



STADA Arzneimittel AG

External assessments of the Executive Board remuneration system

During the preparation of the Executive Board remuneration system, which came into effect on January 1, 2016, the Supervisory Board of STADA Arzneimittel AG had commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg (EY) with the execution of an economic assessment of the remuneration system and an evaluation of its incentive structures. Note 1 below provides the overall evaluation by EY (excerpt).

In the course of the preparation for the Annual General Meeting, which was rescheduled to August 26, 2016, and a relatively extensive evaluation of the new Executive Board remuneration system conducted by Corporate Governance, the Supervisory Board initiated additional external reviews of the new Executive Board remuneration (i) by the law firm Freshfields Bruckhaus Deringer LLP from a legal perspective and in view of investor expectations (assessment summary see Note 2 below) and (ii) by the personnel consulting firm Towers Watson GmbH, Frankfurt (Willis Towers Watson) regarding the amount and structure of the Executive Board remuneration as well as the verticality in terms of appropriateness and framework conditions that are typical for the market (assessment summary see Note 3 below).

In accordance with a policy of transparency and to provide additional information for the shareholders on the resolution of item 6 of the Annual General Meeting on August 26, 2016, the overall assessments of the previously mentioned experts are listed below:

1. Statement by EY of November 9, 2015

“System of the variable remuneration as a focus of the requirements for the new remuneration system

An important requirement of the new remuneration system was to develop a simple, transparent and attractive system which presents an appropriate balance between the interests of all Members of the Executive Board and the shareholders as owners of the company.

This comprehensive requirement is met by the system, among other things, as the variable remuneration is calculated using one operating key figure only, adjusted net income, which is also used in external financial reporting. With the help of a simple and transparent translation of the deviation of the achieved result from the target of the Supervisory Board into an adjustment of the remuneration, the overall performance of the Executive Board has a direct influence on the amount of remuneration. The fixed minimum and maximum limits support constant development of the company and avoid an excessively strong incentive towards risk-oriented behavior

through appropriate caps.

Half of the amount calculated this way also depends on the development of the share price. In addition, the new remuneration system deliberately forgoes the granting of shares or share options and avoids administrative expenses. Nevertheless, it reflects the sustainable development of the company on the capital market. At the same time, the dependency of the deferral payout amounts on the share price development during the deferral period reflects the interest of the shareholders and investors in a positive and disproportional share price development and therefore creates common interest.

The shareholders and investors are primarily interested in a continuous and long-term positive development of the STADA share, even in a cyclical capital market environment. Against this backdrop, the linking of the deferral payout amounts to the performance of the STADA share in relation to the comparable market is a more suitable indicator than the absolute development of the STADA share. This is demonstrated in times of negative market trends when a comparatively less negative development of the STADA share leads to an increase in the deferral payout amounts and not, as would be the case with an absolute link, to a reduction or even to an elimination. In times of generally good market development, on the other hand, only a disproportionately positive development of the STADA share would cause an increase in the deferral payout amounts.

This leveling characteristic would not be given with a linking of the deferral payout amounts to the absolute development of the STADA share. Nevertheless, there are circumstances and requirements, which make the linking of payout amounts to an absolute share price development seem reasonable. In particular for young companies with high growth potential and for companies with a changing business model and an unstable comparable peer group in this regard, absolute share price development can lead to preferred effects in context with the calculation of the amount of remuneration, which can include unusually high payouts and/or a comparatively quick elimination of remuneration components. Since hardly any of these special conditions are given at STADA Arzneimittel AG, the Supervisory Board decided to use the relative development of the STADA share as a basis for determining the deferral payout amounts instead.

Concluding remark

The new remuneration system of the Executive Board of STADA Arzneimittel AG guarantees appropriate success and performance sensitivity and ensures an attractive, market-oriented remuneration level. The current regulatory conditions are thus being fully implemented while taking into account the interest of investors and shareholders in a sustainable development of the company on the capital market. The remuneration system is comparably simple and transparent, it is in line with good market practice, and offers the Supervisory Board sufficient possibilities to avoid unwanted fluctuations of the Executive Board remuneration.”

2. Statement and recommendation by Freshfields Bruckhaus Deringer LLP of June 22, 2016

“Assessment of the Executive Board remuneration system

The Supervisory Board commissioned Freshfields Bruckhaus Deringer LLP with the execution of a plausibility check and the evaluation of the current Executive Board remuneration system of STADA Arzneimittel AG (“STADA”), which came into effect on January 1, 2016. The Executive Board remuneration system meets the legal requirements. We have evaluated and confirmed the appropriateness of the Executive Board remuneration pursuant to Section 87 (1) AktG based on an analysis by Willis Towers Watson of June 27, 2016. However, we recommend the following procedure:

In order to take into account the personal performance of a member of the Executive Board, the Supervisory Board has the possibility of increasing or decreasing the amount of the performance-related remuneration by up to 20%. The adjustment is carried out according to reasonable discretion, criteria for the execution of the discretion are not defined in the service contracts (except that the adjustment is carried out under consideration of performance). In our view, this is legally practicable. However, in line with the most recent practice of preparing Executive Board contracts, we recommend extending the service contracts by a contract adjustment, which specifies several concrete parameters that must be used as a calculation basis by the Supervisory Board.

The ratio of the short-term variable remuneration to the long-term variable remuneration is 50/50. In our view, this is legally acceptable. In the context of the extension of service contracts and new service contracts, however, we recommend the ratio between variable remuneration with a multi-year assessment basis and the short-term variable remuneration components to be 60/40.

The LTIP is divided into three equal initial values. Their payment is spread across a period of several years. However, the assessment basis of the first tranche is only two years. In our view, this is legally practicable. However, we recommend extending the assessment basis of the respective tranches by one year through contract adjustments, so that the first tranche can only be vested after three years.

In view of the declaration of compliance pursuant to section 161 AktG, we recommend the following procedure:

The German Corporate Governance Code recommends in section 4.3.2: “Both positive and negative developments must be taken into account when determining variable remuneration components.” In our view, this recommendation is met with reasonable argumentation as the performance related remuneration is reduced to 0% if the target is exceeded by 25 percentage points or more. Conversely, the performance related remuneration amounts to 180% of the personal target amount if the target is exceeded by more than 20 percentage points. As a purely precautionary measure, the declaration of compliance should include the information that no further parameters were agreed to reflect any positive or negative developments.

Members of the Executive Board receive fringe benefits such as the private use of the company car. The recent recommendation in section 4.2.3 of the German Corporate Governance Code to apply a cap to the total remuneration has caused the practical problem that the expenses for a company car change over time and are not accessible to a cap. Since there is still no consensus on how to deal with this problem, we recommend declaring a deviation to this recommendation as a precautionary measure.”

3. Statement by Willis Towers Watson of June 27, 2016

Management Summary

“Results of the Executive Board remuneration analysis 2016 at STADA Arzneimittel AG

- *Willis Towers Watson was commissioned with the execution of an evaluation of the amounts and structure of the Executive Board remuneration 2016 in terms of its appropriateness and compliance with general market standards (separate evaluation of the function of the Chairman of the Executive Board and the ordinary members of the Executive Board) as well as the verticality within the Executive Board.*
- *Within the scope of this market comparison, we developed and used four peer groups, the relevance of which we believe to be highly important in the context of the evaluation task:*
 - *MDAX companies (comparable market 1)*
 - *MDAX companies with annual group sales of less than EUR 5 million, excluding companies from the Financial services sector (comparable market 2)*
 - *Sector comparison group created by us (comparable market 3)*
 - *In an approximation calculus “ISS peer group” simulated by us (comparable market 4)*
- *Taking these framework parameters as a basis, we have come to the following results:*
 - *With a high basic remuneration compared to the market average, the total remuneration of the Chairman of the Executive Board (consisting of direct remuneration and fringe benefits) lies within the 2. and 3. quartile (comparable markets 1, 3 and 4) or, in comparable market 2 just above the third quartile, but significantly below the maximum and thus overall within a framework that is typical for the market.*
 - *With a high basic remuneration compared to the market average, the total remuneration of the two ordinary members of the Executive Board (consisting of direct remuneration and fringe benefits) is also above the 3. quartile in individual comparable markets (but not in sector comparison market 3), it is*

always significantly below the maximum. Overall, both positions are within a framework that is typical for the market.

- *The evaluation of appropriateness includes assessing whether remuneration is in line with the general market in looking at the remuneration key figures of the middle 50% of companies on the comparable market. It also includes an evaluation of the circumstances of the company's individual case and of the respective member of the Executive Board, since there may be good reasons to deliberately position the Executive Board remuneration in the upper area of the comparable group.*
- *In addition to the above-average period of service as an employee and member of the Executive board at STADA Arzneimittel AG, there must be particular consideration of the fact that the Executive Board consists of three members only, while at other MDAX companies, the average number of Executive Board members is four per company. In addition, it has to be noted that the Executive Board has currently only two active members with a very broad range of Executive Board responsibilities as a consequence of the Chairman's exemption of duty due to a serious, long-term illness.*
- *The coverage of the annual bonus (cap) at STADA Arzneimittel AG is 74% (Chairman of the Executive Board) and 90% (ordinary members of the Executive Board) of the respective basic remuneration and therefore below the usual or lower usual area on the comparable market. This means that the applied limits are stricter than in the comparable market.*
- *The verticality of the Executive Board remuneration at STADA Arzneimittel AG is at an average spread of the Chairman of the Executive Board to the ordinary members of the Executive Board of 2.05 and therefore within a framework that is typical for the market.*
- *In summary, we can confirm that, in our thorough assessment, the amount and structure of the Executive Board remuneration 2016 is in the respective market comparison (both in view of the total remuneration of the Chairman as well as the ordinary members of the Executive Board), the verticality within the Executive Board as well as the cap of the annual bonus are appropriate and meet the general conditions of the market."*
