

PAION AR # 2021

Annual Report of PAION AG, Aachen



Transformation

Specialty pharmaceutical company in the fields of anesthesia and critical care



Key Consolidated Financial Figures, IFRS

(all figures in EUR K unless otherwise noted)	2021	2020
Profit and loss statement		
Revenues	7,128	19,655
Research and development expenses	-5,249	-10,288
General administrative and selling expenses	-19,828	-7,523
Net result	-21,786	2,222
Personnel expenses included therein	-7,083	-5,668
Number of shares outstanding (weighted average, basic)	69,949,884	65,721,395
Number of shares outstanding (weighted average, diluted)	70,161,716	66,133,456
Earnings per share in EUR (basic)	-0.31	0.03
Earnings per share in EUR (diluted)	-0.31	0.03
Balance sheet		
Intangible assets	19,653	1,829
Cash and cash equivalents	6,440	19,666
Equity	6,999	21,290
Current liabilities	10,985	6,845
Long-term liabilities	18,801	15
Balance sheet total	36,785	28,150
Cash flow		
Cash flow from operating activities	-21,178	906
Cash flow from investing activities	-19,205	-14
Cash flow from financing activities	27,147	-24
Employees		
Group employees (average)	51	43

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Dr. James (Jim) Phillips, Chief Executive Officer

- Graduated physician who also holds an MBA from the Cass Business School in London
- Over 20 years of experience in the international pharma business, with positions held in various projects especially in the build-up of commercial structures
- Responsible inter alia for Strategy, Commercial activities, Licensing, Business Development, IT and Fundraising



Abdelghani Omari, Chief Financial Officer

- Degree in Business Administration
- Has been responsible for and accompanied various capital market transactions and licensing agreements
- More than 20 years of experience in finance, before joining PAION he worked in audit and consulting at KPMG for several years
- Responsible inter alia for Finance and Accounting, Controlling, Tax, Legal and Compliance, Human Resources and Investor Relations



Sebastian Werner, Chief Financial Officer (as of Juni 2022)

- MBA, Finance and Controlling (BA)
- Over 20 years in management positions in the pharmaceutical and life science industry
- Responsible inter alia for Finance and Accounting, Controlling, Tax, Legal and Compliance, Human Resources and Investor Relations



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About PAION AG

PAION AG is a publicly listed specialty pharmaceutical company with innovative drugs to be used in hospital-based sedation, anesthesia and critical care services. PAION's lead compound is remimazolam, an intravenous, ultra-short-acting and controllable benzodiazepine sedative/anesthetic. PAION is rolling out remimazolam (Byfavo[®]) in selected European markets. Remimazolam is partnered in multiple territories outside of Europe. Remimazolam is approved in the U.S., the EU/EEA/UK, China and South Korea for procedural sedation and in Japan and South Korea for general anesthesia.

In addition, PAION markets two intensive care products in selected European countries: Angiotensin II (GIAPREZA[®]), a vasoconstrictor indicated for the treatment of refractory hypo-tension in adults with septic or other distributive shock, and eravacycline (XERAVA[®]), a novel fluorocycline type of antibiotic indicated for the treatment of complicated intra-abdominal infections in adults.

PAION's mission is to be a leading specialty pharmaceutical company in the fields of anesthesia and critical care by bringing novel products to market to benefit patients, doctors and other stakeholders in healthcare.

PAION is headquartered in Aachen (Germany).

PAION is listed at the Frankfurt Stock Exchange (Prime Standard Regulated Market, Stock Symbol PA8, ISIN DE000A0B65S3).

2021 at a glance

January

- PAION ANNOUNCES EXCLUSIVE LICENSING AGREEMENT WITH LA JOLLA PHARMACEUTICAL FOR ANGIOTENSIN II AND ERAVACYCLINE IN EUROPE
- ACACIA PHARMA LAUNCHES REMIMAZOLAM IN THE U.S. FOR PROCEDURAL SEDATION IN ADULTS UNDERGOING MEDICAL PROCEDURES LASTING 30 MINUTES OR LESS

March

- PAION GRANTS EXCLUSIVE LICENSE TO TTY BIOPHARM FOR DEVELOPMENT AND COMMERCIALIZATION OF REMIMAZOLAM IN TAIWAN

April

- PAION ANNOUNCES PRODUCT LAUNCH OF REMIMAZOLAM IN SOUTH KOREA BY HANA PHARM

June

- PAION RECEIVES UK MHRA APPROVAL OF REMIMAZOLAM FOR PROCEDURAL SEDATION

July

- PAION ANNOUNCES THAT NMPA ACCEPTS SUBMISSION OF NEW DRUG APPLICATION FOR REMIMAZOLAM BESYLATE IN GENERAL ANESTHESIA BY CHINESE LICENSEE YICHANG HUMANWELL
- PAION LAUNCHES ANGIOTENSIN II FOR THE TREATMENT OF REFRACTORY HYPOTENSION IN ADULTS WITH SEPTIC OR OTHER DISTRIBUTIVE SHOCK IN GERMANY

August

- PAION LAUNCHES REMIMAZOLAM IN THE UK FOR PROCEDURAL SEDATION
- HANA PHARM RECEIVES MARKET APPROVAL FOR REMIMAZOLAM IN PROCEDURAL SEDATION IN SOUTH KOREA

September

- PAION LAUNCHES ERAVACYCLINE FOR THE TREATMENT OF COMPLICATED INTRA-ABDOMINAL INFECTIONS IN ADULTS IN THE NETHERLANDS

- PAION SIGNS EXCLUSIVE UK SUPPLY AND DISTRIBUTION AGREEMENT WITH CLINIGEN
- PAION AG ANNOUNCES INITIATION OF PIVOTAL STUDY OF REMIMAZOLAM IN PEDIATRIC PROCEDURAL SEDATION

December

- PAION SUBMITS EXTENSION APPLICATION OF MARKETING AUTHORIZATION FOR REMIMAZOLAM IN THE INDICATION GENERAL ANESTHESIA TO THE EUROPEAN MEDICINES AGENCY

Letter to Shareholders



Dr. Jim Phillips
Chief Executive Officer of PAION AG

Dear Shareholders and Friends of PAION,

We look back on a very busy fiscal year 2021. For PAION, it continued to be characterised by the transformation into a commercial specialty pharmaceutical company. The transformation not only included the launch of remimazolam in the U.S. and Europe, but also new products in our portfolio, the development of new markets, changes in partnerships and ongoing development of our organisation. The COVID 19 pandemic and its ripples continued to be part of the daily life of our staff and our partners and had to be managed again and again. We and our licensees were confronted with hospital staff who still had to cope with major challenges, especially in the intensive care sector.

We are all the more pleased that we have reached many important milestones and goals. We have worked on financing for the expansion of our European sales teams and were able to secure a significant part of the funding in early 2022. We are now investing further in our own sales growth.

Significant progress in our product portfolio

With the expansion of our product portfolio for Europe in early 2021 and the sales launch of remimazolam, angiotensin II and eravacycline in selected European countries in the second half of the year, we have significantly advanced PAION's transformation into a commercial specialty pharma company.

We know from feedback from international customers that we have a competitive and clinically interesting product in remimazolam. We are therefore also very proud that we were able to report our own regulatory success in 2021 with the approval of remimazolam in procedural sedation by the European Commission, which paved the way for our own market launch of the product. Based on the positive results of the phase III study in general anaesthesia, we submitted an extension of the marketing authorisation application for remimazolam for this indication at the end of 2021. We now look forward to a good collaboration with the EMA during the review process. Anaesthesia products are in demand. This is confirmed by increased demand due to the pandemic and global supply chain issues, so we want to make remimazolam available to patients in Europe in this indication as soon as possible.

The establishment of our own distribution structure in selected European countries was only possible with a complementary product portfolio for anaesthesia and intensive care. The critical care products angiotensin II, licensed from La Jolla Pharmaceutical in January 2021 for the treatment of refractory hypotension in adults with septic or other distributive shock, and eravacycline, an antibiotic for the treatment of complicated intra-abdominal infections in adults, are new, approved therapeutic options in Europe.

PAION starts important product launches in Europe

We started the commercialization of our novel products for anaesthesia and intensive care in Europe in the second half of 2021, staggered by country. Remimazolam was first launched in the UK and shortly afterwards in the Netherlands and Denmark. We plan for remimazolam to be available in most core European markets by late 2022/early 2023. Angiotensin II was initially launched in Germany in 2021 and expanded to the Netherlands and Austria in early 2022. And we first launched eravacycline in the Netherlands in September 2021. The first applications of the products provided positive customer feedback and indicate good market acceptance. We are very pleased about this and see that we are on the right track despite the ongoing corona pandemic.

Remimazolam reaches milestone in the U.S. and potential transaction holds out the prospect of positive sales development

In the USA, our licensee Acacia started marketing remimazolam in the indication procedural sedation at the beginning of 2021. Acacia reports that initial market response was positive, but access to clinics and prescribers was severely limited by COVID-19. Acacia achieved its annual target of adding remimazolam to a total of 150 customer accounts by the end of 2021. It was recently reported that Eagle Pharmaceutical made an offer to acquire Acacia. In the event that this takeover should come about, the licence agreement will remain unchanged and would be transferred to Eagle Pharmaceutical. Eagle Pharmaceutical is a publicly traded U.S. specialty pharmaceutical company with sales of over USD 180 million in critical care, oncology and rare diseases. We expect that this proposed transaction would have

a positive impact on the sales development of remimazolam in the U.S. and that we will also enter into discussions with the potential partner regarding the available licence in general anaesthesia.

Partnerships in Asia develop positively for Remimazolam

In China, sales for Remimazolam did well in 2021. Then, in early 2022, we entered into a patent assignment agreement with Humanwell. We thereby assigned all Chinese remimazolam patents and sell the associated future royalties on sales in China to Humanwell for EUR 20.5 million. We are pleased to have entered into this agreement with Humanwell. This significant, non-dilutive financing will allow us to further invest in the expansion of our European sales teams for our three approved products in anaesthesia and intensive care.

In South Korea, our partner Hana Pharm has started the commercialization of remimazolam after first receiving market approval in general anaesthesia and later in procedural sedation. Hana Pharm is pursuing a local market launch and positioning strategy and reports that interest from the Korean anaesthesia community is strong: Hana Pharm is currently supporting numerous investigator-initiated trials in Korean hospitals, including such prestigious institutions as Seoul National University and Samsung Seoul Hospital. In addition, Hana Pharm recently completed its new production facility. The total investment was around EUR 43 million. The new facility introduced a freeze-dried injection line for the mass production of Remimazolam and a BFS (Blow Fill Seal) system for the automated production of plastic ampoules.

PAION seizes opportunities in partnerships and expands partner network in new markets

In addition, we have continuously reviewed our licensing agreements and terminated two contracts and simultaneously concluded new licensing or cooperation agreements for additional territories.

We terminated the licence agreement with Russia's R-Pharm after R-Pharm failed to pay outstanding milestones. In Canada, we have agreed with Pharmascience to terminate the licensing agreement by mutual consent.

In Taiwan, we entered into a licensing agreement for Remimazolam with TTY Biopharm in 2021. Then in February 2022 we entered into an exclusive cooperation agreement with Medis, d.o.o. for the supply, distribution, marketing and sales of remimazolam, angiotensin II and eravacycline for Eastern Europe and in April 2022 we signed a licensing agreement with Cristalia in Latin America for remimazolam. We look forward to working together.

Foundations laid for commercially successful company

Bringing products to market during a pandemic was and is a challenge. But we are looking forward to what lies ahead. We have transformed PAION into a commercially focused company. To do this, we have built the supply chain to ensure the supply of remimazolam active ingredient to our licensees and the supply of finished product for our own commercialisation. We have put in place the necessary structures and processes and obtained the necessary pharmaceutical approvals to enable us to move supplies quickly to where they are needed. We have established our own commercial structures in certain core countries in Western Europe, including Germany, the UK, the Netherlands, Denmark, with more countries to follow. PAION's focus in 2022 will be on the commercialisation of remimazolam, angiotensin II and eravacycline and the associated further development of a distribution infrastructure in selected European countries. By the end of 2022/early 2023, commercialisation is expected to have started in the core countries. A special milestone is expected at the end of 2022/beginning of 2023 with the EMA's decision on the extension application of the marketing authorisation for remimazolam for general anaesthesia.

Due to the investments in sales and marketing, PAION closed the fiscal year 2021 with a negative net result, as forecasted. With the launches of remimazolam, angiotensin II and eravacycline already completed - and those planned for 2022 - we expect to increase revenues and royalties as these much-needed hospital products gain traction. However, we will still be loss-making in 2022 with all the planned commercial activities as we continue to invest in product launches. Our goal is to be sustainably profitable and break even from 2024 onwards.

We are proud of what we have achieved at PAION 2021 and in the first months of 2022. I would like to thank our shareholders for your continued support and the great trust you have placed in us. My sincere thanks also go to our partners who have continued to work tirelessly to advance remimazolam and bring it to market in their territories. We look forward to their successes and to more news throughout the year.

I would also like to express my great appreciation to our employees and our outgoing Management Board member Mr Abdel Omari, whose hard work and commitment played a major role in PAION's success last year. With Mr Sebastian Werner, however, a successor for Mr Omari is already ready. With his many years of international expertise in the pharmaceutical industry, Sebastian Werner is an excellent addition to the PAION AG Management Board. He will use his previous management responsibility in the financial area and his market experience to master future challenges and successfully develop PAION further. I look forward to working together to make PAION a leading specialty pharma company in anaesthesia and critical care and to positively impact patients' lives.



Your Jim Phillips
Chief Executive Officer

Business Model

Strategic focus to become a specialty pharmaceutical company further continued

PAION AG is a publicly listed specialty pharmaceutical company with innovative drugs to be used in hospital-based sedation, anesthesia and critical care services.

PAION's mission is to be a leading specialty pharmaceutical company in the fields of anesthesia and critical care by bringing novel products to market to benefit patients, doctors and other stakeholders in healthcare.

Remimazolam

Remimazolam is an ultra-short-acting intravenous benzodiazepine sedative/anesthetic. In the human body, remimazolam is rapidly metabolized to an inactive metabolite by tissue esterases and is not metabolized by cytochrome-dependent hepatic pathways. Like other benzodiazepines, remimazolam can be reversed with flumazenil to rapidly terminate sedation or anesthesia if necessary. Data demonstrate that remimazolam has a rapid onset and offset of action combined with a favorable cardio-respiratory safety profile.

Remimazolam is approved in the U.S., the EU/EEA and China for procedural sedation and in Japan and South Korea for general anesthesia.

In addition to procedural sedation and general anesthesia, intensive care unit (ICU) sedation is another possible indication for remimazolam.

Remimazolam is partnered in the U.S. (brand name BYFAVO™) with Acacia Pharma (Acacia), in Japan (brand name Anerem®) with Mundipharma, in South Korea (brand name Byfavo™) and Southeast Asia with Hana Pharm and in Taiwan with TTY Biopharm. For all other markets except the European core markets and China, remimazolam is available for licensing.

Remimazolam Market

Market potential

Based on own projections, PAION estimates the maximum annual revenue potential from royalties under the collaboration agreements based on peak sales in territories outside Europe to amount to approx. EUR 35 million, leading to a total annual revenue potential of remimazolam to PAION of EUR 125 million. This total includes the peak sales potential from our own commercialization efforts, of which approx. EUR 40 million to EUR 50 million account for sales potential in the indication procedural sedation and EUR 50 million to EUR 60 million account for sales potential in the indication general anesthesia.

Procedural Sedation Market (U.S. + Europe)

For the U.S., local licensee Acacia estimates that currently more than 40 million procedural sedations are performed annually. The growth of the procedural sedation market in the U.S. has been driven for many years by the increase in medical procedures involving procedural sedations, such as colonoscopies, as well as by an increasing general demand for screening. According to Acacia, approximately 25 million colonoscopies and endoscopies are performed annually in the United States. Acacia states that more than 80% of colonoscopies and endoscopies are performed in the presence of personnel trained in anesthesia. The price (WAC) is reported by Acacia to be USD 39 per dose. Overall, the total market in procedural sedation is more than USD 1.5 billion per year, according to Acacia.

In Europe, based on its own projections for procedural sedation, PAION currently estimates an annual peak sales potential of approx. EUR 70 million to approx. EUR 80 million. In contrast to the U.S. market which has a large freestanding ambulatory surgery healthcare infrastructure, procedural sedation in Europe is mainly a hospital-based activity where anesthesiologists have the overall responsibility for the sedation of patients. This entails a high potential for synergies with the planned commercialization of remimazolam for use in general anesthesia. In addition, the area of day surgery is also growing in Europe, so that PAION expects a steady growth of procedural sedation procedures

in Europe as well. One driver of this development is the establishment and further spread of colorectal cancer screening (diagnostic colonoscopies) and so important users here are also proceduralists, e.g. gastroenterologists. Another, short-to-mid-term driver is the backlog of patients being untreated throughout the COVID-19 pandemic causing a need for a product such as remimazolam increasing process efficiency.

General Anesthesia Market (Europe)

Based on publicly available European procedure statistics and market research, PAION estimates that in Europe, approximately 29 million procedures requiring general anesthesia are performed each year. Of these, approximately 10 million are performed for high-risk patients (American Society of Anesthesiologists (“ASA”) classifications III or higher) who are particularly prone to hemodynamic instability. Approx. 55% of all anesthetics are balanced anesthesia (a combination of intravenous agents for induction and volatile gases for maintenance), approx. 20% are total intravenous anesthetics (“TIVA”) using propofol, and the remaining approx. 25% include regional anesthesia (for example epidural administration). Based on PAION’s market research, in Europe, the current standard-of-care drugs for general anesthesia are propofol (especially for induction) and narcotic gases; mostly used in conjunction with intravenous opioids.

PAION anticipates an increasing number and complexity of medical interventions requiring induction and maintenance of anesthesia in Europe in the future particularly driven by an ongoing aging of the population and the progress of surgical techniques. General anesthesia is more frequently offered to elderly patients than in the past, therefore the choice of a tailored anesthesia is made depending on the type of surgery, the underlying disease, and an assessment of the general physical health of the patient, including co-morbidities.

Accordingly, PAION believes that in Europe the demand for safer agents with low respiratory and cardio-depressive effects will increase over the coming years, creating opportunities for anesthetics with an enhanced safety profile such as remimazolam, even at higher prices compared to existing generic drugs. In Europe, based on its own projections, PAION currently estimates an annual peak sales potential of approx. EUR 80 million to approx. EUR 90 million for general anesthesia.

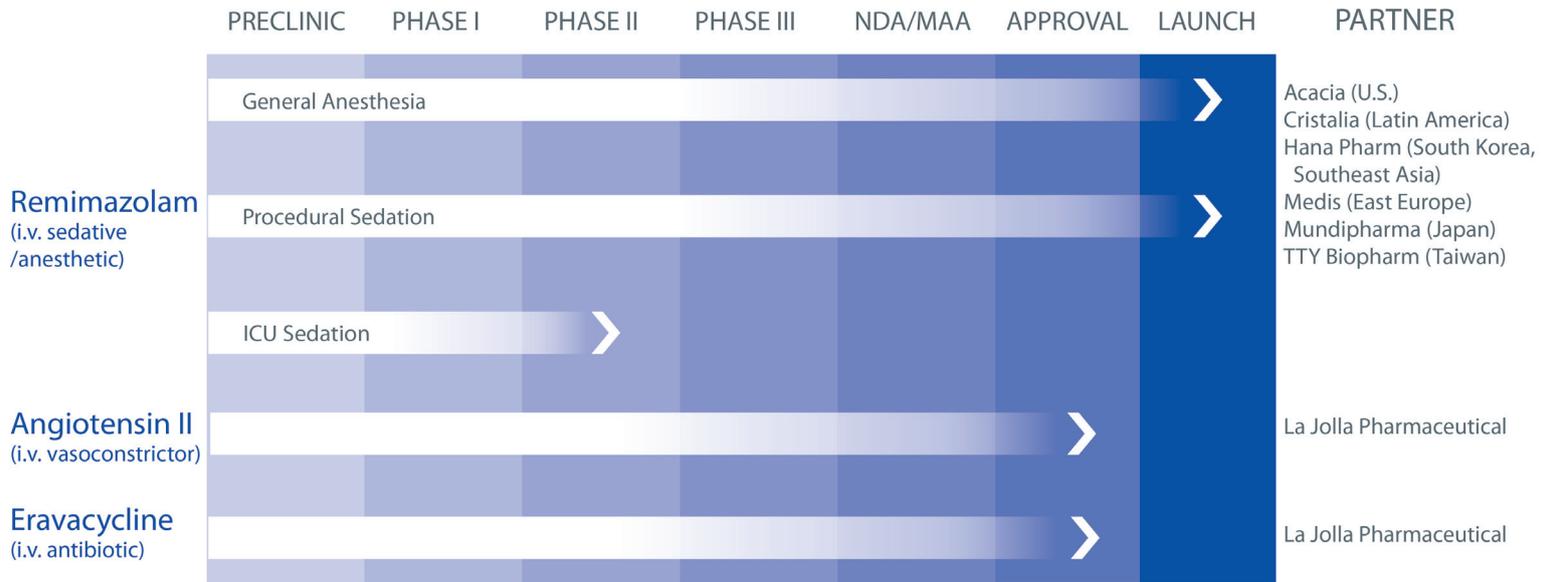
In adults, myocardial injury during noncardiac surgery (MINS) is the most common cardiovascular complication associated with such surgery. Investigations conclude that MINS occurs in about 8% of the approximately 200 million patients yearly worldwide and leads to an increased morbidity. Approximately 10% of patients suffering such injury die within 30 days after surgery. The suspected cause of this is, inter alia, a (too) low blood pressure and a concomitant temporary undersupply of the heart muscle with oxygen during the procedure. Based on the safety data available to date, remimazolam could contribute significantly to reducing this mortality rate by reducing intraoperative blood pressure drops.

An emerging market driver is the requirement of hospitals to consider their carbon footprint and ecological impact. To that regards, volatile gases used in anaesthesia are a major negative contributor leading to a more common use of TIVA and hence an enlarged market opportunity for remimazolam as an intravenous anaesthetic

Intensive Care Unit (ICU) Sedation Market

Based on available information from 2012 published in Critical Care Medicine which estimates average days of care in ICUs per year in the U.S., and journal articles published in the Intensive Care Medicine in 2012, which records, among others, the volume of ICU admissions per year and the number of total adult beds in various countries in the EU, PAION estimates that there are at least 14 million ICU patient days requiring ICU sedation in the U.S. and Europe combined per year. A publication published in 2013 on the basis of eight EU countries comes to an extrapolated figure of 17.5 million patient days (not necessarily sedated) for the EU alone. PAION expects these numbers to increase in the years to come, driven by demand from the aging population both in the USA and in Europe. PAION believes that such development, in turn, will foster demand for safer agents such as remimazolam, given the fact that elderly patients are much more likely to suffer from systemic health problems.

Portfolio Overview



Remimazolam cooperations

Remimazolam is partnered in the U.S. (brand name BYFAVO™) with Acacia Pharma (Acacia), in Japan (brand name Anerem®) with Mundipharma, in South Korea (brand name Byfavo™) and Southeast Asia with Hana Pharm and in Taiwan with TTY Biopharm. For all other markets except European core markets and China, remimazolam is available for licensing.

For detailed information on partnering, please refer to page 41 et seq.

Portfolio extension

With the addition of Angiotensin II and Eravacycline to its commercial portfolio PAION has begun to establish its own commercial structures in certain core countries in Western Europe including Germany, UK, Netherlands and Denmark with more to follow to market Angiotensin II and Eravacycline together with remimazolam. PAION has launched all three products in a staggered manner by country beginning in the second half of 2021 so

that by the end of 2022, launches will have been conducted in all selected European markets.

Angiotensin II (GIAPREZA®)

Angiotensin II for injection is an FDA-approved vasoconstrictor to increase blood pressure in adults with septic or other distributive shock. Angiotensin II is approved by the European Commission and the UK Medicines Agency for the treatment of refractory hypotension in adults with septic or other distributive shock who remain hypotensive despite adequate volume restitution and application of catecholamines and other available vaso-pressor therapies. Angiotensin II mimics the body's endogenous angiotensin II peptide, which is central to the renin-angiotensin-aldosterone system, which in turn regulates blood pressure.

Angiotensin II raises blood pressure by vasoconstriction; increased aldosterone release via direct action of angiotensin II on the vessel wall is mediated by binding to the G-protein-coupled angiotensin II receptor type 1 on vascular smooth muscle cells which stimulates Ca²⁺/calmodulin dependent phosphorylation of myosin and causes smooth muscle contraction.

The pivotal phase III trial of angiotensin II for the treatment of high-output shock (ATHOS-3) was a randomized, placebo-controlled, double-blind, international, multicenter Phase III safety and efficacy trial in which 321 adults with septic shock or other distributive shock who had hypotension despite fluid and vasopressor therapy were randomized 1:1 to angiotensin II or placebo. The primary efficacy endpoint, an increase in blood pressure, was achieved by 70% of patients randomized to angiotensin II compared with 23% of patients treated with placebo; $p < 0.0001$ (a treatment effect of 47%).

The European Summary of Product Characteristics is available on the EMA website: www.ema.europa.eu/en/medicines/human/EPAR/giapreza.

In 2021, a benefit assessment was conducted by the Federal Joint Committee (G-BA), which was completed at the beginning of 2022. The G-BA commissioned the Institute for Quality and Efficiency in Health Care (IQWiG) with the benefit assessment of the active substance angiotensin II in accordance with Section 35a of the German Social Code (SGB V). The assessment is based on a dossier submitted by PAION to IQWiG on 15 July 2021. The G-BA came to the conclusion that there is no evidence of an additional benefit. However, following discussions with the Federal Institute for Drugs and Medical Devices (BfArM) and on the basis of the European public assessment report (EPAR), the G-BA also came to the conclusion that the indication can be interpreted as second- and third-line therapy. Following the public hearing, IQWiG was asked to assess the third-line subpopulation. This showed an additional benefit in terms of mortality and was published as an addendum to the decision. PAION then entered into price negotiations with the umbrella organisation of the statutory health insurance funds to determine the maximum reimbursable price for the product. This should come to a conclusion in 2022.

PAION launched angiotensin II in Germany in July 2021 and in the Netherlands in January 2022. In Austria it is commercially available since February 2022.

In Europe, PAION currently estimates a peak sales potential of approximately EUR 50 million per year based on its own projections.

Eravacycline (XERAVA®)

Eravacycline for injection is a novel fluorocycline of the tetracycline class. Eravacycline is an antibiotic used to treat complicated intra-abdominal infections (cIAI) in adults. According to the Infectious Diseases Society of America (IDSA), cIAI is defined as an infection that extends beyond the wall of a hollow viscus of origin into the abdominal cavity while being associated with an abscess or peritonitis.

The mechanism of action of eravacycline is to interfere with bacterial protein synthesis by binding to the ribosomal subunit 30S, thereby preventing the incorporation of amino acid residues into extended peptide chains.

Eravacycline has been shown to be as effective as alternative antibiotics in two main trials in adults with cIAI. The main indicator of efficacy in both trials was the cure rate of infections. In the first trial, involving 538 patients, eravacycline was compared with ertapenem (another antibiotic). After about one month, 87% of patients treated with eravacycline were cured of their infection, compared with 89% of patients treated with ertapenem. In the second trial, involving 499 patients, eravacycline was compared with meropenem (a carbapenem antibiotic commonly used in Europe in this indication). After about one month, 92% of patients treated with eravacycline and 92% of patients treated with meropenem were cured of their infection.

Eravacycline is FDA-approved for the treatment of complicated abdominal infections in patients 18 years of age and older. Eravacycline is approved by the European Commission and the UK Medicines Agency for the treatment of abdominal infections in adults. Consideration should be given to official guidance on the appropriate use of antibacterial agents.

The European Summary of Product Characteristics is available on the EMA website: https://www.ema.europa.eu/en/documents/product-information/xerava-epar-product-information_en-0.pdf.

PAION launched eravacycline in the Netherlands in September 2021. In Europe, PAION currently estimates a peak sales potential of approximately EUR 25 million to approximately EUR 35 million annually based on its own projections.

Report of the Supervisory Board



Dr. Jörg Spiekerkötter
Chairman of the Supervisory Board of PAION AG

Dear Shareholders,

In the 2021 financial year, the Supervisory Board performed the duties incumbent upon it in accordance with the law, the Articles of Association and the Rules of Procedure and intensively accompanied the management of the business by the Executive Board in fulfilment of its advisory and supervisory function. The Supervisory Board was directly involved in all decisions of fundamental importance for the company. In the course of fulfilling its duties, the Supervisory Board received regular, timely and comprehensive reports from the Management Board on corporate planning, the situation and development of the company and the Group, as well as on all significant business transactions, both in writing and verbally.

The Supervisory Board voted on the decisions or measures of the Management Board that required its approval according to the law, the Articles of Association or the Management Board's rules of procedure, as well as on other decisions of fundamental importance, after careful examination and consultation. In addition to the reports of the Management Board, the Chairman of the Supervisory Board maintained continuous contact with the Executive Board. The Chairman of the Supervisory Board was informed about the current business development, the liquidity situation, the course of business activities and other important business transactions.

Meetings of the Supervisory Board and focal points of the deliberations

In the 2021 financial year, a total of five Supervisory Board meetings took place, which were held as virtual meetings. All Supervisory Board meetings were attended by all Supervisory Board members, with the exception of one meeting in which one Supervisory Board member was unable to attend.

The Supervisory Board has formed an Audit Committee consisting of Dr Jörg Spiekerkötter, Dr Chris Tanner and Dr Markus Leyck Dieken. Dr Chris Tanner is the chairman of the audit committee and fulfils all the requirements of § 100 para. 5 AktG.

The Supervisory Board has formed a Personnel and Nominating Committee, to which Dr Jörg Spiekerkötter, Dr Karin

Dorrepaal and Dr Chris Tanner belong. Dr Karin Dorrepaal is the chairperson of this committee.

The Supervisory Board has formed a Research and Development Committee, to which Dr Karin Dorrepaal, Dr Irina Antonijevic and Dr Markus Leyck Dieken belong or belonged. Dr Irina Antonijevic was chairperson of this committee until her retirement. After her retirement from the Supervisory Board in January 2022, a decision has not yet been made on her successor as Chair of the Research & Development Committee.

There are currently no other committees.

The main focus of the meetings of the Supervisory Board in the 2021 business year was on the following topics:

- The strategic orientation of the PAION Group
- The financing of the PAION Group
- The in-licensing of the products Angiotensin II and Eravacyclin
- The progress of the marketing authorisation applications for Remimazolam
- The phase III development programme with Remimazolam in Europe
- The opportunities for optimal commercialisation of PAION's products, either through licensees or through own commercialisation in selected territories
- The composition of the Management Board and the staffing of the PAION Group
- Impact of the coronavirus pandemic on the PAION Group's business activities

The budget for 2021 prepared by the Management Board and the budget planning for 2022 were reviewed in detail and approved by the Supervisory Board. The strategic orientation was discussed, reviewed and adjusted on the basis of medium and long-term corporate planning. Special attention was also paid to the company's risk situation and risk management.

The Management Board regularly informed the Supervisory Board about the PAION Group's net assets, financial position and results of operations. This was based on the monthly financial reports provided in a timely manner, the interim statements, the half-yearly and annual financial reports as well as variance analyses in relation to planning.

The Audit Committee discussed the half-year report and the interim statements with the Executive Board prior to their publication.

Conflicts of interest of the members of the Supervisory Board pursuant to Recommendation E.1 of the German Corporate Governance Code (version of 16 December 2019) did not occur in the 2021 financial year.

The Audit Committee held four meetings in the 2021 financial year and dealt in particular with the following topics:

- The accounting of the Company and the PAION Group
- Significant accounting matters
- The selection of a new auditor after the previous auditor could no longer be the auditor of PAION AG due to exceeding the fee cap
- The issuing of the engagement to the auditor and the determination of focal points of the audit
- The monitoring of the accounting process, the effectiveness of the risk management system and the internal control system.

The members of the Committee attended all meetings of the Committee, with the exception of two meetings, at each of which one member was absent.

The Personnel and Nominations Committee held three meetings in the fiscal year 2021 and dealt in particular with the composition of the Management Board and the Supervisory Board, the staffing of the PAION Group, and the remuneration system for the Management Board. All committee members attended all meetings of the committee.

The Research and Development Committee held one meeting in the 2021 financial year and dealt in particular with the European Remimazolam Phase III development programme in the indication of general anaesthesia. The committee members attended the committee meeting in full.

Changes in the Supervisory Board

The Supervisory Board and the Management Board have unanimously proposed to the Aachen District Court the appointment of Mr Michael Schlenk to the Supervisory Board after Dr Irina Antonijevic resigned from the Supervisory Board on 27 January 2022 in order to appoint a candidate for the chairmanship of the Supervisory Board in Mr Schlenk at an early stage.

The long-standing Chairman of the Supervisory Board, Dr Jörg Spiekerkötter, will retire from the Supervisory Board at the next Annual General Meeting in May 2022 after 15 years with the expiry of his mandate. The Supervisory Board and Management Board will propose to the Annual General Meeting in May 2022 that Mr Schlenk be elected to the Supervisory Board.

The Supervisory Board would like to thank Dr. Dr. Antonijevic who, in her role as Chair of the R&D Committee, has made a valuable and significant contribution to the successful development of remimazolam and, most recently, to the transformation of PAION AG into a commercially successful specialty pharma company with her extensive experience. The Supervisory Board would particularly like to thank Dr. Dr. Antonijevic for her willingness to step down from her mandate in January 2022 before it expires in May of this year, thus enabling a smooth transition for the Chairmanship.

Changes in the Management Board

Sebastian Werner was appointed by the Supervisory Board as a new member of the Management Board in the position of Chief Financial Officer of PAION AG with effect from 1 June 2022.

Sebastian Werner will thus succeed Abdelghani Omari, who, at his own request and by mutual agreement, will prematurely resign from his Management Board mandate, which expires on 31 December 2022, with effect from 31 August 2022 and will leave the Company's Management Board to pursue new management opportunities in the future. The Supervisory Board would like to thank Mr Omari for the trustful cooperation, his successful work and his great commitment to PAION over the past 14 years.

Corporate Governance

The term "corporate governance" stands for transparent corporate management oriented towards long-term value creation. The Supervisory Board follows the principles of the German Corporate Governance Code ("Code"). In December 2021, the Supervisory Board and the Executive Board jointly issued an updated Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG) and subsequently made it permanently available to shareholders on the company's website at <https://www.paion.com/medien-investoren/corporate-governance/>

[entsprechenserklärung/](https://www.paion.com/medien-investoren/corporate-governance/erklaerung-zur-unternehmensfuehrung/) and subsequently made it permanently available to the shareholders on the Company's website. Since issuing the last Declaration of Conformity in December 2020, PAION AG has complied with all recommendations of the German Corporate Governance Code as amended on 16 December 2019 (effective since publication in the Federal Gazette on 20 March 2020) with the exception of the recommendations in F.2 regarding the timing of the public disclosure of mandatory interim financial information and in C.5 regarding the number of mandates held by Supervisory Board members. Information on corporate governance at PAION AG can be found in the corporate governance statement jointly prepared by the Supervisory Board and the Management Board in the annual report. The corporate governance statement can be viewed on the company's website at <https://www.paion.com/medien-investoren/corporate-governance/erklaerung-zur-unternehmensfuehrung/> can be viewed.

Annual and consolidated financial statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne branch, ("Ernst & Young") was appointed by the Annual General Meeting on 27 May 2021 as auditor and group auditor for the financial year 2021. Ernst & Young's independence was confirmed to us in writing prior to the Annual General Meeting. In September 2021, however, Ernst & Young had to resign from its mandate as Ernst & Young had exceeded the fee cap for permissible non-audit services and could no longer be appointed as auditors of PAION AG for the fiscal year 2021. In January 2022, the competent local court in Aachen appointed Baker Tilly GmbH & Co KG Wirtschaftsprüfungsgesellschaft, Munich branch, ("Baker Tilly") as auditor and group auditor for the fiscal year 2021. Baker Tilly audited the annual and consolidated financial statements of PAION AG, the management report and the group management report for the fiscal year 2021 prepared by the Management Board and issued an unqualified audit opinion. The consolidated financial statements were prepared in accordance with Section 315e of the German Commercial Code (HGB) on the basis of the International Financial Reporting Standards (IFRS).

All members of the Supervisory Board received the financial statement documents and the auditor's reports in good time before the Supervisory Board's balance sheet meeting on 29 March 2022 and dealt with these documents in detail in preparation for this meeting. At the balance sheet meeting,

the Supervisory Board discussed and reviewed the annual and consolidated financial statements of PAION AG, the management report and the group management report. The assessments made by the Management Board in the management report and group management report were consistent with the Management Board's previous reports to the Supervisory Board and also corresponded to the Supervisory Board's own assessment. The auditor also participated in the balance sheet meeting. He reported on the audit, in particular that there were no significant weaknesses in the internal control and risk management system with regard to the accounting process, reported on the focal points of the audit and was available to the Supervisory Board for additional questions and information.

The Supervisory Board takes note of and approves the audit reports of the annual and consolidated financial statements as well as the management report and the consolidated management report. After its own examination, the Supervisory Board raises no objections and approves the annual and consolidated financial statements prepared by the Management Board. The annual financial statements are thus adopted.

The Supervisory Board thanks the members of the Management Board and all employees for their great commitment and for their achievements in the 2021 financial year.

Aachen, March 2022

For the Supervisory Board

A handwritten signature in black ink, appearing to read 'J. Spiekerkötter', written in a cursive style.

Dr. Jörg Spiekerkötter
Chairman

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 www.paion.com/media-investors/corporate-governance/declaration-on-corporate-governance. The Management Board and the Supervisory Board jointly prepare the Declaration on Corporate Governance and are each responsible for the parts of the report that concern them.

The Declaration on Corporate Governance is combined for PAION AG and the Group. Accordingly, the statements apply equally to PAION AG and the Group, unless otherwise stated below.

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 2020, 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 (<http://www.paion.com/media-investors/>

[corporate-governance/declaration-of-conformity](#)) alongside now outdated Declarations of Conformity from previous years.

Since issuing the last declaration of conformity in December 2019, PAION AG has complied with all recommendations of the German Corporate Governance Code 16 December 2019 (effective since publication in the Federal Gazette on 20 March 2020) with the exception of the recommendation in F.2 with regard to the time of public disclosure of the mandatory financial information during the year and in C.5 regarding the number of mandates of the members of the Supervisory Board. The Declaration of Conformity from December 2021 with the details is reproduced below.

Declaration of Conformity with German Corporate Governance Code

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 annually declare that the company has complied and will comply 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 issuing the last declaration of conformity in December 2020, PAION AG has complied with all recommendations of the Code as published on 20 March 2020 („DCGK 2019/2020“), with the exception of the following deviations.

– Recommendation F.2 DCGK 2019/2020:

According to recommendation F.2 DCGK 2019/2020, the consolidated financial statements and the group management report shall be publicly accessible within 90 days of the end of the financial year and the mandatory financial information during the year shall be publicly accessible within 45 days of the end of the respective reporting period.

The company has not complied with recommendation F.2 DCGK with regard to the time of public disclosure of the mandatory financial information during the year, beginning with the half-year report 2021. The deviation from the recommendation is due to the following fact:

The sales reports of the remimazolam licensees, which are essential for the half-yearly reports, may only be expected at the end of July of each year at the earliest. To ensure that this information, important for the half-year reports, is always considered, the company will also not comply with recommendation F.2 DCGK 2019/2020 regarding the timing of the public disclosure of the mandatory interim financial information in the future.

– Recommendation C.5 DCGK 2019/2020:

“Supervisory Board Members, who are members of the Management Board of a listed company, shall not have, in aggregate, more than two Supervisory Board mandates in non-group listed companies or comparable functions, and shall not accept the Chairmanship of a Supervisory Board in a non-group listed company”.

Dr. Chris Tanner, member of the Supervisory Board of PAION AG, was a member of the management board of the listed company Cassiopea SpA. until the end of 2020 and had more than two further Supervisory Board mandates in non-group listed companies or comparable functions. With the departure of Dr. Tanner from the Management Board with effect of 31 December 2020 of the listed company, PAION AG complies with recommendation C.5 of the Code.

PAION AG will continue to comply with the recommendations of the DCGK 2019/2020 with the aforementioned deviation from recommendation F.2.

Aachen, December 2021

The Supervisory Board of PAION AG

For the Supervisory Board:

Dr. Jörg Spiekerkötter, Chairman of the Supervisory Board

The Management Board of PAION AG

Dr. James Phillips, Chairman 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 www.paion.com/media-investors/corporate-governance/code-of-conduct 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 has a dual management and control structure with two bodies, the Management Board and the Supervisory Board. The Management Board currently consists of two members who are jointly responsible for the management of the company. The Supervisory Board appoints, monitors and advises the Management Board and is directly involved in decisions that are of fundamental importance to the company. In accordance with the Articles of Association, the Supervisory Board consists of five members. Since the Supervisory Board member Dr. Irina Antonijevic resigned from office in January 2022, the Supervisory Board consists of the following four members:

- Dr Jörg Spiekerkötter (Chairman), member of the Supervisory Board since 2007
- Dr Karin Dorrepaal (Deputy Chairperson), member of the Supervisory Board since 2012
- Dr Chris Tanner, member of the Supervisory Board since 2017
- Dr Markus Leyck Dieken, member of the Supervisory Board since 2019

The Supervisory Board will propose to the Annual General Meeting on 25 May 2022 to appoint Mr. Michael Schlenk as Supervisory Board member to succeed Dr Dr Antonijevic.

Regarding the composition of the Supervisory Board, the Supervisory Board pays attention primarily to the qualification of candidates, their experience and internationality, as well as to the principle of diversity, specifically the representation of women. 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. Taking into consideration the specific circumstances of PAION AG, the Supervisory Board adopted the following objectives regarding its composition.

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 ("Competence Profile"). The competence profile includes:

- 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. licensing 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 a 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 2021 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 long-standing 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 which was chaired by Dr. Dr. Irina Antonijevic. After her retirement from the Supervisory Board in January 2022, no decision has yet been taken on the succession to the Chair of the Research & Development Committee. 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 ("self-assessment"). The Supervisory Board lastly conducted such a self-assessment of the effectiveness of its work and the work of its committees in January 2021 using the checklist[1] 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 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 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 in accordance with Recommendation E.1 of

the German Corporate Governance Code in the version dated 16 December 2019 were reported in financial year 2021.

Both members of the Management Board are also Managing Directors of PAION Deutschland GmbH, PAION Holdings UK Ltd and its subsidiaries as well as of PAION Netherlands B.V. and PAION Scandic ApS. 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

When appointing Executive Board members, selecting Supervisory Board members and filling management positions, the Supervisory Board and Executive Board aim to achieve an appropriate representation of women in these positions.

In a resolution passed in June 2017, the Supervisory Board decided that at least one woman should be a member of the Supervisory Board, consisting of five members in total. Consequently, a target of 20% female representation was set for the reporting period that began on 1 July 2017. The deadline set for achieving the target ends on 30 June 2022. Until the departure of Dr. Dr. Antonijevic in January 2022, two out of five Supervisory Board seats were occupied by a woman, resulting in a representation of 40%. After Dr. Dr. Antonijevic left the Supervisory Board in January 2022, the target was still achieved, as the Supervisory Board, which consists of five members in accordance with the Articles of Association but currently only has four members, has one woman on it and thus has a quota of 25 %.

The Management Board of PAION AG consists of two members - Dr James Phillips (CEO) and Mr Abdelghani Omari (CFO). There are no women on the company's Management Board. Based on the existing Management Board contracts, the Supervisory Board, in accordance with Section 111 (5) of the German Stock Corporation Act (AktG), had not envisaged a mandatory representation of women on the Management Board of PAION AG by the end of the specified deadline for achieving the target on 30 June 2017. By resolution of 19 June 2017, the Supervisory Board decided that, due to the specific circumstances of the Company, no mandatory representation of women on the Management Board of PAION AG would continue to be

provided for until 30 June 2019. By resolution dated 21 May 2019, the Supervisory Board extended this resolution until 30 June 2021 and by further resolution dated 29 March 2022 until 30 June 2023.

The Supervisory Board has dealt intensively with the issue of determining a proportion of women on the Executive Board and has set itself the goal of taking women into account when filling Executive Board mandates. Due to the current Management Board mandates and the small size of the Management Board of the Company, the Supervisory Board has nevertheless initially refrained from setting a binding target for the representation of women on the Management Board of more than 0 % for the period until 30 June 2023 and justifies this as follows:

Since the beginning of 2021, the Management Board of PAION AG has consisted of only two members, none of whom is a woman. This corresponds to a quota of 0 %. Due to the size of the company, the Supervisory Board does not consider it appropriate to increase the number of members of the Management Board at present. Against this background, the specification of a quota of women of more than 0 % would have meant that a quota of at least 50 % (corresponding to one executive board position) would have had to be specified. This is because, according to section 111 (5) sentence 2 AktG, a specification of a percentage must correspond to full numbers of persons.

However, a requirement of 50 % would have had the consequence that the supervisory board would have been considerably and, in the opinion of the supervisory board, unduly restricted in its search for a successor for a departing member of the management board. The Supervisory Board of PAION AG has so far been guided by the suitability of the candidates when filling the positions on the Management Board, so that the Management Board has the knowledge, skills and professional experience required to properly perform its duties. If, in addition, the search for a successor candidate for a vacant management board position were to be mandatorily limited to the selection of a woman in order to achieve a quota, this would represent a considerable and disproportionate restriction. This is because PAION AG is a highly specialised company in the pharmaceutical sector. The market for promising executives in this

industry is not very large, so that the search for professionally suitable candidates is already difficult. A further restriction of the candidates considered on the basis of their professional suitability to a woman would therefore have meant a considerable risk that the Company might not be able to fill vacant Executive Board positions or not be able to do so in time or would have had to refrain from selecting a particularly suitable and promising male candidate. Such a risk in filling a vacant Management Board position affects the Company to a particular extent, as PAION AG is a relatively small company compared to its competitors. Problems in filling the Management Board may therefore not be adequately compensated for and thus lead to considerable competitive disadvantages compared to competing companies. The Supervisory Board therefore considered it more expedient to strive for a consideration of women in the appointment of the Management Board, but to refrain from a binding requirement of a share of 50 %.

In the reporting period that began on 1 July 2017, the Management Board of PAION AG resolved to achieve a 20% share of women at the first and second management levels below the Management Board by 31 December 2019. With a quota of 31.6 % as at 31 December 2019, the set target was achieved. The Executive Board also decided in January 2020 to achieve a quota of 35 % women by 31 December 2021. With a quota of 40.7% as at 31 December 2021, this target was achieved. Thus, the company as a whole sees itself on a successful path in its efforts to strengthen the participation of women in the first and second management levels. The Executive Board also decided on 13 December 2021 to maintain the target quota and has set a target of 35% for women by 31 December 2023.

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. Pursuant to section 91(3) of the German Stock Corporation Act (AktG), the executive board of a listed company must also establish an internal control system and risk management system that is appropriate and effective with regard to the scope of the company's business activities and its risk situation. The German Corporate Governance Code specifies this obligation by stating that the management board must ensure that the company has a compliance management system and risk controlling system that are geared to the company's risk situation.

PAION AG has implemented a viable internal control system and risk management system in order to ensure the effectiveness and efficiency of its business activities, the correctness of its accounting and compliance with the relevant legal provisions in accordance with Section 91 (3) of the German Stock Corporation Act (AktG), thereby systematically and permanently preventing breaches of law and regulations. This system also ensures that risks are identified, assessed, managed and communicated in a timely manner, that the risk management system as a whole is monitored and controlled, and that potential risks to the company and its subsidiaries are recognised at an early stage in accordance with section 91 (2) of the German Stock Corporation Act (AktG). This is a group-wide, comprehensive and effective internal control system and risk management system that is integrated into the operational business processes and flexibly adapted to the dynamics of the environment. Details of the internal control system and risk management system (compliance management system) implemented at the PAION Group are described in the group management report in the chapter "Risk and Opportunities Report".

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 counter-measures.

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 of PAION AG 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, instruction and training.

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 the 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/media-investors/annual-general-meeting/>).

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. In September 2021, however, Ernst & Young had to resign from its mandate as Ernst & Young had exceeded the fee cap for permissible non-audit services and could no longer be appointed as auditor of PAION AG for the fiscal year 2021. In January 2022, the competent district court in Aachen appointed Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Munich branch ("Baker Tilly") as auditors of the financial statements and consolidated financial statements for the fiscal year 2021. It was agreed upon between the Supervisory Board and Baker Tilly 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 Compliance 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 and compliance management system

Good corporate governance also includes the responsible handling of risks by the company. Details of the risk management system (compliance management system) implemented at the PAION Group in accordance with section 91 (2) and (3) of the German Stock Corporation Act (AktG) are described in the group management report in the chapter "Report on risks and opportunities".

Remuneration of the Management Board and Supervisory Board / Remuneration System, Remuneration Resolution and Remuneration Report

The applicable remuneration system for the Executive Board pursuant to section 87a (1) and (2) sentence 1 of the

German Stock Corporation Act (AktG), which was resolved by the Annual General Meeting on 27 May 2021, as well as the resolution of the Annual General Meeting of 27 May 2021 pursuant to section 113 (3) sentence 2 of the German Stock Corporation Act (AktG) on the confirmation of the remuneration of the Supervisory Board are available on the website <https://www.paion.com/medien-investoren/corporate-governance/verguetung-vorstand-und-aufsichtsrat/> accessible.

The remuneration report and the auditor's report pursuant to § 162 AktG for the 2021 financial year are also publicly accessible via the aforementioned website.

Remuneration of the Management Board

The structure and amount of the total remuneration of the members of the Executive Board are determined and regularly reviewed by the Supervisory Board on the basis of the remuneration system adopted by the Annual General Meeting. According to the remuneration system adopted by the Annual General Meeting on 27 May 2021, the remuneration of Executive Board members comprises a fixed annual remuneration, an annual variable bonus, long-term performance-based remuneration components in the form of a multi-year bonus and/or in the form of stock options, and fringe benefits.

In accordance with the statutory provisions, the remuneration of the Executive Board members is disclosed on an individualised basis in the remuneration report pursuant to section 162 of the German Stock Corporation Act (AktG). The complete remuneration system and the complete remuneration report for the 2021 financial year can be found on the Internet at <https://www.paion.com/medien-investoren/corporate-governance/verguetung-vorstand-und-aufsichtsrat/>.

In order to avoid a duplicate presentation, reference is made to the detailed explanations in the remuneration system and remuneration report.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is defined in PAION AG's Articles of Association. Accordingly, the members of the Supervisory Board receive a basic remuneration and attendance fees in addition to the reimbursement of their expenses. There

is no performance-related remuneration for the members of the Supervisory Board. The annual basic remuneration is EUR 20,000 and the attendance fee is EUR 1,000 per meeting. Telephone conferences held between meetings are not taken into account when determining the attendance fee. The Chairman of the Supervisory Board shall receive double, and his deputy one and a half times, the basic remuneration or the attendance fee. The attendance fee is paid for a maximum of five meetings per year. The Annual General Meeting on 27 May 2021 confirmed the remuneration in accordance with § 113 para. 3 sentence 2 AktG. The remuneration paid to the members of the Supervisory Board for the financial year 2021 is presented individually in the remuneration report pursuant to § 162 AktG. The complete remuneration report can be found on the internet at <https://www.paion.com/medien-investoren/corporate-governance/verguetung-vorstand-und-aufsichtsrat/>.

In order to avoid a duplicate presentation, please refer to the detailed explanations in the remuneration report. In the 2021 financial year, the members of the Supervisory Board did not receive any remuneration or benefits for services rendered personally, in particular advisory and agency services.

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 2021, notifiable transactions were reported by Dr. James Phillips on 12 January 2021. As of 31 December 2021, Dr. James Phillips held 0.02% (17,250 voting rights) of the shares in PAION AG. Mr. Abdelghani Omari and the members of the Supervisory Board did not hold any shares in PAION AG as of 31 December 2021.

Share-based incentive systems

PAION AG has established the stock option programmes 2010, 2014, 2016, 2018 and 2020 as remuneration components with a long-term incentive effect and risk character. The stock option programmes provide for the granting of stock options to employees and members of the Management Board. The concrete structure of the active programmes, e.g. waiting periods and exercise hurdles, as well as the options issued to date under these programmes are presented in the notes to the consolidated financial statements in the chapter "Other notes" (there under "Stock option programmes"). In order to avoid a duplicate presentation, reference is made to the explanations in the notes to the consolidated financial statements.

Aachen, March 2022

The Management Board of PAION AG

Dr. James Phillips Abdelghani Omari

The Supervisory Board of PAION AG

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

Investor Relations

Investor Relations

PAION's mission is to be a leading specialty pharmaceutical company in the fields of anesthesia & critical care by bringing novel products to market to benefit patients, doctors & other stakeholders in healthcare. In respect to corporate communications, we place great emphasis on transparent, comprehensive and timely communication. Information on significant developments within the company is made available immediately and simultaneously to all stakeholders.

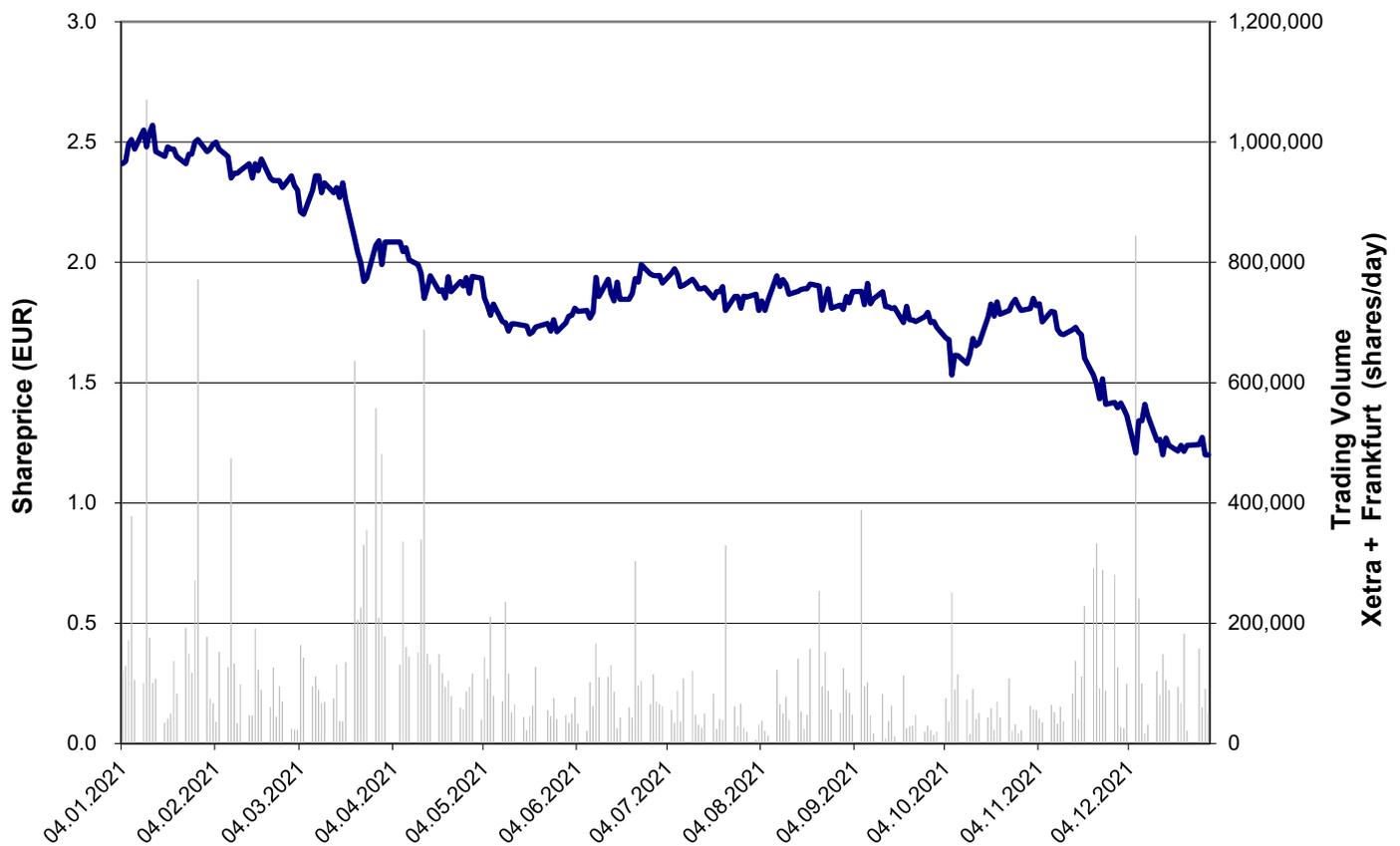
PAION is listed in the Prime Standard segment of the Frankfurt Stock Exchange and therefore also fulfills extended disclosure requirements in addition to the ad-hoc disclosure obligations.

Performance of PAION shares in 2021

PAION shares opened 2021 with a Xetra price of EUR 2.41 (Xetra closing price). The highest price in 2021 was marked on 11 January 2021 at EUR 2.55 (Xetra closing price). The low was EUR 1.20 on 29 December 2021 (Xetra closing price) and was also the closing price for 2021. This represents a decrease of 50% compared to the closing price of 30 December 2020 (EUR 2.40; Xetra).

The market capitalization of PAION AG at the end of the financial year amounted to EUR 86 million (31 December 2020: EUR 159 million).

Xetra Stock Performance of the PAION share in 2021 (price and volume in EUR)



Annual General Meeting and analyst conference

The Annual General Meeting, was held as a virtual meeting on 27 May 2021. The shareholders present owned around 16% of PAION's shares (previous year: 8%). All proposals were approved with a large majority.

As in previous years, PAION AG used the German Equity Capital Forum in November 2021 to host its annual analyst conference which made a great impression.

Analyst coverage

The following analysts regularly publish reports on PAION:

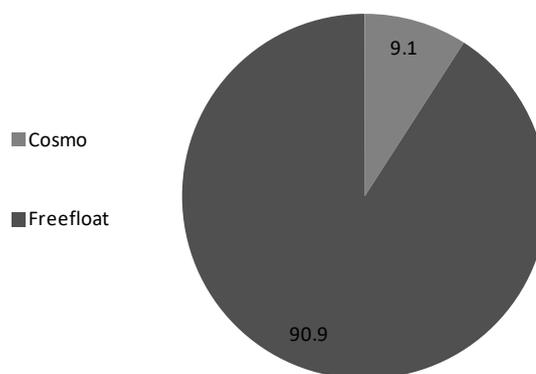
- Simon Scholes (First Berlin)
- Dr. Daniel Grigat (Stifel)
- Martial Descoutures (Oddo BHF Research)

Selected analyst reports are available under the investor relations section of the PAION website (<http://www.paion.com/media-investors/information-on-shares/analysts/>).

Shareholder structure

PAION is characterized by a very high free float of approximately 91%. Cosmo Pharmaceuticals N.V., Amsterdam, Netherlands, is the largest single shareholder, owning 9.09% of PAION shares, pursuant to the available notifications (30 June 2016).

The current share capital amounts to EUR 71,336,992.00.



Do you have any questions about PAION AG?

Please contact our investor and public relations team:

PAION AG
Ralf Penner, Vice President Investor Relations/Public Relations
Heussstrasse 25
52078 Aachen
Tel. +49 241 4453-152
Fax +49 241 4453-100
E-Mail: investor.relations@paion.com
www.paion.com

Group management report



Group Management Report for the Financial Year 2021

Fundamentals of PAION AG and the PAION Group

I. Business model of PAION AG and the PAION Group

PAION AG is a listed specialty pharmaceutical company with innovative active ingredients for use in hospital sedation, anaesthesia and intensive care medicine. PAION AG operates exclusively as a management and service holding company. The management and services are provided to the subsidiaries. The services mainly comprise the development of the group strategy as well as - administrative activities, including accounting, legal, human resources, public relations and controlling. In addition, PAION AG supports the financing of the subsidiaries' day-to-day operations and the group companies provide services to each other, mainly in the areas of development, supply chain and commercialisation. The business activities of the PAION Group (hereinafter also referred to as: PAION) are mainly characterised by the operating activities of the subsidiaries, which are presented below.

PAION's portfolio in the reporting year included remimazolam as well as angiotensin II and eravacycline, which have already been licensed in Europe for marketing in the European Economic Area, the United Kingdom and Switzerland in January 2021. remimazolam is approved in the USA, EU/EEA/UK, China and South Korea for short sedation and in Japan and South Korea for general anaesthesia.

PAION has licensees for remimazolam in the US, South Korea, Southeast Asia, Japan and Taiwan. For the use of remimazolam in the indication of short sedation, clinical development is completed; in the US, EU, UK, China and South Korea, remimazolam is approved and already marketed in this indication. For the indication general anaesthesia, remimazolam is at the end of clinical development and has already been successfully completed for Japan and South Korea; in both markets remimazolam is approved and marketed in this indication. PAION has submitted a marketing authorisation application to the European Medicines Agency (EMA) at the end of 2021 to extend the approval of remimazolam to include general anaesthesia in the EU. The various indications for the use of remimazolam are explained in detail below.

The 2021 financial year was characterised by the continuation of the further development of remimazolam, regulatory and, in particular, supply chain and commercial activities.

2. Internal management system of PAION AG and the PAION Group

Financial performance indicators are liquidity (cash and cash equivalents from the balance sheet and cash flows from the cash flow statement), sales revenues, research and development expenses, administrative and sales expenses, and the number of employees. Equity is no longer qualified as a financial performance indicator, as equity is currently difficult to forecast and is not used for management purposes. The financial management system of PAION AG and the PAION Group is based on monthly reporting on a cost centre and cost unit basis, which simultaneously shows budget deviations of the financial performance indicators. Significant deviations are updated in the short- and long-term corporate planning. In addition, the planned development progress is compared with the planned budget. The planning tool used for this purpose enables the management to identify and evaluate opportunities and risks at an early stage by simulating various scenarios and to determine their influence on the future development of the company, especially on the key financial control parameter of liquidity.

The non-financial performance indicators that are important for PAION's business activities are mainly derived from the development activities and the commercial activities. The clinical, non-clinical, regulatory and production development activities are characterised by the commissioning of external service providers. Development activities are managed using detailed project plans with defined work packages combined with defined reporting and information obligations. The focus here is on the data obtained during development to position the product in comparison to competing products. The results are continuously processed in the internal project teams and reported to the Executive Board. Important non-financial performance indicators in the development area are the number of clinical and non-clinical studies conducted and the number of market approvals.

Commercial activities are aimed at marketing the three products remimazolam, angiotensin II and eravacycline in selected markets in Europe. In addition, further out-licensing in markets where PAION does not plan its own distribution is targeted. The status of these activities will be documented and discussed on an ongoing basis. PAION has already concluded several regional licensing agreements for remimazolam. The licensees operate autonomously in their respective licensed territories. However, the cooperation agreements provide for mutual information obligations. Important non-financial performance indicators in the commercial area are the number of countries in which PAION is establishing its own distribution, the number of product launches by PAION and its licensees and the number of licence agreements concluded.

3. Business activity

PAION's business activities in the fiscal year were mainly determined by the research and development activities and the start of the commercialisation of the product portfolio, which are reported on in detail in section 2 "Presentation of business performance and development activities".

Report on economic position

I. Macroeconomic and sector-specific environment

a. Macroeconomic development

The year 2021 continued to be marked worldwide by the Covid 19 pandemic that has been rampant since spring 2020. Despite the ongoing pandemic and supply and material bottlenecks, the German economy was able to recover after the slump in the previous year, although economic output has not yet returned to pre-crisis levels. In Germany, the gross domestic product (GDP) in 2021 increased by 2.7 % compared to the previous year (previous year: decrease by 4.6 %).¹

Accordingly, a strong recovery in economic output was also recorded internationally in 2021: GDP in the euro area rose by 5.2 % in 2021 after a decline of 6.4 % in the previous year. In the USA, economic output recorded an increase of 5.6 % in 2021, while it had still fallen by 3.4 % in 2020. Global GDP increased by 5.9 % in 2021 after a decline of 3.1 % in 2020.²

Global GDP is again expected to increase by 4.4 % in 2022. Growth of 3.9 % is expected for the euro area and 4.0 % for the USA.³

For 2022, there is still uncertainty about the further development of the Covid 19 pandemic worldwide and the impact on economic performance. In addition, there are global supply chain disruptions, rising inflation and a more restrictive monetary policy.⁴ In addition, the war in Ukraine that broke out in February 2022 and the associated sanctions against Russia increase the uncertainty regarding economic development.

On the stock markets, prices continued to rise in 2021, in some cases significantly, but came back from the highs towards the end of 2021, although the development was still very positive overall. While the DAX closed with an increase of 15.8 % compared to the closing level of 2020, the Dow Jones recorded a plus of 18.7 % and the EUROSTOXX 50 even 21.0 %.

b. Development of the pharmaceutical and biotechnology industry

The pharmaceutical and biotechnology industry remains fundamentally characterised by steadily rising drug development costs, which are due in particular to increasingly extensive and demanding regulatory requirements and the strong trend towards personalised therapies, and which are offset by increasingly lower revenues, for example due to intensified competition and price pressure from government regulation.⁵ For example, the development costs of a new drug

¹ Federal Statistical Office: Gross Domestic Product For Germany 2021, Statement for the press conference on 14 January 2022.

² International Monetary Fund: World Economic Outlook Update, January 2022.

³ International Monetary Fund: World Economic Outlook Update, January 2022.

⁴ International Monetary Fund: World Economic Outlook Update, January 2022.

⁵ DeloitteHealth: A new future for R&D? Measuring the return from pharmaceutical innovation, 2021; Deloitte Insights: 2020 global life sciences outlook, 2020; Ernst & Young: 2020 EY M&A Firepower report: How will deals done now deliver what the health ecosystem needs next?, 2019; PwC Health Research Institute: Top health industry issues of 2020: Will digital start to show an ROI?, 2019.

at the large pharmaceutical companies increased by an average of around 5% in constant prices from 2018 to 2019, while the expected peak sales potential declined by almost 8% and marked the lowest value in the last ten years in 2019.⁶

In 2021, the Covid 19 pandemic has had a massive impact on the pharmaceutical and biotechnology industry. In addition to the numerous development projects for vaccines against the virus, the pandemic has above all massively accelerated the pace of innovation and digitisation in healthcare systems, which poses major challenges for the industry.⁷

The consolidation pressure resulting from these trends was reflected in the global transaction volume in the pharmaceutical industry in 2021, despite the pandemic. The transaction volume of USD 149 bn in 2021 was slightly lower than the transaction volume of USD 162 bn in 2020, but still at a high level.⁸

The financing environment in the pharmaceutical and biotechnology industry was still very good at the beginning of 2021, but has deteriorated considerably towards the end of 2021 and the beginning of this year. It can be observed that the public capital markets for financing have almost dried up in January 2022, with an increase in large pharmaceutical companies acting as strategic investors. Thus, in 2021, there was a record value of IPO volume in the pharmaceutical and biotechnology sector and the second highest value, after the record year 2020, for follow-on financing of listed pharmaceutical and biotechnology companies.⁹

The valuation of pharmaceutical companies also continued to rise in 2021. Inflation concerns, which increased towards the end of 2021, coupled with the expectation of a more restrictive monetary policy by central banks, especially the US Federal Reserve, led to a decline in the valuations of pharmaceutical and biotechnology companies in the second half of the year, especially for companies that are not yet sustainably profitable. The DAXsubsector Biotechnology Index rose by 26.8 % in 2021 compared to the closing level of the previous year; the NASDAQ Biotechnology Index closed 2021 with a small minus of 0.6 %.

The main competitive drivers in the pharmaceutical and biotechnology industry will probably continue to exist in 2022 and maintain the pressure to consolidate. In addition to rising competitive pressure and steadily increasing demands on the industry, the ability to individualise therapies is becoming increasingly important for pharmaceutical and biotechnology companies.¹⁰ Due to the expiry of patents in the next few years and higher competition in the area of research & development, it is expected that the acquisition and transaction volume will remain high in the pharmaceutical industry worldwide.¹¹ However, it remains to be seen to what extent the further development of the Covid 19 pandemic will also have an impact on the industry in 2022 (stimulating, but possibly also dampening).

⁶ DeloitteHealth: A new future for R&D? Measuring the return from pharmaceutical innovation, 2021.

⁷ Deloitte Insights: 2021 global health care outlook: Accelerating industry change, 2021.

⁸ Torrey Biopharmaceutical Sector Market Update, 20 January 2022.

⁹ Torrey Biopharmaceutical Sector Market Update, 20 January 2022.

¹⁰ Ernst & Young: 2022 EY M&A Firepower report: How ecosystem participation drives more value for life sciences deals, 2022.

¹¹ Ernst & Young: 2022 EY M&A Firepower report: How ecosystem participation drives more value for life sciences deals, 2022.

2. Presentation of the course of business and development activities

The product portfolio of PAION Group essentially comprises remimazolam (remimazolam besylate) (EU brand name: Byfavo®) with its three target indications procedural sedation, general anesthesia and ICU sedation, as well as the products angiotensin II (brand name: GIAPREZA®) and eravacycline (brand name: XERAVA®).

Market opportunities

PAION believes that all products provide a significant market opportunity and address certain unmet needs in their relevant markets. Based on own projections (assuming the successful roll-out of the product offering in all current target markets), PAION estimates that remimazolam has the potential to eventually reach total peak sales of approx. EUR 90 million on an annual basis in the European Union, of which approx. EUR 40 million to EUR 50 million account for sales potential in the indication procedural sedation and approx. EUR 50 million to EUR 60 million account for sales potential in the indication general anesthesia. In addition, based on own projections, PAION estimates the maximum revenue potential generated from royalties under the collaboration agreements based on peak sales outside Europe to amount to approx. EUR 35 million. Furthermore, PAION currently estimates an annual peak sales potential for angiotensin II and eravacycline in the range of approx. EUR 50 million and of approx. EUR 25 million to approx. EUR 35 million, respectively, based on own projections. Together with the peak sales potential of remimazolam in the amount of EUR 125 million (including own sales as well as milestone payments or royalties resulting from the expected sales of collaboration partners), PAION estimate a total peak sales potential of approx. EUR 200 million.

Byfavo® (remimazolam besylate)

Remimazolam is an ultra-short-acting intravenous benzodiazepine sedative/anesthetic. In humans, remimazolam is rapidly metabolized to an inactive metabolite by liver esterases and is not metabolized by cytochrome-dependent hepatic pathways. Like other benzodiazepines, remimazolam can be reversed with flumazenil to rapidly terminate sedation or anesthesia if necessary. Data demonstrate that remimazolam has a rapid onset and offset of action combined with a favorable cardio-respiratory safety profile.

Remimazolam is approved in the U.S., the EU/EEA/UK and China for procedural sedation and in Japan and South Korea for general anesthesia.

In addition to procedural sedation and general anesthesia, ICU sedation is another possible indication for remimazolam.

Remimazolam is partnered in the U.S. (brand name BYFAVOTM) with Acacia Pharma (Acacia), in Japan (brand name Anerem®) with Mundipharma, in South Korea (brand name ByfavoTM) and Southeast Asia with Hana Pharm and in Taiwan with TTY Biopharm. For all other markets except European core markets and China, remimazolam is available for licensing.

Market potential

Based on own projections, PAION estimates the maximum annual revenue potential from royalties under the collaboration agreements based on peak sales in territories outside Europe to amount to approx. EUR 35 million, leading to a total annual revenue potential of remimazolam to PAION of EUR 125 million. This total includes the peak sales potential from our own commercialization efforts, of which approx. EUR 40 million to EUR 50 million account for sales potential in the indication procedural sedation and EUR 50 million to EUR 60 million account for sales potential in the indication general anesthesia.

Procedural Sedation Market (U.S.¹² + Europe)

For the U.S., local licensee Acacia estimates that currently more than 40 million procedural sedations are performed annually. The growth of the procedural sedation market in the U.S. has been driven for many years by the increase in medical procedures involving procedural sedations, such as colonoscopies, as well as by an increasing general demand for screening. According to Acacia, approximately 25 million colonoscopies and endoscopies are performed annually in the United States. Acacia states that more than 80% of colonoscopies and endoscopies are performed in the presence of personnel trained in anesthesia. The price (WAC¹³) is reported by Acacia to be USD 39 per dose. Overall, the total market in procedural sedation is more than USD 1.5 billion per year, according to Acacia.

In Europe, based on its own projections for procedural sedation, PAION currently estimates an annual peak sales potential of approx. EUR 70 million to approx. EUR 80 million. In contrast to the U.S. market which has a large freestanding ambulatory surgery healthcare infrastructure, procedural sedation in Europe is mainly a hospital-based activity where anesthesiologists have the overall responsibility for the sedation of patients. This entails a high potential for synergies with the planned commercialization of remimazolam for use in general anesthesia. In addition, the area of day surgery is also growing in Europe, so that PAION expects a steady growth of procedural sedation procedures in Europe as well. One driver of this development is the establishment and further spread of colorectal cancer screening (diagnostic colonoscopies) and so important users here are also proceduralists, e.g. gastroenterologists. Another, short-to-mid-term driver is the backlog of patients being untreated throughout the COVID-19 pandemic causing a need for a product such as remimazolam increasing process efficiency.

General Anesthesia Market (Europe)

Based on publicly available European procedure statistics and market research, PAION estimates that in Europe, approximately 29 million procedures requiring general anesthesia are performed each year. Of these, approximately 10 million are performed for high-risk patients (American Society of Anesthesiologists (“ASA”) classifications III or higher) who are particularly prone to hemodynamic instability. Approx. 55% of all anesthetics are balanced anesthesia (a combination of intravenous agents for induction and volatile gases for maintenance), approx. 20% are total intravenous anesthetics (“TIVA”) using propofol, and the remaining approx. 25% include

¹² Source: Acacia Pharma: Non-Confidential Corporate Presentation January 2021.

¹³ Wholesale acquisition cost

regional anesthesia (for example epidural administration). Based on PAION's market research, in Europe, the current standard-of-care drugs for general anesthesia are propofol (especially for induction) and narcotic gases; mostly used in conjunction with intravenous opioids.

PAION anticipates an increasing number and complexity of medical interventions requiring induction and maintenance of anesthesia in Europe in the future particularly driven by an ongoing aging of the population and the progress of surgical techniques. General anesthesia is more frequently offered to elderly patients than in the past, therefore the choice of a tailored anesthesia is made depending on the type of surgery, the underlying disease, and an assessment of the general physical health of the patient, including co-morbidities.

Accordingly, PAION believes that in Europe the demand for safer agents with low respiratory and cardio-depressive effects will increase over the coming years, creating opportunities for anesthetics with an enhanced safety profile such as remimazolam, even at higher prices compared to existing generic drugs. In Europe, based on its own projections, PAION currently estimates an annual peak sales potential of approx. EUR 80 million to approx. EUR 90 million for general anesthesia.

In adults, myocardial injury during noncardiac surgery (MINS) is the most common cardiovascular complication associated with such surgery. Investigations conclude that MINS occurs in about 8% of the approximately 200 million patients yearly worldwide and leads to an increased morbidity. Approximately 10% of patients suffering such injury die within 30 days after surgery. The suspected cause of this is, inter alia, a (too) low blood pressure and a concomitant temporary undersupply of the heart muscle with oxygen during the procedure.¹⁴ Based on the safety data available to date, remimazolam could contribute significantly to reducing this mortality rate by reducing intraoperative blood pressure drops.

An emerging market driver is the requirement of hospitals to consider their carbon footprint and ecological impact. To that regards, volatile gases used in anaesthesia are a major negative contributor leading to a more common use of TIVA and hence an enlarged market opportunity for remimazolam as an intravenous anaesthetic

Intensive Care Unit (ICU) Sedation Market

Based on available information from 2012 published in Critical Care Medicine which estimates average days of care in ICUs per year in the U.S., and journal articles published in the Intensive Care Medicine in 2012, which records, among others, the volume of ICU admissions per year and the number of total adult beds in various countries in the EU, PAION estimates that there are at least 14 million ICU patient days requiring ICU sedation in the U.S. and Europe combined per year. A publication published in 2013 on the basis of eight EU countries comes to an extrapolated figure of 17.5 million patient days (not necessarily sedated) for the EU alone.¹⁵ PAION expects these numbers to increase in the years to come, driven by demand from the aging population both in the USA and in Europe. PAION believes that such development, in turn, will foster demand

¹⁴ Khan, J. et al. (2014): Myocardial injury after noncardiac surgery, *Current Opinion in Cardiology*, 2014 Jul, 29(4):307-11; Abbott, T. E. F. et al. (2019): Depth of Anesthesia and Postoperative Delirium, in *JAMA*, 2019, 321(5):459-460.

¹⁵ Bittner et al. (2013): How is intensive care reimbursed? A review of eight European countries; *Annals of Intensive Care*, 3:37.

for safer agents such as remimazolam, given the fact that elderly patients are much more likely to suffer from systemic health problems.

Clinical development

Procedural sedation

The first U.S. Phase III trial was successfully completed in 2016, and the primary efficacy endpoint was achieved. The Phase III trial enrolled 461 patients at 13 U.S. sites and was designed to evaluate the efficacy and safety of remimazolam compared to placebo (with midazolam rescue) in patients undergoing proceduralist-administered sedation for colonoscopy. In addition, the trial had an open-label midazolam arm.

In addition to the above trial, the U.S. Phase III program included a second confirmatory, prospective, double-blind, randomized, placebo-controlled multi-center trial with an open-label midazolam arm in 446 patients undergoing bronchoscopies. The trial was successfully completed in 2017, and the primary efficacy endpoint was achieved. The Phase III trial was conducted at 15 U.S. sites and was designed to evaluate the efficacy and safety of remimazolam compared to placebo (with midazolam rescue medication) in patients undergoing bronchoscopy.

As part of the U.S. development program, also a safety trial in ASA III/IV (American Society of Anesthesiologists classification) patients undergoing colonoscopy (American Society of Anesthesiologists classification) was performed which was successfully completed in 2017. The trial enrolled 79 patients and was designed to evaluate the safety and efficacy of remimazolam compared to placebo (with midazolam rescue sedation) in patients undergoing proceduralist-supervised sedation for colonoscopy.

Summary of key results from the three Phase III trials:

	Remimazolam	Placebo	Midazolam (Open Label) *
Primary endpoint achieved (ITT)	80.6–91.3%	0.0–4.8%	12.9–32.9%
Time from start of medication to start of procedure	4.0–5.0 min	17–19.5 min	15.5–19.0 min
Time from end of procedure to fully alert	3.0–6.0 min	5.3–15.0 min	7.0–13.0 min
Time to back to normal	192–402 min	348–936 min	366–444 min

* Only partially relevant for the label claim

General Anesthesia

In the clinical program, specific attention was paid to hemodynamic stability, which addresses a current need in general anesthesia. Nonclinical data had suggested and clinical data confirmed that a better hemodynamic stability can be reached with remimazolam than with propofol.

The clinical development program in Europe and Japan demonstrated safety and efficacy as an anesthetic as well as an improved hemodynamic profile compared to propofol.

In Europe, a randomized, single-blind, propofol-controlled, confirmatory Phase III trial enrolled 425 ASA III/IV patients (American Society of Anesthesiologists classification III to IV) undergoing planned surgery at more than 20 European sites. The primary objective of the trial

was to demonstrate non-inferiority of remimazolam compared to propofol for the induction and maintenance of general anesthesia during elective surgery. The key secondary objective was to show improved hemodynamic stability compared to propofol. In the trial, remimazolam met both the primary and key secondary endpoints.

ICU sedation

PAION's former licensee in Japan, Ono, independently initiated a Phase II trial for sedation in ICUs. Higher than expected plasma concentrations by pure calculation of remimazolam were observed in isolated cases after long-term treatment as is known from similar substances, and Ono discontinued this exploratory trial in 2013. Patients were sedated successfully and no significant unexpected adverse events were reported.

The observed phenomenon of elevated remimazolam plasma concentrations was subsequently thoroughly investigated using a series of nonclinical tests and pharmacokinetic models. None of these experiments was able to reproduce the findings or provide a mechanistic explanation for the elevated plasma concentrations. Further analysis has revealed that such pharmacokinetic deviations are common for utilization of sedatives like midazolam and propofol on the ICU and the most likely explanation is the underlying serious condition of patients presenting on the ICU.

In October 2021, the last patient was treated in the Investigator Initiated REHSCU trial¹⁶. This trial, performed at the University of Nantes, is evaluating remimazolam for the sedation of patients on ICUs. Thirty patients were enrolled in the study. The results should provide further evidence for a successful use of remimazolam in this patient group.

Further development in this indication is currently not being conducted by PAION.

Pediatric development

In 2018, PAION submitted a PIP (Pediatric Investigation Plan) to the EMA which was approved in November 2019. In this development plan, various trials are planned to be carried out over several years, starting with procedural sedation. The clinical trials will initially be conducted with adolescents and increasingly younger children being enrolled in a stepwise approach. In September 2021, PAION and U.S. licensee Acacia Pharma (Acacia) announced the initiation of a pivotal study investigating remimazolam for sedation of pediatric patients. The study will enrol approximately 100 children and adolescents aged up to and including 17 years at leading institutions across the United States and Denmark. Upon successful completion of the pediatric development plans, it is expected that the EU and U.S. label of remimazolam will be expanded to include mild to moderate sedation for procedures in pediatric patients.

Postapproval commitments and life-cycle management

In 2022 and the following years, PAION will conduct a number of formulation development, non-clinical and clinical studies for remimazolam, angiotensin II and eravacycline to fulfil postapproval commitments and for life-cycle management. The majority of these activities are mandatory pediatric studies in order to make these medicinal products available for use in children.

¹⁶ REMimazolam Infusion in the Context of Hypnotic Shortage in the Critical Care Unit During the Pandemic of COVID-19, the REHSCU Study (REHSCU)

Regulatory activities

In Europe, remimazolam (trade name Byfavo®) is approved in procedural sedation and in addition PAION is seeking approval for general anesthesia.

Procedural sedation: The European Commission approved remimazolam in the EU (including EEA countries) in March 2021. The decision of the MHRA for approval in the United Kingdom followed in June 2021.

General anesthesia: Based on the positive results of the EU Phase III trial in general anesthesia, PAION has now submitted an extension application to the marketing authorization for remimazolam in the indication of general anesthesia to the EMA. A decision by the EMA is expected at the end of 2022 or beginning of 2023. This application will be also submitted to the MHRA via the ECDRP route (European Commission Decision Reliance Procedure) to obtain approval in the UK as well.

Commercial activities

PAION has recently built up its own commercialization infrastructure for its own marketing efforts in the first target markets, including the required production, supply and distribution structures as well as marketing and sales processes, with respect to a full product portfolio and has started a staggered roll-outs of our commercialization set-up and product offering in all our European target markets until 2023. However, PAION follows an asset-light business approach and only maintain core functions in the organization in order to be able to focus on the key competencies. This means that remimazolam or the active pharmaceutical ingredient for remimazolam is being manufactured, packaged and labeled by several third-party contract manufacturing organizations for PAION and/or its collaboration partners. In addition, PAION has entered into an agreement with the Dutch branch of the logistics services provider Movianto GmbH as a one-stop-shop solution for our distribution processes. Furthermore, PAION has entered into an agreement with Syneos Health Inc. as a global provider of marketing and selling solutions for the provision of medical science liaison and key account management services. PAION currently indirectly source angiotensin II and eravacycline from La Jolla under a separate supply agreement but is considering setting up direct supply chains for these two products as well.

PAION has started the commercialization of remimazolam, eravacycline and angiotensin II in the second half of 2021 in a staggered manner by country.

Commercialization of remimazolam started in the UK in August 2021 and an exclusive cooperation agreement with Clinigen for the supply and distribution of its products acting as the wholesaler in the UK was announced in September 2021. Also in September 2021, PAION started commercialization of remimazolam in the Netherlands and in November in Denmark. By the end of 2022/beginning of 2023, launches are planned to have been conducted in most key European markets. In the German market, remimazolam will not be available until the first quarter of 2023 at the earliest. In connection with the German benefit assessment process, PAION has decided to wait for a marketing authorisation extension for general anaesthesia before the product will be commercially available in Germany.

PAION launched angiotensin II in Germany in July 2021 and in the Netherlands in January 2022. In Austria it is commercially available since February 2022. PAION launched eravacycline in the Netherlands in September 2021.

Initial product use indicate a good market acceptance of the products and there is positive feedback from customers on initial experience especially with remimazolam.

To achieve PAION's mission to become a leading specialty pharmaceutical company in the fields of anesthesia and critical care services, PAION identified the following key elements of the strategy:

- PAION aims to become a recognized innovative leader in anesthesia and critical care services within three years;
- PAION intends to implement and execute leading commercial capabilities in Europe;
- PAION plans to continue staggered product roll-outs of remimazolam, angiotensin II and eravacycline across our European target markets and drive rapid revenue growth to reach profitability at the end of 2023 or the beginning of 2024; and
- PAION also intends to continue to explore synergistic potential, the in-licensing of additional products and other opportunities to drive longer-term growth.

Partner activities

Licensees generated remimazolam revenues totalling EUR 7.5 million in 2021 (previous year: EUR 2.6 million), amounting to royalties for PAION of EUR 0.6 million.

In the **U.S.**, remimazolam (brand name BYFAVO™) was launched by Acacia for procedural sedation in January 2021. While Acacia has indicated that initial market response was positive, access to clinics and prescribing doctors has been severely limited due to the COVID-19 pandemic. At the end of September 2021, Acacia reported remimazolam to be on track to meet its full year 2021 formulary acceptance goal. By the end of September, remimazolam had been put on formulary in 95 accounts with a >90% win rate; Acacia expects a total of 150 accounts to put remimazolam on formulary by the end of 2021.

For the indication general anesthesia, the license agreement with Cosmo/Acacia originally provided for an option for the U.S. rights to develop and commercialize remimazolam. As this option was not exercised by the licensee, it has lapsed. An advisory meeting was held in November 2021 with the FDA (U.S. Food and Drug Administration) on suitability of the European clinical program for filing of a New Drug Application (NDA) in the U.S. As a positive outcome of the Type B meeting, the FDA stated that a submission would be possible with the current data package consisting of European and Asian general anesthesia data. Submission would require a re-analysis of the current data. Alternatively, an additional clinical trial was recommended. PAION will use the outcome of the meeting to intensify the discussion with interested parties for the general anesthesia license in the U.S.

In **Japan**, sales are expected to be back on track in 2022 (batch recall in 2021). In 2021, PAION and licensee Mundipharma amended the royalty calculation in their contract.

In **China** good sales growth has been seen during 2021 for remimazolam (brand name Ruima®). Beginning of 2022 PAION entered into a patent assignment agreement with Wuhan Humanwell Innovative Drug Research and Development Center Limited Company, a wholly-owned subsidiary of Humanwell Healthcare (Group) Co Ltd. (“Humanwell”). Under the agreement, PAION assigns all its Chinese remimazolam patents and sells the related future royalties for remimazolam sales in China due based on the license agreement with Yichang Humanwell to Humanwell against a cash consideration of EUR 20.5 million. Yichang Humanwell will be released from any future royalty payments to PAION and the licence will be terminated.

In **South Korea**, licensee Hana Pharm received market approval for remimazolam (brand name Byfavo™) in general anesthesia in January 2021 and launched the product at the end of March. This was followed by market approval in procedural sedation in August 2021. Hana Pharm has reported that its remimazolam domestic landing and market positioning strategy was successful. Hana Pharm has initiated various academic activities and clinical trial promotion strategies to increase the accessibility of remimazolam, starting with a remimazolam launch symposium held at the end of April 2021.

In March 2021, PAION granted TTY Biopharm (TTY) an exclusive license for the development and commercialization of remimazolam in **Taiwan**.

Following Russia's invasion of Ukraine in violation of international law, PAION seeks termination of the licence agreement with the Russian company R-Pharm regarding the licence areas in **Russia, Turkey** and the **Mena region**. In order to ensure that the termination of the agreement is legally sound, PAION has engaged the services of a specialised law firm. Until this process is completed, the cooperation with R-Pharm is suspended. PAION does not expect the Ukraine conflict to have a material impact on PAION's business activities.

In **Canada**, PAION and Pharmascience Inc. have mutually agreed at the beginning of 2022 to terminate the license agreement from July 2014 which granted Pharmascience Inc. exclusive rights to develop and commercialize remimazolam in Canada. PAION retains full access to all market data generated by Pharmascience and plans to explore strategic options for the commercialization of remimazolam in Canada. The Canadian pharmaceutical market is approximately one-tenth the size of the U.S. market.

In February 2022 PAION has entered into an exclusive cooperation agreement with Medis, d.o.o. (Medis) for the supply, distribution, marketing and sales of remimazolam, angiotensin II und eravacycline for **Eastern Europe** (Estonia, Latvia and Lithuania, Czech Republic, Slovakia, Hungary, Croatia, Slovenia and Bulgaria).

Angiotensin II and Eravacycline

In January 2021, PAION AG and PAION Deutschland GmbH entered into an exclusive license agreement with La Jolla Pharmaceutical Company, San Diego, U.S., and certain of its wholly-owned subsidiaries (collectively La Jolla) for angiotensin II (GIAPREZA®) and eravacycline (XERAVA®). The agreement grants PAION an exclusive license for the commercialization of these two approved products in the European Economic Area, the United Kingdom and Switzerland.

In addition to an upfront payment in the amount of USD 22.5 million, La Jolla is entitled to receive additional payments of up to USD 109.5 million contingent upon the achievement of certain commercial milestones of which the majority are dependent on the respective first achievement of significant sales revenues.

These are in detail as follows for angiotensin II:

- USD 5 million for annual sales > EUR 20 million
- USD 5 million for annual sales > EUR 50 million
- USD 15 million for annual sales > EUR 100 million
- USD 60 million for annual sales > EUR 250 million

and for eravacycline:

- USD 2 million for annual sales > EUR 15 million
- USD 2.5 million upon EMA approval of a second indication for eravacycline
- USD 5 million for annual sales > EUR 50 million
- USD 15 million for annual sales > EUR 100 million

La Jolla is also entitled to royalties on PAION's own net sales in Europe and a share of revenues from indirect sales.

La Jolla had agreed with the EMA to conduct pediatric trials for eravacycline and for angiotensin II and a Phase IV trial for angiotensin II. For the Phase IV trial, a protocol approved by the EMA already exists. PAION is examining the specifics of the study and will coordinate these in discussion with the EMA.

Angiotensin II (GIAPREZA®)

Angiotensin II for injection is an FDA-approved vasoconstrictor to increase blood pressure in adults with septic or other distributive shock. Angiotensin II is approved by the European Commission and the UK Medicines Agency for the treatment of refractory hypotension in adults with septic or other distributive shock who remain hypotensive despite adequate volume restitution and application of catecholamines and other available vasopressor therapies. Angiotensin II mimics the body's endogenous angiotensin II peptide, which is central to the renin-angiotensin-aldosterone system, which in turn regulates blood pressure.

Angiotensin II raises blood pressure by vasoconstriction; increased aldosterone release via direct action of angiotensin II on the vessel wall is mediated by binding to the G-protein-coupled angiotensin II receptor type 1 on vascular smooth muscle cells which stimulates Ca²⁺/calmodulin dependent phosphorylation of myosin and causes smooth muscle contraction.

The pivotal phase III trial of angiotensin II for the treatment of high-output shock (ATHOS-3) was a randomized, placebo-controlled, double-blind, international, multicenter Phase III safety and efficacy trial in which 321 adults with septic shock or other distributive shock who had hypotension despite fluid and vasopressor therapy were randomized 1:1 to angiotensin II or placebo. The primary efficacy endpoint, an increase in blood pressure, was achieved by 70% of

patients randomized to angiotensin II compared with 23% of patients treated with placebo; $p < 0.0001$ (a treatment effect of 47%).

The European Summary of Product Characteristics is available on the EMA website: www.ema.europa.eu/en/medicines/human/EPAR/giapreza.

In 2021, a benefit assessment was conducted by the Federal Joint Committee (G-BA), which was completed at the beginning of 2022. The G-BA commissioned the Institute for Quality and Efficiency in Health Care (IQWiG) with the benefit assessment of the active substance angiotensin II in accordance with Section 35a of the German Social Code (SGB V). The assessment is based on a dossier submitted by PAION to IQWiG on 15 July 2021. The G-BA came to the conclusion that there is no evidence of an additional benefit. However, following discussions with the Federal Institute for Drugs and Medical Devices (BfArM) and on the basis of the European public assessment report (EPAR), the G-BA also came to the conclusion that the indication can be interpreted as second- and third-line therapy. Following the public hearing, IQWiG was asked to assess the third-line subpopulation. This showed an additional benefit in terms of mortality and was published as an addendum to the decision. PAION then entered into price negotiations with the umbrella organisation of the statutory health insurance funds to determine the maximum reimbursable price for the product. This should come to a conclusion in 2022.

PAION launched angiotensin II in Germany in July 2021 and in the Netherlands in January 2022. In Austria it is commercially available since February 2022.

In Europe, PAION currently estimates a peak sales potential of approximately EUR 50 million per year based on its own projections.

Eravacycline (XERAVA®)

Eravacycline for injection is a novel fluorocycline of the tetracycline class.

Eravacycline is an antibiotic used to treat complicated intra-abdominal infections (cIAI) in adults. According to the Infectious Diseases Society of America (IDSA), cIAI is defined as an infection that extends beyond the wall of a hollow viscus of origin into the abdominal cavity while being associated with an abscess or peritonitis.¹⁷

The mechanism of action of eravacycline is to interfere with bacterial protein synthesis by binding to the ribosomal subunit 30S, thereby preventing the incorporation of amino acid residues into extended peptide chains.

Eravacycline has been shown to be as effective as alternative antibiotics in two main trials in adults with cIAI. The main indicator of efficacy in both trials was the cure rate of infections. In the first trial, involving 538 patients, eravacycline was compared with ertapenem (another antibiotic). After about one month, 87% of patients treated with eravacycline were cured of their infection, compared with 89% of patients treated with ertapenem. In the second trial, involving 499 patients, eravacycline was compared with meropenem (a carbapenem antibiotic commonly used in Europe in this indication). After about one month, 92% of patients treated with eravacycline and 92% of patients treated with meropenem were cured of their infection.

¹⁷ Solomkin JS, Mazuski JE, Bradley JS: Diagnosis and management of complicated intra-abdominal infection in adults and children: guidelines by the Surgical Infection Society and the Infectious Diseases Society of America. Clin Infect Dis. 2010;50:133-164.

Eravacycline is FDA-approved for the treatment of complicated abdominal infections in patients 18 years of age and older. Eravacycline is approved by the European Commission and the UK Medicines Agency for the treatment of abdominal infections in adults. Consideration should be given to official guidance on the appropriate use of antibacterial agents.

The European Summary of Product Characteristics is available on the EMA website: https://www.ema.europa.eu/en/documents/product-information/xerava-epar-product-information_en-0.pdf.

PAION launched eravacycline in the Netherlands in September 2021. In Europe, PAION currently estimates a peak sales potential of approximately EUR 25 million to approximately EUR 35 million annually based on its own projections.

Financing activities

In June 2019, PAION signed a financing agreement for a loan with a total volume of up to EUR 20 million with the European Investment Bank (EIB). PAION drew down the first two tranches totalling EUR 12.5 million in February 2021 and the third and final tranche of EUR 7.5 million in June 2021. Each tranche has a term of five years and is repaid from the 39th month after disbursement. The interest rate consists of a current cash interest component of 6% (tranche 3) and 7.5% (tranches 1 and 2), a deferred bullet interest component of 3% (tranche 3) and 5% (tranches 1 and 2) and a performance-based component that is also bullet.

In April 2021, a rights issue was completed with gross proceeds of EUR 7.8 million. Thereby, the share capital of PAION AG was increased to EUR 71,336,992.00 from EUR 66,241,493.00 by EUR 5,095,499.00 by using the Authorized Capital 2020 through the issuance of 5,095,499 new shares.

3. Net assets, financial position and results of operations

b. Results of operations

	2021 KEUR	2020 KEUR	Change in result KEUR
Revenues	7,128	19,655	-12,527
Cost of Sales	-3,077	0	-3,077
Gross Profit	4,051	19,655	-15,604
Research and development	-5,249	-10,288	5,039
General administration and selling	-19,828	-7,523	-12,305
Other income (expenses)	-1,053	-261	-792
Operating expenses	-26,130	-18,072	-8,058
Operating result (EBIT)	-22,079	1,583	-23,662
Financial result	-503	-152	-351
Income taxes	796	791	5
Net result	-21,786	2,222	-24,008

The revenues recognised in the reporting year amounted to KEUR 7,128 and resulted in the amount of KEUR 4,484 from the sale of remimazolam active ingredient to and revenue-based licence fees from licensees, in the amount of KEUR 2,600 from milestone payments in connection with market approvals as well as the granting of the licence for the development and marketing of remimazolam in Taiwan to TTY, and in the amount of KEUR 44 from commercial product sales to wholesalers and hospitals in selected European markets. The revenues in the previous year were primarily attributable to milestone payments in connection with the market approvals for remimazolam in the USA and Japan as well as the expansion of the licence area for remimazolam by six additional countries in Southeast Asia concluded with the licensee Hana Pharm in January 2020.

Cost of sales amounted to KEUR 3,077 and was primarily attributable to revenue from the sale of remimazolam active ingredient to licensees.

Research and development expenses amounted to KEUR 5,249 compared to KEUR 10,288 in the previous year and decreased as planned, especially against the background of the EU Phase III study in general anaesthesia that was successfully completed in the previous year.

General administrative and distribution expenses together amounted to KEUR 19,828 and increased by KEUR 12,305 compared to the previous year. Administrative expenses rose by KEUR 2,379 to KEUR 5,556 and distribution expenses by KEUR 9,926 to KEUR 14,272. The increase in administrative expenses is mainly related to financing activities and the expansion of IT systems and infrastructure. Selling expenses increased as planned, particularly due to commercialisation and supply chain activities for the three products remimazolam, angiotensin II and eravacycline in Europe.

In the year under review, **other income (expenses)** mainly include value adjustments on receivables (KEUR 989), (net) expenses from oncharges to licensees and expenses from obligations to licensees (KEUR 153) as well as (net-) exchange rate gains of KEUR 115.

The **financial result** amounts to KEUR -503 and mainly includes KEUR 1,974 in financial expenses in connection with the EIB loan and KEUR 1,562 in financial income from the reporting date valuation of the final performance-related remuneration component in connection with the EIB loan. The financial result decreased by KEUR 351 compared to the previous year. This is primarily due to (net) expenses in connection with the EIB loan drawn down in the reporting year.

Taxes on income in the fiscal year mainly relate to the tax benefits from tax credits on parts of the research and development expenses by the British tax authorities. Due to a limitation of the subsidy based on the annual result of PAION UK Ltd. in the previous year, which does not apply in the reporting year, the decrease in research and development expenses is not equally reflected in a decrease in tax credits.

PAION closes the fiscal year 2021 with **earnings before interest and taxes (EBIT)** of KEUR -22,079 (prior year: KEUR 1,583) and with a net **loss** of KEUR 21,786 after a net profit of KEUR 2,222 in the prior year.

b. Net assets

	31 Dec. 2021 KEUR	31 Dec. 2020 KEUR	Change KEUR
Non-current assets	20,551	1,872	18,679
Current assets	16,234	26,278	-10,044
Assets	36,785	28,150	8,635
Equity	6,999	21,290	-14,291
Non-current liabilities	18,801	15	18,786
Current liabilities	10,985	6,845	4,140
Equity and liabilities	36,785	28,150	8,635

Non-current assets primarily include the balance sheet value of the products angiotensin II (KEUR 13,735) and eravacycline (KEUR 3,408), which were in-licensed in the reporting year for marketing in the European Economic Area, the United Kingdom and Switzerland and already approved in Europe, as well as the book value of the value of the development project remimazolam (KEUR 1,752; 31 December 2020: KEUR 1,808), reduced by scheduled amortisation, capitalised from the purchase price allocation as part of the CeNeS acquisition in 2008.

Compared to 31 December 2020, **current assets** decreased by KEUR 10,044 to KEUR 16,234 and as of 31 December 2021 consist of cash and cash equivalents (KEUR 6,440), inventories (KEUR 4,823), other assets and prepaid expenses (KEUR 3,254) and trade receivables (KEUR 1,717). The decrease of KEUR 10,044 compared to 31 December 2020 is due to a decrease of KEUR 13,226 in cash and cash equivalents and KEUR 1,083 in other assets and prepaid expenses, as well as an increase of KEUR 3,048 in inventories and KEUR 1,217 in trade receivables. The decrease in other assets and prepaid expenses resulted primarily from a lower tax refund claim against the British tax authorities due to the tax incentives for research and development activities. The increase in inventories is mainly due to the commercialisation, while the increase in trade receivables results in particular from a delivery of remimazolam active ingredient to a licensee shortly before the reporting date.

The decrease in **equity** by KEUR 14,291 compared to 31 December 2020 is mainly due to the net loss for the year and the issue of a total of 5,095,499 new shares as part of the rights issue completed in April 2021. The equity ratio as at 31 December 2021 is 19.0% (31 December 2020: 75.6%).

Non-current liabilities mainly relate to the carrying amount of the non-current portion of the EIB loan drawn down in the reporting year (KEUR 18,199 including the performance-based, bullet payment component) and liabilities from leases (KEUR 566).

As of 31 December 2021, **current liabilities** consist of trade payables, provisions, financial liabilities, lease liabilities, tax liabilities and other liabilities. The increase of KEUR 4,144 to KEUR 10,989 is mainly due to the scheduled increase of KEUR 2,678 in trade payables as part of the commercialisation that has begun, as well as the current portion of the EIB loan with a carrying amount of KEUR 1,285 as of 31 December 2021 that was drawn down during the year.

c. Financial position

Cash and cash equivalents decreased by EUR 13,226 thousand compared to 31 December 2020 to EUR 6,440 thousand as at 31 December 2021. The change in cash and cash equivalents results from the following areas:

	2021 KEUR	2020 KEUR	Change KEUR
Cash flow from operating activities	-21,178	906	-22,084
Cash flow from investing activities	-19,205	-14	-19,191
Cash flow from financing activities	27,147	-24	27,171
Effect of exchange rate changes	10	11	-1
Change in cash and cash equivalents	-13,226	879	-14,105

Both the cash flow from operating activities and the cash flow from investing activities were negative. However, liquidity was strengthened by the positive cash flow from financing activities.

The **cash flow from operating activities** mainly results from the net loss for the year of KEUR 21,786 and changes in working capital.

The **cash flow from investing activities** is primarily due to the European licensing and commercialisation rights for angiotensin II (KEUR 14,794) and eravacycline (KEUR 3,699) acquired in the reporting year as well as an ERP system under development (KEUR 550).

The **cash flow from financing activities** results in the amount of KEUR 20,000 from the utilisation of the EIB loan, in the amount of KEUR 7,847 from the gross inflow of funds from the rights issue completed in April 2021, in the amount of KEUR -586 from the capital procurement costs incurred in connection with this capital increase and in the amount of KEUR -114 from the redemption portion of the lease payments.

d. Overall appraisal

Financial performance indicators

EBIT of EUR -22.1 million in the 2021 financial year is below the range of approximately EUR -16.5 million to approximately EUR -21.5 million forecast for 2021 in the previous year.

At EUR 7.1 million, realised sales revenues are below the forecast of approximately EUR 8 million to approximately EUR 9.5 million made in the previous year for 2021, in particular because the conclusion of licence agreements originally planned for the end of 2021 was postponed to 2022 due to the negotiations conducted at the end of the year on the transfer of the Chinese remimazolam patents to Humanwell. The cost of sales of EUR 3.1 million is also below the range of approximately EUR 3.5 million to approximately EUR 4 million forecast for 2021 in the previous year.

Administrative and selling expenses of EUR 19.8 million are within the projected range of approximately EUR 18 million to approximately EUR 20 million for 2021, mainly because commercialisation and supply chain activities were carried out as planned.

At EUR 5.2 million, research and development expenses are also within the range of approximately EUR 4.5 million to approximately EUR 5.5 million forecast for the reporting year in the previous year.

Overall, the net assets, financial position and results of operations developed essentially as expected in the reporting year.

As the commercialisation of PAION's product portfolio has only just begun and significant investments still have to be made, especially in the sales infrastructure, PAION will (continue to) post losses for the time being.

Non-financial performance indicators

In the financial year, important steps were taken on the way to becoming an established specialty pharmaceutical company with a focus on the areas of sedation, anaesthesia and intensive care. For example, remimazolam was approved by the EMA for the indication of short sedation and the product portfolio was expanded by two additional approved products. PAION's licensees also made progress in the development, approval and marketing of remimazolam.

Headcount

PAION had an average of 51 employees in the fiscal year 2021 (previous year: 43 employees). Of the 51 employees, twelve worked in development and 39 in administration and sales. Eleven employees on average for the year are attributable to the PAION UK Group, three to PAION Netherlands B.V. and two to PAION Scandic ApS. As at 31 December 2021, the number of employees was 56 (31 December 2020: 43) and has increased as planned, particularly in connection with the establishment of sales infrastructure in selected European countries.

Impact of the Covid 19 pandemic on the PAION Group

Since the beginning of 2020, a new form of the coronavirus (SARS-CoV-2), which causes the respiratory disease Covid-19, has spread internationally. The pandemic has led to sometimes massive restrictions in public life worldwide as well as significant drops in economic performance. The success of containment measures, the resulting speed of spread of the virus and the restrictions based on this, especially in public areas, vary greatly from region to region and also vary significantly depending on the current infection situation. At the time of this report, there is still uncertainty about the further course of the pandemic. On the one hand, various vaccines have also been approved internationally, which prevent the disease of the currently widespread forms of the virus relatively, but already less effectively in the case of the latest forms of the virus; on the other hand, in many places the number of infections is again increasing again (significantly) in some cases (so-called "fifth wave"), and in some cases more contagious mutations are spreading, so that there is also the danger of further mutations developing, which could be increasingly resistant to currently available vaccines and/or (even) more dangerous for humans. Against this backdrop, it is still not possible to precisely assess the short- and medium-term effects on economic development.

The covid 19 pandemic continues to severely limit market access in some countries such as the US, while in others, e.g. Asia, the impact is not significant despite a renewed worsening of infection. This remains a key economic risk as healthcare systems around the world struggle to cope with both the pandemic and associated additional healthcare costs and the backlog of work.

PAION will continue to work as far as possible to mitigate these risks together with its global partners.

To date, the pandemic has had a moderate direct impact on the PAION Group. On the one hand, PAION currently still generates a significant proportion of its revenues from milestone payments. The underlying milestones are largely independent of the general economic development. On the other hand, PAION could and can continue its business activities almost unchanged, even under significant restrictions in public life, as the presence of employees in the business premises is in most cases not absolutely necessary for the normal continuation of operations. In addition, PAION is largely independent of the general economic development in the short to medium term, as in the worst case development and marketing activities could be reduced in order to increase the cash reach. As PAION's own marketing activities did not start until the fiscal year 2021 and therefore only relatively few deliveries of commercially manufactured product have been made to date, there have also been no major effects of the pandemic in this respect. However, a lack of production capacity at contract manufacturers and very long order times for certain materials (e.g. glass vials) have been observed, which has partially impacted the business of our licensees. In addition, access to clinics and prescribers is limited due to the impact of Covid-19 on the healthcare system, which has led to moderate product sales in some cases. PAION hopes to accelerate growth in 2022.

Overall, the pandemic has so far had a moderate direct impact on the PAION Group's net assets, financial position and results of operations. Due to the limited access to hospitals and prescribers, PAION currently expects moderate negative effects of the pandemic on its own marketing of the products remimazolam, angiotensin II and eravacycline. Based on the situation at the time of this report, it is assumed that there will be a moderate direct impact on PAION's own operating business in the future. The extent to which the business activities of our licensees in particular will (continue to) be affected by the pandemic in the future and, as a result, sales revenues from milestones or licensing income may not be realised at all, or may be reduced or delayed, is not known at this point in time. However, PAION currently assumes a moderate effect on the business of its licensees as well, so that at this point in time there will be moderate planning adjustments due to the Covid 19 pandemic. The impact of the pandemic on the general financing environment could limit PAION's ability to obtain the financing it needs.

Reference to remuneration report pursuant to § 162 AktG

The remuneration report in accordance with § 162 AktG is published on the website of PAION AG (<https://www.paion.com/medien-investoren/corporate-governance/verguetung-vorstand-und-aufsichtsrat/>).

Disclosures pursuant to § 315 a (I) HGB and explanatory report

Composition of the subscribed capital

The subscribed capital of PAION AG amounts to EUR 71,336,992.00 as of 31 December 2021 and is divided into 71,336,992 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. A claim of the shareholders to securitisation of their shares is excluded according to Article 6 paragraph 2 of the Articles of Association. All shares carry the same rights and obligations. Each share grants one vote at the Annual General Meeting and is decisive for the shareholders' share in the profits. The rights and obligations of the shareholders arise in detail from the provisions of the German Stock Corporation Act, in particular from §§ 12, 53a et seq., 118 et seq. and 186 of the German Stock Corporation Act.

Restrictions affecting voting rights or the transfer of shares

Under German law and PAION AG's Articles of Association, there are no restrictions on the voting rights or transferability of the shares. The Management Board of PAION AG is also not aware of any restrictive agreements at shareholder level regarding voting rights or the transfer of shares.

Equity interests exceeding 10% of voting rights

Pursuant to the German Securities Trading Act (Wertpapierhandelsgesetz), any investor who reaches, exceeds or falls below certain shares of voting rights in the Company by way of acquisition, sale or otherwise must notify the Company and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) thereof. The lowest threshold for this notification obligation is 3%. Direct or indirect shareholdings in the capital of the Company that reached or exceeded 10% of the voting rights on 31 December 2021 have not been reported to the Company.

Shares with special rights conferring powers of control

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

Type of voting rights control if employees have an interest in the capital and do not exercise their control rights directly

The share options granted to employees and members of the Management Board can be exercised by the beneficiaries after expiry of the defined waiting period and fulfilment of the other conditions. The shares acquired in this course grant the beneficiaries the same rights as other shareholders and are not subject to any control of voting rights.

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

The appointment and dismissal of members of the Management Board is governed by sections 84 and 85 of the German Stock Corporation Act (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 § 84 AktG, Management Board members may be appointed by the

Supervisory Board for a maximum of five years. A repeated appointment or extension of the term of office, in each case for a maximum of five years, is permissible. According to § 8 para. 1 of the Articles of Association, the Management Board consists of at least one person. The Supervisory Board determines the number of members of the Executive Board. Furthermore, the supervisory board may appoint a member of the executive board as chairman pursuant to § 84 para. 2 AktG or § 8 para. 2 of the articles of association.

An amendment of the Articles of Association is governed by Sections 179 and 133 of the German Stock Corporation Act in conjunction with Section 27 of the Articles of Association of PAION AG. According to the articles of association of PAION AG, the resolution of the general meeting required to amend the articles of association may be adopted by a simple majority of the share capital represented at the time of the adoption of the resolution, to the extent 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 the event of a change of control, the EIB has the right to terminate the existing loan agreement and demand early repayment of loan tranches already granted.

Compensation agreements of the Company entered into with members of the Management Board or employees in the event of a takeover bid

The terms and conditions of the 2010, 2014, 2016, 2018 and 2020 share option programmes provide equally for Management Board members and employees that, in the event of an acquisition of control, for all options for which the waiting period has not yet expired at the time of the acquisition of control, the entitlement to the subscription of shares is converted into an entitlement to cash settlement based on the share price on the day the acquisition of control becomes effective; the corresponding share options expire. Instead of the cash settlement, listed shares in the acquiring company may also be granted at the Company's option.

With regard to further existing compensation agreements with members of the Executive Board, we refer to the above explanations in the remuneration report.

Statement on Corporate Governance pursuant to Section 289 f HGB

The corporate governance statement pursuant to section 289 f HGB is published on the website of PAION AG (<https://www.paion.com/medien-investoren/corporate-governance/erklaerung-zur-unternehmensfuehrung/>).

Report on risks and opportunities

I. Risk management

As a specialty pharmaceutical company, PAION is subject to the typical industry and market risks associated with the development and commercialisation of pharmaceutical products. PAION AG has implemented a viable internal control system and risk management system in order to ensure the effectiveness and efficiency of its business activities, the correctness of its accounting and compliance with the relevant legal provisions in accordance with Section 91 (3) of the German Stock Corporation Act (AktG), thereby systematically and permanently preventing breaches of law and regulations. This system also ensures that risks are identified, assessed, managed and communicated in a timely manner, that the risk management system as a whole is monitored and managed, and that potential risks to the company and its subsidiaries are identified at an early stage in accordance with section 91 (2) of the German Stock Corporation Act (AktG). This is also in accordance with the German Control and Transparency in Business Act (KonTraG), a Group-wide, comprehensive and effective risk management system that is integrated into the operational business processes and flexibly adapted to the dynamics of the environmental conditions. The task of the risk management system is to promote the conscious and responsible handling of risks and to identify, monitor, analyse, evaluate and control risky developments at an early stage. By involving the entire management level and project management in the process of strategy and corporate development, a common awareness of the critical success factors and the associated risks is created.

PAION's risk management system consists of the internal control system, the risk early warning system and the controlling system. These three subsystems are directly interrelated and also take over tasks from the other subsystems.

The financial accounting and cost accounting software "Microsoft Dynamics NAV" that has been introduced as well as a corporate planning tool based on Excel that has been adapted to PAION form the basis for controlling. Internal reporting on a cost centre and cost unit basis is carried out on a monthly basis, which ensures early identification of budget deviations. The Excel-based planning tool forms the basis for short-, medium- and long-term corporate planning (cost centre planning, cost unit or project planning, budgeted P&L, budgeted balance sheet and budgeted cash flow statement). With the help of this planning tool, management and controlling are able to identify and evaluate opportunities and risks at an early stage by simulating various scenarios and to determine their influence on the future development of the company, in particular on the decisive financial control parameter of liquidity.

The implemented internal control system includes both regulations for controlling corporate activities and regulations for monitoring compliance with these regulations. Key measures of the internal control system are the application of the dual control principle, the definition of business transactions requiring approval, the limited granting of signatory and bank powers of attorney, the standardisation of workflows through work instructions, the monitoring of compliance with predefined process steps using checklists and the establishment of measures to protect data and IT systems. In addition, PAION has in the past commissioned an auditing company to perform the tasks of an internal audit. The internal audit department worked according to a multi-year audit plan, which was developed jointly by the internal audit

department and the management board on the basis of a risk-oriented audit approach and materiality aspects, and reported promptly on the audit activities carried out and any findings. In the reporting year, no audit was carried out by the internal audit department. Furthermore, PAION has appointed an internal compliance officer. The compliance officer monitors adherence to the company-wide compliance guidelines and reports on his activities and any findings in writing once a year.

PAION has implemented a matrix organisation that brings together both the project organisation and the departmental organisation. Within these organisational structures, detailed reporting and information structures are in place to ensure early identification and communication of risks. The individual projects are controlled and monitored by project teams. The project teams report continuously - also in written form - on the current progress of the projects as well as on possible risks to the individual department heads as well as to the company management.

The risk management system is reviewed once a year and discussed with the Supervisory Board or the Audit Committee. The risk analysis is updated during the year and presented to the Supervisory Board. Special risks are communicated on an ad hoc basis. A comprehensive risk inventory is conducted annually. The internal control system is continuously reviewed with regard to the effectiveness of the controls and adjusted if necessary. The risk management system and the internal control system were audited by the internal audit department as part of a multi-year audit plan.

2. Risk management and internal control system relevant for the financial reporting process

The risk management system and the internal control system also include the accounting-related processes and are designed to ensure the propriety and reliability of the consolidated financial statements and group management report as well as the published quarterly and half-yearly financial statements.

The accounting-related risk management system and the internal control system address the risk of material misstatements in the annual and interim financial statements. Essential measures and controls in accounting are the clear assignment of responsibilities, the dual control principle, the separation of functions, the use of an appropriate financial accounting system and the associated authorisation concept as well as the use of checklists and internal work instructions. In addition, individual financial statements and a consolidated financial statement are prepared monthly for internal purposes. The monthly, interim and annual financial statements are analysed with the help of Group-wide controlling with regard to plan/actual deviations as well as implausibilities and inconsistencies in accounting. The monthly financial reports are submitted to the Supervisory Board. The quarterly reports as well as the half-year and annual financial statements are published and discussed with the audit committee of the supervisory board or with the supervisory board prior to publication.

Material matters relating to the preparation of the financial statements are discussed with the audit committee in a timely manner. Furthermore, the audit committee determines additional audit areas and focal points of the auditor's audit.

In addition, the auditor is obliged to report to the supervisory board on accounting-relevant risks or control weaknesses as well as other material weaknesses in the risk management system and internal control system identified in the course of his audit activities.

3. Significant risks

Risks are initially recorded as gross risks within the scope of early risk identification before suitable risk-reducing measures are introduced with regard to the potential amount of damage and the probability of occurrence. Net risks are determined with regard to the amount of damage and probability of occurrence, taking into account risk-reducing measures that have been introduced, and are classified on the basis of the resulting expected value. When evaluating potential risks, both internal and known relevant external factors are taken into account according to their relevance. The categories used for probability of occurrence and extent of damage as well as the classification of the resulting net risks are shown in the following table:

		Damage level				
Likelihood of occurrence		Very low < KEUR 100	Low KEUR 100 - KEUR 500	Moderate KEUR 500 - EUR 1 mill.	High EUR 1 mill. - EUR 5 mill.	Very high > EUR 5 mill.
Highly probable	> 90%	Very low risk	Moderate risk	Increased risk	Very high risk	Very high risk
Very probable	60%- 90%	Very low risk	Low risk	Increased risk	High risk	Very high risk
Probable	30%- 60%	Very low risk	Low risk	Moderate risk	High risk	High risk
Possible	15%- 30%	Very low risk	Very low risk	Low risk	Increased risk	High risk
Unprobable	< 15%	Very low risk	Very low risk	Low risk	Moderate risk	Increased risk

In the following, the identified risks are explained together with the risk-reducing measures introduced in each case and classified according to the table above. The classification refers to the net risks, taking into account the risk-reducing activities. A loss amount exceeding EUR 5 million in the event of occurrence is defined as very high; these are marked separately as such. The presentation of net risks with the classifications "very low risk" and "low risk" is omitted, as these do not significantly influence the decisions of a reasonable addressee. In the course of the necessary aggregation of risks, some of the risks presented below may consist of individual sub-risks. In this case, the risk classification presented always refers to the highest of the individual sub-risks. Any changes in the risk classification compared to the previous year are indicated in each case. If risks recorded in the previous year no longer exist or if risks were recorded for the first time in the reporting year, this is not explained separately.

a. Risks in connection with the development and commercialization of the product portfolio

PAION is dependent on the successful commercialisation of its products remimazolam, angiotensin II and eravacycline in the European market and on the commercialisation of remimazolam outside Europe by licensees. The risks listed below explicitly refer to all three products. If a risk relates to only one of the three products, this will be indicated.

aa) Development and approval risks

All three products are approved in the EU. remimazolam has so far only been approved in the EU for short sedation; an application for approval for general anaesthesia has been submitted but has not yet been decided. In addition, there are obligations for all products to carry out certain development work (for example, in clinical and non-clinical studies) even after approval. As is common practice in the pharmaceutical industry, contract research organisations (CROs) are commissioned to carry out the studies. PAION exercises the monitoring and control functions customary in the industry. Nevertheless, there is a fundamental risk that inadequate performance of the studies could lead to necessary improvements and delays in the approval process or, in the worst case, to the withdrawal of a granted marketing authorisation. To reduce this risk, CROs are carefully selected and regularly reviewed on the basis of defined processes and criteria. In addition, both the conduct of clinical trials in the respective study centres and the study data generated are controlled and monitored by independent third parties. This is an industry-specific high risk. In the event of occurrence, the potential amount of damage could be very high.

To ensure compliance with regulatory requirements, PAION works with experienced regulatory service providers. PAION regularly evaluates the services provided, also taking into account external comparative data, but is unable to fully assess the adequacy of and compliance with regulatory requirements due to the highly specialised expertise of the service providers. Despite the high reputation of the contracted service providers, there is therefore a risk that regulatory requirements, for example with regard to documentation or quality assurance requirements, are not sufficiently fulfilled and that this jeopardises the granting or maintenance of marketing authorisations. This is an increased risk. In the event of occurrence, the potential damage could be very high.

PAION continues to conduct clinical trials. There is a risk that patients may not be recruited sufficiently quickly or at all in future studies. The resulting delay, necessary modification or discontinuation of the respective study would generally (e.g. when initiating a new study) lead to higher costs and delays. The knowledge gained from the clinical studies conducted to date, particularly with regard to the recruitment of specific patient populations, is regularly incorporated into the study designs in order to ensure the best possible patient recruitment. As part of the study monitoring, PAION analyses potential alternative and fallback scenarios if necessary in order to be able to initiate countermeasures promptly in the event of occurrence. In addition, PAION cooperates closely with its licensees, for example to jointly conduct studies and to share findings from previous studies. This is a moderate risk.

The results of clinical and non-clinical studies are not predictable. There is always the risk that unexpected, serious side effects occur or that promising results of previous studies are not confirmed to the same extent in subsequent studies and that previously defined primary and/or

secondary endpoints of a study cannot be achieved. The reasons for the latter can be both the insufficient suitability of the active substance candidate for the intended indication and the respective study designs. If this risk occurs, it can lead to significant delays in further development or even to the discontinuation of the development or commercialisation of the active substance concerned. These are typical development risks whose occurrence can only be influenced to a small extent. With regard to the occurrence of unexpected, serious side effects, these include careful dose finding before the start of the study and close monitoring of safety aspects of the study as well as, with regard to the results of studies and the achievement of primary and secondary endpoints, a study design and protocol carefully chosen in advance of the study with the help of external experts and/or, in the course of the study, potential dose adjustments or modified study protocols, insofar as there are indications of their necessity. The occurrence of unexpected, serious side effects is a moderate risk. In case of inadequate study results and non-achievement of primary and secondary endpoints, this is a high risk. In the event of occurrence, the potential level of harm could be very high.

As part of the development of remimazolam for adult use, a follow-on development for paediatric use is mandatory in both the US and the EU. Should there be delays such that this cannot be completed in the EU according to PAION's agreed timetable with the EMA, there is a risk that the marketing authorisation in short sedation may be withdrawn and/or the extension of the marketing authorisation application to include general anaesthesia in the EU may be refused by the EMA. PAION is working on the implementation of the paediatric development plan in the EU to minimise this risk. This is a high risk. If it were to occur, the potential amount of damage could be very high.

There is also a risk that additional requirements will be imposed by authorities that go beyond what was planned in advance. The tightening of threshold values in efficiency and safety evaluations or changes in the evaluation of clinical data by the authorities could make the implementation of ongoing studies more expensive or significantly delay them or require the initiation of additional studies in order to be able to submit a marketing authorisation application. In this context, the assessments of the individual regulatory authorities may also differ. A data package that is deemed sufficient in one country may be deemed insufficient by a regulatory authority in another country. Even after a marketing authorisation application has already been submitted, there is a risk that the competent authority will refuse to accept an application for marketing authorisation for reasons of form, for example, and demand subsequent improvements, appoint external expert committees to assess individual issues and/or initially reject applications for marketing authorisation, for example, by demanding that further studies be conducted. This can lead to significant delays in the approval process, higher costs than originally planned (e.g. in the case of the need to conduct additional studies) and, in the worst case, to the discontinuation of further development or commercialisation of the product candidate (in the market concerned). This risk is typical for drug development and can only be influenced by PAION to a limited extent. However, in order to mitigate the risk to a large extent, PAION and its licensees consult with the respective regulatory authorities in all major markets, both in the context of official consultations and informally. PAION also consults regulatory experts. This is a high risk. In the event of occurrence, the potential loss amount could be very high.

In addition, there is a risk that product defects and deficiencies in the manufacturing process of remimazolam or certain incidents at PAION's contract manufacturers could lead to regulatory consequences or insufficient supply quantities, which could result in the suspension and/or delay of studies or the restriction of the commercial viability of products already manufactured. PAION's quality assurance maintains a close cooperation with PAION's contract manufacturers and regularly conducts audits itself in order to ensure consistently high manufacturing quality. The knowledge gained in the course of interactions with the various authorities is continuously incorporated both in the evaluation during audits and in the definition of the relevant quality requirements. In addition, a safety stock of products is maintained. This is an increased risk. In the event of occurrence, the potential damage could be very high.

In addition, regulatory authorities regularly conduct inspections with respect to (the manufacture of) the drugs prior to granting marketing approval. There is a risk that quality deficiencies at PAION, PAION's contract manufacturers or other service providers engaged by PAION in this context could be identified by the authorities in the course of such inspections, which could lead to delays in market approval. In order to minimise this risk, PAION maintains close cooperation with its contract manufacturers and service providers and conducts regular audits itself to ensure consistently high quality of manufacturing and related processes and documentation. PAION also works with reputable and experienced external service providers for this purpose. This is an increased risk.

In addition to the approval itself, it is above all the application framework that is ultimately granted (the so-called "label") that plays an important role in the successful commercial usability of remimazolam. There is a risk that this so-called label could significantly restrict the commercial usability or make it completely uneconomical. In order to reduce this risk, PAION considers the relevant aspects in the respective study designs and performs additional analyses if necessary. This is a high risk. The potential amount of damage in the event of occurrence could be very high.

bb) Commercialization risks

Various risks result from the commercialisation of their products.

PAION has already conducted extensive market research as a basis for assessing market potential in different markets and is analysing market access in various markets in Europe. There is a risk for all regions that the prices underlying the business plan cannot be enforced or that other assumptions such as forecast market shares cannot be realised and therefore the full potential of the products cannot be exploited. There is also the risk of competition from low-priced competing products. This risk can only be influenced to a small degree. For Europe, it is planned to conduct additional smaller studies for certain markets, if necessary, that clearly highlight the added value in the respective indication in the market concerned in order to enable marketing in the respective target groups as planned. Furthermore, measures to reduce manufacturing costs are planned. This is a high risk. In the event of occurrence, the potential amount of damage could be very high.

There is a risk that PAION or PAION's licensees may not be sufficiently successful in preparing the market through pre-marketing and market access activities, such as communication and exchange with the scientific community, and therefore may not be able to

sell the forecast volumes in the market. To reduce this risk, PAION works to prepare the relevant markets, including by bringing in external experts to communicate with the scientific community, by working with key opinion leaders and by building and expanding the internal commercial team. There is also a regular exchange of information with the licensees. As a large number of planned investigations and procedures were initially cancelled or postponed due to the Covid 19 pandemic, their subsequent catch-up and the increased need for sedatives and/or anaesthetics induced by this could support the successful market launch of remimazolam. This is a high risk. If it occurs, the potential damage could be very high.

In order to successfully market the products, PAION's sales structures (for its own marketing in parts of Europe) or those of licensees, if not already in place, must be fully established. There is a risk that this process may not be completed, or not completed at all, depending on the region and the regulatory process. In order to minimise the risk as far as possible, PAION has analysed potential distribution structures, also with the help of external experts, and is working on their implementation. In addition, PAION maintains a regular exchange of information with its licensees. This is a high risk. In the event of occurrence, the potential loss amount could be very high.

The healthcare sector is subject to varying degrees of government regulation depending on the region, which is sometimes changed or tightened over time. There is a risk that the basis of access to certain markets, remuneration and permitted forms of advertising and distribution for pharmaceutical products in PAION's target markets could be changed significantly to the detriment of the pharmaceutical industry. This risk cannot be influenced by PAION. It is a high risk. If it were to occur, the potential loss could be very high.

cc) Production and purchasing risks

In preparation for commercialisation, PAION has successfully completed so-called scale-up processes for the manufacture of remimazolam together with experienced and renowned contract manufacturing organisations (CMOs), which serve to validate the technical feasibility of manufacturing even larger quantities of the product. However, the commercial production of remimazolam has not yet been tested as a regular process, so that there is a risk that remimazolam cannot be produced on a commercial scale quickly enough, in sufficient quantity and/or quality and/or at competitive costs for the market. This also applies in principle to the products angiotensin II and eravacycline, although these have been produced on a commercial scale for some time. To reduce this risk, PAION works closely with the contract manufacturers to identify potential savings and opportunities to increase efficiency, such as increasing batch sizes, and to identify and address potential weaknesses in the processes at an early stage. In addition, PAION maintains a safety stock of products. This is a high risk. If it were to occur, the potential loss could be very high.

Furthermore, (additional) requirements of the regulatory authorities can delay the production of market material and thus lead to a delayed supply. This risk is also inherent in drug development and can hardly be influenced. However, the contract manufacturers with whom PAION works are experienced in implementing additional regulatory requirements. In addition, PAION or its manufacturers have taken into account feedback from the respective authorities

from informal and formal consultations accordingly in the production development programme for remimazolam. This is an elevated risk.

There is a risk that large quantities of products could be irretrievably lost as a result of incidents such as fire, theft, accidents or similar events. PAION carefully selects all contractual partners throughout the production chain and attaches great importance to high safety requirements. In addition, PAION has largely covered itself against potential losses through insurance policies typical for the industry. This is a moderate risk.

PAION has largely completed the implementation of the supply chain, but must adapt it to the country-specific requirements in line with the planned marketing launch in the individual countries. If the supply chain is not fully set up and adapted in time, the timely availability of products could be jeopardised. This is a moderate risk.

PAION supplies licensees in different regions with remimazolam active ingredient in some cases. PAION is exposed to product liability risks in connection with its marketing activities. This also applies to the planned own marketing of remimazolam in certain European markets. PAION works with experienced and renowned CMOs for the production of both the active pharmaceutical ingredient (API) and the finished applicable product (DP), and the production process is regularly monitored by PAION's quality assurance on the basis of predefined processes and requirements and in close cooperation with the CMOs and licensees. There are contractual liability arrangements with both the CMOs and the licensees. In addition, PAION has taken out product liability insurance to largely reduce the risk and limit any damage. This is a high risk. In the event of occurrence, the potential amount of damage could be very high.

dd) Risks related to patents and other forms of intellectual property protection

PAION's business is highly dependent on its ability to obtain the broadest possible patent protection and other forms of intellectual property protection for its compounds and to defend them against third parties without infringing their rights. There can be no assurance that any currently pending or future patent applications will result in the grant of patents or that any patents or patent licences granted will be effective or of sufficient scope to provide PAION or its licensees with sufficient legal protection or market advantage. PAION works with an experienced patent law firm on an ongoing basis in order to ensure the protection of PAION's intellectual property and to be able to identify and address potential threats at an early stage and not to infringe any third-party patents itself. This is an increased risk.

ee) Risks in connection with licensees

As global development and commercialisation activities for remimazolam progress, licensees are increasingly conducting major clinical trials and are increasingly focused on important regulatory coordination, meetings with the respective regulatory authorities, submission of marketing applications and preparation for potential commercialisation. There is a risk that the results of clinical trials, discussions with regulatory authorities or the evaluation of marketing authorisation applications by regulatory authorities may make the further development and/or commercialisation of remimazolam no longer attractive to existing licensees in the respective

market they have licensed and they may terminate their licence for this reason. To mitigate this risk, PAION regularly communicates with all licensees and, where appropriate, participates in the evaluation of development plans, marketing authorisation applications and strategies and analyses for price negotiations with authorities in order to share its extensive experience in the clinical development of remimazolam and the related regulatory interaction with authorities with the licensees to ensure the successful conduct of clinical studies and the fulfilment of the respective regulatory requirements for both studies and marketing authorisation applications as well as the best possible preparation for potential marketing. This is an increased risk.

There is also the risk that there are delays in the development, regulatory processing and/or subsequent potential marketing of remimazolam in the licensed territories and that PAION does not receive milestone payments and/or royalties at all or receives them late as a result. As the underlying original risks, which have already been described in the other sections, are manifold and sometimes differ greatly depending on the licensee, this risk is not categorised here.

b. Financial risks

aa) Financing risks

PAION expects future payments from existing and, if applicable, future collaborations as well as from tax credits to finance part of its short- and medium-term funding needs. However, PAION will require additional funding for the further development and planned commercialisation of remimazolam, eravacycline and angiotensin II in Europe. Additional funding requirements could also arise due to delays or cost increases in development and commercialisation. If targets agreed with licensees are not met, milestone payments and royalty income may be received later than planned or not at all.

Whether PAION will be able to raise additional funds will depend on the success of the commercialisation and development activities of both PAION's licensees and PAION itself, the licensee and partnering activities, capital market conditions and other factors, such as the impact of the Covid-19 pandemic. If PAION is unable to raise funds in the short and medium term, PAION will be forced to reduce its operating expenses by delaying, curtailing or discontinuing the development and commercialisation of its products.

PAION carries out short-, medium- and long-term planning of its funding requirements and updates these on an ongoing basis in order to identify additional funding requirements in good time and to take appropriate action. Furthermore, PAION is in regular and close contact with investors as well as (potential) pharma partners and licensees. This is a very high risk. In the event of occurrence, the potential amount of damage could be very high.

bb) Currency risks

PAION sometimes concludes contracts in foreign currencies, primarily in US dollars, British pounds and Danish kroner. A sharp rise in these currencies against the euro could make the costs

of development and marketing more expensive. To mitigate this risk, PAION also holds cash in US dollars, British pounds and Danish kroner. Currency risks also arise from potential future sales-related royalty payments to be made by licensees in different currencies depending on the licensed market, in particular in US dollars from potential marketing in the USA, as well as from the translation of the individual financial statements of the British and Danish subsidiaries from local currency into euros, as the British pound and the Danish krone are the functional currency for the British and Danish subsidiaries respectively.

Currency risks are systematically recorded and monitored on the basis of short and medium-term planning. The Executive Board, with the approval of the Supervisory Board, has drawn up clear rules on which hedging instruments are to be used to limit currency risks. Under certain conditions, hedging transactions are concluded or corresponding foreign currency holdings are held for foreign currency positions where the amount and timing of payment flows are relatively certain. This is a moderate risk.

cc) Liquidity and default risks

PAION's cash and cash equivalents are held with various banks. There is a risk that, in the event of the failure of one or more of these banks, PAION would no longer be able to access the funds invested there. In order to minimise this risk, as far as possible only investments with the lowest possible risk are made which are covered by the deposit guarantee fund and/or other protection schemes. This is an increased risk. In the event of occurrence, the potential amount of loss could be very high.

dd) Tax risks

PAION has significant tax loss carryforwards. PAION assumes that, based on current tax legislation, these tax loss carryforwards can be carried forward without time limit and used to offset future profits in accordance with the tax framework (e.g. minimum taxation). Should it not be possible to use the tax loss carryforwards in part or in full, for example due to changes in the law, changes in capital resources or ownership structures or other events, higher than expected income tax payments would be incurred for the profits expected in the future in the event of the successful development and marketing of remimazolam. This is an increased risk. In the event of occurrence, the potential amount of loss could be very high.

The development costs for remimazolam are supported by tax credits due to current tax legislation in the UK. The determination of the refund claims is based on the determination methodology agreed between PAION and the UK tax authorities in previous years. If the calculation methodology is changed or no longer recognised by the tax authorities, the credits could be significantly lower than expected in the future or could be eliminated altogether. In such a case, reimbursement claims already recognised could no longer be recoverable and credits received that have not yet been finally verified by the authorities could have to be partially or fully repaid. Due to a change in the law, the tax benefits from tax credits for PAION from the fiscal year 2021 onwards are significantly lower than in previous years. This is a moderate risk.

Within the PAION Group, there is a diverse exchange of services between the companies, including across national borders. Due to the increasing complexity of the service relationships, particularly against the background of the planned commercialisation of remimazolam, angiotensin II and eravacycline, there is a risk that the transfer prices applied and the underlying transfer methods will not be (fully) recognised by the tax authorities and that litigation costs and/or possible (higher) tax payments (than planned) may be incurred. This is an increased risk.

The British subsidiary PAION UK Ltd, which holds the rights to remimazolam, is expected to generate significant income from licences in the future if remimazolam is successfully marketed in the various territories. As a result of the final form of the United Kingdom's withdrawal from the EU, which is contractually fixed at the end of 2020, PAION could be subject to additional taxation in Germany on the basis of these revenues, which could lead to significant additional tax payments for PAION due to the significantly higher tax rate in Germany and the more restrictive minimum taxation compared to the United Kingdom. These tax payments would have a corresponding negative impact on liquidity. This is a very high risk. In the event of occurrence, the potential loss amount could be very high.

PAION continuously monitors the tax legislation and case law relevant to the Group and seeks advice from external tax advisors for all significant tax issues in order to identify and address tax risks at an early stage.

aa) Risk of insolvency

There is a risk that one or more subsidiaries of PAION AG will become insolvent. If this risk were to occur, it could lead to significant impairments on the shares in and receivables from subsidiaries and correspondingly reduce PAION AG's equity. Furthermore, difficulties in financing or a failure to receive expected payments from licensees, e.g. milestone or royalty payments, or from subsidiaries, e.g. loan repayments, could lead to PAION's insolvency.

In order to monitor the net assets, financial position and results of operations of PAION AG and the operating subsidiaries, monthly reporting is carried out for each of them, in which a balance sheet and income statement are prepared. Liquidity for each company is monitored on a daily basis. This is a high risk. In the event of occurrence, the potential loss could be very high.

ee) Risks from loan financing

PAION took out a loan of EUR 20 million in the reporting year. There is a risk that PAION will only be able to pay part of the interest due or make repayments late or not at all. In order to minimise the risk, part of the interest is due at the end of the term and the loan is not repaid until the fourth year after the loan has been taken out. Nevertheless, current interest of 6% or 7.5% (depending on the tranche) is payable. Should this risk materialise, it could in the worst case lead to PAION's insolvency. This is a high risk. In the event of occurrence, the potential loss amount could be very high.

c. IT risks

As a globally active group, PAION has complex IT systems that enable the instantaneous exchange of data via both stationary and mobile devices and on which PAION urgently relies for its business activities. There is a risk that third parties could gain unauthorised access and delete, corrupt or use confidential data to PAION's disadvantage or intentionally damage the IT infrastructure. This could occur through direct attacks, access via mobile devices or the introduction of malware that is unintentionally installed or executed by the user. PAION has implemented an integrated multi-level security concept that largely reduces the risk of such access. This is an increased risk. In the event of occurrence, the potential amount of damage could be very high.

Substantial parts of the IT infrastructure are hosted with external providers. There is a risk that incidents such as hardware defects at the IT hosters could cause substantial parts of the IT systems to fail and, as a result, PAION would not be able to meet contractual or regulatory obligations in a timely manner and/or data could be irrevocably deleted. In order to reduce this risk as far as possible, PAION works with experienced and renowned IT service providers who have redundant and physically separate systems so that, in the event of damage, it can still guarantee the uninterrupted functionality of the IT infrastructure. Data is backed up on a regular basis. In addition, the existing IT infrastructure is currently being transformed into a cloud-based environment. This is an increased risk.

In parallel with the establishment of sales structures, PAION is currently also introducing a Group-wide ERP system in order to be able to control and map the relevant processes, such as purchasing, sales and finance, in an integrated software system. If the ERP system cannot be put into operation as planned, this could lead to the interruption of operating processes or a potential loss of data. To reduce this risk, alternative plans to ensure the functionality of the relevant processes are prepared by the process owners. In addition, the service providers for the implementation and operation of the ERP were carefully selected and care was taken to ensure that the system solution corresponds to the current state of the art. Contingency plans are part of the service package with the service provider. This is a moderate risk.

d. Legal and compliance risks

PAION works with a large number of external partners in different regions, regularly exchanges confidential information and conducts clinical trials in various countries with different jurisdictions. This gives rise to various risks.

There is a risk that confidential information may be disclosed or published or misused. PAION has implemented internal guidelines for handling confidential information and only exchanges information with external parties on the basis of confidentiality agreements. All employment contracts contain confidentiality clauses. This is a moderate risk.

When conducting clinical trials, there is always a liability risk, for example in the event of unexpected physical harm to patients or volunteers. PAION generally covers these risks through country-specific volunteer/patient insurance policies for all clinical studies. This is a moderate risk. For the risk from the commercial supply/marketing of drugs, see section a.cc Production and purchasing risks.

e. Risks associated with the Covid 19 pandemic

The Covid 19 pandemic, which has been rampant since the beginning of 2020, has led to restrictions on public life and economic performance internationally, some of which are massive and persist. At this point in time, it is not foreseeable when the direct and indirect restrictions caused by the pandemic will no longer exist and when and to what extent a normalisation will take place in the various areas of life and the economy.

General restrictions in public life (such as travel restrictions or similar) could have a direct impact on PAION's business activities as well as its net assets, financial position and results of operations. In particular, commercialisation in certain markets could be delayed or become more difficult than originally planned because, for example, access to key decision-makers in hospitals is restricted or impossible altogether. There is also a risk that other risks already explained in this risk report may become more likely and possibly materialise. This is a high risk. In the event of occurrence, the potential amount of damage could be very high.

4. Market opportunities

PAION's mission is to be a leading specialty pharmaceutical company in the fields of anaesthesia and critical care by bringing novel products to market that benefit patients, physicians and healthcare stakeholders.

The anaesthesia and critical care market is largely considered to be adequately supplied and there have been no relevant innovations in anaesthesia for decades. Nevertheless, interventions exist in which the product properties of remimazolam show either safety or efficacy advantages that open up attractive market opportunities. The need for innovative anaesthesia solutions is growing due to an ageing population with more and more complicated surgical procedures where existing products have certain safety issues. PAION wants to take advantage of this fact. Most large pharmaceutical companies have withdrawn from actively promoting their product range in this therapeutic area. Market research analyses have shown that the highest medical need in this area is to provide substances that have a superior safety profile. In addition, anaesthesiologists often express the desire for a short-acting, safe and easily controllable agent. PAION has responded to this medical need with the development of remimazolam.

PAION has taken the strategic decision to market remimazolam in selected European markets. In order to realise synergies in the development of its own sales structures, PAION has in-licensed the two approved products angiotensin II and eravacycline for exclusive marketing in the European Economic Area, Switzerland and the United Kingdom. Both products - angiotensin II as an intravenously administered vasoconstrictor to increase blood pressure, for example in septic shock, and eravacycline as an intravenously administered antibiotic for complicated intra-abdominal infections - are indicated for use in intensive care medicine and are therefore ideally suited as complementary additions to PAION's product portfolio.

PAION believes that its own distribution infrastructure for the hospital market in selected European markets will open up the possibility of acquiring or in-licensing additional products in the future in order to further increase both revenues and profitability.

Remimazolam besilate

Clinical development of remimazolam in short sedation for minor procedures is complete, except for paediatric development. remimazolam is approved and marketed for this indication in the US, China, South Korea and the EU. Based on its own projections, PAION currently estimates an annual peak sales potential of approximately EUR 40 million to approximately EUR 50 million for short sedation in Europe.

The development in general anaesthesia has been completed in Japan and South Korea and is also marketed in these two countries. PAION submitted an extension of the marketing authorisation application for remimazolam for the indication general anaesthesia at the end of 2021 and expects the EMA to make a decision on the marketing authorisation application at the end of 2022/early 2023. Based on publicly available statistics on procedures and surgeries in the EU and market research, PAION estimates that approximately 29 million surgeries are performed under general anaesthesia in the EU each year. Based on its own projections, PAION currently estimates an annual peak sales potential of approximately EUR 50 million to approximately EUR 60 million for general anaesthesia in Europe.

PAION participates financially in a positive development of remimazolam in the licensed territories (outside Europe) in the form of milestone payments and royalties from commercialisation as well as through the receipt of additional development data. All licence agreements provide for royalties from commercialisation, ranging from 10% to over 20% of net sales, depending on the territory, and could reach a total of approximately EUR 35 million per year at peak. Self-marketing is underway in selected European markets. For all other regions, the goal is to find licensees or distribution partners. PAION is well positioned to find additional licensees. Pharmaceutical companies increasingly need to add new substances to their product portfolio that have already proven their efficacy at an advanced stage of clinical development or are already approved and represent an economically attractive alternative in the global healthcare environment, which is characterised by increasing cost awareness. PAION is in partnering discussions with potential licensees to facilitate the commercialisation of remimazolam upon potential market approval.

Angiotensin II and Eravacycline

With the in-licensing of the two products angiotensin II and eravacycline, which are approved in Europe, PAION has expanded its product portfolio by two products that are highly complementary to remimazolam, offer significant application possibilities in intensive care medicine and are already successfully marketed by the licensor in the USA. As PAION is setting up appropriate distribution structures for its own marketing of remimazolam in selected markets in Europe, which can also be used for the distribution of the two products, the cost efficiency of setting up this infrastructure increases significantly. In Europe, PAION currently estimates, based on its own projections, an annual peak sales potential of approximately EUR 50 million for angiotensin II and of approximately EUR 25 million to EUR 35 million for eravacycline. Thus, the marketing of both products offers attractive revenue potential.

Overall evaluation of opportunities and risks

In selected European markets, own marketing has started. For all other regions, the goal is to find licensees or distribution partners. PAION is well positioned to find additional licensees. Pharmaceutical companies increasingly need to add new substances to their product portfolio that have already proven their efficacy at an advanced stage of clinical development or are already approved and represent an economically attractive alternative in the global healthcare environment, which is characterised by increasing cost awareness. PAION is in partnering discussions with potential licensees for remimazolam outside Europe and for all three products in selected European markets where PAION will not distribute the products itself. Overall, PAION has the opportunity for significant revenue from the potential commercialisation of its product portfolio or significant licensing income. The annual peak sales potential is approximately EUR 200 million .

PAION made good progress in implementing its strategy in the fiscal year. remimazolam is already being marketed in Japan, the USA and South Korea, among others. PAION has also started marketing remimazolam in the first European countries. Furthermore, PAION has submitted an extension of the marketing authorisation application for remimazolam for the indication general anaesthesia at the end of 2021. The risk of failure in the development of remimazolam has thus been further reduced, while the chances of successful marketing in more and more regions worldwide have increased. The expansion of the product portfolio to include the two products angiotensin II and eravacycline offers the prospect of additional substantial and sustainable revenues by marketing these products together with remimazolam in selected European markets while increasing cost efficiency by using the same distribution infrastructure for all three products. Overall, the opportunity situation has improved compared to the previous year.

The planned own marketing in parts of Europe requires in particular the establishment of a distribution infrastructure. However, the costs for the build-up cannot yet be covered by revenues from product sales or royalties, so there is a substantial need for additional financing in the short to medium term. For this purpose, PAION took out a loan of EUR 20 million from the EIB and carried out a rights issue with gross proceeds of EUR 7.8 million. In addition, after the balance sheet date, an agreement was concluded with Humanwell for the sale of remimazolam patents and future remimazolam royalties in China for EUR 20.5 million . However, PAION will need additional funds to successfully market the product portfolio in Europe. The financing risk remains high compared to the previous year. Due to the expansion of the product portfolio, the dependence on the success of a single product has been reduced accordingly and has had a risk-reducing effect. Overall, the risk situation is unchanged from the previous year.

As no sustainable revenues are currently being generated in a significant amount, PAION will continue to post losses for the time being.

Report on post-balance sheet date events

Please refer to the supplementary report in the notes to the consolidated financial statements.

Report on expected developments

Business Outlook (Non-financial performance indicators)

PAION's focus in 2022 will be on the commercialisation of its product portfolio, consisting of the approved products remimazolam (Byfavo®), angiotensin II (GIAPREZA®) and Eravacycline (XERAVA®), and the necessary further build-up of a distribution infrastructure in selected European countries. By the end of 2022/early 2023, the marketing launch is expected to have taken place in most of the selected European countries. In addition, PAION expects the EMA's decision on the extension of the marketing authorisation for remimazolam for general anaesthesia in late 2022/early 2023.

Furthermore, it is planned to grant the commercialisation rights for remimazolam, angiotensin II and eravacycline to licensees in 2022 in selected territories in Europe, where no own distribution is planned, and to licence out remimazolam for further markets outside Europe.

Planned research and development activities mainly concern paediatric development as well as the processing of so-called "post-approval commitments" and "life-cycle management" for remimazolam. In addition, there are minor activities in the area of production development.

Following the successful launch of remimazolam by marketing partners in the USA, Japan and South Korea, PAION expects increasing product sales and revenues from licensees and, as a result, an increase in royalties for PAION.

Financial Outlook 2022 (Financial Performance Indicators)

PAION expects revenues of approximately EUR 32 million to approximately EUR 35 million in 2022. Approximately EUR 25 million to approximately EUR 27 million of revenues are expected from existing licensees, of which EUR 20.5 million from the sale of the Chinese remimazolam patents and future royalties in China to Humanwell in January 2022 and approximately EUR 4.5 million to approximately EUR 6.5 million from the sale of remimazolam active ingredient and royalties from the commercialisation of remimazolam outside Europe. Revenues from the sale of remimazolam, angiotensin II and eravacycline in Europe are expected to be approximately EUR 2 million to approximately EUR 3 million in the first year after market launch. Revenues from the out-licensing (royalties) of remimazolam, angiotensin II and eravacycline in selected European countries as well as the out-licensing of remimazolam outside Europe are planned in the amount of approximately EUR 5 million.

The cost of sales will amount to approximately EUR 5 million to approximately EUR 6 million.

The focus of activities in 2022 will continue to be on marketing and sales, so that administrative and sales expenses of approximately EUR 26 million to approximately EUR 29 million are expected, depending on the progress of commercial activities. Research and development expenses are budgeted between approximately EUR 7 million and approximately EUR 9 million. Depreciation will amount to between approx. EUR 1.5 million and EUR 2 million. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of approximately EUR -9 million to approximately EUR -2.5 million are forecast for 2022.

As the commercial infrastructure continues to be built up, the number of employees is expected to increase to around 70 to 80.

Overall, PAION expects a significant increase in sales compared to the previous year. At the same time, operating expenses will increase compared to the previous year. Overall, however, an improved EBITDA compared to the previous year is expected.

The key assumption for the outlook is that the activities of PAION and the licensees will continue as planned. The planning is also based on the assumption that the further funding requirements can be at least partially covered by financing measures in the course of the fiscal year 2022. Delays would lead to a postponement of significant cost blocks and/or revenue into 2023 or beyond. Possible effects of the Covid 19 pandemic on PAION's business activities and those of its partners could also lead to delays and postponements of revenues and/or costs.

PAION expects increasing revenues in the coming years, both from licensing agreements and from its own commercialisation in parts of Europe, and, based on current planning, a break-even in 2024. Additional funding will be required in particular for the further development of the sales infrastructure, the planned staggered sales start in Europe according to countries and post-approval commitments to the respective regulatory authorities, e.g. possible phase IV studies after approval or market launch of the products. According to current planning, there will be a financing requirement of approximately EUR 30 million in the coming years until break-even, which could be raised through various financing measures and further partnerships. Based on cash on hand, cash inflows from the sale of the Chinese remimazolam patents in January 2022 and future royalties in China to Humanwell, expected payments from revenues as well as potential financing and/or out-licensing, PAION assumes that it will have sufficient cash for the next 12 months, taking into account the current planning. If planned cash inflows are delayed or lower than planned, PAION could reduce costs in the course of the fiscal year 2022 in order to ensure the cash reach for the next 12 months.

Aachen, Germany, 29 March 2022

PAION AG



Dr James Phillips



Abdelghani Omari

Consolidated Financial Statements

PAION AG

Consolidated Balance Sheet as at 31 December 2021

ASSETS	Note	31 Dec. 2021 EUR	31 Dec. 2020 EUR
Non-current assets			
Intangible assets	1	19,652,677.93	1,829,398.87
Equipment	2	178,318.43	16,280.54
Right-of-use assets	12	719,781.33	26,118.72
Other assets		14.08	13.92
		20,550,791.77	1,871,812.05
Current assets			
Trade receivables	3	1,717,174.11	500,000.00
Inventories	4	4,822,715.55	1,774,252.00
Prepaid expenses and other assets	5	3,254,463.08	4,337,443.69
Cash and cash equivalents	6	6,439,521.59	19,666,309.58
		16,233,874.33	26,278,005.27
Total assets		36,784,666.10	28,149,817.32

EQUITY AND LIABILITIES	Note	31 Dec. 2021 EUR	31 Dec. 2020 EUR
Equity	7		
Share capital		71,336,992.00	66,241,493.00
Capital reserve		144,413,862.19	141,906,632.49
Translations reserve		-1,117,673.47	-1,009,793.75
Loss carryforward		-185,848,505.42	-188,070,648.97
Result of the period		-21,785,588.36	2,222,143.55
		6,999,086.94	21,289,826.32
Non-current liabilities			
Financial debt	13	18,199,488.42	0.00
Lease liabilities	12	566,381.84	15,429.23
Provisions	8	35,000.00	0.00
		18,800,870.26	15,429.23
Current liabilities			
Trade payables	9	6,584,949.14	3,906,828.93
Provisions	8	2,304,416.11	2,205,803.34
Financial debt	13	1,284,509.44	0.00
Lease liabilities	12	158,177.76	11,430.64
Tax liabilities	11	51,459.41	0.00
Other current liabilities	10	601,197.04	720,498.86
		10,984,708.90	6,844,561.77
Total equity and liabilities		36,784,666.10	28,149,817.32

Consolidated Statement of Comprehensive Income for the Financial Year 2021

	Note	2021 EUR	2020 EUR
Revenues	14	7,128,365.35	19,655,104.70
Cost of Sales	15	-3,077,294.00	0.00
Gross Profit		4,051,071.35	19,655,104.70
Research and development expenses	15	-5,248,851.89	-10,288,176.99
General administrative and selling expenses	15	-19,828,153.26	-7,523,324.04
Other income (expenses) net	16	-1,052,817.00	-260,804.73
Operating expenses		-26,129,822.15	-18,072,305.76
Operating result		-22,078,750.80	1,582,798.94
Financial income		1,562,364.85	10,605.75
Financial expenses		-2,065,088.73	-162,924.79
Financial result	17	-502,723.88	-152,319.04
Result for the period before taxes		-22,581,474.68	1,430,479.90
Income taxes	18	795,886.32	791,663.65
Result for the period		-21,785,588.36	2,222,143.55
of which attributable to other shareholders		0.00	0.00
of which attributable to shareholders of PAION AG		-21,785,588.36	2,222,143.55
Foreign currency translation of subsidiaries		-107,879.72	-125,534.72
Total income and expense recognized directly in equity that will be reclassified to profit or loss when specific conditions are met		-107,879.72	-125,534.72
Other comprehensive income		-107,879.72	-125,534.72
Total comprehensive income		-21,893,468.08	2,096,608.83
of which attributable to other shareholders		0.00	0.00
of which attributable to shareholders of PAION AG		-21,893,468.08	2,096,608.83
Earnings per share (basic)	19	-0.31	0.03
Earnings per share (diluted)	19	-0.31	0.03

Consolidated Cash Flow Statement for the Fiscal Year 2021

	2021 EUR	2020 EUR
Cash flows from operating activities:		
Net result for the year	-21,785,588.36	2,222,143.55
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Income taxes	-795,886.32	-791,663.65
Amortization/depreciation and non-cash changes of fixed assets	1,691,809.97	342,909.55
Loss/Profits from the disposal of non-current assets	7,518.66	8,256.09
Interest expenses and interest income	2,064,947.03	152,319.04
Expenses from stock option plans	341,715.64	285,665.48
Transaction costs and fair value adjustments in connection with financing activities	-1,562,223.15	61,653.04
Changes in assets and liabilities which are not attributable to investing or financing activities:		
Inventories	-3,048,463.55	-1,774,252.00
Trade receivables	-1,217,174.11	0.00
Prepaid expenses and other assets	-384,902.91	-543,785.17
Trade payables	2,475,688.96	-936,600.17
Provisions	98,612.77	1,935,761.31
Tax Debt	51,459.41	0.00
Other current liabilities	-168,488.05	86,903.06
Non-cash exchange losses /gains	-242,192.97	-86,914.49
	-22,473,166.98	962,395.64
Interest paid	-1,021,140.88	-66,874.63
Interest received	141.70	10,605.75
Tax payments	-110,000.00	0.00
Tax payments received	2,425,649.26	0.00
Cash flows from operating activities	-21,178,516.90	906,126.76
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-19,205,447.53	-13,682.44
Cash flows from investing activities	-19,205,447.53	-13,682.44
Cash flows from financing activities:		
Obtainment of loan	20,000,000.00	0.00
Capital increase	5,095,499.00	20,000.00
Contributions to the capital reserve	2,751,569.46	6,200.00
Payments in connection with raising capital	-586,055.40	0.00
Principal portion of lease payments	-113,548.82	-50,660.71
Cash flows from financing activities	27,147,464.24	-24,460.71
Change in cash and cash equivalents	-13,236,500.19	867,983.61
Effect of exchange rate changes on cash	9,712.20	11,645.08
Cash and cash equivalents at beginning of period	19,666,309.58	18,786,680.89
Cash and cash equivalents at end of the period	6,439,521.59	19,666,309.58
Composition of cash and cash equivalents at the end of the period:		
Cash and cash equivalents	6,439,521.59	19,666,309.58

Consolidated Statement of Changes in Equity for Fiscal Year 2021

EUR	Share capital	Capital reserve	Translation reserve	Loss carryforward	Equity
31 December 2019	64,265,586.00	139,421,819.80	-884,259.03	-188,070,648.97	14,732,497.80
Total comprehensive income	0.00	0.00	-125,534.72	2,222,143.55	2,096,608.83
Issue of shares	1,975,907.00	0.00	0.00	0.00	1,975,907.00
Contribution to the capital reserve	0.00	2,466,082.50	0.00	0.00	2,466,082.50
Cost of raising capital	0.00	-266,935.29	0.00	0.00	-266,935.29
Additional contribution to the capital reserve due to the issue of options	0.00	285,665.48	0.00	0.00	285,665.48
31 December 2020	66,241,493.00	141,906,632.49	-1,009,793.75	-185,848,505.42	21,289,826.32
Total comprehensive income	0.00	0.00	-107,879.72	-21,785,588.36	-21,893,468.08
Issue of shares	5,095,499.00	0.00	0.00	0.00	5,095,499.00
Contribution to the capital reserve	0.00	2,751,569.46	0.00	0.00	2,751,569.46
Cost of raising capital	0.00	-586,055.40	0.00	0.00	-586,055.40
Additional contribution to the capital reserve due to the issue of options	0.00	341,715.64	0.00	0.00	341,715.64
31 December 2021	71,336,992.00	144,413,862.19	-1,117,673.47	-207,634,093.78	6,999,086.94

Consolidated Notes

PAION AG

Notes to the consolidated financial statements for the Fiscal Year 2021

General disclosures

The consolidated financial statements include PAION AG (HRB 12528, Register Court Aachen) as the parent company with its registered office at Heussstr. 25, 52078 Aachen, Germany, and the wholly owned subsidiaries included by way of full consolidation:

- PAION Deutschland GmbH, Aachen/Germany
- PAION Holdings UK Ltd, Richmond/UK
- PAION UK Ltd, Richmond/UK
- PAION Netherlands B.V., Heerlen/Netherlands
- PAION Scandic ApS, Odense/Denmark
- TheraSci Limited, Cambridge/UK

PAION Scandic ApS was founded in March 2021 and fully consolidated.

PAION AG acts as a holding company and provides various services for the subsidiaries. The PAION Group specialises in the development and marketing of medical innovations in the field of short sedation, anaesthesia and intensive care.

PAION AG's shares are admitted to trading on the Frankfurt Stock Exchange and are listed in the Prime Standard of the regulated market.

It is intended that the consolidated financial statements as at 31 December 2021 will be approved and released for publication at the meeting of the Supervisory Board on 29 March 2022.

Basis of accounting

The consolidated financial statements have been prepared in accordance with Section 315e of the German Commercial Code (HGB) in compliance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). PAION applies all IFRS issued by the International Accounting Standards Board (IASB), London, UK, and already effective as of the balance sheet date, 31 December 2021, provided that they have been adopted by the European Commission for application in the EU by the time the consolidated financial statements are prepared. The assets and liabilities are recognised and measured in

accordance with IAS 1 and those standards that are mandatory as of 31 December 2021.

The following new or revised mandatory standards, amendments and interpretations were applied for the first time in the financial year.

- Amendments to IFRS 9, IAS 39 and IFRS 7 (Reform of LIBOR and Other Reference Rates (IBOR Reform) - Phase 2)
- Amendments to IFRS 16 "Leases" (Covid 19-related lease concessions)
- Amendments to IFRS 4 "Insurance Contracts" (deferral of IFRS 9)

The application of these standards, amendments and interpretations, which are to be applied for the first time, did not result in any additional disclosures or effects on the net assets, financial position and results of operations of the Group. The amendments are not expected to have any impact on the Group's net assets, financial position and results of operations in the 2022 financial year.

The following standards, amendments, clarifications and interpretations that have already been adopted will be applied as soon as they have come into force and have been endorsed by the European Commission:

- IFRS 17 "Insurance Contracts" (including amendments to IFRS 17): The standard is mandatory for financial years beginning on or after 1 January 2023. Earlier adoption is allowed.
- Amendments to IAS 1 "Presentation of Financial Statements" (Classification of Liabilities as Current or Non-Current): The amendments are mandatory for financial years beginning on or after 1 January 2023. Earlier adoption is allowed. Adoption by the EU Commission is still pending.
- Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 (Disclosure of Accounting Policies): The amendments are mandatory for financial years beginning on or after 1 January 2023. Earlier adoption is allowed. Adoption by the EU Commission is still pending.
- Changes to
 - IFRS 3 "Business Combinations
 - IAS 16 "Property, Plant and Equipment

- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets

- Annual improvements 2018-2020

The amendments are mandatory for financial years beginning on or after 1 January 2022. Earlier adoption is allowed. Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (definition of accounting estimates): The amendments are mandatory for financial years beginning on or after 1 January 2023. Earlier adoption is allowed.. Adoption by the EU Commission is still pending.

- Amendments to IAS 12 "Income Taxes" (Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction): The amendments are mandatory for financial years beginning on or after 1 January 2023. Earlier adoption is allowed. Adoption by the EU Commission is still pending.
- Amendments to IFRS 17 "Insurance Contracts" (First-time Adoption of IFRS 17 and IFRS 9 - Comparative Figures): The amendments are mandatory for financial years beginning on or after 1 January 2023. Earlier adoption is allowed. Adoption by the EU Commission is still pending.

The application of these new or amended standards and interpretations may in some cases lead to additional disclosure requirements in future consolidated financial statements. The amendments are not expected to have any impact on the group's net assets, financial position and results of operations.

The consolidated financial statements are presented in euros, the functional currency of PAION AG and the presentation currency of the Group. Amounts are stated in euros or thousands of euros unless otherwise indicated.

The income statement has been prepared using the cost of sales method. Due to the material significance of research and development expenses, these are shown separately in the income statement.

According to IAS 1 "Presentation of Financial Statements", a distinction is made in the balance sheet between non-current and current assets as well as current and non-current liabilities. Assets, liabilities and provisions are considered current if they are realisable or due within one year.

Segment reporting in the context of the consolidated financial statements was waived, as no reportable segments according to IFRS 8 could be identified.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses, and contingent liabilities. The actual values may differ from the estimates.

In preparing the consolidated financial statements, estimates and judgements are mainly used in accounting for intangible assets, provisions, financial liabilities and revenue. The development project remimazolam, which was capitalised as part of the acquisition of the PAION UK Group, is amortised over its useful economic life, which is based on forward-looking assumptions at the time of market approval and patent protection. This applies accordingly to the commercialisation rights for the products angiotensin II and eravacycline acquired in the reporting year. In the case of the loan agreement concluded with the European Investment Bank (EIB), the disbursement amount of the respective tranches was divided between the basic liability on the one hand and the performance-related remuneration component as a derivative subject to spin-off on the other hand at the time of initial accounting. The basic liability, including the current and bullet interest components, is measured at amortised cost using the effective interest method. The performance-related remuneration component is a payment obligation that depends on the share price of PAION AG at the time of repayment of the last part of the respective tranche of the loan and is due at that time. As an embedded derivative, it is required to be separated and is subsequently measured at fair value on the basis of the Black/Scholes model. The performance-related compensation component was estimated on the basis of the closing price of the PAION share at the reporting date. In the past, PAION's revenues have mainly resulted, and will continue to result to a not insignificant extent in the reporting period, from licence agreements, which generally comprise the transfer of previously generated data, the achievement of development-related milestones and licence fees dependent on commercial success. Revenues in

connection with technology access payments (e.g. in the form of upfront payments), the achievement of milestones and services to be provided in this context are realised as soon as the underlying criteria for revenue recognition according to IFRS are deemed to be met by the Management Board after scientific, technical and economic evaluation involving the relevant specialist departments. Provisions are made for present obligations if they originate in the past and are uncertain in terms of their due date and amount, provided that it is probable, after taking into account and evaluating all material information, that these obligations will have to be settled by an outflow of resources embodying economic benefits and the amount of the obligations can be reliably estimated on the basis of the available information.

The consolidation principles and the accounting and valuation methods applied in the previous year have been retained, taking into account the new or amended standards and interpretations. The application of the new or amended standards and interpretations did not result in any additional disclosure requirements or effects on the Group's net assets, financial position and results of operations.

Consolidation principles

The consolidated financial statements comprise PAION AG, the subsidiaries PAION Deutschland GmbH, PAION Netherlands B.V. PAION Scandic ApS and PAION Holdings UK Ltd and their subsidiaries listed under "General Information". The financial statements of the entities included in the consolidated financial statements are - prepared using uniform accounting policies and are fully consolidated using the purchase method of accounting when control is obtained. Receivables and liabilities, income and expenses as well as intercompany profits from intra-Group transactions are eliminated.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the functional currency of PAION AG and the presentation currency of the Group. Each entity within the Group determines its own functional currency. This is the euro for the German entities and the Dutch subsidiary, the British pound for the UK entities and the Danish krone

for the Danish entity. Items included in the financial statements of each entity are initially translated into the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency at each reporting date using the closing rate. All resulting currency differences are recognised in profit or loss, with the exception that exchange rate gains and losses from intercompany loans are classified as a net investment in a foreign operation and recognised directly in equity if the requirements of IAS 21 are met.

Assets and liabilities of the foreign companies are translated into euros as at the balance sheet date using the closing rate (closing rates as at 31 December 2021: 0.8399 GBP/EUR and 7.4369 DKK/EUR; closing rate as at 31 December 2020: 0.8993 GBP/EUR). This also includes any goodwill arising in connection with the acquisition of a foreign company and any fair value adjustments to the carrying amounts of assets and liabilities. Equity components are translated into euros at historical rates at the time of initial consolidation. Expenses and income are translated into euros using monthly average exchange rates (range in 2021 from 0.8465 GBP/EUR to 0.8928 GBP/EUR and from 7.4362 DKK/EUR to 7.4396 DKK/EUR; range in 2020 from 0.8419 GBP/EUR to 0.9105 GBP/EUR). The resulting translation differences are recognised as a separate component of equity.

Accounting and valuation methods

Business combinations before 1 January 2010

Business combinations are accounted for using the purchase method. The cost of the business combination includes all consideration given measured at fair value at the date of the business combination. The cost also includes costs directly attributable to the acquisition and liabilities incurred in the acquisition. Assets, liabilities and contingent liabilities identifiable within the scope of a business combination are measured at their fair value at the acquisition date upon initial consolidation.

There were no business combinations after 1 January 2010.

Intangible assets

Intangible assets acquired for consideration are recognised at acquisition cost. They are amortised on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that the intangible asset may be impaired. A useful life of between three and five years is assumed for software; development and marketing rights for substances are amortised over the term of the underlying patents.

Property, plant and equipment

Property, plant and equipment are recognised at acquisition or production cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the expected useful life, which is generally between three and twenty years. The recoverability of assets is reviewed whenever events have occurred or circumstances have changed that could have an impact on the recoverability of the assets. The recoverability of assets retained in the company and used there is assessed on the basis of a comparison between the carrying amount and the higher of fair value less costs to sell and value in use. If an asset is determined to be less than its carrying amount, it is written down to the higher of its fair value less costs to sell and its value in use. If the reasons for previously recognised impairments no longer exist, these assets are written up. The write-up may not exceed the amortised cost.

Leases

Leased property, plant and equipment and intangible assets that meet certain conditions set out in IFRS 16 "Leases" are capitalised as rights of use and the present value of the lease payments to be made is recognised as a liability. Depreciation of the capitalised rights of use is calculated on a straight-line basis over the term of the lease.

Financial assets

Regular way purchases or sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Financial instruments

Upon initial recognition, financial assets are classified into one of the following measurement categories, which also

correspond to the financial instrument classes within the meaning of IFRS 9:

- Subsequent measurement at amortised cost,
- Subsequent measurement at fair value without recognition in profit or loss or
- subsequent measurement at fair value through profit or loss.

The classification is based on the business model and the structure of the contractual cash flows.

Financial assets subsequently measured at amortised cost are accounted for using the effective interest method, taking into account any impairment losses. Financial assets in this class are held to collect their contractual cash flows, which are solely payments of principal and interest on the principal outstanding.

In the 2021 financial year, no financial instruments were allocated to the category "subsequent measurement at fair value through other comprehensive income".

The fair value of financial instruments is determined on the basis of the three hierarchy levels according to IFRS 13, depending on the availability of the relevant input factors:

Level 1: The fair value is determined on the basis of market prices in active markets.

Level 2: The fair value is determined on the basis of valuation methods that are based on price-relevant information.

Level 3: The fair value is determined on the basis of valuation methods that are not based on current market information.

Changes in fair value are recognised in profit or loss.

Receivables and other assets

Trade receivables and other assets are recognised at amortised cost. Receivables denominated in foreign currencies are translated at the closing rate. Exchange rate gains or losses are recognised in profit or loss.

Inventories

Inventories comprise finished goods and advance payments on inventories and are valued at the lower of cost or net realisable value.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term deposits with an original maturity of less than three months. Cash and cash equivalents are measured at amortised cost.

Equity

The costs directly associated with the issuance of equity are not recognised as an expense in the income statement after taking into account any tax effects, but are deducted directly from the equity added.

Provisions

Provisions are recognised for present obligations (legal or constructive) that have their origin in the past and are uncertain as to their timing and amount, provided that it is probable that these obligations will have to be settled by an outflow of resources embodying economic benefits and the amount of the obligations can be reliably estimated. Provisions with a term longer than one year are recognised at present value.

Financial debt

Financial liabilities are measured at fair value at the time of addition. As a rule, financial liabilities are subsequently measured at amortised cost. In the case of hybrid contracts containing embedded derivatives, either the embedded derivatives are separated and recognised at fair value through profit or loss and the host instrument is recognised at amortised cost based on the specific terms of the contract, unless the embedded derivatives are closely related to the host contract, or the entire hybrid contract is measured at fair value through profit or loss.

Trade payables/other liabilities

Trade payables and other liabilities are recognised at the repayment amount. Foreign currency liabilities are valued at the closing rate. Exchange rate gains or losses are recognised in profit or loss.

Deferred income

Non-refundable payments received under out-licensing agreements are either recognised directly or as deferred income over the period of the underlying service provision or the expected development period of the respective

product/indication, depending on the terms of the agreement.

Revenues

Revenue for the financial year is recognised when it is realised in accordance with IFRS 15. Revenue is recognised when the transfer of a promised good or service satisfies PAION's performance obligation. Such an asset is deemed to have been transferred when the customer obtains control over it and can therefore determine its use and obtain substantially all of the remaining benefits from it. Some performance obligations are fulfilled over a certain period of time, while others are fulfilled at a certain point in time.

PAION generates revenues from the sale of active pharmaceutical ingredients to licensees, from its own sales of drugs to hospitals or wholesalers and, as before, to a not inconsiderable extent from the sale or out-licensing of (rights to) substances and drug candidates. In the context of the sale or out-licensing of substances or technological knowledge, a comprehensive data and technology access by the purchaser or licensee regularly takes place first. Depending on the strategy of the licensee, further services such as the (support in the) implementation of a production process, the performance and completion of clinical studies in other regions or, for example, the provision of marketing authorisation applications from other regions are agreed.

Revenue from performance obligations that are fulfilled at a specific point in time are recognised at the time of fulfilment. Due to the inherent high risk in the development of medical and pharmaceutical products, revenue from performance obligations that are fulfilled over a period of time, include research and development activities and/or milestones, and are owed by PAION to be successfully completed, are not recognised until the performance features to be delivered have been completely fulfilled in the respective period based on the contractual provisions. Revenue in connection with performance obligations that are quantifiable over a period of time and for which PAION does not owe any success is recognised according to the stage of completion at the end of the respective reporting period. Sales of API to licensees or own sales of finished goods to hospitals or wholesalers are recognised as revenue as soon as the performance

obligations are fulfilled and the respective contractually defined transfer of risk has taken place. Revenue-based royalties from licensees are recognised as revenue as soon as the underlying sales have been made by the licensees.

The contractual agreements, the complexity and specificity of the service, the potential costs for the licensee/buyer in case of possible alternative procurement, the (accrued) costs as well as the amount of sales revenues of comparable transactions are used to measure the respective amount of sales revenues to be recognised.

Research and development expenses

Research expenses are recognised as expenses in the period in which they are incurred. According to IAS 38 "Intangible Assets", development costs must be capitalised depending on the possible outcome of the development activities and if certain cumulative conditions are met. - These conditions are currently not met, so that all development expenses are also recognised as expenses in the period in which they are incurred.

Income taxes/deferred taxes

Interest income/expense is recognised in the period in which it is incurred. Necessary accruals are determined using the effective interest method.

Taxes on income/deferred taxes

Deferred taxes are accounted for in accordance with IAS 12 "Income Taxes". Deferred taxes are recognised taking into account future tax rates that have already been legally enacted, based on temporary differences between the IFRS and tax bases of assets and liabilities. The effects of a legally enforceable change in tax rates on the balance sheet recognition of deferred taxes are recognised in the year in which the change is legally enacted. Deferred taxes are also recognised on loss carryforwards. Deferred tax assets are not recognised if it is probable that some or all of the deferred tax assets will not be recoverable. Current income taxes for the reporting period and, if applicable, for previous years are recognised at the amount of the deferred tax asset.

The amount of the payment to or reimbursement from the tax authorities is expected. Thereby the company-specific tax rate applicable in the respective tax year is applied. Tax credits on parts of the research and

development costs by the UK tax authorities are reported under taxes on income.

Share-based payment transactions

Share options (equity-settled share-based payment instruments) are measured at fair value at the grant date. The fair value of the obligation is recognised over the vesting period as personnel expense and simultaneously as an increase in equity. The fair value is determined using internationally recognised valuation methods (Black/Scholes).

Notes to the consolidated balance sheet

(I) Intangible assets

Intangible assets developed as follows:

in EUR	Industrial rights and similar rights and assets
Acquisition cost	
01 Jan. 2020	13,276,705.97
Additions	0.00
Disposals	0.00
Reclassifications	0.00
Exchange rate differences	-711,513.77
31 Dec. 2020	12,565,192.20
Additions	19,246,048.07
Disposals	0.00
Reclassifications	0.00
Exchange rate differences	867,589.28
31 Dec. 2021	32,678,829.55
Accumulated amortization, depreciation and impairment losses	
01 Jan. 2020	11,139,403.68
Additions	194,725.26
Disposals	0.00
Exchange rate differences	-598,335.61
31 Dec. 2020	10,735,793.33
Additions	1,546,378.89
Disposals	0.00
Exchange rate differences	743,979.40
31 Dec. 2021	13,026,151.62
Carrying amounts 31 Dec. 2020	1,829,398.87
Carrying amounts 31 Dec. 2021	19,652,677.93

The intangible assets mainly include the European marketing rights acquired in the reporting year for the products angiotensin II (acquisition costs: KEUR 14,794; carrying amount as at 31 December 2021: KEUR 13,735) and eravacycline (acquisition costs: KEUR 3,699; carrying amount as at 31 December 2021: KEUR 3,408), the asset remimazolam (carrying amount as at 31 December 2021: KEUR 1,752; 31 December 2020: KEUR 1,808) and an ERP system under development (carrying amount as at 31 December 2021: KEUR 752). The marketing rights acquired in the reporting year are amortised on a straight-line basis over the expected patent term until 2034 in the case of angiotensin II and 2033 in the case of eravacycline. The asset remimazolam is amortised on a straight-line basis over the expected patent term until mid-2031.

Amortisation of intangible assets mainly relates to angiotensin II, eravacycline and remimazolam and is recognised in selling expenses for the newly acquired marketing rights and in research and development expenses for remimazolam. A small portion of the amortisation of intangible assets relates to software and is recognised partly in research and development expenses and partly in general, administrative and selling expenses.

(2) Equipment

Equipment developed as follows:

in EUR	Plant and machinery	Other plant, factory and office equipment	Total
Acquisition cost			
01 Jan. 2020	172,929.34	806,823.28	979,752.62
Additions	13,682.44	0.00	13,682.44
Disposals	168,990.81	316,345.70	485,336.51
Reclassifications	0.00	0.00	0.00
Exchange rate differences	0.00	-13,875.63	-13,875.63
31 Dec. 2020	17,620.97	476,601.95	494,222.92
Additions	42,480.90	154,463.56	196,944.46
Disposals	0.00	0.00	0.00
Reclassifications	0.00	0.00	0.00
Exchange rate differences	0.00	17,450.53	17,450.53
31 Dec. 2021	60,101.87	648,516.04	708,617.91
Accumulated amortization, depreciation and impairment losses			
01 Jan. 2020	163,963.81	769,928.62	933,892.43
Additions	3,811.46	29,798.40	33,609.86
Disposals	164,562.27	312,518.15	477,080.42
Exchange rate differences	0.00	-12,479.49	-12,479.49
31 Dec. 2020	3,213.00	474,729.38	477,942.38
Additions	15,961.00	19,361.79	35,322.79
Disposals	0.00	0.00	0.00
Exchange rate differences	0.00	17,034.31	17,034.31
31 Dec. 2021	19,174.00	511,125.48	530,299.48
Carrying amounts 31 Dec. 2020	14,407.97	1,872.57	16,280.54
Carrying amounts 31 Dec. 2021	40,927.87	137,390.56	178,318.43

(3) Trade Receivables

Trade receivables as at 31 December 2021 result in the amount of KEUR 1,395 from the sale of remimazolam active ingredient, in the amount of KEUR 301 from sales-related licence fees and in the amount of KEUR 21 from product sales in Europe.

(4) Inventories

Inventories as at 31 December 2021 amount to KEUR 4,823 (previous year: KEUR 1,774) and include work in progress (precursors of remimazolam active ingredient) of KEUR 218 (previous year: KEUR 52), finished goods (remimazolam active ingredient and (finished) drug product of remimazolam, angiotensin II and eravacycline of KEUR 2,605 (previous year: KEUR 922) and advance payments on inventories (remimazolam active ingredient) of KEUR 2,000 (previous year: KEUR 800). As in the previous year, no value adjustments were made to inventories in the reporting year. The sale of remimazolam active ingredient resulted in an expense of KEUR 3,300.

(5) Prepaid expenses and other assets

Prepaid expenses and other assets mainly include refund claims against the British tax authorities from the promotion of research and development activities (KEUR 1,840, previous year: KEUR 3,216), sales tax refund claims (KEUR 1,052, previous year: KEUR 829) and invoice deferrals for prepaid insurance premiums, rents and other advance payments (KEUR 150, previous year: KEUR 226).

(6) Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	31 Dec. 2021 KEUR	31 Dec. 2020 KEUR
Current deposits	6,440	15,466
Bank balance and cash in hand	0	4,200
	6,440	19,666

Bank balances bear interest at variable rates for balances callable on demand. Short-term deposits are made for varying periods of up to three months. These bear interest at the respective applicable interest rates for short-term deposits.

(7) Equity

As at 31 December 2021, the share capital amounts to EUR 71,336,992.00 (previous year: EUR 66,241,493.00) and is divided into 71,336,992 no-par value shares (previous year: 66,241,493 shares). The increase in share capital by a total of EUR 5,095,499.00 in the reporting year resulted in full from a rights issue completed in April 2021.

As at 31 December 2021, the capital reserve amounts to EUR 144,413,862.19 (previous year: EUR 141,906,632.49) and contains the premium from the issue of shares as well as additions to expenses over the vesting period in the amount of the fair value of issued shares options. In addition, equity procurement costs were deducted directly from the capital reserve in accordance with IAS 32.35 in the course of capital increases.

By resolution of the Annual General Meeting of 27 May 2020, the Management Board was authorised, with the consent of the Supervisory Board, to increase the share capital in the period until 26 May 2025 once or several times by up to a total of EUR 26,134,928.00 by issuing up to 26,134,928 new no-par value bearer shares against cash or non-cash contributions (Authorised Capital 2020). On 19 March 2021, the Management Board resolved, with the consent of the Supervisory Board, to issue 5,095,499 no-par value bearer shares against cash contributions at a subscription price of EUR 1.54 per share within the scope

of the authorisation granted by the Annual General Meeting, granting subscription rights to existing shareholders. Existing shareholders were able to subscribe for the new shares at a subscription ratio of 13:1 during the subscription period from 24 March 2021 to 6 April 2021. A US investor had undertaken to acquire the shares not subscribed by existing shareholders or other investors in the subscription offer at the subscription price. With the completion of the capital measure, the share capital of the company was increased by EUR 5,095,499.00 from EUR 66,241,493.00 to EUR 71,336,992.00 through the issue of 5,095,499 new shares. The capital increase with gross issue proceeds of EUR 7.8 million was entered in the Commercial Register on 9 April 2021. The Authorised Capital 2020 was reduced to EUR 21,039,429.00 by this capital measure.

By resolution of the Annual General Meeting of 27 May 2021, 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 addition, the Management Board has been authorised to use up to EUR 7,133,699.00 from the Authorised Capital 2021, excluding subscription rights, for cash capital increases. The still available Authorised Capital 2020 in the amount of EUR 21,039,429.00 was cancelled.

By resolution of the Annual General Meeting of 27 May 2021, the Management Board was authorised to issue bearer and/or registered convertible bonds, bonds with warrants, profit participation rights and/or profit participation bonds on one or more occasions up to 26 May 2026 in a total amount of up to EUR 125,000,000.00 with or without a limited term and to grant the holders or creditors of bonds conversion or option rights to new shares in PAION AG with a pro rata amount of the share capital of up to a total of EUR 31,000,000.00 (Conditional Capital 2021). In addition, the Management Board has been authorised to use up to EUR 7,133,699.00 from the Conditional Capital 2021, excluding subscription rights, for bonds with conversion or option rights or conversion or option obligations against cash consideration. The still available Conditional Capital 2019 in the amount of EUR 23,836,650.00 was cancelled.

At the Annual General Meeting on 5 May 2008, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 815,000.00 by issuing up to a total of 815,000 new no-par value bearer shares (Conditional Capital 2008 I). The conditional capital increase could only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Programme 2008 exercised their option rights. At the Annual General Meeting on 19 May 2010, it was resolved to adjust the Conditional Capital 2008 I to EUR 760,235.00. At the Annual General Meeting on 27 May 2021, it was resolved to cancel the remaining Conditional Capital 2008 I of EUR 281,093.00 in its entirety, as no more stock options had been issued under the 2008 stock option programme.

At the Annual General Meeting on 19 May 2010, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 720,000.00 by issuing up to a total of 720,000 new no-par value bearer shares (Conditional Capital 2010 I). At the Annual General Meeting on 27 May 2021, it was resolved to adjust the Conditional Capital 2010 I to EUR 676,626.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2010 exercise their option rights. As of 31 December 2021, 676,626 stock options have been issued to current and former members of the Management Board and employees of the PAION Group under the Stock Option Program 2010. So far, 20,000 stock options have been exercised. As of 31 December 2021, the Conditional Capital 2010 I amounts to EUR 676,626.00.

At the Annual General Meeting on 21 May 2014, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 740,000.00 by issuing up to a total of 740,000 new no-par value bearer shares (Conditional Capital 2014). At the Annual General Meeting on 27 May 2021, it was resolved to adjust the Conditional Capital 2014 to EUR 530,010.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the 2014 stock option programme exercise their option rights. Under the Stock Option Programme 2014, 530,010 stock options have been issued to former and current members of the Management Board and employees of the PAION

Group as of 31 December 2021. The stock options have not yet been exercised. As at 31 December 2021, the Conditional Capital 2014 amounts to EUR 530,010.00.

At the Annual General Meeting on 25 May 2016, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 840,000.00 by issuing up to a total of 840,000 new no-par value bearer shares (Conditional Capital 2016). At the Annual General Meeting on 27 May 2021, it was resolved to adjust the Conditional Capital 2016 to EUR 702,672.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2016 exercise their option rights. As of 31 December 2021, 700,472 stock options have been issued to former and current members of the Management Board and employees of the PAION Group under the Stock Option Programme 2016. The stock options have not yet been exercised. As at 31 December 2021, the Conditional Capital 2016 amounts to EUR 702,672.00.

At the Annual General Meeting on 23 May 2018, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 900,000.00 by issuing up to a total of 900,000 new no-par value bearer shares (Conditional Capital 2018 II). At the Annual General Meeting on 27 May 2021, it was resolved to adjust the Conditional Capital 2018 II to EUR 806,250.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2018 exercise their option rights. As of 31 December 2021, 788,450 stock options have been issued to former and current members of the Management Board and employees of the PAION Group under the Stock Option Programme 2018. The stock options have not yet been exercised. As at 31 December 2021, the Conditional Capital 2018 II amounts to EUR 806,250.00.

At the Annual General Meeting on 27 May 2020, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 1,200,000.00 by issuing up to a total of 1,200,000 new no-par value bearer shares (Conditional Capital 2020). The conditional capital increase may only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2020 exercise their option rights. As of 31

December 2021, no stock options have been issued under the Stock Option Programme 2020.

The reserve from currency translation amounts to KEUR -1,118 as at 31 December 2021 (previous year: KEUR - 1,010). Of this amount, EUR 6,169 thousand relates to accumulated exchange rate gains (as at 31 December 2020: accumulated exchange rate gains of EUR 7,486 thousand) from the translation of the financial statements of the British subsidiaries from GBP and of the Danish subsidiary from DKK into EUR, KEUR -6,319 to accumulated exchange rate losses (as at 31 December 2020: accumulated exchange rate losses of KEUR -6,319) on (parts of) loans granted by PAION AG to the UK subsidiaries converted into shares in the respective company in the fiscal year 2018 as well as KEUR -967 accumulated exchange rate losses (as at 31 December 2020: accumulated exchange rate losses of KEUR -2,177) on the loan granted by PAION AG to the UK subsidiary PAION UK Ltd and EUR -1k accumulated foreign exchange losses (as at 31 December 2020: no foreign exchange losses/gains) on the loan granted by PAION AG to the Danish subsidiary PAION Scandic ApS. The loan granted to PAION UK Ltd. amounts to KEUR 24,770 as at 31 December 2021 (31 December 2020: KEUR 17,750). The loan granted to PAION Scandic ApS amounts to KEUR 771 as at 31 December 2021 (31 December 2020: KEUR 0).

(8) Provisions

The provisions have developed as follows:

Figures in KEUR	Premiums/ Management Bonuses	Obligations from licence agreements	Others	Total
31 Dec. 2019	173	0	97	270
Utilization	171	0	0	171
Addition	609	1,515	0	2,124
Release	0	0	0	0
Exchange rate differences	-1	-15	-1	-17
31 Dec. 2020	610	1,500	96	2,206
Utilization	610	0	35	645
Addition	702	0	78	780
Release	0	0	0	0
Exchange rate differences	-2	0	0	-2
31 Dec. 2021	700	1,500	139	2,339

The provision for obligations from licence agreements relates to a potential payment obligation to our Chinese licensee. The provision is based on estimates due to the competitive situation for remimazolam in China. The Group expects to settle the obligation in 2024.

(9) Trade payables

Trade payables amount to KEUR 6,585 as at 31 December 2021 (previous year: KEUR 3,907). These liabilities are not interest-bearing and are generally due within 30 days of invoicing. For liabilities accrued as of the reporting date, the due date may be later than 30 days after the reporting date, depending on the date of invoicing.

(10) Other current liabilities

Other current liabilities include the following items:

	31 Dec. 2021 KEUR	31 Dec. 2020 KEUR
Refund liabilities	217	441
Wage tax	200	125
Holiday allowances	135	102
Supervisory Board remuneration	36	34
Other	13	18
Total	601	720

(11) Tax liabilities

The tax liabilities include an income tax liability of PAION Netherlands B.V. resulting from the net profit of the company after offsetting against tax loss carryforwards, which results from the net profit of the company after offsetting against tax losses carried forward.

(12) Leases

PAION has rented various office spaces and leased parts of the operating and office equipment. The underlying contracts generally have a term of between six months and seven years (partly with special termination rights after expiry of a certain minimum term) and partly provide for automatic renewal unless the respective contract is terminated by either party by a certain date prior to the expiry of the contract.

Leases are recognised in the balance sheet at the time the leased asset is made available to PAION for use by capitalising a right of use and recognising a corresponding lease liability. Short-term leases and leases with a low value are not recognised in accordance with IFRS 16.5 and 16.6. In these cases, the lease payments are recognised in operating expenses on a straight-line basis over the term of the underlying lease.

The following items are reported in the balance sheet in connection with leases:

	31 Dec. 2021 KEUR	31 Dec. 2020 KEUR
Right-of-use assets		
Land, land rights and buildings	708	0
Other plant, factory and office equipment	11	26
Total	720	26
Leasing liabilities		
Short-term	158	11
Long-term	567	15
Total	725	27

The additions to the rights of use in the 2021 financial year amounted to KEUR 804.

The income statement includes the following amounts related to leases:

	2021 KEUR	2020 KEUR
Depreciation of right-of-use assets		
Land, land rights and buildings	101	40
Other plant, factory and office equipment	9	10
Total	110	50
Losses from asset disposals	10	0
Interest expenses	24	2
Expenses for short-term leases according to IFRS 16.5	128	256

The total payments for leasing amounted to KEUR 265 in the financial year 2021.

The lease liabilities at the balance sheet date are based on the undiscounted contractual payments (gross basis, before deduction of finance charges) of KEUR 209 due in 2022, KEUR 149 due in 2023 and KEUR 4 due in 2024.

(13) Financial debt

PAION AG has drawn down the first two tranches of the loan totalling KEUR 12,500 in February 2021 and the third and final tranche of the loan totalling KEUR 7,500 in June 2021 under the KEUR 20,000 loan agreement entered into with the European Investment Bank (EIB) in the financial year 2019. Each tranche has a term of five years and is repaid from the 39th month after disbursement. The interest rate consists of a current cash interest component of 6 % (tranche 3) and 7.5 % (tranches 1 and 2), a deferred bullet interest component of 3 % (tranche 3) and 5 %

(tranches 1 and 2) and a performance-based bullet component.

At the time of initial recognition, the payment amount of the respective tranches was divided between the basic liability on the one hand and the performance-based remuneration component as a derivative subject to separation on the other. The basic liability, including the current and bullet interest components, is measured at amortised cost using the effective interest method. The performance-related remuneration component is a payment obligation that depends on the share price of PAION AG at the time of repayment of the last part of the respective tranche of the loan and is due at that time; as an embedded derivative, it is required to be separated and is subsequently measured at fair value on the basis of the Black/Scholes model. The carrying amount of the base component, including the current and final interest component, amounts to KEUR 17,773 as at 31 December 2021. The carrying amount of the final performance-based remuneration component amounts to KEUR 1,711 as at 31 December 2021.

The following maturity analysis on the EIB loan is based on the contractually agreed undiscounted interest and principal payments as expected at the balance sheet date:

	Σ	12 months	13-36 months	37-55 months
Underlying liabilities	28,302	1,388	9,236	17,679
Performance-related remuneration components	1,711	0	0	1,711
EIB loan Σ	30,013	1,388	9,236	19,390

Consolidated statement of comprehensive income disclosures

(14) Revenues

Revenues amount to KEUR 7,128 and result from the sale of remimazolam active ingredient to licensees, licence fees, milestone payments and own product sales in selected markets in Europe. The revenues in the previous year (KEUR 19,655) were primarily attributable to milestone payments in connection with the market approvals of remimazolam in the USA and Japan as well as the expansion of the licence area for remimazolam by six additional countries in Southeast Asia concluded with the licensee Hana Pharm in January 2020.

Disaggregation of revenues

Revenues in the reporting year result from consideration from licensees for the achievement of (development-) milestones as well as for the granting of licences for the development and marketing (of remimazolam) in certain geographic regions. In addition, revenues include consideration from licensees for supply of remimazolam active ingredient as well as consideration from wholesalers and hospitals for the sale of remimazolam, angiotensin II and eravacycline products in selected markets in Europe. Against the backdrop of the transformation of the structure of sales revenues in connection with the start of commercialisation, sales revenues will be broken down according to the following scheme from the 2021 financial year onwards:

- Sale of **remimazolam active ingredient** to and sales-related **royalties** from licensees: KEUR 4,484 (previous year: KEUR 405)
- **Milestone payments** from licensees for remimazolam (consideration for (development-)milestones / granting of licence): KEUR 2,600 (previous year: KEUR 19,250)
- Commercial **product sales** to wholesalers and hospitals in selected markets in Europe: KEUR 44 (previous year: KEUR 0)

Contract balances and performance obligations

The contract balances at the beginning and end of the reporting year are as follows:

	31 Dec. 2021 KEUR	31 Dec. 2020 KEUR
Trade receivables	1,717	500
Refund liabilities	217	441

In the reporting year, no revenue was realised from (parts of) consideration recognised as at the previous year's reporting date.

As a specialty pharma group, PAION develops new product candidates in anaesthesia and intensive care medicine with the aim of licensing them out and marketing them itself in selected markets. The services typically provided as part of the out-licensing of product candidates and the conclusion of licensing agreements include, in addition to the granting of the licence for development and marketing, comprehensive data, technology, process and/or know-how transfers, development services, the achievement of (regulatory) milestones and the provision of marketing authorisation dossiers from other regions.

Based on the development status of its self-developed product remimazolam, which has now received market approvals in several regions worldwide but is still in development or in the approval process in other regions and/or indications, PAION generates first, but not yet sustainable, revenues in the form of royalties. Within the framework of the conclusion of licensing agreements, there are generally upfront payments at the beginning of the contract before any royalties are received when remimazolam is marketed, which, depending on the stage of development for the specific (regulatory) requirements of the respective region, regularly remunerate a comprehensive data, technology, process and/or know-how transfer as a typical first service obligation within the framework of a licensing agreement and/or the licence (with right of use) itself. Depending on the contract, the service can be provided either at a point in time or over a period of time. If the service is provided at a point in time, payment is regularly made shortly before the service is provided or closely coincides with it. If the service is provided over a period of time, the payment is usually made before the service is fully provided and a contractual

liability is recognised for the portion of the consideration not yet recognised as revenue, which is then recognised as revenue over the period in which the service is provided. In this case, revenue is regularly recognised in instalments over the period that is either contractually agreed or results from the (planned) development steps.

Subsequently, the licence agreements concluded regularly contain consideration linked to the achievement of certain (development) milestones (see above). These milestones can either compensate for a development service to be provided by PAION or for a development success or for the licence itself. Due to the high risk of failure in drug development, the underlying revenues are not recognised until the defined milestones have been fully and successfully completed. Therefore, no contract assets or liabilities are recognised during the performance period. Upon completion of the milestone, the revenue is recognised with simultaneous recognition of a trade receivable. The realisation of these milestones is closely related in time to the consideration to be paid by the licensee.

In addition, PAION sells remimazolam active ingredient to licensees and finished products to hospitals, wholesalers or distributors. The sales are recognised as revenue as soon as the performance obligations have been fulfilled, i.e. the contractually agreed transfer of risk has taken place. The sales-related royalties resulting from the sales of remimazolam in the respective territories licensed out to licensees are recognised as revenue as soon as the underlying sales have been made by the licensees.

The payment term is usually approx. 30 to 45 days, depending on the type of revenue and customer, either after performance has been fulfilled in the case of milestones, after contract signature in the case of upfront payments or after transfer of risk in the case of product sales. The licence agreement with Yichang Humanwell resulted in a refund liability of (net) KEUR 217, which was recognised in other liabilities. The licence agreements generally do not include any guarantees and do not provide for any further material obligations in addition to the services owed under the agreement, which, however, may include not only the pure provision of services but also the successful outcome of the provision of (development) services, such as the successful completion of studies with

the achievement of the primary and secondary endpoints defined in advance, a regular exchange of data with the licensees and, if applicable, support of the licensees in their regulatory and development activities. In some cases, additional supply contracts exist with licensees for the supply of remimazolam active ingredient, which also do not provide for any obligations beyond those contractually owed.

As at 31 December 2021, the (partially) unfulfilled performance obligations allocated transaction price across all existing licence agreements amounts to KEUR 0. The performance obligations existing as at 31 December 2021 relate entirely to variable consideration that is either limited due to the high risk of pharmaceutical development within the meaning of IFRS 15.56 or is revenue-based royalties in accordance with IFRS 15.B63 and was therefore not included in the transaction price.

The main changes in contract balances in the reporting period are due to the increase in trade receivables, particularly as a result of a sale of remimazolam active ingredient shortly before the reporting date, as well as the decrease in reimbursement liabilities resulting from the offsetting of realised licence fees.

Significant judgements

Each performance obligation is analysed individually with regard to the time or period of fulfilment. In the case of the fulfilment of performance obligations over a period of time, output methods are regularly used as the method for revenue recognition. In the case of data, technology, process and/or know-how transfers, an end date is typically defined up to which the revenue is recognised on a pro rata straight-line basis, or the revenue is otherwise recognised over the period resulting from the (planned) development steps. Due to the objective verifiability, these methods represent an accurate picture of the transfer of services for both licensor and licensee. In the case of services whose successful performance contractually requires the achievement of defined milestones, the revenue is only recognised at the time the respective defined milestone is fully achieved, despite the performance over a period of time, because the variable consideration is limited within the meaning of IFRS 15.56. The variable consideration is not recognised until the milestone is actually achieved. Since it is not certain until

milestones are actually achieved whether the milestones can be achieved or not due to the high risk of pharmaceutical development, the actual achievement of milestones represents the best measurement method for revenue recognition.

Performance obligations that are fulfilled at a point in time regularly exist within the framework of data-, technology, process and/or know-how transfers, within the framework of granting licences with the right of use as well as within the framework of the sale of remimazolam active ingredient to licensees or of commercial products to hospitals and wholesalers. In the case of the fulfilment of performance obligations from data, technology, process and/or know-how transfers at a point in time, this point in time is regularly contractually defined and confirmed in writing by both contractual partners after the corresponding transfer, so that the transfer of power of disposal can be clearly determined. In the case of the granting of licences with a right of use in accordance with IFRS 15.B56b), the licence is generally deemed to have been granted at the time the contract is concluded and control is thus deemed to have been transferred. In the case of the sale of remimazolam active ingredient or commercial product, the transfer of control is regularly defined on the basis of the contractually agreed transfer of risk.

To determine the transaction price of a contract, all potential payments from a contract are first analysed and included in the calculation of a potential transaction price. Then, variable consideration is examined with regard to a potential limitation in accordance with IFRS 15.56 et seq. This regularly leads to variable consideration from the achievement of (development) milestones in particular not being included in the transaction price. Furthermore, revenue-based licence fees are not included in the transaction price in accordance with IFRS 15.B63. Each variable consideration is analysed and evaluated individually, taking into account the specific contractual circumstances and the conditions whose fulfilment underlies the receipt of the respective variable consideration. In particular, the high-risk environment of the pharmaceutical industry is also taken into account. The consideration for the individual services is always reflected in the contracts, which are negotiated on a highly individual basis depending on the region, as part of the contractually

defined payments that are linked to these services. In the case of licence agreements, the transaction price at the time of conclusion of the agreement regularly only includes the first payment, which is usually linked to a transfer of data, technology, process and/or know-how and/or the granting of a licence with the right of use, to which the transaction price is consequently also assigned. As soon as services are rendered through the achievement of certain development steps or milestones and variable consideration is no longer limited as a result, the total transaction price increases by the variable consideration that is no longer limited. This increase in the transaction price is allocated to the underlying (development) performance of the variable consideration (usually the achievement of a milestone).

Redemption, refund and similar obligations are valued individually based on the specific contracts and do not require estimates based on the current contracts.

Assets recognized from costs to obtain or fulfill a contract and practical expedients

Since no costs are regularly incurred when initiating a contract and only arise when a contract is concluded, no additional costs have been activated so far when initiating contracts.

(15) Cost of sales / research and development expenses / general administrative and selling expenses

Cost of sales includes cost of materials for products sold, services received in connection with product sales or other types of revenue, and royalties payable to third parties triggered by product sales or other types of revenue. Research and development (R&D) costs include R&D personnel and materials costs, processing fees and other directly attributable expenses for the Company's research and/or development activities (including clinical trials) that cannot be classified as revenue-generating activities. R&D costs also include pro-rata overheads charged to the R&D departments. Sales and administration costs include, in addition to all directly attributable personnel and material expenses of the respective departments,

- the scheduled depreciation of the relevant departments,

- the other directly attributable expenses of the relevant departments and
- the pro rata overheads of the relevant departments as well as the statutory costs of the company.

(16) Other income (expenses), net

The other income (expenses) for the financial year mainly include a specific bad debt allowance of KEUR 989 (previous year: EUR 0), income from on charges to licensees of KEUR 142 (previous year: KEUR 1,444) and expenses from obligations to licensees of KEUR 295 (previous year: KEUR 1,575) as well as (net-) exchange rate gains of KEUR 115 (previous year: (net-) exchange rate losses of KEUR 53).

(17) Financial result

The financial income of KEUR 1,562 (previous year: KEUR 11) is mainly attributable to the subsequent valuation of the performance-based remuneration component of the EIB loan as at the balance sheet date. The financial expenses of KEUR 2,065 (previous year: KEUR 163) relate in the amount of KEUR 1,974 (previous year: EUR 0) to the compounding of the basic liability of the EIB loan in accordance with the effective interest rate method (cf. on the EIB loan also (13) Financial Debt), KEUR 67 (previous year: KEUR 67) for negative interest on bank balances and short-term deposits, and KEUR 24 (previous year: KEUR 2) for the compounding of interest on leasing liabilities. In the previous year, KEUR 94 also related to the reversal of the remaining part of the day one loss capitalised in the context of the issue of convertible bonds in the 2019 financial year.

(18) Income taxes / Deferred taxes

As at 31 December 2021, the tax loss carry forwards of the PAION Deutschland Group (PAION AG and PAION Deutschland GmbH) amount to approximately EUR 98 million (previous year: EUR 81 million) for corporate income tax and approximately EUR 97 million (previous year: EUR 81 million) for trade tax. Under current German tax legislation, these loss carry forwards can be carried forward without time limit and used to offset future profits

in accordance with the tax framework (e.g. minimum taxation).

The tax loss carry forwards at the British subsidiaries amount to approximately GBP 115 million as at 31 December 2021 (at the closing rate: approximately EUR 137 million). In the previous year, these amounted to GBP 111 million and EUR 123 million respectively. Due to the current British tax legislation, these can be carried forward without any time limit and, in accordance with the tax framework (e.g. minimum taxation), can largely be used to offset against future profits.

The tax loss carried forward at the Danish subsidiary amounts to a good DKK 8 million as of 31 December 2021 (corresponds to approx. EUR 1 million at the exchange rate on the reporting date). Due to current Danish tax legislation, this can be carried forward without time limit and used to offset future profits in accordance with the tax framework (e.g. minimum taxation).

In total, the Group's loss carry forwards (based on the corporate tax loss carry forwards of the PAION Germany Group) amount to approximately EUR 236 million (previous year: EUR 206 million). As at the balance sheet date, no deferred tax assets were recognised for a partial amount of EUR 232 million (previous year: EUR 205 million).

The combined German income tax rate is 32.45% and results from the corporate income tax rate of 15.0%, the solidarity surcharge, which is levied at a rate of 5.5% on the corporate income tax, and the trade income tax of 16.625%. The income tax rate in the United Kingdom is 19%. The income tax rate in the Netherlands for the calendar of year 2021 is 15% and 25% for taxable profits above KEUR 245. From 2022 onwards, the income tax rates in the Netherlands are 15% and 25.8% for taxable profits above KEUR 395. The income tax rate in Denmark is 22%. The expected Group tax rate is 30%.

Intangible assets of KEUR 13,844 were capitalised as part of the purchase price allocation for the PAION UK group acquired in 2008. The recognition of these development projects resulted in deferred tax liabilities of KEUR 3,876 at the then applicable UK income tax rate of 28%. These were offset by deferred tax assets on loss carry forwards in the same amount. Deferred tax assets and liabilities are reversed in accordance with the scheduled

depreciation of the development projects. Deferred taxes are shown net in both the balance sheet and the statement of comprehensive income. Deferred tax assets and liabilities amount to KEUR 333 (previous year: KEUR 344) after currency translation as of the balance sheet date ; these relate to the intangible asset remimazolam (deferred tax liabilities) and the deferred taxes on losses carried forward (deferred tax assets) in the same amount.

Based on PAION AG's current German income tax rate of 32.45%, the accounting for the EIB loan taken out in the reporting year (including all remuneration components) results in deferred tax liabilities of KEUR 871 as at 31 December 2021. These are offset by deferred tax assets on loss carry forwards in the same amount. The deferred tax assets and liabilities will develop in parallel until the final maturity of the loan. All temporary differences will be reversed by this time. Deferred taxes are shown net in the balance sheet as well as in the statement of comprehensive income .

Applying the currently applicable combined German income tax rate would result in deferred tax assets of just under EUR 31 million (previous year: EUR 26 million) for the unused tax loss carry forwards in Germany as at 31 December 2021. Based on the income tax rate of 19 % applicable in the United Kingdom, unused tax loss carry forwards in the United Kingdom would result in deferred tax assets of just under GBP 22 million as at 31 December 2021 (corresponding to just under EUR 26 million as at the reporting date). These amounted to GBP 21 million and EUR 23 million respectively in the previous year. In Denmark, only insignificant deferred tax assets of significantly less than KEUR 500 would result for the tax loss carryforwards. Asset differences between the tax valuation and the valuation according to IFRS that go beyond the facts explained above regarding the capitalised asset remimazolam and the EIB loan would result in deferred tax assets of KEUR 284 (previous year: KEUR 265) as at 31 December 2021, of which KEUR 1 (previous year: EUR 0) in Germany and KEUR 283 (previous year: KEUR 265) in the United Kingdom. The asset differences shown essentially concern fixed assets and provisions. Deferred tax assets would thus total approximately EUR 57 million (previous year: EUR 50 million).

PAION Netherlands B.V. reported a profit in the fiscal year; all other operating companies of the PAION Group reported losses. Further losses are expected in the coming years, so that until the sustainable and successful marketing of the product portfolio, the realisability of the remaining deferred tax assets listed above is not yet considered sufficiently probable. In accordance with IAS 12.34 and IAS 12.24 "Income Taxes", the surplus of deferred tax assets on loss carry forwards and the surplus of deferred tax assets on temporary differences were therefore not recognised.

In the reporting period, the changes recognised directly in equity (currency by accounting differences) did not lead to any tax effects.

A reconciliation between the expected taxes and the actual taxes on income is as follows, taking into account the expected group tax rate of 30 %:

In KEUR	2021	2020
Result for the period before taxes	-22,581	1,430
Anticipated tax expense (+)/income (-)	-6,774	429
Non-recognition of deferred taxes on tax losses	6,423	790
Difference between anticipated Group tax rate and actual local tax rates	580	-171
Effects from currency translation	389	-390
Effect from trade tax additions	169	3
Expenses in connection with stock options	104	94
Effect from withholding taxes	90	0
Non-deductible expenses	31	28
Adjustment of non-recognition of deferred taxes on tax losses due to tax rate change	0	2,469
Deferred taxes on adjusted tax losses from previous years	0	71
Effect from convertible bonds	0	-11
Non-recognition of deferred taxes on adjusted tax losses from previous years	0	-71
Effect of tax rate changes	0	-93
Revaluation of tax losses due to tax rate changes	0	-2,469
Cost in connection with capital increases	-190	-11
Effect from tax credits	-295	-1,386
Tax losses used	-446	-74
Non-recognition of deferred taxes on temporary differences	-876	0
Other	-1	0
Actual tax expense (+)/income (-)	-796	-792

The actual tax income results from expected tax refunds from the UK tax authorities from the funding of research and development activities and to a small extent from tax liabilities of PAION Netherlands B.V. The expected Tax refunds have reduced the tax loss carry forwards accordingly.

(19) Earnings per share

Earnings per share were calculated in accordance with IAS 33 "Earnings per Share" on the basis of the net profit for the year and the weighted average of the issued shares.

The underlying weighted average number of ordinary shares is calculated as follows:

	2021	2020
Shares outstanding as of 1 January	66,241,493	64,265,586
Weighted average number of shares issued	3,708,391	1,455,809
Weighted average number of ordinary shares	69,949,884	65,721,395

The calculation of basic and diluted earnings per share is based on the following data:

	2021	2020
Net result for the year in EUR	-21,785,588.36	2,222,143.55
Weighted average number of ordinary shares for basic earnings per share	69,949,884	65,721,395
Weighted average number of ordinary shares for diluted earnings per share	70,161,716	66,133,456
Earnings per share in EUR:		
Basic	-0.31	0.03
Diluted	-0.31	0.03

Potential ordinary shares from the exercise of shares options only have a dilutive effect if the new ordinary shares from the exercise of shares options would reduce net income per share.

Due to the earnings situation of the PAION Group, there is therefore no dilution for the potential new ordinary shares from the share option programmes in the reporting year.

Consolidated cash flow statement disclosures

The consolidated cash flow statement shows how PAION's cash and cash equivalents have changed during the financial year as a result of cash inflows and outflows. In accordance with IAS 7 "Statements of Cash Flows", a distinction is made between cash flows from operating, investing and financing activities. The cash flow from operating activities is presented according to the indirect method starting from the annual result (after taxes). Interest and tax payments received and made are included in the cash flow from operating activities. Cash flows from investing activities and financing activities are determined on the basis of actual payment transactions. The cash flow from investing activities is primarily due to the European licensing and commercialisation rights for angiotensin II (KEUR 14,794) and eravacycline (KEUR 3,699) acquired in the reporting year as well as an ERP system under development (KEUR 550). The cash flow from financing activities mainly results from the utilisation of the EIB loan (KEUR 20,000), the gross inflow of funds from the rights issue completed in April 2021 (KEUR 7,847) and the capital procurement costs incurred in connection with this capital increase (KEUR -586). The cash and cash equivalents shown in the consolidated cash flow statement include cash on hand, bank balances and short-term deposits with a maturity of less than three months from the date of investment. PAION has leased rights of use that are accounted for in accordance with IFRS 16 and are therefore not presented in the cash flow statement when they are acquired. For details see note (12) to the balance sheet.

Other disclosures

Stock Option Plans

There are a total of five active stock option plans under which stock options have been or may be granted to members of the Management Board and employees of PAION AG and its subsidiaries who were in office at the time of the grant. The grants are accounted for in accordance with IFRS 2. All stock option plans provide for vesting periods, waiting periods and exercise hurdles and settlement through equity-settled instruments. The respective exercise price is based on the average share price in a certain period before the issue and any necessary adjustments. The details of the individual plans can be found in the following table. The presentation of the Stock Option Plan 2020, from which no stock options have been granted yet, is omitted. No stock options were issued from the stock option plans listed below in the reporting year.

	Stock Option Plan 2010 Approved 19 May 2010	Stock Option Plan 2014 Approved 21 May 2014
Underlying capital	Conditional Capital 2010 I	Conditional Capital 2014
Term of the options	10 years	10 years
Vesting period	2 years	2-4 years
Waiting period	4 years	4 years
Number of outstanding options for which the waiting period has expired as at 31.12.2021	676,626	474,510
Exercise condition	Cumulative stock price increase of 5% per year since grant in relation to exercise price	Cumulative stock price increase of 5% per year since grant in relation to exercise price
Exercise price *	EUR 1.31 * ¹	EUR 1.99 to EUR 2.60
Weighted average exercise price *	EUR 1.31 * ¹	EUR 2.21
Exercise hurdle as of 31 Dec. 2021 *	EUR 2.52 * ¹	EUR 2.54 to EUR 3.20
Weighted average remaining term as at 31 Dec. 2021	2.1 years	4.0 years
Further grants possible? (as at 31 Dec. 2021)	No	No
Number of totally granted options until 31 Dec. 2021	720,000	740,000
Number of outstanding options as of 31 Dec. 2021* ²	676,626	530,010
granted to employees	372,876	231,697
granted to Management Board members	303,750	298,313
Number of totally lapsed options as of 31 Dec. 2021	23,374	209,990
Thereof lapsed in the reporting period	0	0
Number of totally exercised options until 31 Dec. 2021	20,000	0
thereof exercised in the reporting year	0	0
Personnel expenses in the reporting year	EUR 0	EUR 0
Fair value per option at the time of the grant * ³	EUR 1.67	EUR 1.02 to EUR 1.39
Elements of calculation		
Valuation model	Black/Scholes	Black/Scholes
Risk-free rate	0.7 %	-0.26 % to 0.08 %
Volatility	73.75 %	72.34 % to 83.76 %
Staff turnover * ⁴	10 % per year	9 % per year
* in relation to outstanding options as of 31 Dec. 2021		
* ¹ (partially) adjusted on terms of the Stock Option Plan		
* ² in relation to employee/Management Board member status at the time of the grant		
* ³ in relation to totally granted options		
* ⁴ fluctuation last used in the context of the update of the quantity structure carried out until the end of the respective vesting period		

Stock Option Plan 2016
Approved 25 May 2016

Stock Option Plan 2018
Approved 23 May 2018

Conditional Capital 2016

Conditional Capital 2018 II

10 years

10 years

2-4 years

2-4 years

4 years

4 years

175,300

0

Cumulative stock price increase of 5% per year since grant in relation to exercise price

Cumulative stock price increase of 5% per year since grant in relation to exercise price

EUR 1.90 to EUR 2.60 *1

EUR 1.90 to EUR 2.31 *1

EUR 2.26 *1

EUR 2.10 *1

EUR 2.15 to EUR 3.11 *1

EUR 2.15 to EUR 2.56 *1

6.5 years

8.3 years

No

No

840,000

886,500

700,472

788,450

351,638

440,700

348,834

347,750

139,528

98,050

2,200

17,800

0

0

0

0

KEUR 56

KEUR 286

EUR 0.75 to EUR 1.70

EUR 0.75 to EUR 0.84

Black/Scholes

Black/Scholes

-0.40 % to -0.14 %

-0.44 % to -0.40 %

39.03 % to 81.61 %

39.03 % to 56.15 %

7 % per year

7 % per year

Other financial obligations/contingent liabilities

As of the reporting date, there are contractually agreed obligations of approximately EUR 9.0 million (previous year: EUR 6.7 million). These mainly relate to the production of remimazolam active ingredient, the commissioning of contract research companies to conduct (non-)clinical studies and the commissioning of sales services. The underlying contracts contain variable termination periods of several months at the most, so that the financial obligations shown would be reduced in the event of the termination of contracts.

Headcount and personnel expenses

PAION had an average of 51 employees in the fiscal year 2021 (previous year: 43 employees). Of the 51 employees, twelve worked in development and 39 in administration and sales. Eleven employees on average for the year are attributable to the PAION UK Group, three to PAION Netherlands B.V. and two to PAION Scandic ApS. As at 31 December 2021, the number of employees was 56 (31 December 2020: 43).

The following personnel expenses were incurred in the 2021 and 2020 financial years:

	2021 KEUR	2020 KEUR
Salaries	6,233	5,062
Social security contributions	850	606
Total	7,083	5,668

The personnel expenses shown above include (netted) expenses from the granting of share options within the framework of the 2016 and 2018 share options programmes in the amount of KEUR 342 (previous year: KEUR 286). Furthermore, the personnel expenses include contributions to German, British, Dutch and Danish social security in the amount of KEUR 699 (previous year: KEUR 533) as well as expenses for pensions within the framework of defined contribution plans in the amount of KEUR 147 (previous year: KEUR 66).

Related parties

In accordance with IAS 24 "Related Party Disclosures", related party transactions must be reported. The Management Board and the Supervisory Board as well as shareholders are considered related parties in the sense of IAS 24.9. With regard to the remuneration and shareholdings of the members of the Management Board and the Supervisory Board, reference is made to the explanations under "Members of the Executive Board" and "Members of the Supervisory Board" in this section.

There were no other relationships with related parties.

Objectives and methods of capital management and financial risk management

The Group manages its capital with the objective of safeguarding the Group companies' ability to continue as a going concern while maximising long-term value for stakeholders. The Group's capital management is subject to cash and cash equivalents as well as all components of equity and liabilities as reported in the consolidated statement of financial position. As at 31 December 2021, the equity ratio thus considered is 19.0% (previous year: 75.6%). The company is not subject to any statutory capital requirements. However, it is obliged to issue new shares in connection with option rights granted under the existing stock option programmes if stock options are exercised in accordance with the option conditions.

PAION's business activities are currently focused on establishing and expanding commercial structures for the distribution of its product portfolio in parts of Europe. In addition, development and regulatory activities for the three products continue to be carried out. These activities are currently only offset by low sustainable revenues from the (own) sale of approved products, so that losses will still be incurred in the coming years as planned. PAION's goal is to sell its product portfolio independently or through partners, depending on the market, and to secure the short- and medium-term liquidity requirements for these activities. - Liquidity coverage is mainly provided by equity and/or debt capital as well as cooperation's in which the cooperation partners make technology access payments and other milestone payments and assume development costs directly and indirectly. The ability to raise further capital in the future depends largely on the positive progress of the further

regulatory process for remimazolam, primarily in Europe, as well as on the success of the (subsequent) marketing of remimazolam worldwide and of the two products angiotensin II and eravacycline, which were in-licensed in the reporting year, in Europe. PAION's management therefore focuses on managing and monitoring the build-up of commercial structures, development projects, cash resources and future liquidity needs.

Financial liabilities include financial debts, provisions, trade payables and parts of other liabilities. PAION has various financial assets such as parts of other assets as well as bank balances and short-term deposits. The financial assets and liabilities result directly from PAION's business activities or serve to finance its current business activities. For all financial assets, the intention is to collect the original cash flows. These consist only of the original claim and any interest.

PAION AG uses derivative financial instruments for the purpose of managing currency risks in the Group. Only financial instruments that have a clear hedging relationship are used. No derivative financial instruments were used in the fiscal year 2021.

The financial instruments give rise to the following risks for PAION:

PAION is exposed to currency risks in connection with the credit financing of the British subsidiary PAION UK Ltd., the Danish subsidiary PAION Scandic ApS and to a currently minor extent from trade receivables and trade payables. Liquidity is mainly invested in euros, but a small amount of cash and cash equivalents is also held in GBP, USD and DKK.

In the fiscal year 2021, the loan from PAION AG to the British subsidiary PAION UK Ltd. resulted in exchange rate gains of KEUR 1,210 and the loan from PAION AG to the Danish subsidiary PAION Scandic ApS resulted in exchange rate losses of KEUR 1, which are recognised directly in equity. If the EUR/GBP and EUR/DKK exchange rates had been 5% higher on the balance sheet date, the currency position recognised in equity would have decreased by KEUR 1,248 in the financial year 2021 compared to the change actually recognised in the financial year 2021. If the EUR/GBP and EUR/DKK exchange rates had been 5% lower on the balance sheet date, the currency position recognised in equity would have increased by KEUR 1,248 in the 2021

financial year compared to the change actually recognised in the 2021 financial year. Since the exchange rate effects are recognised directly in equity, there is no effect on the result for the period.

PAION's bank balances and short-term deposits are mainly held with two major German banks, a savings bank and a major British bank. The selection of short-term investments is based on various security criteria (e.g. rating, capital guarantee, protection by the deposit guarantee fund). Based on the selection criteria taken into account and the ongoing monitoring of the investments, PAION currently assesses the occurrence of a default risk in this area as unlikely. The amounts reported in the balance sheet basically represent the maximum default risk.

Liquidity is monitored and managed using a corporate planning tool tailored to PAION's needs, which covers short-, medium- and long-term corporate planning. Liquidity risks are identified at an early stage by simulating various scenarios and using sensitivity analyses. Current liquidity is recorded and monitored on a daily basis.

The interest on bank balances and short-term deposits depends on the development of market interest rates. PAION is therefore exposed to interest rate risk on these items. A reduction in the interest rates for bank balances and short-term deposits by 10 basis points would have led to a reduction in the consolidated result of KEUR 16 in the fiscal year 2021.

PAION is exposed to market price risks. The market price risk results from the performance-based component of the loan agreement of KEUR 20,000 concluded with the European Investment Bank (EIB) in the fiscal year 2019, which is linked to the share price performance of PAION AG. Please refer to the comments on financial liabilities in the section on the notes to the consolidated statement of financial position. A 10% higher share price of PAION AG at the balance sheet date would have resulted in a reduction of the net profit for the year by KEUR 171. A 10% lower share price of PAION AG at the balance sheet date would have resulted in an increase in the annual result of KEUR 171.

In order to determine the sensitivities presented for the interest rate, currency and market price risks, the respective parameter under consideration was varied while otherwise keeping the valuation assumptions constant.

The other assets mainly result from tax refund claims against the British tax authorities from the pro rata reimbursement of research and development expenses. The calculation of the tax refund claims was based on the methodology agreed in previous years between the PAION UK companies and the British tax authorities. The calculation of the refund claims was based on the calculation methodology agreed in previous years between the PAION UK companies and the British tax authorities. However, a final review of the reimbursement claims for 2021 by the UK tax authorities had not yet taken place as at the balance sheet date.

Financial instruments

The following table shows the carrying amounts and fair values of the financial instruments recognised in the consolidated financial statements:

in KEUR	Carrying amount		Fair value		
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020	
Financial assets:					
Cash and cash equivalents	(1)	6,440	19,666	6,440	19,666
Trade receivables	(1)	1,717	500	1,717	500
Other assets	(1)	181	59	181	59
Financial liabilities:					
Financial debt (underlying liability EIB loan)	(1)	17,773	0	17,773	0
Trade payables	(1)	6,585	3,907	6,585	3,907
Provisions	(1)	2,339	2,206	2,339	2,206
Financial debt (performance-related remuneration component EIB loan)	(2)	1,711	0	1,711	0
Lease liabilities		725	27	725	27
Other liabilities	(1)	401	596	401	596

Measurement category according to IFRS 9:

- (1) Recognized at amortised cost
- (2) Recognized at fair value through profit or loss

Cash and cash equivalents, trade receivables, other assets, trade payables, provisions and other liabilities almost exclusively have short residual terms and the carrying amounts correspond to the fair value on the balance sheet date. The fair values for these financial instruments were determined on the basis of non-observable input factors (level 3 input factors according to IFRS 13). The financial liabilities include, on the one hand, the basic liability of the EIB loan, which is subsequently measured using the effective interest method, taking into account the current and bullet interest components. The carrying amount corresponds to the

The fair value was determined on the basis of unobservable input factors (level 3 input factors according to IFRS 13) using discounted future cash flows. On the other hand, the financial liabilities include the bullet component of the EIB loan, which is recognised at fair value. This was calculated on the basis of market prices in an active market (level 2 input factor under IFRS 13) using the Black/Scholes model.

There were no changes between the hierarchy levels in the 2021 financial year. The recoverability of the financial assets was reviewed on the basis of historical and expected payment defaults. Default risks were identified and a case-by-case value adjustment was made on trade receivables in the amount of KEUR 989.

Members of the Management Board

The members of the company's Management Board in the reporting period are/were:

- Dr James Phillips, CEO, Chairman

Memberships in comparable/other domestic and foreign supervisory bodies:

- Herantis Pharma plc, Espoo/Finland

- Abdelghani Omari, CFO

The total remuneration of the Management Board members amounted to KEUR 716 in the 2021 financial year. As at 31 December 2021, a total of 741,000 shares options (fair value at the time of granting: EUR 692,425) had been issued to the Management Board members in office as at 31 December 2021. The former Management Board member Jürgen Beck was granted remuneration of EUR 60,000 in 2021. For further information on the remuneration of the Executive Board, please refer to the Remuneration Report.

Both members of the Management Board are also - managing directors of PAION Deutschland GmbH, PAION Holdings UK Ltd and its subsidiaries as well as PAION Netherlands B.V. and PAION Scandic ApS. Both members of the Management Board are employed full-time by the Company and its subsidiaries.

As at 31 December 2021, Dr Phillips held 0.02% (17,250 voting rights) of the shares in PAION AG.

Members of the Supervisory Board:

Members of the Supervisory Board of the Company are or were in the reporting year:

- Dr. Jörg Spiekerkötter, Berlin, Chairman; Managing Partner of JSP-Invest GmbH, Potsdam
- Dr Karin Louise Dorrepaal, Amsterdam/Netherlands, Vice Chair, Chair of the HR and Nomination Committee; former member of the Management Board of Schering AG

Membership of other supervisory boards required to be established under German law:

- Gerresheimer AG, Düsseldorf

Memberships in comparable/other domestic and foreign supervisory bodies:

- Almirall S.A., Barcelona/Spain

- Triton Beteiligungsberatung GmbH, Frankfurt
- Kerry Group plc, Tralee/Ireland
- Van Eeghen & Co B.V., Amsterdam/Netherlands
- Julius Clinical Research BV, Zeist/Netherlands (until 26 May 2021)
- Intravacc B.V., Bilthoven/Netherlands (since 1 January 2021)

- Dr Dr Irina Antonijevic (until 27 January 2022), Boston, MA/USA, Chair of the Research and Development Committee; Chief Medical Officer and Head of R&D at Triplet Therapeutics, Inc, Cambridge, MA/USA.

Membership of other supervisory boards required to be established under German law:

- 4SC AG, Planegg-Martinsried (Munich)

- Dr Hans Christoph Tanner, Horgen/Switzerland, Chairman of the Audit Committee, former Head of Transactions of Cosmo Pharmaceuticals N.V., Amsterdam/Netherlands, and former Chief Financial Officer & Head of Investor Relations of Cassiopea SpA, Milan/Italy

Memberships in comparable/other domestic and foreign supervisory bodies:

- CureVac N.V., Tübingen
- Cosmo Pharmaceuticals N.V., Amsterdam/Netherlands (until 28 May 2021)
- DKSH Holding AG, Zurich/Switzerland
- Joimax GmbH, Karlsruhe
- LifeMatrix AG, Zurich/Switzerland (since 14 June 2021)
- Qvanteq AG, Zurich/Switzerland
- Wyss Zurich (ETH Zurich), Zurich/Switzerland

- Dr Markus Leyck Dieken, Berlin, Member of the Supervisory Board; Managing Director of gematik GmbH, Berlin

The remuneration of the Supervisory Board for the 2021 financial year amounted to KEUR 162. For further information on the remuneration of the Supervisory Board, please refer to our comments in the remuneration report.

The members of the Supervisory Board held no shares in PAION AG as at 31 December 2021.

Financial statements auditor

On 31 January 2021, Baker & Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, with its registered office in Düsseldorf, Munich branch, was appointed auditor for the annual and consolidated financial statements for the fiscal year 2021 by the Local Court of Aachen at the request of the Management Board. The auditor has received or will receive the following fees for services rendered to PAION AG and its subsidiaries in the fiscal year 2021:

	2021 KEUR	2020 KEUR
Audits of financial statements	99	105
	99	105

Corporate Governance

The Supervisory Board and the Management Board of PAION AG are committed to responsible, transparent management and control of the company with a focus on long-term value creation.

In December 2021, the Supervisory Board and the Management Board issued the declaration on the Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG).

The declaration of compliance is published on the of PAION AG (<https://www.paion.com/medien-investoren/corporate-governance/erklaerung-zur-unternehmensfuehrung/>).

Report on post-balance sheet date events

On 7 January 2022, PAION transferred the Chinese remimazolam patents and related future royalties to Humanwell Healthcare Group for EUR 20.5 million.

In February 2022, a military conflict broke out between Russia and Ukraine (Ukraine conflict). Based on current knowledge, the Management Board assumes that the Ukraine conflict will not have a material impact on PAION AG's business. An initial risk assessment has shown that neither major procurement nor sales markets of PAION AG are directly affected by the conflict. The statement made is based on the assumption that the conflict will not have a

lasting global economic impact, but will have a moderate impact on PAION AG's procurement and sales markets. In the event that the conflict extends over a longer period of time and the global effects become more intensive, risks that extend to PAION AG's business cannot be ruled out.

There have been no other significant events in the period between the reporting date of 31 December 2021 and the date of completion of this report.

Aachen, Germany, 29 March 2022

PAION AG



Dr James Phillips



Abdelghani Omari

Responsibility Statement (Bilanzzeit) in accordance with section 117 no.1 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with sections 297(2) sentence 4 and 315(1) sentence 5 of the Handelsgesetzbuch (HGB – German Commercial Code)

„To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.“

Aachen, Germany, 29 March 2022

PAION AG



Dr. James Phillips



Abdelghani Omari

Reproduction of the auditor's report

INDEPENDENT AUDITOR'S REPORT

To PAION AG, Aachen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE CONSOLIDATED MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of PAION AG and its subsidiaries (the Group) – comprising the consolidated balance sheet as of December 31, 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from January 1, 2021 through December 31, 2021 as well as the notes to the consolidated financial statements, including a summary of significant accounting methods. Furthermore, we have audited PAION AG's consolidated management report for the fiscal year from January 1, 2021 through December 31, 2021. In accordance with German legal requirements, we have not audited the statement on corporate governance and the declaration of conformity with the German Corporate Governance Code contained in the consolidated management report's section "Corporate Governance". Moreover, we have not audited the content of subsection "Clinical development" in the management report's section "Economic report".

According to our assessment based on our audit's findings,

- the attached consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Art. 315e Sec. 1 HGB (Handelsgesetzbuch: German Commercial Code)

and provides, in compliance with these requirements, a true and fair view of the Group's assets, liabilities, and financial position as of December 31, 2021, and of its profit situation for the fiscal year from January 1, 2021 through December 31, 2021; and

- the attached consolidated management report as a whole provides a true and fair view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of the Group's future development. Our audit opinion on the group management report does not cover the content of the aforementioned statement on corporate governance and the declaration of conformity with the German Corporate Governance Code. Moreover, our audit opinion on the management report does also not cover the content of subsection "Clinical development" in the management report's section "Economic report".

Pursuant to Art. 322 Sec. 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the consolidated financial statements' and the consolidated management report's legal compliance.

Basis for the audit opinions

We have conducted our audit of the consolidated financial statements and of the consolidated management report in accordance with Art. 317 HGB and the EU Audit Regulation (No. 537/2014, hereinafter referred to as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for the Audit of Financial Statements issued by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer "IDW"*).

Our responsibilities under these requirements and principles are further described in our audit certificate's section "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Consolidated Management Report". We are

independent of the Group companies in accordance with the requirements pursuant to European law as well as German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 Sec. 2 lit. f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 Sec. 1 of the EU Audit Regulation. We believe the audit evidence we have obtained is sufficient and appropriate in order to provide a basis for our audit opinions on the consolidated financial statements and on the consolidated management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2021 through December 31, 2021. These matters have been taken into account in connection with our audit of the consolidated financial statements as a whole, and in forming our audit opinion related herewith; we do not express a separate audit opinion on these matters.

From our perspective, the following matter was of most significance during our audit:

- Revenue recognition
- Recoverability of the license agreement with La Jolla Pharmaceutical
- Recognition of European Investment Bank's loan in the balance sheet

We have structured our presentation of these key audit matter as follows:

- 1.) Facts and problems
- 2.) Audit approach and findings
- 3.) Reference to further information

In the following, we will present these key audit matter:

Revenue recognition

1. In the fiscal year 2021, PAION Group recognized sales revenues in the amount of KEUR 7,128. The revenues mainly result from the sale of the Remimazolam active ingredient to licensees (KEUR 3,621), license fees (KEUR 866) and milestone payments (KEUR 2,600), which are also related to the commercialization of Remimazolam. The milestone revenues result from the achievement of certain development targets or from the granting of development or marketing licenses in certain geographic regions. The agreements with the licensees include various performance characteristics and timelines. The recognition of the revenues resulting from these agreements in the context of revenue recognition represents a high risk of material misstatement, which is why this issue is of great importance from our point of view.
2. Our audit procedures initially included an analysis of the license agreements concluded as of the reporting date, including the services agreed therein, as well as the business and accounting processes in connection with revenue recognition. In this context, we assessed in particular whether the milestone payments recognized as revenue fully met the contractual performance criteria for revenue recognition. The sample performed for this purpose included all milestone revenues from licensees recognized in the reporting year. In addition, revenue recognition was reviewed for all revenues related to the sale of the Remimazolam active ingredient. This included, inter alia, a review of the transfer of risk. Royalty sales were reviewed on the basis of the licensees' actual sales volumes. The royalty margin was verified on the basis of the license agreements. On the basis of these audit procedures, we assess the revenue recognition to be accurate.
3. The Company's disclosures on sales revenues are included in the notes to the consolidated financial statements in the section "Accounting and valuation methods" and in the section "Sales revenues".
Recoverability of the license agreement with La Jolla Pharmaceutical

1. Under a license agreement dated January 12, 2021, PAION AG acquired from La Jolla Pharmaceutical Company and Tetrphase Pharmaceuticals the exclusive marketing rights for the European Economic Area, the United Kingdom and Switzerland to the already approved drugs Giapreza and Xerava at a total acquisition cost of KEUR 18,493. The drugs extend and complement PAION's existing product portfolio. The recoverability of the licenses depends directly on the future marketing success of these drugs. The impairment test of these assets is complex and depends to a large extent on the estimates of future business development, the interest rate used to discount future cash inflows and other estimates. These assumptions are inherently subject to significant uncertainties. The valuation of licenses is a particular matter in the context of our audit of the consolidated financial statements.
 2. In addition to assessing the asset's useful life as the basis for amortization, our impairment testing includes, in particular, assessing whether there is any indication that the asset is subject to extraordinary impairment. The basis for the test is the marketing plan for the two medicines. The planning is based on the budget for subsequent years prepared by the Management Board and approved by the Supervisory Board, which reflects the sales expectations during the remaining term of the patents for the two drugs to be marketed as well as the costs required to realize the planned sales. The main value-determining parameters were critically assessed; the underlying discount rate was verified on the basis of market data and the valuation methodology was reconstructed. The assumptions and estimates made by Management can be qualified as being within the acceptable range.
 3. The Company's disclosures on acquired licenses are included in the notes to the consolidated financial statements in the section "Accounting and valuation methods" and "Intangible assets".
1. In order to finance its research and development activities, PAION AG entered into a loan agreement with European Investment Bank for a loan amount of KEUR 20,000 and a term of 5 years. Besides current interest payments, which include an interest payment due both quarterly and at maturity, the parties also agreed upon a performance-based compensation component which is also due at maturity and which was valued at KEUR 1,711 as of the reporting date, recognized as a derivative subject to spin-off under financial liabilities and subsequently valued at fair value. As this performance-based compensation component ("synthetic warrant") is linked to the PAION share's future price at the time of the loan's final maturity, the related future payment obligation of PAION AG is subject to great uncertainty.
 2. In order to audit the loan agreement's recognition in the balance sheet, including the performance-related compensation component, we have satisfied ourselves that all contractual agreements have been adequately taken into account and that the allocation of the inflow to the underlying loan and the embedded derivative required for the initial valuation has been made in accordance with the fair values. We have assessed the calculations prepared by the Company for completeness and compliance with the contractual terms. We have assessed the assumptions and estimates used in the initial and subsequent valuation with regard to the significant valuation parameters, in particular the assumed internal interest rate, and found them to be appropriate. The subsequent valuation of the performance-related compensation component was based on an option pricing model. We consider the assumptions and estimates used to be appropriate.
 3. The Company's disclosures on the loan and the performance-related compensation component are included in the notes to the consolidated financial statements in the sections "Accounting and valuation methods", "Financial liabilities", "Financial result" and "Financial instruments".

Recognition of European Investment Bank's loan in the balance sheet

Other information

The legal representatives are responsible for other information. Other information comprises the above-mentioned Group's declaration on corporate governance and the above-referenced subsection "Clinical development" in the consolidated management report's section "Economic report".

Our audit opinions on the consolidated financial statements and on the consolidated management report do not cover such other information, and consequently we do not express an audit opinion or any other form of audit conclusion thereupon.

In connection with our audit, our responsibility is to read the other information and, in doing so, to assess whether the other information

- is materially inconsistent with the consolidated financial statements, with the consolidated management report or our knowledge obtained during the audit; or
- otherwise seems to have been materially misstated.

Legal Representatives' and the Supervisory Board's Responsibilities for the Consolidated Financial Statements and the Consolidated Management Report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Art. 315e Sec. 1 HGB and that the consolidated financial statements, in compliance with these requirements, provide a true and fair view of the Group's net assets, liabilities, financial position, and profit situation. Further-more, the legal representatives are responsible for such internal controls they have deemed necessary in order to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error. When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to

continue as a going concern. They also have the responsibility to disclose, as applicable, matters related to the going concern principle.

Furthermore, they are responsible for financial reporting on a going concern basis unless they intend to liquidate the Group or to discontinue business operations or in case there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the consolidated management report that, as a whole, provides a true and fair view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such precautions and measures (systems) they have deemed necessary in order to enable the preparation of a consolidated management report in accordance with the applicable German legal requirements and in order to be able to provide sufficient appropriate evidence for the statements made in the consolidated management report.

The Supervisory Board is responsible for monitoring the Group's financial reporting process for the preparation of the consolidated financial statements and the consolidated management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Consolidated Management Report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the consolidated management report as a whole presents a true and fair view of the Group's position and is, in all material respects, consistent with the consolidated financial statements and the knowledge obtained during our audit, complies with German legal requirements and appropriately presents the

opportunities and risks of the Group's future development, as well as to issue an audit report that includes our audit opinions on the consolidated financial statements and on the consolidated management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Art. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for the Audit of Financial Statements promulgated by IDW will always detect any material misstatement. Misstatements can arise from fraud or error and are considered material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the consolidated management report.

We exercise professional judgment and maintain professional skepticism throughout the entire audit. We also:

- identify and assess the risks of material misstatements in the consolidated financial statements and the consolidated management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting any material misstatements resulting from fraud is higher than for those resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- obtain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of precautions and measures relevant for the audit of the consolidated management report, in order to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;
- evaluate the appropriateness of accounting methods applied by the legal representatives and

the reasonableness of estimates made by the legal representatives as well as the related disclosures;

- draw conclusions on the appropriateness of the going concern principle applied by the legal representatives and, based on the audit evidence obtained, whether there is a material uncertainty in connection with events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in the audit certificate to the related disclosures in the consolidated financial statements and in the consolidated management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit certificate. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements, in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Art. 315e Sec. 1 HGB, provide a true and fair view of the Group's net assets, financial position and profit situation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express audit opinions on the consolidated financial statements and on the consolidated management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;
- evaluate the consolidated management report's consistency with the consolidated financial statements, its conformity with German law, and its presentation of the Group's position;

- perform audit procedures on the prospective information presented by the legal representatives in the consolidated management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the supervisors with a statement that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be expected to affect our independence and, where applicable, the applied safeguards.

From the matters discussed with the supervisors, we determine those matters that were of most importance in the audit of the current reporting period's consolidated financial statements and are therefore the key audit matters. We describe these matters in our audit certificate unless the matter's public disclosure should be precluded by any law or other regulation.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Note on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and the Consolidated Management Report prepared for the Purposes of

Disclosure pursuant to Art. 317 Sec. 3a HGB

Audit opinion

Pursuant to Art. 317 Sec. 3a HGB, we have performed an audit in order to determine with reasonable assurance whether the reproductions of the consolidated financial statements and the consolidated management report (hereinafter also referred to as the "ESEF documents") contained in the attached file 529900CGHB9UWY40BU45-2021-12-31-de (2).zip (SHA256-Hashwert: 0B5E9799B9E1A84ED8C277276F41AFCA191F7268B9566B40D7575EDB03B1 D668) and prepared for disclosure purposes comply in all material respects with the requirements pursuant to Art. 328 Sec. 1 HGB regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, such audit extends only to the conversion of the information contained in the consolidated financial statements and the consolidated management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

According to our assessment, the reproductions of the consolidated financial statements and the consolidated management report contained in the aforementioned attached file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements pursuant to Art. 328 Sec. 1 HGB. We do not express an audit opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file beyond the scope of this audit certificate and our audit opinions on the attached consolidated financial statements and the attached consolidated management report for the fiscal year from January 1, 2021 to December 31, 2021 contained in the preceding "Report on the audit of the consolidated financial statements and the consolidated management report".

Basis for the audit opinion

We conducted our audit of the reproductions of the consolidated financial statements and the consolidated management report contained in the above-mentioned attached file in accordance with Art. 317 Sec. 3a HGB and in compliance with the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for the Purpose of Disclosure pursuant to Art. 317 Sec. 3a HGB (IDW EPS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance with such standards is further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents". Our auditing practice complies with the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements to Quality Assurance in Auditing Practice (IDW QS 1).

Legal representatives' and Supervisory Board's responsibilities for the ESEF documents

The Company's legal representatives are responsible for the preparation of the ESEF documents containing the electronic reproductions of the consolidated financial statements and the consolidated management report in accordance with Art. 328 Sec. 1 sentence 4 no. 1 HGB and for the certification of the consolidated financial statements in accordance with Art. 328 Sec. 1 sentence 4 no. 2 HGB.

Furthermore, the legal representatives are responsible for such internal controls they have deemed necessary in order to enable the preparation of the ESEF documents that are free from any material non-compliance, whether due to fraud or error, with the provisions pursuant to Art. 328 Sec. 1 HGB regarding the electronic reporting format.

The Supervisory Board is responsible for monitoring the preparation of the ESEF documents as part of the reporting process.

Auditor's responsibility for the audit of the ESEF

documents

Our objective is to obtain reasonable assurance as to whether the ESEF documents are free from any material non-compliance, whether due to fraud or error, with the requirements pursuant to Art. 328 Sec. 1 HGB. We exercise professional judgment and maintain professional skepticism throughout the entire audit. We also:

- identify and assess the risks of material non-compliance with the requirements pursuant to Art. 328 Sec. 1 HGB, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion;
- obtain an understanding of the internal controls relevant for the audit of the ESEF documents in order to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls;
- assess the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) 2019/815 as amended at the reporting date regarding the technical specification for this file;
- assess whether the ESEF documents allow a consistent XHTML reproduction of the audited consolidated financial statements and the audited consolidated management report;
- assess whether the markup of ESEF documents with inline XBRL technology (iXBRL) in accordance with Art. 4 and 6 of the Delegated Regulation (EU) 2019/815, as amended at the reporting date, enables an adequate and complete machine-readable XBRL copy of the XHTML reproduction.

Other information pursuant to Article 10 EU Audit Regulation

We were appointed as PAION AG's auditors by order of Aachen County Court on January 31, 2022. We were engaged by the Supervisory Board on February 16, 2022. We have served as PAION AG, Aachen's auditors without

interruption since the fiscal year 2021.

We declare that the audit opinions contained in this audit certificate are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Regulation (audit report).

OTHER FACTS – USE OF THE AUDIT

CERTIFICATE

Our audit certificate should always be read in conjunction with the audited consolidated financial statements and the audited consolidated management report as well as the audited ESEF documents. The consolidated financial statements and consolidated management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited consolidated financial statements and audited consolidated management report and do not replace them. In particular, the ESEF report and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The auditor responsible for the audit is Dierk Hanfland. “

Munich, March 29, 2022

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Weissinger
German CPA

Hanfland
German CPA

Management Board

Dr. James Phillips

Chief Executive Officer of PAION AG, Managing Director of PAION Deutschland GmbH, the UK subsidiaries, PAION Scandic ApS and PAION Netherlands B.V.

Dr. James Phillips is Chief Executive Officer of PAION AG since October 2019, and within the Management Board, he is responsible inter alia for Strategy, Commercial activities, Licensing, Business Development, IT and Fundraising.

Dr. James Phillips is a registered physician who also holds an MBA from the City University Business School in London. Previously, he was the Managing Director of Imevax since 2018 and prior to that CEO of Midatech Pharma for five years. In Europe, Dr. Phillips holds a directorship at Herantis Pharma. He was President of EUSA Pharma Europe in its key growth phase prior to its sale to Jazz Pharma in 2012 and CEO and founder of Talisker Pharma (founded in 2004 and sold to EUSA Pharma in 2006). Dr. Phillips was also Chairman of Prosonix between 2007 and 2012 prior to its successful sale to Circassia. Before that, Dr. Phillips worked for Johnson & Johnson and Novartis as a senior executive.

Abdelghani Omari

Chief Financial Officer of PAION AG, Managing Director of PAION Deutschland GmbH, the UK subsidiaries, PAION Scandic ApS and PAION Netherlands B.V.

Abdelghani Omari joined PAION in 2008 as Vice President Finance. In 2014 he was appointed Chief Financial Officer of PAION AG. Mr. Omari is responsible inter alia for Finance and Accounting, Controlling, Tax, Legal and Compliance, Human Resources and Investor Relations.

Mr. Omari has more than 20 years of experience in Finance. At KPMG, he advised international clients on accounting, post-merger integration and financial reporting. Previously, he worked several years in the audit department of KPMG with a focus on the chemical industry.

He holds a degree in Business Administration from the University of Aachen.

Sebastian Werner

Chief Financial Officer of PAION AG (as of June 2022)

Sebastian Werner was appointed Chief Financial Officer of PAION AG in March 2022 with effect from 1 June 2022. Mr. Werner is responsible inter alia for Finance and Accounting, Controlling, Tax, Legal and Compliance, Human Resources and Investor Relations.

Sebastian Werner has extensive experience in finance and has held senior positions in the pharmaceutical and life science industry for over 20 years. He started this international career at Hoffmann La Roche where, among other things, he worked for 6 years as Chief Financial Officer for the Corporate Operations Division and then for Zimmer Biomet Deutschland GmbH, where he was Chief Financial Officer and Managing Director for Central Europe for 9 years.

Sebastian Werner studied human medicine at the University of Erlangen and business administration at the Duale Hochschule Lörrach and successfully completed his studies as MBA, Finance and Controlling (BA).

Supervisory Board

Dr. Jörg Spiekerkötter

Chairman of the
Supervisory Board

Dr. Jörg Spiekerkötter is a member of PAION's Supervisory Board since June 2007 and the Supervisory Board appointed Dr. Spiekerkötter as Chairman on 19 May 2010.

Dr. Jörg Spiekerkötter has many years of experience in the pharmaceutical industry where he has held executive positions in the areas of finance, law and human resources. Until May 2007, he was the Chief Financial Officer of Organon BioSciences N.V., Oss (Netherlands). He left after the acquisition of the company by the U.S. pharmaceutical company Schering-Plough. Until September 2006, he was the Chief Financial Officer at Schering AG in Berlin (Germany), and before that he was Head of the Legal Department at Hoechst Schering AgrEvo GmbH in Berlin (Germany). Dr. Spiekerkötter is Managing Partner of JSP-Invest GmbH. Dr. Spiekerkötter studied in Bielefeld (Germany), Lausanne (Switzerland) and Freiburg (Germany) and has a PhD in law. Until December 2010, he was the Chief Financial Officer of Conergy AG, Hamburg (Germany).

Dr. Karin Dorrepaal

Vice Chairman of the
Supervisory Board,
Chairman of the Human
Resources & Nomination
Committee

Dr. Karin Dorrepaal is a member of PAION's Supervisory Board since October 2012.

She has broad experience in the Life Science Industry. After four years as a research fellow at the Netherlands Cancer Institute, Dr. Dorrepaal received her PhD from the Free University of Amsterdam, Netherlands. She went on to study at the Rotterdam School of Management where she obtained an MBA. In 1990, Dr. Dorrepaal joined Booz Allen Hamilton, Management Consultants. She specialized in the pharmaceutical industry and advised major companies on issues regarding strategy, sales, marketing and supply chain. In 2000, Dr. Dorrepaal was appointed Vice President of Booz Allen.

In 2004, the Supervisory Board of Schering AG appointed Dr. Dorrepaal to the Board of Executive Directors of Schering AG.

After Bayer AG acquired Schering AG, Dr. Dorrepaal left the company in 2006 and since that time she holds several non-executive roles in Germany, Ireland, Spain and the Netherlands.

Dr. Chris Tanner

Chairman of the Audit
Committee

Dr. Chris Tanner is a member of PAION's Supervisory Board since June 2017.

Dr. Chris Tanner was a member of the Executive Board since 2005 and has been a member of the Supervisory Board of Cosmo Pharmaceuticals N.V. since 2006 for which he conducted the IPO as Chief Financial Officer and Head of Investor Relations. In 2015, Cosmo spun off the daughter Cassiopea SpA where he acted as Chief Financial Officer and Head of Investor Relations until end of 2020. He is a member of the board of directors or advisory board (Beirat) of listed DKSH Holding AG, Cosmo Pharmaceuticals N.V. and CureVac N.V. and the private medtec companies Qvanteq AG and Joimax GmbH. From 1998 to 2001, he was a partner of Dr. Ernst Mueller-Moehl and co-founder of the 20 Minutes group of newspapers and founded A&A Active Investor, a SIX-listed investment company. From 1992 to 1998, he was the Head of Corporate Finance & Capital Markets at UBS in Zurich, and from 1976 to 1991 he had various functions in the Corporate Banking Department at UBS in Zurich, Madrid and Los Angeles. Dr. Tanner has a PhD in economics and a diploma as economist from the University of St. Gallen.

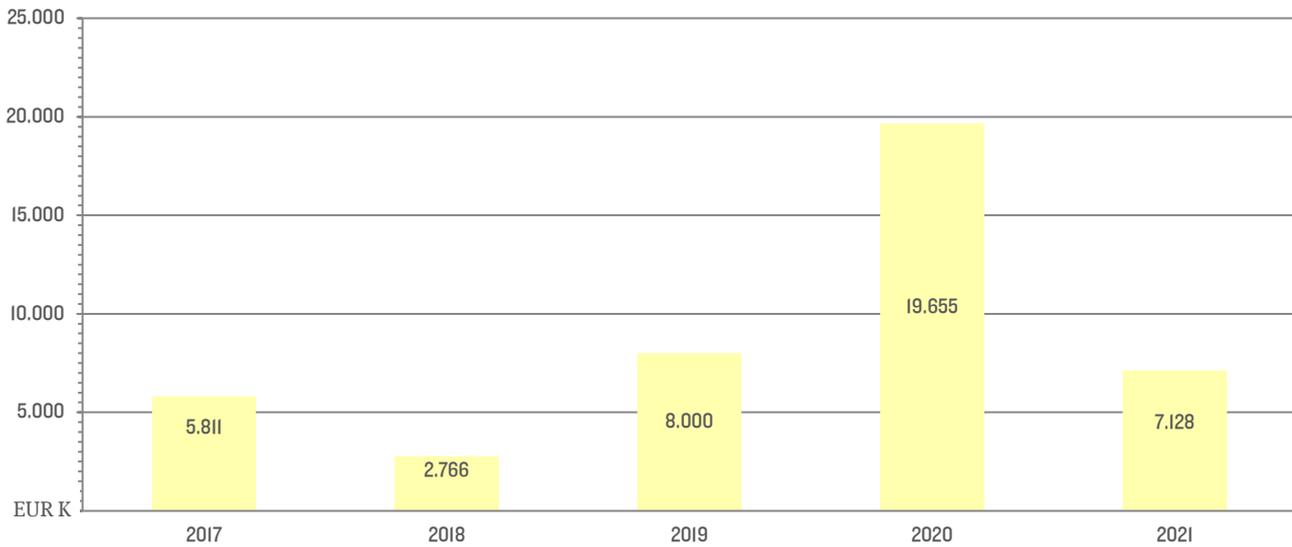
Dr. Markus Leyck Dieken

Dr. Leyck Dieken is a member of PAION's Supervisory Board since May 2019.

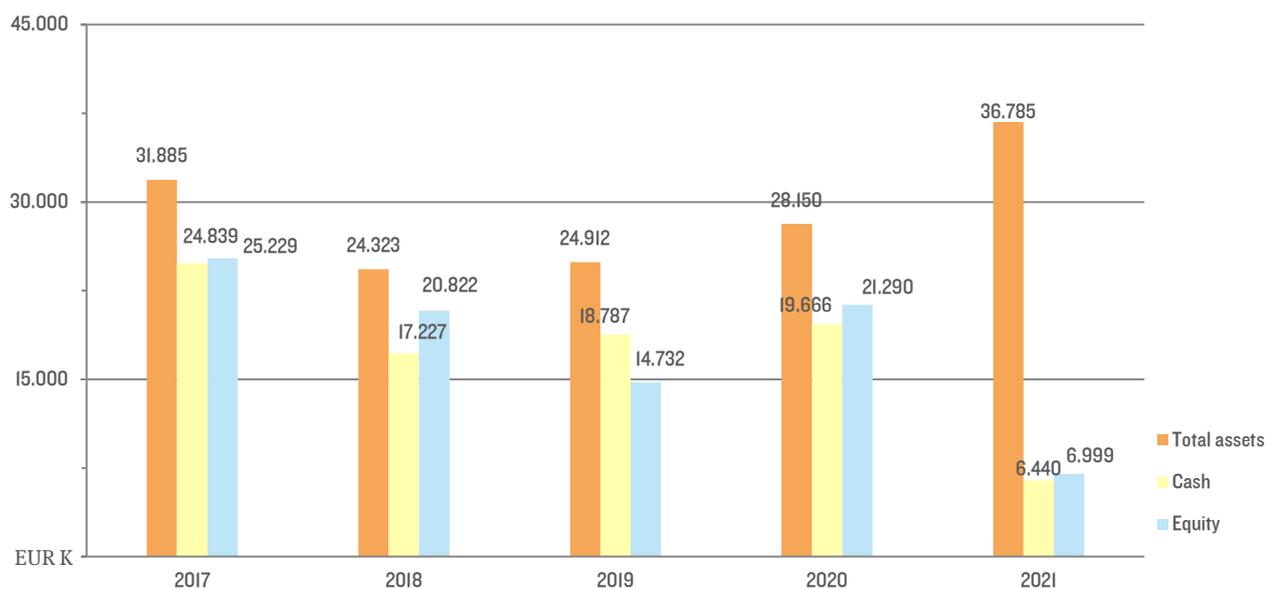
He has over 20 years of experience in the European pharma business in various positions. Since 2019 the graduated physician is Managing Director of gematik GmbH. Before that, Dr. Leyck Dieken was Senior Vice President and Managing Director of Shionogi Europe Central and inter alia has been working for Teva in various global and European leadership positions for many years, was Europe Head of the Novartis Vaccine Division, Senior Vice President of InterMune and Vice President of Novo Nordisk.

Development of Selected Consolidated Financial Key Figures (IFRS)

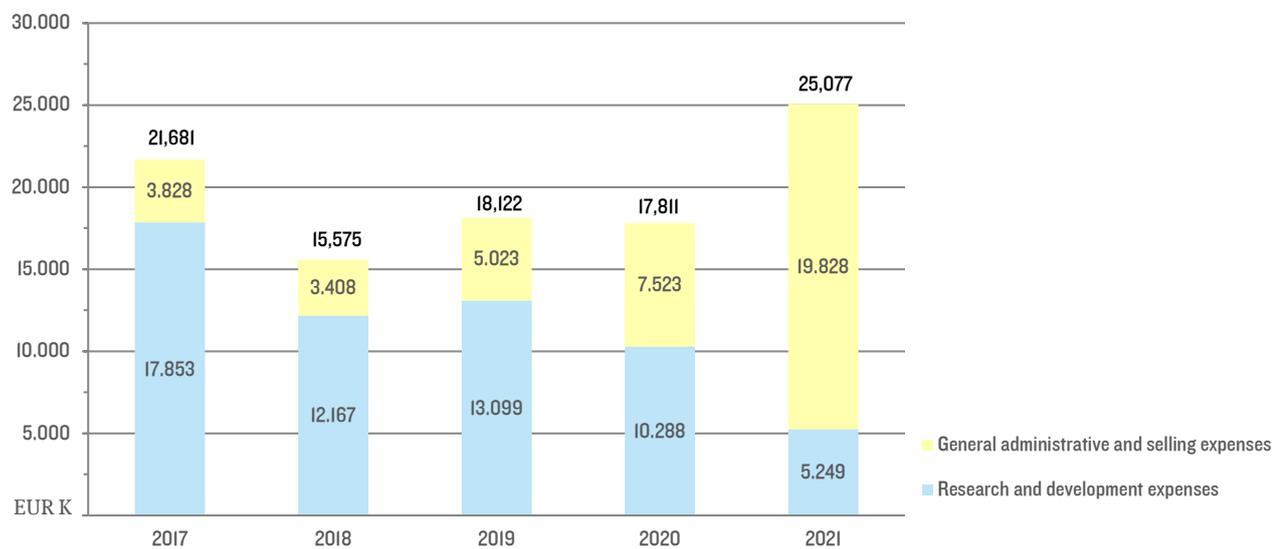
Revenues



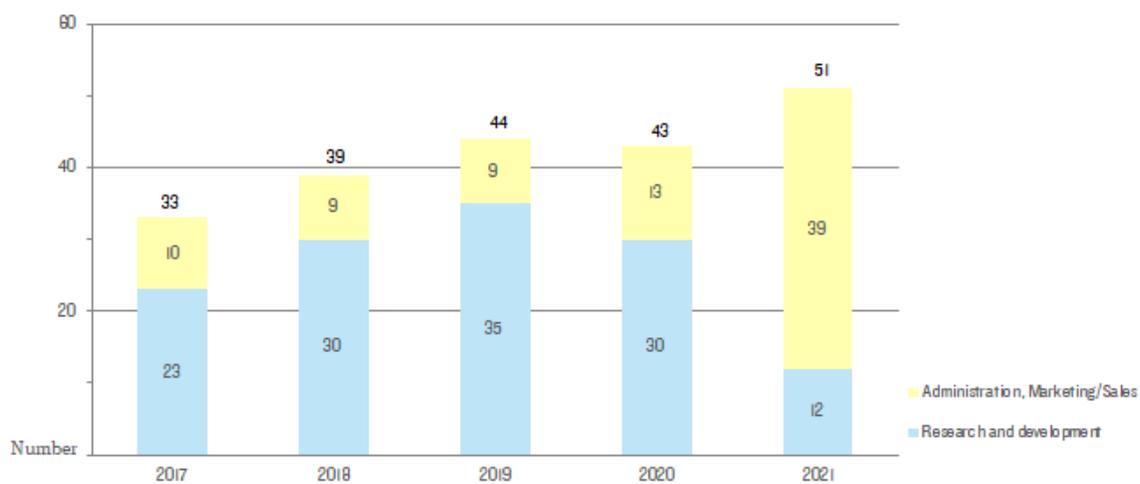
Total Assets / Cash and Cash Equivalents / Equity



Breakdown of expenses



Employee Structure



Five-Year Comparison of Key Consolidated Financial Figures (IFRS)

(all figures in EUR K unless otherwise noted)	2021	2020	2019	2018	2017
Profit and loss statement					
Revenues	7,128	19,655	8,000	2,766	5,811
Research and development expenses	-5,249	-10,288	-13,099	-12,167	-17,853
General administrative and selling expenses	-19,828	-7,523	-5,023	-3,408	-3,828
Net result	-21,786	2,222	-7,016	-9,939	-12,093
Personnel expenses included therein	-7,083	-5,668	-5,374	-5,080	-4,166
Number of shares outstanding (weighted average, basic)	69,949,884	65,721,395	63,918,752	62,512,375	59,118,686
Number of shares outstanding (weighted average, diluted)	70,161,716	66,133,456	64,035,132	62,754,424	59,558,627
Earnings per share in EUR (basic)	-0.31	0.03	-0.11	-0.16	-0.20
Earnings per share in EUR (diluted)	-0.31	0.03	-0.11	-0.16	-0.20
Balance sheet					
Intangible assets	19,653	1,829	2,137	2,212	2,415
Cash and cash equivalents	6,440	19,666	18,787	17,227	24,839
Equity	6,999	21,290	14,732	20,822	25,229
Current liabilities	10,985	6,845	10,154	3,501	6,656
Long-term liabilities	18,801	15	0	0	0
Balance sheet total	36,785	28,150	24,912	24,323	31,885
Cash flow					
Cash flow from operating activities	-21,178	906	-2,847	-12,813	-17,720
Cash flow from investing activities	-19,205	-14	-14	-13	-25
Cash flow from financing activities	27,147	-24	4,414	5,214	12,494
Employees					
Group employees (average)	51	43	44	39	33

Information on PAION Shares

Market segment	Regulated Market/Prime Standard Frankfurt Stock Exchange
Ticker symbol	PA8
Reuters symbol	PA8G.DE (Xetra)
Bloomberg	PA8 GY (Xetra)
ISIN	DE000A0B65S3
First day of trading	11 February 2005
Designated Sponsor	Oddo BHF

Key figures	2021	2020
Numbers of shares at year-end	71,336,992	66,241,493
Average daily trading volume (Xetra, FSE, in shares)	113,325	154,533
Year high (Xetra closing price)	EUR 2.55 (11 Jan 2021)	EUR 3.06 (06 Jul 2020)
Year low (Xetra closing price)	EUR 1.20 (29 Dec 2021)	EUR 1.40 (19 Mar 2020)
Share price at year-end	EUR 1.20	EUR 2.40
Market capitalization at year-end (Xetra)	EUR 86 million	EUR 159 million

Imprint

Editor, Conception, Design & Text

PAION AG, Heussstrasse 25, 52078 Aachen

Corporate Calendar 2022

30 March 2022	Publication of financial results 2021
18 May 2022	Publication of the financial results for the first quarter 2022
25 May 2022	Annual general meeting
24 August 2022	Publication of the financial results for the first half-year 2022
16 November 2022	Publication of the financial results for the third quarter and first nine months 2022

PAION AG
Heussstrasse 25
52078 Aachen Germany
Phone +49 241 4453-0
Fax +49 241 4453-100
info@paion.com www.paion.com