

Fundamental Information about the Group

Introduction

In financial year 2019, the delisting of the shares of STADA Arzneimittel AG from the regulated market and from the not officially regulated markets ("free market") was completed.¹⁾ For this reason, the Group Management Report will no longer include, in particular, the share chapter, the corporate governance report, the corporate governance declaration including the declaration of compliance, the remuneration report or takeover-related disclosures.

The remaining listing on the open market of the Hamburg Stock Exchange is not due to the initiative of STADA Arzneimittel AG. Irrespective of this, STADA continues to be classified as a capital market-oriented Company, as the bond issued by the Company in 2015/2022 remains listed on the regulated market in Luxembourg.

Group's Business Model

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

STADA is an internationally-active health care Company organized as a stock corporation. The focus of the Company is on the two 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. These are no longer covered by commercial property rights, in particular patents and are known as generics. In financial year 2019, Generics had a share of approximately 59% and Branded Products approximately 41% of Group sales.

In light of the fact that **Generics** 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, this area continues to have relevant growth potentials.

The **Branded Products** segment at STADA includes, in particular, non-prescription (OTC), prescription (RX) and discretionary prescription (OTX) products. With a view to existing growth opportunities, STADA pursues both the ongoing expansion of the branded products portfolio and the increasing internalization 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 this context, 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	2019 sales in € million	Change from previous year
Epoetin zeta	Anemia	78.1	+>100%
Tilidin Naloxon	Pain	38.2	+1%
Atorvastatin	Elevated cholesterol level	28.6	+8%
Omeprazol	Gastric ulcer/reflux	22.5	+6%
Pantoprazol	Gastric ulcer/reflux	21.3	+13%
Total		188.7	+41%

1) Subsequent to the delisting from the Frankfurt Stock Exchange already completed in 2018, the delisting of the STADA shares from the Düsseldorf Stock Exchange was carried out as planned at the end of December 2, 2019. In addition, inclusion in the free market of the Munich Stock Exchange was halted at the end of the same day.

Top 5 branded products

Branded product	Indication group	2019 sales in € million	Change from previous year
Bortezomib STADA®	Cancer	78.5	-
APO-Go®	Parkinson's disease	74.5	+4%
Grippostad®	Colds	41.8	+4%
Zoflora®	Disinfection	41.4	+63%
Snup®	Head cold	31.8	-26%
Total		268.0	+49%

Operative positioning

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

Management and Control

The Executive Board of STADA Arzneimittel AG runs the businesses in accordance with the legal requirements, the Articles of Incorporation and the rules of procedure for the Executive Board. It is supported by an extended management team, management of the Company, however, lies with the Executive Board.

The Executive Board is appointed and dismissed by the Supervisory Board in accordance with legal regulations. 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. It monitors and advises the Executive Board in the management of the business.

On March 20, 2018, a domination and profit and loss transfer agreement between STADA Arzneimittel AG and Nidda Healthcare GmbH was entered into the commercial register at the district court in Frankfurt am Main which grants Nidda Healthcare GmbH the right to issue instructions to the Executive Board of STADA Arzneimittel AG with regard to the management of the Company. STADA, however, remains a legally independent entity with the previously described bodies. The STADA Executive Board also remains responsible for the management and representation of the Company. Insofar as no instructions are issued, the Executive Board of STADA can and must manage the Company on its own responsibility.

Product Development

Strategic orientation of development activities

Within the scope of the Group's development activities, there is a focus on generics. Here, so-called "specialties" are also developed – generics which are particularly complex due to their technology or application form and the development of which is accordingly more expensive. As a result of the increasing growth potential of branded products, STADA has also been continuously expanding its development activities in this area for several years. This includes development activities for branded products, particularly non-prescription medications, nutritional supplements and cosmetics.

One example for the successful development and introduction of branded products is Bortezomib STADA®. In the second quarter of 2019, the Group introduced this product – used for the treatment of multiple myeloma – in 14 European countries.¹⁾ In contrast to the original product, the new product does not have to be dissolved before use and is available as a so-called "ready to use" solution. Thanks to this clear additional benefit, Bortezomib STADA® is one of the most important international product

1) See the Company's website at www.stada.com/media/press-releases/2019.

launches in STADA's history. With the development, the Group has managed to give patients early access to an affordable alternative to the original product and to offer pharmaceutical professionals an additional benefit.

High level of competence in development and approval

With the introduction of 729 individual products worldwide (previous year: 650), STADA once again demonstrated its strength with respect to development and approval. The Group continues to have a well-stocked product pipeline. As of December 31, 2019, STADA pursued over 1,200 approval procedures for more than 160 active pharmaceutical ingredients and ingredient combinations for more than 50 countries. These include, on the one hand, all relevant generics and, on the other hand, numerous branded products. The number of the approval applications was more than 730 in the reporting year. The number of new approvals was over 700.

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

In the Branded Products segment, STADA's focus is, on the one hand, on the expansion of existing product lines. One example is the innovative dissolving tablet from Hoggar night®. On the other hand, the focus is on the increasing internationalization of successful branded products. The Group is launching selected products in other markets that to date have been successful primarily at a regional level. Examples that can be mentioned in this connection in the reporting year include Hedrin®, Hoggar night®, Fultium® and Fructosin®.

Gradual expansion of the biosimilar portfolio

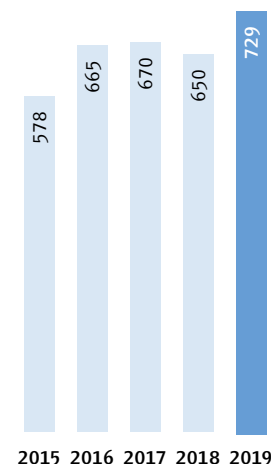
In light of the growth opportunities, the Group is continuously expanding its biosimilar portfolio. STADA is currently on the market with two biosimilars – SILAPO®, a erythropoietin biosimilar, and Movymia®¹⁾, a teriparatide product. In addition, STADA as is known has in-licensed further biosimilars that are currently in the development phase. There is also a contract in place between STADA and Xbrane Biopharma AB, a Swedish biosimilar company, for the joint development of Xlucane, a biosimilar from Lucentis® (ranibizumab). In financial year 2019, STADA and Xbrane Biopharma expanded their strategic partnership for the development of biosimilars.²⁾ This allows both companies to review potential development and marketing cooperations related to the pre-clinical biosimilars Xcimzane and Xdivane from XBrane Biopharma as well as further biosimilars that are suited to the portfolios of both companies. At the end of 2019, STADA announced that the Company had entered into an exclusive strategic partnership with Alvotech ehf, an international biopharmaceutical company, for the marketing of seven biosimilars in all European core markets and selected markets outside of Europe.³⁾ The partnership initially includes biosimilar candidates for the treatment of auto-immune diseases, cancer and inflammatory diseases as well as in the area of ophthalmology for patients throughout the world. As part of this partnership, Alvotech is responsible for the development, approval and delivery of the biosimilars within the EU. STADA will exclusively market the products in most European core markets.

Procurement and Production

Central needs 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.

5-year development:
Number of
product launches



1) See the Company's press release of August 20, 2019.
2) See the Company's press release of May 31, 2019.
3) See the Company's press release of November 4, 2019.

Ongoing investments

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 €61.2 million in the reporting year (previous year: €22.8 million).

Sales and Marketing

International Group structure with national-level distributors

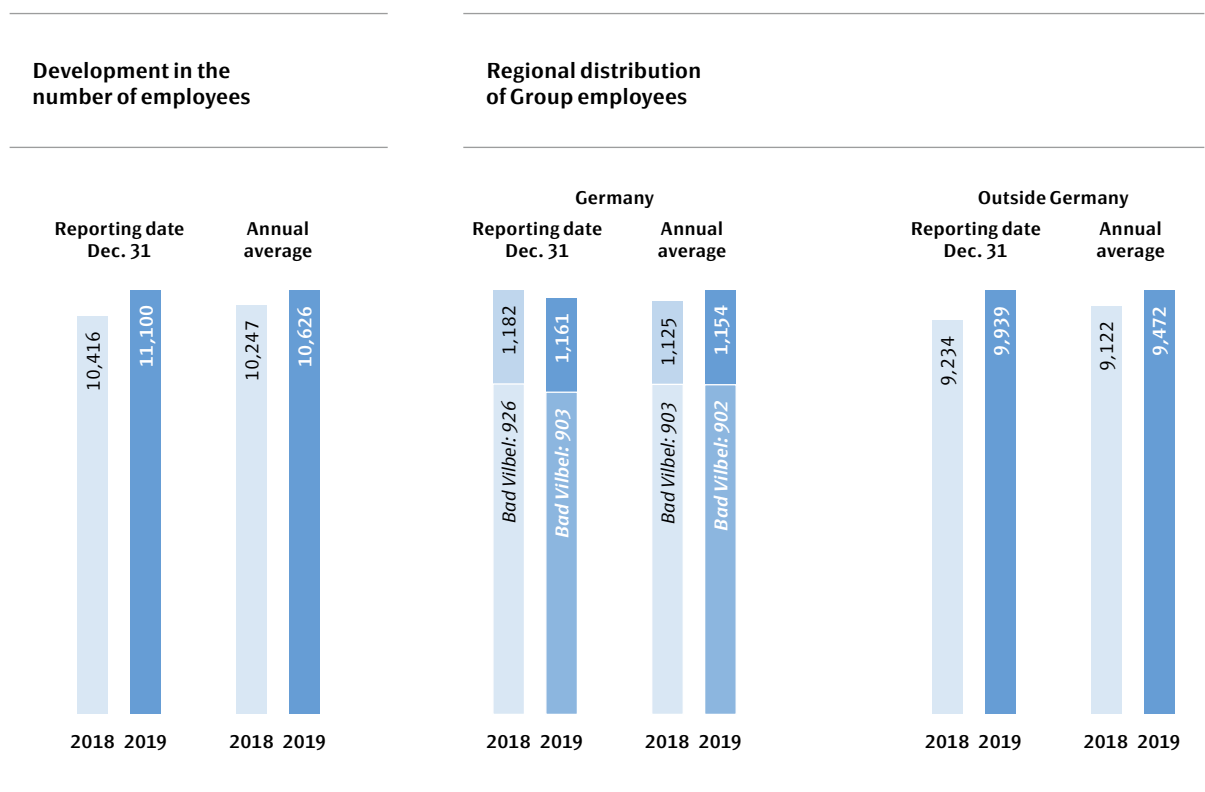
The STADA Group has an international sales structure made up of nationally focused sales companies. In accordance with the operational positioning, the subsidiaries that are active in sales are organized centrally, but they nevertheless have a strong market proximity and thus also extraordinary sales strength. Including the export share, STADA sells its products in about 120 countries.

Employees

Global cooperation

STADA’s personnel policy is managed centrally by the Global Human Resources department at Group headquarters. In this regard, the global functional departments “Talent Management & People Development”, “People Analytics, Talent Acquisition & Employer Branding” as well as “Compensation & Benefits” lay out the standards, guidelines and processes that are implemented by the international companies and supplemented in accordance with the conditions specific to the market. To strengthen the centrally managed international HR structure, in financial year 2019, functional reporting lines for all local personnel managers to global HR management were established.

Development in the number of employees and personnel expenses



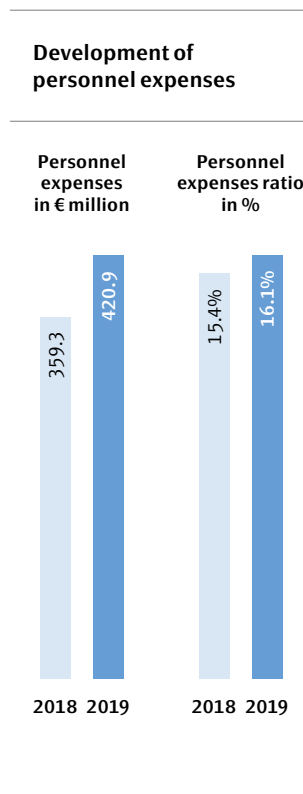
The average number of employees increased in the reporting year by 4% to 10,626 (previous year: 10,247), mainly due to the increase in the number of production employees in Serbia and Vietnam as well as the expansion of sales and marketing activities in Spain and Italy. As of the reporting date, the number of employees rose by 7% to 11,100 (previous year: 10,416). This increase was primarily based on the previously-mentioned development in the number of production and sales employees as well as on the initial consolidation of the Biopharma units as of December 31, 2019 with about 300 employees.

The proportion of women employed in management positions at the Group in financial year 2019 amounted to approximately 51% (previous year: approximately 52%).

Declaration in accordance with Section 289f Paragraph 4 of the German Commercial Code (HGB)

At the beginning of the 2019 financial year, the Executive Board set the target for the proportion of women in the first management level at at least 16.7% and at least 38.2% in the second management level pursuant to section 76 (4) of the German Stock Corporation Act (AktG) with a deadline for implementation of December 31, 2023.

In December 2017, the Supervisory Board set the target for the proportion of women on the Supervisory Board at at least one woman in accordance with section 111 (5) AktG, with a deadline for implementation of December 31, 2022. The Supervisory Board resolved to maintain the status quo of 0% for the proportion of women on the Executive Board until December 31, 2022.



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 (see "Fundamental Information about the Group – Internal Management System").

In order to achieve these goals, STADA continued to implement the transformation process in the reporting year, including numerous initiatives for increasing efficiency in the areas of procurement, supply chain, production, R&D as well as portfolio, among others. Overall, this serves to increase competitiveness, enhance innovative strength and create greater value over the long term.

As part of its corporate strategy, the Group relies on new marketing channels, efficiency enhancements in the area of marketing & sales, increased investments in the core markets as well as new product launches. In addition, STADA pursues strategic partnerships throughout the world in the areas of development and production which allow the Company, also in the future, to have a competitive product portfolio that generates sustainable growth.

Internal Management System

In financial year 2019, the performance indicators for **adjusted Group sales** and **adjusted EBITDA** were applied to operational management of corporate divisions. Management of the change of adjusted Group sales and adjusted EBITDA occurred at the segment level.

In order to ensure the Company's sustained success, the relative change in **Group sales adjusted for currency and portfolio effects**¹⁾ plays an important role. At STADA, **adjusted EBITDA**²⁾ is understood as EBITDA adjusted for special items. Excluded from this are the special items that relate to impairment losses and write-ups on 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 associates and income from investments.

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. The current reporting year remains unchanged and corresponds to reported Group sales. The key figures calculated in this way are subsequently compared with one another in order to determine a relative change.

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. Since other companies may not calculate the pro-forma figures presented by STADA in the same way, STADA's pro-forma figures are comparable only to a limited extent with similarly designated disclosures by other companies.

At the STADA Group, the financial performance indicators for Group sales adjusted for currency and portfolio effects, adjusted EBITDA 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⁾
Adjusted EBITDA²⁾	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)

Disclosures pursuant to Section 315b HGB

Pursuant to § 315b (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 combined separate non-financial report in accordance with § 289b HGB in conjunction with § 315b (3) HGB.

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