PAION AG, Aachen, Germany

Annual Financial Report

for the Fiscal Year 2021

PAION AG, Aachen

Consolidated Financial Statements

as at 31 December 2021 in accordance with § 315e HGB under IFRS and

Group Management Report

for the 2021 financial year

Content

01.01.
31.12.
2021

PAION

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] Torreya Biopharmaceutical Sector Market Update, 20 January 2022.
[9] Torreya 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 (WAC[13]) 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 anesthesias are balanced anesthesia (a combination of intravenous agents for induction and volatile gases for maintenance), approx. 20% are total intravenous anesthesias ("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 rial[16]. 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 startet 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 ByfavoTM) 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 (1) 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) Cmmercialization 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.

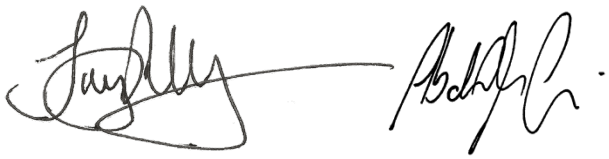
Overall, PAION expects a significant increase in sales compared to the previous year. At the same time, operating expenses will increase compared to the previous year. Overall, however, an improved EBITDA compared to the previous year is expected.

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 currecy 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/ net result	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

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 a 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:

31 Dec. 2021, KEUR	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 31 Dec. 2021	Carrying amount 31 Dec. 2020	Fair value 31 Dec. 2021	Fair value 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

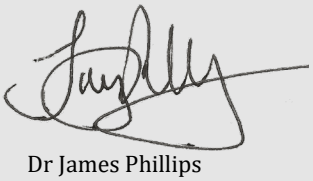
On 7 January 2022, PAION transferred the Chinese remimazolam patents and related future royalties to Humanwell Healthcare Group for EUR 20.5 million.

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.

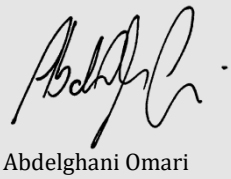
There have been no other significant events in the period between the reporting date of 31 December 2021 and the date of completion of this report.

Aachen, Germany, 29 March 2022

PAION AG



Dr James Phillips



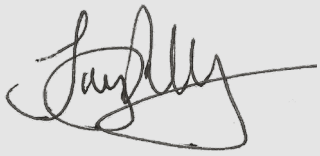
Abdelghani Omari

Responsibility Statement (Bilanzeid) 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)

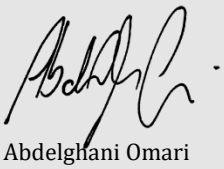
„To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development 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 Tetraphase 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".

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

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".

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: 0B5E9799B9E1A84ED8C277276F41AFCA191F 7268B9566B40D7575EDB03B1 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	Hanfland
German CPA	German CPA

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

PAION AG, Aachen

Financial Statements

as at 31 December 2021 and

Management Report

for the 2021 financial year

Content

01.01.
31.12.
2021

PAION

Management report for the 2021 business year

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] Torreya Biopharmaceutical Sector Market Update, 20 January 2022.
[9] Torreya 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 (WAC[13]) 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 anesthesias are balanced anesthesia (a combination of intravenous agents for induction and volatile gases for maintenance), approx. 20% are total intravenous anesthesias ("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 rial16. 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 ByfavoTM) 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

[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.

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.

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 of PAION AG

a. Results of operations

The net result for the 2021 financial year decreased by KEUR 4,640 compared to the previous year to a net loss of KEUR 6,075. This decrease is primarily due to higher other operating expenses and a lower financial result compared to the previous year.

The annual result is thus below the forecast of approximately EUR -2 million to approximately EUR -3.5 million made in the previous year for 2021.

	2021 KEUR	2020 KEUR	Change in result KEUR
Revenues	2,519	2,498	21
Other operating income	872	286	586
Personnel expenses	-2,613	-2,551	-62
Depreciation and amortization	-25	-3	-22
Other operating expenses	-4,749	-2,144	-2,605
Operating result	**-3,996**	**-1,914**	**-2,082**
Financial result	-2,079	479	-2,558
Net result	**-6,075**	**-1,435**	**-4,640**

In the reporting year, **revenues** increased by KEUR 21 compared to the previous year and resulted entirely from management and other services provided to the subsidiaries, of which KEUR 1,202 (previous year: KEUR 1,855) were provided to PAION UK Ltd, KEUR 801 (previous year: KEUR 196) to PAION Deutschland GmbH, KEUR 470 (previous year: KEUR 447) to PAION Netherlands B.V. and KEUR 46 (previous year: KEUR 0) to PAION Scandic ApS.

Other operating income increased by KEUR 586 in the reporting year compared to the previous year and includes income from recharges to subsidiaries amounting to KEUR 720 (previous year: KEUR 222), of which KEUR 410 (previous year: KEUR 87) related to PAION UK Ltd, KEUR 202 (previous year: KEUR 132) to PAION Deutschland GmbH, KEUR 92 (previous year: KEUR 3) to PAION Netherlands B.V. and KEUR 16 (previous year: KEUR 0) to PAION Scandic ApS. Income from exchange rate differences was realised in the amount of KEUR 125 (previous year: KEUR 7). The increase compared to the previous year is mainly due to the commercialisation of the PAION Group's product portfolio, which started in the reporting year, and the resulting changes in the structure of service procurement and service charging within the PAION Group.

Personnel expenses increased by KEUR 62 to KEUR 2,613.

Other operating expenses increased by KEUR 2,605 to KEUR 4,749 compared to the previous year and mainly include legal and consulting fees (KEUR 3,186; previous year: KEUR 770), expenses for IT and licences (KEUR 477; previous year: KEUR 317), insurance,

contributions and fees (KEUR 258; previous year: KEUR 366), expenses for remuneration of the Supervisory Board (KEUR 162; previous year: KEUR 163), costs for renting office space (KEUR 148; previous year: KEUR 1) as well as costs for financial statements and auditing (KEUR 90; previous year: KEUR 75). The increase in other operating expenses compared to the previous year results primarily from higher expenses for legal and consulting costs, which were incurred in the reporting year, particularly in connection with financing activities.

The **financial result** decreased by KEUR 2,558 to KEUR -2,079 compared to the previous year. The decrease is mainly due to expenses in connection with the EIB loan of EUR 20 million, which was drawn down during the year and includes a cash interest component, a deferred bullet interest component as well as a bullet compensation component depending on the share price of PAION AG. The total financial expense recognised in the reporting year in connection with the EIB loan amounts to KEUR 3,407, which was partly offset by an increase in interest income from loans granted to affiliated companies of KEUR 658.

b. Net assets and financial position

The balance sheet total as of 31 December 2021 amounts to KEUR 158,792 and has increased by KEUR 24,646 compared to the previous year's balance sheet date. The equity ratio as of the balance sheet date is 85.0% (previous year: 99.3%). Cash and cash equivalents amounted to KEUR 5,227 as at 31 December 2021 and decreased by KEUR 12,401 compared to the previous year's reporting date.

	31 Dec. 2021 KEUR	31 Dec. 2020 KEUR	Change KEUR
Fixed assets	95,645	94,789	856
Current assets and prepaid expenses	63,147	39,357	23,790
Assets	**158,792**	**134,146**	**24,646**
Equity	134,956	133,185	1,771
Non-current liabilities	22,344	0	22,344
Current liabilities	1,492	961	531
Shareholder's equity and liabilities	**158,792**	**134,146**	**24,646**

Fixed assets increased by KEUR 856 in the reporting year, mainly due to the acquisition of intangible assets, which include in particular an ERP system under development and amount to KEUR 758 as of 31 December 2021. At the reporting date, non-current assets mainly comprise the shares in PAION Holdings UK Ltd (KEUR 94,311), the shares in PAION Deutschland GmbH (KEUR 450), the shares in PAION Netherlands B.V. (KEUR 10), the shares in the wholly owned

subsidiary PAION Scandic ApS (KEUR 5), which was founded during the year, intangible assets (KEUR 758) and property, plant and equipment (KEUR 111).

The **current assets** (including prepaid expenses) increased by KEUR 23,790 to KEUR 63,147 in the fiscal year 2021. The loan issued to PAION UK Ltd. increased by KEUR 7,020 to KEUR 24,770 and the loan issued to PAION Netherlands B.V. increased by KEUR 6,327 to KEUR 9,889 as of 31 December 2021. A loan issued to PAION Deutschland GmbH during the year amounts to KEUR 20,540 as of the reporting date and a loan issued to PAION Scandic ApS during the year amounts to KEUR 771 as of the reporting date. Cash and cash equivalents decreased by KEUR 12,401 from KEUR 17,628 to KEUR 5,227 as of 31 December 2021.

The **non-current liabilities of** KEUR 22,344 are entirely related to the EIB loan of KEUR 20,000 that was drawn down during the year, which will be repaid from 2024 until 2026, and includes, in addition to the settlement amount of the loan, the accrued portion of the interest component due in 2026 in the amount of KEUR 670 as well as a provision for the performance-related remuneration component of the loan in the amount of KEUR 1,674 , which relates to a payment obligation that depends on the share price of PAION AG and is also due in 2026.

The increase in **current liabilities** by KEUR 531 to KEUR 1,492 results primarily from an increase in trade payables by KEUR 391 in the course of ordinary business activities.

The change in cash and cash equivalents during the financial year is attributable to the following areas:

	2021 KEUR	2020 KEUR
Cash flow from operating activities	-3,916	-1,018
Cash flow from investing activities	-35,337	1,818
Cash flow from financing activities	26,852	-36
Change in cash and cash equivalents	**-12,401**	**764**

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.

As in the previous year, the **cash flow from operating activities mainly** results from the net profit for the year adjusted for interest expenses and changes in working capital.

The **cash flow from investing activities is** primarily the result of
The cash flow from investing activities results primarily from the granting of loans to subsidiaries (KEUR 34,658) and payments for an ERP system under development (KEUR 550). In the previous year, the cash flow from investing activities resulted mainly from the (net) loan repayment of subsidiaries.

The **cash flow from financing activities** results from the utilisation of the EIB loan (KEUR 20,000), the rights issue completed in April 2021 with gross proceeds of KEUR 7,847 and interest payments (KEUR -995). In the previous year, the cash flow from financing activities resulted from the exercise of stock options and interest payments.

4. Net assets, financial position and results of operations of the PAION Group

At the group level, a consolidated annual result of KEUR -21,786 (previous year: KEUR 2,222) was incurred in the 2021 financial year. On the assets side, the main items in the consolidated balance sheet as at 31 December 2021 are intangible assets (KEUR 19,653; previous year: KEUR 1,829), cash and cash equivalents (KEUR 6,440; previous year: KEUR 19,666), inventories (KEUR 4,823; previous year: KEUR 1,774), prepaid expenses and other assets (KEUR 3,254; previous year: KEUR 4.337) and trade receivables (KEUR 1,717; previous year: KEUR 500) and on the liabilities side financial debts (KEUR 19,484; previous year: 0 euros), equity (KEUR 6,999; previous year: KEUR 21,290), trade payables (KEUR 6,585; previous year: KEUR 3,907) and provisions (KEUR 2,304; previous year: KEUR 2,206).

Headcount

As at 31 December 2021, the PAION Group employed a total of 56 people, of which twelve people are attributable to the PAION UK Group, five people are attributable to PAION Netherlands B.V. and four people are attributable to PAION Scandic ApS. As at 31 December 2020, the number of employees was 42. PAION AG had 17 employees as at 31 December 2021 (previous year: 14 employees).

Impact of the Covid-19 pandemic on PAION AG and 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 the 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. Furthermore, 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 section 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 § 289 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 percentages of the voting rights of the Company by way of purchase, 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 control of voting rights when employees are shareholders and do not directly exercise their control rights
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 plans 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 entered into by the company with members of the Management Board and employees in the event of a takeover bid

The terms and conditions of the 2010, 2014, 2016, 2018 and 2020 stock option plans 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.

Declaration on Corporate Governance pursuant to § 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) Cmmercialization 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 PAION Group (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 PAION Group (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.

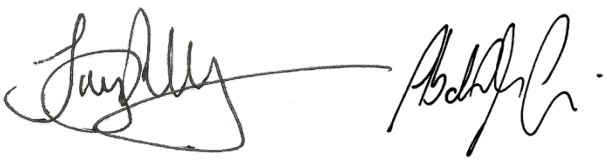
The key assumption for the outlook is that the activities of PAION and the licensees will continue as planned. The planning is also based on the assumption that the further funding requirements can be at least partially covered by financing measures in the course of the fiscal year 2022. Delays would 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.

Taking into account the current cost structures, a net loss of approximately EUR 2 million to approximately EUR 3.5 million is expected for PAION AG in the fiscal year 2022.

Aachen, Germany, 29 March 2022

PAION AG



Dr James Phillips Abdelghani Omari

Financial Statements

PAION AG

Balance sheet as of 31 December 2021

ASSETS	31 Dec. 2021 EUR	31 Dec. 2020 EUR
Fixed Assets		
Intangible Assets		
Franchises, trademarks, patensts, licenses and similar rights	758.093,03	6.753,00
Equipment		
Plant and machinery	38.785,68	10.796,78
Other plant, factory and office equipment	72.065,95	0,00
Financial assets		
Shares in affiliated companies	94.776.394,39	94.771.015,15
Securities	11,70	11,70
	94.776.406,09	94.771.026,85
	95.645.350,75	94.788.576,63
Current assets		
Receivables and other assets		
Receivables from affiliated companies	57.445.266,09	21.609.127,92
Other assets	383.146,35	57.570,84
	57.828.412,44	21.666.698,76
Cash at bank and bank balances	5.226.565,00	17.628.202,77
	63.054.977,44	39.294.901,53
Prepaid expenses	91.476,27	62.618,77
	158.791.804,46	**134.146.096,93**

EQUITY AND LIABILITIES	31 Dec. 2021 EUR	31 Dec. 2020 EUR
Equity		
Subscribed capital thereof: 71,336,992 no-par value shares (prior year: 66,241,493 no-par value shares) Conditional capital: EUR 34,915,558.00 (prior year: EUR 28,497,743.00)	71,336,992.00	66,241,493.00
Capital reserve	154,689,892.92	151,938,323.46
Accumulated loss	-91,070,494.33	-84,995,189.17
	134,956,390.59	133,184,627.29
Accruals		
Other accruals	2,384,236.63	733,017.81
Liabilities		
Liabilities to financial institutions	20,804,583.34	0.00
thereof due in up to one year: EUR 135,000.00 (prior year: EUR 0.00)		
Trade payables	490,940.33	99,727.17
thereof due in up to one year: EUR 490,940.33 (prior year: EUR 99,727.17)		
Liabilities to affiliated companies	45,483.68	15,681.52
thereof due in up to one year: EUR 45,483.68 (prior year: EUR 15,681.52)		
Other liabilities	110,169.89	113,043.14
thereof due in up to one year: EUR 110,169.89 (prior year: EUR 113,043.14) thereof for taxes: EUR 48,534.72 (prior year: EUR 65,069.70) thereof relating to social security: EUR 12,231.10 (prior year: EUR 7,820.19)		
	21,451,177.24	228,451.83
	158,791,804.46	**134,146,096.93**

Income Statement for Fiscal Year 2021

	2021 EUR	2020 EUR
Revenues	2,518,617.74	2,498,044.61
Other operating income	871,720.81	286,203.88
Personnel expenses		
Wages and salaries	-2,363,404.37	-2,363,001.42
Social security	-249,666.19	-188,549.31
	-2,613,070.56	-2,551,550.73
Depreciation and amortization	-25,064.00	-3,070.00
Other operating expenses	-4,748,656.28	-2,144,493.45
Other interest and similar income thereof from affiliated companies EUR 1,392,022.14 (prior year: EUR 734,257.83)	1,392,163.84	734,322.99
Other interest and similar expenses	-3,471,016.71	-254,955.94
Result before tax	**-6,075,305.16**	**-1,435,498.64**
Net result for the year	**-6,075,305.16**	**-1,435,498.64**
Loss carryforward	-84,995,189.17	-83,559,690.53
Accumulated costs	**-91,070,494.33**	**-84,995,189.17**

Notes

PAION AG

Preliminary remark

The annual financial statements of PAION AG, Heussstr. 25, 52078 Aachen, HRB 12528, Register Court Aachen, for the fiscal year from 1 January 2021 to 31 December 2021 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) as amended. The balance sheet and profit and loss account comply with the classification regulations of §§ 266 and 275 HGB. The notes were prepared on the basis of §§ 284 to 288 HGB.

The shares of PAION AG are admitted to trading on the Frankfurt Stock Exchange and are listed in the Prime Standard of the regulated market. Pursuant to Section 267 (3) sentence 2 of the German Commercial Code (HGB), PAION AG is deemed to be a large corporation as it uses an organised market within the meaning of Section 2 (11) of the German Securities Trading Act (WpHG) through the securities it issues.

Accounting and valuation methods

1. Fixed assets are valued at acquisition cost and depreciated according to schedule. Depreciation is linear. The useful life of intangible assets is between three and five years. Low-value assets with acquisition costs of up to EUR 800 are written off in full in the year of acquisition. If necessary, unscheduled write-offs to the lower fair value are made. If the reason for this no longer exists, a write-up is made in accordance with § 253 para. 5 HGB.
2. Financial assets are recognised at the lower of cost or fair value.
3. Receivables and other assets are generally valued at nominal value. Receivables in foreign currencies are translated at the average spot exchange rate on the balance sheet date. In the case of a remaining term of more than one year, the realisation principle (§ 252 para. 1 no. 4 half-sentence 2 HGB) and the acquisition cost principle (§ 253 para. 1 sentence 1 HGB) are observed.
4. The provisions are formed according to reasonable commercial judgement and are necessary and sufficient. Provisions with a term of more than one year are - discounted at the average market interest rate of the last seven financial years corresponding to their remaining term.

   The provision for the performance-related remuneration component of the loan drawn from the European Investment Bank (EIB) was estimated at the reporting date on the basis of the closing rate of the PAION share and discounted in accordance with the term.
5. Liabilities are recognised at the settlement amount. Liabilities in foreign currencies are generally translated at the average spot exchange rate on the balance sheet date. In the case of a remaining term of more than one year, the realisation principle (§ 252 para. 1 no. 4 half-sentence 2 HGB) and the acquisition cost principle (§ 253 para. 1 sentence 1 HGB) are observed.
6. The income statement is prepared using the nature of expense method in accordance with section 275 (2) HGB.

Notes to the balance sheet and income statement items

(I) Fixed assets

The shares in affiliated companies as at 31 December 2021 relate to PAION Holdings UK Ltd (KEUR 94,311), PAION Deutschland GmbH (KEUR 450), PAION Netherlands B.V. (KEUR 10) and the wholly owned subsidiary PAION Scandic ApS (KEUR 5), which was founded during the year. Additions to intangible assets in the reporting year relate to an ERP system under development in the amount of KEUR 752. The composition and development of fixed assets is as follows:

	Historic Costs			
	01 Jan. 2021	Additions	Disposals	31 Dec. 2021
	EUR	EUR	EUR	EUR
Intangible assets				
Franchises, trademarks, patents, licenses and similar rights	68,700.05	753,404.03	0.00	822,104.08
	68,700.05	753,404.03	0.00	822,104.08
Equipment				
Plant and machinery	12,138.78	42,480.90	0.00	54,619.68
Other plant, factory and office equipment	0.00	80,573.95	0.00	80,573.95
	12,138.78	123,054.85	0.00	135,193.63
Financial assets				
Shares in affiliated companies	141,969,512.25	5,379.24	0.00	141,974,891.49
Securities	11.70	0.00	0.00	11.70
	141,969,523.95	5,379.24	0.00	141,974,903.19
	142,050,362.78	**881,838.12**	**0.00**	**142,932,200.90**

	Depreciation			Net Book Values	
01 Jan. 2021 EUR	Additions EUR	Disposals EUR	31 Dec. 2021 EUR	31 Dec. 2021 EUR	31 Dec. 2020 EUR
61,947.05	2,064.00	0.00	64,011.05	758,093.03	6,753.00
61,947.05	2,064.00	0.00	64,011.05	758,093.03	6,753.00
1,342.00	14,492.00	0.00	15,834.00	38,785.68	10,796.78
0.00	8,508.00	0.00	8,508.00	72,065.95	0.00
1,342.00	23,000.00	0.00	24,342.00	110,851.63	10,796.78
47,198,497.10	0.00	0.00	47,198,497.10	94,776,394.39	94,771,015.15
0.00	0.00	0.00	0.00	11.70	11.70
47,198,497.10	0.00	0.00	47,198,497.10	94,776,406.09	94,771,026.85
47,261,786.15	**25,064.00**	**0.00**	**47,286,850.15**	**95,645,350.75**	**94,788,576.63**

(2) Receivables from affiliated companies

Receivables from affiliated companies break down as follows as at 31 December 2021:

EUR	Total	of which: loans	of which: services and interest
PAION UK Ltd	25,390,719.89	24,770,000.00	620,719.89
PAION Germany GmbH	20,995,803.64	20,540,000.00	455,803.64
PAION Netherlands B.V.	10,182,420.86	9,889,000.00	293,420.86
PAION Scandic ApS	876,321.70	771,000.00	105,321.70
	57,445,266.09	**55,970,000.00**	**1,475,266.09**

Receivables from affiliated companies have a remaining term of less than 12 months.

(3) Other assets

The other assets as at 31 December 2021 mainly relate to VAT receivables (KEUR 293; previous year: KEUR 57). Other assets also include deposits for rent; these have a remaining term of more than one year.

(4) 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.

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. The 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 decreased to EUR 21,039,429.00 as a result of 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.The Management Board is authorised to issue convertible bonds, bonds with warrants, profit participation rights and/or participating bonds in the 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 of 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 Plans 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 plan.

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 Plan 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 Plan 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 Stock Option Plan 2014 exercise their option rights. Under the Stock Option Plan 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 Plan 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 Plan 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 Plan 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 Plan 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 Plan 2020 exercise their option rights. As of 31 December 2021, no stock options have been issued under the Stock Option Plan 2020.

The capital reserve amounts to EUR 154,689,892.92 as at 31 December 2021 and increased by EUR 2,751,569.46 in the reporting year. This amount is attributable to the premium from the capital increase with subscription rights carried out in the reporting year.

(5) Accruals

The accruals break down as follows:

	31 Dec. 2021 EUR	31 Dec. 2020 EUR
Performance-based component EIB loan	1,674,047.11	0.00
Bonuses	348,132.32	405,059.25
Outstanding invoices	146,251.73	114,763.35
Financial statements and audit	76,082.00	74,416.00
Legal advice	53,816.17	82,224.00
Other	85,907.30	56,555.21
	2,384,236.63	**733,017.81**

The accruals for the performance-based remuneration component of the loan drawn from the European Investment Bank (EIB) (cf. section (6) Liabilities to credit institutions) in the amount of KEUR 1,674 relates to a payment obligation dependent on the share price of PAION AG at the time of repayment of the last part of the respective tranche of the loan and due at that time. These payments are due in the fiscal year 2026; the amount was estimated at the reporting date on the basis of the closing price of the PAION share and discounted in line with the term.

(6) Liabilities to financial institutions

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 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. The liabilities to banks of KEUR 20,805 as at 31 December 2021 relate entirely to the settlement amount of the loan totalling KEUR 20,000 as well as current and bullet interest totalling KEUR 805 (cf. on the performance-based remuneration component, section (5) Accruals).

(7) Liabilities to affiliated companies

The liabilities to affiliated companies are due in full to the subsidiary PAION Deutschland GmbH under the VAT fiscal unity. The liabilities to affiliated companies have a remaining term of less than 12 months.

(8) Revenues

The revenues result entirely from management and other services provided to the subsidiaries, of which KEUR 1,202 (previous year: KEUR 1,855) are due from PAION UK Ltd, KEUR 801 (previous year: KEUR 196) from PAION Deutschland GmbH, KEUR 470 (previous year: KEUR 447) from PAION Netherlands B.V. and KEUR 46 (previous year: KEUR 0) from PAION Scandic ApS.

(9) Other operating income

Other operating income includes income from recharges to subsidiaries amounting to KEUR 720 (previous year: KEUR 222), of which KEUR 410 (previous year: KEUR 87) is due from PAION UK Ltd, KEUR 202 (previous year: KEUR 132) from PAION Deutschland GmbH, KEUR 92 (previous year: KEUR 3) from PAION Netherlands B.V. and KEUR 16 (previous year: KEUR 0) from PAION Scandic ApS. Income from exchange rate differences was realised in the amount of KEUR 125 (previous year: KEUR 7).

(10) Other operating expenses

Other operating expenses mainly include legal and consulting fees (KEUR 3,186; previous year: KEUR 770), expenses for IT and licences (KEUR 477; previous year: KEUR 317), insurance, contributions and fees (KEUR 258; previous year: KEUR 366), expenses for remuneration of the Supervisory Board (KEUR 162; previous year: KEUR 163), costs for renting office space (KEUR 148; previous year: KEUR 1) as well as costs for financial statements and auditing (KEUR 90; previous year: KEUR 75). The increase in other operating expenses compared to the previous year is primarily the result of higher expenses for legal and consulting costs as well as third-party services, which were incurred in the reporting year, particularly in connection with financing activities. The increase in expenses for IT and licences is mainly related to the introduction of new software.

(11) Other interest and similar expenses

Other interest and similar expenses include expenses for the current and bullet interest of the loan drawn by the EIB in the amount of KEUR 1,733, expenses for the bullet performance-based remuneration component of the EIB loan in the amount of KEUR 1,674, and expenses for negative interest on bank balances in the amount of KEUR 64. In the previous year, other interest and similar expenses included expenses of KEUR 190 from the reversal of the remaining portion of the capitalised discount in connection with the convertible bonds issued in the 2019 financial year as well as expenses for negative interest on bank balances of KEUR 65.

(12) Income attributable to other periods

Income unrelated to the accounting period amounts to KEUR 26 in the 2021 financial year and results in the amount of KEUR 25 from the reversal of provisions and in the amount of KEUR 1 from premium refunds.

(13) Taxes

As of 31 December 2021, the company's tax loss carry forwards for corporate income tax amount to around EUR 41.5 million (previous year: EUR 35.8 million) and for trade tax to around EUR 39.4 million (previous year: EUR 34.5 million). Due to 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 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%.

Applying the currently applicable combined German income tax rate would result in deferred tax assets of KEUR 13,117 (previous year: KEUR 11,413) for the tax loss carry forwards as at 31 December 2021.

Asset differences between the tax valuation and the valuation according to HGB would lead to deferred tax assets of KEUR 101 as at 31 December 2021. The asset differences result from the different valuation of the performance-based remuneration component of the loan

taken out by the European Investment Bank (EIB) due to different discount rates under commercial and tax law. The option of not recognising deferred tax assets was exercised. As of the previous year's reporting date, there were no asset differences between the tax valuation and the valuation according to HGB.

Other compulsory disclosures

(1) Average number of employees

In the 2021 financial year, the company employed an average of 15 employees (previous year: 12 employees).

(2) Other financial obligations

The credit facility granted to the affiliated company PAION UK Ltd. amounts to KEUR 40 as at the balance sheet date. As at the balance sheet date, the utilisation amounts to KEUR 24,770.

The credit facility granted to the affiliated company PAION Deutschland GmbH amounts to KEUR 25 as at the balance sheet date. As at the balance sheet date, the utilisation amounts to KEUR 20,540.

The credit line granted to the affiliated company PAION Netherlands B.V. amounts to KEUR 13 as at the balance sheet date. As at the balance sheet date, the utilisation amounts to KEUR 9,889.

The credit line granted to the affiliated company PAION Scandic ApS amounts to KEUR 1k as at the balance sheet date. As at the balance sheet date, the utilisation amounts to KEUR 771.

As of the balance sheet date, there are rental and leasing obligations of KEUR 318 (previous year: KEUR 476).

In addition, there are other financial obligations of KEUR 110 as at the balance sheet date. These relate in particular to IT services and software.

(3) 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. All stock option plans provide for vesting periods, waiting periods and exercise hurdles and equity-settled compensation. The respective exercise price is based on the average share price in a certain period before issuance and any necessary adjustments. The details of the individual plans can be found in the following table (the 2020 stock option plan, from which no share options have yet been issued, is not shown):

	Stock Option Plan 2010 **Approved 19 May 2010**	**v 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 of 31 Dec. 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 of 31 Dec. 2021	2.1 years	4.0 years
Further grant possible? (as of 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 if of 31 Dec. 2021	23,374	209,990
thereof lapsed in the reporting period	0	0
Number of totally exercised options until of 31 Dec. 2021	20,000	0
thereof exercised in the reporting period	0	0

*related to options still issued as at 31.12.2021

*1 (partially) adjusted on the basis of the conditions of the share option programme

*2 related to employee or board status at the time of issue

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

(4) Management Board and Supervisory 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 EUR 716,000 in the 2021 financial year. As at 31 December 2021, a total of 741,000 stock options (fair value at grant date: EUR 692,425) had been issued to the Management Board members in office as at 31 December 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 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 in other supervisory boards to be formed in accordance with 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.

(5) Shareholdings

The Company holds the following shares directly and indirectly:

EUR	Shares in %	Currency	Equity as at 31 Dec. 2021 *	Result 2021 *
PAION Deutschland GmbH, Aachen	100	EUR	-8,733,444.91	-10,761,854.65
PAION Holdings UK Ltd, Richmond/UK	100	GBP	75,995,211.84	14,862.84
PAION UK Ltd, Richmond/UK	100	GBP	-23,862,550.10	-6,582,425.82
TheraSci Limited, Cambridge/UK	100	GBP	0.00	0.00
PAION Netherlands B.V., Heerlen/The Netherlands	100	EUR	262,378.22	2,022,539.67
PAION Scandic ApS, Odense/Denmark	100	DKK	-8,147,867.89	-8,187,867.89

*) Reporting according to local reporting standards

(6) Reportable equity investments in PAION AG pursuant to section 33 WpHG

The following notifications in respect of reportable equity investments pursuant to Section 33 (1) and (2) WpHG, which were published in accordance with the stipulations of Section 40 (1) WpHG, are relevant for assessing which shareholders held more than 3% of the shares as of 31 December 2021:

1. Details of issuer
PAION AG
Martinstr. 10-12
52062 Aachen
Germany

2. Reason for notification
X Acquisition/disposal of shares with voting rights
Acquisition/disposal of instruments
Change of breakdown of voting rights
Other reason:

3. Details of person subject to the notification obligation

Name:	City and country of registered office:
Cosmo Pharmaceuticals N.V.	Amsterdam/Netherlands

4. Names of shareholder(s)
holding directly 3% or more voting rights, if different from 3.
Granell Strategic Investment Fund Limited

5. Date on which threshold was crossed or reached
29 Jun 2016

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1.+7.b.2.)	total of both in % (7.a.+7.b.)	total number of voting rights of issuer
Resulting situation	9.09 %	0 %	9.09 %	555736594
Previous notification	n/a %	n/a %	n/a %	/

7. Notified details of the resulting situation
a. Voting rights attached to shares (Sec.s 21, 22 WpHG)

ISIN	absolute		in %	
	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)
DE000A0B65S3		5064194	%	9.09 %
Total	5064194		9.09 %	

b.1. Instruments according to Sec. 25 para. 1 No. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
				%
		Total		%

b.2. Instruments according to Sec. 25 para. 1 No. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
					%
			Total		%

8. Information in relation to the person subject to the notification obligation

Person subject to the notification obligation is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).

X Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more	Total of both (if at least geld 5% or more)
Cosmo Pharmaceuticals N.V.	%	%	%
Granell Strategic Investment Fund Limited	9.09 %	0 %	9.09 %

9. In case of proxy voting according to Sec. 22 para. 3 WpHG

Date of general meeting:

Holding position after general meeting: % (equals voting rights)

According to the available notifications pursuant to § 33 WpHG
As at 31 December 2021, the following companies or persons held
or persons held more than 3 % of the voting rights in PAION AG
of PAION AG:

- Cosmo Pharmaceuticals N.V. (via Granell Strategic Investment Fund Limited)

(7) Financial statements auditor

The auditor's fees for the fiscal year 2021 are
2021 are disclosed in the consolidated financial statements of PAION AG.

(8) Corporate Governance

The Supervisory Board and the Management Board of PAION AG are committed to responsible and 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 PAION AG's website (https://www.paion.com/medien-investoren/corporate-governance/erklaerung-zur-unternehmensfuehrung/).

(9) Report on post-balance sheet date events

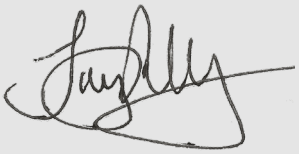
On 7 January 2022, PAION transferred the Chinese remimazolam patents and related future royalties to Humanwell Healthcare Group for EUR 20.5m.

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.

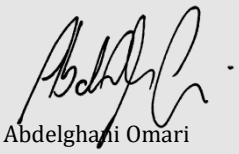
There have been no other significant events in the period between the reporting date of 31 December 2021 and the date of completion of this report.

Aachen, Germany 29 March 2022

PAION AG



Dr James Phillips



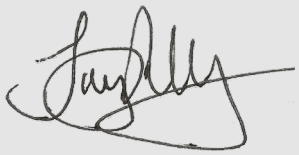
Abdelghani Omari

Responsibility Statement (Bilanzeid) in accordance with section 114(1) and (2) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with sections 264(2) sentence 3 and 289(1) sentence 5 of the Handelsgesetzbuch (HGB – German Commercial Code)

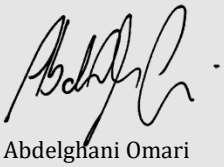
„To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of PAION AG, and the management report includes a fair review of the development and performance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

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 ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit opinions

We have audited PAION AG's annual financial statements – comprising the balance sheet as of December 31, 2021, the income statement for the fiscal year from January 1, 2021 through December 31, 2021, the cash flow statement and the statement of changes in equity as well as the notes to the annual financial statements, including a presentation of accounting and valuation methods. Furthermore, we have audited PAION AG's 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 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 annual financial statements comply, in all material respects, with German commercial law as applicable to corporations and provides, in compliance with German generally accepted accounting principles, a true and fair view of the Company'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 management report as a whole provides a true and fair view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of the Company's future development. Our audit opinion on the 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 annual financial statements' and the management report's legal compliance.

Basis for the audit opinions

We have conducted our audit of the annual financial statements and of the 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 Annual Financial Statements and of the Management Report". We are independent of the Company 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 annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual 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 annual 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:

- Recoverability of shares in affiliated companies
- Recoverability of receivables from affiliated companies
- 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 matters:

Recoverability of shares in affiliated companies:

1. The shares in affiliated companies reported in the Company's annual financial statements amount to KEUR 94,776 or 60 % of total assets and are thus of particular importance for the Company's financial position. An impairment test of these assets is quite complex and largely depends upon 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.
2. In testing for impairment, we satisfied ourselves as to the reasonableness of the significant value-determining assumptions and the appropriateness of the parameters used. In addition, the implemented processes and controls were analyzed and discussed in detail with the

Management Board. 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 three pharmaceutical products to be marketed as well as the costs required to implement this growth. 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 shares in affiliated companies are included in the notes to the annual financial statements in the sections "Accounting and valuation methods" and "Shareholdings".

Recoverability of receivables from affiliated companies:

1. The receivables from affiliated companies reported in the Company's annual financial statements amount to KEUR 57,445 or ca. 36% of total assets and are therefore of material importance for the Company's financial position. The recoverability of these receivables, which are mainly based on loans granted and also on the exchange of services within the Group, is directly related to the future business development of PAION Group and the individual subsidiaries as well as their ability to meet their contractually agreed interest and other payment obligations.
2. The impairment test of receivables was performed on the basis of the individual subsidiaries' budgeting, which was derived from the overall Group-wide planning. In doing so, it was assessed whether the subsidiaries are expected to have sufficient cash and cash equivalents in order to fully meet their future contractual payment obligations to PAION AG. For the assessment of PAION Group's overall planning, we refer to our comments on the audit field "Recoverability of shares in affiliated companies" in the previous section.
3. The Company's disclosures on receivables from affiliated companies are included in the notes to the annual financial statements in the sections "Accounting and valuation methods" and "Receivables from affiliated companies".

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

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 1,674 as of the reporting date and recognized under other provisions. As the 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. We have assessed the calculations prepared by the Company for completeness and compliance with the contractual terms. The 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 annual financial statements in the sections “Accounting and valuation methods”, “Provisions”, “Payables to banks” as well as “Other interest and similar expenses”.

Other information

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

Our audit opinions on the annual financial statements and on the 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 annual financial statements, with the 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 Annual Financial Statements and the Management Report

The legal representatives are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law as applicable to corporations and that the annual financial statements, in compliance with German generally accepted accounting principles, provide a true and fair view of the Company’s net assets, liabilities, financial position, and profit situation. Furthermore, the legal representatives are responsible for such internal controls they have deemed necessary in order to enable the preparation of annual financial statements that are free from material misstatements, whether due to fraud or error.

When preparing the annual financial statements, the legal representatives are responsible for assessing the Company’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 otherwise required due to actual or legal circumstances.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides a true and fair view of the Company’s position and is, in all material respects, consistent with the annual 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 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 management report.

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

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

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the management report as a whole presents a true and fair view of the Company's position and is, in all material respects, consistent with the annual financial statements and the knowledge obtained during our audit, complies with German legal requirements and appropriately presents the opportunities and risks of the Company's future development, as well as to issue an audit report that includes our audit opinions on the annual financial statements and on the 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 the 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 annual financial statements and the 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 annual financial statements and the 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 annual financial statements and of precautions and measures relevant for the audit of the 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 Company'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 annual financial statements and in the 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 Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements, in compliance with German generally accepted accounting principles, provide a true and fair view of the Company's net assets, financial position and profit situation;
- evaluate the management report's consistency with the annual financial statements, its conformity with German law, and its presentation of the Company's position;
- perform audit procedures on the prospective information presented by the legal representatives in the 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 discuss with the supervisors, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system 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 annual 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 Annual Financial Statements and the 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 annual financial statements and the management report (hereinafter also referred to as the "ESEF documents") contained in the attached file JA.xhtml (SHA256-Hashwert: 93DBEF0B9ED9FFCD03631A13D32B9C8A20CAAE2BA7D3B8C484C7E0493C30078) 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 only extends to the conversion of the information contained in the annual financial statements and the 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 annual financial statements and the 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 opinion and our audit opinions on the attached annual financial statements and the attached management report for the fiscal year from January 1, 2021 to December 31, 2021 contained in the preceding “Report on the audit of the annual financial statements and the management report”.

Basis for the audit opinion

We conducted our audit of the reproductions of the annual financial statements and the 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 PS 410 (10.2021)). 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 annual financial statements and the management report in accordance with Art. 328 Sec. 1 sentence 4 no. 1 HGB.

Furthermore, the Company's 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 annual financial statements and the audited management report;

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 annual financial statements and the audited management report as well as the audited ESEF documents. The annual financial statements and management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited annual financial statements and audited 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	Hanfland
German CPA	German CPA

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