PAION AG

Aachen

- ISIN DE000A0B65S3 -
- WKN A0B65S –

Publication of the resolution and the system for the remuneration of the members of the Management Board pursuant to Sec. 120a (2) AktG

At the Annual General Meeting of PAION AG on Thursday, May 27, 2021, the system for the remuneration of the members of the Management Board was submitted for approval under agenda item 8 "Resolution on the approval of the remuneration system for the members of the Management Board".

The system for the compensation of Management Board members was approved with the following result:

With 11,099,815 shares for which valid votes were cast
(= 15.56% of the capital stock and votes)

there were

9,637,601 votes in favor corresponding to 86.83 %

1,462,214 no votes corresponding to 13.17%.

The wording of the compensation system for the Management Board members is reproduced below.

Aachen, May 2021

PAION AG

I. Compensation system for the members of the Management Board

1. Principles of the remuneration system

The Supervisory Board of PAION AG has adapted the existing remuneration system for the members of the Management Board, to the extent necessary, to the new rules introduced by the Act Implementing the Second Shareholders' Rights Directive (ARUG II) of 12 December 2019 (BGBl. I page 2637) and has adopted the following principles on this basis. The structure of the remuneration provided for in this remuneration system continues to be geared towards a 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 fulfillment of which determines the amount of the variable remuneration.

In determining the compensation and performance criteria, the Supervisory Board is guided in particular by the following objectives:

- The compensation of the Management Board member is performance-related and is commensurate with the duties and performance of the Management Board member and the success of the Company. Compensation is in line with the market and competitive in relation to comparable companies.

- The compensation system contributes to the promotion of the corporate strategy and the long-term development of the Company.

- The selected performance criteria harmonize the interests of the PAION Group and its employees, the shareholders of PAION AG, the customers and other stakeholders. When selecting the performance criteria, the Supervisory Board also takes care to harmonize the targets of the Management Board with the targets of the other executives in the PAION Group.

- When determining the remuneration for the members of the Management Board, the Supervisory Board also takes into account the remuneration of the other executives in the PAION Group.

- For the purpose of aligning the remuneration with a long-term and sustainable development of PAION AG, the long-term variable remuneration components outweigh the short-term variable remuneration components.

- When determining the amount of the variable remuneration, non-financial performance criteria are also taken into account, in particular in order to adequately reflect the personal contribution of the Management Board member to the Company's development.

1. Procedure for establishing, implementing and reviewing the remuneration system, first-time application

The remuneration system for the members of the Management Board of PAION AG is determined by the Supervisory Board in accordance with Sections 87 para. 1, 87a para 1 AktG.

In this process, the Supervisory Board is supported by the Personnel and Nomination Committee formed by the Supervisory Board. The Personnel and Nominating Committee develops recommendations on the system of Management Board compensation, which are discussed in detail by the Supervisory Board in connection with the adoption of resolutions by the full Supervisory Board.

The Supervisory Board may also call in external consultants (in particular compensation consultants), but has not made use of this option to date. If external consultants are engaged, the Supervisory Board will ensure that they are independent. The general regulations of the German Stock Corporation Act and the German Corporate Governance Code for dealing with conflicts of interest on the Supervisory Board are also observed in the procedure for establishing, implementing and reviewing the compensation system. To date, however, no conflicts of interest have arisen with regard to the compensation of the Management Board on the Supervisory Board. If conflicts of interest should arise in the future, the Supervisory Board will take appropriate measures.

The compensation system adopted by the Supervisory Board is submitted to the Annual General Meeting for approval. If the Annual General Meeting does not approve the compensation system put to the vote, a revised compensation system will be submitted for approval at the latest at the following Annual General Meeting.

The Personnel and Nominations Committee prepares the regular review of the compensation system for Management Board members by the Supervisory Board. If deemed necessary, the Personnel and Nominations Committee recommends changes to the system to the Supervisory Board.

In the event of significant changes, but at least every four years, the compensation system is again submitted to the Annual General Meeting for approval.

The present system for the compensation of Management Board members applies to all new employment contracts with Management Board members to be concluded after the date of submission to the Annual General Meeting and to all pending amendments to or extensions of existing employment contracts with Management Board members.

2. Overview of the compensation system

3.1 Compensation components

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

- The fixed, non-performance-related compensation component consists of the basic compensation ("**basic compensation**") as well as benefits in kind and other compensation (the "**fringe benefits**").
- The variable compensation components consist of a short-term variable component in the form of an annual bonus and a long-term variable component. The latter may be granted in the form of stock options and/or in the form of a bonus based on long-term performance criteria.
- For the variable compensation components, target criteria are set by the Supervisory Board before the beginning of each financial year with regard to the strategic objectives, the requirements of sections 87, 87a of the German Stock Corporation Act (AktG) and the German Corporate Governance Code, on the basis of whose degree of achievement the amount of the actual payment or the scope of the allocation of the stock options to be issued is determined on the basis of the fair value at the time of issue. When setting the targets, the Supervisory Board ensures that they are ambitious and sustainable. Subsequent changes to the target values or the comparison parameters set for the variable compensation by the Supervisory Board are not permitted.

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

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

In accordance with the compensation system, the Supervisory Board determines the performance criteria and targets for achieving the target total compensation ("**target total compensation**") for each Management Board member for the upcoming fiscal year. The target total compensation corresponds to the total compensation (as previously defined under section 3.1) that would be paid if the performance criteria for the short-term and long-term variable compensation were assumed to be met 100%. The employment contract may also provide for the Supervisory Board to redefine the amount of the target total compensation for the upcoming financial year by adjusting the variable compensation components. The aim here is to ensure that the respective remuneration is commensurate with the tasks and performance of the Management Board member as well as with 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 customary remuneration without special reasons.

For the assessment of the appropriateness of the amount of remuneration, both external (horizontal) and internal (vertical) comparisons are made:

External (horizontal) comparison

To assess the appropriateness and customary nature of the specific target total compensation of the Management Board members compared with 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.

The Supervisory Board looks at the structure of the remuneration, the target total remuneration and the individual components as well as the maximum total remuneration (as explained in more detail in section 3.4 below) at the comparable 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 staff of PAION AG. The Supervisory Board has delimited the group of senior managers for this purpose by defining the department head level and the country managers as the senior management group.

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

3.3 Relation of the individual compensation components

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

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

- The basic compensation contributes between 40% and 70% of the target total compensation.
- The short-term variable compensation contributes between 10% and 25% to the target total compensation.
- The long-term variable compensation contributes between 15% and 30% to the target total compensation.
- The fringe benefits contribute up to a maximum of 5% of the target total compensation.

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

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

3.4 Maximum limit for total remuneration ("Maximum Total Remuneration")

In accordance with Section 87a para. 1 sentence 2 no. 1 AktG, the Supervisory Board has set a maximum amount for the total remuneration of the members of the Management Board (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 compensation amounts to

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

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

3. Explanations of the individual compensation components

4.1 Fixed compensation components

4.1.1 Basic compensation

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

In determining the amount of the basic compensation, the Supervisory Board takes into account the area of responsibility and the duties of the respective Management Board member.

Within the framework of the basic remuneration, there is the possibility to make use of a salary conversion for the purpose of making contributions to a direct insurance policy.

4.1.2 Fringe benefits

Each Management Board member 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 double housekeeping for business reasons,
- the assumption of contributions to health and long-term care insurance up to a specified amount,
- the conclusion of a D&O insurance policy with a deductible in accordance with Section 93 para. 2 sentence 3 AktG.

4.1.3 Pension payments

In the event of the death of a member of the Management Board, the employment contracts may provide for PAION AG to pay to the surviving dependants of the member of the Management Board 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. In addition, the Company will pay the proportionate amount of the short- and long-term variable compensation to the surviving dependents.

4.2 Variable compensation components

The variable compensation components comprise both short-term and long-term components. The short-term variable compensation component in the form of the annual bonus and the long-term variable compensation 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 payout. The selection of the performance criteria is based on the corporate strategy of PAION AG and is oriented towards growth, profitability and competitiveness.

4.2.1 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 fiscal year.

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

The amount of short-term variable compensation is determined as follows:

In the respective employment contract with the Management Board member, the Supervisory Board agrees a target amount for the bonus (hereinafter "**STI target amount**") for each Management Board member, which is granted if 100% of the target is achieved for the specific fiscal year. The employment contract may provide for the STI target amount to be adjusted each year by the Supervisory Board. The target achievement for the financial performance criteria and the annual targets for the non-financial performance criteria for the respective fiscal year are determined by the Supervisory Board in advance for the respective fiscal year, communicated to the Management Board member and published for each Management Board member after the end of the fiscal year, stating the target achievement for the respective fiscal year and the resulting payout amount, in the compensation report pursuant to Section 162 AktG for the respective fiscal year.

The amount of the bonus is determined depending on target achievement, with the maximum amount of the bonus being limited to 100% of the STI target amount ("**STI cap**") in the event that the defined targets are exceeded.

a) Financial performance criteria

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

- Revenues and related revenue ratios, EBIT (Earnings Before Interest and Taxes), EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), free cash flow and other cash flow metrics, equity and debt metrics (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.

The financial performance criteria may also be set partially or completely identically for the members of the Management Board at the dutiful discretion of the Supervisory Board.

The aforementioned performance criteria contribute to the promotion of the business strategy and the long-term development of the Company:

Revenues, EBIT, EBITDA, free cash flow and debt-to-equity ratio are significant financial performance indicators. By using the PAION Group's EBIT and EBITDA, the profitability of the company is taken into account in the remuneration of the Management Board, thus supporting one of the most important corporate strategy objectives. Free cash flow is the freely available cash flow and shows the funds remaining to pay a dividend, make acquisitions and reduce debt. It is calculated by deducting capital expenditures, the balance of interest paid and received, and the repayment of lease liabilities from cash flow from operating activities. The debt-to-equity ratio represents the relationship between financial liabilities and equity. The debt-to-equity ratio thus provides information on the financing structure of the company. This ratio is important for securing current and future financing of the company by lenders. By specifying to the Board of Management the achievement of a certain debt-to-equity ratio, the Supervisory Board ensures the long-term supply of credit to the company.

The specification of targets under the performance criterion of "securing, maintaining and/or expanding the financing of PAION AG and PAION Group" includes not only debt but also equity and hybrid instruments for financing the Company.

The consideration of the share price development of PAION AG emphasizes the focus on the long-term and sustainable value creation of the Company, on the one hand because the share price development is a key indicator for the Company's success, and on the other hand because a higher share price creates economic advantages for PAION AG, in particular an opportunity to raise equity through the issuance of new shares at more advantageous terms for the Company. Total shareholder return (or also called return on shares) refers to the share price development plus notionally reinvested gross dividends. By referring to the total shareholder return, a reference is thus made to the long-term and sustainable increase in value of the company from the shareholder's point of view.

The specific targets for the respective fiscal year are determined by the Supervisory Board before the beginning of the respective fiscal year.

Determination of achievement of the financial performance criteria

For the above-mentioned financial performance criteria, the Supervisory Board determines the degree of target achievement, expressed as a percentage, after the end of the respective financial year.

The target value for target achievement of 100% for each financial performance criterion corresponds to the value specified by the Supervisory Board for that financial performance criterion for the financial year. The degree of target achievement is calculated by comparison with the respective actual value for the financial year. In this context, the Supervisory Board may stipulate that if the value falls below a certain threshold, the respective criterion is deemed not to have been achieved in full (knock-out criterion). Individual targets can be overachieved with an achievement of up to 150%, thus compensating for the underachievement of other targets.

b) Non-financial performance criteria

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

- Strategic corporate goals such as the achievement of important 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 collaborations with pharmaceutical companies,
- Conduct and completion of 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 development of a sustainability roadmap for the company and the Group, optimization of resource use, reduction of waste/emissions), customer satisfaction, employee concerns or corporate culture (such as measures to increase employer attractiveness and employee satisfaction, measures for management development, diversity and equal opportunities),
- organizational and cultural development (e.g., promoting corporate values, strengthening internal cooperation and communication, succession planning).

By also taking into account non-financial performance criteria, the Supervisory Board is to be given the opportunity to also consider the individual or collective performance of the Management Board, also with regard to the so-called ESG targets. These performance criteria serve to ensure the operational implementation of the corporate strategy and consideration of the interests of all stakeholders, thus contributing to the promotion of the business strategy and the long-term development of the Company.

The specific targets for each fiscal year are set by the Supervisory Board before the start of the corresponding fiscal year.

For the non-financial performance criteria, the Supervisory Board may initially set measurable targets, provided that the relevant performance criterion allows for such measurable target achievement. Alternatively, the supervisory board may also set targets whose achievement is not exactly measurable but at least verifiable. It is necessary, but also sufficient, for the achievement of such targets to be verifiable by third parties, i.e. the achievement of targets that cannot be measured exactly must at least be based on objective facts and the degree to which the targets have been achieved must at least be plausible from an argumentative point of view.

The targets set by the Supervisory Board may also be set partially or completely identically for the members of the Board of Management at the due discretion of the Supervisory Board.

Determining the achievement of the non-financial performance criteria

For the aforementioned non-financial performance criteria, the Supervisory Board determines the degree of target achievement, expressed as a percentage, in each case after the end of the relevant fiscal year. In this context, the above statements on the verifiability and plausibility of target achievement apply to the determination of the degree of target achievement in the case of targets that cannot be measured exactly.

4.2.2 Long-term variable compensation ("LTI")

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

a) LTI cash bonus

For the LTI cash bonus, the above explanations on the specification of the financial and non-financial performance criteria, the determination of the achievement of the targets and the calculation of the STI shall apply mutatis mutandis, 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.

In paying out the LTI cash bonus, the Supervisory Board observes the recommendation in G.10, p. 2 of the German Corporate Governance Code, according to which the variable long-term compensation components should only be disposed of after four years. The LTI cash bonus is therefore paid out after four years at the earliest.

If the employment relationship of a member of the Management Board ends without good cause before the end of the first fiscal year of the assessment period for the LTI cash bonus, the Management Board member is entitled to an LTI cash bonus reduced pro rata temporis. If the employment of a member of the Management Board ends without good cause after the end of the first fiscal year but before the end of the assessment period for the LTI cash bonus, the Management Board member retains his entitlement to the full LTI cash bonus. The other terms and conditions of the LTI cash bonus do not change, in particular the timing of the calculation and the due date for payment remain unchanged. There is no entitlement to payment of an LTI cash bonus, including payment of an installment LTI cash bonus, in the event of premature termination of the employment relationship for good cause.

b) Stock option plan

Stock options are granted to 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 authorization of the Annual General Meeting of 27 May 2020 under agenda item 5, the key points of which are presented below. However, stock options may also be issued on the basis of a stock option plan with a different content, which is based on an authorization to be resolved by the Annual General Meeting in the future.

Structure of the option rights

Volume, issue periods, waiting period, exercise blocking periods, exercise price

On the basis of the aforementioned authorization, up to 480,000 option rights to subscribe to up to 480,000 shares in the Company may be issued to members of the Management Board of the Company, among others. To secure these rights, there is Conditional Capital 2020 (Art. 4 para. 11 of the Articles of Association).

The stock options can be issued since 22 June 2020 and until 26 May 2025. Within this time frame, the granting of stock options may be resolved and issued by the Supervisory Board at any time - but not for a period of 30 days prior to the publication of the consolidated half-year report of PAION AG or the consolidated financial statements of PAION AG on the website of the Company ("**Issue Restriction Periods**"). The term of the stock options begins on the issue date and ends after ten years.

In accordance with Section 193 para. 2 no. 4 of the German Stock Corporation Act (AktG), the option rights may be exercised at the earliest after the expiry of a waiting period of four years, which begins on the date of issue of the respective option right ("**waiting period**"). Exercise is generally possible at any time after expiry of the waiting period, with the exception of exercise blocking periods ("**exercise blocking periods**"). The exercise blocking periods are the period (a) from 30 days prior to the publication of the consolidated half-year report of PAION AG or the consolidated financial statements of PAION AG, (b) from the day on which PAION AG publishes an offer to its shareholders to subscribe for new shares or bonds or other securities with conversion or option rights in the Federal Gazette (Bundesanzeiger) until the day on which the shares of the Company with subscription rights are listed for the first time "ex-subscription rights" on the Frankfurt Stock Exchange and (c) from the day on which PAION AG publishes the distribution of a dividend in the Federal Gazette until the day on which the shares of the Company with dividend rights are listed for the first time "ex-dividend" on the Frankfurt Stock Exchange.

In principle and subject to certain restrictions, issued stock options vest no earlier than two (2) years after the issue date ("**vesting period**"). The terms of the stock options may provide for special arrangements (such as early vesting) in the event of a change of control of the Company.

Each stock option entitles the holder to subscribe to one share from the Conditional Capital 2020 created for this purpose in return for payment of the exercise price. By way of derogation from this, it may be provided that, instead of issuing shares from the Conditional Capital 2020 created for this purpose, the beneficiaries may choose to acquire treasury shares and/or shares from authorized capital already resolved and/or to be resolved in the future and/or receive a cash settlement. The cash settlement is to be the difference between the exercise price and the price of the shares in the closing auction of the Xetra trading system (or a functionally comparable successor system replacing the Xetra system) on the day before the exercise date.

The exercise price corresponds to the average closing price of the shares of PAION AG in Xetra trading (or a comparable successor system) on the fourth to eighth Xetra trading day after publication of the last consolidated quarterly report published prior to the issue or the last consolidated quarterly report, consolidated half-year report or consolidated financial statements of PAION AG published prior to the issue on the website of the Company ("**exercise price**"), to be determined at the time of the issue of the relevant stock options.

Stock options can only be exercised if the price of the shares in the closing auction of Xetra trading (or a comparable successor system) on the day before the exercise date exceeds the exercise price by at least the so-called necessary price increase. The necessary price increase is 25% of the exercise price ("**performance target**").

If stock options are not or cannot be exercised by the end of their term, they shall expire at the end of the term without further ado and without compensation, in particular without the need for a corresponding contract or a declaration of expiry on the part of the Company.

The stock options held in each case for which the vesting period has not yet expired shall expire without further ado and without compensation, in accordance with a part to be determined in the option terms and conditions, on the day on which the appointment as member of the Management Board of the Company finally ends without reappointment by expiry of time, resignation, death or otherwise than by revocation. In the event of the effective revocation of the appointment as member of the Management Board pursuant to Section 84 (3) AktG (with the exception of cases of withdrawal of confidence by the Annual General Meeting), all stock options not yet exercised shall lapse without further action and without compensation, even if the vesting period has already expired. The provision of Section 84 (3) sentence 4 AktG does not apply.

In special cases (e.g. in the event of a capital increase from company funds, a capital reduction or a reclassification of the capital stock), the Supervisory Board is entitled to make adjustments to the option conditions.

Integration into the compensation system

The members of the Management Board are granted stock options after the end of a financial year, taking into account the relevant issue periods. The number of possible stock options is determined by the Supervisory Board for the respective upcoming fiscal year, taking into account the target total compensation and the intended ratio of the individual compensation components. For the scope of the stock options to be allocated after the end of the financial year, the above explanations on the specification of the financial and non-financial performance criteria, the determination of the achievement of the targets and the calculation of the STI apply accordingly. In this context, the Supervisory Board observes the requirement of the recommendation in G.10, p. 1 of the German Corporate Governance Code, according to which the variable compensation amounts granted to the Management Board member should be invested by him predominantly in shares of the Company, taking into account the respective tax burden, or granted accordingly on a share-based basis in that the share of the stock options in the LTI exceeds the share of the LTI cash bonus in the LTI.

With their four-year vesting period, the stock options represent a long-term variable share-based payment with a multi-year assessment basis. They thus contribute to the long-term development of the Company and link Management Board compensation to shareholder interests. Due to the four-year vesting period and the requirement to achieve the performance target, the long-term positive development of the PAION share price is rewarded.

The inclusion of the members of the Company's Management Board in the stock option plan is intended to tie them to the Company for as long as possible. The high level of personal performance and commitment of the members of the Management Board is to be maintained and strengthened in order to ensure the positive development of the Company in the future. The inclusion of the members of the Management Board in the stock option plan is also intended to ensure a long-term incentive effect in line with the interests of the shareholders.

Insofar as the stock options are issued on the basis of future authorizations by the Annual General Meeting, the option terms and conditions will provide for corresponding provisions on time limits (waiting, exercise and blocking periods), including the waiting period of at least four years provided for in Section 193 para. 2 no. 4 of the German Stock Corporation Act (AktG). Shareholding provisions for the shares subscribed by exercising the stock options are currently not provided for and not agreed, nor are they intended in the future.

4.3 Ongoing review and adjustment of performance criteria

The Supervisory Board reviews the appropriateness of the variable compensation components each year, paying particular attention to their intended incentive effect. In particular, the values for the relevant financial performance criteria and the non-financial performance criteria are reviewed to determine whether they still adequately and appropriately reflect the actual corporate objectives and the incentive effect sought by the Supervisory Board. If, in the opinion of the Supervisory Board, this is not the case, it is entitled to adjust the financial performance criteria and the non-financial performance criteria and the ratio of the variable compensation components to each other appropriately for future financial years, provided that this does not result in the total target compensation falling short of the target in the event of 100% target achievement.

4.4 Adjustment in the event of extraordinary developments

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

Exceptional developments occur when circumstances have arisen or are more likely than not to arise which could not have been foreseen when the targets for variable compensation components were set and which have a significant impact on the total compensation of the Management Board member. Exceptional developments include in particular major acquisitions, the sale of significant parts of the company, substantial changes in the underlying accounting standards or tax regulations, natural disasters, pandemics or comparable events, exceptionally far-reaching changes in economic conditions (e.g. due to a severe economic or financial crisis), natural disasters, terrorist attacks, political crises, epidemics/pandemics, or disruptive market decisions by customers, insofar as these or their specific effects could not be foreseen. General unfavorable market developments are not considered extraordinary developments in the above sense. In making its decision, the Supervisory Board takes into account the extent to which the Company, the shareholders and the employees are or will be affected by the extraordinary developments.

If an adjustment of the existing compensation components is not sufficient to restore the incentive effect of the Management Board member's compensation, the Supervisory Board also has the right to temporarily grant additional compensation components in the event of extraordinary developments under the same conditions.

If adjustments are made due to extraordinary developments, this will be disclosed and justified in the compensation report.

4. Malus/claw-back

In certain cases, the Supervisory Board has the option of reducing variable compensation components not yet paid out or reclaiming variable compensation components already paid out.

In the event of a significant breach of duty or compliance by a member of the Management Board, the Supervisory Board may reduce the variable compensation components (bonus or stock options) in part or in full ("**malus**") at its own discretion.

If variable compensation components have already been paid out, the Supervisory Board may also, at its discretion and subject to the above conditions, demand partial or full repayment of the variable compensation amounts paid out ("**claw-back**").

The malus and claw-back provisions do not affect any liability of the Management Board member to pay damages to the Company.

In the case of breaches of duty or compliance as defined above, the reduction or claw-back will generally apply to the year in which the significant breach of duty or compliance occurred. The clawback period ends one year after payment of the variable compensation component. Recovery may still be made even if the office or employment relationship with the Management Board member has already ended.

If variable compensation components are determined or paid out on the basis of incorrect data, e.g. incorrect annual or consolidated financial statements, the Supervisory Board may correct the determination or reclaim compensation components already paid out.

5. Offsetting of compensation from mandates and sideline activities

If a member of the Management Board receives remuneration from mandates which he/she holds in the interest of the Company, he/she must transfer the remuneration to the Company.

If a member of the Management Board receives remuneration and benefits from a company in which PAION AG holds an interest, he or she must have these offset against the remuneration and benefits owed by PAION AG.

In the case of the assumption of supervisory board mandates outside the group, the supervisory board decides at its own discretion whether and to what extent the remuneration is to be credited.

6. Contractual terms, termination options, compensation on termination of service on the Management Board, joining or leaving the Management Board during the year

Contractual terms and termination options

In accordance with the German Corporate Governance Code as amended on 16 December 2019, Recommendation B.3, the initial appointment of Management Board members is generally for a maximum of three years.

The employment contracts are concluded for a limited period for the duration of the respective appointment. An employment contract may include an extension clause under which the employment contract is automatically extended by the period for which the respective Management Board member is reappointed to the Management Board.

Upon commencement of Management Board duties, the Supervisory Board shall decide at its due discretion whether and to what extent the new Management Board member shall be granted additional compensation benefits (in particular a relocation allowance or a sign-on bonus). On assumption of Management Board duties, the Supervisory Board may in particular grant compensation for the loss of benefits from the Management Board member's previous employer (e.g. pension commitments) or contribute to the costs of relocation of the Management Board member. The amount of the compensation and the relocation costs shall be determined in individual contracts. The relocation costs shall not exceed a reasonable maximum amount.

If a member of the Management Board is newly employed, the Supervisory Board may, at its due discretion, also guarantee payment of the variable short-term compensation to an appropriate extent for a limited period.

The employment contract of a member of the Management Board does not contain any provision on the ordinary termination of the contract. The right of both parties to terminate the employment contract for cause remains unaffected. Furthermore, the employment contracts may contain the possibility of extraordinary termination in the special cases listed below.

Compensation on termination of Management Board membership

The employment contracts with Management Board members may also contain provisions for compensation 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 is, however, limited to two years' total compensation and may not exceed the compensation for the remaining term of the employment contract ("**severance payment cap**"). In other cases of premature termination, too, any payments are limited to a maximum amount of two years' total compensation or the compensation for the remaining term of the employment contract as severance payment cap. The severance payment cap is calculated on the basis of the total compensation for the last fiscal year before the premature termination of the Management Board member's contract and, if applicable, the expected total compensation for the current fiscal year. Any outstanding variable compensation components attributable to the period up to the end of the contractual term will be paid out in accordance with the originally agreed targets and performance criteria and in accordance with the due dates or holding periods specified in the contract. No severance payment is made in the event of good cause for extraordinary termination of the Management Board employment contract by the Company or in the event of premature termination of Management Board activities at the request of the Management Board member.

The employment contracts with Management Board members may provide for an extraordinary termination option for Management Board members with three months' notice to the end of the month, in particular in the following cases

(i) notification of reaching or exceeding 50% of the voting rights in the Company (change of control),

(ii) a third party, acting alone or through voting rights attributable to it, acquires a share of voting rights which at an Annual General Meeting of the Company resulted in a share of voting rights of at least half of the Company's share capital present and entitled to vote or which would have resulted in a share of voting rights of at least half of the Company's share capital present and entitled to vote at the last Annual General Meeting,

(iii) Conclusion of an intercompany agreement within the meaning of sections 291 et seq. AktG with the Company as a dependent company,

(iv) integration of the Company pursuant to Sections 319 et seq. Stock Corporation Act

(v) Merger of the Company with another legal entity pursuant to Sections 2 et seq. UmwG, unless the enterprise value of the other legal entity at the time of the passing of the resolution of the transferring company is less than 40% of the enterprise value of the Company.

However, extraordinary termination shall only be possible if, as a result of the occurrence of one of the facts mentioned above under lit. i) to v), there is a

- a significant change in the strategy of the Company
- a significant change in the Company's own sphere of activity and/or
- a relocation of the place of employment by more than 300 km

in the case of the Management Board member concerned.

In the event of termination, a payment up to the amount of the severance payment cap may be agreed. However, extraordinary termination is excluded if the Management Board member has given good cause within the meaning of Section 626 BGB which would entitle the Company for its part to terminate the Management Board employment contract for cause.

Joining or leaving during the year

In the event of a member joining or leaving the Management Board during a current fiscal year, the total compensation including variable compensation shall be reduced pro rata temporis in accordance with the duration of the employment contract in the relevant fiscal year.

7. Post-contractual non-competition clause

Post-contractual non-competition clauses may be agreed in the employment contracts to the extent permitted by law. For this period, appropriate compensation may be granted in the amount of 50% per annum of the contractual benefits last received by the Management Board member. The variable compensation components shall be calculated on the basis of the average of the last three completed fiscal years under this compensation system. Payment shall be made in monthly installments. Payments made on the occasion of premature termination of Management Board duties in accordance with Section 7 of this compensation system shall be credited against the waiting allowance. The Supervisory Board may also waive enforcement of the non-competition clause in individual cases. In this case, no payment shall be made.

8. Temporary deviations

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