

Description of the remuneration system for the Members of the Executive Management Board

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 26 June 2018, 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 accordingly.

In view of the Act Transposing the Second Shareholder Rights Directive (ARUG II) that became effective on 1 January 2020, and the new version of the German Corporate Governance Code, which was enacted on 16 December 2019 and became effective via its publication 20 March 2020, the remuneration system for the Executive Management Board was revised and is being presented to the 2021 Annual General Meeting for approval.

The current remuneration system for the Executive Management Board is therefore presented below and will be taken into consideration by the Company when Executive Management Board members' contracts are renegotiated or renewed.

The Supervisory Board takes into account the following principles when designing the remuneration system and the amount and structure of the remuneration of the Executive Management Board:

- On the whole, the remuneration of the members of the Executive Management Board contributes significantly to achieving long-term corporate development and to furthering the Company's business strategy.
- The remuneration of the members of the Executive Management Board ensures that special accomplishments are rewarded appropriately, and that failure to meet targets results in a noticeable reduction in remuneration.
- Both the amount and the structure of the remuneration of the members of the Executive Management Board conform to industry standards and take into account the size, complexity and financial position of the Company.
- The remuneration takes into consideration the respective sphere of responsibility of each Executive Management Board member, the personal accomplishments of the individual members, and the achievements of the Executive Management Board as a whole.

A. Components of remuneration

The remuneration of the members of the Executive Management Board is comprised of both performance-related and non-performance-related components.

The non-performance-related components are:

- a) Fixed annual salary (fixed salary)
- b) Fringe benefits (e.g., company car, travel expense reimbursement, accident insurance, D&O insurance, retirement benefits)

The performance-related components are:

- a) Short-term variable remuneration (variable annual bonus)
- b) Long-term variable remuneration (stock options)

By combining non-performance-related and performance-related components of remuneration, the Company creates an attractive incentive for existing and potential Executive Management Board members to contribute to sustained and long-term corporate development. Variable remuneration components are the essential material incentive to pursue the Company's business policy objectives. They function as motivator and reward for specific actions, for operational achievements, for a strategic direction that promotes the long-term development of the Company, and for conduct rooted in a sense of responsibility.

1. Non-performance-related remuneration

a. Fixed annual salary (fixed salary)

Every Executive Management Board member receives non-performance-related, fixed remuneration, which is paid out in monthly installments. The amount of the fixed remuneration is determined based on the principles set out above.

b. Fringe benefits

In addition to the base salary, members of the Executive Management Board are granted the following fringe benefits:

- (1) Provision of a company car or BahnCard 100 for 1st class travel, up to a maximum amount (for the company car lease installment) of EUR 1,000/month
- (2) Purchase of an accident insurance policy (death benefit EUR 100,000, disability benefit EUR 500,000, and payment of the insurance premiums in this regard)

- (3) Contribution to health insurance and long-term care insurance: The amount of the individual contributions equates to half of the premiums paid by the Executive Management Board member, however no higher than that maximum amount legally owed for the employer's portion of the health and long-term care insurance taking into consideration the applicable thresholds and caps for contribution calculations
- (4) Purchase of a D&O insurance policy with a deductible corresponding to the minimum stipulated by law
- (5) Payment of an amount of no more than EUR 14,000 per year as retirement benefits
- (6) Reimbursement of business travel expenses

The other remuneration resulting from the fringe benefits listed above may differ from the amount of operating expenses (costs) recognized for the fringe benefits.

2. Performance-related remuneration

In addition to the fixed remuneration, the Executive Management Board members have a right to variable remuneration that depends on the achievement of multiple long-term, ongoing, strategic and financial corporate targets set in advance by the Supervisory Board.

Achievement of the targets is not absolutely required to be able to be measured precisely, however it must definitely be verifiable. The relationship between the achievement of targets and the variable remuneration is set in advance and may not be changed at a later date. The degree of target achievement and the associated amount of variable remuneration are assessed and determined by the Supervisory Board.

a. Short-term variable remuneration

Short-term variable remuneration focuses primarily on operational metrics.

Setting short-term targets:

The Supervisory Board sets both annual as well as uniform short-term targets for all Executive Management Board members, and also sets individual short-term targets for each Executive Management Board member. The short-term targets are weighted against one another by the Supervisory Board.

Calculation of the level of short-term variable remuneration:

As a rule, short-term targets can be achieved on a scale from 0-100%. The achievement of targets is calculated arithmetically, as applicable with a

corresponding weighting of the targets (e.g., 4 out of 5 targets reached in their entirety = 80% target achievement).

The short-term variable remuneration of Executive Management Board member Dr. Schmidt-Brand is capped at EUR 100,000, the short-term variable remuneration of Executive Management Board member Professor Pahl is likewise capped at EUR 100,000.

In this regard, the short-term bonus has an upper limit (“short-term bonus cap”).

b. Calculation of the level of annual performance-based remuneration (short-term bonus)

The level of the annual performance-based remuneration is calculated based on the degree to which targets are achieved relevant to the individual targets while taking into account the weighting assigned to this target.

In the event of 100% target achievement for the short-term variable remuneration, 100% of the annual performance-based remuneration will be paid out in cash after the formal approval Company’s annual financial statements for the relevant fiscal year. The Executive Management Board member in question may immediately utilize the paid out amount of the short-term variable remuneration at the member’s discretion.

c. Stock options (long-term variable remuneration)

Additionally, the Executive Management Board members may receive long-term variable remuneration by way of stock options on the basis of the Company’s stock option plan in place at the time they are granted. The objective is to incentivize performance that focuses on achieving stable and long-lasting success for the Company.

In this case, the Executive Management Board members receive stock options that are granted either in one tranche or in multiple tranches.

The exercise price is equivalent to the average closing market price over the last 10 trading days prior to the granting of the stock options (grant date). The earliest that the Executive Management Board members can exercise the options is after the end of the vesting period of four years, which starts on the grant date of the respective subscription right. There are two other prerequisites:

- The average closing market price over the 10 trading days prior to the respective exercise must be 120% of the exercise price (absolute performance target).
- The reference price must exceed the exercise price by at least the same ratio by which the TecDAX (market index) on the last market trading day

prior to the respective exercise period exceeds the TecDAX (market index) on the grant date.

The options have a ten-year contractual term, i.e., after the expiration of the required vesting period of four years, the stock options can be exercised during a six-year window provided the applicable conditions are satisfied.

The granting of stock options to the Executive Management Board is at the discretion of the Supervisory Board and is conducted in any given case on the basis of the stock option plans that are adopted by resolution of the Annual General Meeting. At the time of the Annual General Meeting, the Company is not authorized to issue stock options on the basis of a stock option plan resolved by the Annual General Meeting. The Company may still issue 149,050 stock options to members of the Executive Management Board under the 2018 Stock Option Plan.

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.

Furthermore, the Company's Supervisory Board can grant stock options to an Executive Management Board member as a special reward in recognition of additional, special, personal achievements by that member. In this case as well, the stock options are granted on the basis of the stock option plans that are adopted by resolution of the Annual General Meeting.

After the exercise of stock options following the expiration of the four-year vesting period, there is no requirement to hold on to the corresponding shares (no lock-up).

The way the stock options are structured – with a four-year vesting period prior to exercise – creates significant incentives for positive corporate development over the long term. On the whole, this achieves a balanced combination of short- and long-term remuneration components.

3. Maximum remuneration

The Supervisory Board sets a maximum annual level of remuneration for each Executive Management Board member.

The maximum remuneration depends on what is required in order to attract an Executive Management Board member in question and to retain that member's loyalty to the Company.

The maximum remuneration includes all remuneration components set out in items 1 and 2.

The maximum remuneration can be achieved if, in addition to payment of the fixed remuneration (fixed annual salary and retirement benefit commitments), the following conditions in relation to the variable remuneration components (short-term bonus and stock options) are met for the fiscal year:

- The Executive Management Board concerned has achieved 100% of the target in terms of short-term variable remuneration.
- The remaining stock options from the 2018 Stock Option Plan are issued to the members of the Executive Management Board.
- One Executive Management Board member receives 100% of the remaining stock options from the 2018 Stock Option Plan, i.e. 149,050 shares).
- The issue price of the stock options roughly corresponds to the current stock market price of the Company's shares, i.e. approximately EUR 7.60.
- The stock market price of the Company's shares increases by 100% during the four-year waiting period.
- All of the various performance targets of the stock option plan have been met and remuneration is not capped.

If the requirements listed above are met, the maximum remuneration for the Executive Board member in question is EUR 1,514,780 per annum.

If the requirements listed above are met and the target achievement is 100%, the percentage of the maximum remuneration comprised of fixed remuneration (fixed annual salary and retirement benefit commitments) is roughly 19%.

If the requirements listed above are met and the target achievement is 100%, the percentage of the maximum remuneration comprised of short-term variable remuneration (short-term bonus) is roughly 6%.

If the requirements listed above are met and the target achievement is 100%, the percentage of the maximum remuneration comprised of long-term variable remuneration (stock options) is roughly 75%.

The maximum remuneration shown here is not the annual remuneration level intended or deemed appropriate by the Supervisory Board; instead, it merely indicates the maximum level that can be achieved if all targets are met and the share price of the Company's stock increases significantly in the year in which a member of the Executive Management Board exercises and realizes stock options.

If no stock options are issued or the conditions for exercising them are not met, the long-term variable remuneration will not apply and the maximum remuneration per annum for a member of the Executive Management Board is EUR 382,000.

In this case, the ratio of fixed remuneration including fringe benefits to short-term variable remuneration is around 74% to 26%, in each case assuming full target achievement.

B. Terms and termination options in Executive Management Board employment contracts

Each Executive Management Board employment contract has a term of a maximum of three years. Routine termination of Executive Management Board contracts is barred. Termination for cause is possible, whereby the stipulations set down in Section 84 (3) of the Stock Corporation Act regarding removal of an Executive Management Board member for cause apply. In the event of a change of control, in certain circumstances there are special termination rights both for the Company as well as for the Executive Management Board member in question. For purposes of the Executive Management Board employment contracts, a change of control occurs where at least 30% of the Company's voting shares are acquired directly or indirectly by a third party.

C. Severance benefits in the event of early termination of employment and setoffs

The Executive Management Board employment contracts do not contain any special termination rights or any severance benefit entitlements in the event of a change of control.

D. Procedure for setting, implementing and reviewing the remuneration system

The remuneration system for members of the Heidelberg Pharma AG Executive Management Board is adopted by the entire Supervisory Board, with the Supervisory Board's Nomination and Remuneration Committee having a preparatory role. The Nomination and Remuneration Committee formulates the details of the remuneration system and submits a motion to a plenary meeting of the Supervisory Board comprising a draft resolution. The remuneration and employment terms and conditions for employees are not taken into consideration in the determination of the remuneration system.

The remuneration system for Heidelberg Pharma AG Executive Management Board members is to be incorporated when new Executive Management Board employment contracts are to be signed or in the event of any renewals of or amendments to existing Executive Management Board employment contracts. In the case of negotiations for or the signing of new Executive Management Board employment contracts being entered into, or renewals or amendments, the Supervisory Board is to adhere to the specifications of this remuneration system; this applies in particular to the Supervisory Board Chairman, who is authorized to sign Executive Management Board employment contracts on behalf of the Company, provided the Supervisory Board has granted such authority to the Chairman.

The remuneration system for members of the Heidelberg Pharma AG Executive Management Board is reviewed on an ongoing basis by the Supervisory Board's Nomination and Remuneration Committee, in particular in the context of contract negotiations with existing or future members of the Executive Management Board. However, no formal review at specific calendar intervals is undertaken.

Where conflicts of interest on the part of members of the Supervisory Board or members of the Executive Management Board exist or are at risk of occurring, they are to be disclosed to the Supervisory Board in accordance with the Internal Rules of Procedure for the Supervisory Board and the Executive Management Board. The entire Supervisory Board will then meet to make a decision on a case-by-case basis as to how the specific conflict of interest is to be handled.

Ladenburg, April 2021

The Supervisory Board