

# CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION OF CORPORATE GOVERNANCE

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

## DECLARATION OF CORPORATE GOVERNANCE

The Declaration of Corporate Governance according to Section 289a of the German Commercial Code includes the declaration on the German Corporate Governance Code pursuant to 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 the Supervisory Board as well as the composition and working practices of the Supervisory Board committees, the specifications pursuant to Section 76 (4) and Section 111 (5) of the German Stock Corporation Act as well as the information whether the specified targets were met during the reference period or not, and if not, details on the reasons.

### 1. Declaration of Compliance 2015

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

STADA Arzneimittel AG ("STADA") had complied with the recommendations of the German Corporate Governance Code in the version of June 24, 2014 (published on September 30, 2014 in the Federal Gazette) since the last Declaration of Compliance on November 11, 2014, with the exception of the deviations as mentioned there, and STADA will comply with the recommendations of the German Corporate Governance Code in the version of May 5, 2015 (published on June 12, 2015 in the Federal Gazette) in future with the following deviations:

#### **Section 5.3.3: Nomination Committee for Supervisory Board elections**

In view of the size of STADA's Supervisory Board with six shareholder representatives, the Supervisory Board believes that such an additional committee is structurally superfluous, but assigned the task of a nomination panel to the Chairmen of the Human Resources Committee and the Audit Committee; the additional remuneration, which pursuant to the articles of incorporation would be payable to Supervisory Board members involved in such a committee, is thus avoided.

#### **Section 5.4.1 Sentence 2: Age limit and regular limit of length of membership for the members of the Supervisory Board**

The objectives specified by the Supervisory Board regarding its composition do not contain an age limit or a regular limit of length of membership of the Supervisory Board. In the opinion of the Supervisory Board, age is not a suitable criterion for choosing qualified candidates (male or female) and the expertise of long-time experienced supervisory board members shall in principle be made available to the Company. A solely age-related disqualification or a limit of maximum length of membership defined in advance is not considered appropriate by the Supervisory Board.

## Section 6.2: Shares held by members of the Executive Board and the Supervisory Board

The purchase and sale of STADA shares and options by members of the Executive Board and the Supervisory Board and by closely related persons mentioned in the law are reported to the Company itself and to the German Federal Financial Supervisory Authority (BaFin) in accordance with legal requirements and are published by the Company in accordance with legal requirements. However, the respective holdings of shares and options to purchase and sell such shares by individual members of the Executive Board and Supervisory Board are not published in the Corporate Governance Report. The Supervisory Board and the Executive Board are of the opinion that compliance with the legal requirements provides sufficient transparency.

For STADA, the recommendations of the German Corporate Governance Code serve as a general basis for the Company's activity. In daily practice, however, individual situations may occur in which the application of the Code would lead to limitations in the flexibility of the Company or in the proven corporate practice. In the interest of good corporate governance, deviations from the recommendations of the Code may take place in those individual cases. STADA will, however, regularly review and, if necessary, correct compliance with the Code and the above mentioned exceptions.

Bad Vilbel, October 8, 2015

signed

Dr. Martin Abend

Chairman of the Supervisory Board

signed

Hartmut Retzlaff

Chairman of the Executive Board

## 2. Relevant information on Company practices

### Corporate Governance

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

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

### Risk Management and Internal Auditing

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

Furthermore, Internal Auditing supports the Executive Board as an independent department outside of the daily operational business. The department evaluates internal procedures and processes from an objective perspective and with the distance necessary. The goal is to achieve optimized business processes, reduced costs and 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 the STADA Group. The Compliance Office is the consultant and advisor for all departments and all employees of the STADA Group in its independent and objective role.

All of STADA's business processes and Group activities are carried out exclusively within the framework of respective laws in force.

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

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

The Chief Compliance Officer who is responsible for the Compliance Management System is a member of the Executive Board, coordinates the entire system and receives complaints and information – also anonymously if needed and follows up on suspected compliance breaches. The officer is supported in Germany and internationally by Compliance Managers, and by an external Ombudsman in Germany. In order to guarantee the adherence to legal regulations and internal company policies of compliance in an effective manner, STADA regularly controls and further develops the Compliance Management System.

The Code of Conduct, along with further information regarding compliance, can be found online at [www.stada.de](http://www.stada.de) or [www.stada.com](http://www.stada.com) in the Sustainability section of “Corporate Management”.

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

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

More detailed information on the discussed corporate governance practices at STADA as well as further information can also be found online at [www.stada.de](http://www.stada.de) or [www.stada.com](http://www.stada.com) in the Sustainability section.

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

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

### **a) Executive Board**

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

### Tasks and responsibilities

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

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

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

- Hartmut Retzlaff, Chairman of the Executive Board (under contract until August 31, 2021), is the Executive Board member responsible for the areas of Marketing and Sales, Corporate Strategy, Corporate Communications, Production, Purchasing and Procurement, Research and Development, as well as Biotechnology.
- Helmut Kraft, Chief Financial Officer (under contract until December 31, 2019), is responsible for, in addition to the area of Finance (Controlling and Accounting, Treasury and Taxes), the areas of Internal Auditing, IT, Investor Relations as well as Business Transformation.
- Dr. Matthias Wiedenfels, Chief Business Development & Central Services Officer (under contract until December 31, 2020), is the member of the STADA Executive Board responsible for Business Development, Portfolio Management, Human Resources, Legal, IP/Patents, Compliance (including Export Control), Risk Management as well as for Quality Assurance and Quality Control.

### Working practices of the Executive Board

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

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

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

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

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

### Conflicts of interest

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

### Remuneration report

The Remuneration Report, which can be found in the Management Report of the Executive Board, presents the principles of the remuneration system of the Executive Board of STADA as well as individual details of the remuneration of individual members of the Executive Board.

## b) Supervisory Board

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

### Tasks and responsibilities

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

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

- Dr. Martin Abend, Attorney, Dresden (Chairman)
- Carl Ferdinand Oetker, Banker, Düsseldorf (Deputy Chairman)
- Dr. Eckhard Brüggemann, Doctor, Herne
- Halil Duru, Deputy Chairman of the Worker's Council released from duty, Frankfurt am Main (Employee Representative)
- Dr. K. F. Arnold Hertzsch, Pharmacist, Dresden
- Dieter Koch, Pharmacist, Kiel
- Constantin Meyer, Pharmacist, Seelze
- Dr. Ute Pantke, Director Internal Communications, Wettenberg (Employee Representative)
- Jens Steegers, Chairman of the Worker's Council released from duty, Bad Vilbel (Employee Representative)

The term of all representatives of the shareholders on the Supervisory Board ends with the completion of the Annual General Meeting 2018.

### Working practices of the Supervisory Board

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

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

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

### Composition and working practices of the Supervisory Board committees

According to the rules of procedure of the Supervisory Board, the following Supervisory Board committees exist: the Audit Committee and the Human Resources Committee. Other committees, such as a Nomination Committee, can be created as needed.

- Audit Committee

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

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

As of the balance sheet date, the Audit Committee included the following members from the shareholders: Carl Ferdinand Oetker (Chairman), Dr. Martin Abend and Dr. K. F. Arnold Hertzsch. As Chairman of the Audit Committee, Mr. Oetker fulfills the prerequisites outlined above. In its meeting on December 17, 2015, the Supervisory Board elected Mr. Jens Steegers as additional member of the Audit Committee, effective from financial year 2016.

- Human Resources Committee

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

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

As of the balance sheet date, the members of the Human Resources Committee from the shareholders were Dr. Martin Abend (Chairman), Dieter Koch and Constantin Meyer. In its meeting on December 17, 2015, the Supervisory Board elected Halil Duru as additional member of the Human Resources Committee, effective from financial year 2016.

- Nomination Panel

As the declaration on the German Corporate Governance Code already submitted on October 8, 2015 describes in more detail, the Supervisory Board appointed a Nomination Panel, consisting of the Chairmen of the Human Resources Committee and the Audit Committee, to develop objectives and a profile for the composition of the Supervisory Board.

The members of the Nomination Panel on the balance sheet date were Dr. Martin Abend and Carl Ferdinand Oetker.

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 part of good corporate governance.

	Meeting participation	Attendance in %
<b>Supervisory Board Plenum</b>		
Dr. Martin Abend	8/8	100%
Dr. Eckhard Brüggemann	8/8	100%
Halil Duru	8/8	100%
Dr. Arnold Hertzsch	8/8	100%
Dieter Koch	8/8	100%
Constantin Meyer	8/8	100%
Carl Ferdinand Oetker	8/8	100%
Dr. Ute Pantke	8/8	100%
Jens Steegers	8/8	100%
<b>Audit Committee</b>		
Dr. Martin Abend	4/4	100%
Dr. Arnold Hertzsch	4/4	100%
Carl Ferdinand Oetker	4/4	100%
<b>Human Resources Committee</b>		
Dr. Martin Abend	7/7	100%
Dieter Koch	7/7	100%
Constantin Meyer	7/7	100%

### Goals for the composition of the Supervisory Board

In financial year 2012, the Nomination Panel presented to the Supervisory Board Plenum goals as well as an appointment plan for the composition of the members of the Supervisory Board to be elected at the Annual General Meeting on June 5, 2013 as representatives of the shareholders.

In the first quarter of 2012, the Supervisory Board concluded the following **goals for its composition** at its meeting on January 23, 2012 in accordance with Section 5.4.1 of the German Corporate Governance Code (GCGC):

#### 1. General goals

The Company's Supervisory Board is to be composed in a manner that its members as a whole have the required knowledge, abilities and specialist experience in order to appropriately assume the tasks (Section 5.4.1 GCGC), so that all competencies required for the Company's Supervisory Board are actually represented within the Supervisory Board, or rather among the representatives of the shareholders.

The general knowledge of the Supervisory Board members includes, in particular, theoretical knowledge and practical experience in the areas of legal principles and compliance, accounting and risk controlling.

Supervisory Board members are to be familiar with the core segments of the operations of the Company, the development and marketing of products with, generally, active pharmaceutical ingredients which are free of commercial property rights, particularly patents, and regularly also prescription drugs and products required to be or only sold in pharmacies.

Furthermore, the international activities of STADA Arzneimittel AG are to be considered in the composition of the shareholder representatives in the Supervisory Board. Here, criteria include, in addition to fluency in written and spoken English, the understanding of global economic connections and an international Group structure.

In particular, candidates should be recommended who, as a result of their integrity and personality, are in the position to take on the tasks of a Supervisory Board member of the publicly listed STADA Arzneimittel AG. Furthermore, diversity is to be considered.

## **2. Concrete goals, appointment plan**

### a) Required knowledge, abilities and specialist experience

Each member of the Supervisory Board is to fulfill the following requirements – in addition to the general requirements of reliability and the specific knowledge required to assume the control function as well as to evaluate, monitor and consult the Executive Board of STADA Arzneimittel AG:

- general understanding of the business activities carried out by STADA Arzneimittel AG, the industry and market environment, and the strategic positioning of the Company,
- the ability to understand and evaluate the reports submitted to the Supervisory Board in order to draw independent conclusions from these; additionally the ability to evaluate and assess the decisions of the Executive Board and the transactions arising as well as to be able to analyze economic connections,
- the ability to understand the documentation submitted for the financial statements and to be able to evaluate these in consideration of company-specific issues, if necessary, with the support of an auditor,
- communicative abilities.

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

The above-mentioned specialist knowledge and experience is to be as widely represented as possible.

### b) Personal requirements

Candidates are to be recommended who fulfill the determined personal requirements of the most current version of the German Corporate Governance Code. The personal requirements according to the most current version of the German Corporate Governance Code are also to be upheld during the active term of a Supervisory Board member.

It is also to be ensured that the Supervisory Board members are independent. For candidate recommendations to the Annual General Meeting, it is to be ensured that the individual candidate does not hold a management or consulting function at, nor is in the supervisory bodies of competitor companies, suppliers, significant lenders or customers, so that conflicts of interest can be avoided from the start.

c) Appointment plan

Diversity is to be considered in the recommendation of candidates for the election of shareholder representatives by the Annual General Meeting. Diversity in the Supervisory Board is reflected, among other things, in the various occupational careers and areas of activity, as well as with respect to the internationality of STADA Arzneimittel AG, in the diverse spectrum of experience of the shareholder representatives in the Supervisory Board.

The chairmen of the Human Resources Committee and of the Audit Committee provided the Supervisory Board with the following appointment plan for the new election of shareholder representatives at the Annual General Meeting in June 2013:

- a practicing pharmacist,
- an experienced and knowledgeable pharmacist, in particular in the areas of medicinal care – patent-protected and generic RX and OTC products – at pharmacies, of advise on self-medication and of resulting opportunities thus available for STADA Arzneimittel AG,
- a pharmacist with many years of experience in the pharmaceutical industry, e.g. as the head of production and quality control (e.g. qualified person in the sense of Sections 14 f. of the German Pharmaceutical Act, AMG),
- an independent financial specialist with expertise in the areas of accounting and financial report auditing,
- an attorney experienced in corporate and industrial law.

For further candidates, expertise in the areas of future treatment methods, biotechnology, health care trends, health care systems (in and out-patient care), among other things, is desirable.

Furthermore, the Supervisory Board decided against the determination of an age limit and against a fixed diversity quota. Specific age limits or fixed diversity quotas would only limit the selection of appropriate candidates.

Taking these goals into consideration, the Supervisory Board submitted a candidate recommendation at the 2013 Annual General Meeting, which was approved at that Annual General Meeting.

The Supervisory Board continually monitors the currentness and implementation of the goals for its composition established in the first quarter of 2012. The Supervisory Board therefore dealt with changes to the German Corporate Governance Code in the third and fourth quarters of 2015, which affect the designation of concrete goals for its composition, and therefore passed the regulations, which are subsequently described in further detail.

In the context of the implementation of the Law on Equal Participation of Men and Women in Private-Sector and Public-Sector Management Positions, which came into effect on May 1, 2015, at its meeting on August 5, 2015 the Supervisory Board agreed on the target for the proportion of women in the Supervisory Board for the period until June 30, 2017 of at least maintaining the status quo of 11.11%. The Supervisory Board will continue to promote the proportion of women on its board, however recommendations for positions on the Supervisory Board are primarily based on professional and personal qualifications of the candidate, rather than on gender.

In the meeting on August 5, 2015 the Supervisory Board also agreed to abstain from setting an age limit or a regular limit on the length of membership of the Supervisory Board. In the opinion of the Supervisory Board, age is not a suitable criterion for choosing qualified candidates (male or female) and the expertise of long-time experienced Supervisory Board members shall in principle also

be made available to the company. A solely age-related disqualification or a limit of maximum length of membership defined in advance is not considered appropriate by the Supervisory Board.

In its meeting on October 8, 2015 the Supervisory Board again discussed and confirmed target setting for independence in the Supervisory Board. As regards the number of independent members in accordance with Section 5.4.2 GCGC the Supervisory Board continues to believe that all shareholder representatives in the Supervisory Board of STADA Arzneimittel AG should be independent in the sense of the assessment of the Code. Because, as before, in the opinion of the Supervisory Board no concrete indications of relevant relationships or circumstances exist for any of the shareholder representatives, which would be in breach of Section 5.4.2 of the GCGC, this target continues to be met.

In the coming financial year the Supervisory Board will continually assess the validity and implementation of goals for its composition. A general review of the goals of the Supervisory Board will be carried out in due time prior to the Supervisory Board election in 2018.

### **Conflicts of interest**

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

### **Efficiency review**

The Supervisory Board regularly reviews the efficiency of its activities. The subject of the efficiency review includes, in addition to the qualitative criteria to be established by the Supervisory Board, in particular the procedural flows in the Supervisory Board and the flow of information between the committees and the Plenum as well as the prompt and sufficient internal distribution of information.

### **Remuneration report**

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

## **c) Advisory Board**

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

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

In the implementation of the Law on Equal Participation of Men and Women in Private-Sector and Public-Sector Management Positions which came into effect on May 1, 2015 and which is applicable to STADA Arzneimittel AG as a publicly-listed and one-third participation stock corporation company, the Executive Board and Supervisory Board agreed on the goals and deadlines for achievement described subsequently in more detail, in accordance with Section 76 (4) AktG and Section 111 (5) AktG.

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

In its meeting on August 5, 2015 the Executive Board agreed unanimously on the following targets for the proportion of women in the two management levels below the Executive Board of STADA Arzneimittel AG, in accordance with Section 76 (4) AktG:

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

##### b) Specifications by the Supervisory Board in accordance with Section 111 (5) AktG

In its meeting on August 5, 2015 the Supervisory Board established the following goals, described subsequently in more detail, for the proportion of women in the Executive Board and Supervisory Board, in accordance with Section 111 (5) AktG:

As regards the setting of targets for the proportion of women on the Executive Board, for the period up to June 30, 2017 the status quo of 0% should be maintained. Positions on the Executive Board are awarded primarily based on the professional and personal qualifications of the candidate, rather than based on gender. In awarding future Executive Board positions the Supervisory Board will consider an appropriate proportion of women.

As regards the setting of targets for the proportion of women on the Supervisory Board, which currently has one female member out of nine total members, the status quo should be maintained for the period up to June 30, 2017, i.e., a target of at least 11.11% was set for the proportion of women on the Supervisory Board. The Supervisory Board will continue to promote the proportion of women on its board. However, recommendations for positions on the Supervisory Board are awarded primarily based on the professional and personal qualifications of the candidate, rather than based on gender.

##### c) Report on the achievement of goals

The Annual Report 2017, after the deadline of June 30, 2017, will report on the achievement of the goals.

## SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

The Annual General Meeting 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.

## TRANSPARENT CORPORATE GOVERNANCE

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

In order to ensure the equal treatment of all users and to provide market participants the same information in terms of content and in due time, STADA provides all the important documentation on the STADA website at [www.stada.de](http://www.stada.de) and [www.stada.com](http://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 Section 15a WpHG (Director's Dealings), information on the Annual General Meeting, as well as other comprehensive Company and share information such as press releases, Company profile, financial calendar, presentations and current share price information on STADA (including peer group comparisons). The Company generally publishes up-to-date presentations on its website for the capital markets.

The reporting about the situation and results of STADA Arzneimittel AG and the STADA Group is delivered by the Annual Report, the interim reports and at press and analysts' conferences which can generally be followed live and can be viewed for some time as a recording on the STADA website at [www.stada.de](http://www.stada.de) and [www.stada.com](http://www.stada.com).

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

2) Under the Company's Articles of Incorporation, STADA's registered shares with restricted transferability can only be transferred and entered into the share register with the consent of the Executive Board of the Company and, pursuant to the Articles of Incorporation, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise their voting rights. No shareholder and no shareholder group shall have any special rights.

## FINANCIAL REPORTING AND FINANCIAL STATEMENT AUDIT

STADA prepares the consolidated financial statements and the consolidated interim financial statements in accordance with the relevant international financial reporting standards and the annual financial statements of STADA Arzneimittel AG in accordance with the rules and regulations of the German Commercial Code.

The auditor and Supervisory Board audit the consolidated financial statements and the consolidated interim financial statements for the first half of the year provided by the Executive Board. The Audit Committee discusses the interim financial reports with the Executive Board prior to their publishing.

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

The Company does not have a stock option plan.

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

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

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

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

The auditor participates in the meetings of the Supervisory Board regarding the semi annual, annual and consolidated financial statements and reports the significant results of the audit.