

Fundamental Information about the Group

Group's Business Model

Focus on the high-growth health care market with emphasis on pharmaceuticals

STADA is an international health care company organized as a stock corporation. The pharmaceutical company focuses on the segments Generics and Branded Products. With respect to cost and risk factors, STADA does not concentrate on research and development of innovative active ingredients, but rather on the development and marketing of pharmaceutical products that are no longer covered by commercial property rights, in particular patents (so-called "generics"). In financial year 2018, Generics contributed approximately 59% and Branded Products approximately 41% to Group sales.

Generics show further growth potential, since they represent a more economical alternative to the often significantly more expensive original products and therefore make a significant contribution to the financial relief of health care systems.

The **Branded Products** segment at STADA includes, in particular, non-prescription (OTC), prescription (RX) and discretionary prescription (OTX) products. In this segment, STADA not only continuously pursues the expansion of its portfolio, it is also moving forward with the internationalization of successful brands.

While generics are marketed on the basis of low pricing, the sale of branded products focuses on product characteristics and, above all, on the brand name. In doing so, the Group pursues the concept of so-called "strong brands," where brand awareness plays a major role.

Top 5 generic active ingredients

Active ingredient	Indication group	2018 sales in € million	Change from previous year
Tilidin Naloxon	Pain	38.0	+4%
Epoetin zeta	Anemia	29.6	+20%
Atorvastatin	Elevated cholesterol level	26.3	+3%
Omeprazol	Gastric ulcer/reflux	21.2	+2%
Diclofenac	Pain/inflammation	20.6	-3%
Total		135.7	+6%

Top 5 branded products

Branded product	Indication group	2018 sales in € million	Change from previous year
APO-Go®	Parkinson's disease	71.3	+5%
Snup®	Rhinitis	42.9	+17%
Grippostad®	Cold	40.1	-7%
Aqualor®	Rhinitis/soars throat	34.7	-14%
Vitaprost®	Prostate disease	26.8	-18%
Total		215.8	-2%

Operative positioning

Given the Group’s operative positioning, the areas of product development, procurement, purchasing, production, quality management, finances, risk management, compliance and corporate governance as well as responsibility for sales and earnings are managed centrally.

Product Development

Strategic orientation of development activities

A focus area for Group-wide development activities is the development of generics. With regard to branded products, STADA has been continuously expanding its development activities in this area for several years. This includes development activities for innovative branded products, particularly non-prescription medications, nutritional supplements and cosmetics.

High level of competence in development and approval

In financial year 2018, the Group once again demonstrated its strength with respect to development and approval through the global introduction of 650 individual products (previous year: 670). STADA continues to have a well-stocked product pipeline. As of December 31, 2018, the Group was pursuing more than 1,200 approval procedures for over 160 active pharmaceutical ingredients and compounds in more than 50 countries – for all relevant generics and numerous branded products. In financial year 2018, the number of Marketing Authorization Applications (MAAs) totaled over 750 and the number of Marketing Authorizations (MAs) amounted to more than 700.

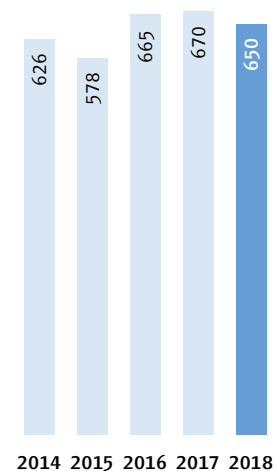
Consistent expansion of the Branded Product segment and ongoing internationalization of successful brands

In the Branded Products segment, STADA is focusing on both rapid expansion as well as increasing internationalization of successful branded products. As part of this, the Group is launching selected products in other markets that to date have been successful primarily at a regional level. In total over the reporting year, STADA was able to launch 32 branded products outside their previous markets.

Gradual expansion of the biosimilar portfolio

In view of the growth opportunities, the Group continuously expands its biosimilar portfolio. Currently, STADA has two biosimilars on the market: SILAPO®, an Erythropoietin biosimilar, and Grastofil®, a Filgrastim compound – meanwhile, Teriparatide has already received approval and is scheduled to be introduced to the market in the current financial year 2019. Furthermore, STADA has in-licensed four other biosimilars: Pegfilgrastim, Rituximab, Teriparatide and Bevacizumab – whereas the approval for Teriparatide has already been submitted and the marketing start is planned for the current financial year 2019. In financial year 2018, STADA and Xbrane Biopharma AB concluded an agreement on the joint development of Xlucane, a biosimilar of Lucentis® (Ranibizumab).¹⁾

**5-year development:
Number of
product launches**



1) See the Company’s press release of July 12, 2018.

Procurement, Production and Quality Management

Central planning

STADA has three supply-chain hubs managed through STADA Arzneimittel AG, in Bad Vilbel (Germany), Vrsac (Serbia), and Moscow (Russia), where centralized needs planning takes place for selected products in the Group.

STADA continually invests in the Group’s own production facilities and test laboratories. Investments in the expansion and modernization of production sites and facilities, as well as test laboratories, amounted to €22.8 million in the reporting year (previous year: €36.3 million).

Sales and Marketing

International Group structure with national-level distributors

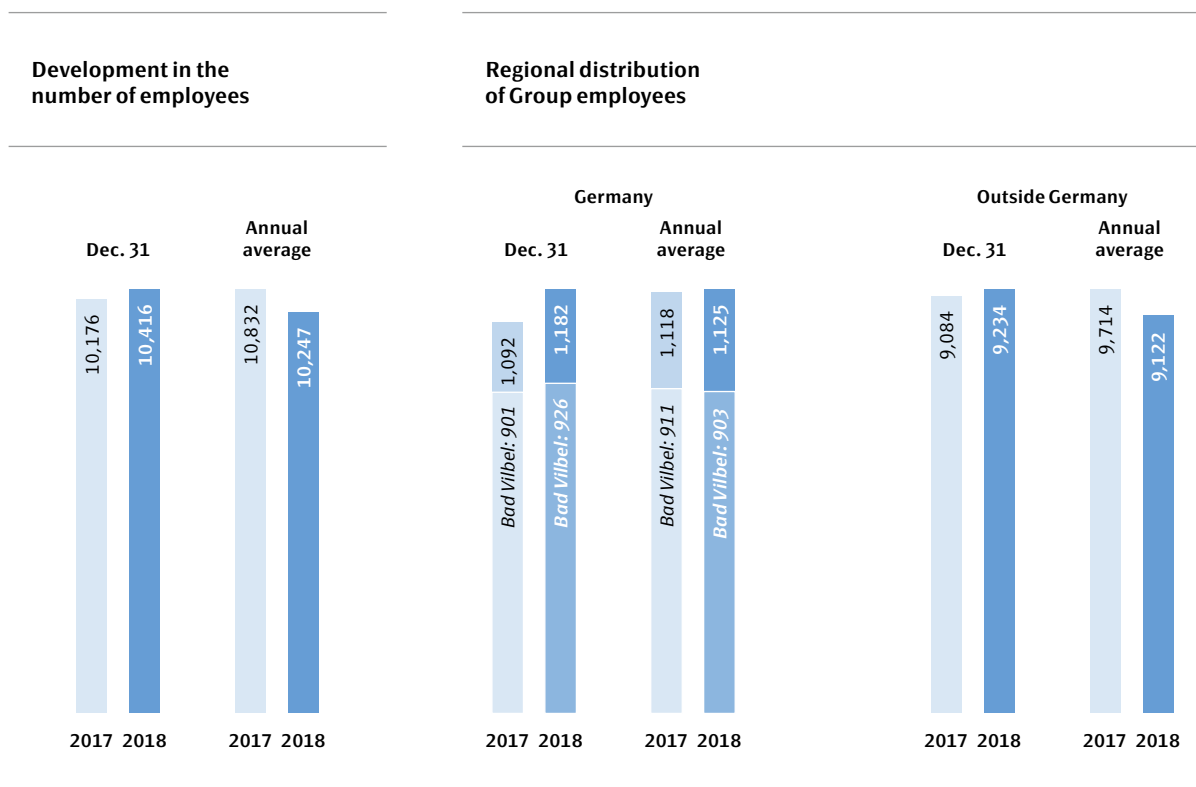
The STADA Group has an international sales structure made up of nationally focused sales companies. In accordance with the operative alignment, the subsidiaries that are active in sales are centrally organized but still have a high degree of market proximity and therefore extraordinary sales strength. Worldwide, including the export share, the Group markets its products in about 120 countries – thereof in about 30 countries through its own sales companies.

Employees

Increasing centralization

Currently, personnel management at STADA is largely organized decentrally. In terms of increasing centralization, Human Resources has already initiated a process of internationalization by, for example, establishing a Group-wide “cultural leadership development program” and by setting up a uniform HR IT system. Given existing structures, the measures listed below relate primarily to employees in Germany.

Development in the number of employees and personnel expenses



In the reporting year the number of employees rose as of the reporting date of December 31, 2018 to 10,416 (previous year: 10,176). This increase was based largely on the consolidation of the German company NorBiTec GmbH as part of the majority acquisition of BIOCEUTICALS Arzneimittel AG and STADA Hungary LLC. In addition, the rise in the number of employees was also attributable to expansion in Marketing and Sales at the Spanish subsidiary Laboratorio STADA S.L. The average number of employees decreased in financial year 2018 to 10,247 (previous year: 10,832), mainly due to the deconsolidation of STADA Vietnam J.V. Co., Ltd. as of November 30, 2017.

The proportion of women employed in management positions at the Group in financial year 2018 amounted to approximately 52% (previous year: approximately 53%). Additional information on the statutorily mandated targets for the participation of women and men in management positions is included in the chapter on "Corporate Governance Report including the Corporate Governance Declaration for STADA Arzneimittel AG and the Group."

Objectives and Strategies

Sustained profitable growth and long-term value enhancement

With its business model, the Group aims to achieve sustained profitable growth and enhance company value over the long term.

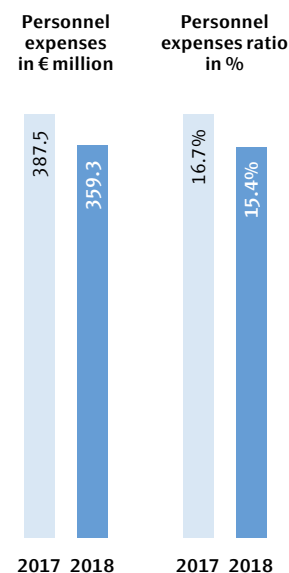
In order to achieve these goals, STADA continued to implement the transformation process in the reporting year, including numerous initiatives for increasing efficiency. Overall, this serves to increase competitiveness, enhance innovative strength and create greater value over the long term.

As part of Group strategy, the Group is investing more intensively in new technologies, in order to obtain more complex products that the Group has not had thus far. In terms of specialty pharmaceuticals, the focus is on expanding activities in selected markets, such as Germany, emerging markets, and the USA.

Internal Management System

In financial year 2018 the performance indicators for **adjusted Group sales** and **adjusted EBITDA** were applied to operational management of corporate divisions. In the 2018 financial year, the Group switched to controlling the relative change in adjusted Group sales. In the past, adjusted Group sales for the current financial year were adjusted for currency effects compared with the previous year and for portfolio effects from new acquisitions. Due to the inclusion of historical exchange rates and the disregard of the current portfolio, the Management Board is of the opinion that the future sales potential is not sufficiently reflected in this figure. Since financial year 2018, all portfolio and currency effects have therefore been allocated to the previous financial year in order to determine organic growth. In light of the acquisition by Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH) in 2017, the **ratio of net debt to adjusted EBITDA** was no longer applied to operational management in the reporting year. In 2018, **adjusted net income** was no longer of significance due to the acquisition and domination and profit and loss transfer agreement concluded with Nidda Healthcare GmbH, as the income tax expenses for the German subsidiary companies are reflected in the new parent company Nidda BondCo GmbH. Management of the change of adjusted Group sales and adjusted EBITDA occurred at the segment level.

Development of personnel expenses



In order to ensure the company's sustained success, the relative change in **Group sales adjusted for currency and portfolio effects¹⁾** takes on considerable importance. Under **adjusted EBITDA²⁾** at STADA, EBITDA is adjusted for special items with the exception of those special items relating to impairments and write-ups in non-current assets. Using this indicator, STADA measures its operational performance and the results of the individual segments, adjusted for impacts from special items that distort year-on-year comparisons. This includes earnings from associated companies and income from investments. At STADA **adjusted net income²⁾**, which measures overall performance, involves net income adjusted for special items.

At the STADA Group, the financial performance indicators for Group sales adjusted for currency and portfolio effects, adjusted EBITDA and adjusted net income are derived as follows:

Financial performance indicators	Determination based on the consolidated income statement and the consolidated balance sheet in accordance with IFRS
Change in Group sales adjusted for currency and portfolio effects¹⁾	Group sales
	± Portfolio effects ¹⁾
	± Currency effects ¹⁾
	= Group sales adjusted for currency and portfolio effects¹⁾
EBITDA, adjusted²⁾	Earnings before interest and taxes (EBIT)
	± Balance from depreciation/amortization and impairments/write-ups on intangible assets (including goodwill), property, plant and equipment and financial assets
	= Earnings before interest, taxes, depreciation and amortization (EBITDA)
	± Special items within operating profit excluding one-time special items that relate to impairments and write-ups of fixed assets
	= Adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA)
Net income, adjusted²⁾	Result distributable to shareholders of STADA Arzneimittel AG (net income)
	± Special items
	= Adjusted net income

Disclosures pursuant to Section 315b HGB

Pursuant to § 315(b)(1) of the German Commercial Code (HGB), STADA Arzneimittel AG is obligated to provide Group reporting on non-financial matters. In fulfillment of this obligation, STADA Arzneimittel AG prepares a separate summary report on non-financial matters in accordance with § 289(b) HGB in conjunction with § 315(b)(3) HGB.

1) Adjustments for currency and portfolio effects are shown solely as an adjustment to previous year sales. Previous year sales were adjusted for currency effects by applying the exchange rates of the reporting year.

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