

remuneration report

INTRODUCTION

The Supervisory Board, on recommendation of its Nomination and Remuneration Committee, determines the remuneration of the members of the Management Board taking into account the Remuneration Policy for the Management Board (“Remuneration Policy”). The revised Remuneration Policy was adopted by the General Meeting on March 29, 2019 and applies as of January 1, 2019 onwards.

In this Remuneration Report, an overview is provided of the Remuneration Policy and the application thereof in 2019. More details of the actual remuneration of the Management Board in 2019 can be found in Note 29 ‘Related Parties’ of the consolidated financial statements. This Remuneration Report will be submitted to the General Meeting in 2020 for an advisory vote.

This Remuneration Report comprises information within the meaning of articles 2:135b Dutch Civil Code and Section 3.4.1 of the Dutch Corporate Governance Code and is also published as part of the 2019 Annual Report.

REMUNERATION POLICY 2019

GENERAL PRINCIPLES AND OBJECTIVES

The general principles and objectives of the Remuneration Policy are the following:

- competitive compensation aligned with Kiadis Pharma’s peer group, so as to enable Kiadis Pharma to recruit, motivate and retain qualified and expert individuals that Kiadis Pharma needs in order to achieve its strategic and operational objectives;
- focus management on the creation of sustainable added value, taking into account the interests of all stakeholders, by having total compensation significantly driven by variable performance dependent income components;
- variable income consisting of short-term (cash bonus) and long-term incentives (share options and stock appreciation rights), whereby the distribution between short-term and long-term incentives aims to achieve a proper balance between short-term results and long-term value creation;
- align the economic interest of the Management Board as related to long-term incentives with the economic interest of the Kiadis Pharma shareholders.

COMPOSITION REMUNERATION MANAGEMENT BOARD

The remuneration of the members of the Management Board based on incurred accounting expenses in 2019, 2018 and 2017 was as follows (in EUR thousands):

Board of Management Member	Financial Year	Fixed					Total Fixed	% Fixed	Short Term (Cash Bonus)	Long Term (Options/SARS)	Total Variable	% Variable	Total Remuneration	Relative proportion (ratio fixed % - variable %)
		Base Salary	Pension	Social Securities	Other Benefits									
A. Lahr	2019	343	8	11	-	362	28%	-	935	935	72%	1,297	39%	
	2018	310	8	10	-	328	28%	93	763	856	72%	1,184	38%	
	2017	233	5	9	-	247	29%	70	540	610	71%	857	40%	
S. Holmes	2019	264	7	20	396	687	100%	-	-	-	-	687	100%	
R. van Heekeren	2018	183	7	8	-	198	100%	-	-	-	-	198	100%	
	2017	173	7	10	-	190	59%	39	94	133	41%	323	143%	
M. Rüdiger	2017	79	2	12	320	413	69%	-	186	186	31%	599	222%	

MAIN ITEMS

The remuneration of the members of the Management Board consists of:

- a fixed annual salary;
- an annual bonus in cash;
- share options and stock appreciation rights;
- pension and (contribution to) healthcare plan/ disability insurance/life insurance; and
- severance pay.

FIXED ANNUAL SALARY

The level of the base salary of the members of the Management Board is determined by the Supervisory Board based upon:

- peer analysis against the base salaries of management board members of companies within Kiadis Pharma's peer group consisting of EU based biotech companies of similar size and complexity and which is assessed periodically;
- remuneration reports;
- the pay ratios within the Kiadis Pharma group of companies; and
- the anticipated cost of replacing a member of the Management Board.

The Supervisory Board will consider on a yearly basis the appropriateness of any change of the base salary in the context of the market environment as well as the salary adjustments for other Kiadis Pharma employees.

Adjustment of the base salary is at the discretion of the Supervisory Board, taking into account the general principles and objectives of the Remuneration Policy.

Following the recommendation of the Nomination and Remuneration Committee and based on the advice from an independent compensation consultancy firm, in 2019 the Supervisory Board increased the base salary of the Chief Executive Officer and member of the Management Board from EUR 310,000 to EUR 350,000. The base salary of the Chief Financial Officer and member of the Management Board was not increased in 2019 because he only entered service in early 2019.

ANNUAL BONUS IN CASH

The members of the Management Board shall be entitled to an annual cash bonus of up to 40% of the annual base salary based on achieving certain performance targets. The part of the bonus that is related to Kiadis Pharma targets accounts for at least 60% of this bonus with the remainder of the bonus being related to individual targets.

The Kiadis Pharma targets and individual targets are determined each year by the Supervisory Board based on historical performance, the operational and strategic outlook of Kiadis Pharma in the short-term and expectations of Kiadis Pharma's management and stakeholders, among other things. The performance targets shall contribute to the realization of the objective of long-term value creation for Kiadis Pharma. Kiadis Pharma does not disclose the actual targets, as they qualify as commercially sensitive information.

The amount of the bonus shall be determined by the Supervisory Board through comparing actual performance against the set targets.

For 2019 the Supervisory Board established the extent to which the targets for 2019 were achieved by the members of Management Board and determined that no bonus was earned by the Chief Executive Officer. The Chief Financial Officer earned a bonus of 10% of his annual base salary or USD 39,000, which bonus amount was paid out as part of the severance payment.

SHARE OPTIONS AND STOCK APPRECIATION RIGHTS

The members of the Management Board may be granted options to ordinary Kiadis Pharma shares and stock appreciation rights in accordance with Kiadis Pharma's share option and stock appreciation right plan. The provisions of the Kiadis Pharma's share option and stock appreciation right plan also apply to Kiadis Pharma's Management Team members and Kiadis Pharma's employees.

The main elements of the Kiadis Pharma share option and stock appreciation right plan are the following:

- The options are options to acquire ordinary Kiadis Pharma shares, whereby one option gives the right to acquire one ordinary share. The option exercise price shall be the average closing sales price at which ordinary Kiadis Pharma shares are traded during the three trading days prior to the day the option is granted.
- Stock appreciation rights provide the right to receive a cash payment equal to the excess of the exercise price over the initial price, multiplied by the number of ordinary Kiadis Pharma shares with respect to which the stock appreciation right

is exercised. The initial price shall be the average closing sales price at which ordinary Kiadis Pharma shares are traded on during the three trading days prior to the day the stock appreciation right is granted and the exercise price shall be the closing sales price at which ordinary Kiadis Pharma shares are traded on during the three trading days prior to the day the stock appreciation right is exercised.

- Subject to any ad-hoc out of cycle grants at the discretion of the Supervisory Board, options or stock appreciation rights shall generally be granted annually on April 1st. For a new member of the Management Board, options and stock appreciation rights may in addition be granted on the day (as approved by the General Meeting) as per which that person shall commence as a member of the Management Board. Should any of the days referenced above be in a so-called closed period according to Kiadis Pharma's Insider Trading Policy, the granting date shall be amended for such occasion to be the 15th day after the closed period has terminated.
- Vesting of options and stock appreciation rights may take place on one date or in part over time.
- It may be determined that options and stock appreciation rights which have vested may nevertheless not be exercised for a certain period of time after their grant date.
- It may be determined that Kiadis Pharma shares that shall be received upon the exercise of options shall be subject to a lock-up for a certain period of time.
- Leavers shall remain entitled to vested options and stock appreciation rights with the non-vested options and stock appreciation rights lapsing. Such vested options and stock appreciation rights are to be exercised within one year. The Supervisory Board may however, if this rule would produce an unfair result determine otherwise.
- There shall be accelerated vesting of non-vested options and stock appreciation rights amongst other in case of a change of control of Kiadis Pharma.
- Options may be settled in cash.
- Granted options may be modified to stock appreciation rights and vice versa.

- The number of shares in respect of which options and stock appreciation rights may be granted shall in total not exceed 2,011,509 shares, provided that, starting on April 1, 2019 and subsequently on January 1st of each year, the total number of shares in respect of which options and stock appreciation rights may be granted will be increased by 4% of Kiadis Pharma's outstanding ordinary shares on December 31st of the preceding year.
- Options and stock appreciation rights may be granted up till the tenth anniversary of the adoption of the share option and stock appreciation rights plan or an amendment thereof by the Supervisory Board and the Management Board.

The Supervisory Board shall in its discretion determine whether options and stock appreciation rights shall be granted to the members of the Management Board and determine the number of options and stock appreciation rights to be granted to the relevant member. As a general principle, the number of options and stock appreciation rights to be granted shall be based on, and be aligned with, benchmark practice of the Kiadis Pharma peer group.

Options and stock appreciation rights granted to the members of the Management Board shall vest in three equal parts:

- one third shall vest on the first anniversary of the date on which the options and stock appreciation rights are granted;
- one third shall vest on the second anniversary of the date on which the options and stock appreciation rights are granted; and
- one third shall vest on the third anniversary of the date on which the options and stock appreciation rights are granted.

On the basis of the above the Supervisory Board granted 280,000 options in 2019 to Mr. Arthur Lahr, Chief Executive Officer and member of the Management Board.

The table below provides an overview of share-based remuneration of the Management Board for the last three financial years:

Board of Management Member	Financial Year	Grant Dates	Options Vested / Unvested	Vesting Dates	Share Price at Vesting	Exercised Price	Exercised / Not exercised	Exercise Dates	Lock-Up term applicable?
A. Lahr	2019	01-Apr-19	Vested: 0 Unvested: 280,000	01-Apr-2020 01-Apr-2021 01-Apr-2022	Not applicable	8.62	Exercised: 0 Not exercised: 280,000	Not applicable	No
	2018	01-Jul-18	Vested: 25,000 Unvested: 50,000	01-Jul-2019 01-Jul-2020 01-Jul-2021	01-Jul-2019: 5.62 01-Jul-2020: - 01-Jul-2021: -	9.51	Exercised: 0 Not exercised: 75,000	Not applicable	No
	2017	04-Apr-17	Vested: 200,000 Unvested: 100,000	04-Apr-2018 04-Apr-2019 04-Apr-2020	04-Apr-2018: 8.93 04-Apr-2019: 9.13 04-Apr-2020: -	9.10	Exercised: 0 Not exercised: 300,000	Not applicable	No
S. Holmes ¹	2019								

1. All 150,000 options granted to S. Holmes lapsed.

CONTRACTUAL ARRANGEMENTS

TERM OF EMPLOYMENT

In general, the Management Board members are engaged on the basis of a service agreement with a four year term, to be renewed at reappointment. The aforementioned arrangement is in place with the Chief Executive Officer and member of the Management Board. If however the specific personal circumstances so require, another contractual arrangement may be entered into with a specific Management Board member.

TERM OF APPOINTMENT

The Management Board members are appointed for a period of four years, after which they are eligible for reappointment by the General Meeting.

NOTICE PERIOD

In general, resignation by a member of the Management Board member is subject to six months' notice, unless a different notice period is more appropriate because of specific circumstances of a Management Board member. The aforementioned six months' notice period applies to the Chief Executive Officer and member of the Management Board.

PENSION AND FURTHER ARRANGEMENTS AND BENEFITS

The members of the Management Board participate in the Dutch pension scheme for Kiadis Pharma, unless another pension scheme or arrangement is more

appropriate in view of the personal circumstances of a member of the Management Board. Members of the Management Board are entitled to (a contribution to) a healthcare plan/disability insurance/life insurance and similar arrangements and benefits.

SEVERANCE ARRANGEMENT

The remuneration in the event of dismissal of a member of the Management Board shall not exceed one year of the fixed annual base salary. Severance pay is not awarded if the agreement with the member of the Management Board is terminated early at the initiative of the Management Board member or is terminated due to gross negligence or willful misconduct on the part of the Management Board member.

As set forth in Note 29 'Related Parties' of the consolidated financial statements, Mr. Holmes, who left the Company as per December 31, 2019, received a severance payment as his service agreement was terminated due to it being determined by the Supervisory Board that there was no fit with Kiadis Pharma.

CLAW-BACK

The Supervisory Board is entitled (a) to adjust a variable remuneration component if it would produce an unfair result due to extraordinary circumstances during the period in which the predetermined performance criteria have been or should have been achieved and (b) to recover a variable remuneration awarded on the basis of incorrect financial or other data. No variable remuneration has been clawed-back in 2019.

LOANS

The Company does not provide any loans to the Management Board.

SCENARIO ANALYSIS

Scenario analyses based on the Dutch Corporate Governance Code have been taken into consideration.

INTERNAL PAY RATIOS

The Dutch Corporate Governance Code requires publication of the pay ratio within the Company between the remuneration of the Management Board and that of a representative reference group. This pay ratio has been calculated on the basis of the total employment compensation paid out in 2019 as set forth in Note 21 'Employee Benefits' of the consolidated financial statements, from which has been subtracted the total compensation paid to the Management Board and Supervisory Board as set out in Note 29 'Related Parties' of the consolidated financial statements, divided by the average number of FTE's as reported in Note 21 'Employee Benefits' of the consolidated financial statements. Thus calculated, the internal pay ratio in 2019 was 6 to 1 (2018: 7 to 1).

SHARE BUY-BACKS

In 2019 no shares in the capital of Kiadis Pharma were repurchased and no shares were redeemed.

OVERVIEW OPTIONS EMPLOYEES / NON-MANAGEMENT BOARD AND MANAGEMENT BOARD

Below tables provide an aggregate overview on options for employees including Management Board members.

	Number of options	Weighted average fair value at grant date (EUR)
Outstanding January 1, 2017	169,515	6.28
Exercisable January 1, 2017	-	-
Granted	169,515	6.28
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding January 1, 2018	775,081	4.83
Exercisable January 1, 2018	85,235	5.67
Granted	776,015	4.83
Exercised	-	-
Forfeited	934	4.46
Expired	-	-
Outstanding January 1, 2019	1,161,805	4.90
Exercisable January 1, 2019	350,540	5.01
Granted	1,261,515	4.95
Exercised	10,000	6.28
Forfeited	89,710	5.41
Expired	-	-
Outstanding December 31, 2019	2,292,452	4.82
Exercisable December 31, 2019	833,256	5.75
Granted	3,117,443	4.67
Exercised	35,332	3.89
Forfeited	758,258	4.23
Expired	31,401	5.34

Details regarding stock options outstanding for Kiadis Pharma employees including Management Board members are set out in the following table:

Range of exercise price (EUR) options (years)	Number of outstanding options	Weighted average remaining contractual life of outstanding per December 31, 2019
2.00 - 2.50	1,000	5.36
2.50 - 3.00	85,000	9.92
4.00 - 4.50	25,000	9.81
4.50 - 5.00	16,000	7.05
5.00 - 5.50	51,433	4.66
5.50 - 6.00	6,000	9.52
7.50 - 8.00	103,298	4.60
8.00 - 8.50	61,762	0.41
8.50 - 9.00	911,139	6.09
9.00 - 9.50	566,450	8.07
9.50 - 10.00	297,968	6.42
10.00 - 10.50	5,000	1.25
10.50 - 11.00	21,994	9.15
12.00 - 12.50	80,408	3.25
14.00 - 14.50	60,000	8.76
Total	2,292,452	6.56

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Amsterdam, April 30, 2020

SUPERVISORY BOARD

Mark Wegter, Chairman

Berndt Modig, Vice-Chairman

Martijn Kleijwegt

Robert Soiffer

Otto Schwarz

Subhanu Saxena