

Luxembourg, 10 August 2016

NEW SUPERVISORY BOARD FOR STADA ARZNEIMITTEL AG

Dear Fellow Shareholder

Active Ownership Capital S.à r.l. ("AOC" or "we") is attributed more than 5% of the shares in STADA Arzneimittel AG ("STADA") so that we, together with our concert parties, are one of the largest investors in STADA. We are writing to urge you to support our proposals at the Annual General Meeting in Frankfurt am Main on 26 August to strengthen STADA's Supervisory Board as further outlined in this letter.

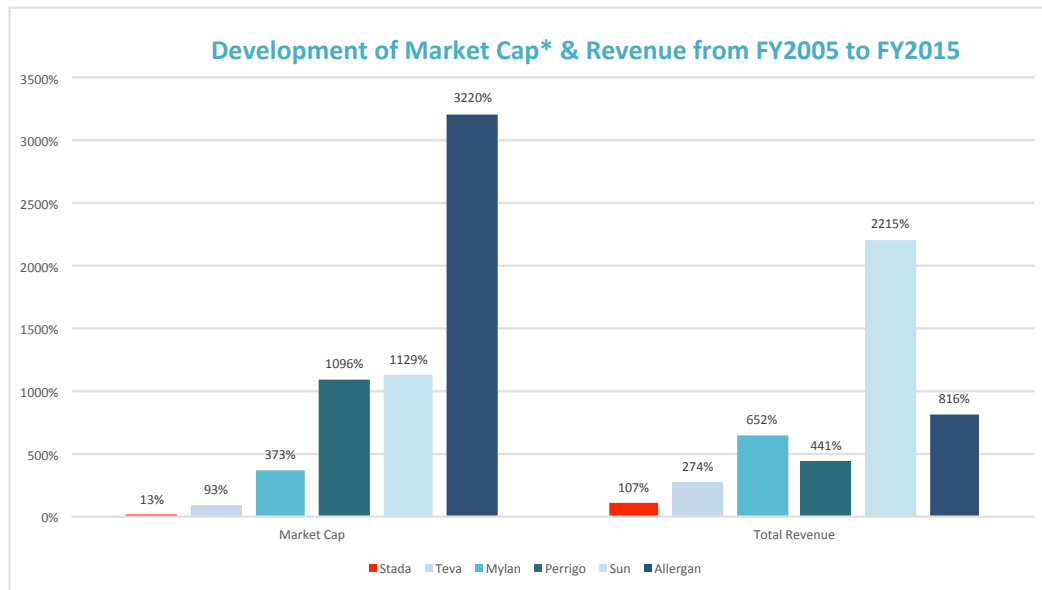
As you may already know, AOC publicly addressed the poor Corporate Governance at STADA and adopted a firm, clear position, denouncing and condemning the unacceptable situation. AOC has committed itself to remedy the most obvious shortcomings - in particular to ensure that the key persons responsible for STADA's Corporate Governance will be replaced and that, going forward, the Supervisory Board is staffed with persons that have the expertise and personality to bring about the necessary changes. To facilitate this, we have put forward the following proposals to the annual general meeting scheduled for 26 August 2016:

- Supplementary motions (agenda items 9 and 10) asking for
 - a) a replacement of the Chairman of STADA'S Supervisory Board, Dr. Martin Abend with Dr. Eric Cornut, and
 - b) a replacement of STADA's Deputy Chairman Carl Ferdinand Oetker with Dr. Ursula Schütze-Kreilkamp.
- Counter motions (re agenda items 8 a) and c)) to ask the shareholders
 - a) to appoint Klaus-Joachim Krauth instead of Dr. Birgit Kudlek (as proposed by STADA); and
 - b) to appoint Hans-Helmut Fabry instead of Dr. Gunnar Riemann (as proposed by STADA).

In this document, we would like to explain in more detail why we believe that a fresh start in STADA's Supervisory Board is necessary and why we consider the candidates put forward by us as better qualified and better suited for the upcoming tasks.

STADA is, in our view, well positioned in attractive end markets (Generics and Branded Products) and has a lot of potential. Unfortunately, STADA substantially underperformed many of its peers in the past ten years (see Chart 1 below) which we take as an indicator that the company has been undermanaged and has not performed close to its potential. In addition, there are clear indications for a lack of oversight by the Supervisory Board as well as a lack of institutionalised cost awareness.

Chart 1: Over the last 10 Years STADA substantially underperformed its peers



*Source: AOC based on data provided by Capital IQ; Share Prices as of April 1st, 2006 / 2016

We recommend a complete overhaul of the corporate governance regime and business culture to enable STADA to catch-up to its full potential.

1. Why STADA's Chairman and Vice Chairman need to be replaced:

When analysing STADA, we realised that its corporate governance regime is one of the worst we have ever seen in Germany; the lack of oversight is staggering. A few examples:

a) Negotiation and Approval of Excessive Management Pay

Wrong management incentives have led to excessive management pay. According to an empirical research paper of the Hans Böckler Foundation the pension scheme for its (former) CEO and still-current board member Hartmut Retzlaff is the highest amongst all board members in MDAX and even DAX companies.¹ This makes STADA's CEO the best-paid CEO in Germany, despite Stada's relatively small size. Now, while we cannot accuse Mr. Retzlaff of his negotiation skills, STADA's Chairman Dr. Abend also chairs the Human Resources Committee of STADA's Supervisory Board and, therefore, has a leading role in negotiating and approving the compensation scheme.

¹ Research Paper "Betriebliche Altersversorgung von Vorständen in DAX und MDAX Unternehmen - eine empirische Erhebung -" by the compensation consultant Dr. Heinz Evers and dated September 2014 (available under http://www.boeckler.de/pdf/mbf_gutachten_evers_14.pdf)

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b) Value Destroying Acquisitions

STADA's Supervisory Board supported and approved misguided and value destroying acquisitions (e.g. the acquisition of Grünenthal's branded product portfolio for originally EUR 360m)². In total, STADA invested EUR 2.3bn for acquisitions and investments in licenses in the last 10 years and increased net debt by EUR 1bn³, while, during the same period of time, STADA's market capitalization increased by EUR 239m only.⁴ Even though we acknowledge that STADA would not be the first company that could not realise expected synergies, the persons acting cannot avoid responsibilities in this respect.

c) Fostering of Cronyism

The Supervisory Board has fostered cronyism and, *inter alia*, backed the expedited promotion of the former CEO's son as managing director of four different entities (including the responsibility for Asia & Middle East) even though his expertise to run those businesses is questionable. The strategic personnel development of the entire STADA Group is a key task of the Supervisory Board's Human Resources Committee. This decision is, again, the direct responsibility of Dr. Abend.

d) Unacceptable Disclosure and Accounting Policies

STADA's disclosure policies are questionable: Neither the contractual relationships with nor the individual shareholdings of Supervisory Board or Management Board members have been disclosed.⁵ Likewise, the salaries of the son of the (former) CEO or of other related persons of members of the Management Board or Supervisory Board have not been publicised. The company has a history of unacceptable adjustments (adjusting negative one-offs, but not substantial positive one-offs)⁶ that, in our view, often resulted in unmerited bonus payments for management. A financial expert in the Supervisory Board would have prevented this from happening.

² See STADA's press release dated 22 July 2011 (available under <https://www.stada.com/media-public-relations/press-releases/detail-view/news/detail/News/stada-and-gruenenthal-sign-contracts-on-the-purchase-of-a-branded-product-portfolio-in-central-and-e.html>)

³ See STADA's annual reports (2005-2015) (available on <https://www.stada.com/investor-relations/financial-publications/financial-reports.html>)

⁴ Capital IQ; Market cap development between April 1st 2006 and April 1st 2016 (the latter being the day STADA published the shareholding filing of the Active Ownership Fund)

⁵ The latter changed only recently following AOCs public criticism. STADA is now disclosing the aggregate share ownership of the Management Board and the Supervisory Board, but is still not disclosing the individual shareholdings. The disclosure is available under https://www.stada.com/fileadmin/user_upload/B_stada.com/4_Investor_Relations.com/06_Events/003_Annual_General_Meeting/2016/August_2016/Shareownership-directors.pdf

⁶ In 2013 a total of €64.5m of positive one-offs were not adjusted, while in 2015 a total of €15.9m of positive one-offs were not adjusted and therefore influenced the results and the bonus payments positively (see annual reports 2013 & 2015)

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e) Unbalanced Composition of the Supervisory Board

In the course of our analysis, we came to the conclusion that the composition of STADA's Supervisory Board is not balanced. This was another key driver for our efforts to restructure the Supervisory Board. While Mr. Koch, Mr. Meyer and Dr. Hertzsch as pharmacists and Dr. Brüggemann as doctor have roughly the same knowledge profile, Mr. Oetker as Deputy Chairman is a banker and Dr. Abend as Chairman is a lawyer. None of them has, in our opinion, the expertise to challenge and/or support the Management Board in strategic decisions. As far as we are aware, none of them has ever led a larger company, none of them has operational expertise in a generics, branded products or consumer health company and none of them has meaningful international expertise.

In addition, the tenure of the board members ranges from 7 to 33 years. Five out of six of the present Supervisory Board members are holders of the office for at least 13 years (whereby three of these five board members are more than 70 years old). Derived from the EU Commission's recommendation, we consider supervisory board members who serve for more than 12 years⁷ not as independent anymore and, therefore, take the view that STADA currently has only one independent Supervisory Board member, Mr. Oetker.

f) Accumulation of Responsibilities in the Supervisory Board

Moreover, the Annual Report 2015 reveals that the Chairman, Dr. Abend, and the Deputy Chairman, Mr. Oetker, are both members of the Audit Committee (Mr. Oetker chairs this Committee) and the only members of the Nomination Panel. Furthermore, Dr. Abend chairs the Human Resources Committee. As per the Annual Report 2015, the Supervisory Board has no further committees. In other words: Both Dr. Abend and Mr. Oetker have accumulated all key responsibilities in the Supervisory Board and are, therefore, mainly accountable for the shortcomings criticised above.

Taking all this into account we are convinced that STADA needs a fresh start and a complete overhaul of the shareholder representatives in the Supervisory Board. All shareholder representatives except for Dr. Abend and Mr. Oetker are already stepping down with effect of the end of the upcoming general meeting. However, we propose to reach down to the roots of the trouble and replace the persons in the Supervisory Board that have the main responsibility for the outlined shortcomings: Dr. Abend and Mr. Oetker.

STADA's total Supervisory Board consists of 9 members. The three employee representatives in the Supervisory Board are all experienced employees and together with the incumbent members of the Management Board will facilitate the knowledge transfer to the new board members.

⁷ EU Commission recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the supervisory board (2005/162/EC)

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2. AOC's Supervisory Board Candidates.

AOC nominated the following four persons as candidates for the Supervisory Board of STADA (all four CVs can be viewed at www.saz-governance.de):

- Mr. Eric Cornut (in AOC's opinion the ideal candidate for the new Chairman)
- Dr. Ursula Schütze-Kreilkamp
- Mr. Hans-Helmut Fabry
- Mr. Klaus-Joachim Krauth (who qualifies as financial expert)

As is apparent from their respective CVs, all four nominees are experienced and highly qualified. They all confirmed in writing to STADA that they are independent; none of them has any links to AOC.

The qualification profile that was used to identify the candidates was developed by the global executive search firm Spencer Stuart and is, by and large, similar to the search profile that Egon Zehnder put forward for STADA. Nevertheless, Spencer Stuart set the focus differently in several important aspects:

- Greater emphasis was put on having at least two candidates with direct first-line experience in international generics and/or branded products companies;
- Soft factors such as integrity, character, leadership skills and the ability to work in a team were deemed as very important for the upcoming tasks;
- At least one person with proven capital allocation / investment skills to support, challenge and control the management team in anorganic growth initiatives was recommended;
- Great efforts were made to include a candidate with distinctive human resource experience to assist the management in installing a new culture at STADA and to safeguard that all leadership functions including the Supervisory and the Management Board members work as a team in the best interests of STADA.

a) Replacement of Dr. Abend with Dr. Cornut

As outlined above we propose to replace Dr. Martin Abend with Dr. Eric Cornut. We are convinced that Dr. Cornut would be the ideal new Chairman for STADA. Most recently the graduated lawyer was the Chief Ethics, Compliance and Policy Officer at Novartis AG. Before that, he held several managing positions at Novartis, amongst others he was Chief Commercial Officer and Head of Novartis' European Pharma business and CEO of Novartis France, where he was also responsible for Sandoz' French operations. He possesses comprehensive industrial expertise as well as management expertise with a distinctive focus on good corporate governance. Under his leadership STADA's stakeholders can expect substantial improvements of the corporate governance regime and in the monitoring of the management by the Supervisory Board.

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While Dr. Abend is also a graduated lawyer, he does not possess any of the leadership or industry experience that Dr. Cornut would bring to STADA. Being a Supervisory Board member since 2003 (and Chairman since 2009), Dr. Abend has allowed and spearheaded one of the worst governance regimes in Germany. It is time for a change!

b) Replacement of Mr. Oetker with Dr. Schütze-Kreilkamp

AOC also proposed to replace Carl Ferdinand Oetker with Dr. Ursula Schütze-Kreilkamp. Since 2012, Dr. Schütze-Kreilkamp is Head of Group HR Development at DB Mobility Logistics AG. From 2006 to 2012 she has *inter alia* been Head of Executive Development at REWE-Group. The consultant physician for gynaecology and doctor for psychotherapy and psychosomatic medicine has comprehensive healthcare know-how. In the course of her 16 years working experience as a medical practitioner as well as in her academic work, she has focused on Psychooncology/ Psychotraumatology, the coping with distressing life situations and the coaching of managers. With the return of Mr. Retzlaff being unclear, STADA's Management Board currently exists of only two members. Therefore, we assume that one of the main tasks of the new Supervisory Board is to enlarge the Management Board with additional experts. Dr. Schütze-Kreilkamp is specialized on the composition of effective (management) teams. She would be best suited to lead all human resource related projects in the Supervisory Board and ensure that all leadership functions work as a team in the best interests of STADA.

In AOC's view, Mr. Oetker's CV is not comparable (the designated new financial expert would be Mr. Krauth). He is a banker and investor and qualifies as financial expert. He does not possess any relevant knowledge in the health care industry. We also believe that, in future, he will not have enough time to fulfil his duties as chairman of STADA's Audit Committee as he is about to take on a very prominent role in the management of his family business Oetker Group. As set forth above, given Mr. Oetker's prominent role in the past years as member of the Nomination Panel/Committee and Chairman of the Audit Committee, he is disqualifying himself from the necessary fresh start at STADA.

c) Counter motion to elect Hans-Helmut Fabry instead of Dr. Gunnar Rieman (a Supervisory Board candidate put forward by STADA)

Hans-Helmut Fabry (born 1956) is the former Global Commercial Head Novartis Consumer Health. Previously, the qualified psychologist and independent business consultant has been working for Novartis AG with responsibility for Sandoz Germany and as CEO at Hexal AG. From 1991 to 2004 he held various positions at L'OREAL including country manager roles in Eastern Europe. Mr Fabry is uniquely qualified because he has leadership experiences in operational roles in all of STADA's business segments.

Dr. Riemann is a qualified and experienced candidate, too, and we acknowledge the career he made at Bayer. He also received good references

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and would be a suitable candidate for the Supervisory Board if his professional profile fitted better to STADA's business. In the last five years of his career Dr. Riemann was President of Bayer Crop Science, a business which is materially different from STADA's operations. His exposure to Bayer's consumer care business dates 15 years back and is, therefore, outdated. As mentioned above, Spencer Stuart's defined profile requires two Supervisory Board members with distinct experience in generics and/or branded products. As Dr. Riemann does not fulfil these criteria we decided to nominate Mr. Fabry instead. It is worth mentioning in this context that the two candidates nominated by STADA who we support, Mrs. Müller and Mr. Hoffmann, do not have significant generics or branded products knowledge either. But they have other qualities and skills that would be highly appreciated in the future Supervisory Board.

- d) Counter motion to elect Klaus-Joachim Krauth instead of Dr. Birgit Kudlek (a Supervisory Board candidate put forward by STADA)

As a qualified industrial engineer Klaus-Joachim Krauth (born 1961) is a truly experienced manager and has comprehensive experience in the generics business as well as additional experience from top management positions in various companies in the supply chain of the generics industry (e.g. as managing director of an API producer). As former CFO of Hexal and several other international groups, he possesses a wide range of finance, controlling and capital allocation skills. Mr. Krauth is our designated financial expert.

Dr. Kudlek has a profile that - at first sight - fits well into the skill set required for STADA's Supervisory Board members. As we have good inroads into three of the companies Dr. Kudlek has worked for in the past, we did a comprehensive reference check (as we did for all other candidates that were considered). The outcome of these reference checks was consistent and negative. While her experience in the development of generic drugs was confirmed, her leadership skills, her social competencies and her ability to work in teams were rated poorly. She was also described as not senior enough to deal with a challenging situation like STADA. Due to this feedback from three of her recent employers, we do not consider Dr. Kudlek a suitable candidate for STADA's Supervisory Board and the upcoming tasks.

We are certain that STADA's candidates Mr. Hoffmann and Mrs. Müller together with the four candidates proposed by us will create a well harmonized best-in-class Supervisory Board. In the best interests of STADA, we, therefore, kindly ask you to support our proposals by voting for our supplementary and counter motions!

Yours sincerely



Florian Schuhbauer



Klaus Röhrig