

### 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 chapter 7.2 “Internal control system relevant to financial reporting”.

Page 60

Page 61

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 315a 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 auditor elected by the Annual General Meeting and commissioned by the Supervisory Board participates in the deliberations of both the Audit Committee and the Supervisory Board regarding the Company’s financial statements and reports on the material findings of its audit. The Audit Committee uses this information for its own assessment of the Company’s financial statements and reports. The combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements for the 2017 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 315 (2) no. 4 and Section 289 (2) no. 4 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 Heidelberg Pharma, 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 a salary, Dr. Schmidt-Brand receives the following benefits: Under the director's contract, Heidelberg Pharma Research GmbH makes payments into a defined-contribution, reinsured pension plan. The amount paid was € 10,567 in 2017 (previous year: € 10,567). Payments were also made into a pension fund; an amount of € 2,688 (previous year: € 2,688) was expensed for this in the reporting period.

No non-cash benefits were granted to Professor Pahl within the context of a pension in the fiscal year ended. Prior to Professor Pahl's appointment to the Executive Management Board, € 738 was spent on a company pension plan for him that, as agreed, was financed by Heidelberg Pharma.

In addition, company cars were made available to Dr. Schmidt-Brand and Professor Pahl for the entire fiscal year. The value of this benefit in 2017 was € 9,369 for Dr. Schmidt-Brand (previous year: € 781) and € 10,140 for Professor Pahl (previous year: € 10,140).

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 achieving defined milestones, securing additional funding through (e.g.) license agreements and share performance.

Dr. Schmidt-Brand receives a maximum annual bonus of € 80 thousand for his work as a member of the Executive Management Board of Heidelberg Pharma AG and as Managing Director of Heidelberg Pharma Research GmbH. This represents 37% of his fixed salary (previous year: 37%). In the fiscal year now ended, Dr. Schmidt-Brand was paid a bonus of € 80 thousand for the 2016 fiscal year.

Professor Pahl's annual bonus is capped at € 75 thousand after his contract was amended and extended during the fiscal year. This equals 38% of his new fixed salary (previous year: 45% of his fixed salary at the time). In the fiscal year now ended, Professor Pahl was paid a bonus of € 44 thousand for the 2016 fiscal year.

### Remuneration component with incentive and risk features

This remuneration component is based on the 2011 Stock Option Plan adopted by the Annual General Meeting on 18 May 2011. Up to 346,924 stock options (30% of the total volume) may be granted to the members of the Executive Management Board thereunder. This authorization remained in effect until 1 July 2016. The stock options may only be exercised when they have vested after four years and the performance target has been achieved. In order for the performance target to be achieved, the price of Heidelberg Pharma's share on the ten trading days preceding the onset of the respective exercise period must exceed the exercise price by a minimum of 20% as well as surpass the gains of the TecDAX during the maturity of the given stock option.

Taking into account a capital reduction completed in 2014 at a ratio of 4:1 for the issue in March 2012 (Tranche 1), four stock options entitle the holder to the acquisition of one no par value bearer share of Heidelberg Pharma AG at an exercise price of € 3.53. As a result, the conversion price for one share is € 3.53 x 4 = € 14.12. The reference price is € 3.53 + 20% x € 3.53 = € 4.24. This does not affect the issue of Tranche 2 in

June 2016 because it took place after the capital reduction. Here one stock option entitles the holder to the acquisition of one new share at an exercise price equal to the conversion price of € 1.89. The reference price is  $\text{€ } 1.89 + 20\% \times \text{€ } 1.89 = \text{€ } 2.27$ .

As of the 30 November 2017 reporting date, the active members of the Executive Management Board held 312,000 options under the 2011 Stock Option Plan (Dr. Schmidt Brandt 222,000 options, Professor Pahl 90,000). At the reporting date 30 November 2017, three former members of the Executive Management Board held a total of 25,500 options under this 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 2017 fiscal year:

Executive Management Board member	Fixed remuneration €		Variable remuneration <sup>1</sup> €		Other remuneration (non-cash benefits) €		Total remuneration <sup>1,2</sup> €	
	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Jan Schmidt-Brand <sup>2</sup>	217,242	217,242	60,000	70,000	22,624	14,036	299,866	301,278
Professor Andreas Pahl	170,833	145,227	59,380	54,840	10,388	10,608	240,601	210,675
Dr. Paul Bevan <sup>3,4</sup>	0	46,083	0	14,286	0	15,000	0	75,369
<b>Total</b>	<b>388,075</b>	<b>408,552</b>	<b>119,380</b>	<b>139,126</b>	<b>33,011</b>	<b>39,644</b>	<b>540,466</b>	<b>587,322</b>

<sup>1</sup> The exact variable remuneration is usually determined and paid in the following fiscal year. The figures shown here for the 2017 fiscal year are based on provisions that were determined on the basis of assumptions and historical data.

<sup>2</sup> 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 €197 thousand of the total remuneration is attributable to his work as a member of the Executive Management Board of Heidelberg Pharma AG.

<sup>3</sup> Dr. Bevan left the Executive Management Board of Heidelberg Pharma AG effective at the end of 31 March 2016.

<sup>4</sup> After the expiration of his director's contract, Dr. Bevan was available to the Company as an advisor in the 2016 fiscal year. In this capacity, he received remuneration of GBP 3,000 thousand.

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. 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 Pahl	90,000	0	0	0	90,000
<b>Total</b>	<b>312,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>312,000</b>

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

<sup>1</sup> 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. 2015 Number	Additions Number	Expiry/return Number	Exercise Number	30 Nov. 2016 Number
Dr. Jan Schmidt-Brand	60,000	162,000	0	0	222,000
Professor Pahl	0	90,000	0	0	90,000
Dr. Paul Bevan	183,180	0	175,180	0	8,000
<b>Total</b>	<b>243,180</b>	<b>252,000</b>	<b>175,180</b>	<b>0</b>	<b>320,000</b>

Executive Management Board member	Expense in the IFRS statement of comprehensive income €	Fair value of the options held on 30 Nov. 2016 <sup>1</sup> €
Dr. Jan Schmidt-Brand	35,018	323,611
Professor Pahl	16,012	126,864
Dr. Paul Bevan	835	12,700
<b>Total</b>	<b>51,865</b>	<b>463,175</b>

<sup>1</sup> 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, Heidelberg Pharma AG does not pay more than €39,000 per fiscal year for committee activities of all Supervisory Board members combined. 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 2017 fiscal year, the members of the Supervisory Board were paid remuneration of €183,750 (previous year: €196,524) without accounting for reimbursement of travel expenses.

The table below shows the individual remuneration:

Supervisory Board member	Fixed remuneration €		Attendance allowance €		Committee fee €		Total remuneration <sup>1</sup> €	
	2017	2016	2017	2016	2017	2016	2017	2016
Professor Christof Hettich	35,000	35,000	18,000	18,000	7,000	7,000	60,000	60,000
Dr. Georg F. Baur	25,000	25,000	7,500	8,250	10,000	8,500	42,500	41,750
Dr. Friedrich von Bohlen und Halbach	15,000	15,000	3,000	6,000	7,000	10,000	25,000	31,000
Dr. Birgit Kudlek	15,000	15,000	9,000	8,250	6,000	6,000	30,000	29,250
Dr. Mathias Hothum	15,000	15,000	8,205	9,000	3,000	0	26,250	24,000
Andreas R. Krebs <sup>1</sup>	0	6,774	0	750	0	3,000	0	10,524
<b>Total</b>	<b>105,000</b>	<b>111,774</b>	<b>47,750</b>	<b>50,250</b>	<b>33,000</b>	<b>34,500</b>	<b>183,750</b>	<b>196,524</b>

<sup>1</sup> Andreas R. Krebs left the Supervisory Board effective at the end of the Annual General Meeting on 13 May 2016.