

Explanatory report pursuant to Sections 289a (1) and Section 315a (1) of the Commercial Code (Handelsgesetzbuch, HGB)

Composition of subscribed capital

The subscribed capital of PAION AG as of June 01, 2023 amounts to EUR 7,133,699.00 (December 31, 2022: EUR 71,336,992.00) and is divided into 7,133,699 shares (December 31, 2022: 71,336,992 shares) without par value (no-par value shares), each with a notional interest in the share capital of EUR 1.00. The no-par value shares are bearer shares and are fully paid up. Shareholders are not entitled to have their shares securitized in accordance with Section 6 (2) of the Articles of Association. All shares carry the same rights and obligations. Each share entitles the holder to one vote at the Annual General Meeting and is decisive for the shareholders' share in profits. The rights and obligations of shareholders are set out in detail in the provisions of the German Stock Corporation Act (AktG), in particular sections 12, 53a et seq., 118 et seq. and 186 AktG.

Restrictions relating to voting rights or the transfer of shares

Pursuant to German legislation and the Articles of Incorporation of PAION AG, no restrictions are imposed on the voting rights or transferability of the shares. The Management Board of PAION AG is also not aware of any voting rights or share transfer restrictions at shareholder level.

Equity interests exceeding 10% of voting rights

The German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) stipulates that any shareholder who achieves, exceeds or falls short of specific shares in the voting rights in the company through the purchase or sale of shares or by other means, must notify the company and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) accordingly. The lowest threshold for this reporting obligation is 3%. Direct or indirect shares in the company's capital that equaled or exceeded 10% of the voting rights as of 31 December 2021 were not reported to the company.

Shares with special rights conferring powers of control

The bearers of PAION AG shares have not been granted any special rights by the company, in particular with regard to powers of control.

Type of control of voting rights when employees are shareholders and do not directly exercise their control rights

The share options issued to employees and members of the Management Board can be exercised once the defined waiting period has expired and the other conditions have been met by the beneficiaries. Shares acquired in this way give the beneficiaries the same rights as other shareholders and are not subject to any voting rights control.

Legal provisions and provisions of the Articles of Incorporation on the appointment and removal of members of the Management Board and amendments to the Articles of Incorporation

Members of the Management Board are appointed and removed in accordance with Sections 84 and 85 AktG and the supplementary provisions of the Supervisory Board's rules of procedure, which stipulate an age limit of 65 years for Management Board members. Pursuant to Section 84 AktG, members of the Management Board can be elected for a

maximum of five years by the Supervisory Board. Re-appointments or extensions of the term of office for up to a maximum of five years at a time are permissible. Pursuant to Art. 8 (1) of the Articles of Incorporation, the Management Board must comprise at least one member. The Supervisory Board determines the number of members on the Management Board. Furthermore, pursuant to Section 84 (2) AktG and Art. 8 (2) of the Articles of Incorporation, the Supervisory Board may appoint a member of the Management Board as CEO.

Amendments to the Articles of Incorporation are effected in accordance with Sections 179 and 133 AktG in conjunction with Art. 27 of PAION AG's Articles of Incorporation. The shareholder resolution required for any amendment to the Articles of Incorporation can, under PAION AG's Articles of Incorporation, be adopted by a simple majority of the share capital represented at the adoption of the resolution, provided this is permitted by law.

Authority of the Management Board to issue or buy back shares

The Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital in the period until 26 May 2026 once or several times by up to a total of EUR 35,668,496.00 by issuing up to 35,668,496 new no-par value bearer shares against cash or non-cash contributions (Authorised Capital 2021). In the case of capital increases against contributions in kind, the Management Board is further authorised to exclude subscription rights with the consent of the Supervisory Board. In the case of capital increases against cash contributions, the shareholders shall be granted a subscription right. The new shares may also be taken over by one or more credit institutions with the obligation to offer them to the shareholders for subscription. The Management Board is authorised, with the consent of the Supervisory Board, to exclude fractional amounts from the shareholders' subscription rights. The Management Board is also authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights if the issue price of the new shares is not significantly lower than the stock exchange price and the shares issued in return for cash contributions in accordance with § 186 paragraph 3 sentence 4 of the German Stock Corporation Act (AktG), excluding subscription rights, do not exceed a total of 10% of the share capital as at 27 May 2021 and at the time the authorisation is exercised. The Management Board is also authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to the extent necessary to grant subscription rights to the holders of convertible bonds, profit participation rights or option rights within the meaning of § 221 AktG. Furthermore, the Management Board has the possibility to issue bearer and/or registered convertible bonds, bonds with warrants, profit participation rights and/or participating bonds in a total amount of up to EUR 125,000,000.00 with or without a limited term until 26 May 2026 once or several times with the approval of the Supervisory Board and to grant the holders or creditors of bonds conversion or option rights to new shares of PAION AG with a proportionate amount of the share capital of up to a total of EUR 31,000,000.00 (Conditional Capital 2021). Furthermore, the Company is authorised to issue 676,626 shares (Conditional Capital 2010 I), 530,010 shares (Conditional Capital 2014), 702,672 shares (Conditional Capital 2016), 806,250 shares (Conditional Capital 2018 II) and 1,200,000 shares (Conditional Capital 2020) to service the stock option programmes 2010, 2014, 2016, 2018 and 2020.

Material arrangements of the company dependent on a change in control in the event of a takeover bid

In case of a change of control, the EIB has the right to terminate the existing loan agreement and to demand an early repayment of tranches drawn down.

Compensation agreements entered into by the company with members of the Management Board and employees in the event of a takeover bid

The terms of the Stock Option Plans 2010, 2014, 2016, 2018 and 2020 stipulate both for members of the Management Board and for employees that in case of a change of control, the waiting period for all options for which the waiting period has not expired yet at the date of the change of control, the entitlement to subscribe to shares is converted into an entitlement to a cash settlement based on the share price on the day the change of control comes into effect; the corresponding stock options lapse. The company may choose to grant listed shares in the acquiring company instead of the cash settlement.

For information on further existing compensation agreements with Management Board members, please refer to the comments in the section "Remuneration Report".

Aachen, Germany, April 2023

PAION AG

A handwritten signature in blue ink, appearing to read "GS" followed by a stylized surname.

Gregor Siebert

A handwritten signature in blue ink, appearing to read "S. Werner" followed by a stylized surname.

Sebastian Werner