

bodies and employees have been or will be briefed on the legal regulations on insider trading and on responsible use of sensitive information at Heidelberg Pharma.

Under compliance rules, all of Heidelberg Pharma's employees are obligated to report violations of compliance rules to their supervisor or the responsible member of the Executive Management Board.

Risk management

The responsible management of risks is a material part of good corporate governance. Heidelberg Pharma has established a risk management system which enables the Executive Management Board to detect the relevant risks and market trends and respond to them in a timely manner. Please see chapter 7 "Risk report" for details on the Company's risk management and for the risk report. The report on the internal control system relevant to the financial reporting process required since the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz) took effect is included in section 7.2 "Internal control system relevant to the financial reporting process".

 Page 48

 Page 48

Both of these systems are continuously refined and adjusted to the changing environment. The Executive Management Board discusses the given risk report and any actions that might be required at its meetings and regularly briefs the Supervisory Board on existing risks and their development.

Accounting and audit of financial statements

Heidelberg Pharma regularly informs both its shareholders and third parties by means of its consolidated financial statements, half-yearly interim reports and interim management statements on the first and third quarter. As a listed corporation located within the European Union, Heidelberg Pharma AG must prepare and publish its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs), taking into account Section 315e of the German Commercial Code. Both the consolidated financial statements and the annual financial statements are prepared by the Executive Management Board, audited by the auditor and reviewed by the Supervisory Board. The combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements for the 2018 fiscal year were audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte). These audits also review the risk early warning system defined by Section 91 (2) of the German Stock Corporation Act as to its general suitability for the early detection of going-concern risks. Deloitte reports to the Chief Financial Officer and the Audit Committee of the Supervisory Board. The auditor also checks whether the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act has been issued and published.

6.3 Remuneration report

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 (Vorstandsvergütungs-Offenlegungsgesetz).

Remuneration of the Executive Management Board

The Supervisory Board is responsible for determining the remuneration of the Executive Management Board in accordance with Section 107 (3) of the German Stock Corporation Act. Remuneration consists of a salary (fixed remuneration), other benefits (non-cash remuneration), a variable remuneration component and a stock option plan with a long-term incentive and risk element.

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.

Salary 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 12 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 €227 thousand, Dr. Schmidt-Brand 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 2018, 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 €200 thousand.

In addition, company cars were made available to Dr. Schmidt-Brand and Professor Pahl for the entire fiscal year. The value of this non-cash benefit in 2018 was €9 thousand for Dr. Schmidt-Brand (previous year: €9 thousand) and €11 thousand (previous year: €10 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 the corporate goals of Heidelberg Pharma and refers to the achievement of defined milestones.

According to his director's contract, which was renewed during 2018, Dr. Schmidt-Brand receives a maximum annual bonus of €100 thousand (previously €80 thousand). In the fiscal year now ended, Dr. Schmidt-Brand was paid a bonus of €58 thousand for the 2017 fiscal year.

Professor Pahl's annual bonus is capped at €100 thousand. In the fiscal year now ended, Professor Pahl was paid a bonus of €57 thousand for the 2017 fiscal year.

Remuneration component with incentive and risk features

This remuneration component is based on the 2011 and 2017 Stock Option Plans which were adopted by the Annual General Meetings on 18 May 2011 and 20 July 2017, respectively, and can be exercised after a lock-up period of four years at the earliest.

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.

As a result of a new issue in the 2018 fiscal year, the number of share options held by the two members of the Executive Management Board has increased. As of the 30 November 2018 reporting date, the active members of the Executive Management Board thus held 312,000 options under the 2011 Stock Option Plan (Dr. Schmidt Brandt 222,000 options, Professor Pahl 90,000) and 201,200 options under the 2017 Stock Option Plan (each Executive Management Board member held 100,600 options).

At the reporting date of 30 November 2018, 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 for Executive Management Board members were recognized as an expense in the 2018 fiscal year:

Executive Management Board member	Fixed remuneration €		Variable remuneration ¹ €		Other remuneration (non-cash benefits) €		Total remuneration ^{1,2} €	
	2018	2017	2018	2017	2018	2017	2018	2017
Dr. Jan Schmidt-Brand ²	226,682	217,242	63,750	60,000	22,672	22,624	313,103	299,866
Professor Andreas Pahl	200,000	170,833	75,000	59,380	10,578	10,388	285,578	240,601
Total	426,682	388,075	138,750	119,380	33,249	33,011	598,681	540,466

¹ The exact variable remuneration is usually determined and paid in the following fiscal year. The figures shown here for the 2018 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 €201 thousand of the total remuneration is attributable to his work as a member of the Executive Management Board of Heidelberg Pharma AG.

The following overview shows 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	01. Dec. 2017 Number	Additions Number	Expiry/return Number	Exercise Number	30 Nov. 2018 Number
Dr. Jan Schmidt-Brand	222,000	100,600	0	0	322,600
Professor Andreas Pahl	90,000	100,600	0	0	190,600
Total	312,000	201,200	0	0	513,200

Executive Management Board member	Expense in the 2018 IFRS statement of comprehensive income €	Fair value of the options held on 30 Nov. 2018 ¹ €
Dr. Jan Schmidt-Brand	127,942	503,147
Professor Andreas Pahl	96,252	261,150
Total	224,194	764,297

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	01. Dec. 2016 Number	Additions Number	Expiry/ return Number	Exercise Number	30 Nov. 2017 Number
Dr. Jan Schmidt-Brand	222,000	0	0	0	222,000
Professor Andreas Pahl	90,000	0	0	0	90,000
Total	312,000	0	0	0	312,000

Executive Management Board member	Expense in the 2017 IFRS statement of comprehensive income €	Fair value of the options held on 30 Nov. 2017 ¹ €
Dr. Jan Schmidt-Brand	57,801	323,611
Professor Andreas Pahl	32,112	126,864
Total	89,913	450,475

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 Deputy Chairman receives € 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 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 pro rated in accordance with the duration of their membership on the Supervisory Board.

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 2018 fiscal year, the members of the Supervisory Board were paid remuneration of €171,750 (previous year: €183,750) plus reimbursement of travel expenses.

The table below shows the individual remuneration.

Supervisory Board member	Fixed remuneration €		Attendance allowance €		Committee fee €		Total remuneration €	
	2018	2017	2018	2017	2018	2017	2018	2017
Professor Christof Hettich	35,000	35,000	10,500	18,000	7,000	7,000	52,500	60,000
Dr. Georg F. Baur	25,000	25,000	6,750	7,500	10,000	10,000	41,750	42,500
Dr. Friedrich von Bohlen und Halbach	15,000	15,000	4,500	3,000	7,000	7,000	26,500	25,000
Dr. Birgit Kudlek	15,000	15,000	5,250	9,000	6,000	6,000	26,250	30,000
Dr. Mathias Hothum	15,000	15,000	6,750	8,205	3,000	3,000	24,750	26,250
Total	105,000	105,000	33,750	47,750	33,000	33,000	171,750	183,750

6.4 Disclosures under Section 289a (1) and 315a (1) of the German Commercial Code as well as explanatory report

Summary of subscribed capital

As a result of the mandatory convertible bonds converted during the reporting period, the Company's subscribed capital increased from €22,452,570 to €28,133,308 compared with the end of the previous year.

The share capital is composed of 28,133,308 no par value bearer shares. The Company does not hold any treasury shares.

Restrictions on voting rights or on the transfer of shares

The rights and duties related to the shares arise, in particular, from Sections 12, 53a ff, 118 ff and 186 of the German Stock Corporation Act and the Company's Articles of Association. There are no restrictions on voting rights or on the transfer of shares. No shareholder or shareholder group has special rights. Each share entitles the holder to one vote at the Annual General Meeting and is determinant for the proportion of the Company's profits the shareholder will receive.

No shareholder was prohibited from selling, pledging or otherwise disposing of the Company's securities (shares and options) as of 30 November 2018.

Equity interests exceeding 10 % of voting rights

Section 315a (1) number 3 of the German Commercial Code requires any interest in a Company's capital in excess of ten percent of the voting rights to be disclosed.