

# 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 (CGC) 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.com/de/cg](http://www.stada.com/de/cg) and [www.stada.com/cg](http://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 under Section 315d in conjunction with Section 289f of the German Commercial Code (HGB), includes the pursuant to 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 information on whether or not the specified targets were met in the reference period 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 2018.

### 1. Declaration of Compliance

The Executive Board and Supervisory Board agreed on a new Declaration of Compliance in accordance with the German Corporate Governance Code in December 2018. This, as well as earlier Declarations of Compliance or updates, can be found on the Company's website at [www.stada.com/de/cg](http://www.stada.com/de/cg) or [www.stada.com/cg](http://www.stada.com/cg).

#### “Declaration of Compliance of December 2018

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

Since the last Declaration of Compliance in December 2017, save for the derogations listed therein and the derogations listed below, STADA Arzneimittel AG (“STADA”) has complied with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017 (published in the Federal Gazette on April 24, 2017 and in the corrected version published on May 19, 2017) and in the future will comply with the recommendations of the German Corporate Governance Code in this version with the following derogations:

#### 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 (CGC) recommends that the monetary parts of the Executive Board remuneration contain not just fixed but also variable components. The remuneration of Executive Board member Peter Goldschmidt for the year 2018 derogates from this. Mr. Goldschmidt was appointed member of the Executive Board of STADA as of September 1, 2018. Given that at the time of his appointment financial year 2018 was largely over, the remuneration for Mr. Goldschmidt's work in financial year 2018 only comprises non-performance-related remuneration consisting of a fixed monthly salary and a fixed bonus.

#### Section 4.2.3 (2) Sentence 6: Remuneration caps

Section 4.2.3 (2) Sentence 6 of the CGC stipulates that the remuneration of Executive Board members shall be capped with maximum levels, both in the aggregate and as regards variable components. With regard to individual fringe benefits for the Executive Board members, notably the possibility to use the company car and company telephone for private purposes, as well as for the assumption of costs for certain insurance benefits, no specific amounts are set as caps. As no cap is defined for individual remuneration components, no maximum amount is set as a cap for aggregate remuneration either. The Supervisory Board

is of the opinion that the maximum aggregate remuneration can be calculated easily by adding the quantified limits applicable to the main remuneration components set out in the contracts. The Supervisory Board deems it impracticable to quantify maximum limits for fringe benefits whose amounts are not significant, such as the possibility of using the company telephone for private purposes.

#### **Section 4.2.3 (4) Sentence 3: Basing the calculation of the severance cap on total remuneration**

Section 4.2.3 (4) Sentence 3 GCGC stipulates that 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. The Executive Board contracts with Peter Goldschmidt, Mark Keatley and Miguel Pagan Fernandez set forth a severance pay pledge which provides for a lump-sum calculation for variable remuneration and as such is not based on total remuneration. In the view of the Supervisory Board, this facilitates the calculation of any severance payments.

#### **Section 5.3.2 (3) Sentence 2: Independence of the Chair of the Audit Committee**

Section 5.3.2 (3) Sentence 2 GCGC stipulates that the Chair of the Audit Committee shall be independent. The Supervisory Board has elected Dr. Siefke Chair of the Audit Committee. Dr. Michael Siefke's career means he has special knowledge and experience in the field of accounting and auditing. His role as Managing Director at Bain Capital Private Equity Beteiligungsberatung GmbH, Munich, a company affiliated with the controlling shareholder Nidda Healthcare GmbH, means he is not independent, however. With its current composition, it was not possible for the Supervisory Board to fill the position of the Chair of the Audit Committee with an independent member with financial expertise.

Bad Vilbel, December 14, 2018

signed  
Dr. Günter von Au  
Chairman of the Supervisory Board

signed  
Peter Goldschmidt  
CEO"

## **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 an Executive Board and a 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 pursued and continuously developed in all areas at STADA. In addition to legal and regulatory requirements and 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; and 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 a systematic risk management and control system that allows the Executive Board to identify risks and market developments at an early stage and 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, at 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 in an independent function outside of the day-to-day operations. The department evaluates internal procedures and processes from an objective perspective with the necessary distance. 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 to which a company subjects 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 the 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 all managers and employees of the STADA Group. The aim of the Code of Conduct is to assist all employees in handling legal and ethical challenges in their daily work and to provide 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 regarding 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. The Chief Compliance Officer responsible for the Compliance Management System reports to the General Counsel and, if necessary, directly to the Chairman of the Executive Board or the Supervisory Board. The Chief Compliance Officer coordinates the entire system and receives complaints and information – anonymously if necessary – and follows up on suspected compliance breaches. Any suspicious cases reported are assessed and evaluated. If necessary, appropriate measures are introduced and processes are adapted. Disciplinary measures are also taken. These can range from a simple warning to the dismissal of the employee. The Chief Compliance Officer is supported in Germany and internationally by Compliance Managers, and by an external Ombudsman in Germany. In financial year 2018, the international dialogue of compliance managers was further intensified. In order to guarantee adherence to legal regulations and internal company policies of compliance in an effective manner, STADA regularly reviews and further develops the Compliance Management System based on risk.

In the reporting year, one focus was the introduction of provisions on the General Data Protection Regulation (GDPR), which came into force in May 2018.

Another focus was an internal investigation of past business transactions with the proactive involvement of the public prosecutor in Frankfurt am Main, which STADA carried out with the support of external law firms. This investigation was completed in financial year 2018 both in terms of criminal law and corporate law. As a result, there are no pending or expected legal disputes with former members of the management team or employees in connection with this investigation. Based on the results of the investigation, at the next Annual General Meeting, the Supervisory Board and the Executive Board intend to recommend granting Dr. Matthias Wiedenfels and Helmut Kraft discharge from liability for the financial years 2016 and 2017. The discharge decision had been deferred by the General Meetings for these financial years because of the then ongoing compliance investigation.<sup>1)</sup>

The Code of Conduct, information on data protection and the contact information of the Ombudsman, along with further information regarding compliance, can be found on the company's website at [www.stada.com/de](http://www.stada.com/de) or [www.stada.com](http://www.stada.com) in the Group section under "Compliance" and in the Investor Relations section under "Sustainability".

<sup>1)</sup> See the Company's press release of November 28, 2018.

## Quality and safety, sustainability and the 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’s website at [www.stada.com/de](http://www.stada.com/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 coordinates the strategic orientation of the Company with the Supervisory Board and, in the course of the implementation of the corporate strategy, discusses the current status with the Supervisory Board 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 any special provisions for the appointment or dismissal of individual members of the Executive Board or of all as a group. The Supervisory Board alone 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 2018, there were the following changes at the Executive Board level: On July 1, 2018, Miguel Pagan Fernandez, Chief Technical Officer, took up his position as a member of the STADA Executive Board. He succeeded the former Chief Technical Officer, Dr. Barthold Piening, who left the company on May 31, 2018.<sup>1)</sup> At its meeting on February 1, 2018, as part of the succession plan, the Supervisory Board appointed Peter Goldschmidt as the CEO of STADA Arzneimittel AG with effect from September 1, 2018.<sup>2)</sup> He succeeded Dr. Claudio Albrecht, who had been the CEO of STADA since September 27, 2017 until August 31, 2018.

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

- Peter Goldschmidt, Chairman of the Executive Board (contract until August 31, 2021), 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 and Legal (including corporate governance, corporate compliance, and risk management).
- Mark Keatley, Chief Financial Officer (contract until September 26, 2020), is responsible for the Finance area (Corporate Accounting and Controlling, Corporate Treasury and Taxes) and also Corporate IT, Corporate Development and M&A, Internal Audit and Investor Relations.

<sup>1)</sup> See the Company’s press release of April 16, 2018.

<sup>2)</sup> See the Company’s ad hoc release and press release of February 1, 2018 and the press release of September 3, 2018.

- Miguel Pagan Fernandez, Chief Technical Officer (contract until June 30, 2021), is the member of the STADA Executive Board responsible for Production (including Local Quality, Engineering & Facility Management), Corporate Quality Assurance, Environment and Occupational Safety, Global Supply Chain Management, Procurement, Regulatory & Medical & Clinical Affairs, Pharmaceutical Development and R&D Project Management.

### **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. All matters for which a resolution from the full Executive Board is required, in accordance with the applicable law, the Articles of Incorporation or rules of procedure for the Executive Board, are subject to the overall responsibility of all members of the Executive Board.

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 with 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 126b 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 126b 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 Executive Board's rules of procedure, every member of the Executive Board is under obligation to immediately disclose any conflicts of interest 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). The performance of ancillary activities, in particular the assumption of Supervisory Board mandates outside of the Group, shall require the prior consent of the Supervisory Board.

### **Remuneration Report**

The "Remuneration Report" sets out the essential principles of the remuneration system for the STADA Executive Board and the particulars regarding the salaries of each member of the Executive Board. It is also published on the Company website at [www.stada.com/de](http://www.stada.com/de) and [www.stada.com](http://www.stada.com) in the Investor Relations section under "Corporate Governance".

### **b) Supervisory Board**

The STADA Supervisory Board is composed in accordance with the German One-Third-Participation Act [Drittelbeteiligungsgesetz] and consists of nine members, including six members who are shareholder representatives and three members who are employee representatives. The General Meeting elects the shareholder representatives in accordance with the German Stock Corporation Act [Aktiengesetz] and the employees select the employee representative in accordance with the German One-Third-Participation Act. On June 6, 2018 the Annual General Meeting at STADA Arzneimittel AG saw an election for the Supervisory Board to replace the six shareholder Supervisory Board members after their terms in office ended at the end of the ordinary Annual General Meeting 2018.

On the balance sheet date, the Supervisory Board comprised the following members:

- Dr. Günter von Au, Member of the Board of Directors at Clariant AG (Switzerland), Munich, Germany (Chairman)
- Jens Steegers, exempted Works Council representative at STADA Arzneimittel AG, Frankfurt am Main, Germany (Deputy Chairman; employee representative)
- Dr. Eric Cornut, Independent Consultant, Binningen, Switzerland
- Halil Duru, Employee Logistics at STADA Arzneimittel AG, 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, Wettengel, Germany (employee representative) until December 31, 2018
- Bruno Schick, Managing Director at Cinven GmbH, Frankfurt am Main, Germany
- Dr. Michael Siefke, Managing Director at Bain Capital Private Equity Beteiligungsberatung GmbH, Gräfelfing, Germany

The term of office of all the shareholder representatives ends with the completion of the Annual General Meeting 2023. The employee representatives have been elected until the completion of the Annual General Meeting 2019. As of December 31, 2018, employee representative Dr. Ute Pantke resigned from the Supervisory Board. As the election of the employee representatives to the Supervisory Board will take place in spring 2019, this position on the Supervisory Board will remain vacant for the time being.

### **Tasks and responsibilities**

The Supervisory Board appoints the members of the Executive Board. In addition, the Supervisory Board monitors and advises the Executive Board in the management of the business. Through regular dialog with the Executive Board, the Supervisory Board is kept informed about business development, corporate strategy, corporate planning, the risk situation, risk management, and compliance. It approves the corporate planning and the Annual Financial Statements of STADA Arzneimittel AG, and the Consolidated Financial Statements of the STADA Group.

### **Working methods of the Supervisory Board**

The Chairman of the Supervisory Board coordinates the work, chairs the Supervisory Board meetings, and handles external matters on behalf of the Supervisory Board.

The Chairman of the Supervisory Board or their representative convenes the Supervisory Board if required with a notice period of 14 days. In urgent cases, the notice period can be reduced and/or the Supervisory Board can be convened verbally or by telephone. Supervisory Board meetings shall be held once each calendar quarter and must be held twice each calendar half-year (see also Section 16 (5) of the Articles of Incorporation). The meetings of the Supervisory Board and of its Committees are as a rule held under personal attendance. 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. By order of the Chairman, resolutions can also be passed outside of meetings in writing, by telephone, or using other communications tools (such as e-mail), as well as in combination with all the previously mentioned means of passing resolutions. The nature of the vote will be determined by the meeting chairman. The Supervisory Board constitutes a quorum if at least half of the members, of which it must be composed, vote in the resolution in person or by telephone or video conference, or join the relevant meeting by telephone or video. Supervisory Board resolutions are passed by a simple majority of the votes cast. In the event of a tie, the meeting chairman casts the deciding vote.

The above regulations shall apply correspondingly to the working methods of the committees, substituting the chairman of the relevant committee for the Chairman of the Supervisory Board.

### **Objectives for the composition of the Supervisory Board**

At its meeting on December 1, 2017, the Supervisory Board decided the objectives for its composition (described in detail below) and developed a competence profile for the overall Board pursuant to Section 5.4.1 (2) GCGC. In this connection, the Supervisory Board developed a diversity concept in accordance with Section 289f (2) No. 6 HGB, which it shall observe with regard to its composition and incorporate as part of its objectives for its composition, along with the competence profile. Both the Nomina-

tion Committee and the Supervisory Board observe these objectives when suggesting appointments to the General Meeting and strive to fulfill the competence profile for the overall Board. The Supervisory Board continually monitors the validity and implementation of the objectives for its composition. With the current composition, the objectives mentioned are, in the assessment of the Supervisory Board, fulfilled.

#### ***Competence profile for the overall Board***

The Supervisory Board must be composed such that its members overall have the requisite knowledge, skills, and professional experience to duly perform the required tasks. The members of the Supervisory Board must all be familiar with the pharmaceutical and health sector, and with the responsibilities and requirements of the two-tier organizational structure of the German Stock Corporation Act. In its December 2017 meeting, the Supervisory Board prepared a competence profile for the overall Board on general, professional, and personal competencies in accordance with the requirements of Section 5.4.1 GCCG. 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 heterogeneously and diversely composed committee has a positive impact on the work of the Supervisory Board as a result of varied perspectives. It therefore values a heterogeneous and diverse composition. To this end, it has created a diversity concept within the meaning of Section 289f (2) No. 6 German Commercial Code (HGB) concerning age structure/level of experience, gender diversity, educational and professional background as well as cultural diversity and internationalism. The diversity concept, with the Supervisory Board in its current composition is fully compliant with, is described in more detail under Point 5.

#### ***Appropriate number of independent Supervisory Board members***

There should be an appropriate number of independent members of the STADA Supervisory Board in line with the ownership structure. Specifically, a Supervisory Board member cannot be considered independent if they have a personal or business relationship with the Company, its bodies, a controlling shareholder, or a company affiliated with it that can constitute a significant and non-temporary conflict of interest. In light of the ownership structure and STADA's dependence on its majority shareholder, Nidda Healthcare GmbH, the Supervisory Board considers it sufficient if two shareholder representatives are independent. In the Supervisory Board's view, Dr. Günter von Au and Dr. Eric Cornut can be considered independent shareholder representatives within the meaning of Section 5.4.2 GCCG.

#### ***Age limit and limit for membership term***

The Supervisory Board is of the view that its members, subject to exceptional circumstances, should not serve beyond the end of the Annual General Meeting subsequent to their reaching the age of 75 (age limit). Proposals for election should take into consideration the age limit for being a member of the Supervisory Board for three complete terms in office (which is normally 15 years). The current composition of the Supervisory Board meets this requirement.

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

As part of the diversity concept, the Supervisory Board is striving to increase the number of women and to strengthen the position of women. In line with legal regulations, the Supervisory Board has determined for the period until December 31, 2022 that at least one woman shall be member of the Supervisory Board. In addition, the Supervisory Board is striving to continue increasing the proportion of women on its Board, with the professional and personal competence of the candidates being the primary consideration rather than their gender.

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

In the reporting year the Supervisory Board had the following four Supervisory Board Committees: an Audit Committee, a Chairman's Committee, a Nomination Committee, and a Compliance Committee. In addition to these four, there was an Ad hoc Committee for the domination and profit and loss transfer agreement (DPLTA) for the period from October 23, 2017 until March 20, 2018, and a one-time, Ad hoc Committee on October 24, 2018 to pass a resolution on a joint statement of the Executive Board and the Supervisory Board.

- **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.

The Supervisory Board members Dr. Michael Siefke (Chairman), Benjamin Kunstler, Jan-Nicolas Garbe, and Jens Steegers belong to the Audit Committee.

As Chairman of the Audit Committee, Dr. Michael Siefke has particular knowledge and experience in the application of financial reporting principles and internal control procedures. Due to his position as Managing Director of an affiliated company of Nidda Healthcare GmbH, he is not considered independent within the meaning of Section 5.3.2 (3) Sentence 2 GCGC.

- **Chairman's Committee**

The Chairman of the Supervisory Board acts as Chairman of the Chairman's Committee.

The Chairman's Committee prepares the appointment decisions of the Supervisory Board with regard to the composition of the Executive Board. In particular, it deals with the terms and conditions of the employment contracts of Executive Board members and prepares the resolutions of the Supervisory Board on the remuneration system for the Executive Board by proposing to the Supervisory Board the structure of the remuneration system and the ranges for the fixed and variable remuneration elements of the Executive Board. It also performs long-term succession planning in conjunction with the Executive Board.

The Chairman's Committee is also generally entrusted with preparing the Supervisory Board meetings, coordinating communication with the Executive Board, monitoring the implementation of the resolutions passed by the Supervisory Board, preparing the Supervisory Board efficiency review and preparing (including recommending resolutions) the decision of the Supervisory Board on how to handle conflicts of interest within the Executive Board (for example, approval from the Supervisory Board regarding transactions with a member of the Executive Board or a third party closely associated with them, including outside the scope of Section 112 AktG, or approval from the Supervisory Board on the assumption of ancillary activities outside of the Group). In addition, the Chairman's Committee passes resolutions in the name of the Supervisory Board concerning transactions requiring approval, where these are assigned to it, and in such cases where the prevention of material disadvantages to the Company cannot reasonably be delayed until the next Supervisory Board meeting and where a decision by the Supervisory Board also cannot be brought about within the required timeframe by a vote outside a meeting. It also develops resolution recommendations to put forward to the Supervisory Board in relation to all further transactions requiring approval that are not assigned for sole decision by the Chairman's Committee.

The members of the Chairman's Committee are Supervisory Board member Dr. Günter von Au (Chairman), Halil Duru, Bruno Schick, and Dr. Michael Siefke.

- Nomination Committee

In accordance with the German Corporate Governance Code, the Supervisory Board established a Nomination Committee. Its task is to recommend to the General Meeting suitable candidates for the election of shareholder representatives to the 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 is composed exclusively of shareholder representatives. It meets as required. Its members do not receive any separate Committee remuneration.

The members of the Nomination Committee are Supervisory Board member Dr. Günter von Au (Chairman), Bruno Schick, and Dr. Michael Siefke.

- Compliance Committee

The Compliance Committee is responsible for monitoring compliance with legal standards and internal company guidelines by the Company and its bodies. As part of its activities, it is specifically responsible for introducing and accompanying proceedings concerning any compliance violations and for preparing the associated decisions of the Supervisory Board on such matters. The Compliance Committee meets as required and seeks the advice of external consultants if necessary. Its members do not receive any separate Committee remuneration.

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

- Ad hoc Committee to pass a resolution on a joint statement of the Executive Board and the Supervisory Board (one-time only on October 24, 2018)

During the course of the voluntary, public delisting purchase tender of Nidda Healthcare GmbH to the shareholders of STADA Arzneimittel AG in October 2018, the Supervisory Board founded an Ad hoc Committee effective only for the day of October 24, 2018 to pass a resolution on the joint statement of the Executive Board and the Supervisory Board in accordance with Section 27 German Securities Acquisition and Takeover Act [Wertpapiererwerbs- und Übernahmegesetz – WpÜG]. The documents submitted were first discussed with the Supervisory Board and with the Executive Board. Due to their activities for the companies Bain Capital and Cinven that are indirect shareholders of Nidda Healthcare GmbH, potential conflicts of interest could not be completely ruled out for the members Jan-Nicolas Garbe, Benjamin Kunstler, Bruno Schick, and Dr. Michael Siefke. For this reason, the members of the Supervisory Board agreed to create a one-time ad hoc Committee as a precautionary measure and solely for the purpose of passing the resolution mentioned above. The committee was dissolved again after the resolution on the joint statement from the Executive Board and the Supervisory Board was passed. Its members do not receive any separate Committee remuneration.

The members of the Ad hoc Committee created for the purposes of passing a resolution on a joint statement of the Executive Board and the Supervisory Board were Supervisory Board members Dr. Günter von Au (Chairman), Dr. Eric Cornut, and Jens Steegers.

- Ad hoc DPLTA Committee (October 23, 2017 until March 20, 2018)

During the process of closing the domination and profit and loss transfer agreement (DPLTA) between STADA and Nidda Healthcare GmbH, the Supervisory Board founded an Ad hoc DPLTA Committee to accompany the process in an efficient and neutral manner. The Committee's task was to assess whether closing the DPLTA was in the best interests of STADA and whether the fixed compensation and severance payment requested for the minority shareholders were appropriate at that time in the Committee's view. After the corresponding delegation, the Committee approved the closing of the DPLTA on behalf of the overall Supervisory Board and deliberated on the resolutions to be proposed to the General Meeting regarding consent for the conclusion of the DPLTA. Upon entry of the DPLTA in the commercial register on March 20, 2018, the Committee had fulfilled its purpose and was dissolved again with immediate effect.

The members of the Ad hoc DPLTA Committee were Supervisory Board members Dr. Günter von Au (Chairman), Dr. Eric Cornut, and Dr. Ute Pantke.

The "Report of the Supervisory Board" contains further details on the meetings and the focus areas of the activities of the Supervisory Board and its Committees.

### Individualized disclosure of meeting participation

The Supervisory Board considers it a part of good Corporate Governance to disclose participation in meetings of the Supervisory Board Plenum and Supervisory Board Committees in an individualized manner.

<b>Supervisory Board Plenum</b>	<b>Attendance at meetings</b>	<b>Attendance in %</b>
Dr. Günter von Au	12/12	100
Dr. Eric Cornut	12/12	100
Halil Duru	12/12	100
Jan-Nicolas Garbe	12/12	100
Benjamin Kunstler	11/12	91.67
Dr. Ute Pantke	6/12	50.00
Bruno Schick	12/12	100
Dr. Michael Siefke	12/12	100
Jens Steegers	11/12	91.67

<b>Audit Committee</b>	<b>Attendance at meetings</b>	<b>Attendance in %</b>
Jan-Nicolas Garbe	5/5	100
Benjamin Kunstler	5/5	100
Dr. Michael Siefke	5/5	100
Jens Steegers	5/5	100

<b>Chairman's Committee</b>	<b>Attendance at meetings</b>	<b>Attendance in %</b>
Dr. Günter von Au	4/4	100
Bruno Schick	4/4	100
Dr. Michael Siefke	4/4	100
Halil Duru	4/4	100

<b>Nomination Committee</b>	<b>Attendance at meetings</b>	<b>Attendance in %</b>
Dr. Günter von Au	1/1	100
Bruno Schick	1/1	100
Dr. Michael Siefke	1/1	100

<b>Compliance Committee</b>	<b>Attendance at meetings</b>	<b>Attendance in %</b>
Dr. Günter von Au	8/8	100
Dr. Eric Cornut	7/8	87.50
Bruno Schick	8/8	100
Dr. Michael Siefke	8/8	100

<b>Ad hoc Committee to pass a resolution on a joint statement of the Executive Board and the Supervisory Board (one-time only on October 24, 2018)</b>	<b>Attendance at meetings</b>	<b>Attendance in %</b>
Dr. Günter von Au	1/1	100
Dr. Eric Cornut	1/1	100
Jens Steegers	1/1	100

<b>Ad hoc DPLTA Committee (until March 20, 2018)</b>	<b>Attendance at meetings</b>	<b>Attendance in %</b>
Dr. Günter von Au	0/0	-
Dr. Eric Cornut	0/0	-
Dr. Ute Pantke	0/0	-

### Conflicts of interest

According to the rules of procedure for the Supervisory Board, Supervisory Board members should not perform any executive functions or consultancy with important competitors of the Company. In addition, Supervisory Board members are under obligation to disclose to the Supervisory Board any conflicts of interest, in particular those arising due to consultancy or executive functions concerning clients, suppliers, credit providers or other third parties. Material conflicts of interest concerning a Supervisory Board member that are not merely temporary should result in termination of the position. In its report presented at the General Meeting, the Supervisory Board informs participants whether conflicts of interest occurred and how they were handled.

### Efficiency review

The Supervisory Board regularly reviews the efficiency of its activities in accordance with Section 5.6 GCGC. The efficiency review serves to evaluate the effectiveness or efficacy and efficiency of the work performed by the Supervisory Board. The aims of the review are to critically evaluate the working methods and composition of the Board and to extrapolate possible suggestions for improvement, including with regard to optimizing workflows and organizing reporting procedures, strengthening the performance of the Supervisory Board as a monitoring body, and with regard to the legitimacy of the Board's work. An effectiveness and efficiency review with the support of an independent external consultant was last performed by the Supervisory Board in financial year 2017.

### Remuneration Report

The principles of the remuneration system of the STADA Supervisory Board as well as individual information concerning the remuneration of the individual Supervisory Board members are presented under "Remuneration Report".

### c) Advisory Board

The members of the Advisory Board at STADA Arzneimittel AG are appointed by the Executive Board for a term in office of two years. According to the Company's Articles of Incorporation, the duty of the Advisory Board is to support and advise the

Executive Board and make recommendations and suggestions. On the balance sheet date, the Advisory Board consisted of eleven members. The term in office of the eleven Advisory Board members currently appointed will end at the close of financial year 2020. The principles of the remuneration system of the STADA Advisory Board are presented under "Remuneration Report".

#### 4. Specifications according to Section 76 (4) and Section 111 (5) German Stock Corporation Act (AktG) and whether the defined targets were met during the reference period and, if not, the reasons for this

In accordance with Section 76 (4) and Section 111 (5) AktG the Executive Board and the Supervisory Board have decided upon the following targets for the proportion of women at the first and second management levels below the Executive Board as well as for the proportion of women on the Executive Board and on the Supervisory Board as described in more detail below.

##### 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 2017, in line with legal requirements pursuant to Section 76 (4) AktG, the Executive Board had decided regarding the proportion of women in the first management level below the Executive Board, to at least maintain the proportion of women at 25.0% until December 31, 2018.

With a proportion of women at the first management level of 16.7% on December 31, 2018, the target set in 2017 was not met. The low proportion of women at the first management level was primarily a result of organizational changes and restructurings within STADA Arzneimittel AG and staff turnover (three female managers have left the company), which affected the number and percentage of female management positions at this level. These positions will be filled in the next reporting year, meaning that they are not considered in financial year 2018. In January 2019, 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 16.7% with an implementation deadline until December 31, 2023.

###### Proportion of women at the second management level

In financial year 2017, the Executive Board had decided regarding the proportion of women in the second management level below the Executive Board, to at least maintain the proportion of women at 25.6% until December 31, 2018.

With a proportion of women at the second management level of 38.2% on December 31, 2018, the target set for 2017 was exceeded. In January 2019, 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 38.2% with an implementation deadline until December 31, 2023.

###### Outlook

As part of succession planning for the managers of STADA Arzneimittel AG, the Executive Board continues to observe suitable measures for the advancement of women in order to continually increase the proportion of women. This is based on the fact that the proportion of women on December 31, 2018 was approximately 58% in the STADA Group's overall workforce. There is no change to the fact that the primary consideration during recruitment for management positions is the professional and personal competence of the candidates rather than their gender.

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

###### Target for the proportion of women on the Executive Board

In accordance with the statutory requirements of Section 111 (5) AktG, the Supervisory Board decided in December 2017 to maintain the target for the proportion of women on the Executive Board at the status quo of 0% for a period until December 31, 2022. The Supervisory Board strives to ensure suitable participation of women in the recruitment of future executive positions, with the professional and personal competence of the candidates as the primary consideration rather than their gender.

### **Target for the proportion of women on the Supervisory Board**

In accordance with the statutory requirements of Section 111 (5) AktG regarding the setting of goals for the proportion of women on the Supervisory Board, the Supervisory Board decided in December 2017 that for the period until December 31, 2022 at least one woman shall be a member of the Supervisory Board. Due to the resignation of Dr. Ute Pantke as of December 31, 2018, the current proportion of women on the Supervisory Board is 0%. The Supervisory Board is striving to continue increasing the proportion of women on its Board, among other things to reach the set target value again, with the professional and personal competence of the candidates being the primary consideration rather than their gender.

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

### **a) Diversity concept for the Supervisory Board**

#### **aa) Aspects and objectives**

The Supervisory Board is of the view that a heterogeneously and diversely composed Committee has a positive impact on the work of the Supervisory Board as a result of varied perspectives. It therefore places value on a diverse composition, in particular with regard to age structure and experience, gender diversity, educational and career background, as well as cultural diversity and internationalism. The Supervisory Board pursues the following objectives with regard to the aforementioned aspects:

#### ***Age Structure and experience***

The Supervisory Board places value on a balanced age structure consisting of younger and more experienced employees. On the one hand, this serves to guard against "excessive aging" of the Supervisory Board as an overall Board. On the other hand, the Supervisory Board should at the same time be represented by persons with sufficient levels of experience, both in terms of age and number of years worked, and with regard to experience as a member of a supervisory or control body.

#### ***Gender diversity***

In relation to gender diversity, the Supervisory Board has set the target of promoting the proportion of women on its Board. It strives to have at least one woman as member of the Supervisory Board. In addition, the Supervisory Board strives to continue increasing the proportion of women on its Board, with the professional and personal competence of the candidates being the primary consideration rather than their gender.

#### ***Education and professional background***

With regard to its composition, the Supervisory Board ensures diversity in terms of the educational and career backgrounds of its members. In addition to those with a professional background in the pharmaceutical and health sector, the Supervisory Board should include persons with professional experience in companies external to the sector but with a commercial orientation. Nonetheless, the Supervisory Board members as a whole must be familiar with the pharmaceutical and health sector. With regard to educational background, members should include persons having completed studies in natural sciences, chemistry, and/or pharmaceuticals, as well as persons having completed business and/or legal studies. Furthermore, the membership should be composed both of people with and without experience at management level (particularly employees).

#### ***Cultural diversity and internationalism***

Every member must look favorably on the international alignment of the Group. As the Board of a group acting on an international level, the Supervisory Board at STADA places particular emphasis on cultural diversity and internationalism. Several of the members should have specifically international experience, for instance gained from service abroad, education abroad, or given their origin.

#### **ab) Manner of its implementation and achieved results**

The Supervisory Board believes that it has complied with the diversity concept in its current composition in the following ways:

***Age structure and experience***

The Supervisory Board members were born between the years 1951 and 1981, which means that the age range from the youngest to the oldest member is 30 years with an average age of 51 years. It therefore has a heterogeneous age and experience structure.

***Gender diversity***

The proportion of women in the Supervisory Board is currently zero due to the resignation of Dr. Ute Pantke as of December 31, 2018. The Supervisory Board strives to continue increasing the number of women on its Board, also to once again reach the target set, whereby the professional and personal competence of the candidates are the primary consideration rather than their gender..

***Educational and professional background***

The different educational and career backgrounds of the Supervisory Board members meet the identified diversity criteria. There is a balance between the number of members with a scientific/chemical education and those who have pursued business and/or legal studies. In addition, the Supervisory Board members have various levels of career experience within and outside of the Company's business area and the members as a whole are familiar with the pharmaceutical and health sector. The Supervisory Board includes members both with and without management experience.

***Cultural diversity and internationalism***

Numerous Supervisory Board members have international career experience gained abroad. There are also three Supervisory Board members with foreign nationality.

**b) Diversity concept for the Executive Board****ba) Aspects and objectives**

The STADA Executive Board is composed of three people. The relevant Executive Board positions primarily require very specific and detailed professional knowledge and experience in the respective business area. In the interests of the Company, whether a candidate fulfills these criteria takes precedence over diversity considerations. When creating the diversity concept, the Supervisory Board has therefore placed particular emphasis on educational and career background as well as internationalism with regard to Executive Board positions. Furthermore, the Supervisory Board strives to strengthen the role of women on the Executive Board, although the primary consideration is the professional and personal competence of the respective candidate rather than their gender.

***Educational and professional background***

In terms of educational and career background, the Supervisory Board places value on members of the Executive Board bringing with them a range of different academic degrees, in particular on expertise being represented from the pharmaceutical and natural sciences sector as well as business and/or legal specializations. In addition, members of the Executive Board should have already gathered career experience in various management positions at different companies, both within health care and in other sectors, in order for each person to contribute their respective wealth of experience to the Company management at STADA and to complement one another in these areas.

***Internationalism***

The Supervisory Board continues to ensure that each member of the Executive Board has international experience within the business area they are responsible for. In order to increase the internationalism of the overall Board, the Executive Board should include members with (educational or professional) experience in different countries.

**Representation of women**

Regardless of the targets provided by law, the Supervisory Board will strive to ensure suitable participation of women in the recruitment of future Executive Board positions, with the professional and personal competence of the candidates as the primary consideration rather than their gender.

**bb) Manner of its implementation and achieved results**

In the view of the Supervisory Board, the current composition of the Executive Board fulfills the indicated diversity criteria.

**Shareholders and the General Meeting**

The shareholders<sup>1)</sup> assume their rights in the General Meeting and exercise their voting rights there. Each STADA share<sup>2)</sup> 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 General Meeting takes place annually in the first eight months of the financial year.

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

As of the balance sheet date, the members of the Executive Board and Supervisory Board did not hold any shares of STADA Arzneimittel AG.

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. In the past financial year, there were no transactions that were subject to the reporting obligation.

**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 Company's financial position and about any significant business changes.

In order to ensure the equal treatment of all users and to provide market participants with the same information in terms of content and in due time, STADA provides all the important documentation for reporting on the situation and results of STADA Arzneimittel AG and the STADA Group on the Company's website at [www.stada.com/de](http://www.stada.com/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, ad hoc releases, information on the General Meeting, as well as other comprehensive Company information.

**Financial Reporting and Audit of the Financial Statements**

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 via interim financial reports within 45 days of the end of the reporting period.

The Annual Financial Statements of STADA Arzneimittel AG and the Consolidated Financial Statements as of December 31, 2018 as well as the Combined Management Report for the financial year 2018 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. Dr. Bernd Roesse was the responsible auditor for the audit of the Annual and Consolidated Financial Statements for financial year 2018.

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 of the Supervisory Board 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 justify 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 in 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 attends the meetings of the Supervisory Board regarding the Annual and Consolidated Financial Statements and reports the significant results of the audit.