

PAION AG

- Compensation Report 2022 -

I. Preliminary remark

Pursuant to Section 162 of the German Stock Corporation Act (AktG) as amended by the Act Implementing the Second Shareholders' Rights Directive of December 12, 2019 ("**ARUG II**", BGBl 2019 I, p. 2637), the Executive Board and Supervisory Board of a listed company must prepare a clear and comprehensible report each year on the compensation granted and owed in the past fiscal year to each individual current or former member of the Executive Board and Supervisory Board by the company and by companies in the same group (Section 290 of the German Commercial Code (HGB)).

This remuneration report describes the main features of the remuneration systems for the Management Board and the Supervisory Board of the Company, the implementation of the remuneration systems in general and specifically in the fiscal year 2022 as well as the individually granted and owed remuneration of the members of the Management Board and the Supervisory Board of PAION AG in the fiscal year 2022, i.e. in the period from January 1 to December 31, 2022, pursuant to Sec. 162 AktG as amended by ARUG II.

II. Compensation of the members of the Board of Management

1. main features of the previous compensation system and the new compensation system

The remuneration of the members of the Management Board of PAION AG is based on two different remuneration systems as of December 31, 2022:

- By resolution of the Annual General Meeting on May 27, 2021, the Annual General Meeting approved a new compensation system for the Executive Board in accordance with sections 87a, 120a (1) sentence 1 AktG ("**New Compensation System**"). The New Compensation System applies to all employment contracts of members of the Executive Board concluded, extended or amended after May 27, 2021.
- In addition, for employment contracts with members of the Executive Board already in existence on May 27, 2021 and not renewed or amended since that date ("**old contracts**"), the previous compensation system will continue to apply ("**previous compensation system**").

Accordingly, two compensation systems are still applicable for the reporting year 2022. The Company had four Executive Board members in the financial year and reporting year 2022, namely Dr. James Neil Phillips, Mr. Abdelghani Omari, Mr. Gregor Siebert and Mr. Sebastian Werner. Dr. Phillips left the Company on November 30, 2022. For Mr. Phillips, the New Compensation System was applied in the period from January 1 to November 30, 2022. Mr. Omari left the Company's Management Board as of August 31, 2022. A legacy contract existed with Mr. Omari, so that the Previous Compensation System applied to Mr. Omari in 2022. Mr. Gregor Siebert was appointed to the Executive Board as of December 1, 2022. The New Compensation System was therefore applicable to Mr. Siebert. Mr. Sebastian Werner was appointed to the Executive Board effective June 1, 2022. The New Compensation System was therefore applicable to Mr. Werner.

The main features of the previous compensation system and the new compensation system are outlined below.

1.1 General features of the previous compensation system

The compensation of the Executive Board members under the Previous Compensation System consists of a fixed annual compensation, a variable bonus, long-term performance-related compensation components in the form of stock options, and fringe benefits in the form of company car allowances and contributions to insurance and pension plans. All stock options issued to date have a term of ten years. The variable bonus is based on the achievement of long-term and sustainable financial and strategic corporate targets set by the Supervisory Board at the beginning of each financial year. The degree of achievement of the targets and the associated amount of variable compensation are assessed and determined by the Supervisory Board. The bonus agreements do not provide for a minimum amount and an amount limit and are paid out depending on the individual achievement of targets. In addition, the Supervisory Board may in exceptional cases grant special compensation to individual members of the Executive Board at its due discretion.

The remuneration of the members of the Executive Board also covers their management activities at the subsidiaries.

Under the Previous Compensation System, stock options were issued to members of the Management Board under various stock option programs, namely under the 2010, 2014, 2016 and 2018 stock option programs.

The stock option agreements concluded with the individual members of the Management Board provide for a quantitative limit. With regard to the development of the value of the stock options granted, which is directly related to the development of the PAION share, no limits have been agreed other than minimum increases in value.

In the event of a change of control and termination of employment within a certain period after the change of control, the Executive Board members are each entitled to contractual severance payments. The severance payments correspond in each case to the value of two years' fixed compensation.

All Executive Board contracts under the Previous Compensation System provide that in cases other than a change of control, any severance payments on premature termination of Executive Board service may not exceed the value of two years' fixed compensation and may not remunerate more than the remaining term of the Executive Board employment contract. The Executive Board contracts do not provide for any transitional payments upon expiry of the Executive Board contracts.

In the event of a significant deterioration in the situation of the Company, the Supervisory Board is entitled to reduce the total compensation of the members of the Executive Board to the appropriate level in accordance with the provisions of stock corporation

law if the continued payment of such compensation would be inequitable for the Company.

In the event of an acquisition of control, the terms and conditions of the 2010, 2014, 2016 and 2018 stock option programs provide that for all stock options issued to members of the Management Board for which the vesting period has not yet expired, the entitlement to subscribe for shares from the stock options issued is converted into an entitlement to cash settlement based on the share price on the date on which the acquisition of control becomes effective. The corresponding stock options expire. Instead of the cash settlement, listed shares in the acquiring company may also be granted at the Company's discretion.

1.2 General Features of the New Compensation System

The Supervisory Board of PAION AG has adjusted the existing remuneration system for the members of the Management Board to the extent necessary in 2021 with the New Remuneration System to the new regulations introduced by the ARUG II and has resolved the following principles on this basis. The structure of the remuneration provided for in the New Remuneration System continues to be geared towards the sustainable and long-term development of PAION AG and its group companies (hereinafter "**PAION Group**").

The compensation of the Executive Board comprises both fixed (non-performance-related) components and variable (performance-related) components. As part of the variable compensation, the Supervisory Board defines performance criteria and targets for the achievement of these performance criteria, on the fulfillment of which the amount of the variable compensation depends.

The New Compensation System was presented to and approved by the Annual General Meeting on May 27, 2021 in accordance with Section 120a (1) AktG.

Compensation components

The compensation system basically comprises fixed (non-performance-related) and variable (performance-related) compensation components.

The fixed, non-performance-related compensation component consists of the basic compensation ("**basic compensation**") as well as benefits in kind and other compensation (the "**fringe benefits**").

The variable compensation components consist of a short-term variable component in the form of an annual bonus and a long-term variable component. The latter may be

granted in the form of stock options and/or in the form of a bonus based on long-term performance criteria.

For the variable compensation components, target criteria are set by the Supervisory Board before the beginning of each financial year with a view to the strategic objectives, the requirements of sections 87, 87a of the German Stock Corporation Act (AktG) and the German Corporate Governance Code, on the basis of whose degree of achievement the amount of the actual payment or the scope of the allocation of the stock options to be issued is determined on the basis of the fair value at the time of issue. When setting the targets, the Supervisory Board ensures that they are demanding and ambitious and geared to sustainability. Subsequent amendment of the target values or the comparison parameters set for the variable compensation by the Supervisory Board is not permitted.

The sum of the aforementioned compensation constitutes the total compensation ("**total compensation**") of a member of the Board of Management.

Determination of specific target total compensation by the Supervisory Board, appropriateness of Executive Board compensation

In accordance with the compensation system, the Supervisory Board determines the performance criteria and targets for achieving the target total compensation ("**target total compensation**") for each Executive Board member for the upcoming financial year in each case. The target total compensation corresponds to the total compensation (as previously defined) that would be paid if the performance criteria for short-term and long-term variable compensation were assumed to be met 100% of the time. The employment contract may also provide for the Supervisory Board to redefine the amount of the target total compensation for the upcoming fiscal year by adjusting the variable compensation components. The aim here is to ensure that the respective remuneration is commensurate with the tasks and performance of the Management Board member and the situation of the Company, is geared towards the long-term and sustainable development of PAION AG and the PAION Group, and does not exceed the usual remuneration without special reasons.

Both external (horizontal) and internal (vertical) comparisons are used to assess the appropriateness of the level of compensation:

External (horizontal) comparison

In order to assess the appropriateness and customary nature of the specific target total compensation of the members of the Management Board compared to other companies, the Supervisory Board uses a suitable peer group (horizontal comparison). For this peer group comparison, the market position of the companies compared to PAION AG is decisive.

The companies in the peer group are comparable listed biotechnology and pharmaceutical companies based in Germany that are active in research & development and the marketing of innovative drugs.

In doing so, the Supervisory Board considers the structure of the compensation, the target total compensation and the individual components as well as the maximum total compensation at the peer companies.

Internal (vertical) comparison

The internal (vertical) comparison refers to the relation of the remuneration of the Management Board to the remuneration of the senior management and the workforce of PAION AG. The Supervisory Board has delimited the circle of senior managers for this purpose by defining the department head level and the country managers as the senior management circle.

The Supervisory Board takes into account the development of the remuneration of the groups described and how the ratio develops over time.

Relation of the individual compensation components

The percentage of the various compensation components is shown below. The percentage stated in each case relates to an assumed 100% target achievement for determining the short-term and long-term variable compensation. The target values relevant for target achievement are specified by the Supervisory Board for the respective fiscal year.

The proportion of the compensation components is stated in a range in each case so that the Supervisory Board retains the option of differentiating the compensation of the Executive Board members on a functional basis and/or varying the ratios within these ranges in the future if necessary as part of an annual review of the compensation, in particular with regard to market practice.

- Base compensation contributes between 40% and 70% of the total target compensation.

- The short-term variable compensation contributes between 10% and 25% to the target total compensation.
- The long-term variable compensation contributes between 15% and 30% to the target total compensation.
- Fringe benefits contribute a total of up to a maximum of 5% of the target total compensation.

No share of the target total compensation is stated for the pension benefits granted by the Company in the form of continued remuneration to surviving dependents, as these are only paid in the event of the death of the Executive Board member and therefore do not contribute to the target total compensation during the term of office.

With regard to the target remuneration structure, the Supervisory Board ensures that the long-term variable components of the remuneration exceed the short-term variable remuneration components so that the remuneration structure is geared towards the long-term and sustainable development of PAION AG.

Maximum limit for total compensation ("maximum total compensation")

In accordance with § 87a (1) sentence 2 no. 1 AktG, the Supervisory Board has set a maximum amount for the total compensation of the members of the Executive Board (i.e. the sum of basic compensation, fringe benefits and short-term and long-term variable compensation components) ("**maximum total compensation**"). This maximum total compensation amounts to

- For the Chairman of the Board of Management EUR 600,000.00 and
- for the other members of the Board of Management EUR 500,000.00 each.

The maximum total compensation refers to the sum of all values resulting from the compensation arrangements in a fiscal year.

Explanations of the individual compensation components

Fixed remuneration components

Basic remuneration

The basic remuneration is a fixed remuneration for the entire year, paid in twelve monthly installments at the end of each month with statutory deductions.

When determining the amount of the basic remuneration, the Supervisory Board takes into account the area of responsibility and the duties of the respective Executive Board member.

As part of the basic remuneration, it is possible to make use of salary conversion to contribute to a direct insurance policy.

Ancillary services

Each member of the Board of Management may also receive the following fringe benefits:

- a monthly payment in lieu of the provision of a company car,
- the conclusion of or inclusion in a group accident insurance policy,
- the assumption of any contributions for membership in professional associations,
- the possible assumption or reimbursement of telecommunication costs, relocation costs and expenses for a double household for business reasons,
- the assumption of contributions to health and long-term care insurance up to a fixed amount,
- the conclusion of a D&O insurance policy with a deductible in accordance with Section 93 (2) sentence 3 AktG.

Pension payments

The employment contracts may provide that, in the event of the death of a member of the Management Board, PAION AG will pay the surviving dependants the fixed salary for the month of death and up to three subsequent months, but no longer than until the termination of the employment contract. Furthermore, the Company will pay the proportionate amount of the short- and long-term variable remuneration to the surviving dependents.

Variable compensation components

The variable compensation components comprise both short-term and long-term components. The short-term variable remuneration component in the form of the annual bonus and the long-term variable remuneration component in the form of stock options and/or a bonus aligned to long-term performance criteria differ in their underlying performance period and the financial performance criteria and non-financial performance criteria used to measure the payout. The selection of the performance criteria is based on the corporate strategy of PAION AG and is oriented towards growth, profitability and competitiveness.

Short-term variable remuneration ("STI")

Short-term variable compensation (or shortterm incentive, "STI") in the form of a bonus is intended to reward the Executive Board member's contribution to the Company's success in a specific financial year.

In addition to financial performance criteria, this is also based on non-financial performance criteria that take into account the collective and/or individual performance of the Executive Board members.

The amount of the bonus is determined depending on the achievement of the targets, whereby if the set targets are exceeded, the maximum amount of the bonus is set at 100% of the STI target amount

Financial performance criteria

The amount of the bonus to be paid depends on the extent to which a member of the Board of Management achieves the targets set by the Supervisory Board for that member of the Board of Management for one or more of the following key financial indicators as performance criteria within the meaning of Section 87a (1) sentence 2 no. 4 AktG:

- Sales revenue and related sales ratios, EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), free cash flow and other cash flow indicators, equity and debt indicators (such as debt-to-equity ratio),
- Share price development of the PAION AG share and/or earnings per share and total shareholder return,
- Targets with regard to securing, maintaining and/or expanding the financing of PAION AG and PAION Group.

For the aforementioned financial performance criteria, the Supervisory Board determines the degree of target achievement, expressed as a percentage, in each case after the end of the relevant financial year.

In addition to the financial performance criteria, the Supervisory Board may also define non-financial performance criteria, in particular also personal performance criteria, from the following areas for individual or all members of the Executive Board before the beginning of each fiscal year:

- Strategic corporate objectives such as the achievement of major strategic projects (including mergers & acquisitions, strategic partnerships), the development of new markets, collaboration with the Supervisory Board or sustainable strategic, technical or structural corporate development, the implementation of any transformation projects, market access milestones (including pricing & reimbursement) and/or collaborations with pharmaceutical companies,
- Conducting and completing clinical trials,
- Achievement of other operational milestones, e.g., supply chain,
- ESG (Environment, Social, Governance) objectives such as occupational health and safety, compliance, energy and environment (such as development of a sustainability roadmap for the company and the Group, optimization of resource use, reduction of waste/emissions), customer satisfaction, employee concerns or corporate culture (such as measures to increase employer attractiveness and employee satisfaction, measures for management development, diversity and equal opportunities),
- Organizational and cultural development (e.g., promoting corporate values, strengthening internal cooperation and communication, succession planning).

By also taking into account non-financial performance criteria, the Supervisory Board is to be given the opportunity to also consider the individual or collective performance of the Executive Board, also with regard to the so-called ESG targets.

Long-term variable compensation ("LTI")

The long-term variable compensation (long-term incentive, or "LTI") is designed to promote the long-term commitment of Executive Board members to the Company and its sustainable growth. The long-term variable compensation component consists of a bonus based on long-term performance criteria and a stock option plan, or a combination of both.

LTI Cash Bonus

For the LTI cash bonus, the above explanations regarding the specification of the financial and non-financial performance criteria, the determination of the achievement of the targets and the calculation of the STI apply accordingly, with the proviso that the targets are not based on the achievement of the targets in one, but rather several, in any case not less than three financial years.

Stock option plan

The stock options are granted to the members of the Executive Board on the basis of stock option plans of the Company. The basis for such a stock option plan is currently the authorization of the Annual General Meeting of May 27, 2020 under agenda item 5. However, stock options may also be issued on the basis of a stock option plan with a different content, which is based on an authorization basis yet to be resolved by the Annual General Meeting in the future.

Ongoing review and adjustment of performance criteria

The Supervisory Board reviews the appropriateness of the variable compensation components each year, paying particular attention to their intended incentive effect.

Adjustment in the event of extraordinary developments

In the event of extraordinary developments as defined in the New Compensation System, the Supervisory Board shall be entitled, even after the beginning of the respective assessment period, to adjust the amount of the individual compensation components (including the target total compensation of variable compensation elements in the event of 100% target achievement), their relationship to each other, the criteria for target achievement, the respective payment amounts, and the payment dates, provided that the annual maximum compensation and the upper limits set for the variable compensation components prior to the beginning of the fiscal year are not exceeded.

If there are adjustments due to extraordinary developments, these are disclosed and justified in the compensation report.

Malus/Claw-Back

In certain cases, the Supervisory Board has the option of reducing variable compensation components not yet paid out or reclaiming variable compensation components already paid out ("**malus**" and "**claw-back**").

Compensation upon termination of Executive Board membership

The employment contracts with Executive Board members may also include provisions for compensation in the event of premature termination of the Executive Board office or employment contract.

In the event of premature termination of the employment contract (without good cause for termination of the employment contract by the Company), a severance payment may be granted, the amount of which is, however, limited to two years' total compensation and may not exceed the compensation for the remaining term of the employment contract ("**severance payment cap**"). In other cases of premature termination, too, any payments are limited to a maximum amount of two years' total compensation or the compensation for the remaining term of the employment contract as severance payment cap. The employment contracts with Executive Board members may provide for an extraordinary termination option for the Executive Board members with three months' notice to the end of the month, in particular in the event of a change of control.

However, extraordinary termination should only be possible if the occurrence of a change of control leads to

- a significant change in the Company's strategy,
- a significant change in the company's own field of activity and/or
- a relocation of one's place of work by more than 300 km

with the member of the Board of Management concerned.

In the event of termination, a payment up to the amount of the severance payment cap may be agreed.

Temporary deviations

In accordance with item 9 of the New Compensation System, the Supervisory Board may temporarily deviate from individual components of the compensation system if this is necessary in the interests of the long-term well-being of the Company. This relates in particular to situations in which deviation from the compensation system is necessary to serve the long-term interests and viability of the Company as a whole or to ensure its profitability. Such situations may be based on both macroeconomic and company-related exceptional circumstances. Deviations are permitted in particular in economic crises in which the compensation of the (potential) Executive Board members deemed suitable by the Supervisory Board on the basis of the compensation system and the resulting incentive structure appear to be inadequate in the interests of the Company. The components of the compensation system which may be deviated from in exceptional cases are the basic compensation (in particular the amount and payment date), the fringe benefits and pension payments (amount, type and grant date), the variable compensation components (in particular the respective assessment bases, the rules for setting targets, the performance criteria, the rules for determining target achievement and for setting the amounts to be paid out, as well as the payment dates), including the relationship of the compensation components to each other, and the maximum total compensation. If, after due assessment, the Supervisory Board comes to the conclusion that, in view of the exceptional situation, the granting of variable compensation is not in the interests of the long-term well-being of the Company, it may temporarily waive the granting of variable compensation in favor of increased fixed compensation. The deviation from the compensation system shall only be temporary and shall not exceed a period determined by the Supervisory Board in its due discretion. Such a deviation from the compensation system also requires the Supervisory Board to (i) determine by a majority of the votes cast that a situation exists which requires a temporary deviation from the compensation system in the interest of the long-term well-being of the Company and (ii) determine which specific deviations are required in its view. Insofar as the provisions of the Executive Board employment contract permit a unilateral amendment of the relevant compensation provisions, the Supervisory Board will unilaterally implement the deviations deemed necessary; otherwise it will endeavor to find an appropriate contractual arrangement with the Executive Board member or members concerned.

2. Compensation of the members of the Executive Board of the Company in fiscal year 2022

2.1 Implementation of the compensation systems in the employment contracts, structure of Executive Board compensation in fiscal year 2022

2.1.1 Compensation system to date in 2022

As stated above under section 1, the Previous Compensation System in 2022 applied to Mr. Omari for the period from January 1 to August 31, 2022. If and to the extent that the Previous Compensation System was still applicable to the compensation of the members of the Executive Board, the compensation was in line with the Previous Compensation System.

Mr. Omari's employment contract, which was subject to the previous compensation system, provides for the payment of an annual fixed compensation, the payment of an annual performance-related bonus, and participation in stock option programs.

For the financial year 2022, the Supervisory Board has set performance targets for the payment of the annual bonus to the members of the Executive Board. More detailed explanations of the specific performance targets set and how they promote the long-term development of the Company are provided below in section 2.2. No stock options were allocated or granted in the financial year 2022.

2.1.2 New remuneration system in 2022

As already stated above under section 1, the New Compensation System was applicable in the 2022 financial year for the Executive Board member Dr. Phillips for the period from January 1 to November 30, 2022. For Mr. Siebert, the New Compensation System was applicable for the period from December 1, 2022 to December 31, 2022, and for Mr. Werner for the period from June 1, 2022 to December 31, 2022. The New Compensation System was implemented in the employment contracts of Dr. Phillips, Mr. Siebert and Mr. Werner. In accordance with the New Compensation System, the employment contracts provide for the payment of fixed compensation, fringe benefits, short-term variable compensation in the form of an annual bonus ("**STI**"), and the payment of long-term variable compensation consisting of a bonus based on long-term performance criteria and/or the allocation of stock options through participation in stock option plans ("**LTI**"). For the procedure of setting the performance criteria for the STI and the LTI, the performance criteria to be set and the determination of target achievement, the regulations of the New Compensation System apply in accordance with the employment contracts. Reference is made to the above information on the principles of the New Compensation System under section 1.2.

2.2 Amount of the remuneration

2.2.1 Fixed and variable remuneration

The following table shows the compensation granted and owed to the Executive Board members Dr. James Neil Phillips, Abdelghani Omari, Gregor Siebert and Sebastian Werner in the financial year 2022 within the meaning of section 162 (1) sentence 1 AktG, broken down into fixed and variable compensation components, and their respective shares. In this context, it is noted that the Company applies the terms "granted" and "owed" in accordance with the explanatory memorandum to the ARUG II as follows:

- Compensation is "*granted*" within the meaning of Sec. 162 (1) Sentence 2 No. 1 AktG if it actually, i.e. factually, accrues to the board member and thus passes to his assets ("**inflow principle**", cf. explanatory statement to government bill ARUG II, BT-Drs. 19/9739, p.111, explanatory statement to resolution recommendation BT-Rechtsausschuss ARUG II, BT-Drs. 19/15153, p. 53). The Company therefore discloses as "granted" compensation within the meaning of section 162 (1) sentence 2 no. 1 AktG those benefits which actually accrued to the Executive Board member in fiscal year 2021, in particular by way of payment to the Executive Board member.

- Compensation is "*owed*" within the meaning of Art. 162 par. 1 sentence 1 AktG if the Company has a legally existing obligation to the board member which is due but not yet fulfilled (Explanatory Statement on the Government Draft ARUG II, BT-Drs. 19/9739, p.111, Explanatory Statement Resolution Recommendation BT Legal Committee ARUG II, BT-Drs. 19/15153, p. 53).

Accordingly, the following table includes on the one hand the fixed compensation paid for the 2022 financial year. The variable compensation shown in the table relates to the variable compensation paid in fiscal year 2022 for fiscal year 2021 ("**bonus for fiscal year 2021**"), as well as the variable compensation for fiscal year 2022 ("**bonus for fiscal year 2022**") for Mr. Omari, which was paid in 2022. . The variable compensation (still) payable for fiscal 2022 ("**bonus for fiscal 2022**") is not included in the table below, except for Mr. Omari ,as it will not be due and payable until 2023 after target achievement has been determined. The variable compensation payable for the financial year 2022, except for Mr. Omari, is therefore neither "granted" nor "owed" in the financial year within the meaning of section 162 (1) sentence 1 AktG. The variable compensation payable for the financial year 2022 will therefore be reported in the compensation report for the financial year 2023.

	Dr. James Phillips (EUR)	Per-centage	Abdelghani Omari (EUR)	Per-centage	Sebastian Werner (EUR)	Per-centage	Gregor Siebert (EUR)	Per-centage
Basic remuneration	320.000,04	74,74%	140.000,00	34,46%	122.500,00	93,28%	13.334,00	91,36%
Severance payment in 2022	0,00		78.686,29	19,37%	0,00	0,00%	0,00	0,00%
Ancillary services	15.127,44	3,53%	10.084,96	2,48%	8.824,34	6,72%	1.260,62	8,64%
Annual performance bonus ("bonus for fiscal year 2021")	93.000,00	21,72%	77.500,00	19,08%	0,00	0,00%	0,00	0,00%
Annual bonus ("Bonus for fiscal year 2022 - payment in 2022")	0,00	0,00%	100.000,00	24,61%	0,00	0,00%	0,00	0,00%
Multi-year variable performance remuneration	0,00	0,00%	0,00	0,00%	0,00	0,00%	0,00	0,00%
Utility expenses	0,00	0,00%	0,00	0,00%	0,00	0,00%	0,00	0,00%
Total compensation	428.127,48	100%	406.271,25	100%	131.324,34	100%	14.594,62	100%

For the variable compensation, the Supervisory Board specifies performance criteria for the respective fiscal year, based on the achievement of which the amount of the

bonus to be paid is determined. The performance criteria set by the Supervisory Board for the bonus paid in 2022 for the fiscal year 2021 were based on the strategic and operational objectives of the Company and the PAION Group, in particular with regard to the achievement of approvals of the active pharmaceutical ingredients, the achievement of economic and financial objectives as well as the development of the share price. The performance criteria for the bonus paid in 2022 for the fiscal year 2021 were based on the New Compensation System.

The performance criteria specified by the Supervisory Board for the bonus for the 2021 financial year, their weighting and the achievement of targets and the resulting payment of variable compensation are shown in the table below. The Supervisory Board has set uniform targets for the members of the Executive Board for 2021. The details on targets and target achievement given in the table therefore apply uniformly to all members of the Executive Board.

Specified target	Given Time period for the achievement of objectives	Weighting (in %)	Type of Target achievement (measure)	Degree of Target achievement (in %)
EU marketing authorization (short sedation)	Q2/2021	5 % 15%	EMA Marketing Authorization No anesthesiologist in label	100 %
Capital increase/external financing increase	Q4/2021	20 %	Total debt and equity increase € 50m	100 %
Sales target	Q4/2021	15%	€ 8.5Mio	83,53%
Product in-licensing	Q1-2/2021	15%	Completion of the contract, capital appreciation of 25% or B/E one year.	100 %
Life cycle management	H2/2021	10%	Feasibility study sublingual and new intellectual property (IP).	100%

Specified target	Given Time period for the achievement of objectives	Weighting (in %)	Type of Target achievement (measure)	Degree of Target achievement (in %)
Share price	Q4/2021	20%	15% above DAX Biotechnology subsector	0%
				Degree of Target achievement TOTAL: 77.5 %

These goals promote the long-term development of the company. The marketing authorization in Europe will open up an important market for the commercialization of Remimazolam. The capital increase was a prerequisite for the establishment of commercial sales infrastructures in Europe. Debt capital was increased by EUR 20.5M through a loan. Product in-licensing expands the product portfolio. The feasibility study for sublingual drug delivery is an important milestone to expand the application possibilities of Remimazolam. The goal of a share price increase or an increase in market capitalization is important for the refinancing ability of the company on the one hand and the increase in value for the shareholders on the other hand.

Against the background of target achievement of 77.5% for the respective Executive Board member, the following payment of the bonus for fiscal year 2021 results for the Executive Board members in office in fiscal year 2021:

Member of the Board	In prospect bonus for the Fiscal year 2021 (maximum, EUR)	Degree of target achievement (in %)	Final bonus for fiscal year 2021 (EUR)
Dr. James Neil Phillips	120.000,00	77,5%	93.000,00
Abdelghani Omari	100.000,00	77,5 %	77.500,00

In addition, 100% of the 2022 bonus was paid to Mr. Omani in 2022 (see explanations under 2.2.1 Fixed and variable compensation).

In 2022, a severance payment of EUR 55,833.34 and vacation compensation of EUR 15,000 were agreed with Mr. Phillips. Similarly, payment of salaries for December 2022, January

2023 and February 2023 in the amount of EUR 26,667.67 each, with fringe benefits of EUR 1,705 per month, was agreed. For 2022, Mr. Phillips will receive a bonus of EUR 30,000, which will be paid in 2023. A severance payment of EUR 78,686.29 was agreed with Mr. Omari, which was paid in 2022.

We refer to Table 2.2.1. for the presentation of other compensation components.

2.2.2 Granted and awarded shares and stock options

a) Stock options

In the past, the members of the Executive Board of the Company were granted stock options on the basis of the Previous Compensation System. Also under the New Compensation System, the issuance of stock options is a component of the compensation, namely the long-term variable compensation ("LTI").

The stock option agreements concluded with the individual members of the Management Board provide for a quantitative limit. With regard to the development of the value of the stock options granted, which is directly related to the development of the PAION share, no limits have been agreed other than minimum increases in value.

No stock options were granted to members of the Management Board in the financial year 2022. Beyond this, there are no "committed" stock options within the meaning of Section 162 (1) sentence 2 no. 3 AktG.

b) Shares

In the past, no shares were granted or promised to the members of the Executive Board, with the exception of the subscription of shares due to the exercise of stock options. Also under the New Compensation System, the granting or promise of shares, outside the subscription of shares through the exercise of stock options (cf. section 3.1 above), is not envisaged.

2.3 No clawback of variable compensation components

The Company had no reason to claw back variable compensation components in 2022 and has therefore not clawed back any variable compensation components.

2.4 Conformity with the Previous and New Compensation Systems

As already stated above in the preliminary remarks to this section II, the Previous Compensation System applied in fiscal year 2022 to the member of the Executive Board who left in that fiscal year with regard to an existing legacy contract as follows:

-Mr. Abdelghani Omari in the period from January 1 to August 31, 2022.

The New Compensation System applied to the members of the Executive Board in fiscal year 2022 as follows:

- Mr. James Neil Phillips for the period from January 1 to November 30, 2022
- Mr. Sebastian Werner for the period from June 1 to December 31, 2022
- Mr. Gregor Siebert for the period from December 1 to December 31, 2022

In 2022, there was a deviation with regard to the ratios of the compensation components set out in section 1.2. The deviation is due to the fact that no long-term variable compensation is reported for 2022 and that the ratios of the compensation components therefore deviate overall from the requirements under the compensation system. The fact that no long-term variable compensation is reported results from the following circumstances:

Firstly, the deviation results from the fact that, as previously explained, the new compensation system, which provides for the ratios of the compensation components, was only temporarily applicable to the incumbent members of the Executive Board in 2022. In 2021, too, the new compensation system was only applicable to the members of the Executive Board to a limited extent, namely only to Mr. Phillips from October 1 to December 31, 2021. In this respect, long-term variable compensation components agreed under the new compensation system could not yet have been granted or owed in the 2022 financial year anyway.

2.5 Consideration of the resolution of the Annual General Meeting pursuant to Sec. 120a (4), (5) AktG

Pursuant to Section 162 (1) Sentence 2 No. 6 AktG, an explanation must be included in the compensation report of how the resolution of the Annual General Meeting on the compensation report pursuant to Section 120a (4) AktG or the discussion of the compensation report pursuant to Section 120a (5) AktG was taken into account. The Compensation Report 2021 was presented for discussion on May 25, 2022 under item 5. of the agenda of the Annual General Meeting. As the Company met the requirements of Section 120a (5) of the German Stock Corporation Act (AktG) for qualification as a listed small corporation within the meaning of Section 267 (1) of the German Commercial Code (HGB) at that time, the Compensation Report was not submitted to the Annual General Meeting for a resolution on approval, but rather for discussion under its own agenda item. A resolution of the Annual General Meeting on the Compensation Report 2021 was therefore not required.

The compensation report for the 2021 financial year, which was prepared and audited in accordance with Section 162 of the German Stock Corporation Act (AktG), and the

auditor's report on its audit were also included in the invitation to the 2022 Annual General Meeting and were available on the Company's website from the time the Annual General Meeting was convened and during the Annual General Meeting.

2.6 Compliance with the maximum remuneration

In the compensation of the members of the Executive Board, the maximum compensation for Executive Board members set out in the New Compensation System was complied with. Even though the maximum compensation was not applied to all Executive Board members and not over the entire period, the Company confirms as a precaution that the maximum compensation was not exceeded for all Executive Board members and over the entire period 2022, irrespective of the question of the applicability of the New Compensation System:

The New Compensation System provides for a maximum compensation of EUR 600,000.00 for the Chairman of the Executive Board and a maximum compensation of EUR 500,000.00 each for the other members of the Executive Board.

The compensation "granted and owed" to the members of the Executive Board in 2022 (as detailed above under section 2.1) within the meaning of § 162 (1) sentence 1 AktG amounted to the following amounts:

-Mr. Dr. James Neil Phillips EUR 428,127.48

-Mr. Abdelghani Omari EUR 406,271.25

- Mr. Sebastian Werner EUR 131,324.34

- Mr. Gregor Siebert EUR 14,594.62

The above disclosures are based on the interpretation of the terms "granted" and "owed" in section 162 (1) sentence 1 AktG given under section 2.1 and accordingly take into account the variable compensation paid to the Executive Board in the 2022 financial year for target achievement in the 2021 financial year, i.e. the bonus for the 2021 financial year, but not the variable compensation payable in the 2023 financial year for the achievement of targets in the 2022 financial year, i.e. the bonus for the 2022 financial year, with the exception of Mr. Omari, whose variable compensation for the achievement of targets in 2022 was already paid when he left the company in 2022.

If, in line with opinions in the legal literature, compliance with the maximum compensation pursuant to Section 162 (2) sentence 2 no. 7 AktG were to be based not on the bonus for the 2021 financial year but on the bonus "earned" in 2022, i.e. the bonus for the 2022 financial year (i.e. insofar as this deviates from the interpretation of the terms "granted" and "owed" set out in section 2.1), the maximum compensation would also be complied with for the members of the Board of Management. Even assuming full achievement of the performance criteria set for the Executive Board members for 2022 and corresponding payment of the bonus for the 2022 financial year in the maximum amount, this would result in the following total compensation for the members of the Executive Board:

- Dr. James Neil Phillips EUR 420,960.82
- Mr. Abdelghani Omari EUR 328,771.25
- Mr. Sebastian Werner EUR 161,324.34
- Mr. Gregor Siebert EUR 14,594.62

2.7 Promises in the event of premature termination of employment

In the event of a change of control and termination of employment within a certain period after the change of control, the Executive Board members are each entitled to special termination rights and contractual severance payments. The severance payments correspond in each case to the value of two years' fixed compensation, limited to the compensation for the remaining term of the Executive Board employment contract.

All Executive Board contracts provide that in cases other than a change of control, any severance payments on premature termination of Executive Board service may not exceed the value of two years' fixed compensation and may not remunerate more than the remaining term of the Executive Board employment contract. The Executive Board contracts do not provide for any transitional payments upon expiry of the Executive Board contracts.

III. Compensation of the members of the Supervisory Board

1. Basic features of Supervisory Board compensation

The remuneration of the members of the Supervisory Board is set out in Section 21 of PAION AG's Articles of Association as follows:

" § 21

Compensation of the Supervisory Board

- (1) *In addition to reimbursement of their expenses, each member of the Supervisory Board shall receive compensation of EUR 25,000 per financial year. If a member of the Supervisory Board did not serve the Company as a member of the Supervisory Board for the entire financial year, he or she shall be entitled to remuneration only on a correspondingly pro rata basis, in proportion to the actual term of office to the entire financial year. In addition, members of the Supervisory Board receive EUR 1,000 for each Supervisory Board meeting (attendance fee) they attend in person, up to a maximum of five meetings per fiscal year. The Chairman receives double and his deputy 1.5 times this remuneration. For committee work, the chairman of a committee receives EUR 7,000 per fiscal year and the other committee members EUR 1,000 per fiscal year. If a committee member did not serve as a committee member for the entire fiscal year, he or she is only entitled to a pro rata remuneration in proportion to the actual time spent on the committee to the entire fiscal year.*
- (2) *In addition, the members of the Supervisory Board shall be reimbursed any value-added tax payable on the reimbursement of expenses or the Supervisory Board compensation, insofar as they are entitled to invoice the Company separately for value-added tax and exercise this right.*
- (3) *The members of the Supervisory Board shall be included in a pecuniary loss liability insurance policy for executive bodies and certain executives maintained by the Company in the interest of the Company at an appropriate level, insofar as such a policy exists. The premiums for this shall be paid by the Company."*

The remuneration of the members of the Supervisory Board set out in Section 21 of PAION AG's Articles of Association is based on the following considerations which, in the opinion of the Management Board and the Supervisory Board, remain valid:

The compensation of the Supervisory Board consists of the following elements:

- a fixed remuneration,
- an attendance fee for Supervisory Board meetings,
- a reject money
- a refund of any value-added tax payable on the reimbursement of expenses and the Supervisory Board compensation, and
- the inclusion of the members of the Supervisory Board in a pecuniary loss liability insurance policy with the premiums being paid by the Company, insofar as such a policy exists.

The remuneration is payable quarterly in arrears.

The compensation system for the members of the Supervisory Board takes into account the statutory requirements and the recommendations of the German Corporate Governance Code.

The compensation of the Supervisory Board members is balanced overall and is commensurate with the responsibilities and tasks of the Supervisory Board members and the situation of the Company. Furthermore, the compensation of the Supervisory Board is in line with the market and suitable for attracting capable mandate holders and thus ensuring appropriate supervision and advice of the Executive Board.

The compensation of the members of the Supervisory Board consists purely of fixed remuneration. No variable, performance-related compensation is paid. The Company is of the opinion that by limiting itself to a purely fixed compensation, the Supervisory Board's monitoring and advisory function is promoted in the best possible way and thus contributes to the long-term and sustainable development of the Company. On the one hand, the decision not to pay performance-related compensation avoids any false incentives that might be created for the members of the Supervisory Board. Furthermore, a constant, non-performance-related fixed compensation also takes into account the fact that the monitoring and consulting expenses of the Supervisory Board do not necessarily develop synchronously with a positive or negative business development of the Company. On the contrary, in the event of negative business development, increased monitoring and consulting expenses often become apparent. The Company is therefore of the opinion that non-performance-related compensation best reflects the monitoring and advisory function of the Supervisory Board. This is also in line with suggestion G.18 of the German Corporate Governance Code in the version of April 28, 2022, according to which the compensation of the Supervisory Board should consist of a fixed compensation.

The higher time commitment of the Chairman and Deputy Chairman of the Supervisory Board is taken into account by the fact that the fixed compensation and the attendance fee for the Chairman of the Supervisory Board are 2.0 times and for the Deputy Chairman of the Supervisory Board 1.5 times the compensation of ordinary Supervisory Board members. This differentiation ensures that the additional work to be performed by the Chairman and Deputy Chairman of the Supervisory Board is appropriately compensated and, in addition, creates a sufficient incentive for Supervisory Board members to assume the position of Chairman or Deputy Chairman of the Supervisory Board. In this respect, the differentiation of compensation also complies with Recommendation G.17 of the German Corporate Governance Code as amended on April 28, 2022, according to which the compensation of Supervisory Board members should take appropriate account of the higher time commitment of the Chairman and Deputy Chairman of the Supervisory Board.

The remuneration of the members of the Supervisory Board at PAION AG is determined by the Annual General Meeting by way of a provision in the Articles of Association. For this purpose, the Management Board and the Supervisory Board submit a resolution proposal to the Annual General Meeting.

Pursuant to Section 113 (3) of the German Stock Corporation Act (AktG), resolutions on the compensation of the members of the Supervisory Board of listed companies must be adopted at least every four years. A resolution confirming the compensation is permissible. Furthermore, a new resolution on the compensation of Supervisory Board members is required in the event of any changes.

The above provision of the Articles of Association on Supervisory Board compensation is based on a resolution of the Annual General Meeting 2022. The Annual General Meeting on May 25, 2022 confirmed the provision of the Articles of Association and the compensation system behind this provision in accordance with Section 113 (3) AktG.

2. Supervisory Board compensation granted and owed 2022

The following table shows the compensation granted and owed to members of the Supervisory Board within the meaning of section 162 of the German Stock Corporation Act (AktG) in fiscal year 2022:

	Basic remuneration (EUR)	Attendance fee (EUR)	Scrap money (EUR)	Ancillary services (EUR)	TOTAL
Dr. Jörg Spiekerkötter (Chairman)	19.863,01	6.000,00	0,00	0,00	25.863,01
Michael Schlenk (Chairman)	30.273,97	4.000,00	0,00	0,00	34.273,97
Dr. Karin Dorrepaal (Vice Chairwoman)	37.500,00	7.500,00	7.000,00	0,00	52.000,00
Dr. Dr. Irina Antonijevic	1.479,45	1.000,00	0,00	0,00	2.479,45
Dr. Hans Christoph Tanner	25.000,00	5.000,00	7.000,00	0,00	37.000,00
Dr. Markus Leyck Dieken	25.000,00	5.000,00	0,00	0,00	30.000,00
Gregor Siebert	13.013,69	1.000,00	3.643,84	0,00	17.657,53

The compensation granted and owed to the members of the Supervisory Board in fiscal year 2022 complied with the provisions of the Articles of Association and thus also with the compensation system confirmed by the Annual General Meeting on May 25, 2022.

IV. Comparative representation

The following table shows a comparative presentation of the annual change in the compensation of the members of the Board of Management and the Supervisory Board with the Company's earnings performance over the past five years:

	2022 vis-à-vis 2021 ¹	2021 vis-à-vis 2020 ¹	2020 vis-à-vis 2019 ¹ Fehler! Text- marke nicht definiert.	2019 vis-à-vis 2018 ¹	2018 vis-à-vis 2017 ¹
Development of Executive Board compensation (in %)					
Dr. James Neil Phillips	0,12 % ²	1,16 %	215,63 %	-	-
Abdelghani Omari	26,49% ²	6,13 %	30,94 %	-8,94 %	-2,03 %
Dr. Jürgen Beck	-100,00 % ²	-78,33 %	12,96 %	-6,76 %	-
Dr. Wolfgang Söhngen	-	-	-100,00 % ²	-28,24 %	6,94 %
Dr. Jürgen Raths	-	-	-	-	-100,00 % ²
Sebastian Werner	100,00% ²	-	-	-	-
Gregor Siebert	100,00% ²	-	-	-	-
Development of Supervisory Board compensation (in %)					
Dr. Jörg Spiekerkötter	-48,27 % ²	0,00 %	0,00 %	0,00 %	0,00 %
Michael Schlenk	100,00 % ²	-	-	-	-
Dr. Karin Dorrepaal	38,67%	0,00 %	0,00 %	0,00 %	0,00 %
Dr. Dr. Irina Antonijevic	-90,08 % ²	0,00 %	0,00 %	0,00 %	77,87 %
Dr. Hans Christoph Tanner	48,00 %	0,00 %	0,00 %	0,00 %	77,87 %
Dr. Markus Leyck Dieken	-25,00%	-4,00 %	76,47 %	-	-

¹The total compensation used as a basis for the fiscal years 2022 and 2021 is the total compensation according to the compensation report of the respective fiscal year, determined according to the principles outlined above in section 2.2.1 on the interpretation of "granted and owed" compensation. The total compensation used as a basis for the financial years 2017 to 2020 is the total compensation according to the Compensation Report of the respective financial year (for the Board of Management according to the inflow table of the German Corporate Governance Code as amended on February 7, 2017). The determination of the total compensation for the Board of Management for the financial years 2017 to 2020 according to the inflow table of the German Corporate Governance Code 2017 differs from the determination of the total compensation for the Board of Management for 2022 and 2021. This is because, in contrast to the principles on the interpretation of compensation "granted and owed" set out above in section 2.2.1, under the German Corporate Governance Code 2017 the inflow table also took into account a bonus "earned" in the reporting year, even if it was not yet due or paid in the reporting year.

² Not comparable due to entry/exit during the year

	2022 vis-à-vis 2021 ¹	2021 vis-à-vis 2020 ¹	2020 vis-à-vis 2019 ¹ Fehler! Text- marke nicht definiert.	2019 vis-à-vis 2018 ¹	2018 vis-à-vis 2017 ¹
Gregor Siebert	100,00% ²	-	-	-	-
Earnings development (in %)					
Annual- result ³	62,47 %	323,34 %	-28,71 %	-407,80 %	-547,95 %
EBIT (Group) ⁴	106,82 %	-1.432,28 %	-116,97%	-25,12%	-21,53 %
Development of average compensation of employees on a full-time equivalent basis (in %) ⁵					
average remuneration of Employees ⁶	-2,22%	n/a	n/a	n/a	n/a

³ Income of PAION AG (separate financial statements) in accordance with section 275 (2) no. 17 HGB.

⁴ PAION AG defines EBIT at Group level as follows: Operating result before financial result and taxes

⁵ Pursuant to Section 26j (2) sentence 2 EGAktG, a comparison with the average compensation of employees on a full-time equivalent basis over the last five financial years pursuant to Section 162 (1) sentence 2 no. 2 AktG was not yet to be included in the compensation report for the financial year 2021. Pursuant to Section 26j (2) sentence 2 of the Introductory Act to the Stock Corporation Act (EGAktG), the first comparison with the compensation of employees on a full-time equivalent basis will be made as of the compensation report for the 2022 financial year for the development between the 2022 financial year and the 2021 financial year and will then be made successively for the subsequent years (i.e. the compensation report for the 2023 financial year will report both on the development between the 2021 financial year and the 2022 financial year and on the development between the 2022 financial year and the 2023 financial year, etc.).

⁶ All Group employees (excluding the Executive Board) were included in the group of employees on a full-time basis.

Report of the Independent Auditor on the Audit of the Remuneration Report pursuant to Sec. 162 (3) AktG

To PAION AG, Aachen

Audit Opinion

We have formally audited the remuneration report of PAION AG for the financial year from 1 January 2022 to 31 December 2022 as to whether the disclosures pursuant to section 162 (1) and (2) AktG have been made in the remuneration report. In accordance with section 162 (3) AktG, we have not audited the content of the remuneration report. In our opinion, the information required by section 162 (1) and (2) AktG has been disclosed in all material respects in the accompanying remuneration report. Our audit opinion does not extend to the content of the remuneration report.

Basis for the audit opinion

We conducted our audit of the remuneration report in accordance with § 162 (3) AktG and IDW Auditing Standards: The audit of the remuneration report in accordance with section 162 (3) AktG (IDW PS 870 (08.2021)). Our responsibility under that provision and standard is further described in the Auditor's Responsibility section of our report. As an auditing practice, we have complied with the requirements of the IDW Quality Management Standard: Requirements for Quality Management in Auditing Practice (IDW QMS 1). We have complied with the professional duties pursuant to the Auditors' Code and the professional statutes for auditors / certified public accountants, including the requirements for independence.

Responsibility of the Executive Board and the Supervisory Board

The Executive Board and the Supervisory Board are responsible for the preparation of the remuneration report, including the related disclosures, which complies with the requirements of § 162 AktG. They are also responsible for such internal control as they determine is necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our objective is to obtain reasonable assurance about whether the remuneration report is free from material misstatement, whether due to fraud or error, in all material respects in accordance with § 162 (1) and (2) of the Austrian Stock Corporation Act and to express an opinion thereon in an auditor's report.

We planned and performed our audit to obtain evidence about the formal completeness of the remuneration report by comparing the disclosures made in the remuneration re-

port with the disclosures required by section 162 (1) and (2) of the German Stock Corporation Act. In accordance with section 162 (3) AktG, we did not audit the accuracy of the disclosures, the completeness of the individual disclosures or the fair presentation of the remuneration report.

Limitation of liability

For the performance of the engagement and our responsibility and liability, also in relation to third parties, the "General Engagement Terms for Auditors and Auditing Firms" in the version dated 1 January 2017 issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer) attached to this audit opinion apply.

Munich, 15 May 2023

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Hanfland
Certified Public Accountant

Ninnemann
Certified Public Accountant