promissory note loans		Liabilities to banks		Liabilities from bonds		Total	
in € k	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Remaining term up to 1 year	525,112	43,993	84,007	90,351	647,986	–	1,257,105	134,343
Remaining terms over 1 year up to 3 years	–	294,487	816	25,575	–	348,912	816	668,974
Remaining terms over 3 years up to 5 years	–	307,665	–	542	–	–	–	308,207
Remaining terms over 5 years	–	61,314	–	–	–	297,918	–	359,232
Financial liabilities	**525,112**	**707,459**	**84,823**	**116,468**	**647,986**	**646,830**	**1,257,921**	**1,470,757**

The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. The increase in current financial liabilities as well as the decrease in non-current financial liabilities was based on the reclassification of the promissory note loans, bonds and financial liabilities due to banks currently in place at STADA Arzneimittel AG. Due to STADA's financing agreements, the Company anticipates that repayment could take place in the short term which is why a relevant reclassification of the financial liabilities in the balance sheet from non-current to current liabilities was undertaken. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming.

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2017, from interest payments and repayment of financial liabilities for the coming years can be seen in the following table:

	2018			2019			> 2020		
in € k	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from financial liabilities	13,788	1,092	1,259,973	147	–	260	49	–	448

The following projection of cash flows from financial liabilities was generated in the previous year:

	2017			2018			> 2019		
in € k	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from financial liabilities	22,471	2,396	125,066	20,347	2,322	383,350	35,734	2,508	966,789

For the financial liabilities existing as of the reporting date, a repayment in accordance with the maturity disclosed in the balance sheet was generally assumed. The variable interest payments from the promissory note loans were determined based on the interest rate last fixed before December 31, 2017.

For the financial liabilities whose cash-effective change are included in the cash flow from financing activities resulted in the reporting year in the following reconciliation:

2017 in € k	Financial liabilities
As of Jan. 1	**1,470,757**
Cash inflows from additions	32,296
Cash outflows from repayments	250,292
Changes in the scope of consolidation	1,867
Effects from currency translation	1,485
Other non-cash effective changes	1,808
As of Dec. 31	**1,257,921**

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the Notes on the capital management of liquidity risk (see Note 46.5.).

37. Trade accounts payable

Trade accounts payable are composed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Trade accounts payable to third parties	198,543	244,138
Trade accounts payable to non-consolidated Group companies	3,849	3,784
Advances received on orders from third parties	564	634
Liabilities from outstanding accounts	137,686	88,288
Total	**340,642**	**336,844**

Of the total amount of trade accounts payable, € 0.0 million (previous year: € 0.0 million) are due after one year.

For the most part, the changes were based on trade accounts payable on offsetting reporting date effects within the individual Group companies.

38. Other financial liabilities

Other financial liabilities are broken down as follows:

	Dec. 31, 2017		Dec. 31, 2016	
in € k	Total	thereof: current	Total	thereof: current
Loan liabilities	54,821	54,821	15,413	15,413
Outstanding purchase price liabilities	1,880	415	5,609	3,616
Finance lease liabilities	3,419	1,337	3,316	1,489
Liabilities from derivative financial instruments	1,250	1,250	11,869	11,869
Other financial liabilities	168,770	168,285	181,740	181,644
Total	**230,140**	**226,108**	**217,947**	**214,031**

The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. Loans payable as of December 31, 2017 includes a loan granted from Nidda Healthcare GmbH in the amount of € 40.0 million due to the early repayment of STADA financing.

As of December 31, 2017, the outstanding purchase price liabilities were based on product acquisitions in the United Kingdom. The outstanding purchase price payment in place as of December 31, 2016 for the acquisition of the Argentinian Laboratorio Vannier was paid in the reporting year.

Finance lease liabilities, such as for vehicles and passenger vehicles, amount to € 3.4 million (previous year: € 3.3 million). Considering interest in the amount of € 0.7 million (previous year: € 0.6 million), lease installments payable in subsequent years total € 4.1 million (previous year: € 3.9 million).

The leasing liabilities are due as follows:

in € k	Lease installments		Interest		Finance lease liabilities	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Remaining term up to 1 year	1,706	1,807	368	318	1,338	1,489
Remaining terms over 1 year up to 3 years	2,140	1,679	318	271	1,822	1,408
Remaining terms over 3 years up to 5 years	274	402	15	17	259	385
Remaining terms over 5 years	–	34	–	–	–	34
Total	**4,120**	**3,922**	**701**	**606**	**3,419**	**3,316**

For the liabilities from financial leasing whose cash-effective changes are included in the cash flow from financing activities resulted in the reporting year in the following reconciliation:

2017 in € k	Liabilities financial leasing
As of Jan. 1	**3,316**
Payments	2,212
Additions	2,293
Effects from currency translation	22
Other non-cash effective changes	–
As of Dec. 31	**3,419**

In addition, the negative market values of derivatives measured at fair value through profit or loss were reported in liabilities from derivative financial instruments. In financial year 2017, this related to currency forwards (see Note 45.1.). Within the scope of the maturity date analysis, the following contractually agreed remaining terms result for these derivative financial liabilities:

in € k	Derivative financial liabilities	
	Dec. 31, 2017	Dec. 31, 2016
Remaining term up to 1 year	1,250	11,869
Remaining terms over 1 year up to 3 years	–	–
Remaining terms over 3 years up to 5 years	–	–
Remaining terms over 5 years	–	–
Total	**1,250**	**11,869**

Remaining financial liabilities included liabilities from discount agreements of German STADA companies in the amount of € 140.8 million (previous year: € 166.3 million) and also comprise many insignificant individual items in the Group companies. The remaining financial liabilities fall due in the amount of € 168.3 million (previous year: € 181.6 million) within one year, in the amount of € 0.5 million after one year and up to five years (previous year: € 0.1 million).

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2017, from interest payments and repayment of finance lease liabilities and for the liabilities from derivative financial instruments for the coming years can be seen in the following table:

in € k	2018			2019			2020–2022		
	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from finance lease liabilities	368	–	1,338	226	–	1,027	107	–	1,054
Cash flows from derivatives	–	–	–	–	–	–	–	–	–

The following projection of cash flows from finance lease liabilities as well as derivatives was generated in the previous year:

in € k	2017			2018			2019–2021		
	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from finance lease liabilities	318	–	1,489	179	–	862	109	–	931
Cash flows from derivatives	156	–	–	–	–	–	–	–	–

Included were all financial instruments used by STADA which existed as of the respective balance sheet date and for which payments had already been contractually agreed.

Further details on liabilities from derivative financial instruments can be found in the Notes on financial instruments Note 45. and Note 46.7.

39. Other liabilities

Other liabilities were comprised as follows:

in € k	Dec. 31, 2017		Dec. 31, 2016	
	Total	thereof: current	Total	thereof: current
Tax liabilities	10,254	10,251	8,170	8,121
Personnel-related liabilities	66,373	66,373	64,308	64,308
Other liabilities	47,846	46,899	47,424	46,504
Total	**124,473**	**123,523**	**119,902**	**118,933**

The rise in other liabilities was mainly attributable to increases in other tax liabilities and personnel liabilities, particularly in the scope of serverances.

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

40. Other provisions

Other provisions are composed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Provisions set aside for damages	1,393	1,425
Provisions for returns	22,114	18,848
Total	**23,507**	**20,273**

Provisions set aside for damages include possible utilization from pending legal disputes including the associated legal costs and developed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
As of Jan. 1	**1,425**	**1,082**
Added	380	857
Utilized	–	200
Reversed	420	306
Currency translation differences	8	-8
As of Dec. 31	**1,393**	**1,425**

Utilization is expected within the next twelve months.

Provisions for returns developed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
As of Jan. 1	**18,848**	**21,450**
Added	15,408	12,964
Utilized	11,996	12,426
Reversed	146	3,140
Changes in the scope of consolidation	–	–
As of Dec. 31	**22,114**	**18,848**

Other Disclosures

41. Notes to the cash flow statement

Cash flow from operating activities consists of changes in items not covered by capital expenditure, financing, changes in exchange rates from the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities decreased to € 262.9 million in the reporting year (previous year: € 333.5 million). This development resulted primarily from significantly higher cash outflows as compared with the previous year in connection with inventories, trade receivables as well as trade payables. The cash-effective increase in inventories was attributable, among other things, to additions at ALIUD PHARMA to secure the ability to deliver within the scope of health insurance tenders. In addition, trade receivables were strongly impacted by decreasing factoring volumes.

Cash flow from investing activities reflects the cash outflows for investments reduced by the inflows from disposals. This amounted to € -122.6 million in the reporting year (previous year: € -171.8 million).

In financial year 2017, payments for investments in intangible assets in the amount of € 70.2 million (previous year: € 76.1 million) were made, of which € 39.5 million (previous year: € 33.4 million) related to significant investments in intangible assets for the short-term expansion of the product portfolio. Proceeds from the disposal of non-current assets amounted to € 5.7 million (previous year: € 11.0 million) in the financial year.

The cash flow from investing activities was particularly influenced by payments for investments in intangible assets in the financial year 2017, primarily relating to advance payments made for the development of approvals, trademarks and licence acquisitions in Germany and the United Kingdom. Within the scope of business combinations, there were pay-outs for the final purchase price payment from the acquisition of the Argentinian Laboratorio Vannier as well as for the acquisition of the Serbian pharmaceutical wholesaler Velexfarm and a Serbian product portfolio. In the previous year, there were significantly higher pay-outs for business combinations, mainly for the acquisition of a product portfolio in Serbia, the acquisition of the British Natures Aid and the Argentinian Laboratorio Vannier.

Proceeds from the disposal of shares in consolidated companies in financial year 2017 related exclusively to the sale of shares in the Chinese STADA Import/Export International Ltd. The selling price was € 6 k and was paid in cash. Assets in the total amount of € 1.7 million and liabilities in the total amount of € 1.7 million were hereby disposed of.

Cash flow from financing activities amounts to € -227.8 million in financial year 2017 (previous year: € 54.3 million) and encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity. This development was particularly attributable to a significantly lower borrowing of funds compared with the comparable period in the previous year. The repayment and borrowing of funds in 2017 shown in the cash outflow from financing activities was effected by the following facts: the financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, a loan in the amount of € 40.0 million was already granted by Nidda Healthcare Holding GmbH in this connection. The resulting cash inflows were allocated to cash flow from financing activities.

Dividend distribution payments at € 44.8 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2016.

Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to € 140.2 million in financial year 2017 (previous year: € 161.8 million).

Cash pursuant to IAS 7 is made up of cash and cash equivalents.

Free cash flow, adjusted for effects from payments for significant investments and acquisitions and effects of proceeds from significant disposals is calculated as follows:

in € k	2017	2016
Cash flow from operating activities	262,881	333,522
Cash flow from investing activities	-122,644	-171,763
+ payments for investments in business combinations according to IFRS 3	2,854	52,901
+ payments for significant investments in intangible assets for the short-term expansion of the product portfolio	39,484	33,420
– proceeds from disposals in significant disinvestments	1,390	4,169
- proceeds from disposals in consolidated companies	6	–
Adjusted free cash flow	**181,179**	**243,911**

42. Segment reporting

The measurement approaches for segment reporting are in accordance with the financial reporting methods used in the IFRS Consolidated Financial Statements. Services between the segments are charged based on market prices.

Segmentation within the STADA Group is based on sales differentiation. Thus, the allocation to the individual segments is determined to a large extent by the sales positioning. If this positioning changes for parts of the product portfolio, associated sales are reallocated.

According to the new reporting structure, which was introduced in the previous year, the Group is managed by operating segment, i.e. according to the two segments Generics and Branded Products.

Generics are products for the health care market – usually with a drug character – which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active pharmaceutical ingredient

or

- the product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have expired,

or

- the product is sold under its international non-proprietary name (INN).

Branded Products are products for the health care market which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products,

or

- the product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on different specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

All other income, expenses and assets, which cannot be directly allocated to the segments, as well as the elimination of sales between segments are recognized under the reconciliation Group holdings/other and consolidation.

Disclosures on significant non-cash items include impairments on inventories and receivables; they do not, however, include depreciation and amortization as well as the offsetting of impairments and write-ups. In addition, further non-cash items, particularly non-cash effects from accruals for health insurance organization billings are included here. Reporting of the segment liabilities and non-current segment assets is waived, as this is without relevance for Group monitoring and for Group reporting.

42.1 Information by operating segment

in € k		2017	2016
Generics	**External sales**	**1,361,681**	**1,280,757**
	Sales with other segments	2,001	3,431
	Total sales	1,363,681	1,284,188
	Operating profit	233,237	195,188
	Depreciation/amortization	53,475	50,535
	Impairment losses	14,325	9,858
	Reversals	8,513	3
	EBITDA	292,549	255,767
	Special items within EBITDA	10,270	9,090
	thereof		
	• effects from purchase price allocations and product acquisitions	-2,418	-2,607
	• consultancy services in connection with the takeover process	–	–
	• exchange rate effects CIS/Eastern Europe	–	713
	• other	12,688	10,984
	EBITDA adjusted	*302,819*	*264,857*
	Other significant non-cash items within operating result	-196,002	-211,828
Branded Products	**External sales**	**952,247**	**858,462**
	Sales with other segments	–	40
	Total sales	952,247	858,502
	Operating profit	99,322	81,361
	Depreciation/amortization	65,414	62,140
	Impairment losses	45,624	42,706
	Reversals	5,482	–
	EBITDA	204,878	186,207
	Special items within EBITDA	2,570	14,445
	thereof		
	• effects from purchase price allocations and product acquisitions	-1,815	-257
	• consultancy services in connection with the takeover process	–	–
	• exchange rate effects CIS/Eastern Europe	–	8,389
	• other	4,385	6,313
	EBITDA adjusted	*207,448*	*200,652*
	Other significant non-cash items within operating result	-41,999	-29,358

in € k		2017	2016
Reconciliation Group holdings/ other and consolidation	**External sales**	**–**	**1**
	Sales with other segments	-2,001	-3,471
	Total sales	-2,001	-3,470
	Operating profit	-140,270	-98,426
	Depreciation/amortization	3,976	4,506
	Impairment losses	407	12,916
	Reversals	–	–
	EBITDA	-133,609	-80,466
	Special items within EBITDA	57,205	12,947
	thereof		
	• effects from purchase price allocations and product acquisitions	–	–
	• consultancy services in connection with the takeover process	44,987	–
	• exchange rate effects CIS/Eastern Europe	–	–
	• other	12,218	12,947
	EBITDA adjusted	*-76,404*	*-67,519*
	Other significant non-cash items within operating result	-43,057	-3,426
Group	**External sales**	**2,313,928**	**2,139,220**
	Sales with other segments	–	–
	Total sales	2,313,928	2,139,220
	Operating profit	192,289	178,123
	Depreciation/amortization	122,865	117,181
	Impairment losses	60,356	65,480
	Reversals	13,995	3
	EBITDA	363,818	361,508
	Special items within EBITDA	70,045	36,482
	thereof		
	• effects from purchase price allocations and product acquisitions	-4,233	-2,864
	• consultancy services in connection with the takeover process	44,987	–
	• exchange rate effects CIS/Eastern Europe	–	9,102
	• other	29,291	30,244
	EBITDA adjusted	*433,863*	*397,990*
	Other significant non-cash items within operating result	-281,058	-244,612

42.2. Reconciliation of segment results to net profit

in € k	2017	2016
Adjusted EBITDA for segments	510,267	465,509
Special effects within EBITDA	12,840	23,535
Reconciliation Group holding/other and consolidation	-133,609	-80,466
Depreciation, amortization, impairments losses and reversals	169,226	182,658
Financial income	3,629	2,716
Financial expenses	50,475	54,137
Earnings before taxes, Group	**147,746**	**127,429**

42.3. Information by country

	Sales developments by location of the company		Non-current assets	
in € k	2017	2016	Dec. 31, 2017	Dec. 31, 2016
Germany	518,666	532,138	558,151	551,812
Russian Federation	364,505	265,459	211,648	234,046
United Kingdom	250,201	259,369	405,976	466,087
Italy	213,268	201,389	31,986	35,809
Serbia	138,185	95,441	292,096	272,183
Other countries	829,103	785,424	307,223	345,140
Total, Group	**2,313,928**	**2,139,220**	**1,807,080**	**1,905,076**

In the presentation of sales by the company's business premises, sales to third parties are shown according to the invoicing company's registered office of the countries listed.

Disclosures on assets by country relate to parts of the non-current assets (intangible assets, property, plant and equipment).

42.4. Information on important customers

In accordance with IFRS 8.34, a company must provide notification when sales revenues from business activities from a single external customer or customer group amount to at least 10% of the company's total sales revenues. This applied to one customer in the reporting year. The sales revenues identified with this customer amounted to € 313.3 million. The sales revenues generated were attributable to the Generics segment and the Branded Products segment. In the previous year, this did not apply to any customers.

43. Contingent liabilities

Contingent liabilities describe possible obligations to third parties based on past events but which will not become manifest until the occurrence of one or more uncertain future events, which are not under STADA's control. As of the balance sheet date, these contingent liabilities were considered improbable and are therefore not accounted. In addition, there are also contingent liabilities for current obligations, for which however the associated outflow of resources is not considered probable or the amount of the obligation cannot be adequately estimated.

STADA has contingent liabilities, among other things, in connection with patent risks for certain active pharmaceutical ingredients and associated pending or impending proceedings. The resulting possible obligations amounted to approx. € 11.6 million (previous year: € 12.9 million). Development as compared to the previous year are based primarily on the elimination of possible obligations from patent risks in the amount of € 4.6 million. Furthermore, a changed estimate with regard to the volume of impending resource outflows for patent risks that existed already in the previous year as well as potential obligations as a result of a ban on economic activities between Russia and Ukraine led to an increase in contingent liabilities in the amount of € 3.3 million.

Provisions were not created for contingent liabilities as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be short-term.

44. Other financial obligations

In addition to the contingent liabilities, there are also other future financial obligations, which can be broken down as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Operating lease liabilities	121,317	69,111
Other financial obligations	69,085	42,460
Total	**190,402**	**111,571**

Liabilities from operating leases relate, among other things, to IT equipment and vehicles. In addition, there are liabilities from long-term rental agreements for office buildings with an average contract term of 5 years. The increase as compared to the previous year resulted mainly from long-term obligations for logistics services.

The total of future minimum lease payments under operating leases amounted to € 121.3 million as of the end of the financial year (previous year: € 69.1 million) and can be broken down according to remaining term as follows:

	Operating leases	
in € k	Dec. 31, 2017	Dec. 31, 2016
Remaining terms up to 1 year	31,912	28,673
Remaining terms over 1 year to 5 years	68,283	37,860
Remaining terms over 5 years	21,122	2,578
Total	**121,317**	**69,111**

Lease payments in the amount of € 32.2 million (previous year: € 32.4 million) were recognized as an expense in financial year 2017.

There is still a guarantee amounting to € 25.0 million towards Hospira Inc., Lake Forest, Illinois, USA, in connection with a supply agreement between Hospira and the shares in the associate BIOCEUTICALS Arzneimittel AG which are recognized under the equity method.

STADA, as guarantor, has continued to recognize this guarantee as a financial guarantee in accordance with IAS 39 with a fair value in the amount of € 0.3 million in the reporting year (previous year: € 0.3 million). Utilization of this guarantee granted is currently not expected.

The increase in other financial liabilities resulted primarily from new validity contingent liabilities in Belgium and the United Kingdom. In total, such liabilities in the STADA Group amounted to € 37.4 million as of December 31, 2017.

Furthermore, additional guarantees assumed by the STADA Group are included in other financial liabilities, among other things.

45. Disclosures about financial instruments

45.1. Carrying amounts, valuation rates and fair values according to valuation categories

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are used for the valuation categories pursuant to IAS 39: LaR (loans and receivables), HtM (held-to-maturity investments), AfS (available-for-sale financial assets), FAHfT (financial assets held for trading), FLHfT (financial liabilities held for trading) and FLAC (financial liabilities measured at amortized cost).

			Valuation rate balance sheet in accordance with IAS 39			
in € k	Carrying amount Dec. 31, 2017	Valuation category pursuant to IAS 39	Amortized cost	Fair value not included in the income statement	Fair value included in the income statement	Valuation rate in accordance with IAS 17
Assets						
Cash and cash equivalents	243,195	LaR	243,195	–	–	–
Trade accounts receivable	520,441	LaR	520,441	–	–	–
Available-for-sale financial assets	1,978	AfS	1,978	–	–	–
Derivative financial assets with hedging relationship	678	n/a	–	–	678	–
Derivative financial assets without hedging relationship	–	FAHfT	–	–	–	–
Other financial assets	10,217	LaR	10,217	–	–	–
Equity and liabilities						
Trade accounts payable	340,642	FLAC	340,462	–	–	–
Amounts due to banks	84,823	FLAC	84,823	–	–	–
Promissory note loans	525,112	FLAC	525,112	–	–	–
Bonds	647,986	FLAC	647,986	–	–	–
Liabilities financial leasing	3,419	n/a	–	–	–	3,419
Derivative financial liabilities with hedging relationship	1,244	n/a	–	–	1,244	–
Derivative financial liabilities without hedging relationship	6	FLHfT	–	–	6	–
Other financial liabilities	225,471	FLAC	225,471	–	–	–
Thereof aggregated according to valuation categories in accordance with IAS 39						
Loans and receivables	773,853	LaR	773,853	–	–	–
Available-for-sale financial assets	1,978	AfS	1,978	–	–	–
Financial assets held for trading	–	FAHfT	–	–	–	–
Financial liabilities measured at amortized cost	1,824,034	FLAC	1,824,034	–	–	–
Financial liabilities held for trading	6	FLHfT	–	–	6	–

		Valuation rate balance sheet in accordance with IAS 39					
	Fair Value Dec. 31, 2017	Carrying amount previous year	Amortized cost	Fair value not included in the income statement	Fair value included in the income statement	Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2016
	243,195	352,580	352,580	–	–	–	352,580
	520,441	489,071	489,071	–	–	–	489,071
	1,978	2,236	2,236	–	–	–	2,236
	678	–	–	–	–	–	–
	–	9,914	–	–	9,914	–	9,914
	10,217	34,416	34,416	–	–	–	34,416
	340,462	336,844	336,844	–	–	–	336,844
	84,772	116,468	116,468	–	–	–	117,531
	526,000	707,459	707,459	–	–	–	746,076
	655,656	646,830	646,830	–	–	–	665,138
	3,419	3,316	–	–	–	3,316	3,316
	1,244	–	–	–	–	–	–
	6	11,869	–	–	11,869	–	11,869
	225,471	202,763	202,763	–	–	–	202,763
	773,853	876,067	876,067	–	–	–	876,067
	1,978	2,236	2,236	–	–	–	2,236
	–	9,914	–	–	9,914	–	9,914
	1,832,541	2,010,364	2,010,364	–	–	–	2,068,352
	6	11,869	–	–	11,869	–	11,869

Since cash and cash equivalents as well as trade receivables mainly have short remaining terms, their carrying amounts as of the closing date correspond approximately to the fair value.

Deviations of the fair values from the carrying amounts occur as shown in the chart above in the case of promissory note loans, bonds, as well as liabilities to banks. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values for liabilities to credit institutes. Due to the short-term maturity of the promissory note loan, the stated fair value corresponds to the nominal value.

Available-for-sale financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices.

The fair values of remaining financial receivables as well as of held-to-maturity financial investments with remaining terms of more than a year correspond to the present values of the payments connected with the assets taking into consideration the respective current interest parameters that reflect market and partner-related changes in the conditions and expectations. Trade payables as well as remaining financial liabilities also regularly have short remaining terms so that the recognized values approximate the fair values.

For the disclosures according to class of financial instrument necessary in accordance with IFRS 7, STADA defines each valuation category as a class.

The chart below shows how the valuation rates of financial instruments measured at fair value were determined for the respective classes of financial instruments:

	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
Fair values by levels of hierarchy in € k on a recurring basis	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**	**Dec. 31, 2016**
Financial assets held for trading (FAHfT)						
• currency forwards	–	–	–	4	–	–
• interest rate/currency swaps	–	–	–	–	–	9,910
Derivative financial assets with hedging relationship						
• fair value hedges	–	–	678	–	–	–
Financial liabilities held for trading (FLHfT)						
• currency forwards	–	–	6	8,507	–	–
• interest rate/currency swaps	–	–	–	–	–	3,362
Derivative financial liabilities with hedging relationship						
• fair value hedges	–	–	1,244	–	–	–

In the context of the preparation of the financial statements, STADA reviews the allocation to the respective hierarchy levels according to information available on the determination of the fair values. If the need for reclassification is determined, the reclassification is carried out as of the beginning of the reporting period. In the financial year, there were no reclassifications among the respective hierarchy levels.

The fair values are analyzed in the context of the preparation of the financial statements. For this purpose, market comparisons and change analyses are carried out.

Derivative financial assets (FAHfT) and derivative financial liabilities (FLHfT) include positive or negative market values of derivative financial instruments (foreign exchange swaps, in the previous year interest rate and currency swaps) not part of a hedging relationship. The fair values of currency forwards are determined using financial mathematics based on current market data provided by a reputable information service, such as spot exchange rates or swap rates, in one system according to standardized procedures. In the previous year, the fair values were determined using appropriate valuation models by external third parties.

STADA designates currency forwards (EUR/RUB), (EUR/DKK), (EUR/CHF), (EUR/USD) and (EUR/GBP) as fair value hedges that are concluded to hedge the currency risks from inter-company loans. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective.

The chart below shows how the valuation rates of assets measured at fair value on a non-recurring basis were determined:

	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
Fair values by levels of hierarchy in € k on a non-recurring basis	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**	**Dec. 31, 2016**
Non-current assets and disposal groups held for sale	–	–	1,827	–	–	–

The assets classified as held for sale relate to a real-estate property of a STADA subsidiary in Germany, the sale of which is intended in the short term and therefore a reclassification from non-current assets was undertaken. The non-recurring basis for the determination of fair value represents a valuation created by an independent expert, which was largely based on input parameters observable in the market. In addition, this item includes an intangible asset from a STADA subsidiary in Italy. The non-recurring basis for the calculation of fair value is provided by the confirmation of a purchase price by a third party with whom a purchase contract was signed.

As STADA utilizes pricing information from external third parties without further correction in the determination of the fair value, and therefore did not produce any quantitative, non-observable input factors, the option of IFRS 13 to waive the disclosure of quantitative information on such input factors was taken.

Financial assets and liabilities allocated to hierarchy level 3 and recognized at fair value developed as follows in financial year 2017:

in € k	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance as of Jan. 1, 2017	**9,910**	**-3,362**
Reclassification from level 2	–	–
Currency changes	–	–
Total income	-268	2,511
• in the income statement	-268	2,511
• directly in equity	–	–
Additions	–	–
Realizations	-9,642	851
Reclassification in level 2	–	–
Balance at December 31, 2017	**–**	**–**
Income recognized in the income statement	**-268**	**2,511**
Other earnings/other expenses	-151	2,226
thereof		
• attributable to assets/liabilities held as of the balance sheet date		–
Financial result	-117	285
thereof		
• attributable to assets/liabilities held as of the balance sheet date	–	–

Financial assets and liabilities allocated to hierarchy level 3 and measured at equity developed as follows as compared to the previous year:

in € k	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance as of Jan. 1, 2016	**27,461**	**-4,611**
Reclassification from level 2	–	–
Currency changes	–	–
Total income	-32,436	524
• in the income statement	-32,436	-749
• directly in equity	–	1,273
Additions	–	–
Realizations	14,885	725
Reclassification in level 2	–	–
Balance at December 31, 2016	**9,910**	**-3,362**
Income recognized through profit or loss	**-32,436**	**-749**
Other earnings/other expenses	-24,132	-212
thereof		
• attributable to assets/liabilities held as of the balance sheet date	-3,024	-239
Financial result	-8,304	-537
thereof		
• attributable to assets/liabilities held as of the balance sheet date	-358	205

45.2. Net earnings from financial instruments by valuation category

Net earnings recognized through profit or loss from financial assets and liabilities can be broken down as follows:

		From subsequent measurement				Net earnings	
Net earnings by valuation category in € k	From interest and dividends	at fair value	Currency translation	Value adjustment	from disposals	Dec. 31, 2017	Dec. 31, 2016
Loans and receivables (LaR)	3,462	–	-8,657	-37,679	–	-42,874	28,980
Available-for-sale financial assets (AfS)	-1	–	–	-407	–	-408	-3,426
Financial assets held for trading (FAHfT)	-61	561	–	–	8,450	8,950	-35,066
Financial liabilities measured at amortized cost	-35,304	–	-8,861	–	–	-44,165	-30,525
Financial liabilities held for trading (FLHfT)	-124	-966	–	–	-6,399	-7,489	-29,101
Total	**-32,028**	**-405**	**-17,518**	**-38,086**	**2,051**	**-85,986**	**-69,138**

The disclosure of interest from financial instruments is made in financial income and financial expenses in the interest result. Dividends received are disclosed in investment income. With the exception of the valuation results from interest rate/currency swaps and/or currency swaps recognized at fair value through profit or loss, which are reported under financial income or financial expenses and partially also in the currency translation result, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate to the fulfillment of cross-currency swaps and currency swaps.

45.3. Factoring

Factoring transactions with the transfer of essentially all opportunities and risks

There are two revolving receivable selling agreements with banks and financial institutes (together "receivables buyers") with the transfer of essentially all opportunities and risks without a general purchase limit. The agreements have an unlimited term with regular termination possibilities, whereby STADA is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). In return for a fixed program fee recognized in expenses at the time of derecognition, both risks are fully transferred to the buyer of the receivable. The nominal volume of receivables sold by STADA but not yet paid under the factoring agreements amounted to € 28.6 million on the reporting date.

Factoring transactions with distribution of essential opportunities and risks for which control of the asset remains with STADA

There are factoring agreements pursuant to which STADA, on a revolving basis, sells trade receivables up to a total general purchase limit of € 153.3 million to banks and financial institutes. The agreements have an unlimited term with regular termination possibilities, whereby STADA is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). The credit risk is partially transferred to the buyer of the receivable. The late payment risk continues to be borne in its entirety by STADA. The maximum credit risk to be borne by STADA, translated into euro, amounted to € 3.5 million as of the reporting date. The other credit-risk related defaults are assumed by the buyer. The late payment risk continues to be borne in its entirety by STADA. The maximum risk of loss for STADA resulting from the credit risk and the late payment risk from the receivables sold as of the reporting date, translated into euro, amounted to € 3.8 million. The nominal volume of receivables sold by STADA but not yet paid under the factoring agreements, translated into euro, amounted to € 82.9 million on the reporting date. The ongoing commitment of STADA as of December 31, 2017, translated into euro, amounted to € 3.8 million and the carrying amounts of the associated liability, translated into euro, amounted to € 3.8 million.

46. Risk management, derivative financial instruments and disclosures on capital management

46.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once 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.

46.2. Currency risks

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

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

However, STADA is only subject to this risk to a limited extent, as the company counters risks from currency related fluctuations through, alongside natural hedges, the use of derivative financial instruments. These are used to hedge currency risks from operating activities, financial transactions and investments. In the reporting year, STADA made use of foreign-exchange futures contracts and interest/currency swaps. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. The remaining term of the contracts is currently up to one year.

In the context of the Consolidated Financial Statements, on the other hand, exchange rate fluctuations lead to an accounting effect as a result of the conversion of the balance sheet items as well as the conversion of earnings and expenses of international Group companies with a different functional currency than euro (translation risk). The appreciation of the euro as compared to the other currencies is generally negative and depreciation is generally positive.

STADA determines quantitative disclosures on risks in connection with currency changes by means of aggregating all of the Group companies' foreign currency items that are not denominated in the respective Group company's functional currency. In case of hedging transactions they are compared with the balances of assets or equity and liabilities from the aggregation. This results in the subsequent material outstanding foreign currency items as of the respective reporting dates, which in case of a change to the foreign currency item due to a 10% appreciation or a 10% depreciation of the euro in comparison respective functional currency are as follows:

	Dec. 31, 2017			Dec. 31, 2016		
in € k	Kazakhstani tenge	US dollar	Ukrainian hryvnia	Kazakhstani tenge	US dollar	Ukrainian hryvnia
Outstanding foreign currency item	+13,574	-31,264	+9,901	+1,003	-27,799	+5,651
Income (+) / expense (-) from an appreciation of the euro in comparison to the respective functional currency by 10%	-1,661	+3,126	-2,444	-2,126	+2,780	-3,089
Income (+) / expense (-) from a depreciation of the euro in comparison to the respective functional currency by 10%	+1,661	-3,126	+2,444	+2,126	-2,780	+3,089
Equity increase (+) / equity reduction (-) from an appreciation of the euro in comparison to the respective functional currency by 10%	-2,178	+3,126	-1,968	-2,552	+2,796	-2,669
Equity increase (+) / equity reduction (-) from a depreciation of the euro in comparison to the respective functional currency by 10%	+2,178	-3,126	+1,968	+2,552	-2,796	+2,669

Here, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency items in Kazakhstani tenge and Ukrainian hryvnia relate to a balance from international Group companies in euro and outstanding foreign currency reserves in Kazakhstani tenge and Ukrainian hryvnia. The reported outstanding foreign currency positions in US dollar relate exclusively to foreign currency holdings in US dollar at German and international Group companies. The risk in connection with the outstanding foreign currency reserves in euro, from the Group's perspective, results from the functional currency of the respective international Group company. Overall, based on outstanding foreign currency items as of the reporting date, an appreciation or a devaluation of the respective functional currency by 10% compared to the currencies of relevance for the Group would have led to an effect on earnings in the amount of an expense of € 2.2 million (previous year: € 2.6 million) or in the amount of earnings of € 2.2 million (previous year: € 2.6 million).

46.3. Interest rate risks

STADA is subject to interest risks from the investment of financial assets as well as financial debts, primarily in the Euro zone.

In order to minimize the effects of significant interest rate fluctuations, STADA manages the interest rate risk for the financial liabilities denominated in euro with hedging transactions. Currently there are no cash flow hedges in the form of interest rate swaps. In 2017, an average of 88% (previous year: 85%) of financial liabilities denominated in euro had fixed interest rates. In the previous year, 100% of those denominated in ruble had fixed interest rates, while in the current financial year there are no financial liabilities denominated in ruble.

STADA calculates existing interest rate risks using sensitivity analyses, which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as equity. The following factors – if relevant – are generally included in the calculation:

- Changes in the market interest rate of interest rate derivatives designated as hedging instruments in the context of cash flow hedges,
- changes in the market interest rate of original financial liabilities with variable interest rates that are not hedged against interest rate risks, and
- Changes in the market interest rate of interest derivatives not part of a hedging relationship.

in € million	Dec. 31, 2017	Dec. 31, 2016
Income (+) / expense (-) from an increase in the market interest rate level of 100 basis points	-1.2	-1.4
Income (+) / expense (-) from a decrease in the market interest rate level of 100 basis points	+0.6	+0.6
Equity increase (+) / equity reduction (-) from an increase in the market interest rate level of 100 basis points	–	–
Equity increase (+) / equity reduction (-) from a decrease in the market interest rate level of 100 basis points	–	–

The interest-rate risk at STADA is of secondary importance.

46.4. 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. Alongside the implementation of appropriate credit management processes, such transactions are generally only concluded with counterparties of impeccable financial standing to avoid default risks in financing activities.

Default risks 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 the creation of valuation 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.

STADA's maximum credit default risk is calculated from the carrying amount of the financial assets recognized. In addition, STADA granted guarantees, which amounted to a total nominal volume of € 63.1 million (previous year: € 28.0 million) as of the reporting date (see Note 44.). STADA has various forms of collateral for credit securities such as mortgages, bank or corporate guarantees, assignments of receivables and pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

46.5. 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 the STADA Group at all times by way of maintaining a sufficient supply of liquidity reserves. STADA finances itself with short-term and long-term borrowings from banks, promissory note loans, bonds and factoring. Furthermore, STADA also has solid operating cash flow.

46.6. Derivative financial instruments and hedging instruments

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

The total volume of currency and interest rate related derivatives is comprised as follows:

	Dec. 31, 2017		Dec. 31, 2016	
in € k	Nominal value	Fair Value	Nominal value	Fair Value
Derivatives without hedging relationship				
Interest rate/currency swaps	–	–	48,621	6,548
Currency swaps	771	-6	188,634	-8,503
Derivatives with hedging relationship				
Currency swap	161,448	-566	–	–
Total	**162,219**	**-572**	**237,255**	**-1,955**

STADA designates currency forwards (EUR/RUB), (EUR/DKK), (EUR/CHF), (EUR/USD) and (EUR/GBP) as fair value hedges that are concluded to hedge the currency risks from inter-company loans. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective. In the reporting period, new fair value hedges with a nominal volume totaling € 161.5 million were designated for reduction of the fair value risk (previous year period: € 0). At STADA, as of December 31, 2017, there were currency derivatives with a net fair value of -€ 566 k (December 31, 2016: € 0) which were designated as hedging instruments within the scope of fair value hedges. Losses recognized in currency translation result of € 863 k (2016: € 0) resulted in financial year 2017 from the carrying amount adjustment of the underlying transaction, from the changes in fair values of the hedging transactions, profits of € 863 k (2016: € 0) were recognized in currency translation result.

46.7. Disclosures on capital management

The objectives of the STADA capital management are the safeguarding of the business operation, the creation of a solid equity base for financing profitable growth as well as guaranteeing attractive dividend payments and the capital service. The STADA capital management consistently aims for the Group companies to have an equity basis that corresponds to the local requirements. When implementing and checking the Group's capital and liquidity the legal requirements are taken into account.

Capital is monitored on the basis of net debt, which results from current and non-current financial liabilities minus cash and cash equivalents. An important key figure for capital management at STADA is the net debt to adjusted EBITDA ratio, which amounted to 2.4 in financial year 2017 (previous year: 2.8).

In this connection, the net debt and net debt to adjusted EBITDA ratio were as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Non-current financial liabilities	816	1,336,414
Current financial liabilities	1,257,105	134,343
Loan liabilities within other financial liabilities	40,008	–
Gross debt	**1,297,929**	**1,470,757**
Cash, cash equivalents and securities classified as available for sale	243,195	352,580
Net debt	**1,054,734**	**1,118,177**
EBITDA (adjusted)	**433,862**	**405,750**
Net debt to adjusted EBITDA ratio	**2.4**	**2.8**

The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, a loan in the amount of € 40.0 million was already granted by Nidda Healthcare Holding GmbH in this connection. This loan is included in the calculation of net debt.

47. Related party transactions

In the scope of the ordinary course of business STADA Arzneimittel AG and/or its consolidated companies have entered into related party transactions. In accordance with IAS 24, "Related Parties" refers to directly or indirectly controlled subsidiaries that are not consolidated due to lack of material significance, associates and joint ventures as well as affiliated companies and persons in key positions and their close relatives. In principle, all trades were settled with related companies and natural persons at market-rate conditions.

47.1. Transactions with related persons

Persons in key positions are the members of governing bodies of STADA Arzneimittel AG, the remuneration of whom, including further information on the principles of the remuneration system, is presented in detail in the Combined Management Report (see "Remuneration Report"), as well as the summary in Note 48. in relation to quantitative disclosures.

47.2. Transactions with related companies

Bain Capital Investors, LLC, Wilmington, Delaware, USA, and Cinven (Luxco 1) S.A., Luxembourg, exercise direct joint control over the subsidiary Nidda Topco S.à r.l., which in turn indirectly over the following subsidiaries – Nidda Midco S.à r.l., Nidda German Topco GmbH, Nidda German Midco GmbH, Nidda BondCo GmbH and Nidda Healthcare Holding GmbH – through the direct shareholder Nidda Healthcare GmbH holds controlling interest in STADA Arzneimittel AG. The indirect subsidiary of Cinven (Luxco 1) S.A., Cinven Capital Management (VI) General Partner Limited, St. Peter Port, Guernsey, is the fund manager for certain entities of the Sixth Cinven Fund in the sense of an investment management company.

Expenses and income essentially relate to related party transactions as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Trade accounts receivable		
Non-consolidated subsidiaries	23	3,663
Non-consolidated joint ventures	169	190
Associates	878	626
Joint ventures	–	–
Other financial receivables		
Non-consolidated subsidiaries	9	2,444
Non-consolidated joint ventures	–	–
Associates	–	–
Joint ventures	–	–
Trade payables		
Non-consolidated subsidiaries	9	695
Non-consolidated joint ventures	–	–
Associates	3,229	17
Joint ventures	–	–

Expenses and income of the STADA Group essentially relate to related party transactions as follows:

in € k	2017	2016
Sales		
Non-consolidated subsidiaries	46	6,585
Non-consolidated joint ventures	–	–
Associates	1,726	1,521
Joint ventures	–	–
Interest income		
Non-consolidated subsidiaries	–	281
Non-consolidated joint ventures	–	–
Associates	–	–
Joint ventures	–	–
Interest expense		
Non-consolidated subsidiaries	–	–
Non-consolidated joint ventures	–	–
Associates	–	3
Joint ventures	–	–

In addition, there are business relationships between STADA and its affiliated companies from which outstanding trade payables in the amount of € 0.4 million arise as of the balance-sheet date December 31, 2017. The transaction volume with these companies in 2017 since the time of the takeover by Bain Capital and Cinven amounted to a total of € 2.7 million.

In addition, the following disclosures on related party transactions are made:

As of December 31, 2017, STADA Arzneimittel AG has a loan payable to Nidda Healthcare Holding GmbH in the amount of € 40.0 million. The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, the loan already mentioned with an interest rate of 1.81% p.a. was granted by Nidda Healthcare Holding GmbH in this connection.

There is a service contract with BIOCEUTICALS Arzneimittel AG, as well as distribution rights for Epo-zeta in Germany granted by BIOCEUTICALS Arzneimittel AG to, among others, STADAPHARM GmbH. In some other European countries (such as Serbia or Russia, for example), a local STADA-owned subsidiary can also receive or has already received a local sales license at the same time.

48. Remuneration of the Executive Board and the Supervisory Board

The aggregate remuneration of the Executive Board and the Supervisory Board including further information on the principles of the remuneration system are presented in detail in the Combined Management Report (see "Remuneration Report").

In summary, the following disclosures regarding the remuneration of the Executive Board and Supervisory Board at STADA Arzneimittel AG are made according to IAS 24 in consideration of the disclosure requirements of Section 314 (1) No. 6a Sentence 1–4 HGB:

	Fixed and variable current remuneration		Variable remuneration non-current		Termination benefits		Expenses for pension commitments earned in the current year		Total remuneration	
in € k	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Members of the Executive Board	4,164[1]	4,891[2]	958[3]	2,843[4]	6,402	7,138[5]	–	–	11,524	14,872
Members of the Supervisory Board	1,089[6]	1,072[7]	–	–	–	–	–	–	1,089	1,072

The variable current remuneration of Executive Board members which, as in the previous year was reported within other liabilities, includes a share-based payment as a long-term oriented remuneration component, which is paid in cash. The fair value of the share-based payment was calculated using the Monte Carlo model. The expense for the share-based payment amounted to € 1.0 million in the previous year. As of December 31, 2017, there was no longer any share-based remuneration because these were fixed as part of a termination agreement or changeover. This resulted in total expenses in the amount of € 0.8 million.

As of December 31, 2017 there were outstanding liabilities to members and former members of the Executive Board in the amount of € 9.6 million.

Remuneration to former members of the Executive Board amounted to a total of € 3,261 k in financial year 2017. The fair value of pension commitments for former Executive Board members amounted to € 48,199 k as of December 31, 2017.

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 members of governing bodies of STADA Arzneimittel AG.

1) Thereof € 458 k performance-related and € 3,706 k non-performance related.
2) Thereof € 1,318 k performance-related and € 3,573 k non-performance related.
3) These result from the final calculation of the multi-year variable long-term special remuneration "long-term goals 2018", the final calculation of the LTIP 2016 and 2017 due to the termination agreement that was concluded.
4) This includes the final calculation of the multi-year variable long-term special remuneration "long-term targets 2016" (year of target achievement), however only for the period of the actual implementation of the contracts, on which the remuneration is based, up to December 31, 2015 in the total amount of € 2,052 k.
5) € 1,253 k thereof is attributable to the continued salary payment and € 5,885 k to a severance payment in connection with the end of the Executive Board appointment of Mr. Retzlaff as of August 15, 2016.
6) Thereof € 316 k performance-related and € 773 k non-performance related.
7) Thereof € 329 k performance-related and € 743 k non-performance related.

49. Fees for the auditor

For the services provided by the auditors PriceWaterhouseCoopers GmbH and the auditors of the previous year PKF Deutschland GmbH, the following fees were recognized as expenses in financial year 2017 and in the previous year.

The following disclosures are made for the auditors PriceWaterhouseCoopers GmbH:

in € k	2017	2016
Fees for the auditor	1,508	–
• thereof for audits	468	–
• thereof for other confirmation services	–	–
• thereof for other services	993	–
• thereof for tax consultancy services	47	–

The following disclosures are made for the auditors PKF Deutschland GmbH:

in € k	2017	2016
Fees for the auditor	396	617
• thereof for audits	370	370
• thereof for other confirmation services	26	100
• thereof for other services	–	147
• thereof for tax consultancy services	–	–

The fees for audits relate to payment for the audit of the Consolidated Financial Statements as well as the Financial Statements of STADA Arzneimittel AG and its German subsidiaries at the end of the financial year. They also include for financial year 2017 the review of the Interim Consolidated Financial Statements of June 30, 2017.

The fees for financial year 2016 for the review of the Interim Consolidated Financial Statements of June 30, 2016, include, among other things, confirmation services.

Other services from PricewaterhouseCoopers GmbH relate primarily to services within the scope of due diligence processes.

50. Corporate Governance

The declaration on the German Corporate Governance Code prescribed by Section 161 of the German Stock Corporation Act was last issued by the Executive Board and Supervisory Board in December 2017. The declaration is publicly available via the Company's website (www.stada.de in German or www.stada.com in English) and is also presented in the Annual Report.

51. Events after the end of the financial year

After the closing date, the following events with significant or possibly significant effects on the net assets, financial position and results of operations of the STADA Group occurred:

- The Extraordinary General Meeting of STADA Arzneimittel AG on February 2, 2018 with a majority of 99% approved the conclusion of the domination and profit and loss transfer agreement of December 19, 2017 between Nidda Healthcare GmbH as controlling entity and STADA as dependent company.[1] The domination and profit and loss transfer agreement provides for an annual compensation payment for the remaining STADA shareholders of € 3.82 gross or currently € 3.53 net as well as a settlement in the amount of € 74.40 per STADA share. The agreement must be entered into the Commercial Register before it takes effect.

- Due to the takeover in 2017, creditors of STADA Arzneimittel AG, pursuant to the financing conditions, have the right to prematurely redeem bonds, promissory note loans and bank loans. In this connection, a partial amount of € 360.2 million was called due prematurely during the first quarter of 2018. For the refinancing of these transactions, STADA received loans from Nidda Healthcare Holding GmbH in the amount of € 347.0 million and used own cash. There was also a repayment of promissory note loans in the amount of € 9.5 million from own cash.

  The remaining outstanding amount of € 891.0 million is comprised as follows:

Financial instruments following exercise of put rights and additional repayment in € million	Outstanding	Maturity
Bond	347.1	Jun. 5, 2018
Promissory note loans	86.5	Jan. 23, 2019
Promissory note loans	18.5	Nov. 7, 2019
Promissory note loans	70.5	Apr. 26, 2021
Bond	289.7	Apr. 8, 2022
Promissory note loans	19.0	Apr. 26, 2023
	831.3	
Further bank loans	59.7	Rolled
Total financial liabilities	**891.0**	

  The increase in current financial liabilities in the fourth quarter of 2017 was attributable to the reclassification of promissory note loans, bonds and financial liabilities due to banks of STADA Arzneimittel AG. Following the early repayment of amounts called due in the first quarter of 2018 a corresponding reclassification of the financial liabilities from short-term to short and long-term liabilities was carried out in the first quarter of 2018.

- The Supervisory Board of STADA Arzneimittel AG appointed Peter Goldschmidt as new Chairman of the Executive Board as of September 1, 2018. Peter Goldschmidt will take over from Dr. Claudio Albrecht who has been the CEO at STADA since September 27, 2017.[2]

1) See the Company's investor News of February 2, 2018.
2) See the Company's ad hoc release and press release of February 2, 2018.

52. Dividend

According to the German Stock Corporation Act, the distributable dividend is determined according to the distributable profit reported by STADA Arzneimittel AG in its annual financial statements prepared in accordance with the rules and regulations of German Commercial Law. This amounted to € 61,268,491.05 as of December 31, 2017. The Executive Board of STADA Arzneimittel AG proposes that a dividend of € 0.11 per STADA share be appropriated from this distributable profit for financial year 2017. In financial year 2017, a dividend in the amount of € 0.72 per STADA share was distributed to shareholders from the distributable profit of financial year 2016.

Bad Vilbel, March 8, 2018

Dr. Claudio Albrecht
Chairman of the Executive Board

Mark Keatley
Chief Financial Officer

Dr. Barthold Piening
Chief Technical Officer


SNUP
SNUP
Schnupfenspray
0,1%
SNUP

FURTHER INFORMATION

Table of Contents

Responsibility Statement

To the best of our knowledge and in accordance with the applicable reporting principles for Consolidated Financial Statements reporting, the Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Combined 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 the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Bad Vilbel, March 8, 2018

Dr. Claudio Albrecht
Chairman of the Executive Board

Mark Keatley
Chief Financial Officer

Dr. Barthold Piening
Chief Technical Officer

Independent Auditor's Report

To STADA Arzneimittel AG, Bad Vilbel

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of STADA Arzneimittel AG, Bad Vilbel, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of STADA Arzneimittel AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017,

  and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of goodwill and other intangible assets

2. Revenue recognition including expected revenue reductions

3. Inclusion of STADA - VN Joint Venture Co. Ltd., Ho Chi Minh City, Vietnam

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue

2. Audit approach and findings

3. Reference to further information

Hereinafter we present the key audit matters:

1. Recoverability of goodwill and other intangible assets

1. The "Intangible assets" balance sheet item reported in the Company's consolidated financial statements included € 396 million (12% of consolidated total assets) for "Goodwill" and € 938 million (29% of consolidated total assets) for "Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights". While goodwill and other intangible assets with indefinite useful lives must be tested for impairment ("impairment test") on an annual basis or if there are indications of impairment, such a test needs only to be carried out for intangible assets with definite useful lives if there are indications of impairment ("triggering events").

   Goodwill is tested for impairment at the level of the group of cash-generating units to which the relevant goodwill is allocated. In an impairment test, the carrying amount of the respective cash-generating unit (including the affected goodwill) is compared against the higher of the value in use and the fair value less costs of disposal. In a first step, the Company generally conducts the test based on the value in use. For the umbrella brands with indefinite useful lives, the relief from royalty method is initially applied. The Company has identified certain indicators, which are monitored and in case of negative development trigger an impairment test for assets with definite useful lives. In the case of regulatory drug approvals, however, an impairment test is carried out in each instance at the end of the fiscal year. Brands and regulatory drug approvals are normally measured based on the present value of future cash flows generated by the affected asset from marketing the re-spective products. An impairment loss is recognized if the recoverable amount is less than the respective carrying amount. Present value is calculated using discounted cash flow models. The starting point is the Group's three-year financial plan, which is projected forward using growth assumptions. The discount rate used is the weighted cost of capital for the relevant cash-generating unit or group of cash-generating units.

   The result of this measurement depends to a large extent on management's assessment of future cash inflows and the discount rate used, and is therefore subject to con-siderable uncertainty. Against this background, this matter was of particular significance for our audit.

2. As part of our audit, we reviewed the methodological procedure adopted for the purpose of the impairment tests and assessed the calculation of the weighted cost of capital, among other things. We verified the appropriateness of the future cash inflows used in the measurement, including by comparing these disclosures with the current budgets in the three-year plan prepared by management and approved by the Supervisory Board, and by reconciling them against general and sector-specific market expectations. We also assessed whether the basis for including the costs of Group functions was accurate. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. In order to reflect the uncertainty inherent

in the projections, we reproduced the sensitivity analyses performed by the Company and carried out our own additional sensitivity analyses with respect to those cash-generating units with low headroom (recoverable amount compared with the carrying amount). Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by management are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company's disclosures on goodwill and intangible assets are contained in notes 9. "Accounting policies" and 24. "Intangible assets" to the consolidated financial statements.

2. Revenue recognition including expected revenue reductions

1. The € 2,314 million reported under "Sales" in the Company's consolidated financial statements relate primarily to the sale of products and provision of services. Since large-volume transactions are involved, the company has established comprehensive processes and systems for recognizing and deferring sales. Sales are recognized when the goods have been delivered or the services rendered. Amounts are measured at fair value less expected revenue reductions (including discounts to health insurance organizations, other health sector institutions and customers, as well as expected returns). When recognizing sales, material assumptions have to be made with respect to discounts that must subsequently be granted and returns that must subsequently be accepted, and the corresponding revenue adjustments have to be recognized. Particularly in Germany, discount arrangements with health insurance organizations are agreed for a specific pharmaceutical ingredient by means of tenders over a specific period of time. The corresponding drug is initially sold to patients at a binding sales price, which is then subject to a discount subsequently granted to the respective health insurance organization.

   The revenue adjustments are based to a large degree on management's estimates and assumptions and are therefore subject to considerable uncertainties. Against this background and due to the underlying complexity of the measurement on which this material item was based, this matter was of particular significance for our audit.

2. Our audit included assessing the appropriateness and effectiveness of the processes and controls within the Company's internal control system established to realize sales and make revenue adjustments, including the IT systems used. To this end, we also involved our specialists from Risk Assurance Services (RAS). With the knowledge that the complexity of the accounting treatment and the estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the appropriateness of the estimates made by management with respect to revenue adjustments. At the same time, we verified and assessed the methodology applied by management to make revenue adjustments. We also used the detailed information obtained to assess the relevant assumptions made by management as of the balance sheet date. In addition, we verified the consistency of the methods used by the Company to recognize sales and make revenue adjustments. We also compared the revenue adjustments with contract documents.

   In doing so, we verified that the estimates applied and the assumptions made by management concerning the recognition and measurement of sales were sufficiently documented and that the estimates applied and the assumptions made by management were consistently derived.

3. The Company's disclosures relating to revenue recognition are contained in notes 9. "Accounting policies" and 11. "Sales" to the consolidated financial statements.

3. Inclusion of STADA - VN Joint Venture Co. Ltd., Ho Chi Minh City, Vietnam

1. In the Company's consolidated financial statements as of December 31, 2017, STADA - VN Joint Venture Co. Ltd. ceased to be a consolidated subsidiary, and since November 29, 2017 has instead been reported as an associate accounted for using the equity method. STADA Arzneimittel AG continues to hold a 50% indirect interest in STADA - VN Joint Venture Co. Ltd. The previous consolidation was based on control over the company within the meaning of IFRS 10 by means of contractual multiple voting rights. Based on plans to dispose of the 50% equity interest, the assets and liabilities of STADA - VN Joint Venture Co. Ltd. were reported as held for sale in the consolidated financial statements as of December 31, 2016, pursuant to IFRS 5. In the course of fiscal 2017, these plans to dispose of the interest were abandoned. The other shareholder caused the company to temporarily cease interim financial reporting to the Group. Pursuant to the agreement dated November 29, 2017, the parties have now agreed that the indirect interest in STADA - VN Joint Venture Co. Ltd. held by STADA Arzneimittel AG will be sold to the other shareholder as of December 31, 2019, for a fixed selling price. In this context, the multiple voting right held to date was also relinquished and transferred to the other shareholder. Material influence over the company remains. The transfer to accounting using the equity method resulted in a € 5.5 million loss on disposal, which was recognized under other expenses.

   Due to the applicability of Vietnamese law, assessing the potential enforceability of the multiple voting rights as of November 29, 2017 is very complex and is based to a significant extent on estimates on the part of management. Against this background, this matter was of particular significance for our audit.

2. In order to audit the correct accounting treatment during fiscal year 2017, we began by examining the contractual agreements between the shareholders, including the agreement dated November 29, 2017. Furthermore, our assessment included the correspondence exchanged between the shareholders and information provided by lawyers on the legal validity of the avoidance of the joint venture agreement and the legal enforceability of the multiple voting right. In light of our first-time audit of the consolidated financial statements, we obtained further audit assurance with respect to this matter by examining the prior-year audit report and the prior-year auditor's report on the review of the interim consolidated financial statements as of June 30, 2017. We also discussed this matter with the prior-year auditor.

   We verified that the inclusion of STADA - VN Joint Venture Co. Ltd. in the consolidated financial statements, including the transitional consolidation as of November 29, 2017, was clearly documented and sufficiently substantiated.

3. The Company's disclosures on the disposal of the interest in STADA - VN Joint Venture Co. Ltd. and the changes in the scope of consolidation are contained in note 5. "Scope of consolidation" to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section corporate governance report of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial state-ments and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on August 30, 2017. We were engaged by the supervisory board on September 14, 2017. We have been the group auditor of the STADA Arzneimittel AG, Bad Vilbel, without interruption since the financial year 2017.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr. Bernd Roese.

Frankfurt am Main, March 8, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

[sgd. Dr. Bernd Roese]
Wirtschaftsprüfer
(German Public Auditor)

[sgd. ppa. Olav Krützfeldt]
Wirtschaftsprüfer
(German Public Auditor)

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting[1)]

To STADA Arzneimittel AG, Bad Vilbel

We have performed a limited assurance engagement on the combined separate Non-Financial Report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of STADA Arzneimittel AG, Bad Vilbel, (hereinafter the "Company") for the period from 1 January to 31 December 2017 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

1) PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the Non-Financial Report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization
- Inquiries of personnel involved in the preparation of the Non-Financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-Financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the Consolidated Financial Statements and in the Group Management Report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt am Main, March 8, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Nicolette Behncke
Wirtschaftsprüfer
German public accountant

ppa. Jan Dietrich
Wirtschaftsprüfer
German public accountant

Boards of the Company

The STADA Supervisory Board
(as of March 1, 2018)

Dr. Günter von Au, Munich, Germany (Chairman)
Jens Steegers[1)], Bad Vilbel, Germany (Deputy Chairman)

Dr. Eric Cornut, Binningen, Switzerland
Halil Duru [1)], Frankfurt am Main, Germany
Jan-Nicolas Garbe, Frankfurt am Main, Germany
Benjamin Kunstler, London, United Kingdom
Dr. Ute Pantke[1)], Wettenberg, Germany
Bruno Schick, Frankfurt am Main, Germany
Dr. Michael Siefke, Gräfelfing, Germany

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

1) Employee representative.

The STADA Executive Board
(as of March 1, 2018)

Dr. Claudio Albrecht
Chairman of the Executive Board (since September 27, 2017)
Executive Board member since 2017
Contract until September 26, 2018

Mark Keatley
Chief Financial Officer (since September 27, 2017)
Executive Board member since 2017
Contract until September 26, 2020

Dr. Barthold Piening
Chief Technical Officer (since April 1, 2017)
Executive Board member since 2017
Contract until March 31, 2020

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

The STADA Advisory Board
(as of March 1, 2018)

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

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

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

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

Glossary A–Z

Active pharmaceutical ingredient
In the pharmaceutical market: The pharmaceutically effective component of a drug (also API).

Approval
Permission under drug laws to market a drug in a national market.

Audit
In the pharmaceutical market: control of equipment and documentation of manufacturers or their suppliers.

Bevacizumab
Bevacizumab is a monoclonal antibody, which is used to treat various forms of cancer, such as metastasized colon or rectal cancer and metastasized breast cancer.

Biosimilars
A biosimilar is a drug with an active pharmaceutical ingredient produced in a biotechnological process that has been developed in comparison with an original product already on the market. It is so similar to the original product that it has proven therapeutic equivalence and is comparable in terms of safety and quality. Therefore, a biosimilar is an equivalent successor product of an off-patent biopharmaceutical product.

Central nervous system (CNS)
The central nervous system (CNS) is a subsystem of the human nervous system. It consists of the brain and the spinal cord. The tissue in these places are comprised of nerve cells (neurons) and supporting cells (glial cells). Neurons transport information between the brain and the individual body parts.

Commercial business
Purchase and subsequent sale of third-party products; in the pharmaceutical market this frequently refers to wholesale business or parallel imports.

Commercial property rights
Provide inventors or companies with protection against competition for an invention for a limited time period. The best-known commercial property right is the patent.

Diabetes
Diabetes mellitus, more commonly known simply as diabetes, refers to a group of metabolic disorders the main symptom of which is the excretion of sugar in urine. This excretion occurs because the patient suffers from a lack of insulin, a hormone that is normally produced by the pancreas and which is necessary for the transport of glucose (sugar) from the blood into the somatic cells. Diabetes mellitus can lead to a range of disease symptoms in the cardiovascular system, in the central nervous system as well as to kidney disease or functional disorders of the visual organ.

Dossier
Includes all scientific and technical documentation required for an application for drug approval that describes the quality, safety, and efficacy of that drug.

Epoetin or erythropoietin
Epoetin or erythropoietin is a biopharmaceutical active ingredient in protein form that is produced by living cell lines. The erythropoietin biosimilar developed by BIOCEUTICALS is epoetin zeta. Erythropoietin is used, among other things, in nephrology for dialysis patients to stimulate hematopoieses as well as in cancer therapy.

Filgrastim
Filgrastim is the form of the human granulocytes colony-stimulating factor (G-CSF) produced by using biotechnology. Filgrastim is, among others, used for the treatment of neutropenia, a low count of a special type of white blood cells. Neutropenia can arise e.g. after a cytotoxic chemotherapy or a bone marrow transplantation.

GMP
Good Manufacturing Practice – international production standard in the pharmaceutical industry.

Indication
Diseases for which a certain drug is used.

Monoclonal antibodies
Monoclonal antibodies are immunologically active proteins which are used against an individual epitope (surface structure) of an antigen (infectious substances or certain molecules) and specifically bind to that substance. Monoclonal antibodies are generated with molecular biological methods and produced biotechnologically through genetically engineered cell lines.

Ophthalmology
Ophthalmology is the branch of medicine that deals with the diseases and functional disorders of the visual organ, their associated organs as well as the sense of sight and its medical treatment. It is one of the oldest medical sub-disciplines. Ophthalmology is a surgical sub-discipline although a broad range of effective and highly-developed medications and remedies are available to it.

Patent
In the pharmaceutical market: commercial property right granting active pharmaceutical ingredients market exclusivity for a limited period (in the EU 20 years, for example).

Pegfilgrastim
Pegfilgrastim is a biopharmaceutical active ingredient in the form of a protein that is produced from escherichia coli and subsequent conjugation with polyethylene glycol (PEG). Pegfilgrastim is used to shorten the duration of neutropenia and to avoid frequent neutropenic fever in adult patients who are being treated for a malignant disease with cytotoxic chemotherapy.

Prescription obligation
The legal requirement specifying that, depending on the potential risk involved, drugs may be dispensed to patients by prescription only.

Rituximab
Rituximab is a monoclonal antibody used in the treatment of various forms of cancer, such as non-Hodgkin lymphomas, as well as various auto-immune diseases, such as rheumatoid arthritis.

Teriparatide
Teriparatide is a fragment of the human parathormone for hypodermic injection which is produced biotechnologically. Teriparatide is used for the treatment of post-menopausal women with manifest osteoporosis and a high fracture risk, of men with osteoporosis and a high fracture risk, as well as for glucocorticoid-induced osteoporosis of adults with an elevated fracture risk.

Publishing Information

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The current financial calendar can be found on the Internet at: www.stada.de and www.stada.com.

The Annual Reports and the Interim Reports will be published on the dates listed above on the Company website (www.stada.de and www.stada.com), usually before trading begins on the Frankfurt Stock Exchange.

Forward-looking statements

This STADA Arzneimittel AG (hereinafter "STADA") Annual Report contains certain statements regarding future events that are based on the current expectations, estimates and forecasts on the part of the company management of STADA as well as other currently available information. They imply various known and unknown risks and uncertainties, which may result in actual earnings, the 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 this Annual Report, STADA key figures are, as a rule, rounded to millions of euro, while the Notes present these figures, as a rule, with greater accuracy in thousands of euro. Due to rounding of these figures, differences may arise in individual figures between the general portion and the Notes, as well as from figures actually achieved in euro; these differences cannot be considered material.

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Financial key figures in € million	2017	2016	2015	2014	2013
Total Group sales	2,313.9	2,139.2	2,115.1	2,062.2	2,003.9
• Generics	1,361.7	1,280.7	1,261.4[1]	1,261.7[1]	1,268.9[1]
• Branded Products	952.2	858.5	853.6	800.5	704.4
Operating profit	192.3	178.1	223.7	188.5	248.3
EBITDA	363.8	361.5	377.1	418.8	382.6
Adjusted EBITDA	*433.9*	*398.0*	*389.4*	*431.9*	*414.3*
EBIT	194.6	178.9	225.3	190.3	252.4
Earnings before taxes (EBT)	147.7	127.4	157.8	124.7	189.3
Net income	85.3	85.9	110.4	64.6	121.4
Adjusted net income	*195.6*	*177.3*	*165.8*	*186.2*	*160.6*
Cash flow from operating activities	262.9	333.5	311.7	223.8	203.7

Asset/capital structure in € million	2017	2016	2015	2014	2013
Balance sheet total	3,204.5	3,440.4	3,287.4	3,335.5	3,413.2
Non-current assets	1,880.6	1,949.5	2,032.3	2,013.8	2,060.0
Current assets	1,323.9	1,490.9	1,255.1	1,321.7	1,353.2
Equity	1,006.4	1,047.1	1,018.5	903.4	1,010.1
Equity-to-assets ratio in percent	31.4%	30.4%	31.0%	27.1%	29.6%
Non-current liabilities	157.6	1,493.7	1,282.6	1,246.7	1,358.4
Current liabilities	2,040.5	899.6	986.3	1,185.4	1,044.7
Net debt	1,054.7	1,118.2	1,215.7	1,327.5	1,306.8

Capital expenditure/depreciation and amortization in € million	2017	2016	2015	2014	2013
Total capital expenditure	113.6	189.7	177.0	279.0	365.0
• on intangible assets	57.3	130.5	122.9	241.0	285.4
• on property, plant and equipment	56.0	54.3	53.5	37.9	78.7
• on financial assets/associates	0.3	4.9	0.6	0.1	0.9
Total depreciation and amortization	183.2	182.7	151.9	228.5	130.7
• on intangible assets	142.1	145.3	117.4	192.5	100.7
• on property, plant and equipment	40.7	33.9	34.4	33.4	29.1
• on financial assets	0.4	3.5	0.1	2.6	0.9

Employees	2017	2016	2015	2014	2013[2]
Average number per year	10,832	10,839	10,441	10,209	8,841
Number as of the balance sheet date	10,176	10,923	10,532	10,363	9,825

Key figures per STADA share	2017	2016	2015	2014	2013
Market capitalization (year-end) in € million	5,500.4	3,066.3	2,327.9	1,530.8	2,171.7
Year-end closing price in €	88.23	49.19	37.34	25.25	35.93
Average number of shares (without treasury shares)	62,258,051	62,256,532	61,637,621	60,408,501	59,571,959
Basic earnings per share in €[3]	1.37	1.38	1.79	1.07	2.04
Adjusted earnings per share in €	*3.14*	*2.85*	*2.69*	*3.08*	*2.70*
Diluted earnings per share in €[4]	–	–	1.79	1.05	2.00
Adjusted diluted earnings per share in €	*–*	*–*	*2.69*	*3.04*	*2.65*
Dividend per share in €	0.11[5]	0.72	0.70	0.66	0.66
Total dividend payments in € million	6.8[5]	44.8	43.6	40.0	39.8
Distribution ratio in percent	8[5]	52	39	62	33

1) The figures in the reporting year and in the previous year include the non-core activity Commercial Business, which was previously reported separately.
2) Employees of companies consolidated at only 50% have been included in accordance with their respective consolidation rate.
3) In accordance with IAS 33.10.
4) In accordance with IAS 33.31.
5) Proposal.

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