

7 Corporate governance

7.1 Statement on Corporate Governance pursuant to Sections 289f, 315d German Commercial Code for the 2021 fiscal year

The Statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code contains the Declaration of Conformity of the Executive Management Board and the Supervisory Board with the German Corporate Governance Code (GCGC) pursuant to Section 161 of the German Stock Corporation Act. Both corporate bodies had an in-depth discussion regarding compliance with the requirements of the GCGC as amended on 16 December 2019.

In addition, the Statement addresses the principles of proper corporate governance and makes relevant disclosures about the Company's actual corporate governance practices above and beyond statutory requirements. It also describes the procedures of the Executive Management Board and the Supervisory Board as well as the composition and procedures of their committees.

The Statement on Corporate Governance was posted on the Company's website under "Press & Investors > Corporate Governance" on 28 January 2022. Pursuant to Section 317 (2) sentence 6 of the German Commercial Code, the content of the statement on corporate governance in accordance with Sections 289f and 315d of the German Commercial Code is not part of the audit of the financial statements. The audit of the disclosures pursuant to Section 289f (2) and (5) and Section 315d shall be limited to whether the disclosures have been made.

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7.2 Remuneration report

Setting the remuneration of the members of the Heidelberg Pharma AG Executive Management Board falls under the purview of a plenary meeting of the Supervisory Board and is reviewed on a regular basis in compliance with the stipulations in Section 87 (1) and (2) and Section 87a of the Stock Corporation Act as well as the recommendations of the German Corporate Governance Code. At the Annual General Meeting held on 18 May 2021, the Executive Management Board and the Supervisory Board presented in item no. 7 of the agenda the current remuneration system of the members of the Executive Management Board, which was approved in accordance with Section 120a (1) of the German Stock Corporation Act.

The remuneration report summarizes the principles used to determine the total remuneration of the Executive Management Board of Heidelberg Pharma AG and explains the structure as well as the remuneration received by the Executive Management Board members. The principles and the amount of remuneration received by the members of the Supervisory Board are also described. The remuneration report follows the recommendations of the GCGC and satisfies the requirements in accordance with the applicable provisions of Section 314 (1) no. 6, Section 315a (2) and Section 289a (2) German Commercial Code including the German Act on Disclosure of Management Board Remuneration.

Remuneration of the Executive Management Board

The Supervisory Board is responsible for determining the remuneration of the Executive Management Board. Remuneration consists of a fixed remuneration, other benefits (non-cash remuneration), a variable remuneration component and a stock option plan with a long-term incentive effect and risk character.

In the event of the termination of an Executive Management Board member's service for the Company, there is no contractual entitlement to a settlement.

Fixed remuneration and benefits

The annual salary of members of the Executive Management Board is determined for the term of office and paid in equal amounts over twelve months. These salaries take into account the financial position of Heidelberg Pharma AG and the level of remuneration paid by competitors.

In addition to his fixed remuneration of €263 thousand, Dr. Schmidt-Brand, whose director's contract was extended during the year until the end of August 2024 effective September 2021, receives the following non-cash benefits: Under the director's contract, Heidelberg Pharma Research GmbH makes payments into a defined-contribution, reinsured pension plan. In 2021, this payment amounted to €11 thousand (previous year: €11 thousand). As in the previous year, €3 thousand were paid into a pension fund.

No non-cash benefits within the context of a pension were granted to Professor Pahl in the fiscal year ended in addition to his fixed remuneration of €240 thousand.

In addition, company cars were made available to both members of the Executive Management Board for the entire fiscal year. The value of this non-cash benefit in 2021 was €8 thousand for Dr. Schmidt-Brand (previous year: €8 thousand) and €13 thousand (previous year: €13 thousand) for Professor Pahl.

No further benefit obligations exist towards the members of the Executive Management Board.

Variable remuneration

Variable remuneration is contingent upon the achievement of personal targets and Heidelberg Pharma's performance targets. The performance-based remuneration of the members of the Company's Executive Management Board is primarily tied to long-term, sustainable, strategical and financial corporate goals of Heidelberg Pharma and refers to the achievement of milestones that are defined at the beginning of each fiscal year. The degree of target achievement and the associated amount of variable remuneration are assessed and determined by the Supervisory Board.

After his director's contract was extended and his remuneration was adjusted during the year, Dr. Schmidt-Brand receives a maximum annual bonus of €110 thousand (previously €100 thousand). As a result, his maximum annual remuneration comprising fixed and variable remuneration amounts to €373 thousand. In the fiscal year now ended, Dr. Schmidt-Brand was paid a bonus of €71 thousand for the 2020 fiscal year.

Professor Pahl's annual bonus is capped at €100 thousand. As a result, his maximum annual remuneration comprising fixed and variable remuneration amounts to €340 thousand. In the fiscal year now ended, Professor Pahl was also paid a bonus of €71 thousand for the 2020 fiscal year.

Remuneration component with incentive effect and risk character

This remuneration component is based on the 2011, 2017 and 2018 Stock Option Plans which were adopted by the respective Annual General Meetings and can be exercised after four years at the earliest.

This holding period provides a long-term incentive to increase the Company's value. No further requirements beyond the holding period need to be met.

The Supervisory Board grants stock options based on the tasks of the respective member of the Management Board, his/her personal performance, the economic situation, the performance and outlook of the enterprise as well as the common level of the remuneration taking into account the peer companies and the remuneration structure.

In fiscal year 2021, new stock options were issued under the 2018 Stock Option Plan, with 37,000 stock options granted to each member of the Executive Management Board. An amount of €227 thousand is recognized as a remuneration component representing the grant date fair value, of which €114 thousand relates to Dr. Schmidt-Brand and €114 thousand to Professor Pahl.

As of the 30 November 2021 reporting date, the active members of the Executive Management Board held the following options:

Stock option plan	Maximum issuance to Executive Management Board members	Stock options issued		
		Dr. Jan Schmidt-Brand	Professor Andreas Pahl	Total
2011	346,924	222,000	90,000	312,000
2017	201,200	100,600	100,600	201,200
2018	298,100	111,525	111,525	223,050
Total	846,224	434,125	302,125	736,250

At the reporting date of 30 November 2021, three former members of the Executive Management Board held a total of 25,500 options under the 2011 Stock Option Plan.

Overall, the following fixed and variable remuneration components as well as non-cash remuneration and the grant date fair value of pre-emption rights (or the issue of stock options) for Executive Management Board members were recognized as an expense in the 2021 fiscal year:

Executive Management Board member	Fixed remuneration €		Variable remuneration ¹ €		Other remuneration (non-cash benefits) €		Issuance of stock options €		Total remuneration ^{1,2} €	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Dr. Jan Schmidt-Brand ²	262,500	255,000	76,875	75,000	21,395	21,395	113,590	0	474,360	351,395
Professor Andreas Pahl	240,000	206,667	75,000	75,000	13,276	13,276	113,590	0	441,866	294,942
Total	502,500	461,667	151,875	150,000	34,670	34,670	227,180	0	916,225	646,337

¹ The exact variable remuneration is usually determined and paid in the following fiscal year. The figures shown here for the 2021 fiscal year are based on provisions that were determined on the basis of assumptions and historical data.

² The remuneration of Dr. Schmidt-Brand refers to his work as Chief Executive Officer and Chief Financial Officer of Heidelberg Pharma AG and as Managing Director of Heidelberg Pharma Research GmbH. A portion of €258 thousand (previous year: €248 thousand) of the total remuneration is attributable to his work as a member of the Executive Management Board of Heidelberg Pharma AG.

The following overviews show the stock options held by members of the Executive Management Board during the year under review and changes in these holdings, as well as the portion of staff costs per beneficiary attributable to these stock options:

Executive Management Board member	30 Nov. 2020 Number	Additions Number	Expiry/ return Number	Exercise Number	30 Nov. 2021 Number
Dr. Jan Schmidt-Brand	397,125	37,000	0	0	434,125
Professor Andreas Pahl	265,125	37,000	0	0	302,125
Total	662,250	74,000	0	0	736,250

Executive Management Board member	Expense in the 2021 IFRS statement of comprehensive income €	Fair value of the options held ¹ €
Dr. Jan Schmidt-Brand	87,007	734,191
Professor Andreas Pahl	84,788	488,787
Total	171,795	1,222,978

¹ As of the respective issue date

As in the previous year, no expense was recognized for former members of the Executive Management Board.

The following figures applied to the previous period:

Executive Management Board member	30 Nov. 2019 Number	Additions Number	Expiry/ return Number	Exercise Number	30 Nov. 2020 Number
Dr. Jan Schmidt-Brand	397,125	0	0	0	397,125
Professor Andreas Pahl	265,125	0	0	0	265,125
Total	662,250	0	0	0	662,250

Executive Management Board member	Expense in the 2020 IFRS statement of comprehensive income €	Fair value of the options held ¹ €
Dr. Jan Schmidt-Brand	91,400	620,601
Professor Andreas Pahl	76,620	375,197
Total	168,020	995,798

¹ As of the respective issue date

Remuneration of the Supervisory Board

In accordance with the Company's Articles of Association, the members of the Supervisory Board receive a fixed remuneration of €15,000 for each full fiscal year of service on the Supervisory Board. The Chairman of the Supervisory Board receives a fixed remuneration of €35,000 and the Vice Chairmen receive €25,000. Supervisory Board remuneration is paid in four equal installments on the last day of February and on 31 May, 31 August and 30 November of each fiscal year.

Members of a Supervisory Board committee are paid a flat fee of €3,000, while chairpersons of such committees are paid €7,000 per fiscal year and committee. In each case, remuneration is limited to activities on a maximum of two committees. Over and above this individual limit, the maximum amount paid by Heidelberg Pharma AG for committee activities of all Supervisory Board members combined is capped at €39,000 per fiscal year. If this cap is not sufficient to cover all memberships and chairmanships of Supervisory Board committees, it is distributed proportionally among all committee members and chairpersons in line with the above provisions, unless the Supervisory Board unanimously resolves a different regulation.

An additional allowance is paid for attendance at a maximum of six Supervisory Board meetings in each fiscal year. Meeting chairpersons are paid a flat fee of €3,000 and all other members €1,500 each per meeting. Supervisory Board members who attend meetings by telephone or virtually receive only half of the allowance. This allowance must be paid with the Supervisory Board member's fixed remuneration. Members of Supervisory Board committees do not receive an attendance allowance for committee meetings.

The remuneration paid to Supervisory Board members who were not in service for a full fiscal year is prorated in accordance with the duration of their membership on the Supervisory Board.

The Supervisory Board members do not receive variable remuneration, nor are they granted options or similar rights. Supervisory Board members are not entitled to a settlement if their membership ends.

In the 2021 fiscal year, the members of the Supervisory Board were paid remuneration of €180,833 (previous year: €166,500) plus reimbursement of travel expenses.

The table below shows the individual remuneration.

Supervisory Board member	Fixed remuneration €		Attendance allowance €		Committee fee €		Total remuneration €	
	2021	2020	2021	2020	2021	2020	2021	2020
Professor Christof Hettich	35,000	35,000	12,000	10,500	7,000	7,000	54,000	52,500
Dr. Georg F. Baur	25,000	25,000	4,500	3,750	10,000	10,000	39,500	38,750
Dr. Mathias Hothum	19,583	15,000	8,250	6,750	3,000	3,000	30,833	24,750
Dr. Friedrich von Bohlen und Halbach	15,000	15,000	6,750	3,000	7,000	7,000	28,750	25,000
Dr. Birgit Kudlek	15,000	15,000	6,750	4,500	6,000	6,000	27,750	25,500
Total	109,583	105,000	47,250	28,500	33,000	33,000	180,833	166,500