

PAION AG

- Remuneration Report 2021 -

I. Preliminary remark

Pursuant to section 162 of the German Stock Corporation Act (AktG) as amended by the Act Implementing the Second Shareholders' Rights Directive of 12 December 2019 ("**ARUG II**", BGBl 2019 I, p. 2637), the management board and supervisory board of a listed company shall annually prepare a clear and comprehensible report on the remuneration granted and owed by the company and by companies of the same group (section 290 of the German Commercial Code (HGB)) to each individual current or former member of the management board and supervisory board in the last financial year.

This remuneration report describes the main features of the remuneration systems for the Management Board and the Supervisory Board of the Company, the implementation of the remuneration systems in general as well as specifically in the fiscal year 2021 as well as the individually granted and owed remuneration of the members of the Management Board and the Supervisory Board of PAION AG in the fiscal year 2021, i.e. in the period from 1 January to 31 December 2021, pursuant to Section 162 AktG as amended by ARUG II.

II. Remuneration of the members of the Management Board

1. basic features of the previous remuneration system and the new remuneration system

The remuneration of the members of PAION AG's Management Board is currently based on two different remuneration systems:

- By resolution of the Annual General Meeting on 27 May 2021, the Annual General Meeting approved a new remuneration system for the Management Board pursuant to Sections 87a, 120a para. 1 sentence 1 of the German Stock Corporation Act ("**New Remuneration System**"). The New Remuneration System shall apply to all employment contracts of members of the Management Board concluded, extended or amended after 27 May 2021.
- In addition, the previous remuneration system ("**Previous Remuneration System**") shall still apply to employment contracts with members of the Management Board ("**Old Contracts**") that already existed on 27 May 2021 and have not been extended or amended since that date.

Accordingly, two remuneration systems are still applicable for the reporting year 2021. The Company had two acting members of the Management Board in the financial year and reporting year 2021, namely Dr James Neil Phillips and Mr Abdelghani Omari. Mr Phillips' employment contract was extended with effect from 1 October 2021, so that the Previous Remuneration System applied to Mr Phillips in the period from 1 January to 30 September 2021 and the New Remuneration System applied in the period from 1 October to 31 December 2021. There is still an old contract with Mr Omari, so that the New Remuneration System is not yet applicable to Mr Omari in 2021.

The main features of the previous remuneration system and the new remuneration system are presented below.

1.1 General features of the previous remuneration system

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

The remuneration of the members of the Management Board also covers their activities as managing directors of the subsidiaries.

Under the Previous Remuneration Scheme, share options were issued to members of the Management Board under various share option schemes, namely under the 2010, 2014, 2016 and 2018 share option schemes.

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

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

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

In the event of a significant deterioration of the company's situation, the supervisory board is entitled to reduce the total remuneration of the members of the Management board to the appropriate amount in accordance with the provisions of the German Stock

Corporation Act if the continued granting of the remuneration would be inequitable for the company.

The programme conditions of the 2010, 2014, 2016 and 2018 share option programmes provide, in the event of an acquisition of control, that for all share options issued to the Management Board members for which the vesting period has not yet expired, the entitlement to receive shares from the share options issued 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.

1.2 General Features of the New Remuneration System

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

The remuneration of the Management Board comprises both fixed (non-performance-related) components and variable (performance-related) components. Within the framework of the variable remuneration, the Supervisory Board defines performance criteria and targets for the achievement of these performance criteria, the fulfilment of which determines the amount of the variable remuneration.

The New Remuneration System was submitted to and approved by the Annual General Meeting on 27 May 2021 in accordance with § 120a para. 1 AktG.

Remuneration components

The remuneration system basically consists of fixed (non-performance-related) and variable (performance-related) remuneration components.

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

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

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

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

The sum of the above remuneration constitutes the total remuneration ("**Total Remuneration**") of a member of the Management Board.

Determination of the specific target total remuneration by the supervisory board, appropriateness of Management board remuneration

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

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

External (horizontal) comparison

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

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

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

Internal (vertical) comparison

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

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

Relation of the individual remuneration components

The percentage of the different remuneration components is shown below. The percentage stated in each case refers to an assumed 100 % target achievement for determining the short-term and long-term variable remuneration. The target values for the achievement of the objectives are set by the Supervisory Board for the respective financial year.

The share of the remuneration components is stated in a range in each case, so that the Supervisory Board retains the option of differentiating the remuneration of the Management Board members according to function and/or varying the ratios within these ranges in the future, if necessary, as part of an annual review of the remuneration, in particular with regard to market practice.

- The basic remuneration contributes between 40 % and 70 % to the total target remuneration.

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

No share of the target total remuneration is given for the pension benefits granted by the company in the form of continued remuneration to surviving dependants, as these are only paid in the event of the death of the Management Board member and thus do not contribute to the target total remuneration during the term of office.

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

Maximum limit for the total remuneration ("maximum total remuneration")

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

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

The maximum total remuneration refers to the sum of all values resulting from the remuneration regulations in a business year.

Explanations of the individual remuneration components

Fixed remuneration components

Basic remuneration

The basic remuneration is a fixed remuneration related to the entire year, which is paid in twelve monthly instalments at the end of each month with statutory deductions.

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

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

Ancillary services

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

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

Pensions

The employment contracts may provide that, in the event of the death of a member of the Management Board, PAION AG will pay the surviving dependants the fixed salary for the month in which the member died and up to three subsequent months, at the latest until the termination of the employment contract. Furthermore, the Company shall

pay the proportionate amount of the short- and long-term variable remuneration to the surviving dependants.

Variable remuneration components

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

Short-term variable remuneration ("STI")

The short-term variable remuneration (or Short-Term Incentive, "STI") in the form of the bonus is intended to reward the contribution of the Management Board to the success of the company in a specific financial year.

In addition to financial performance criteria, non-financial performance criteria are also used, which take into account the collective and/or individual performance of the board members.

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

Financial performance criteria

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

- Sales revenue and related sales ratios, EBIT (Earnings Before Interest and Taxes), EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), free cash flow and other cash flow indicators, equity and debt ratios (such as debt-to-equity ratio),
- Share price development of the PAION AG share and/or earnings per share and total shareholder return,

- Targets with regard to securing, maintaining and/or expanding the financing of PAION AG and PAION Group.

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

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

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

By also taking into account non-financial performance criteria, the supervisory board shall be given the opportunity to also consider the individual or collective performance of the Management board, also with regard to the so-called ESG goals.

Long-term variable remuneration ("LTI")

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

LTI Cash Bonus

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

Stock option plan

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

Ongoing review and adjustment of performance criteria

The Supervisory Board reviews the appropriateness of the variable remuneration components each year, with particular regard to their intended incentive effect.

Adjustment in the event of extraordinary developments

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

If there are adjustments due to extraordinary developments, this is disclosed and justified in the remuneration report.

Malus/Claw-Back

In certain cases, the Supervisory Board has the option to reduce variable remuneration components that have not yet been paid out or to reclaim variable remuneration components that have already been paid out ("**malus**" and "**claw-back**").

Remuneration upon termination of Board membership

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

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

However, extraordinary termination shall only be possible if the occurrence of a change of control results in

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

with the member of the Board of Directors concerned.

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

Temporary deviations

Pursuant to item 9 of the New Remuneration System, the Supervisory Board may temporarily deviate from individual components of the remuneration system if this is necessary in the interest of the long-term well-being of the Company. This concerns in particular situations in which the deviation from the remuneration system is necessary to serve the long-term interests and sustainability of the Company as a whole or to ensure its profitability. Such situations may be based on macroeconomic as well as company-related exceptional circumstances. Deviations are permitted in particular in economic crises in which the remuneration of the (potential) Management Board members deemed suitable by the Supervisory Board on the basis of the remuneration system and the resulting incentive structure appears to be inadequate in the interests of the company. The components of the remuneration system that may be deviated from in exceptional cases are the basic remuneration (in particular the amount and time of payment), the fringe benefits and pension payments (amount, type and time of granting), the variable remuneration components (in particular the respective bases of assessment, the rules for setting targets, the performance criteria, the rules for determining the achievement of targets and for setting the amounts to be paid out as well as the dates of payment) including the relationship of the remuneration components to each other as well as the maximum total remuneration. If the supervisory board, after due assessment, comes to the conclusion that, in view of the extraordinary situation, the granting of variable remuneration is not in the interest of the long-term well-being of the company, it may temporarily waive the granting of variable remuneration completely in favour of increased fixed remuneration. The deviation from the remuneration system shall only be temporary and shall not exceed a period determined by the supervisory board in its due discretion. Such a deviation from the remuneration system further requires that the supervisory board, by a majority of the votes cast, (i) determines that a situation exists which requires a temporary deviation from the remuneration system in the interest of the long-term well-being of the company and (ii) determines which specific deviations are required in its view. To the extent that the provisions of the Management Board employment contract allow for a unilateral amendment of the relevant remuneration provisions, the Supervisory Board shall unilaterally implement the deviations deemed necessary; otherwise, it shall endeavour to find an appropriate contractual arrangement with the Management Board member(s) concerned.

2. Remuneration of the members of the Management Board of the Company in the financial year 2021

2.1 Implementation of the remuneration systems in the employment contracts, structure of the remuneration of the Management Board in the financial year 2021

2.1.1 Previous remuneration system in 2021

As set out in section 1 above, the Previous Remuneration System in 2021 applied to Dr Phillips for the period from 1 January to 30 September 2021 and to Mr Omari for the period from 1 January to 31 December 2021, i.e. for Mr Omari for the entire financial year 2021. If and to the extent that the Previous Remuneration System was still applicable to the remuneration of the Management Board members, the remuneration corresponded to the Previous Remuneration System.

The employment contracts of Dr Phillips and Mr Omari, who were or are still subject to the previous remuneration system, provide for the payment of an annual fixed remuneration, the payment of an annual performance-related bonus and participation in stock option programmes.

For the 2021 financial year, the Supervisory Board has set performance targets for the two Management Board members for the payment of the annual bonus. More detailed explanations of the specific performance targets and how they promote the long-term development of the company are provided below in section 2.2. No share options were allocated or promised in the 2021 financial year, as the Management Board members had already been allocated share options in 2020, so that the Supervisory Board did not consider an allocation in 2021 to be necessary.

2.1.2 New remuneration system in 2021

As already explained above in section 1, the New Remuneration System was only applicable to the Management Board member Dr Phillips in the 2021 financial year and only for the period from 1 October to 31 December 2021. The New Remuneration System was implemented by the Supervisory Board in such a way that a new employment contract was concluded with Dr Phillips. In accordance with the New Remuneration System, this employment contract provides for the payment of a fixed remuneration, fringe benefits, a short-term variable remuneration in the form of an annual bonus ("STI") as well as the payment of a long-term variable remuneration consisting of a bonus based on long-term performance criteria and/or the allocation of stock options through participation in stock option plans ("LTI"). For the procedure of setting the performance criteria for the STI and the LTI, the performance criteria to be set and the determination of target achievement, the regulations of the New Remuneration System

apply in accordance with the employment contract. In this respect, reference can be made to the above information on the principles of the New Remuneration System under section 1.2.

Against the background that the new employment contract with Dr Phillips was concluded during the year and three months before the end of the financial year, the Supervisory Board has, however, refrained from applying all regulations of the New Remuneration System already in 2021. The new employment contract with Dr Phillips therefore provides that the new regulations on remuneration are only applicable with effect from 1 January 2022 and that for the period from 1 October 2021 to 31 December 2022 the regulations of Dr Phillips' old contract were still applicable. The deviations from the New Remuneration System resulting from this transitional arrangement are set out below in section 2.

2.2 Amount of the remuneration

2.2.1 Fixed and variable remuneration

The following table shows the remuneration granted and owed to the Management Board members Dr James Neil Philips and Abdelghani Omari in the 2021 financial year within the meaning of section 162 (1) sentence 1 AktG, divided into fixed and variable remuneration components, as well as their respective share. It is pointed out that the Company applies the terms "granted" and "owed" in accordance with the legal justification to the ARUG II as follows:

- Remuneration is "*granted*" within the meaning of section 162 (1) sentence 2 no. 1 AktG if it actually, i.e. factually, accrues to the member of the Management body and thus passes into his or her assets ("**inflow principle**", cf. explanatory memorandum to the government draft ARUG II, BT-Drs. 19/9739, p.111, explanatory memorandum to the resolution recommendation BT-Rechtsausschuss ARUG II, BT-Drs. 19/15153, p. 53). The company therefore states as "granted" remuneration within the meaning of section 162 (1) sentence 2 no. 1 AktG those benefits that actually accrued to the Management board member in the 2021 financial year, in particular through payment to the Management board member.
- A remuneration is "*owed*" within the meaning of section 162 (1) sentence 1 AktG if the company has a legally existing obligation towards the member of the executive body which is due but not yet fulfilled (Explanatory Memorandum to the Government Draft ARUG II, BT-Drs. 19/9739, p.111, Explanatory Memorandum to the Resolution Recommendation of the BT Legal Committee ARUG II, BT-Drs. 19/15153, p. 53).

Accordingly, the following table contains the fixed remuneration paid for the 2021 financial year. The variable remuneration shown in the table relates to the variable remuneration paid in the 2021 financial year for the 2020 financial year ("**bonus for the 2020 financial year**"), as only this variable remuneration was paid in the 2021 financial year and thus "granted" in accordance with the above explanations. The variable remuneration (still) payable for the 2021 financial year ("**bonus for the 2021 financial year**"), on the other hand, is not included in the table below, as this will only be due and paid in 2022 after the determination of target achievement. The variable remuneration payable for the 2021 financial year is therefore neither "granted" nor "owed" in the financial year within the meaning of section 162 (1) sentence 1 AktG. The variable remuneration payable for the 2021 financial year will therefore be reported in the remuneration report for the 2022 financial year.

	Dr James Neil Phillips (EUR)	Percentage share	Abdel ghani Omari (EUR)	Percentage share	Dr Jürgen Beck (EUR)	Percentage share
Basic remuneration	305.000,04	approx. 71.33 %	210.000,00	approx. 65.38 %	0,00	0%
Ancillary services	20.598,72	approx. 4.81 %	26.180,16	approx. 8.15 %	0,00	0%
Annual bonus (" Bonus for the 2020 financial year ")	102.000,00	approx. 23.85 %	85.000,00	approx. 26.46 %	59.500,00	100 %
Multi-year variable performance remuneration	0,00	0 %	0,00	0 %	0,00	0 %
Utility expenses	0,00	0 %	0,00	0 %	0,00	0 %
Total	427.598,76	100 %	321.180,16	100 %	59.900,00	100 %

For the variable remuneration, the Supervisory Board specifies performance criteria for the respective fiscal year, on the basis of which the amount of the bonus to be paid is measured. The performance criteria set by the Supervisory Board for the bonus paid in 2021 for the fiscal year 2020 were based on the strategic and operational objectives of the Company and the PAION Group, in particular with regard to the achievement of approvals for the active pharmaceutical ingredients, the achievement of economic and financial objectives and the development of the share price. The performance criteria for the bonus paid in 2021 for the fiscal year 2020 were still based on the previous remuneration system and not yet on the new remuneration system.

The performance criteria specified by the Supervisory Board for the bonus for the 2020 financial year, their weighting as well as the achievement of targets and the resulting payment of the variable remuneration are listed in the table below. The Supervisory Board has set uniform targets for the members of the Management Board for 2020. The details on the targets and target achievement given in the table therefore apply uniformly to all members of the Management Board.

Specified target	Predefined Time period for the achievement of objectives	Weighting (in %)	Type of Target achievement (measure)	Degree of target achievement (in %)
First market approval in Japan	Q1/2020	10 %	Approval of Remimazolam by the Japanese Medicines Agency	100 %
FDA approval without requirement for the presence of an anaesthetist	Q2-3/2020	25 % 15%	Remimazolam approval by the FDA with the desired label	100 %
Completion of the EU Phase III General Anaesthesia Study	Q2-3/2020	15 %	Completion of patient recruitment and preparation of the Clinical Trial Report	0 %
Positive result of phase III trial in general anaesthesia	Q4/2020	5 %	Achievement of the primary and the essential secondary endpoint of the study.	100 %
Development of share price/market capitalisation	Q4/2020	20 %	Outperformance of the PAION share price compared to the DAX subsector Biotechnology Price Index or an increase in the market capitalisation of PAION of at least 20%.	100 %
Pricing, reimbursement and HTA assessments	Q2-3/2020	10 %	Supervisory Board approval of the	100 %

Specified target	Predefined Time period for the achievement of objectives	Weighting (in %)	Type of Target achievement (measure)	Degree of target achievement (in %)
support commercialisation in the EU as described in the business plan			business plan including pricing assumptions	
				Degree of target achievement TOTAL: 85 %

These goals promote the long-term development of the company. The marketing authorisations in Japan and the USA have opened up two important markets for the commercialisation of Remimazolam. The completion and positive results of the EU Phase III study in general anaesthesia were a prerequisite for the submission of the marketing authorisation application for Remimazolam in this indication in the EU. The preparation of a robust business plan with a focus on pricing, reimbursement and HTA assessment was the basis for the commercial strategy and the establishment of commercial distribution infrastructures in selected European countries. The goal of increasing the share price or market capitalisation is important for the company's ability to refinance on the one hand and for increasing value for shareholders on the other.

Against the background of the target achievement of 85 % for the respective Management Board member, the following payment of the bonus for the 2020 financial year results for the Management Board members in office in the 2020 financial year:

Board member	In prospect bonus for the Financial year 2020 (maximum, EUR)	Degree of target achievement (in %)	Final bonus for the 2020 financial year (EUR)
Dr James Neil Phillips	120.000,00	85 %	102.000,00
Abdelghani Omari	100.000,00	85 %	85.000,00
Dr Jürgen Beck	70.000,00	85 %	59.500,00

2.2.2 Granted and awarded shares and share options

a) Share options

In the past, the members of the Management Board of the Company were granted share options on the basis of the previous remuneration system. Under the New Remuneration System, the issuance of stock options is also a component of remuneration, namely the long-term variable remuneration ("LTI").

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

No share options were granted to members of the Management Board in the 2021 financial year. Furthermore, there are no "promised" stock options within the meaning of § 162 para. 1 sentence 2 no. 3 AktG.

b) Shares

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

2.3 No clawback of variable remuneration components

In 2021, the Company had no reason to reclaim variable remuneration components and has therefore not reclaimed any variable remuneration components.

2.4 Conformity with the Previous and New Remuneration System

As already stated above in the preliminary remarks to this section II, the Previous Remuneration System applied in the 2021 financial year for the members of the Management Board in office in this financial year with regard to the existing old contracts as follows:

- Mr Dr James Neil Phillips in the period from 1 January to 30 September 2021
- Mr Abdelghani Omari in the period from 1 January to 31 December 2021

The New Remuneration System applied to the members of the Management Board in the 2021 financial year as follows:

- Mr Dr James Neil Phillips for the period from 1 October to 31 December 2021

In view of the fact that the employment contract with Dr Phillips was extended during the year and three months before the end of the 2021 financial year, the Supervisory Board still applied the provisions of his old contract to the remuneration of Dr Phillips for the period from 1 October to 31 December 2021. In this respect, the Supervisory Board has refrained from applying all regulations of the New Remuneration System to the employment contract with Dr Phillips for the transitional period from 1 October to 31 December 2021.

The Supervisory Board considered this transitional arrangement necessary for overriding corporate reasons, as the bonus for the 2021 financial year and its performance criteria promised to the Management Board members prior to the creation of the New Remuneration System were, in the Supervisory Board's opinion, to be maintained in the interest of the Company and no new targets were to be agreed for the short period of three months. It was not in the interest of the Company to change the performance criteria set for Dr Phillips for the short period of three months in the 2021 financial year in which the New Remuneration System applied, or even to provide for new performance criteria and/or remuneration components under the New Remuneration System. In this respect, the deviation, which in the opinion of the Supervisory Board was only minor in any case, was also in the interest of the long-term well-being of the Company, as in this way the continuity of the performance targets already set for the 2021 financial year was maintained. Therefore, the deviation was justified in accordance with clause 9 of the New Remuneration System (cf. the above explanations on the main features of the New Remuneration System).

The components of the New Remuneration System that were deviated from are the variable remuneration components of the short-term and long-term variable remuneration ("**STI**" and "**LTI**") that were not specified (LTI) or not specified again (STI) for the three-month period from 1 October to 31 December 2021. This concerns the variable remuneration components that were not specified (LTI) or not specified again (STI) for the three-month period from 1 October to 31 December 2021, as well as the relation of the remuneration components that do not comply with the New Remuneration System due to the lack of new specifications for the STI or the lack of granting of the LTI for the aforementioned three-month period.

2.5 Consideration of the resolution of the general meeting pursuant to section 120a (4), (5) AktG

Pursuant to Section 162 (1) sentence 2 no. 6 AktG, an explanation must also be included in the remuneration report as to how the resolution of the general meeting on the remuneration report pursuant to Section 120a (4) AktG or the discussion of the remuneration report pursuant to Section 120a (5) AktG was taken into account. In view of the fact that PAION AG is preparing this remuneration report pursuant to Section 162 AktG in the version of ARUG II in 2022 for the first time and presenting it to the

Annual General Meeting, no disclosure pursuant to Section 162 (1) sentence 2 no. 6 AktG can yet be made in this remuneration report.

2.6 Compliance with the maximum remuneration

With regard to the remuneration of the members of the Management Board, the maximum remuneration of the members of the Management Board stipulated in the New Remuneration System was complied with. PAION AG would like to point out that the New Remuneration System and thus also the maximum remuneration provided for therein were only applied to Dr Phillips to a limited extent and only for the period from 1 October to 31 December 2021. Even if the maximum remuneration was not applied to all members of the Management Board and not for the entire period, the Company confirms as a precaution that the maximum remuneration was not exceeded for all members of the Management Board and for the entire period of 2021, irrespective of the question of the applicability of the New Remuneration System:

The New Remuneration System provides for a maximum remuneration of EUR 600,000.00 for the Chairman of the Management Board and a maximum remuneration of EUR 500,000.00 each for the other members of the Management Board.

The remuneration "granted and owed" to the members of the Management Board in 2021 (as detailed above under section 2.1) within the meaning of section 162 (1) sentence 1 AktG amounted to the following amounts:

- Mr Dr James Neil Phillips EUR 427,598.76

- Mr Abdelghani Omari EUR 321,180.16.

The above disclosures are based on the interpretation of the terms "granted" and "owed" in section 162 para. 1 sentence 1 AktG given in section 2.1 and accordingly take into account the variable remuneration paid to the Management Board in the 2021 financial year for the achievement of targets in the 2020 financial year, i.e. the bonus for the 2020 financial year, but not the variable remuneration payable in the 2022 financial year for the achievement of targets in the 2021 financial year, i.e. the bonus for the 2021 financial year.

If, in accordance with the legal literature, compliance with the maximum remuneration pursuant to section 162 para. 2 sentence 2 no. 7 AktG is not based on the bonus for the 2020 financial year, but on the bonus "earned" in 2021, i.e. the bonus for the 2021 financial year (i.e. if the interpretation of the terms "granted" and "owed" set out in section 2.1 is deviated from), the maximum remuneration for the members of the Management board would also be complied with. Even assuming full achievement of the performance criteria set for the Management Board members for 2021 and corresponding

payment of the bonus for the 2021 financial year in the maximum amount, this would result in the following total remuneration for the members of the Management Board:

- Mr Dr James Neil Phillips EUR 418,598.76

- Mr Abdelghani Omari EUR 313,680.16.

2.7 Promises in the event of premature termination of employment

In the event of a change of control and termination of employment within a certain period after the change of control, the Management Board members are each entitled to special termination rights and contractual severance payments. The severance payments correspond in each case to the value of two years' fixed remuneration, limited to the remuneration for the remaining term of the Management Board employment contract. Dr Phillips is only entitled to severance pay in connection with a change of control if, in addition to the change of control, there are significant changes in the corporate strategy, the area of responsibility or the location of the company.

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

III. Remuneration of the members of the Supervisory Board

1. basic features of supervisory board remuneration

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

" § 21

Remuneration of the Supervisory Board

- (1) In addition to the reimbursement of his expenses, each member of the Supervisory Board shall receive a remuneration of EUR 20,000 per financial year. If a member of the Supervisory Board was not active as a member of the Supervisory Board for the entire financial year, he/she shall only be entitled to a corresponding proportion of the remuneration, in proportion to the actual term of office to the entire financial year. In addition, the members of the Supervisory Board receive EUR 1,000 for each Supervisory Board meeting (attendance fee) they attend in person, but for no more than five meetings per financial year. The chairman receives double and his deputy 1.5 times this remuneration.*
- (2) In addition, the members of the Supervisory Board shall receive a refund of any value added tax payable on the reimbursement of expenses or the Supervisory Board remuneration, insofar as they are entitled to invoice the value added tax separately to the Company and exercise this right.*
- (3) The members of the Supervisory Board shall be included in a pecuniary loss liability insurance for executive bodies and certain executives maintained by the Company in the interest of the Company in an appropriate amount, insofar as such insurance exists. The premiums for this shall be paid by the Company.*

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

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

- a fixed remuneration,
- an attendance fee for Supervisory Board meetings,

- a reimbursement of the value added tax, if any, payable on the reimbursement of expenses and the remuneration of the Supervisory Board, and
- the inclusion of the members of the Supervisory Board in a pecuniary loss liability insurance policy with the premiums being paid by the company, if such a policy exists.

The remuneration is payable quarterly in arrears.

The remuneration system for the members of the Supervisory Board takes into account the legal requirements as well as the recommendations of the German Corporate Governance Code.

The remuneration of the Supervisory Board members is balanced overall and is commensurate with the responsibilities and tasks of the Supervisory Board members and the situation of the company. Furthermore, the remuneration of the Supervisory Board is in line with the market and suitable to attract efficient mandate holders and in this way to ensure adequate supervision and consultation of the Management Board.

The remuneration of the Supervisory Board members consists of a purely fixed remuneration. No variable, performance-related remuneration is paid. The company is of the opinion that by limiting itself to a purely fixed remuneration, the supervisory and advisory function of the supervisory board is promoted in the best possible way and thus contributes to the long-term and sustainable development of the company. On the one hand, the renunciation of a performance-related remuneration avoids possible false incentives that could be set for the members of the Supervisory Board. Furthermore, a constant, non-performance-related fixed remuneration also takes into account the fact that the supervisory and advisory expenses of the supervisory board do not necessarily develop synchronously with a positive or negative business development of the company. On the contrary, in the event of a negative business development, the supervisory and advisory expenses often increase. The company is therefore of the opinion that the non-performance-related remuneration best reflects the supervisory and advisory function of the supervisory board. This is also in line with suggestion G.18 of the German Corporate Governance Code in the version of 16 December 2019, according to which the remuneration of the supervisory board should consist of a fixed remuneration.

The higher time expenditure of the Chairman and the Deputy Chairman of the Supervisory Board is taken into account by the fact that the fixed remuneration and the attendance fee for the Chairman of the Supervisory Board are 2.0 times and for the Deputy Chairman of the Supervisory Board 1.5 times the remuneration of ordinary members of the Supervisory Board. This differentiation ensures that the additional work to be

performed by the Chairman and Deputy Chairman of the Supervisory Board is appropriately remunerated and that, in addition, a sufficient incentive is created for Supervisory Board members to assume the position of Chairman or Deputy Chairman of the Supervisory Board. In this respect, the differentiation of the remuneration also complies with recommendation G.17 of the German Corporate Governance Code in the version of 16 December 2019, according to which the higher time expenditure of the Chairman and Deputy Chairman of the Supervisory Board shall be adequately taken into account in the remuneration of the Supervisory Board members.

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

Pursuant to section 113 (3) of the German Stock Corporation Act (AktG), resolutions on the remuneration of supervisory board members must be passed at least every four years in the case of listed companies. A resolution confirming the remuneration is permissible. Furthermore, a new resolution on the remuneration of the supervisory board members is required in case of any changes.

The above provision of the Articles of Association on Supervisory Board remuneration is based on a resolution of the 2017 Annual General Meeting. The Annual General Meeting on 27 May 2021 confirmed the provision of the Articles of Association and the remuneration system behind this provision in accordance with section 113 (3) of the AktG.

2. Supervisory Board remuneration granted and owed 2021

The following table shows the remuneration granted and owed to the members of the Supervisory Board within the meaning of § 162 AktG in the 2021 financial year:

	Basic remuneration (EUR)	Attendance fee (EUR)	Ancillary services (EUR)	TOTAL
Dr Jörg Spiekerkötter (Chairman)	40.000,00	10.000,00	0,00	50.000,00
Dr Karin Dorrepaal (Deputy Chairperson)	30.000,00	7.500,00	0,00	37.500,00
Dr Dr Irina Antonijevic	20.000,00	5.000,00	0,00	25.000,00
Dr Hans Christoph Tanner	20.000,00	5.000,00	0,00	25.000,00
Dr Markus Leyck Dieken	20.000,00	4.000,00	0,00	24.000,00

The remuneration granted and owed to the members of the Supervisory Board in the 2021 financial year complied with the provisions of the Articles of Association and thus also with the remuneration system confirmed by the Annual General Meeting on 27 May 2021.

IV. Comparative representation

The following table shows a comparative presentation of the annual change in the remuneration of the members of the Management Board and the Supervisory Board with the development of the company's earnings over the last five years:

	2021 vis-à-vis 2020 ¹	2020 vis-à-vis 2019 ¹	2019 vis-à-vis 2018 ¹	2018 vis-à-vis 2017 ¹	2017 vis-à-vis 2016 ¹
Development of Management Board remuneration (in %)					
Dr James Neil Philips	1,16 %	215,63 % ²	-	-	-
Abdelghani Omari	6,13 %	30,94 %	-8,94 %	-2,03 %	10,79 %
Dr Jürgen Beck	-78,33 % ²	12,96 %	-6,76 %	-	-
Dr Wolfgang Söhngen	-	-100,00 % ²	-28,24 % ²	6,94 %	1,10 %
Dr Jürgen Raths	-	-	-	-100,00 % ²	-39,46 % ²
Development of Supervisory Board remuneration (in %)					
Dr Jörg Spiekerkötter	0,00 %	0,00 %	0,00 %	0,00 %	-9,09 %
Dr Karin Dorrepaal	0,00 %	0,00 %	0,00 %	0,00 %	-9,09 %
Dr Irina Antonijevic	0,00 %	0,00 %	0,00 %	77,87 % ²	-
Dr Hans Christoph Tanner	0,00 %	0,00 %	0,00 %	77,87 % ²	-
Dr Markus Leyck Dieken	-4,00 %	76,47 % ²	-	-	-
Dr John Dawson	-	-100,00 % ²	-58,80 % ²	-4,00 %	-3,85 %
Earnings development (in %)					
Annual result³	323,34%	-28,71%	-407,80%	-547,95%	-90,77%
EBIT (Group)⁴	-1.432,28%	-116,97%	-25,12%	-21,53%	-36,72%

¹ The total remuneration used as a basis for the financial years 2016 to 2020 is the total remuneration according to the remuneration report of the respective financial year (for the Executive Board according to the inflow table).

² Not comparable due to an entry/exit (during the year).

³ The net result for the year is the net profit or loss of PAION AG (separate financial statements) in accordance with section 275 (2) no. 17 HGB.

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

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