

## Declaration on Corporate Governance

The Declaration on Corporate Governance (Section 289f German Commercial Code) comprises the Declaration of Conformity, information on corporate governance practices and a description of the Management Board and Supervisory Board procedures. Our aim is to present PAION's corporate governance principles as clearly and concisely as possible. You will find the complete declaration on our webpage under <https://www.paion.com/medien-und-investoren/corporate-governance/erklaerung-zur-unternehmensfuehrung/>.

### Explanation on Corporate Governance

The Supervisory Board and the Management Board of PAION AG are both committed to the principles of responsible management and governance aimed at sustainable value creation and set great store by these principles in their actions. In ensuring good and transparent corporate governance, the Supervisory Board and the Management Board of PAION AG are guided by the statutory provisions as well as the suggestions and recommendations of the Government Commission of the German Corporate Governance Code. The suggestions and recommendations laid down in the German Corporate Governance Code are based on internationally and nationally recognized standards of good and responsible business management.

In December 2019, the Supervisory Board and the Management Board released their annual Declaration of Conformity following the recommendations of the Government Commission of the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act. The declaration is provided permanently on the company website (<https://www.paion.com/medien-und-investoren/corporate-governance/entsprechenserklaerung/>) alongside now outdated Declarations of Conformity from previous years. PAION complied with all recommendations of the version of the German Corporate Governance Code dated 07 February 2017, valid at the time of submitting the Declaration of Conformity.

### Declaration of Conformity

"Pursuant to section 161 of the German Stock Corporation Act (AktG), the Management Board and the Supervisory Board of PAION AG have an obligation to declare annually that the company has complied and is complying with the recommendations of the latest version of the Government Commission German Corporate Governance Code" (the "Code") published by the Federal Ministry of Justice in the official section of the Federal Gazette, or which of the recommendations have not been or are not being applied and why.

Pursuant to section 161 of the German Stock Corporation Act, the Management Board and the Supervisory Board of PAION AG declare: Since the last declaration of conformity in December 2018, PAION AG complied with and will continue to comply with all recommendations of the Code in the version dated 07 February 2017.

Aachen, December 2019

#### Supervisory Board of PAION AG

Dr. Jörg Spiekerkötter, Chairman of the Supervisory Board

#### The Management Board of PAION AG

Dr. James Phillips, Chairman of the Management Board  
Dr. Jürgen Beck, Member of the Management Board  
Abdelghani Omari, Member of the Management Board"

### Code of Conduct

PAION AG has developed into a renowned and respected company focused on the clinical development of drugs in anesthesia for which there is a high unmet medical need. As a listed clinical drug development and research company, PAION carries a major responsibility towards many stakeholders. Doctors and patients alike must be able to rely on our ability to develop safe and effective products. Business partners, shareholders and investors must also be able to place trust on us that all our activities and relationships both with business partners and governmental authorities remain within the framework and principles of

integrity in business relationships as recorded in our corporate “Code of Conduct”. Please visit <https://www.paion.com/mediend-und-investoren/corporate-governance/verhaltenskodex/> for more information about the Code of Conduct at PAION.

## Information on Company management and supervision

In accordance with the provisions of the German Stock Corporation Act, PAION AG maintains a dual management and supervision structure formed by two bodies, the Management Board and the Supervisory Board. The Management Board consists of three members, who collectively bear all responsibility and are accountable for the company’s good management. The Supervisory Board, comprising five members, appoints, supervises and advises the Management Board and is directly involved in decisions that are of fundamental importance to the company. In overseeing and directing the composition of the Supervisory Board, the Supervisory Board pays attention to the principle of diversity, specifically the representation of women as well as different professional experience and internationality relevant for PAION AG. Moreover, the Supervisory Board has determined that these goals are supposed to be considered for recommendations for the election of Supervisory Board members to the Annual General Meeting. The strategic objectives of the company are developed by the Management Board and coordinated with the Supervisory Board.

The Management Board and the Supervisory Board work together closely for the sole benefit of the company and its stakeholders. Taking into consideration the specific circumstances of PAION AG, the Supervisory Board adopted the following objectives regarding its composition. These objectives shall be considered by the Supervisory Board in its election recommendations to the Annual General Meeting for regular reelections as well as for new elections.

The members of the Supervisory Board shall as a group possess the required knowledge, ability and expert experience required to complete the tasks of the Supervisory Board. These include:

- Experience and knowledge in corporate management, accounting, risk management and governance/compliance;

- Knowledge of the German and international capital markets;
- especially the knowledge relating to PAION AG in research and development, production and selling/distribution of pharmaceuticals;
- Knowledge of international cooperation models (e.g. license agreements, R&D agreements).

The Supervisory Board determined that the Supervisory Board shall have no more than one member who was a former member of the Management Board of the company. The Supervisory Board shall not have any members who act as board members or consultants for major competitors or have business or personal relations to the company or the Management Board members, which could give rise to a conflict of interest which is significant and not temporary. The Supervisory Board members shall have sufficient time to perform their mandate. Members who serve at the same time as active management board members shall have no more than three Supervisory Board mandates in total. The age limit for Supervisory Board members is 75 years. Tenure is limited to an aggregate total of fifteen years. Exceptions to this rule require an unanimous decision of the Supervisory Board. The international nature of the company shall be adequately reflected in the composition of its Supervisory Board. Therefore, it is desired that at least one member possesses an international background. Furthermore, the Supervisory Board resolved that at least one of its five members must be female. This target shall be periodically reviewed and/or revised in accordance with current legal requirements.

During financial year 2019 all members were independent and younger than 75 years. The Supervisory Board takes the view that the Chairman of the Supervisory Board, Dr. Jörg Spiekerkötter, should be regarded as independent from the company and the Management Board, despite his tenure of more than 12 years as member of the Supervisory Board. The Supervisory Board believes that the Chairman’s longstanding company-specific experience and expertise is conducive to the goals of advising and supervising the Management Board and coordinating the Supervisory Board’s work in a lasting and objective manner. Moreover, there are no circumstances in his specific case that might cause a material and not merely temporary conflict of interests based on the tenure of his

Supervisory Board membership. The Chairman of the Supervisory Board coordinates its work and chairs its meetings. The Chairman of the Supervisory Board maintains regular contact with the Management Board. In the By-Laws developed for the Management Board, the Supervisory Board laid down the duties of the Management Board. This includes the provision of information and reports, the allocation of duties, and further defines the necessary levels of co-operation within the Management Board including the processes and business transactions requiring approval by the Supervisory Board. The Supervisory Board established an Audit Committee chaired by Dr. Chris Tanner, an independent member of the Supervisory Board with specific knowledge and experience in the application of accounting principles and the auditing of financial statements. Furthermore, Dr. Jörg Spiekerkötter and Dr. Markus Leyck Dieken are members of the Audit Committee. The Supervisory Board established a Human Resources & Nomination Committee chaired by Dr. Karin Dorrepaal, an independent member of the Supervisory Board. Furthermore, Dr. Jörg Spiekerkötter and Dr. Chris Tanner are members of the Human Resources & Nomination Committee. In addition, the Supervisory Board established a Research & Development (R&D) Committee chaired by Dr. Irina Antonijevic, also an independent member of the Supervisory Board. Dr. Karin Dorrepaal and Dr. Markus Leyck Dieken are members of the R&D Committee. Duties and tasks of the Supervisory Board and its committees are also regulated by specific rules of procedure. From time to time, the Supervisory Board reviews and assesses the work of the Supervisory Board and its committees using a checklist and questioning of the members of the Supervisory Board. Further details concerning the work of the Supervisory Board can be found in the Report of the Supervisory Board. PAION AG has taken out a D&O insurance policy for the members of the Management Board and the Supervisory Board. This insurance policy provides partial coverage for the Management Board and the Supervisory. Insurance coverage is not provided in the event of fraudulent actions, omissions or deliberate breaches of duty.

The Supervisory Board has set an age limit of 65 years for members of the Management Board. The Supervisory Board and the Management Board work together on long-term

succession planning for the Management Board members. The Supervisory Board and the Management Board have closely coordinated when appointing Dr. James Phillips as successor to Dr. Wolfgang Söhngen as CEO of PAION AG. No succession topics are currently emerging. The Supervisory Board and the Management Board will continue to start the timely planning of successors in the future.

Conflicts of interest of the Management or Supervisory Board members must be disclosed immediately to the Supervisory Board. No conflicts of interest involving the members of the Supervisory Board, as set out in subsection 5.5 of the German Corporate Governance Code (version of the code dated 7 February 2017) were reported in financial year 2019.

All three members of the Management Board are also Managing Directors of PAION Deutschland GmbH and PAION Holdings UK Ltd including its subsidiaries. Two Management Board are Managing Directors of PAION Netherlands B.V. as well. Further mandates held by members of the Management Board and Supervisory Board are listed in the notes to the Consolidated Financial Statements.

### Equal participation of Men and Women in executive positions

The Supervisory Board and the Management Board actively support the company in achieving an adequate representation of women in executive positions.

The Supervisory Board had determined a target of 30% to be achieved for the representation of women by 30 June 2017 in accordance with Section 111(5) Stock Corporation Act (AktG). This was based on the internal requirement that at least one member of the Supervisory Board shall be female. In the meantime the Supervisory Board was extended from three to five members by resolution of the Annual General Meeting held on 17 May 2017. On 30 June 2017 two of the five Supervisory Board members were female. The target was achieved. By resolution from June 2017 the Supervisory Board determined to maintain the target of at least one female Supervisory Board member. Consequently a target of 20% was defined for

the reporting period commencing on 01 July 2017. The agreed deadline for reporting is 30 June 2022.

The Management Board of PAION AG comprises three members – Dr. James Phillips (CEO), Mr. Abdelghani Omari (CFO) and Dr. Jürgen Beck (CDO). There are no women represented on the Management Board. Given existing contractual obligations, the Supervisory Board had determined, in accordance with Section 111(5) Stock Corporation Act (AktG), that no female representation was mandated for the Management Board of PAION AG until expiration of the reporting period on 30 June 2017. The target stood as achieved. By resolution dated 19 June 2017, the Supervisory Board determined that owed to the specific circumstances of the company no representation of women on the Management Board of PAION AG was mandated until 30 June 2019. By resolution dated 21 May 2019, the Supervisory Board extended this resolution until 30 June 2021. Dr. James Phillips was appointed to the Management Board with effect from 16 October 2019. Effective 22 November 2019, Dr. Wolfgang Söhnngen retired from the Management Board.

In the reporting period that started on 1 July 2017, the Management Board of PAION AG had decided to reach a target of 20% share of women within the first and second management levels under the Management Board by 31 December 2019. The target was achieved with a quota of 31.6% as of 31 December 2019. In January 2020, the Management Board decided to reach a target of 35% share of women by 31 December 2021. Thus, the company as a whole sees a successful path in its efforts to strengthen the participation of women in the first and second management levels.

## Compliance as a key management duty of the Management Board

Compliance, in the sense of measures designed to ensure adherence to statutory provisions and internal company policies including observance of these measures, represents a key obligation in the PAION group. Pursuant to Section 91(2) of the German Stock Corporation Act, the Management Board is obliged to implement effective measures – namely a monitoring system – to enable the early identification of any developments

that may threaten the survival of the company. The German Corporate Governance Code stipulates the Management Board's responsibility for the implementation of a suitable risk management and control system.

The Management Board of a joint stock corporation is jointly and severally liable for the fulfilment of its organizational duties, especially risk management and risk control. The Management Board must define an organizational structure for the company ensuring that its operations comply with legal requirements. Any infringement of rights and legally protected interests of third parties must reasonably be excluded. A Management Board is only eligible for exemption from liability if it provides evidence of compliance with its organizational obligations.

One of the organizational obligations for the Management Board is represented by the formal assignment of business responsibilities defining the individual areas of responsibility for its members. This plan forms an integral part of the rules of engagement for the Management Board and must be approved by the Supervisory Board. In addition, regular meetings and consultations ensure that the members of the Management Board are well informed of any important developments. In case of any deficits and/or irregularities, the Management Board must collectively implement suitable countermeasures.

The Management Board must not delegate management tasks to lower levels of the organization. This excludes the vast majority of common operational tasks. The Management Board further delegated specific tasks to subordinate executives and expert members of staff in the Legal, Investor & Public Relations as well as Finance departments forming part of its efforts to comply with capital market statutes. These tasks and responsibilities are defined in the individual job descriptions. The members of staff that perform tasks related to compliance within capital market statutes are subject to ongoing monitoring, training and random checks.

All staff and members of the Management and Supervisory Board across the entire PAION Group of companies receive regular communications raising awareness of compliance with relevant financial market regulations. This includes, for

example, the handling of sensitive confidential information, specifically insider information.

## Transparency and communication

Good corporate governance is distinguished by open, transparent and up-to-date communications. PAION AG ensures this by posting ad-hoc reports on the company's website and by forwarding without delay all relevant information for publication to the relevant service providers (Business Register, Deutsche Börse, Federal Gazette, Europe-wide publication).

All inside information according to Section 17 Market Abuse Regulation (MAR), Directors' dealings notifications according to Section 19 MAR, press releases, publications of voting right notifications according to Section 40 Securities Trading Act, financial reports, information on the Annual General Meeting as well as information on the company's corporate governance principles can be accessed by the public on the company's website (<http://www.paion.com>). The website also features a financial calendar that provides information on the publication dates of the financial publications as well as an event calendar detailing upcoming presentations by the company. For all events and discussions, PAION AG ensures that no investor receives material information in a favorable manner and that the equal treatment of all shareholders is ensured. Information such as inside information announcements, press releases, quarterly releases, half-year reports and annual reports are also made available in English.

PAION AG reports regularly and promptly on the development of its business as well as the net assets, financial position and operational results for the entire group. The Annual Financial Report is published within 90 days from the end of the respective financial year.

Further information about transparency and communications can be found in the Investor Relations section of this Annual Report.

## Shareholders and Annual General Meeting

The shareholders of PAION AG are entitled to exercise their rights at the Annual General Meeting. Each share entitles the holder to one vote. The shareholders have the possibility to exercise their voting rights themselves or to appoint a proxy in writing. PAION AG implemented facilitating measures for the shareholders to exercise their voting rights by appointing a representative assisting in the exercise of shareholders' voting rights in accordance with their instructions. All reports and documents required to be made available for inspection in connection with the Annual General Meeting are also posted on the PAION webpage (<http://www.paion.com/medien-und-investoren/hauptversammlung/>).

## Auditing of the financial statements

The consolidated financial statements of PAION AG are drawn up by the Management Board in accordance with the International Financial Reporting Standards. Following vote at the Annual General Meeting, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, branch office (Zweigniederlassung) Cologne, ("Ernst & Young") was commissioned by the Supervisory Board to audit the annual and consolidated financial statements of PAION AG. It was agreed upon between the Supervisory Board and Ernst & Young that the auditor would report to the Chairman of the Supervisory Board or to the Chairman of the Audit Committee, without delay all findings and events essential for the fulfilment of the duties of the Supervisory Board that were discovered during the audit. Furthermore, the auditor is required to inform the Supervisory Board and the Audit Committee, or to include a note in the auditor's report, if he discovers any facts during the audit that are not consistent with the Declaration of Conformity issued by the Management Board and the Supervisory Board in accordance with section 161 of the German Stock Corporation Act. In regard to the audit of the consolidated financial statements and the audit and adoption of the financial statements by

the Supervisory Board we refer to the report of the Supervisory Board.

## Risk management

Good corporate governance involves the responsible handling of risks by the company. Details of the risk management system implemented by the PAION group of companies are outlined in the Group Management Report. Please refer to the section “Report on risks and opportunities”.

## Remuneration of the Management Board

The remuneration of the members of the Management Board Members is determined by the Supervisory Board. Regular reviews are conducted. The remuneration is comprised of a fixed component, a variable bonus, long-term performance-related remuneration components in the form of stock options, as well as contributions in terms of company car remuneration, insurance premiums and pension schemes.

In accordance with the statutory provisions, the remuneration of each individual member of the Management Board is disclosed in the Group Management Report under the section “Remuneration Report – Management Board“. Moreover, this section includes explanations of the kind and structure of the remuneration of the Management Board as well as details on commitments in case of the termination of the contract of Management Board members. Reference is made to the detailed statements in the Group Management Report, which forms an integral part of this Declaration on Corporate Governance.

## Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is laid down in the Articles of Association of PAION AG. Members of the Supervisory Board receive a basic remuneration and attendance fees in addition to the reimbursement of their expenses. Performance-related remuneration for the members of the Supervisory Board is not envisaged. The basic annual remuneration amounts to EUR 20,000 and the attendance fee to EUR 1,000 per meeting.

Conference calls that are held between the meetings are not taken into consideration in the calculation of the attendance fee. The Chairman of the Supervisory Board receives double and the Vice Chairman one and a half times the basic remuneration and attendance fee. The attendance fee is paid for a maximum of five meetings per year. The remuneration paid to each individual member of the Supervisory Board is presented in the Group Management Report in the section “Remuneration Report – Supervisory Board“. Reference is made to the detailed statements in the Group Management Report, which at the same time forms an integral part of this Declaration on Corporate Governance. The members of the Supervisory Board did not receive any remuneration or compensation for services rendered individually, in particular consultancy and agency services, in the financial year 2019.

## Share transactions by and shareholdings of the members of the Management Board and the Supervisory Board

In accordance with Section 19 MAR, members of the Management Board, the Supervisory Board and persons associated with them are required to disclose the selling or buying of PAION AG shares if the value of the combined transactions reaches or exceeds EUR 20,000 in any calendar year. These transactions are published by PAION AG immediately on the company’s website and notified to the Federal Financial Supervisory Authority. In fiscal year 2019, no notifiable transactions were reported.

As of 31 December 2019, Dr. Jürgen Beck held 0.02% (10,000 voting rights) of the shares in PAION AG. The remaining members of the Management Board, Dr. James Philips and Mr. Abdelghani Omari, and the members of the Supervisory Board did not hold any shares in PAION AG as of 31 December 2019.

## Share-based incentive systems

PAION AG introduced the Stock Option Plans 2008, 2010, 2014, 2016 and 2018 as remuneration components with long-term incentives and risk characteristics. The Stock Option Plans allow for stock options to be granted to members of the Management

Board as well as employees. The precise structure of the active plans, as e.g. waiting periods and exercise hurdles, as well as the options issued to date within the framework of these plans are presented in the notes to the Consolidated Financial Statements in section “Other Disclosures” under “Stock Option Plans”. Furthermore, the explanations in the Group Management Report in the section “Remuneration Report – Management Board” contain statements on the value of the options granted to the members of the Management Board. Reference is made to the statements in the notes to the Consolidated Financial Statements and the Group Management Report, which at the same time form an integral part of this Declaration on Corporate Governance.

Aachen, March 2020

**The Management Board of PAION AG**

Dr. James Phillips            Abdelghani Omari  
Dr. Jürgen Beck

**The Supervisory Board of PAION AG**

Dr. Jörg Spiekerkötter      Dr. Markus Leyck Dieken  
Dr. Karin Dorrepaal        Dr. Dr. Irina Antonijevic  
Dr. Chris Tanner