



## Pharma Mar, S.A.'s Directors' Compensation Policy for 2019-2021

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### 1.- Introduction

In accordance with the provisions of Article 529 novodecies of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*) (implemented by Law 31/2014, of 3 December, amending the Spanish Capital Corporations Law for the improvement of corporate governance), Article 14 of the Board of Directors Regulations of Pharma Mar, S.A. (hereinafter "**Pharma Mar**" or the "**Company**") establishes that the Appointments and Compensation Committee has the authority to submit the directors' compensation policy to the Board of Directors, who shall submit said policy to the approval of the General Shareholders Meeting.

Accordingly, the Board of Directors has, at the proposal of the Appointments and Compensation Committee, resolved to submit this Directors' Compensation Policy of Pharma Mar for fiscal years 2019-2021, the contents of which comply with the aforesaid article of the Spanish Capital Corporations Law, to the General Shareholders Meeting. If approved by the General Shareholders Meeting, any amendment of this policy during the aforementioned period shall require the additional approval of the General Shareholders Meeting in accordance with the law in force.

Pharma Mar's Directors' Compensation Policy makes a distinction between the compensation system for directors in their condition as such and the compensation system for executive directors performing executive duties. Compensation of directors for their condition as such is compatible with all other professional or labor compensation items to which the Directors may be entitled by virtue of other executive or advising duties that, as the case may be, they perform for the Company and which are separate from the supervisory and collective decision-making duties inherent in their position as Directors.

### 2.- General Principles of the Compensation Policy

Pharma Mar's Director compensation policy seeks to bring the policy in line with the interests of its shareholders, prudent risk management, and moderation and balance, taking into account at all times that the quality and commitment of its Board members is essential in order to successfully implement the Company's strategy. Compensation should incentivize dedication without compromising independence.

In order to achieve this, the general principles of the compensation policy for directors in their condition as such are as follows:

- External competitiveness: motivating compensation that helps attract and retain directors while simultaneously ensuring their independence.
- Internal fairness: compensation that rewards directors for their level of responsibility and effective dedication.
- Lack of variable compensation components, thus encouraging unbiased decision making.
- Moderation: by analyzing market benchmarks.
- Transparency.

In addition, the principles applied in the compensation policy for executive directors, for performance of their executive duties, are as follows:

- Alignment of the executive directors' compensation policy with the Company's strategy.
- The different compensation components have been developed such that fixed compensation represents a significant part of total compensation and variable compensation rewards the achievement of the strategic goals of the Company and its Group.
- Alignment with the compensation established in comparable companies (as regards both size and sector of activity).

The aforementioned compensation principles comply with the provisions established generally for capital corporations in the new Article 217.4 of the Capital Corporations Law on the reasonableness of the compensation of board members and the adequacy of compensation in light of the Company's size, relevance and financial position. These principles are also aimed at promoting profitability and sustainability in the long term of the Company, while simultaneously preventing excessive assumption of risk and compensation for unfavorable results.

### **3.- Compensation policy for Directors in their condition as such for 2019-2021 (paragraph 1, Art. 529 septdecies Spanish Capital Corporations Law)**

Compensation components:

The Company's compensation policy for the 2019-2021 period establishes that directors shall be compensated for their condition as such (i) by virtue of fixed annual compensation and (ii) through allowances for attendance at the meetings of the Board of Directors and its Committees.



In this regard, Article 37 of the Company's Bylaws establishes the following:

*"The compensation system for Directors in their condition as such shall include fixed annual compensation and attendance allowances for attending the meetings of the Board of Directors or its Committees.*

*The Board of Directors shall set annual fixed compensation for each Director, taking into account for such purpose the Director's respective duties and responsibilities, including as the chairman or as a member of any Committees, or as the Coordinating Director, as well as all other objective circumstances deemed relevant.*

*The Board shall also set the amount of attendance allowances for attending the meetings of the Board and its Committees."*

As compensation for their condition as Company Directors, each Board member shall receive fixed annual compensation aimed at sufficiently compensating them for the responsibility and dedication required in their position.

Those Directors who also serve as members of the various Committees (Executive Committee, Audit Committee and Appointments and Compensation Committee) shall receive additional fixed compensation for their dedication to said Committees, with higher weightings for the Chairman of the Audit Committee and of the Appointments and Compensation Committee. Compensation received by members of the Executive Committee shall take into account the additional activities and duties undertaken by its members.

The position of Coordinating Director shall also receive fixed annual compensation.

Directors shall receive an attendance allowance to compensate for their personal and effective attendance at the meetings of the Board of Directors and its Committees.

The annual amount received by any Director as an allowance for attending the meetings of the Board or of its Committees may under no circumstances exceed the amount of annual fixed compensation provided for membership on the Board of Directors.

In addition, Article 37 of the Company's Bylaws establishes the following:

*"It is expressly authorized that compensation of some or all of the members of the Board of Directors may include the delivery of Company shares or share option rights, or may be linked to share value, if so determined by the General Meeting, which shall set the maximum number of shares that may be allocated to this scheme in each fiscal year; the exercise price or method for calculating the exercise price of the share options; the share value that, as the case may be,*



*is used as a benchmark; and the term of the plan. The General Meeting may delegate the determination of any aspects related to this type of compensation to the Board of Directors.*

*The Company shall also contract a civil liability insurance policy for the Directors and executives."*

The compensation policy for the 2019-2021 period does not establish for any director a compensation system linked to share value or that involves the delivery of shares or share option rights.

The Company has contracted a civil liability insurance policy for the directors and executives.

#### **4.- 2019-2021 compensation policy for directors performing executive duties (paragraph 1 Art. 529 octodecies Spanish Capital Corporations Law).**

Article 37 of the Company's Bylaws establishes the following in this regard:

*"The additional compensation to be received by Directors for carrying out executive duties, including severance pay for early removal and any other amounts to be paid by the Company as insurance premiums or contributions to savings systems, must be in compliance with the compensation policy approved by the General Meeting."*

This compensation is independent from compensation applicable thereto by virtue of their general monitoring and group decision making duties arising from their status as a director – including compensation received for serving as the Chairman of the Board of Directors, or as a member or other officer on any of its committees– of the Company or any Group company.

The compensation system applicable to Pharma Mar's executive directors was developed in conformity with the mercantile law in force and with the Bylaws. Said system includes the following provisions:

##### *4.1. Fixed Compensation*

The fixed compensation of the executive directors is closely linked to their responsibility, professional experience and leadership within the organization and is in line with that provided in the market for comparable companies, both in terms of size and sector of activity.

The Appointments and Compensation Committee, comprised exclusively of non-executive directors, is responsible for, in accordance with Article 14 of the Board of Directors Regulations, proposing individual compensation and other contracting conditions for executive



directors of the Company to the Board of Directors, as well as for ensuring compliance therewith.

The contract governing the performance of the Executive Chairman's duties and responsibilities is commercial in nature and includes those clauses generally found in these types of contracts. Said contract was approved by the Board of Directors of Zeltia, S.A. on 26 February 2015 at the proposal of the Appointments and Compensation Committee, in which Pharma Mar was thereby subrogated as a result of the merger between Zeltia and Pharma Mar.

Fixed compensation of the Executive Chairman for 2019 will be the result of applying to the fixed compensation for 2018 (879.2 thousand euros) the potential increase of the Consumer Price Index for fiscal year 2018. In fiscal years 2020 and 2021 this amount is expected to be revised in accordance with the evolution of the Consumer Price Index for the preceding year (2019 and 2020, respectively).

As regards the Executive Vice Chairman, fixed compensation for performing its executive duties, currently under an employment contract (compensation independent from that received for performing general monitoring and group decision making duties as a mere director –including compensation for membership on the Board of Directors or as a member or other officer on any of the committees of the Company or its Group companies) for fiscal year 2019 will be the result of applying to the fixed compensation for 2018 (261.6 thousand euros) the potential increase of the Consumer Price Index for fiscal year 2018. In fiscal years 2020 and 2021 this amount is expected to be revised in accordance with the evolution of the Consumer Price Index for the preceding year.

#### *4.2. Short-Term Variable Compensation*

Only the Executive Chairman shall receive short-term variable compensation in 2019, 2020 and 2021.

Variable compensation, when based on indicators that directly reflect the positive performance of the Company, ensures that compensation of top executives is aligned to the Company's success.

In accordance with the provisions of said contract executed with the Executive Chairman, in 2019, as it has been happening since 2016, maximum short-term variable compensation for the Executive Chairman may be up to 30% of the fixed compensation established for 2019 (see 4.1.). In 2020 and 2021, maximum variable compensation will maintain the same potential maximum percentage of 30%, which will be applied to the fixed salary for the relevant fiscal year.

Variable compensation in each fiscal year is calculated based on quantitative and qualitative indicators, which are assigned a specific weighting.

Said annual variable compensation includes two tranches. The first tranche is regulated and includes quantitative targets that refer to sales figures, income, etc. The second tranche is discretionary and will be determined by the Board of Directors in view of criteria referring to strategic momentum, focus of R&D investments, attendance at international conferences, presentations and roadshows, creating shareholder value and/or other criteria that may be considered indicative of their individual performance and of the Company's performance.

On an annual basis, the Board of Directors, at the proposal of the Appointments and Compensation Committee, establishes the indicators to be applied in the fiscal year and the weighting of each indicator in the overall calculation of variable compensation. Likewise, at the end of the fiscal year, the Appointments and Compensation Committee assesses achievement of the previously established targets. This assessment is submitted to the approval of the Company's Board of Directors.

In 2019, 2020 and 2021, 12% of the total variable compensation percentage (30%) will pertain to the tranche of quantitative indicators and 18% to the qualitative indicators.

#### *4.3. Other compensation elements*

The Executive Chairman and Executive Vice Chairman are the beneficiaries of a life insurance-savings insurance policy. This involves a defined contribution. The Company makes an annual contribution of €12,000 for each one of the Executive Directors. The contingencies covered include retirement and death.

As regards the Executive Chairman, the Company undertakes, during the validity of its contract for the provision of executive services, to make an annual contribution of €12,000. Upon termination of the aforementioned contract, the Company will stop making such contributions, although accumulated capital will be held in favor of the Executive Chairman until such time as an insured event occurs (death or retirement), unless the termination thereof was a result of (a) the unilateral voluntary withdrawal of the Executive Chairman, not followed by the immediate retirement thereof, or (b) a serious breach of the Executive Chairman's obligations that has been legally declared as such, in which cases the accumulated capital shall pertain to the Company rather than the insured.

As regards the Executive Vice Chairman, the Company shall continue to make annual contributions as long as said Executive Vice Chairman continues to provide the services to the Company (excluding those services provided in its condition as a director) or to its subsidiaries



and up until his/her retirement, regardless of the directors age at the time of retirement. The accumulated capital pertaining to the insured shall be held to its benefit until such time as an insured event occurs (retirement or death), regardless of whether the Company has stopped making contributions to the benefit of the insured at any given time, with the exception of legally mandated removals or voluntary resignation, not including retirement, in which case, the accumulated capital shall pertain to the Company rather than the insured.

The Executive Chairman and Executive Vice Chairman receive the following benefits as welfare compensation:

- Accident insurance, under the collective policy for Company employees.
- Health insurance, under the collective policy for Company employees.
- Full annual medical check-up (only for the Executive Chairman).

On the other hand, the Company provides the Executive Chairman with a representative office at the operating headquarters, communications equipment, payment instruments, support staff, and a company vehicle sufficient for the duties performed thereby.

The Company's Bylaws expressly state that compensation of directors, including executive directors, may include the delivery of shares in the Company or of share option rights, or may be linked to share value, if so determined by the General Meeting, which shall set the maximum number of shares that may be allocated to this scheme in each fiscal year; the exercise price or method for calculating the exercise price of the share options; the share value that, as the case may be, is used as a benchmark; and the term of the plan.

The compensation policy for the 2019-2021 period does not establish for any executive director a compensation system linked to share value or that involves the delivery of shares or share option rights.

#### *4.4. Contract conditions of the Executive Chairman*

A brief description of the clauses governing duration and causes of termination of the agreement, severance pay, exclusive dedication and full availability is provided below:

In relation to the Executive Chairman, the contract for the provision of executive services between the Company and the Executive Chairman –which was approved by Zeltia's Board of Directors at its meeting on 26 February 2015, in which Pharma Mar succeeded Zeltia by order of law as a result of the takeover merger between the aforementioned companies– shall



remain in force for as long as such individual holds the position of Chairman of the Board of Directors and top executive of the Company, bearing in mind the following:

- A. The contract may be terminated by mutual agreement of the parties, by unilateral voluntary resignation of the Executive Chairman, for causes attributable to the Company, or as a result of the death, legal disability, declaration of total permanent disability or severe disability, or inability or temporary inability to perform their senior management duties for a period greater than one year.
  
- B. The Executive Chairman shall have the right to receive a severance payment equivalent to 1.5 times the gross annual Regulated Compensation (defined as the arithmetic mean of the total amount of annual fixed compensation, annual variable compensation and attendance allowances accrued during each of the two full fiscal years immediately preceding the contract termination date) if its contract as the top executive is terminated:
  - 1) by unilateral voluntary termination by the Company (i) by resolution of the Board of Directors, (ii) removal or non-reappointment of the Executive Director as a director by the General Shareholders Meeting, or (iii) in the event of total or partial revocation, as the case may be, of the authorities delegated thereto by the Board of Directors or of the powers granted thereto by the Company. Nevertheless, the removal of a director who is subsequently and immediately appointed as a director or the full or partial revocation of the aforementioned authorities and/or powers where analogous authorities and/or powers are subsequently and immediately granted shall not result in termination of the contract. In the event of termination of the contract by the sole unilateral will of the Company, as expressed by a resolution of the Board of Directors or by the total or partial revocation of powers or duties delegated to the Executive Chairman, advance notice of three months shall be required and the Company may release the Executive Chairman from carrying out its duties during said period, although it shall continue to pay the applicable compensation.
  
  - 2) In the event of (i) substantial amendment of duties or conditions for providing the services by the Executive Chairman with respect to those governed in the contract or when, by any other means, its duties as top executive of the Company are deemed null or are substantially affected, de facto or de jure, or if, for any other cause, his/her dignity is impaired or the Company breaches the provisions of the contract; or (ii) if there is a succession of the Company or a significant change in ownership thereof that has the effect of changing the composition of its governing bodies or the content and focus of its primary activity.

- C. As regards agreements on exclusivity and full availability, the Executive Chairman shall dedicate its full professional activity to the Company and its dependent Group companies. Unless the Board of Directors, following a report of the Appointments and Compensation Committee, has granted its prior and express consent therefor, the Executive Chairman shall refrain from carrying out any professional activity beyond the Pharma Mar Group, whether directly or indirectly, for third parties or to his/her own benefit, even if the relevant activity is not in competition with the business of any Group company. By way of exception, the Executive Chairman may carry out those other professional activities that are compatible with his/her commitment to full availability to provide services to the Company, dedicating the time and effort necessary for the effective and diligent performance of his/her duties. Notwithstanding the above, the Executive Director may perform, whether remunerated or not, teaching and research activities at Universities and public or private schools; attend professional conferences and seminars; carry out positions in foundations or business or professional associations related to the area where the Company operates; or carry out positions as an independent director in other companies, provided the provision of such activity (i) has been previously notified to the Appointments and Compensation Committee, and (ii) does not have a material effect on the full dedication of the Executive Director nor interferes with the performance of his/her duties to the Company or, in any other case, that has been authorized by the Board of Directors.

#### *4.5. Contract conditions of the Executive Vice Chairman*

As regards the Executive Vice Chairman, his/her relation with the Company as of the date of this report is an employment relationship entered into for an indefinite term, such that the indemnities and advance notice requirements applicable in the event of termination of said employment relationship shall be as provided in applicable employment regulations.

### **5.- Maximum overall compensation to be paid to the directors as a whole**

*Pursuant to Article 37 of the Company's Bylaws, "The maximum annual compensation for the Directors as a whole based on their condition as such shall be approved by the General Meeting in the compensation policy and shall remain in effect until such time as an amendment thereto may be approved."*

For these purposes, the maximum annual compensation to be paid to all the directors on their condition as such (i.e. Directors of Pharma Mar, S.A.) in 2019 shall be Euros 1,800,000 (paragraph 1, Art. 529 septdecies Spanish Capital Corporations Law). This maximum annual amount will also apply for fiscal years 2020 and 2021 as long as their modification by the General Shareholders' Meeting of the Company is not approved.

This maximum compensation amount to be paid to the directors on their condition as such has been calculated considering a number of ten directors.

Said maximum amount includes: (i) fixed annual compensation for membership on the Board of Directors, (ii) fixed annual compensation for the positions of Chairman and for the members of the Board Committees, (iii) additional compensation applicable to the Coordinating Director, and (iv) a maximum attendance allowance per director for attending the meetings of the Board of Directors and of its Committees, for ten Directors.

The maximum attendance allowance amount was calculated taking into account that, in accordance with the Company's policy, attendance allowances received by the Directors for attending the meetings of the Board of Directors and of its Committees may under no circumstances exceed the amount established as fixed annual compensation for their membership on the Board of Directors.

In order to determine the maximum global amount of the annual compensation for the directors as a whole, for their non-executive and executive functions, the following compensation items for the executive directors shall be added to the above mentioned amount (Euros 1,800,000):

- (i) Fixed compensation for the Executive Chairman and the Executive Vice Chairman, described in section 4.1 above of this Policy and updated, as the case may be, in the Annual Report on Directors' Compensation.
- (ii) Short-term variable compensation for the Executive Chairman, described in section 4.2 above of this Policy, which provides the quantitative targets corresponding to the regulated tranche, and the criteria for determining the tranche of discretionary nature.
- (iii) Long-term savings systems, described in section 4.3 above of this Policy, and supplemented by the annual contributions made by the Company for each of the Executive Directors, which are specified in the Annual Report on Directors' Compensation.
- (iv) Other compensation, described in section 4.3 above of this Policy and whose specific annual compensation are described in the Annual Report on Directors' Compensation.
- (v) Additionally, in the event that the termination of the relationship with the Executive Chairman should proceed, the compensation described in section 4.4 above of this Policy may be paid.



## **6.- Compensation Policy Term**

The Company shall apply this Directors' Compensation Policy for fiscal years 2019, 2020 and 2021. Any amendment or substitution of the policy during said term shall require the prior approval of the General Shareholders' Meeting in accordance with current laws in force.