PAION AG, Aachen, Germany

Annual Financial Report

for the Fiscal Year 2022

PAION AG, Aachen

Consolidated Financial Statements

as of December 31, 2022 in accordance with Section 315e of the German Commercial Code (HGB) under IFRS and

Group Management Report

for the fiscal year 2022

Content

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PAION

Group management report for the fiscal year 2022

Fundamentals of PAION AG and the PAION Group

I. Business Model of PAION AG and the PAION Group

PAION AG is a listed specialty pharmaceutical company with innovative active ingredients for use in hospital sedation, anesthesia and intensive care medicine. It acts exclusively as a management and service holding company and in this capacity provides management and other services to its subsidiaries. The services mainly comprise the development of the Group's strategy as well as administrative activities, including accounting, legal, human resources, public relations and controlling. In addition, PAION AG supports the financing of the subsidiaries' ongoing business operations, and the subsidiaries in turn provide services to each other, primarily in the areas of development, supply chain and commercialization. The business activities of the PAION Group (hereinafter also referred to as: PAION) are mainly characterized by the operating activities of the subsidiaries, which are described below.

PAION's portfolio in the reporting year included remimazolam as well as angiotensin II and eravacycline. remimazolam is approved in the USA, the EU/EEA/UK, China, Taiwan and South Korea for procedural sedation and in Japan and South Korea for general anesthesia.

For remimazolam, PAION has licensees in the markets of Japan, Latin America, South Korea, Southeast Asia, Taiwan and the USA. In addition, there are distribution partners in Western, Southern and Eastern Europe. Clinical development has been completed for the use of remimazolam in the indication of procedural sedation; remimazolam has been approved and is already being marketed in the US, EU/EEA/UK, China, Taiwan and South Korea for this indication. For the indication general anesthesia, remimazolam is approved and marketed in Japan and South Korea. PAION had submitted a marketing authorization application to the European Medicines Agency (EMA) at the end of 2021 to extend the approval of remimazolam to include general anesthesia in the EU. The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP; Committee for Medicinal Products for Human Use) adopted a positive opinion on January 27, 2023, recommending approval of remimazolam for the induction and maintenance of general anesthesia in adults. This was finally followed by approval by the European Commission on April 03, 2023.

The various indications for the use of remimazolam will be explained in detail later on.

Fiscal 2022 was characterized by the continuation of the further development of remimazolam, regulatory and, in particular, supply chain and commercial activities.

2. Control system of PAION AG and the PAION Group

Financial performance indicators are liquidity (cash and cash equivalents from the statement of financial position and cash flows from the statement of cash flows), revenue, research and development expenses, administrative and selling expenses as well as the number of employees. The financial management system of PAION AG and the PAION Group is based on monthly reporting on a cost center and cost unit basis, which simultaneously shows budget variances of the financial performance indicators. Significant deviations are updated in the short- and long-term corporate planning. In addition, the planned development progress is compared with the planned budget. The planning tool used for this purpose enables management to identify and assess opportunities and risks at an early stage by simulating various scenarios and to determine

their impact on the future development of the company, in particular on the key financial performance indicator of liquidity.

The non-financial performance indicators that are important for PAION's business activities mainly result from development and commercial activities. The clinical, non-clinical, regulatory and production development activities are characterized by the engagement of external service providers. Development activities are managed on the basis of detailed project plans with defined work packages combined with defined reporting and information obligations. The focus is particularly on the data obtained during the development of remimazolam with regard to its positioning in comparison with competitor products and the progress of development, as well as the data relevant to the approvals and intended areas of application with regard to the safety and efficacy of remimazolam. The results are processed on an ongoing basis in the internal project teams and reported to the Management Board. Important non-financial performance indicators in the development area are the number of clinical and non-clinical studies conducted and the number of market approvals.

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

PAION is responsible for the central coordination of the global information flow between the licensees for remimazolam. The activities are monitored and continuously analyzed and reported to the Management Board.

3. Business activity

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

Economic Report

I. Macroeconomic and industry-specific conditions

a. Overall economic development

The overall economic recovery from the Covid 19 pandemic in FY 2022 was significantly inhibited by a number of factors, particularly as the year progressed.
These primarily include the Russia-Ukraine war, which at times led to large energy price spikes, the zero-covid policy in China, which contributed to recurring disruptions in global supply chains, as well as high inflation and, as a result, a tightening of interest rate policies by central banks.

Accordingly, GDP in the euro zone increased by 3.5% in fiscal 2022 following growth of 5.3% in the previous year. In Germany, gross domestic product (GDP) increased by 1.9% in fiscal 2022, following economic growth of 2.6% in the previous year.[1] In the USA, economic output recorded an increase of 2.0% in fiscal 2022, compared with growth of 5.9% in 2021. Global GDP rose by 3.4% in the year under review, following an increase of 6.2% in 2021. [2]

Global GDP is expected to increase by 2.9% in 2023. Growth in the euro zone is expected to be significantly lower at 0.7% and in the USA at 1.4%.[3]

For 2023, the IMF sees possible risks regarding a slow economic recovery in China, due among other things to the lower immunization of the population against the Corona virus and the progression of the crisis on the real estate market. According to the IMF, further uncertainties arise from the possibility of a further escalation of the Russia-Ukraine war, persistent inflation, and the intensification of further geopolitical conflicts, especially between China and the USA.[4]

On the stock markets, prices fell significantly in 2022, mainly in response to the outbreak of the Russia-Ukraine war, although an upward trend has been discernible since September. At the end of 2022, the DAX was trading 12.3% below its 2021 closing level, while the Dow Jones had lost around 9% since the beginning of 2022. The EUROSTOXX 50 recorded a loss of 11.7% in 2022.

b. Development of the pharmaceutical and biotechnology industry

The pharmaceutical and biotechnology industry remains fundamentally characterized by steadily rising drug development costs, which are due in particular to ever more extensive and demanding regulatory requirements and the strong trend towards personalized therapies, and which are offset by increasingly lower revenues, for example as a result of intensified competition, as well as price pressure from government regulation. In this context, the Covid 19

[1] Gross domestic product up 1.9% in 2022 - German Federal Statistical Office (destatis.de)
[2] International Monetary Fund: World Economic Outlook Update, January 2023, p. 6
[3] International Monetary Fund: World Economic Outlook Update, January 2023, p.6.
[4] International Monetary Fund: World Economic Outlook Update, January 2023, p. 7.

pandemic has clearly demonstrated the pressure to optimize clinical trial processes.[5] For example, the development costs of a new drug at the major pharmaceutical companies increased by an average of around 15% from 2021 to 2022 in constant prices, while the expected peak revenue potential declined by just under 22% and was thus almost identical to the level in 2020.[6]

In 2022, the Covid 19 pandemic has again had a significant impact on the pharmaceutical and biotechnology industry. In addition to the numerous development projects for vaccines against the virus, the pandemic has above all massively accelerated the pace of innovation and digitization in healthcare systems, posing major challenges for the industry. Furthermore, the Covid 19 pandemic has increased the urgency to make supply chains more sustainable.[7]

The consolidation pressure resulting from these trends was confirmed despite the pandemic in the global transaction volume in the pharmaceutical sector in 2022. For example, the biotech sector worldwide recorded a decline of around 44% as of September 30, 2022 (LTM). Nevertheless, the pharmaceutical industry remains a sector with potential for mergers and acquisitions.[8]

The financing environment in the pharmaceutical and biotechnology industry has clouded over noticeably in 2022. It can be observed that the public capital markets for financing have noticeably lost momentum. After a high IPO volume in the pharmaceutical and biotechnology industry in 2021, the volume in this sector decreased significantly by 71% in the last 12 months as of Q3 2022. Within this, the private venture capital market represented the strongest part of the equity market in 2022, but recorded a 22% year-on-year decline.[9]

M&A financing is facing particular challenges in the face of rising inflation and currency fluctuations. While 2021 was a record year for pharmaceutical company valuations, political, economic and regulatory uncertainties have resulted in declining valuations and noticeably fewer IPOs in 2022. Given declining valuations and the resulting formation of a buyer's market, a wave of acquisitions has failed to materialize in 2022. Nevertheless, pressure is increasing to close deals due to growth gaps and potential gains from access to new resources as well as innovations.[10]

Against the backdrop of a restrictive monetary policy by central banks to combat inflation, declining valuations of pharmaceutical and biotechnology companies were observed in 2022. For example, the DAXsubsector Biotechnology Index fell by 30.8% in 2022 compared with its level at the start of 2022, while the NASDAQ Biotechnology Index closed 2022 with a significant drop of 11.6%.

The main competitive drivers in the pharmaceutical and biotechnology industry are expected to continue in 2023 and maintain consolidation pressure. In addition to rising competitive pressure and steadily increasing demands on the industry, the ability to individualize

[5] Deloitte Health: Seize the digital momentum: Measuring the return from pharmaceutical innovation, 2022; Deloitte Insights: 2022 Global Life Sciences Outlook, 2022; Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023; PwC Health Research Institute: Global Top Health Industry Issues 2021: Innovation fuelled by digital capabilities, 2021.

[6] Deloitte Health: Seize the digital momentum: Measuring the return from pharmaceutical innovation, 2022.

[7] Deloitte Insights: 2023 Global Health Care Outlook: The pandemic that changed everything, 2023.

[8] Torreya: Biopharmaceutical Sector Market Update, October 3, 2022.

[9] Torreya: Biopharmaceutical Sector Market Update, October 3, 2022.

[10] Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023.

therapies is becoming increasingly important for pharmaceutical and biotechnology companies.[11] Due to the expiry of patents in the next few years and greater competition in the area of research & development, acquisition and transaction volumes are expected to increase worldwide in the pharmaceutical industry. According to experts, smaller life science companies in particular will turn towards M&A for their growth financing in view of the currently weak IPO market. [12]

2. Presentation of the course of business and development activities

The PAION Group's product portfolio mainly consists of remimazolam (remimazolam besilate) (EU trade name: Byfavo®) with its three target indications of procedural sedation, general anesthesia and ICU sedation, as well as the products angiotensin II (trade name: GIAPREZA®) and eravacycline (trade name: XERAVA®).

Remimazolam besilate (Byfavo®)

Remimazolam is an ultra-short-acting intravenous benzodiazepine sedative and -anesthetic. In humans, remimazolam is largely degraded to an inactive metabolite by hepatic esterases, a widely distributed type of enzyme, rather than by cytochrome-dependent degradation pathways in the liver. As with other benzodiazepines, an antidote is available in flumazenil for rapid withdrawal of the patient's sedation or anesthesia if needed. Data show that remimazolam has a rapid onset of action and a rapid resolution of effect, with a favorable cardiorespiratory safety profile.

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

In addition to procedural sedation and general anesthesia, sedation in the intensive care unit is another possible indication for remimazolam.

Remimazolam is partnered in the USA (trade name BYFAVO™) with Eagle Pharmaceutical (Eagle), in Japan (trade name Anerem®) with Mundipharma, in South Korea (trade name Byfavo™) and Southeast Asia with Hana Pharm, in Latin America with Cristália and in Taiwan with TTY Biopharm. In addition, PAION has distribution partnerships with Viatris for Belgium, Poland, France and Romania as well as the Southern European countries Italy, Spain and Greece and in Eastern Europe (Estonia, Latvia and Lithuania, Czech Republic, Slovakia, Hungary, Croatia, Slovenia and Bulgaria) with Medis. These markets are currently not served by PAION itself. In all other markets outside Europe and China, remimazolam is available for licensing.

[11] Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023.
[12] Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023.

Procedural sedation market (USA + Europe)

The growth of the procedural sedation market in the U.S. has been driven for many years by the increase in procedural sedation medical procedures, such as colonoscopies, as well as increasing overall demand for preventive care.

In Europe, PAION currently estimates a peak sales potential of approximately EUR 40 million to approximately EUR 50 million annually for procedural sedation based on its own projections. In contrast to the U.S. market, which has a large independent infrastructure for outpatient surgical procedures, procedural sedation in Europe is mainly used in hospitals, where anesthesiologists have the overall responsibility for sedating patients. This has a high synergy potential with the planned commercialization of remimazolam for use in general anesthesia. In addition, the field of day surgery is also growing in Europe, so PAION expects steady growth in short-term sedation there as well. One driver of this development is the establishment and further spread of measures for colorectal cancer screening (diagnostic colonoscopies). However, important users here are also gastroenterologists, for example. Another short- to medium-term factor is the backlog of patients left untreated during the Covid 19 pandemic, which increases the need for a product such as remimazolam to increase process efficiency.

General anesthesia market (Europe)

Based on publicly available statistics from previous years on procedures and surgeries in Europe as well as market research, PAION estimates that approximately 29 million surgeries are performed under general anesthesia in Europe each year. Of these, approximately 10 million procedures are performed on high-risk patients (American Society of Anesthesiologists ("ASA") classifications III or higher) who are particularly susceptible to hemodynamic instability. Approximately 55% of all anesthetics are balanced anesthetics, i.e., a combination of intravenous agents and anesthetic gases, approximately 20% are intravenous anesthetics (TIVA) with propofol, and the remaining approximately 25% are regional anesthetics (e.g., epidural anesthetics). According to PAION's market research, the main anesthetics currently used in Europe for general anesthesia are propofol (mainly for induction) and anesthetic gases, mostly in combination with intravenous opioids.

PAION expects the number and complexity of medical procedures involving the induction and maintenance of anesthesia to increase in Europe in the future, driven in particular by the expected continued aging of the population and advances in surgical techniques. General anesthesia is offered more frequently to elderly patients than it was a few years ago, so that the choice of individual anesthesia is made depending on the type of surgery, the underlying disease and the assessment of the patient's overall physical health, including concomitant diseases.

Accordingly, PAION expects demand for safer agents with low respiratory and cardiovascular depressant effects to increase in Europe in the coming years. This creates promising opportunities for anesthetics with an improved safety profile such as remimazolam, even at higher prices compared to existing generic compounds. In Europe, PAION currently estimates a peak sales potential of approximately EUR 50 million to approximately EUR 60 million annually for general anesthesia based on its own projections.

In adults, myocardial injury in noncardiac surgery (MINS) is the most common cardiovascular complication associated with such procedures. Previous studies have concluded

that intraoperative myocardial injury in noncardiac surgery occurs in approximately 8% of the approximately 200 million patients worldwide each year and results in higher mortality; for example, approximately 10% of patients who suffer such injury die within 30 days of the respective procedure. Among other things, this is thought to be caused by (excessively) low blood pressure and the associated temporary undersupply of oxygen to the heart muscle during the procedure.[13] Based on the safety data available to date, remimazolam could make a significant contribution to reducing this mortality rate by reducing intraoperative drops in blood pressure.

An emerging market driver is the requirement for hospitals to consider their environmental footprint and ecological impact. In this regard, volatile gases used in anesthesia are a major negative factor leading to more frequent use of TIVA and thus an expanded market opportunity for remimazolam as an intravenous anesthetic.

Market for sedation in the intensive care unit

Based on data published in Critical Care Medicine on the average length of treatment in intensive care units in days per year in the U.S. as well as scientific journal articles from Intensive Care Medicine , in which, among other things, the number of admissions to intensive care units per year and the number of adult beds in intensive care units in various countries in the EU were surveyed, PAION estimates that in Europe and the U.S. together there are currently at least 14 million patient days in intensive care units requiring intensive care per year. A recent publication based on eight EU countries estimates 17.5 million patient days (not necessarily sedated) in the EU alone.[14] PAION expects these figures to rise in the coming years due to the aging population in both the USA and Europe and assumes that the demand for safe sedation drugs such as remimazolam will increase against this backdrop in particular, as older patients are significantly more likely to be affected by systemic diseases.

Clinical development

Procedural sedation

The first Phase III study in procedural sedation in the US was successfully completed in 2016; the primary efficacy endpoint was met. The Phase III study was conducted in a total of 461 patients at 13 U.S. study centers and was designed to evaluate the efficacy and safety of remimazolam compared to placebo (and with midazolam as a supplemental medication) in colonoscopy patients. In addition, the study included an open-label midazolam arm for endpoint validation.

The U.S. Phase III program also included a second confirmatory, prospective, double-blind, randomized placebo-controlled, multicenter study with an open-label midazolam arm of 446 bronchoscopy patients. The study was successfully completed in 2017; the primary efficacy endpoint was met. The Phase III study was conducted at 15 U.S. study sites and was designed to evaluate the efficacy and safety of remimazolam compared to placebo (and with midazolam as a supplemental medication) in bronchoscopy patients.

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

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

The U.S. Phase III development program also included a safety study with remimazolam in ASA III/IV colonoscopy patients, which was successfully completed in 2017. The study was conducted with a total of 79 high-risk patients and was designed to evaluate the safety and efficacy of remimazolam compared to placebo (and with midazolam as a supplemental medication) in colonoscopy patients.

Summary of key results from the three Phase III studies:

	Remimazolam	**Placebo**	**Midazolam (Open Label)***
Primary endpoint achieved (ITT)	80,6-91,3 %	0,0-4,8 %	12,9-32,9 %
Time from start of medication to the start of the procedure	4.0-5.0 min	17-19,5 min	15.5-19.0 min
Time from the end of the procedure to fully alert	3.0-6.0 min	5.3-15.0 min	7.0-13.0 min
Time to reach normal (median)	192-402 min	348-936 min	366-444 min

* Comparison with midazolam was descriptive (no significance testing).

General anesthesia

A particular focus in the clinical programs was hemodynamic stability, which addresses an important medical need in general anesthesia. Nonclinical data had indicated, and clinical data have confirmed, that better hemodynamic stability can be achieved with remimazolam than with propofol.

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

In Europe, a randomized, single-blind, propofol-controlled, confirmatory Phase III study was conducted in 425 ASA III/IV patients (American Society of Anesthesiologists classification III-IV) undergoing planned surgery at more than 20 European study sites. The primary study objective was to demonstrate that remimazolam is non-inferior ("non-inferiority") to propofol in its efficacy for induction and maintenance of general anesthesia during planned surgery. The secondary primary objective was to demonstrate improved hemodynamic stability compared with propofol. In the study, remimazolam met both the primary and important secondary endpoints.

ICU sedation

In Japan, a Phase II study for ICU sedation was initiated independently by PAION's former licensee Ono. In isolated cases, higher remimazolam plasma levels than expected based on pure calculation were observed after prolonged administration. Nevertheless, the exploratory study was terminated early by Ono in 2013. Patients were successfully sedated, and no serious unexpected adverse events were observed.

The phenomenon of increased remimazolam plasma levels was then carefully investigated by means of a series of nonclinical tests and pharmacokinetic modeling. None of the experiments performed were able to replicate the findings or provide an explanatory model for the elevated plasma levels. Further analysis revealed that such pharmacokinetic deviations are frequently observed when sedating agents such as midazolam and propofol are used in the ICU, and that the most likely explanation is the severity of the patient's illness in the ICU.

In 2021, an IIT (investigator-initiated) REHSCU study [15] (IIT: Investigator Initiated Trial) was conducted. This study, conducted at the University of Nantes, evaluated remimazolam for sedation of patients in the intensive care unit. Thirty patients were enrolled in the study. Particularly with regard to pharmacokinetics, the study provided further evidence for the successful use of remimazolam for sedation of patients in the intensive care unit.

PAION is currently not pursuing further development in this indication.

Pediatric development

PAION submitted a pediatric development plan to the EMA in 2018, which was approved in November 2019. This development plan calls for the conduct of various studies over several years, starting in the short-sedation setting. The clinical trials will be conducted initially in adolescents and then progressively in progressively younger children. In September 2021, PAION and Acacia, then remimazolam licensee for the U.S., announced the initiation of a pivotal study evaluating remimazolam in sedation of pediatric patients. The study will involve approximately 100 children and adolescents, ages up to and including 17 years, at leading facilities in the United States and Denmark. If the program is successful, it is expected that the EU and U.S. approvals of remimazolam will be expanded to include mild to moderate sedation for procedures in pediatric patients.

Post-approval obligations and life cycle management

PAION is currently working and will continue to work on a number of formulation developments as well as preparing and conducting non-clinical and clinical studies for remimazolam to fulfil post-approval obligations and for life cycle management. Most of these activities are pediatric studies to make these drugs available for use in children.

Regulatory activities

In Europe, remimazolam is approved for the indication of procedural sedation.

Procedural sedation: The European Commission granted marketing authorization for remimazolam in the EU (including EEA countries) in March 2021. The decision by the UK Medicines and Healthcare products Regulatory Agency (MHRA) for approval in the UK followed in June 2021.

General anesthesia: Based on the positive results of the European Phase III study in general anesthesia, PAION submitted an extension of marketing authorization application for remimazolam for the indication general anesthesia to the EMA in December 2021. The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP; Committee for

[15] REmimazolam Infusion in the Context of Hypnotic Shortage in the Critical Care Unit During the Pandemic of COVID-19, the REHSCU Study (REHSCU).

Medicinal Products for Human Use) adopted a positive opinion on January 27, 2023, recommending approval of remimazolam for the induction and maintenance of general anesthesia in adults. This was finally followed by approval by the European Commission on April 03, 2023.

In addition, the UK Medicines & Healthcare products Regulatory Agency (MHRA) will also review a possible approval in the UK.

Commercial activities

PAION has established its own commercialization infrastructure for its own commercialization activities in selected target markets, including the necessary production, supply and distribution structures as well as the marketing and sales processes for the entire product portfolio. Nevertheless, PAION follows a business model based on low fixed assets and maintains only central functional areas in its own organization in order to focus on its core competencies. Accordingly, remimazolam or the active pharmaceutical ingredient for remimazolam is manufactured, packaged and labelled by several external contract manufacturers for PAION and/or its cooperation partners. In addition, PAION has entered into agreements as a one-stop solution for distribution processes. Agreements have also been entered into with vendors for the provision of medical/scientific contacts and key account management services. Currently, PAION sources angiotensin II and eravacycline under a separate supply agreement from La Jolla, a subsidiary of Innoviva.

In the UK, the company has a partnership with Clinigen for the supply of PAION's products. With further successful listings of remimazolam in National Health Service (NHS) Trust hospitals, PAION expects to see sustained growth in the uptake of its products in the UK going forward.

In Scandinavia, Denmark acts as a distribution center, with sales activities currently focused on remimazolam.

In the Netherlands, all three products are listed and available. PAION's sales team is expanding the original target group of anesthesiologists to gastroenterologists and therefore expects strong synergies and highly efficient use of the sales force by marketing multiple products.

Based on the approval of remimazolam for the induction and maintenance of general anesthesia in adults by the European Commission, PAION is now preparing for commercialization in general anesthesia.

PAION has further advanced the commercialization of angiotensin II in 2022. It is currently commercially available in Germany, Austria, UK, Portugal, Denmark, Sweden and Finland. The commercialization of eravacycline was also intensified in 2022. It is currently commercially available in the Netherlands, Germany, Austria, UK, Portugal, Denmark, Sweden and Finland.

Initial applications of the products indicate good market acceptance PAION has received positive feedback from customers about their experience with remimazolam in particular. The build-up of commercial sales involving experienced distribution partners has gradually taken effect in 2022, accompanied by a moderate increase in product sales. Viatris and Medis are

preparing the launch of the products and need approval for pricing and reimbursement in most countries.

To achieve PAION's goal of becoming a leading specialty pharmaceutical company in anesthesia and critical care, the following key elements of the strategy have been identified:

PAION aims to become a recognized market player with innovative products in the field of anesthesia and intensive care medicine in the coming years;

PAION has established its own marketing capabilities combined with distribution partners in Europe. Medis has already started product sales;

PAION plans to continue the staggered rollout of remimazolam, angiotensin II and Eravacyclin in its European target markets and to achieve rapid sales growth to reach profitability in the mid-term; and

PAION intends to continue to explore synergy potentials, in-licensing of additional products and other opportunities to support longer-term growth.

Partner activities

Licensees generated product sales of EUR 5.3 million in 2022 (prior year: EUR 7.5 million including China); this results in royalties for PAION of EUR 0.7 million (prior year: EUR 0.6 million including China).

In the **USA,** remimazolam (trade name: BYFAVO™) has been marketed in the indication of procedural sedation since the beginning of 2021. In mid-2022, the US specialty pharmaceutical company Eagle Pharmaceutical acquired Acacia. The license agreement remains valid and will be transferred to Eagle Pharmaceutical. PAION expects this transaction to have a positive impact on the sales development of remimazolam in the US. In early May 2023, Eagle had announced that the Centers for Medicare & Medicaid Services ("CMS") has implemented a unique, product-specific billing code for Remimazolam. The introduction of a unique so-called "J-code" (reimbursement code) for Remimazolam in the U.S. is an important step in facilitating reimbursement and expanding patient access to remimazolam.

In **Japan,** Mundipharma initiated clinical trials (Investigator Initiated Clinical Trials) in 2021 to evaluate the efficacy and safety of remimazolam (brand name Anerem®) in Japanese patients undergoing gastrointestinal endoscopy, which were successfully completed in 2022. These studies are a prerequisite for the planned regulatory submission in procedural sedation, which is scheduled for 2023.

In **South Korea,** licensee Hana Pharm has successfully continued marketing remimazolam (brand name Byfavo™) in both general anesthesia and procedural sedation indications. Hana Pharm is pursuing a local launch and positioning strategy and reports that interest from the Korean anesthesia community is strong. Hana Pharm has supported numerous investigator-initiated studies in Korean hospitals, including such prestigious institutions as Seoul National University and Samsung Seoul Hospital. Hana Pharm also completed its new production facility. The total investment was approximately EUR 43 million. The new facility introduced a freeze-dried injection line for the mass production of remimazolam and a BFS (Blow Fill Seal) system for the automated production of plastic ampoules.

In **China,** PAION entered into a patent assignment agreement for remimazolam (trade name Ruima®) with Humanwell in early 2022. Under the agreement, PAION transferred all of its

Chinese remimazolam patents and sold the related future royalties on sales in China from the license agreement with Yichang Humanwell to Humanwell for EUR 20.5 million. Yichang Humanwell was released from all future royalty payments to PAION and the license was terminated.

PAION terminated the license agreement for **Russia**, **Turkey** and the **Mena** (Middle East and North Africa) region with Russia's R-Pharm in March 2022 after R-Pharm failed to pay outstanding milestones.

In **Canada,** PAION and Pharmascience Inc. agreed in early 2022 to terminate the license agreement that granted Pharmascience Inc. exclusive rights to develop and commercialize remimazolam in Canada. PAION retains full access to all market data generated by Pharmascience and plans to explore strategic options for the commercialization of remimazolam in Canada.

Furthermore, PAION also succeeded in entering the **Eastern European markets in** 2022. In February 2022, an exclusive cooperation agreement was signed with Medis, d.o.o. covering the supply, distribution, marketing and sales of remimazolam, angiotensin II and eravacycline for Eastern Europe (Estonia, Latvia and Lithuania, Czech Republic, Slovakia, Hungary, Croatia, Slovenia and Bulgaria).

In April 2022, PAION and Cristália signed an exclusive license agreement for the development and commercialization of remimazolam in **Latin America.** Cristália intends to commercialize remimazolam in procedural sedation and general anesthesia and has submitted marketing authorization applications for both indications in Brazil at the end of 2022.

PAION continued to expand its distribution structures in the second half of 2022. In November 2022, PAION entered into an exclusive collaboration agreement with Viatris for the launch, marketing and commercial distribution of remimazolam, angiotensin II and eravacycline for **Belgium, Poland, France** and **Romania** as well as in the **Southern European countries Italy, Spain and Greece.**

In addition, in November, Taiwanese licensee TTY Biopharm had received approval from the Taiwan Food and Drug Administration (TFDA) for remimazolam for Injection for the induction and maintenance of short-acting sedation in adults in **Taiwan.** The market launch took place in December 2022. In addition, TTY Biopharm submitted the marketing authorization application in general anesthesia in March 2023.

Angiotensin II and Eravacycline

PAION AG and PAION Deutschland GmbH have entered into a license agreement with La Jolla Pharmaceutical Company for angiotensin II (GIAPREZA®) and Eravacyclin (XERAVA®) in January 2021. In addition to a payment of USD 22.5 million already made, La Jolla is entitled to further payments contingent on the achievement of certain commercial milestones. In July 2022, it was announced that Innoviva Inc, a diversified holding company with a portfolio of royalty and other healthcare assets, planned to acquire La Jolla. The acquisition was completed on August 22, 2022. The existing agreement remains unaffected.

The agreement grants PAION an exclusive license to market these two approved products in the European Economic Area, UK and Switzerland.

Angiotensin II (GIAPREZA®)

Angiotensin II for injection is an FDA-approved vasoconstrictor to increase blood pressure in adults with septic or other distributive shock. Angiotensin II is approved by the European Commission and the United Kingdom Food and Drug Administration for the treatment of refractory hypotension in adults with septic or other distributive shock who remain at low blood pressure despite adequate volume restitution and use of catecholamines and other available vasopressor therapies. Angiotensin II mimics the endogenous angiotensin II peptide, which plays a central role in the renin-angiotensin-aldosterone system, which in turn regulates blood pressure.

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

The pivotal phase III study of angiotensin II for the treatment of high-output shock (ATHOS-3) was a randomized, placebo-controlled, double-blind, international, multicenter phase III safety and efficacy study in which adults with septic shock or other distributive shock who experienced hypotension despite fluid and vasopressor therapy were randomized 1:1 to angiotensin II or placebo and 321 patients were treated. The primary efficacy endpoint, an increase in blood pressure, was achieved by 70% of angiotensin II-treated patients compared with 2% of placebo-treated patients; $p < 0.001$.

The European summary of product characteristics is available on the EMA website: www.ema.europa.eu/en/medicines/human/EPAR/giapreza.

PAION has started the commercialization of angiotensin II in Germany in 2021 and in the Netherlands in January 2022. It has also been commercially available in Austria since February 2022.

Market

Regarding angiotensin II, the occurrence of distributive shock due to sepsis remains one of the most important unmet medical needs in healthcare. According to the information available to PAION, the mortality rate of patients with septic shock is higher than for most other acute conditions requiring hospitalization (including pneumonia, acute myocardial infarction and heart failure). A relatively high mortality rate is seen in shock patients who do not respond to existing treatment options. Globally, an estimated 47 to 50 million sepsis cases and at least 11 million sepsis-related deaths occur each year, accounting for approximately 20% of all deaths worldwide. Sepsis mortality rates vary from 15% to more than 50% depending on the country[16]. The first line of therapy in septic shock is catecholamines (such as dopamine, epinephrine or norepinephrine) and the second line of therapy consists of vasopressors (alternative drugs that constrict blood vessels, such as argipressin or vasopressin), while the prioritization of

[16] World Sepsis Day, What is sepsis? September 2020 (https://www.worldsepsisday.org/sepsis)

angiotensin II varies from market to market. PAION estimates that approximately 100,000 to 150,000 patients with septic shock do not respond adequately to first- and second-line treatments and would be eligible for angiotensin II treatment. In addition, certain existing second-line drugs are not reimbursed in certain European countries due to their lack of efficacy in catecholamine-resistant septic shock, which may provide an opportunity to establish angiotensin II as a second-line drug in the relevant markets.

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

Eravacycline (XERAVA)®

Eravacycline for injection is a novel fluorocycline from the tetracycline class. Eravacycline is an antibiotic used to treat complicated intra-abdominal (affecting the abdomen) infections (cIAI) in adults. According to the Infectious Diseases Society of America (IDSA), a cIAI is defined as an infection that spreads beyond the wall of a hollow viteum of origin into the abdominal cavity and is associated with an abscess or peritonitis.[17]

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

Eravacycline has been shown to be as effective as alternative antibiotics in two main studies in adults with cIAI. The main indicator of efficacy in both studies was the cure rate of infections. In the first study, involving 541 patients, eravacycline was compared with ertapenem (another antibiotic). After about one month, 87% of patients treated with eravacycline were cured of their infection, compared with 89% of patients treated with ertapenem. In the second study, involving 500 patients, eravacycline was compared with meropenem (a carbapenem antibiotic commonly used for this indication in Europe). After about one month, 92% of patients treated with eravacycline and 92% of patients treated with meropenem were cured of their infection.

Eravacycline is approved by the FDA for the treatment of complicated abdominal infections in patients 18 years of age and older. Eravacycline is approved by the European Commission and the UK Medicines Agency for the treatment of abdominal infections in adults. Official guidelines for the appropriate use of antibacterial drugs should be considered.

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

PAION has started marketing eravacycline in 2021 in the Netherlands. In April 2022, PAION was informed that the German Federal Joint Committee (G-BA) has endorsed PAION's application for eravacycline as a reserve antibiotic. Thus, eravacycline is granted an additional benefit compared to standard care. In August 2022, the marketing of eravacycline was started and since then it can be ordered and delivered to customers in Germany via direct sales.

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

Market

Eravacycline competes with several established antibiotics on the market for complicated intra-abdominal infections. In particular, established generic antibiotic classes, including the carbapenem class, the cephalosporin class or fluoroquinolones, form the first line of therapy, while established non-generic antibiotics such as avibactam, ceftazidime and ceftolozane-tazobactam typically form the second line of therapy in the relevant markets. Clinical studies have shown that eravacycline has favorable specifications and comparable activity to ertapenem and meropenem, two widely used carbapenem-class antibiotics that have been on the market for decades. Due to the steadily increasing use of carbapenems, resistance to carbapenems has also increased, particularly in Europe, and strains of pathogens that are particularly difficult to treat have been identified in several European countries[18] . PAION available information indicates that a large number of infections occur in Europe each year, resulting in a significant number of deaths due to bacteria that are resistant to antibiotics. This in turn leads to significant costs for healthcare systems. Eravacycline offers several advantages over carbapenems. First, eravacycline shows significantly higher efficacy against a broad spectrum of typically multidrug-resistant pathogens. In addition, eravacycline can be prescribed even if the causative agent of the infection has not yet been identified. In addition, eravacycline does not need to be adjusted in patients with impaired renal function.

In Europe, PAION currently estimates a peak sales potential of approximately EUR 25 million to approximately EUR 35 million annually based on its own projections.

[18] Magiorakos, A. P., Suetens, C., Monnet, D.L. et al. (2013), The rise of carbapenem resistance in Europe: just the tip of the iceberg?, Antimicrob Resist Infect Control 2, 6 (2013) (https://aricjournal.biomedcentral.com/articles/10.1186/2047-2994-2-6).

3. Net assets, financial position and results of operations

a. Earnings

	2022 KEUR	2021 KEUR	Change in result KEUR
Revenues	33,248	7,128	26,120
Cost of Sales	-1,960	-3,077	1,117
Gross Profit	**31,288**	**4,051**	**27,237**
Research and development	-6,485	-5,249	-1,236
General administration and selling	-21,198	-19,829	-1,369
Other Income	856	770	86
Other expenses	-2,956	-1,822	-1,134
Operating expenses	**-29,783**	**-26,130**	**-3,653**
Operating result (EBIT)	**1,505**	**-22,079**	**23,584**
Financial result	-1,706	-503	-1,203
Income taxes	-378	796	-1,174
Net result	**-579**	**-21,786**	**21,207**

Revenues recognized in the reporting year amounted to EUR 33,248 thousand and mainly resulted in the amount of EUR 3.0 million from the sale of remimazolam active ingredient to and sales-related license fees from licensees, in the amount of EUR 20.5 million from the patent sale to Humanwell, as well as in the amount of EUR 3.5 million from the license to Cristália for the development and commercialization of remimazolam in Latin America, EUR 5.3 million from one-time payments in connection with the cooperation agreements with Medis and Viatris, and EUR 0.6 million from commercial product sales to wholesalers and hospitals in selected European markets. Revenues in the previous year were mainly attributable to milestone payments in connection with market approvals as well as the granting of the license for the development and commercialization of remimazolam in Taiwan to TTY, sales of remimazolam active ingredient and sales-related royalties from licensees.

Cost of sales amounted to EUR 1,960 thousand (previous year: EUR 3,077 thousand) and mainly related to revenues from the sale of remimazolam active ingredient to licensees.

Research and development expenses amounted to EUR 6,485 thousand compared to EUR 5,249 thousand in the previous year and increased in particular due to the execution of the pediatric studies for angiotensin II and a Phase IV study for angiotensin II.

General and administrative and selling expenses together amounted to EUR 21,198 thousand, an increase of EUR 1,369 thousand compared with the previous year. General and administrative expenses decreased by EUR 742 thousand to EUR 4,814 thousand and selling expenses increased by EUR 2,111 thousand to EUR 16,384 thousand. Selling expenses increased as planned, in particular due to commercialization activities for the three products remimazolam, angiotensin II and eravacycline in Europe.

Other income in the financial year mainly includes income from oncharges to licensees of EUR 107 thousand (previous year: EUR 142 thousand), a credit note of EUR 357 thousand for the production of remimazolam active ingredient, and (net) exchange rate gains of EUR 317 thousand (previous year: (net) exchange rate gains of EUR 581 thousand).

Other expenses mainly comprise obligations to licensees in the amount of EUR 88 thousand (previous year: EUR 295 thousand), a severance payment of EUR 130 thousand to Dr. Philips, which is due for payment in the first quarter of 2023, an impairment loss of EUR 1,466 thousand recognized in the fiscal year on inventories due to insufficient residual shelf life and (net) exchange losses of EUR 902 thousand (previous year: EUR 466 thousand).

The **financial result** amounts to EUR -1,706 thousand and mainly includes financial expenses of EUR 2,743 thousand in connection with the EIB loan and financial income of EUR 1,087 thousand from the measurement of the final performance-related compensation component in connection with the EIB loan at the reporting date. The financial result decreased by EUR 1,203 thousand compared to the previous year. This is mainly due to (net) expenses in connection with the EIB loan drawn down in the reporting year.

Taxes on income in the fiscal year amounted to EUR -378 thousand (prior-year period: EUR 796 thousand) and mainly relate to the corporate tax liability to the British tax authorities due to the significant increase in milestone payments and the sale of licenses for the Chinese region. In the prior year's period, it was predominantly the tax incentive through tax credits on parts of the research and development expenses by the UK tax authorities

PAION closes the fiscal year 2022 with **earnings before interest and taxes (EBIT) of** EUR 1,505k (prior year: EUR -22,079k) and with a **net loss of** EUR 579k after a net loss of EUR 21,786k in the prior year.

b. Net assets

	31 Dec. 2022 KEUR	31 Dec. 2021 KEUR	Change KEUR
Non-current assets	20,344	20,551	-207
Current assets	17,833	16,234	1,599
Assets	**38,177**	**36,785**	**1,392**
Equity	6,615	6,999	-384
Non-current liabilities	18,946	18,801	145
Current liabilities	12,616	10,985	1,631
Equity and liabilities	**38,177**	**36,785**	**1,392**

Non-current assets mainly comprise the carrying amount of the products angiotensin II (EUR 12,679 thousand) and Eravacyclin (EUR 3,118 thousand), which were in-licensed in the reporting year for marketing in the European Economic Area, the United Kingdom and Switzerland and already approved in Europe, as well as the carrying amount of the value of the development project remimazolam (EUR 1,486 thousand; December 31, 2021: EUR 1,752 thousand), reduced by scheduled amortization, capitalized from the purchase price allocation as part of the CeNeS acquisition in 2008.

Current assets increased by EUR 1,599 thousand compared with December 31, 2021 to EUR 17,833 thousand and comprise cash and cash equivalents (EUR 10,629 thousand), inventories (EUR 3,720 thousand), other assets and prepaid expenses (EUR 1,256 thousand) and trade receivables (EUR 2,228 thousand) as of December 31, 2022. The increase of EUR 1,599 thousand compared with December 31, 2021 is due on the one hand to an increase in cash and cash equivalents of EUR 4,189 thousand and trade receivables of EUR 511 thousand and on the other hand to a decrease in other assets and prepaid expenses of EUR 1,999 thousand and in inventories of EUR 1,102 thousand. The decrease in other assets and prepaid expenses is mainly due to the payments received in fiscal year 2022 for the tax refund claim against the British tax authorities resulting from the tax incentives for research and development activities. The decrease in inventories is mainly due to the impairment loss of EUR 1,466 thousand recognized in the financial year, while the increase in trade accounts receivable results in particular from the delivery of Remimazolam active ingredient to three licensees shortly before the reporting date.

The decrease in **equity** by EUR 384k compared to December 31, 2021 is mainly due to the net loss for the year. The equity ratio amounts to 17.3% as of December 31, 2022 (December 31, 2021: 19.0%).

Non-current liabilities mainly relate to the carrying amount of the non-current portion of the EIB loan drawn down in the previous year (EUR 18,468 thousand including the

performance-related, bullet payment component) and to liabilities from leases (EUR 452 thousand).

As of December 31, 2022, **current liabilities consist** of trade payables, provisions, financial liabilities, lease liabilities, tax liabilities and other liabilities. The increase of EUR 1,631k to EUR 12,616k is mainly due to the scheduled increase in trade payables of EUR 1,420k as part of the ongoing commercialization and the reclassification of the refund liability of EUR 1,500k from provisions to other liabilities.

c. Financial position

Cash and cash equivalents increased by EUR 4,189 thousand compared to December 31, 2021 to EUR 10,629 thousand as of December 31, 2022. The change in cash and cash equivalents results from the following areas:

	2022 KEUR	**2021** KEUR	**Change** KEUR
Cash flow from operating activities	5,941	-21,178	27,119
Cash flow from investing activities	-1,586	-19,205	17,619
Cash flow from financing activities	-126	27,147	-27,273
Effect of exchange rate changes	-40	10	-50
Change in cash and cash equivalents	**4,189**	**-13,226**	**17,415**

The **cash flow from operating activities mainly** results from payments received in connection with the licensing agreement for China with Yichang Humanwell of EUR 20.5 million as well as further milestone and one-time payments received in the amount of EUR 8.9 million. In addition, tax payments for tax credits from previous years in the amount of EUR 1.8 million were received. The decrease in inventories by EUR 1,103 thousand is mainly due to the write-down of drugs with short shelf lives in the amount of EUR 1,473 thousand.

The **cash flow from investing activities is** primarily attributable to an ERP system being implemented (EUR 1,546 thousand).

The **cash flow from financing activities** results in the amount of EUR -126 thousand from the repayment portion of lease payments.

d. Overall statement

Financial performance indicators

Cash and cash equivalents increased by EUR 4.2 million compared with December 31, 2021 to EUR 10.6 million as of December 31, 2022.
EBIT of EUR 1.5 million in fiscal year 2022t is above the range of approx. EUR -1.5 million to approx. EUR +0.5 million forecast for 2022 in the previous year.

The realised sales revenues of EUR 33.2 million are within the range of the forecast of approximately EUR 32 million to approximately EUR 35 million made in the previous year for 2021, although less Remimazolam active ingredient was sold to licensees than originally planned. Accordingly, the cost of sales of EUR 2.0 million is below the range of approximately EUR 5 million to approximately EUR 6 million forecast for 2021 in the previous year.

Administrative and selling expenses of EUR 21.2 million are below the forecast range of approximately EUR 26 million to approximately EUR 29 million for 2021, mainly because commercialization and supply chain activities were carried out more slowly than planned.

At EUR 6.5 million, research and development expenses are also within the range of approximately EUR 7 million to approximately EUR 9 million forecast for the reporting year in the previous year.

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

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

Non-financial performance indicators

During the financial year, important steps were taken on the way to becoming a commercial specialty pharmaceutical company with a focus on the areas of sedation, anesthesia and intensive care medicine. The company's own sales organization was further expanded and the marketing of individual products in the Netherlands, Austria, Sweden and Finland was initiated.

Cooperation agreements were signed with the established pharmaceutical companies Medis and Viatris and a license territory was partnered with Latin America to Cristália. PAION's licensees also made progress in the development, approval and marketing of remimazolam. For example, Taiwanese licensee TTY Biopharm received approval for remimazolam for injection for the initiation and maintenance of procedural sedation in adults in Taiwan from the Taiwan Drug Administration, and in South Korea, Hana Pharm completed its new production facility. In the area of clinical development, no new proprietary clinical trials were started or completed.

Remimazolam or the active pharmaceutical ingredient for remimazolam is manufactured, packaged and labeled by several external contract manufacturers for PAION and/or its cooperation partners. In addition, PAION has entered into agreements as a one-stop

solution for distribution processes. Agreements have also been concluded with vendors for the provision of medical/scientific contacts and key account management services.

Employees

PAION employed an average of 63 employees in the fiscal year 2022 (prior year: 51 employees). Of the 63 employees, 12 worked in development and 51 in administration and sales. 11 employees on average for the year are attributable to the PAION UK group, 8 to PAION Netherlands B.V. and 7 to PAION Scandic ApS. As of December 31, 2022, the number of employees amounted to 70 (December 31, 2021: 56).

Impact of the Covid 19 pandemic on PAION AG and the PAION Group

Since the beginning of 2020, a new form of the coronavirus (SARS-CoV-2), which causes the respiratory disease Covid-19, had spread internationally. The pandemic had led to sometimes massive restrictions on public life worldwide, as well as significant declines in economic output. The success of containment measures, the resulting rate of spread of the virus, and the resulting restrictions in place, particularly in public areas, varied greatly from region to region and also varied significantly depending on the infection. At the time of this writing, most of the measures have been lifted and the transition from pandemic to endemic is underway.

In the past fiscal year, the Covid 19 pandemic again severely restricted market access in some countries such as the USA.

To date, the pandemic has had a moderate direct impact on the PAION Group. On the one hand, PAION currently still realizes a significant portion of its revenues from milestone payments. The underlying milestones are largely independent of the general economic development. On the other hand, PAION was able to continue its business activities almost unchanged even under significant restrictions in public life, as the presence of employees in the business premises was in most cases not mandatory for the normal continuation of operations. On the other hand, however, access to clinics and prescribers has been limited due to the impact of Covid-19 on the healthcare system, resulting in moderate product sales in some cases. PAION hopes to accelerate growth in 2023.

Overall, there has been a moderate direct impact of the pandemic on the PAION Group's net assets, financial position and results of operations to date. Due to limited access to hospitals and prescribers, PAION experienced moderate negative effects of the pandemic on its own marketing of the products remimazolam, angiotensin II and eravacycline. A positive impact could be the backlog of patients who went untreated during the Covid 19 pandemic, increasing the need for a product such as remimazolam to increase process efficiency.

Reference to Compensation Report pursuant to Section 162 AktG

The remuneration report pursuant to Sec. 162 AktG is published on the website of PAION AG (https://www.paion.com/media-and-investors/corporate-governance/compensation-management-board-and-supervisory-board/).

Disclosures pursuant to Section 315a HGB and explanatory report

Composition of the subscribed capital

As of December 31, 2022, the subscribed capital of PAION AG amounts to EUR 71,336,992.00 and is divided into 71,336,992 no-par value shares, each with a notional interest in the share capital of EUR 1.00. The no-par value shares are bearer shares and are fully paid up. A claim by shareholders to securitization of their shares is excluded in accordance with Section 6 (2) of the Articles of Association. All shares carry the same rights and obligations. Each share entitles the holder to one vote at the Annual General Meeting and is decisive for the shareholders' share in profits. The rights and obligations of shareholders are set out in detail in the provisions of the German Stock Corporation Act (AktG), in particular sections 12, 53a et seq., 118 et seq. and 186 AktG.

Restrictions affecting voting rights or the transfer of shares

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

Shareholdings in the capital exceeding 10% of the voting rights

Under the German Securities Trading Act, any investor whose share of voting rights in the Company reaches, exceeds or falls below certain thresholds as a result of acquisitions, disposals or otherwise must notify the Company and the German Federal Financial Supervisory Authority (BaFin). The lowest threshold for this notification requirement is 3%. Direct or indirect shareholdings in the capital of the Company that reached or exceeded 10% of the voting rights at December 31, 2022 have not been reported to the Company.

Shares with special rights conferring powers of control

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

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

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

Statutory provisions and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board and amendments to the Articles of Association

The appointment and dismissal of members of the Management Board are governed by sections 84 and 85 of the German Stock Corporation Act (AktG) and the supplementary provisions of the Rules of Procedure of the Supervisory Board, which stipulate an age limit of 65 for Management Board members. Pursuant to § 84 AktG, members of the Management Board may be appointed by

the Supervisory Board for a maximum of five years. A repeated appointment or extension of the term of office, in each case for a maximum of five years, is permissible. Pursuant to § 8 (1) of the Articles of Association, the Management Board shall consist of at least one person. The Supervisory Board determines the number of members of the Board of Management. Furthermore, pursuant to Section 84 (2) of the German Stock Corporation Act (AktG) and Section 8 (2) of the Articles of Association, the Supervisory Board may appoint a member of the Board of Management as Chairman.

An amendment to the Articles of Association is governed by Sections 179 and 133 of the German Stock Corporation Act in conjunction with Section 27 of PAION AG's Articles of Association. According to PAION AG's Articles of Association, the resolution of the Annual General Meeting required to amend the Articles of Association may be adopted by a simple majority of the share capital represented when the resolution is adopted, to the extent permitted by law.

Authority of the Board of Management to issue or repurchase shares

The Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital on one or more occasions in the period up to May 26, 2026 by up to a total of EUR 35,668,496.00 by issuing up to 35,668,496 new no-par value bearer shares in return for cash contributions or contributions in kind (Authorized Capital 2021). In the case of capital increases against contributions in kind, the Management Board is also authorized, with the approval of the Supervisory Board, to exclude subscription rights. In the case of capital increases against cash contributions, shareholders are to be granted subscription rights. The new shares may also be underwritten by one or more banks with the obligation to offer them to the shareholders for subscription. The Management Board is authorized, with the approval of the Supervisory Board, to exclude fractional amounts from shareholders' subscription rights. The Management Board is also authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights if the issue price of the new shares is not significantly lower than the stock market price and the shares issued in return for cash contributions in accordance with Art. 186 par. 3 sentence 4 AktG with exclusion of subscription rights do not exceed a total of 10% of the capital stock as of May 27, 2021 and at the time the authorization is exercised. The Management Board is also authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights to the extent necessary to grant subscription rights to holders of convertible bonds, profit participation rights or option rights within the meaning of Section 221 AktG.

Furthermore, the Management Board has the option to issue bearer and/or registered convertible bonds, bonds with warrants, profit participation rights and/or participating bonds ("Bonds") on one or more occasions until May 26, 2026 in a total amount of up to EUR 125,000.000.00 with or without a limited term with the approval of the Supervisory Board and to grant the holders or creditors of Bonds conversion or option rights to new shares of PAION AG with a pro rata amount of the share capital of up to a total of EUR 31,000,000.00 (Conditional Capital 2021). In principle, the shareholders are to be granted a subscription right to the bonds. However, the Management Board is authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to the bonds in whole or in part in certain cases. Furthermore, the Company is authorized to issue 676,626 shares (Conditional Capital 2010 I), 530,010 shares (Conditional Capital 2014), 702,672 shares (Conditional Capital 2016), 806,250

shares (Conditional Capital 2018 II) and 1,200,000 shares (Conditional Capital 2020) to service the stock option programs 2010, 2014, 2016, 2018 and 2020.

Significant agreements of the Company that are conditional upon a change of control following a takeover bid

In the event of a change of control, the EIB has the right to terminate the existing loan agreement and demand early repayment of loan tranches already granted.

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

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

With regard to other existing compensation agreements with members of the Board of Management, we refer to the above explanations in the compensation report.

Corporate Governance Declaration in accordance with Section 289 f HGB

The corporate governance statement pursuant to Sec. 289 f HGB is published on the website of PAION AG (https://www.paion.com/media-and-investors/corporate-governance/declaration-on-corporate-governance/).

Risk and opportunities report

I. Reference to the existence of a going concern risk

As a precautionary measure, it is pointed out that PAION AG continues to rely on the injection of additional funds to ensure its ability to continue as a going concern and to safeguard its future solvency. The ability to continue as a going concern is subject to significant uncertainties, as negotiations on the provision of additional funding are well advanced, but at the time of reporting no legally binding commitments have been made. In the event that the planned financing measures fail, there is a high probability that the current corporate strategy cannot be continued. With regard to the need for future financing measures, reference is also made to the comments in the sections "Financing risks" and "Financial outlook 2023".

These events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and represents a going concern risk.

2. Risk Management

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

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

The financial accounting and cost accounting software "Microsoft Dynamics NAV" (from January 2023 SAP) introduced as well as a corporate planning tool based on Excel and adapted to PAION form the basis for controlling. Internal reporting on a cost center and cost unit basis is carried out on a monthly basis, ensuring early identification of budget variances. The Excel-based planning tool forms the basis for short, medium and long-term corporate planning (cost center

planning, cost unit or project planning, budgeted P&L, budgeted balance sheet and budgeted cash flow statement). With the help of this planning tool, management and controlling are able to identify and evaluate opportunities and risks at an early stage by simulating various scenarios and to determine their influence on the future development of the company, in particular on the key financial control parameter of liquidity.

The implemented internal control system comprises both regulations for managing the company's activities and regulations for monitoring compliance with these regulations. Key measures of the internal control system are the application of the dual control principle, the definition of business transactions requiring approval, the limited granting of signatory and bank powers of attorney, the standardization of workflows by means of work instructions, the monitoring of compliance with specified process steps by means of checklists, and the establishment of measures to protect data and IT systems. PAION has appointed an internal compliance officer. The compliance officer monitors adherence to the company-wide compliance guidelines and reports once a year in writing on his activities and on any findings.

PAION has implemented a matrix organization that combines both the project organization and the departmental organization. Within these organizational structures, detailed reporting and information structures are in place to ensure early identification and communication of risks. The individual projects are managed and monitored by project teams. The project teams report on an ongoing basis - also in written form - on the current progress of the projects as well as on potential risks to the individual department heads as well as to the company management.

The risk management system is reviewed once a year and discussed with the Supervisory Board or the Audit Committee. The risk analysis is updated during the year and presented to the Supervisory Board. Particular risks are communicated on an ad hoc basis. A comprehensive risk inventory is carried out annually. The internal control system is reviewed on an ongoing basis with regard to the effectiveness of the controls and adjusted as necessary. Accounting-related risk management system and internal control system

PAION AG's internal control system includes all measures that serve to achieve and implement the decisions of the Management Board. On the one hand, the focus is on ensuring the correctness and efficiency of accounting. On the other hand, the internal control system is intended to ensure that material legal requirements are complied with. Both process-independent and process-integrated monitoring measures form the basis of this internal control system. Within PAION AG, the Audit Committee of the Supervisory Board is entrusted with process-independent auditing activities.

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

The accounting-related risk management system and internal control system also address the risk of material misstatements in the annual and interim financial statements. Key process-integrated measures and controls in accounting are the clear allocation of responsibilities, the dual control principle, the separation of functions, the use of an appropriate financial accounting

system and the associated authorization concept, and the use of checklists and internal work instructions.

There is also a clear division of responsibilities between the respective departments in order to identify potential errors and risks at an early stage and to counteract them. Furthermore, Controlling is responsible for the early detection and identification of potential risks in the company. To this end, individual financial statements and consolidated financial statements are prepared monthly for internal purposes. The monthly, interim and annual financial statements are analyzed with the help of Group-wide controlling with regard to budget/actual variances as well as implausibilities and inconsistencies in accounting. In this context, automated control mechanisms defined in the consolidation system help to identify erroneous information and correct it at Group level.

The financial reports are submitted to the Supervisory Board on a quarterly basis. The quarterly reports and the half-yearly and annual financial statements are published and discussed with the Supervisory Board's Audit Committee or with the Supervisory Board prior to publication.

Significant matters relating to the preparation of the financial statements are discussed with the Audit Committee in a timely manner. The Audit Committee also determines additional audit areas and focal points for the auditor.

As part of their audit of the financial statements, the auditors are also required to report to the Supervisory Board on any risks or control weaknesses relevant to financial reporting and any other material weaknesses in the risk management system and internal control system identified during their audit work.

Throughout the accounting process, a wide range of controls are carried out within various responsibilities and departments in order to comply with legal requirements and ensure quality assurance. In order to monitor the functionality and effectiveness of the defined controls, these are examined at regular intervals on the basis of random samples. In principle, it should be noted that an internal control system, regardless of its design, cannot guarantee absolute certainty that all matters recorded in the course of accounting are presented correctly and completely. The Board of Management has no indication that the internal control system and the risk management system as a whole were not appropriate or effective as of December 31, 2022.

3. Significant risks

As part of the early identification of risks, risks are initially recorded as gross risks prior to the introduction of suitable risk-reducing measures with regard to the potential amount of damage and the probability of occurrence. Net risks are determined with regard to the amount of damage and probability of occurrence, taking into account risk-reducing measures introduced, and are classified on the basis of the resulting expected value. In evaluating potential risks, both internal and known relevant external factors are taken into account according to their relevance. The categories used for probabilities of occurrence and damage levels as well as the classification of the resulting net risks can be seen in the following table:

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

In the following, the identified risks are explained together with the risk-reducing measures introduced in each case and classified according to the table above. The classification relates to the net risks, taking into account the risk-reducing activities A very high risk is defined as a loss amount that exceeds EUR 5 million in the event of occurrence. These are identified separately as such. Net risks classified as "very low risk" and "low risk" are not presented, as they do not have a significant impact on the decisions of a reasonable user. In the course of the necessary aggregation of risks, some of the risks presented below may consist of individual sub-risks. In this case, the risk classification presented always refers to the highest of the individual sub-risks. Any changes in the risk classification compared with the previous year are indicated in each case. Where risks recorded in the previous year no longer exist or risks were recorded for the first time in the reporting year, this is not explained separately.

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

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

aa) Development and approval risks

All three products are approved in the EU. Regarding the marketing authorization application for general anesthesia, PAION received a positive CHMP opinion on the 50mg dosage in January 2023. This was finally followed by approval by the European Commission on April 03, 2023. For all products, there are obligations to carry out certain development work (such as in clinical and

non-clinical studies) even after approval. As is widely practiced in the pharmaceutical industry, contract research organizations (CROs) are contracted to conduct the studies. PAION exercises the monitoring and control functions customary in the industry. Nevertheless, there is a fundamental risk that inadequate performance of the studies could lead to necessary improvements and delays in the approval process or, in the worst case, to the withdrawal of a granted marketing authorization. To reduce this risk, CROs are carefully selected and regularly reviewed on the basis of defined processes and criteria. In addition, both the conduct of clinical trials at the respective study centers and the study data generated are controlled and monitored by independent third parties. This represents an increased risk. The risk classification has decreased by one category compared to the previous year. In the event of occurrence, the potential loss amount could be very high.

To ensure compliance with regulatory requirements, PAION works with experienced regulatory service providers. PAION regularly evaluates the services provided, also taking into account external comparative data, but due to the highly specialized expertise of the service providers, PAION cannot fully evaluate the services provided with regard to adequacy and compliance with regulatory requirements. Despite the high reputation of the contracted service providers, there is therefore a risk that regulatory requirements, for example with regard to documentation or quality assurance requirements, are not adequately fulfilled and that this jeopardizes the granting or maintenance of market approvals. This is a moderate risk. The risk classification has decreased by one category compared to the previous year

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

The results of clinical and non-clinical studies are not predictable. There is always a risk that unexpected, serious side effects may occur or that promising results of previous studies may not be confirmed to the same extent in subsequent studies and that previously defined primary and/or secondary endpoints of a study may not be met. The reasons for the latter can be both the insufficient suitability of the drug candidate for the intended indication and the respective study designs. If this risk materializes, there may be significant delays in further development or even a discontinuation of development or commercialization of the active ingredient concerned. These are typical development risks whose occurrence can only be influenced to a limited extent. With regard to the occurrence of unexpected, serious side effects, these include careful dose finding prior to the start of the study and close monitoring of safety aspects of the study, as well as, with regard to the results of studies and the achievement of primary and secondary endpoints, a study design and protocol carefully selected in advance of the study with the help of external experts and/or, in the course of the study, potential dose adjustments or modified study protocols,

insofar as there are indications of their necessity. The occurrence of unexpected serious adverse events is a moderate risk. In the event of inadequate study results and failure to achieve primary and secondary endpoints, this is a high risk. In case of occurrence, the potential amount of damage could be very high.

As part of the development of remimazolam for adult use, a follow-on development for pediatric use is mandatory in both the US and the EU. If there are delays such that this cannot be completed in the EU according to PAION's agreed timeline with the EMA, there is a risk that the marketing authorization in procedural sedation or general anesthesia may be withdrawn. PAION is working on the implementation of the pediatric development plan in the EU to minimize this risk. It is a high risk. In case of occurrence, the potential amount of damages could be very high.

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

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

In addition, regulatory authorities regularly conduct inspections with respect to the (manufacturing of the) drugs prior to granting marketing authorization. There is a risk that

quality deficiencies at PAION, PAION's contract manufacturers or other service providers engaged by PAION in this context could be identified by the authorities in the course of such inspections, which could lead to delays in market approval. To minimize this risk, PAION maintains a close cooperation with its contract manufacturers and service providers and regularly conducts audits itself to ensure a consistently high quality of manufacturing and related processes and documentation. PAION also cooperates with renowned and experienced external service providers for this purpose. This is an increased risk. In case of occurrence, the potential amount of damages could be very high.

bb) Commercialization risks

Various risks result from the commercialization of their products.

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

There is a risk that PAION or PAION's licensees will not be sufficiently successful in preparing the market through pre-marketing and market access activities, such as communication and exchange with the scientific community, and therefore the forecast volumes cannot be sold in the market. Paion adapts its organizational structure to the challenges and invests in product marketing. In addition, PAION benefits from the cooperation with distribution partners. In order to reduce this risk, PAION continues to work on the preparation of the relevant markets, including by bringing in external experts to communicate with the scientific community, by working with key opinion leaders and by building and expanding the internal commercial team There is also a regular exchange of information with licensees. As a large number of planned investigations and procedures were initially cancelled or postponed due to the Covid 19 pandemic, their subsequent catch-up and the resulting induced increased demand for sedatives and/or anesthetics may support the successful launch of remimazolam It is a high risk. If it were to occur, the potential amount of damage could be very high. In order to successfully market the products, PAION's distribution structures (for its own marketing in parts of Europe) or those of licensees, if not already in place, must be fully established There is a risk that this process may not be completed, or not completed at all, depending on the region and regulatory process. In order to minimize the risk to a large extent, PAION continues to work on establishing the sales structure with its own representatives as well as external distribution partners. In addition, PAION maintains a regular exchange of information with its licensees. This is a high risk. In case of occurrence, the potential loss amount could be very high.

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

cc) Production and purchasing risks

In preparation for commercialization, PAION has successfully completed so-called scale-up processes for the manufacture of Remimazolam together with experienced and renowned contract manufacturing organizations (CMOs), which serve to validate the technical feasibility of manufacturing even larger quantities of the product. However, the commercial production of Remimazolam has not yet been tested as a regular process, so there is a risk that remimazolam cannot be produced at commercial scale quickly enough, in sufficient quantity and/or quality, and/or at a competitive cost to the market. There is a financial risk of advance payments made/still to be made and purchase values due to binding purchase commitments entered into for third-party production (Cambrex - EUR 15 million) in the absence of sales. -This also applies in principle to the products angiotensin II and eravacycline, although these have been manufactured on a commercial scale for some time. To reduce this risk, PAION is working closely with the contract manufacturers to identify potential savings as well as opportunities to increase efficiency, such as increasing batch sizes, on the one hand, and to identify and address potential weaknesses in the processes at an early stage, on the other hand. In addition, PAION plans to maintain a safety stock of products. This is a high risk. In case of occurrence, the potential amount of damage could be very high.

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

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

PAION supplies licensees in different regions with remimazolam active ingredient in some cases. In the context of marketing, PAION is exposed to product liability risks. This also applies to the planned own marketing of remimazolam in certain European markets. PAION works with experienced and renowned CMOs for the production of both the active pharmaceutical ingredient (API) and the finished applicable product (DP), and the production process is regularly monitored by PAION's quality assurance department based on predefined processes and requirements and in close cooperation with the CMOs and licensees. Contractual liability

arrangements are in place with both CMOs and licensees. In addition, PAION has taken out product liability insurance to reduce the risk to a large extent and to limit any damage. This is a high risk. In case of occurrence, the potential amount of damages could be very high.

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

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

ee) Risks in connection with licensees

As global development and commercialization activities for remimazolam progress, licensees are increasingly conducting major clinical trials and are increasingly focused on important regulatory coordination, meetings with the respective regulatory authorities, submission of regulatory applications and preparation for potential commercialization. There is a risk that the results of clinical trials, discussions with regulatory authorities or the evaluation of marketing authorization applications by regulatory authorities may make the further development and/or commercialization of remimazolam no longer attractive to existing licensees in the respective market they have licensed and they may terminate their license for this reason. In order to mitigate this risk, PAION is in regular communication with all licensees and participates, as appropriate, in the evaluation of development plans, marketing authorization applications and strategies and analyses for price negotiations with authorities in order to share the extensive experience in the clinical development of remimazolam and the related also regulatory interaction with authorities with the licensees and thus ensure the successful conduct of clinical studies and the fulfillment of the respective regulatory requirements for both studies and marketing authorization applications as well as the best possible preparation of a potential commercialization. This is a moderate risk. The risk rating has decreased by one category compared to the previous year.

There is also the risk that there are delays in the development, regulatory processing and/or subsequent potential commercialization of remimazolam in the licensed territories and that PAION does not receive milestone payments and/or royalties at all or receives them late as a result. As the underlying original risks, which are already depicted in the other sections, are manifold and sometimes differ significantly depending on the licensee, no categorization of this risk is provided here.

b. Financial risks

aa) Financing risks

PAION expects future payments from existing collaborations and collaborations to be entered into in the future, if any, which will be used to finance part of its short- and mid-term funding requirements. Nevertheless, PAION requires additional funding for the further development and planned commercialization of remimazolam, eravacycline and angiotensin II in Europe. Additional funding requirements could also arise due to delays or cost increases in development and commercialization. Failure to achieve targets agreed with licensees could result in milestone payments and royalty income being received later than planned or not being received at all.

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

PAION carries out short-, medium- and long-term planning of its cash requirements and updates these on an ongoing basis in order to identify additional cash requirements in a timely manner and to take appropriate measures. Furthermore, PAION is in regular and close contact with investors as well as (potential) pharma partners and licensees. A capital reduction as a basis for a future potential capital increase was approved by the shareholders. The financing measures mentioned in the risk and opportunity report under the item "Indication of the existence of a going concern risk" should provide sufficient funds for the commercialisation phase. This continues to be a very high risk. The financing risk is unchanged compared to the previous year.

In case of occurrence, the potential amount of damage could be very high.

bb) Currency risks

PAION partly concludes contracts in foreign currencies, primarily in U.S. dollars, British pounds and Danish kroner. A strong increase of these currencies against the euro could make development and commercialization costs more expensive. To mitigate this risk, PAION also holds cash in U.S. dollars, British pounds and Danish kroner. Currency risks further arise from potential future revenue-based royalty payments to be made by licensees in different currencies depending on the licensed market, in particular in U.S. dollars from potential commercialization in the U.S.A., as well as from the translation of the individual financial statements of the U.K. and Danish subsidiaries from local currency into euros, as for the U.K. and Danish subsidiaries the British pound and the Danish krone, respectively, is the functional currency.

Currency risks are systematically recorded and monitored on the basis of short- and medium-term planning. With the approval of the Supervisory Board, the Management Board has drawn up clear rules on the hedging instruments to be used to limit currency risks. Under certain conditions, hedging transactions are concluded or corresponding foreign currency holdings are

maintained for foreign currency positions where the amount and timing of cash flows are relatively certain. This is a moderate risk.

cc) Liquidity and default risks

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

dd) Tax risks

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

The development costs for remimazolam are supported by tax credits due to current tax legislation in the United Kingdom. The determination of the refund claims is based on the determination methodology agreed between PAION and the UK tax authorities in previous years. If the determination methodology is changed or no longer recognized by the tax authorities, reimbursement claims already recognized could no longer be recoverable in such a case and credits received that have not yet been finally reviewed by the authorities could have to be partially or fully repaid. Due to a change in the law, PAION will no longer be eligible for tax incentives through tax credits in the fiscal year 2022. This is a low risk. The risk classification has decreased by one category compared to the previous year. Within the PAION Group, there is a diverse exchange of services between the companies, also across national borders. Due to the increasing complexity of the service relationships, particularly against the background of the planned commercialization of remimazolam, angiotensin II and eravacycline, there is a risk that the transfer prices applied and the underlying transfer methods will not be (fully) recognized by tax authorities and that litigation costs and/or possible (higher) tax payments (than planned) may be incurred. This is an increased risk.

The British subsidiary PAION UK Ltd, which holds the rights to remimazolam, is expected to generate significant income from licenses in the future if remimazolam is successfully marketed in the various territories. As a result of the final arrangement of the UK's exit from the EU, which is contractually fixed at the end of 2020, PAION could be subject to additional taxation in Germany on the basis of these revenues in the future, which could lead to significant additional tax payments for PAION due to the significantly higher tax rate in Germany and the more

restrictive minimum taxation compared to the UK. These tax payments would have a corresponding negative impact on liquidity. This is a high risk. The risk rating has decreased by one category compared to the previous year

In case of occurrence, the potential amount of damage could be very high.
With the beginning of commercialization, products are sold to European and other foreign countries. The supply chain of products is complex, and VAT legislation also imposes complex requirements for invoicing and documentation. If these requirements are not met correctly, fines could become due or VAT amounts could have to be paid that cannot be reclaimed. Paion reviews business transactions with tax advisors to ensure compliance with tax rules. This is a moderate risk.

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

ee) Insolvency risk

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

In order to monitor the net assets, financial position and results of operations of PAION AG and the operating subsidiaries, monthly reporting is carried out for each of them, in which a balance sheet and an income statement are prepared. Liquidity for each company is monitored on a daily basis. This is a high risk. In the event of occurrence, the potential loss could be very high. The risk rating has decreased by one category compared with the previous year.
As discussed in section b (aa and cc), these events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and represents a going concern risk.

ff) Risks from loan financing

PAION has taken out a loan in the amount of EUR 20 million in 2021. There is a risk that PAION may only be able to pay part of the interest or repayments due, late or not at all. In order to minimize the risk, part of the interest is due at maturity and the repayment of the loan is scheduled to take place only from the fourth year after the loan was taken out. Nevertheless, ongoing interest of 6% or 7.5% (depending on the tranche) is payable. Should this risk materialize, it could in the worst case lead to PAION's insolvency. This is a high risk. In case of occurrence, the potential loss amount could be very high.

c. IT Risks

As a globally active group, PAION has complex IT systems that enable the instantaneous exchange of data via both stationary and mobile devices and on which PAION urgently relies for its

business activities. There is a risk that third parties could gain unauthorized access and delete, corrupt or use confidential data to PAION's disadvantage or intentionally damage the IT infrastructure. This could occur through direct attacks, access via mobile devices or the introduction of malware that is unintentionally installed or executed by the user. PAION has implemented an integrated multi-level security concept that largely reduces the risk of such accesses. It is an increased risk. In case of occurrence, the potential amount of damage could be very high.

Substantial parts of the IT infrastructure are hosted with external providers. There is a risk that incidents such as hardware defects at the IT hosts could cause substantial parts of the IT systems to fail and that, as a result, PAION would not be able to fulfill contractual or regulatory obligations in a timely manner, for example, and/or data could be irrevocably deleted. In order to reduce this risk as far as possible, PAION works with experienced and renowned IT service providers that have redundant and physically separate systems in order to still be able to guarantee the uninterrupted functionality of the IT infrastructure in the event of damage. Data is backed up on a daily basis. In addition, the existing IT infrastructure is currently being transformed into a cloud-based environment. This is an increased risk.
In parallel to the establishment of sales structures, PAION is currently also introducing a Group-wide ERP system in order to be able to control and map the relevant processes, such as purchasing, sales and finance, in an integrated software system. The planned ERP system was introduced on 01.01.2023. If the ERP system is not available, this may lead to the interruption of operating processes. To reduce the risk, paion has implemented measures as well as carefully selected the external service provider to operate the ERP. . Contingency plans are part of the service package with the service provider. This is an increased risk. The risk classification has increased by one category compared to the previous year. In the event of occurrence, the potential amount of damage could be very high.

d. Legal and compliance risks

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

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

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

4. Market opportunities

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

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

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

PAION believes that having its own distribution infrastructure for the hospital market in selected European markets will provide the opportunity to acquire or in-license additional products in the future in order to further increase both revenues and profitability.

Remimazolam besilate

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

The development in general anesthesia has been completed in the EU, Japan and South Korea and remimazolam is marketed in Japan and South Korea. PAION submitted an extension of the marketing authorization application for remimazolam for the indication general anesthesia at the end of 2021. The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP; Committee for Medicinal Products for Human Use) adopted a positive opinion on January 27, 2023, recommending approval of remimazolam for the induction and maintenance of general anesthesia in adults. This was finally followed by approval by the European Commission on April 03, 2023. Based on publicly available statistics on procedures and surgeries in the EU as well as market research, PAION estimates that approximately 29 million surgeries are performed

under general anesthesia in the EU each year. Based on its own projections, PAION currently estimates an annual peak sales potential of approximately EUR 50 million to approximately EUR 60 million for general anesthesia in Europe.

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

Angiotensin II and Eravacycline

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

Overall picture of opportunities and risks

In selected European markets, the company has started its own marketing activities. For all other regions, the goal is to find licensees or distribution partners. PAION is well positioned to find additional licensees. Pharmaceutical companies increasingly need to add new substances to their product portfolio that have proven their efficacy at an advanced stage of clinical development or are already approved and represent an economically attractive alternative in the global healthcare environment characterized by increasing cost consciousness. PAION is in partnering discussions with potential additional licensees for remimazolam. Overall, PAION has the opportunity to generate significant revenue from the potential commercialization of its product portfolio or significant licensing income. The annual peak revenue potential is approximately EUR 200m.

PAION made good progress in implementing its strategy in the fiscal year. Remimazolam is already marketed in many countries. PAION also continued to commercialize remimazolam, angiotensin II and eravacycline in European countries. Applications of the

products indicate good market acceptance and there is positive feedback from customers about the experience with remimazolam in particular. The establishment of commercial distribution involving experienced distribution partners, such as Viatris and Medis, is gradually having an impact, accompanied by a moderate increase in product sales. The risk of failure in the development of remimazolam has thus been further reduced, while the chances of successful marketing in an increasing number of regions worldwide have increased. Overall, the opportunity situation has improved compared to the previous year.

The company's own marketing activities in parts of Europe require, in particular, the establishment and expansion of a sales infrastructure. However, the costs cannot yet be covered by revenues from product sales or royalties, so there is a substantial need for additional financing in the short to medium term. To this end, PAION entered into an agreement with Humanwell during the fiscal year for the sale of remimazolam patents and future remimazolam royalties in China for EUR 20.5 million. However, PAION will need additional funds to successfully market the product portfolio in Europe. The financing risk remains high compared to the previous year. Overall, the risk situation is increased compared to the previous year.

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

Supplementary report

Reference is made here to the supplementary report in the notes to the consolidated financial statements.

Forecast Report

Business outlook (non-financial performance indicators)

PAION's focus in 2023 will remain on the commercialization of its product portfolio, consisting of the approved products remimazolam (Byfavo®), angiotensin II (GIAPREZA®) and eravacycline (XERAVA®). Remimazolam is also expected to be marketed in Germany, Portugal, and Austria by the end of 2023. Following remimazolam approval by the European Medicines Commission for the induction and maintenance of general anesthesia in adults on 03 April 2023, PAION plans to launch remimazolam in general anesthesia in Europe early in the second half of 2023.
Planned research and development activities mainly relate to pediatric development and the processing of post-approval commitments and life-cycle management for remimazolam, Angiotensin II and Eravacyclin. In addition, minor activities take place in the area of production development.

With remimazolam marketed in the U.S., Japan, South Korea and much of Europe, PAION expects product sales and revenues from licensees and distributors to increase, resulting in increased royalty income.

Financial outlook 2023 (Financial performance indicators)

PAION expects revenues of approximately EUR 13 million to approximately EUR 19 million in 2023. Approximately EUR 1 million of revenues are expected from existing licensees and approximately EUR 12 million from sales of remimazolam active ingredient. Revenues from distribution partners in Europe and revenues from own sales of remimazolam, angiotensin II and eravacycline are expected to range from approximately EUR 2 million to approximately EUR 4 million.

The cost of sales will amount to approximately EUR 11 million to approximately EUR 15 million.

The focus of activities in 2023 will continue to be on marketing and sales, so that administrative and selling expenses of approximately EUR 10 million to approximately EUR 13 million are expected, depending on the progress of commercial activities. Research and development expenses are budgeted between approximately EUR 4 million and approximately EUR 6 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) of approximately EUR -15 million to approximately EUR -13 million are forecast for 2023.

PAION expects stable headcount at previous year's level in 2023

The key assumption for the outlook is that the activities of PAION and the licensees will continue as planned. Furthermore, the planning is based on the assumption that the further funding requirements can be at least partially covered by financing measures in the course of the fiscal year 2023. Delays would lead to a postponement of significant cost blocks and/or revenues into 2024 or beyond.

PAION expects increasing revenues in the coming years, both from licensing agreements and from its own commercialization in parts of Europe. The Management Board of PAION AG is working at full speed to establish a solid financing concept. In particular, additional funding will be required for the further expansion of the sales infrastructure, the ongoing sales activities in Europe as well as so-called "post-approval commitments" towards the respective regulatory authorities, e.g. possible Phase IV studies after approval or market launch of the products. According to current planning, there is a financing requirement of approximately EUR 30 million in the coming years until break-even, which could be raised through various financing measures as well as additional partnerships. Based on cash on hand, expected payments from revenues as well as potential financing and/or out-licensing, PAION expects to have sufficient cash and cash equivalents for the next 12 months, taking into account the current planning.

Aachen, May 15, 2023

PAION AG

Gregor Siebert Sebastian Werner

Consolidated Financial Statements

PAION AG

Consolidated balance sheet as of December 31, 2022

ASSETS	Note	31 Dec. 2022 EUR	31 Dec. 2021 EUR
Non-current assets			
Intangible assets	1	19,585	19,653
Equipment	2	168	178
Right-of-use assets	12	591	720
		20,344	**20,551**
Current assets			
Trade receivables	3	2,228	1,717
Inventories	4	3,720	4,822
Prepaid expenses and other assets	5	1,256	3,255
Cash and cash equivalents	6	10,629	6,440
		17,833	**16,234**
Total assets		**38,177**	**36,785**

EQUITY AND LIABILITIES	Note	31 Dec. 2022 EUR	31 Dec. 2021 EUR
Equity	7		
Share capital		71,337	71,337
Capital reserve		144,539	144,414
Translations reserve		-1,048	-1,118
Loss carryforward		-207,634	-185,849
Result of the period		-579	-21,785
		6,615	**6,999**
Non-current liabilities			
Financial debt	13	18,468	18,200
Lease liabilities	12	452	566
Provisions	8	26	35
		18,946	**18,801**
Current liabilities			
Trade payables			
Provisions	9	8,005	6,585
Financial debt	8	845	2,305
Lease liabilities	13	1,285	1,285
Tax liabilities	12	147	158
Other current liabilities	11	98	51
Sonstige kurzfristige Verbindlichkeiten	10	2,236	601
		12,616	**10,985**
Total equity and liabilities		**38,177**	**36,785**

Consolidated statement of comprehensive income for the fiscal year 2022

	Note	2022 KEUR	2021 KEUR
Revenues	14	33,248	7,128
Cost of Sales	15	-1,960	-3,077
Gross Profit		31,288	4,051
Research and development expenses	15	-6,485	-5,249
General administrative and selling expenses	15	-21,198	-19,829
Other income	16	856	769
Other expenses	16	-2,956	-1,821
Operating expenses		-29,783	-26,130
Operating result		1,505	-22,079
Financial income		1,097	1,562
Financial expenses		-2,803	-2,065
Financial result	17	-1,706	-503
Result for the period before taxes		-201	-22,582
Income taxes	18	-378	796
Result for the period		**-579**	**-21,786**
of which attributable to other shareholders		0	0
of which attributable to shareholders of PAION AG		-579	-21,786
Foreign currecy translation of subsidiaries		70	-108
Total income and expense recognized directly in equity that will be reclassified to profit or loss when specific conditions are met		70	-108
Other comprehensive income		70	-108
Total comprehensive income		**-509**	**-21,893**
of which attributable to other shareholders		0	0
of which attributable to shareholders of PAION AG		-509	-21,893
Earnings per share (basic)	19	-0.08	-3.11
Earnings per share (diluted)	19	-0.08	-3.11

Consolidated cash flow statement for the fiscal year 2022

		2022 KEUR	2021 KEUR
Cash flows from operating activities:	**20**		
Net result for the year		-579	-21,786
Reconciliation of net profit (loss) for the period to cash flows from operating activities:			
Income taxes		378	-796
Amortization/depreciation and non-cash changes of fixed assets		1,708	1,692
Loss/Profits from the disposal of non-current assets		0	7
Interest expenses and interest income		2,793	2,065
Expenses from stock option plans		125	342
Transaction costs and fair value adjustments in connection with financing activities		-1,087	-1,562
Changes in assets and liabilities which are not attributable to investing or financing activities:			
Inventories		1,103	-3,049
Trade receivables		-511	-1,217
Prepaid expenses and other assets		194	-385
Trade payables		1,420	2,476
Provisions		-1,469	99
Tax Debt		98	51
Other current liabilities		1,528	-168
Non-cash exchange losses/gains		195	-242
		5,896	**-22,473**
Interest paid		-1,448	-1,021
Interest received		10	0
Tax payments		-322	-110
Tax payments received		1,805	2,425
Cash flows from operating activities		**5,941**	**-21,179**
Cash flows from investing activities:	**20**		
Cash paid for investments in intangible assets and equipment		-1,586	-19,205
Cash flows from investing activities		**-1,586**	**-19,205**
Cash flows from financing activities:	**20**		
Obtainment of loan		0	20,000
Capital increase		0	5,095
Contributions to the capital reserve		0	2,752
Payments in connection with raising capital		0	-586
Principal portion of lease payments		-126	-114
Cash flows from financing activities		**-126**	**27,147**
Change in cash and cash equivalents		4,229	-13,237
Effect of exchange rate changes on cash		-40	10
Cash and cash equivalents at beginning of period		6,439	19,666
Cash and cash equivalents at end of the period		**10,628**	**6,439**
Composition of cash and cash equivalents at the end of the period:			
Cash and cash equivalents		**10,628**	**6,439**

Consolidated statement of changes in equity for the fiscal year 2022

EUR	Share capital	Capital reserve	Translation reserve	Loss carryforward	Equity
31 December 2020	**66,242**	**141,907**	**-1,010**	**-185,849**	**21,290**
Total comprehensive income	0	0	-108	-21,785	-21,893
Issue of shares	5,095	0	0	0	5,095
Contribution to the capital reserve	0	2,751	0	0	2,751
Cost of raising capital	0	-586	0	0	-586
Additional contribution to the capital reserve due to the issue of options	0	342	0	0	342
31 December 2021	**71,337**	**144,414**	**-1,118**	**-207,634**	**6,999**
Total comprehensive income	0	0	70	-579	-509
Issue of shares	0	0	0	0	0
Contribution to the capital reserve	0	0	0	0	0
Cost of raising capital	0	0	0	0	0
Additional contribution to the capital reserve due to the issue of options	0	125	0	0	125
31 December 2022	**71,337**	**144,539**	**-1,048**	**-208,213**	**6,615**

Notes to the Consolidated Financial Statements

PAION AG

General disclosures

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

- PAION Deutschland GmbH, Aachen/Germany
- PAION Holdings UK Ltd, Cambridge/UK
- PAION UK Ltd, Cambridge/UK
- PAION Netherlands B.V., Heerlen/Netherlands
- PAION Scandic ApS, Odense/Denmark
- PAION Portugal Farmacêutica Unipessoal Lda, Lisbon/Portugal
- TheraSci Limited, Cambridge/UK

PAION Portugal Farmacêutica Unipessoal Lda. was founded in December 2022 and fully consolidated.

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

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

It is planned to approve and release for publication the consolidated financial statements as of December 31, 2022 at the Supervisory Board meeting on May 15, 2023.

Basis of accounting

The consolidated financial statements as of December 31, 2022 have been prepared in accordance with Section 315 e of the German Commercial Code (HGB) (consolidated financial statements according to international accounting standards) and comply with the International Financial Reporting Standards (IFRS) as mandatory applicable in the European Union (EU) as of December 31, 2022. PAION applies all IFRSs issued by the International Accounting Standards Board (IASB), London, UK, and already effective as of the balance sheet date, December 31, 2022, provided that they have been adopted by the European Commission for application in the EU by the time the consolidated financial statements are prepared. In accordance with IAS 1, assets and liabilities are recognized and measured in accordance with those standards whose application is mandatory as of December 31, 2022.

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

- IFRS 3 "Business Combinations" (amendment of references to the framework)
- Amendments to IAS 16 "Property, Plant and Equipment" (Revenue before Intended Use)
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (onerous contracts, settlement costs of contracts)
- Annual Improvements to IFRSs 2018-2020 Amendments to IFRS 1 (Subsidiaries as First-time Adopters), IFRS 9 (Fees in the "10% Test" in Relation to the, Derecognition of Financial Liabilities), IFRS 16 (Lease Incentives), IAS 41 (Taxation on Fair Value Measurements).

The application of these standards, amendments and interpretations, which are applicable for the first time, did not result in any additional disclosures or impact on the Group's net assets, financial position and results of operations.

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

- Amendments to IFRS 17 "Insurance Contracts" (First-time Adoption of IFRS 17 and IFRS 9 - Comparative Figures): The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. Adoption by the EU Commission has been effected.
- Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 (Disclosure of Accounting Policies): The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. Adoption by the EU Commission has been effected.
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (definition of accounting estimates): The amendments are effective for annual periods beginning on or after January 1, 2023.

Earlier application is permitted. Adoption by the EU Commission has taken place.

- Amendments to IAS 12 "Income Taxes" (Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction): The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. Adoption by the EU Commission has taken place.
- Amendments to IAS 1 "Presentation of Financial Statements" (classification of liabilities as current or non-current): The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. Adoption by the EU Commission is still pending.
- Amendments to IAS 1 "Presentation of Financial Statements" (Current Liabilities with Conditions):The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. Adoption by the EU Commission is still pending.
- Amendments to IFRS 16 "Leases" (Lease Liabilities Arising from a Sale and Leaseback Transaction): The amendments are effective for fiscal years beginning on or after January 1, 2024. Earlier application is permitted. Adoption by the EU Commission is still pending.

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

The consolidated financial statements are prepared in euros. Amounts are stated in EUR and EUR thousand.

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

In accordance with IAS 1 "Presentation of Financial Statements," a distinction is made in the balance sheet between non-current and current assets and between current and non-current liabilities. Assets, liabilities and provisions are regarded as current if they are realizable or due within one year.

Segment reporting in the consolidated financial statements has been dispensed with, as no segments subject to reporting requirements under IFRS 8 could be identified.

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

In preparing the consolidated financial statements, estimates and judgments are mainly used in accounting for intangible assets, provisions and sales. The development project remimazolam, which was capitalized as part of the acquisition of the PAION UK group, is being amortized over its useful economic life, which is based on forward-looking assumptions at the time of market approval and patent protection. This applies accordingly to the commercialization rights for the products angiotensin II and eravacyclin acquired in the reporting year. In the case of the loan agreement concluded with the European Investment Bank (EIB), the disbursement amount of the respective tranches was divided at the time of initial recognition between the basic liability on the one hand and the performance-related compensation component as a derivative subject to spin-off on the other. The basic liability including the current and bullet interest components is measured at amortized cost using the effective interest method. The performance-related compensation component is a derivative that is dependent on the PAION share price.
AG at the time of repayment of the last part of the respective tranche of the loan and due at that time, which is subject to separation as an embedded derivative and is subsequently measured at fair value on the basis of the Black/Scholes model. The performance-based compensation component was estimated at the reporting date based on the closing price of the PAION share. In the past, PAION's revenues mainly resulted and continue to result to a not insignificant extent in the reporting period from license agreements, which generally include the transfer of previously generated data, the achievement of development-related milestones as well as royalties dependent on commercial success. Revenues in connection

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

The consolidation principles and accounting policies applied in the previous year have been retained, taking into account the new or amended standards and interpretations. In contrast to the previous year, the consolidated figures are stated in EUR and EUR thousand.

Consolidation principles

The consolidated financial statements include PAION AG, the subsidiaries PAION Deutschland GmbH, PAION Netherlands B.V., PAION Scandic ApS, PAION Portugal Farmacêutica Unipessoal Lda. and PAION Holdings UK Ltd as well as their subsidiaries listed under "General Information". The financial statements of the entities included in the consolidated financial statements are prepared using uniform accounting policies and are fully consolidated in accordance with the purchase method of accounting as soon as control is obtained Receivables and payables, income and expenses, and intercompany profits arising from intragroup transactions are eliminated.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the functional currency of PAION AG and the presentation currency of the Group. Each entity within the Group determines its own functional currency. This is the euro for the German companies, the Dutch subsidiary and the Portuguese subsidiary. For the UK-based companies it is the British pound and for the Danish-based company it is the Danish krone. Items included in the financial statements of each entity are initially translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at each reporting date using the closing rate. All resulting exchange differences are recognized in profit or loss, with the exception that exchange rate gains and losses on intragroup loans are classified as a net investment in a foreign operation and recognized directly in equity if the conditions of IAS 21 are met.

Assets and liabilities of foreign companies are translated into euros at the balance sheet date using the closing rate (closing rates as of December 31, 2022: 0.8860 GBP/EUR and 7.4360 DKK/EUR; closing rates as of December 31, 2021: 0.8399 GBP/EUR and 7.4369 DKK/EUR). This also includes any goodwill arising on the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities. Equity components are translated into euros using historical exchange rates at the date of initial consolidation. Expenses and income are translated into euros using monthly average exchange rates (range in 2022 from 0.8346 GBP/EUR to 0.8743 GBP/EUR and from 7.4365 DKK/EUR to 7.4432 DKK/EUR; range in 2021 from 0.8465 GBP/EUR to 0.8928 GBP/EUR and from 7.4362 DKK/EUR to 7.4396 DKK/EUR). The resulting translation differences are recognized as a separate component of equity.

Accounting and valuation methods

Business combinations before January 1, 2010

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

There were no business combinations after January 1, 2010.

Intangible assets

Intangible assets acquired for consideration are recognized at cost. They are amortized on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that the intangible asset may be impaired. A useful life of between three and ten years is assumed for software. The directly attributable expenses in connection with the implementation of the new ERP system are capitalized and amortized on a straight-line basis from the beginning of January 2023. For the impairment test to be performed in accordance with IAS 36.10, the fair value of the ERP system was determined on the basis of a cost-oriented valuation method. Development and marketing rights for substances are amortized over the term of the underlying patents.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the expected useful life, which is generally between three and twenty years. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverability of assets retained in the company and used there is assessed on the basis of a comparison between the carrying amount and the higher of fair value less costs to sell and value in use. If an asset is determined to be less than its carrying amount, it is written down to the higher of its fair value less costs to sell and its value in use. If the reasons for previously recognized impairment losses no longer exist, the assets are written up. The write-up may not exceed the amortized cost.

Leases

Leased items of property, plant and equipment that meet certain criteria set out in IFRS 16 "Leases" are capitalized as right-of-use assets and the present value of the lease payments to be made is recognized as a liability. Capitalized leased assets are depreciated on a straight-line basis over the short of the lease term or useful life.

Financial assets

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

Financial instruments

Upon initial recognition, financial assets are allocated to one of the following measurement categories, which also correspond to the financial instrument classes as defined by IFRS 9:

- Subsequent measurement at amortized cost,
- subsequent measurement at fair value without effect on profit or loss or
- subsequent measurement at fair value through profit or loss.

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

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

In fiscal year 2022, no financial instruments were allocated to the category "subsequent measurement at fair value through other comprehensive income".

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

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

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

Level 3: Fair value is determined using valuation techniques that are not based on current market information.

Receivables and other assets

Trade receivables and other assets are recognized at amortized cost. Receivables denominated in foreign

currencies are translated at the closing rate. Exchange rate gains or losses are recognized in profit or loss.

Inventories

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

Cash and cash equivalents

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

Equity

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

Provisions

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

Financial debt

Financial liabilities are measured at fair value at the time of addition. Financial liabilities are generally subsequently measured at amortized cost. In the case of hybrid contracts containing embedded derivatives, either the embedded derivatives are separated and recognized at fair value through profit or loss and the host instrument is recognized at amortized cost, if the embedded derivatives are not closely related to the host contract, or the entire hybrid contract is measured at fair value through profit or loss, based on the specific terms of the contract.

Trade accounts payable/other liabilities

Trade accounts payable and other liabilities are stated at their repayment amount. Liabilities denominated in foreign currencies are translated at the closing rate. Exchange rate gains or losses are recognized in profit or loss.

Revenues

Revenue for the fiscal year is recognized when it is realized in accordance with IFRS 15. Revenue is recognized when PAION's performance obligation is satisfied by the transfer of a promised good or service. Such an asset is considered to be transferred when the customer obtains control over it and can therefore determine its use and obtain substantially all of the remaining benefits from it. In this context, some performance obligations are settled over a certain period of time, while others are settled at a certain point in time.

PAION generates revenues from the sale of active pharmaceutical ingredients to licensees, from its own sales of drugs to hospitals or wholesalers and, as before, to a not insignificant extent from the sale or outlicensing of (rights to) substances and drug candidates. In the context of the sale or outlicensing of substances or technological knowledge, comprehensive data and technology access to the purchaser or licensee regularly takes place first. Depending on the licensee's strategy, further services are then agreed, such as (support in) implementing a production process, conducting and completing clinical trials in other regions, or, for example, providing market approval applications from other regions.

Revenue from performance obligations that will be settled at a specific point in time is recognized at the time of settlement.

Due to the high risk inherent in the development of medical and pharmaceutical products, revenues in connection with performance obligations that are performed over a period of time, include research and development activities and/or milestones, and whose successful completion is owed by PAION, are only recognized if, based on the contractual provisions, the performance features to be rendered have also been completely fulfilled in the respective period.

Revenues in connection with performance obligations that are rendered over a period of time, are quantifiable and for which PAION does not owe any success, are recognized according to the stage of completion at the end of the respective reporting period.

Sales of active ingredients to licensees or own sales of finished goods to hospitals or wholesalers are recognized as revenue as soon as the performance obligations have been fulfilled and the respective contractually stipulated transfer of risk has taken place. Revenue-based royalties from licensees are recognized as sales when the underlying sales have been made by the licensees.

Research and development expenses

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

Interest income/expense

Interest income/expense is recognized in the period in which it is incurred. Any necessary accruals are determined using the effective interest method.

Taxes on income/deferred taxes

Deferred taxes are accounted for in accordance with IAS 12 "Income Taxes. Deferred taxes are recognized for temporary differences between the IFRS and tax bases of assets and liabilities, taking into account future tax rates that have been enacted or substantively enacted. The effects of a legally enforceable change in tax rates on the carrying amount of deferred taxes are recognized in the year in which the change is legally enacted. Deferred taxes are also recognized on tax loss carryforwards. Deferred tax assets are not recognized if it is probable that some portion or all of the deferred tax asset will not be recoverable. Tax credits on parts of the research and development costs by the British tax authorities are recognized under taxes on income.

Share-based payment transactions

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

Notes to the consolidated balance sheet

(I) Intangible assets

Intangible assets developed as follows:

in EUR	Industrial property rights and similar rights and assets
Acquisition costs	
01.01.2021	12,565,192.20
Additions	19,246,048.07
Disposals	0.00
Transfers	0.00
Currency changes	867,589.28
31.12.2021	32,678,829.55
Additions	1,545,955.28
Disposals	0.00
Transfers	0.00
Currency changes	-683,438.64
31.12.2022	33,541,346.19
Accumulated depreciation and impairment losses	
01.01.2021	10,735,793.33
Additions	1,546,378.89
Disposals	0.00
Currency changes	743,979.40
31.12.2021	13,026,151.62
Additions	1,529,417.07
Disposals	0.00
Currency changes	-599,194.63
31.12.2022	13,956,374.06
Carrying amounts Dec. 31, 2021	**19,652,677.93**
Carrying amounts Dec. 31, 2022	**19,584,972.13**

Intangible assets mainly comprise the European marketing rights acquired in the previous year for the products Angiotensin II (acquisition cost: EUR 14,794 thousand; carrying amount as of December 31, 2022: EUR 12,679 thousand; December 31, 2021: EUR 13,735 thousand) and Eravacycline (acquisition cost: EUR 3,699 thousand; carrying amount as of December 31, 2022: EUR 3,118 thousand; December 31, 2021: EUR 3,408 thousand). December 31, 2022: EUR 3,118 thousand; December 31, 2021: EUR 3,408 thousand), the asset Remimazolam (carrying amount as of December 31, 2022: EUR 1,486 thousand; December 31, 2021: EUR 1,752 thousand) and an ERP system being implemented (carrying amount as of December 31, 2022: EUR 2,298 thousand; December 31, 2021: EUR 752 thousand) which has been put into operation as of January 1, 2023. The acquisition costs of the ERP system will be amortized on a straight-line basis over the scheduled useful life from 2023 onwards.

Only external implementation costs were capitalized. The capitalized costs amount to EUR 2,298 thousand as of December 31, 2022; (December 31, 2021: EUR 752 thousand). An impairment test has been performed based on the fair value less costs to sell. As the price for an identical asset is not observable, the fair value of the ERP system was determined using the cost-based approach in accordance with IFRS 13 (replacement costs). Hierarchy level 2 input factors were used for the calculation (fair value is determined using valuation methods based on price-relevant information).

The marketing rights acquired in the previous year are amortized on a straight-line basis over the expected patent term until 2034 in the case of angiotensin II or 2033 in the case of eravacycline. The asset remimazolam is being amortized on a straight-line basis over the expected patent life until mid-2031.

Amortization of intangible assets mainly relates to angiotensin II, eravacyclin and remimazolam and is recognized in selling expenses for the newly acquired marketing rights and in research and development expenses for remimazolam. Part of the amortization of intangible assets relates to software and is recognized

partly in research and development expenses and partly in general, selling and administrative expenses. The assessment of the value of the marketing rights is based on sales expectations, taking into account the sales volumes planned by the distributors.

(2) Property, plant and equipment

Property, plant and equipment developed as follows:

in EUR	Technical equipment and machinery	Other equipment, factory and office equipment	Total
Acquisition costs			
01.01.2021	17,620.97	476,601.95	494,222.92
Additions	42,480.90	154,463.56	196,944.46
Disposals	0.00	0.00	0.00
Transfers	0.00	0.00	0.00
Currency changes	0.00	17,450.53	17,450.53
31.12.2021	60,101.87	648,516.04	708,617.91
Additions	0.00	39,786.46	39,786.46
Disposals	0.00	0.00	0.00
Transfers	0.00	0.00	0.00
Currency changes	0.00	-14,730.80	-14,730.80
31.12.2022	60,101.87	673,571.70	733,673.57
Accumulated depreciation and impairment losses			
01.01.2021	3,213.00	474,729.38	477,942.38
Additions	15,961.00	19,361.79	35,322.79
Disposals	0.00	0.00	0.00
Currency changes	0.00	17,034.31	17,034.31
31.12.2021	19,174.00	511,125.48	530,299.48
Additions	18,130.04	30,882.38	49,012.42
Disposals	0.00	0.00	0.00
Currency changes	0.00	-13,942.34	-13,942.34
31.12.2022	37,304.04	528,065.52	565,369.56
Carrying amounts Dec. 31, 2021	**40,927.87**	**137,390.56**	**178,318.43**
Carrying amounts Dec. 31, 2022	**22,797.83**	**145,506.18**	**168,304.01**

(3) Trade receivables

As of December 31, 2022, trade accounts receivable result in the amount of EUR 1,844 thousand from the sale of remimazolam active ingredient, in the amount of EUR 219 thousand from sales-related license fees, and in the amount of EUR 165 thousand from product sales in Europe.

(4) Inventories

Inventories amounted to EUR 3,720 thousand as of December 31, 2022 (previous year: EUR 4,822 thousand) and comprise finished goods (remimazolam active ingredient and (finished) drug product of Byfavo®, angiotensin II and eravacycline) in the amount of EUR 1,161 thousand and advance payments made on inventories (remimazolam active ingredient) in the amount of EUR 2,559 thousand. Impairment losses of EUR 1,466 thousand (previous year: EUR 0 thousand) were recognized on inventories in the current financial year due to the short-term expiry date and are reported under other operating expenses (see Note 15).

(5) Prepaid expenses and other assets

Prepaid expenses and other assets mainly include sales tax refund claims (EUR 875 k, prior year: EUR 1,052 k) and invoice deferrals for prepaid insurance premiums, rents and other prepayments (EUR 242 k, prior year: EUR 150 k).

(6) Cash and cash equivalents

Cash and cash equivalents break down as follows:

	31.12.2022 KEUR	31.12.2021 KEUR
Bank balances and cash in hand	10,629	6,440
Short-term deposits	0	0
	10,629	6,440

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

(7) Equity

As of December 31, 2022, the share capital amounts to EUR 71,336,992.00 (previous year: EUR 71,336,992.00) and is divided into 71,336,992 no-par value shares (previous year: 71,336,992 shares). There were no deviations from and no adjustments to the share capital in the reporting year. On 25 January 2023, the Extraordinary General Meeting of PAION AG approved a capital reduction. Further details are explained in the supplementary report.

As of December 31, 2022, the capital reserve amounts to EUR 144,538,586.55 (previous year: EUR 144,413,862.19) and includes the premium from the issue of shares as well as additions to expenses to be made over the vesting period in the amount of the fair value of issued stock options. In addition, equity procurement costs have been deducted directly from the capital reserve in accordance with IAS 32.35 in the course of capital increases.

By resolution of the Annual General Meeting on May 27, 2020, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital on one or more occasions in the period up to May 26, 2025 by up to a total of EUR 26,134,928.00 by issuing up to 26,134,928 new no-par value bearer shares in return for cash contributions or contributions in kind (Authorized Capital 2020). On March 19, 2021, the Executive Board resolved, with the approval of the Supervisory Board, to

issue 5,095,499 no-par value bearer shares against cash contributions at a subscription price of EUR 1.54 per share under the authorization granted by the Annual General Meeting, granting subscription rights to existing shareholders. Existing shareholders were able to subscribe to the new shares at a subscription ratio of 13:1 during the subscription period from March 24, 2021 to April 6, 2021. A US investor had undertaken to purchase the shares not subscribed by existing shareholders or other investors in the subscription offer at the subscription price. Upon completion of the capital measure, the share capital of the Company was increased by EUR 5,095,499.00 from EUR 66,241,493.00 to EUR 71,336,992.00 through the issue of 5,095,499 new shares. The capital increase with gross issue proceeds of EUR 7.8 million was entered in the commercial register on April 9, 2021. Authorized Capital 2020 decreased to EUR 21,039,429.00 as a result of this capital measure.

By resolution of the Annual General Meeting on May 27, 2021, the Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital in the period up to May 26, 2026, on one or more occasions by up to a total of EUR 35,668,496.00 by issuing up to 35,668,496 new no-par value bearer shares in return for cash contributions or contributions in kind (Authorized Capital 2021). In addition, the Executive Board has been authorized to use up to EUR 7,133,699.00 of Authorized Capital 2021 for cash capital increases, excluding subscription rights. The remaining Authorized Capital 2020 in the amount of EUR 21,039,429.00 was cancelled.

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

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

At the Annual General Meeting on 19 May 2010, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 720,000.00 by issuing up to a total of 720,000 new no-par value bearer shares (Conditional Capital 2010 I). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2010 I to EUR 676,626.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2010 exercise their option rights. Under the Stock Option Program 2010, 670,626 stock options have been issued to current and former members of the Management Board and employees of the PAION Group as of December 31, 2022. So far, 20,000 stock options have been exercised. As of December 31, 2022, the Conditional Capital 2010 I amounts to EUR 676,626.00.

At the Annual General Meeting on 21 May 2014, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 740,000.00 by issuing up to a total of 740,000 new no-par value bearer shares (Conditional Capital 2014). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2014 to EUR 530,010.00. The conditional capital

increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2014 exercise their option rights. Under the Stock Option Program 2014, 530,010 stock options have been issued to former and current members of the Management Board and employees of the PAION Group as of December 31, 2021. The stock options have not yet been exercised. As of December 31, 2022, the Conditional Capital 2014 amounts to EUR 530,010.00.

At the Annual General Meeting on 25 May 2016, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 840,000.00 by issuing up to a total of 840,000 new no-par value bearer shares (Conditional Capital 2016). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2016 to EUR 702,672.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2016 exercise their option rights. Under the Stock Option Program 2016, 700,472 stock options have been issued to former and current members of the Management Board and employees of the PAION Group as of December 31, 2022. The stock options have not yet been exercised. As of December 31, 2022, the Conditional Capital 2016 amounts to EUR 702,672.00.

At the Annual General Meeting on May 23, 2018, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 900,000.00 by issuing up to a total of 900,000 new no-par value bearer shares (Conditional Capital 2018 II). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2018 II to EUR 806,250.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2018 exercise their option rights. As of December 31, 2022, 751,880 stock options have been issued to former and current members of the Management Board and employees of the PAION Group under the Stock Option Program 2018. The stock options have not yet been exercised. As of December 31, 2022, Conditional Capital 2018 II amounts to EUR 806,250.00.

At the Annual General Meeting on May 27, 2020, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 1,200,000.00 by issuing up to a total of 1,200,000 new no-par value bearer shares (Conditional Capital 2020). The conditional capital increase may only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2020 exercise their option rights. As of December 31, 2022, 30,000 stock options have been issued to employees of the paion group under the stock option program 2020. As of December 31, 2022, the Conditional Capital 2020 amounts to EUR 1,200,000.00.

The reserve from currency translation amounts to EUR -1,048 thousand as of December 31, 2022 (previous year: EUR -1,118 thousand). Thereof, kEUR 6,794 relate to accumulated exchange rate gains (as of December 31, 2021: accumulated exchange rate gains of kEUR 6,169) from the translation of the financial statements of the British subsidiaries from GBP as well as the Danish subsidiary from DKK into EUR, kEUR -6,319 to accumulated exchange rate losses (as of December 31, 2021: accumulated exchange rate losses of kEUR -6.319 thousand) from the conversion of loan receivables of PAION AG into equity of the UK subsidiary ("dept to equity swap") in the fiscal year 2018 as well as EUR -1,518 thousand cumulative exchange rate losses (as of 31. December 2021: accumulated foreign exchange losses of EUR -967k) on the loan granted by PAION AG to the UK subsidiary PAION UK Ltd and EUR -5k accumulated foreign exchange losses (as of December 31, 2021: EUR -1k) on the loan granted by PAION AG to the Danish subsidiary PAION Scandic ApS. The loan granted to PAION UK Ltd. amounts to EUR 9,665k as of December 31, 2022 (December 31, 2021: EUR 24,770k). The loan granted to PAION Scandic ApS amounts to EUR 3,140k as of December 31, 2022 (December 31, 2021: EUR 771k).

(8) Provisions

Provisions developed as follows:

Figures in TEUR	Premiums/ royalties	Obligations from license agreements	Other	Total
31.12.2020	610	1,500	96	2,206
Utilization	610	0	35	645
Feed	702	0	78	780
Resolution	0	0	0	0
Exchange rate changes	-2	0	0	-2
31.12.2021	700	1,500	139	2,339
Utilization	698	0	0	698
Feed	616	0	179	795
Resolution	0	0	62	62
Transfer	0	- 1,500	0	-1,500
Exchange rate changes	-2	0	-1	-3
31.12.2022	616	0	255	871

The provision for obligations from license agreements relates from the previous year to a potential payment obligation to our Chinese licensee. The provision was reclassified in the fiscal year and is recognized as part of a refund liability
in the amount of (net) EUR 1,800 k shown under other liabilities. The Group expects to settle the obligation in 2024.

(9) Trade accounts payable

Trade accounts payable amount to EUR 8,005 thousand as of December 31, 2022 (previous year: EUR 6,585 thousand). These liabilities are not interest-bearing and are generally due within 30 days of invoicing. In the case of liabilities accrued as of the reporting date, the due date may be later than 30 days after the reporting date, depending on the date of invoicing.

(10) Other current liabilities

Other current liabilities include the following items:

	31.12.2022 KEUR	31.12.2021 KEUR
Refund liabilities	1,800	217
Wage tax	217	200
Vacation entitlements	210	135
Supervisory Board compensation	0	36
Other	9	13
Total	**2,236**	**601**

The refund liability relates to a payment obligation to the Chinese license holder.

(11) Tax liabilities

The tax liabilities include an income tax liability of PAION Netherlands B.V. (as of December 31, 2022: EUR 58k; prior year: EUR 52k) and PAION UK Ltd. (as of December 31, 2022: EUR 40k; prior year: EUR 0k) resulting from the net profits of these companies after offsetting against tax loss carryforwards.

(12) Leases

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

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

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

	31.12.2022 KEUR	31.12.2021 KEUR
Rights of use		
Land, land rights and buildings	587	708
Other equipment, factory and office equipment	4	11
Total	**591**	**720**
Leasing liabilities		
Short term	147	158
Long-term	453	567
Total	**600**	**725**

Additions to rights of use in fiscal year 2022 amounted to EUR 0 thousand (previous year: EUR 804 thousand).

The income statement includes the following amounts relating to leases:

	2022 TEUR	2021 TEUR
Amortization of rights of use		
Land, land rights and buildings	121	101
Other equipment, factory and office equipment	8	9
Total	**129**	**110**
Losses from asset disposals	0	10
Interest expenses	24	24
Expenses for short-term leases in accordance with IFRS 16.6	259	128

Total lease payments amounted to EUR 408 thousand in fiscal year 2022.

Lease liabilities at the balance sheet date are calculated on the basis of undiscounted contractual payments (gross basis, before deduction of finance charges) of EUR 230 thousand due in 2023, EUR 157 thousand due in 2024, EUR 143 thousand due in 2025, EUR 134 thousand due in 2026 and EUR 134 thousand due in 2027.

(13) Financial debt

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

At the time of initial recognition, the payment amount of the respective tranches was divided between the basic liability on the one hand and the performance-based compensation component as a derivative subject to separation on the other. The basic liability including the current and bullet interest components is measured at amortized cost using the effective interest method. The performance-related remuneration component is a payment obligation that depends on the share price of PAION AG at the time of repayment of the final portion of the respective tranche of the loan and is due at that time. As an embedded derivative, it is required to be separated and is subsequently measured at fair value on the basis of the Black/Scholes model. The carrying amount of the basic component, including the current and final interest component, amounts to EUR 19,129 thousand as of December 31, 2022 (previous year: EUR 17,773 thousand).The carrying amount of the final performance-based compensation component amounts to EUR 624 thousand as of December 31, 2022 (previous year: EUR 1,711 thousand).

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

12/31/2022, KEUR	Σ	12 months	13-36 months	37-43 months
Underlying liabilities	26,914	1388	18,511	7,015
Performance-related remuneration components	624	0	0	624
EIB loan Σ	**27,538**	**1,388**	**18,511**	**7,639**

Notes to the consolidated statement of comprehensive income

(14) Revenues

Revenues amount to EUR 33,247 thousand and result from the sale of remimazolam active ingredient to licensees, royalties, milestone payments and own product sales in selected markets in Europe. Revenues in the previous year were mainly attributable to milestone payments in connection with market approvals in.

Breakdown of revenues

Sales in the reporting year result from consideration received from licensees for the achievement of (development-) milestones and for the granting of licenses for the development and marketing (of remimazolam) in certain geographic regions. In addition, revenues include consideration from licensees for supplies of remimazolam active ingredient as well as consideration from wholesalers and hospitals for sales of the products Byfavo®, angiotensin II and eravacycline in selected markets in Europe. Against the backdrop of the transformation of the structure of sales revenue in connection with the ongoing commercialization, sales revenue will be broken down as follows from fiscal 2022 onwards:

- Sales of **remimazolam active ingredient** and sales-related **royalties** from licensees: EUR 3,037 thousand (previous year: EUR 4,484 thousand)
- **Milestone payments** from licensees (consideration for (development-)milestones / granting of license): EUR 24,183 thousand (prior year: 2,600)
- **Milestone payments** from sales partners: EUR 5,250 k (prior year: EUR 0 k)
- Commercial **product sales** to wholesalers and hospitals in selected European markets: EUR 603 thousand (previous year: EUR 44 thousand)
- EUR 175 thousand result from studies (previous year: EUR 0 thousand)

Contract balances and performance obligations

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

	31.12.2022 KEUR	31.12.2021 KEUR
Trade receivables	2,228	1,717
Refund liabilities	0	217

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

As a specialty pharma group, PAION develops new product candidates in anesthesia and intensive care with the aim of outlicensing them and marketing them itself in selected markets. The services typically provided in the context of outlicensing product candidates and entering into licensing agreements regularly include, in addition to granting the license to develop and commercialize, comprehensive data, technology, process and/or know-how transfers, development services, the achievement of (regulatory) milestones and the provision of marketing authorization dossiers from other regions.

Based on the development status of its self-developed product remimazolam, which has now received market approvals in several regions worldwide, but is still in development or in the approval process in other regions and/or indications, PAION generates initial, but not yet sustainable, revenues in the form of royalties. In the context of the conclusion of licensing agreements, royalties are generally collected at the beginning of the contract when remimazolam is marketed. Depending on the stage of development for the specific (regulatory) requirements of the respective region, these royalties regularly compensate for a comprehensive transfer of data, technology, processes and/or know-how as the typical first service obligation under a licensing agreement and/or the license (with right of use) itself. Depending on the contract, the service can be provided either at a point in time or over a period of time. If the service is provided at a point in time, payment is regularly made shortly before the service is provided or closely coincides with it. If the service is rendered over a period of time, payment is usually made before the service is fully rendered and deferred income is recognized for the portion of the consideration not yet recognized as revenue, which is then recognized as revenue over the period in which the service is rendered. In this case, revenue is generally recognized ratably over the period either contractually agreed or resulting from the (planned) development stages.

Subsequently, the license agreements regularly contain consideration linked to the achievement of certain (development) milestones (see above). These milestones can compensate either a development service to be provided by PAION or a development success or the license itself. Due to the high risk of failure in drug development, the underlying revenues are only recognized upon complete and successful completion of the defined milestones. Therefore, no contract assets or liabilities are recognized during the performance period. Upon completion of the milestone, the revenue is recognized with simultaneous recognition of a trade receivable. The realization of these milestones is closely linked to the consideration to be paid by the licensee.

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

licensed out to licensees are recognized as revenue as soon as the underlying sales have been made by the licensees. The payment term is usually around 30 to 45 days, depending on the type of revenue and customer, either after performance has been completed in the case of milestones, after the contract has been signed in the case of upfront payments, or after the transfer of risk in the case of product sales. The license agreements regularly do not include any guarantees and do not provide for any further material obligations apart from the services owed under the agreement, which, however, may include not only the pure provision of services but also the successful outcome of the provision of (development) services, such as the successful completion of studies while achieving the primary and secondary endpoints defined in advance, a regular exchange of data with the licensees and, if applicable, support for the licensees in their regulatory and development activities. In some cases, additional supply agreements exist with licensees for the supply of remimazolam active ingredient, which also do not provide for any obligations beyond those contractually owed.

As of December 31, 2022, the transaction price (partially) allocated to unfulfilled performance obligations across all existing license agreements amounts to EUR 0 thousand. The performance obligations existing as of December 31, 2022 relate entirely to variable consideration that is either limited due to the high risk of pharmaceutical development as defined by IFRS 15.56 or is revenue-based royalties as defined by IFRS 15.B63 and therefore not included in the transaction price.

The main changes in contract balances in the reporting period relate to the increase in trade accounts receivable, due in particular to sales of remimazolam active ingredient made shortly before the reporting date.

Significant discretionary decisions

Each performance obligation is analyzed individually with regard to the timing or period of settlement. In the case of the fulfillment of performance obligations over a period of time, output methods are regularly used as the method of revenue recognition. In the case of data, technology, process and/or know-how transfers, an end date is typically defined up to which the revenue is recognized ratably on a straight-line basis, or else revenue is recognized over the period resulting from the (planned) development steps. Due to the objective verifiability, these methods provide both licensors and licensees with a true and fair view of the transfer of benefits.

There was no period-based straight-line revenue recognition based on the proportionate percentage of completion in the year under review.

In the case of services whose successful performance contractually requires the achievement of defined milestones, revenue is not recognized until the respective defined milestone has been fully achieved, despite the fact that the services have been performed over a period of time, as the variable consideration within the meaning of IFRS 15.56 is limited. Since until milestones are actually achieved it is not certain whether the milestones can be achieved or not due to the high risk of pharmaceutical development, the actual achievement of milestones represents the best measurement method for revenue recognition.

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

To determine the transaction price of a contract, all potential payments under a contract are first analyzed and included in the calculation of a potential transaction price. Then variable consideration is examined with regard to a potential limitation in accordance with IFRS 15.56 et seq. This regularly results in variable consideration from the

achievement of (development) milestones in particular not being included in the transaction price. In addition, revenue-based royalties are not included in the transaction price in accordance with IFRS 15.B63. Each variable consideration is analyzed and measured individually, taking into account the specific contractual circumstances and the conditions whose fulfillment underlies the receipt of the respective variable consideration. In particular, the high-risk environment of the pharmaceutical industry is also taken into account. The consideration to be received in return for the individual services is always already reflected in the contracts, which are negotiated on a highly individual basis depending on the region, as part of the contractually defined payments that are linked to these services. In the case of license agreements, the transaction price at the time the agreement is concluded regularly includes only the first payment, which is usually linked to a transfer of data, technology, process and/or know-how and/or the granting of a license with right of use, to which and/or to which the transaction price is consequently also allocated. As soon as services are rendered through the achievement of certain development steps or milestones and thus variable consideration is no longer limited, the total transaction price increases by the variable consideration that is no longer limited. This increase in the transaction price is allocated to the (development) service underlying the variable consideration (usually the achievement of a milestone).

Capitalized costs in contract performance or initiation and practical expedients

Since no costs are regularly incurred during the initiation of a contract and only arise when a contract is concluded, no additional costs have been capitalized to date during the initiation of contracts.

(15) Cost of sales / Research and development expenses / General, selling and administrative expenses

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

- Depreciation and amortization of non-current assets totaled EUR 1,707 thousand.

- the other directly attributable expenses of the relevant departments, and

- the pro rata overheads of the relevant departments and the Company's statutory costs.

(16) Other income and expenses

Other income for the financial year mainly includes income from oncharges to licensees of EUR 107 thousand (previous year: EUR 142 thousand), a credit note of EUR 357 thousand (previous year KEUR 0) for the production of remimazolam active ingredient, and (net) exchange rate gains of EUR 317 thousand (previous year: (net) exchange rate gains of EUR 581 thousand).

Other expenses mainly consist of obligations to licensees in the amount of EUR 88 thousand (previous year: EUR 295 thousand), as well as a severance payment of EUR 130 thousand to Dr. Philips, which will be due for payment in the first quarter of 2023, as well as impairment losses recognized in the fiscal year in the amount of EUR 1,466 thousand on inventories, EUR 255 thousand from production waste in the production of the active ingredient as well as from sample withdrawal for method transfer to Cristalia and (net) exchange rate losses of EUR 902 thousand (previous year: (net) exchange rate losses of EUR 466 thousand).

(17) Financial result

The financial income of EUR 1,097 k (prior year: EUR 1,562 k) is mainly attributable to the subsequent measurement of the performance-related compensation component of the EIB loan as of the reporting date. The financial expenses of EUR 2,803 k (prior year: EUR 2,065 k) relate in the amount

of EUR 2,743 k (prior year: EUR 1,974 k) to the compounding of the underlying liability of the EIB loan according to the effective interest method (cf. on the EIB loan also (13) Financial debt), EUR 36 k (prior year: EUR 67 k) for negative interest on bank balances and short-term deposits, and EUR 24 k (prior year: EUR 24 k) for the accrued interest on lease liabilities.

(18) Taxes on income/deferred taxes

As of December 31, 2022, the tax loss carryforwards of the PAION Germany group (PAION AG and PAION Deutschland GmbH) amount to approximately EUR 109 million (prior year: EUR 98 million) for corporate income tax and to approximately EUR 107 million (prior year: EUR 97 million) for trade tax. Due to the current German tax legislation, these loss carryforwards can be carried forward without any time limit and can be used to offset future profits in accordance with the tax framework (e.g. minimum taxation).

The tax loss carryforwards of the UK subsidiaries amount to approximately GBP 109 million as of December 31, 2022 (equivalent to EUR 123 million at the closing rate). In the previous year, these amounted to GBP 115 million and EUR 137 million, respectively. Due to current British tax legislation, these can be carried forward without time limit and used to offset future profits in accordance with the tax framework.

The tax loss carryforward at the Danish subsidiary amounts to DKK 28 million as of December 31, 2022 (equivalent to EUR 4 million at the closing rate (previous year: DKK 8 million or EUR 1 million). Due to the current Danish tax legislation, this can be carried forward without any time limit and used to offset future profits in accordance with the tax framework.

In total, the Group's loss carryforwards (based on the corporate income tax loss carryforwards of the PAION Germany Group) amount to approximately EUR 235 million (prior year: EUR 236 million). As in the previous year, no deferred tax assets were recognized on these as of the balance sheet date.

The combined German income tax rate is 32.45% and results from the corporate income tax rate of 15.0%, the solidarity surcharge, which is levied on corporate income tax at a rate of 5.5%, and trade income tax at a rate of 16.625%. The income tax rate in the United Kingdom is 19%. The income tax rate in the United Kingdom will increase to 25% in April 2023. The income tax rates in the Netherlands are 15% and 25.8% for taxable profits above EUR 395 thousand, respectively. The income tax rate in Denmark is 22%. The expected Group tax rate is 30%.

Intangible assets of EUR 13,844k were capitalized as part of the purchase price allocation for the PAION UK group acquired in 2008. The recognition of these development projects resulted in deferred tax liabilities of EUR 3,876k at the then applicable UK income tax rate of 28%. These were offset by deferred tax assets on loss carryforwards in the same amount. Deferred tax assets and liabilities are reversed in line with the scheduled amortization of the development projects. Deferred taxes are presented net in both the statement of financial position and the statement of comprehensive income. Deferred tax assets and liabilities amounted to EUR 371 thousand (previous year: EUR 333 thousand) at the balance sheet date, each after currency translation; these relate to the intangible asset Remimazolam (deferred tax liabilities) and the deferred taxes on loss carryforwards recognized in the same amount (deferred tax assets).

Based on the current German income tax rate of PAION AG of 32.45%, the recognition of the EIB loan taken out in the previous year (including all remuneration components) results in deferred tax liabilities of EUR 787k as of December 31, 2022 (previous year: EUR 871k). These are offset by deferred tax assets on loss carryforwards in the same amount. The deferred tax assets and liabilities develop in parallel until the final maturity of the loan. All temporary differences will be reversed by this date. Deferred taxes are presented on a net basis in both the statement of financial position and the statement of comprehensive income.

Applying the currently applicable combined German income tax rate would result in deferred tax assets of EUR 36 million (previous year: EUR 31 million) for the unused tax loss carryforwards in Germany as of December 31, 2022. Based on the income tax rate of 25% applicable in the United Kingdom from 2023 (until December 31, 2022: 19%), unused tax loss carryforwards in the United Kingdom would result in deferred tax assets of GBP 27

million as of December 31, 2022 (equivalent to EUR 32 million at the closing rate). In the previous year, these amounted to GBP 22 million and EUR 26 million, respectively. In Denmark, deferred tax assets of EUR 819 thousand would result for the tax loss carryforwards. Asset differences between the tax base and the IFRS carrying amount in addition to the matters explained above relating to the capitalized asset Remimazolam and the EIB loan would result in net deferred tax assets of EUR 273 thousand (previous year: EUR 284 thousand) as of December 31, 2022, of which EUR 3 thousand (previous year: EUR 1 thousand) in Germany and EUR 270 thousand (previous year: EUR 283 thousand) in the United Kingdom. The asset differences presented mainly relate to non-current assets and provisions. Deferred tax assets would thus total approximately EUR 66 million (previous year: EUR 57 million).

In the fiscal year, PAION UK Ltd. and Paion Netherlands B.V. reported a profit; all other operating companies of the PAION Group reported losses. Further losses are expected in the coming years, so that until the sustainable and successful marketing of the product portfolio, the realizability of the other deferred tax assets listed above is not yet considered sufficiently probable. In accordance with IAS 12.34 "Income Taxes", the excess deferred tax assets on loss carryforwards and the excess deferred tax assets on temporary differences have therefore not been recognized.

In the reporting period, the changes recognized directly in equity (currency translation differences) also have no tax effects.

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

In TEUR	2022	2021
Profit for the year before taxes	**-201**	**-22,581**
Expected tax expense (+)/income (-)	-60	-6,774
Non-recognition of deferred taxes on tax losses	4,593	6,423
Difference between expected Group tax rate and actual local tax rates	-1,701	580
Effects from currency translation	-114	389
Effect from trade tax additions	133	169
Expenses from stock options	-35	104
Effect from withholding taxes	0	90
Non-deductible expenses	3	31
Adjustment of non-recognition of deferred taxes on tax losses due to change in tax rate	0	0
Deferred taxes on adjusted loss carryforward from previous years	0	0
Effect from convertible bonds	0	0
Non-recognition of deferred taxes on adjusted loss carryforward from previous years	0	0
Effect from tax rate changes	0	0
Revaluation of loss carryforwards from change in tax rate	0	0
Costs of capital increases	0	-190
Effect from tax credit	-827	-295
Utilized loss carryforwards	-1.560	-446
Non-recognition of deferred taxes on temporary differences	-81	-876
Other	-3	-1
Actual tax expense (+)/income (-)	**378**	**-796**

The actual tax expense results from the taxable profit of paion UK.

(19) Earnings per share

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

The weighted average number of ordinary shares to be used as a basis is calculated as follows:

	2022	2021
Balance of shares issued as of January 1	71,336,992	66,241,493
Weighted average number of shares issued in the financial year	0	3,708,391
Weighted average number of ordinary shares	**71,336,992**	**69,949,884**

The calculation of basic and diluted earnings per share before the capital reduction 2023 is based on the following data:

	2022	2021
Result for the year in EUR	**-579,086.36**	**-21,785,588.36**
Weighted average number of ordinary shares for basic earnings per share before capital reduction	71,336,992.00	69,949,884.00
Weighted average number of ordinary shares for diluted earnings per share before capital reduction	71,336,992.00	70,161,716.00
Earnings per share in EUR before taking into account the capital reduction (entry in the Commercial Register on March 14, 2023)		
Undiluted	**-0.01**	**-0.31**
Diluted	**-0.01**	**-0.31**

The calculation of basic and diluted earnings per share after the capital reduction 2023 is based on the following data:

	2022	2021
Result for the year in EUR	**-579,086.36**	**-21,785,588.36**
Weighted average number of ordinary shares for basic earnings per share after capital reduction	7,133,699.00	6,994,988.20
Weighted average number of ordinary shares for diluted earnings per share after capital reduction	7,133,699.00	7,016,171.60
Earnings per share in EUR after consideration of the capital reduction (entry in the Commercial Register on March 14, 2023)		
Undiluted	**-0.08**	**-3.11**
Diluted	**-0.08**	**-3.11**

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

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

(20) Notes to the consolidated statement of cash flows

The consolidated cash flow statement shows how PAION's cash and cash equivalents changed during the fiscal year as a result of cash inflows and outflows.

In accordance with IAS 7 "Statements of Cash Flows," a distinction is made between cash flows from operating, investing and financing activities.

Cash flow from operating activities is presented using the indirect method based on the profit for the year (after tax).

Interest and tax payments received and made are recognized in cash flow from operating activities.

The financial liabilities consist exclusively of the EIB loan. The carrying amount as of December 31, 2022 is EUR 19,753 thousand (previous year: EUR 19,484 thousand) and is divided into a basic liability of EUR 19,129 thousand (previous year: EUR 17,773 thousand) and a variable compensation component of EUR 624 thousand (previous year: EUR 1,711 thousand). The change in the basic liability results from the accrual of interest in the amount of EUR 2,743 thousand and the offsetting effect from the interest payment of EUR 1,387 thousand. The value of the variable compensation component decreases by EUR 1,087 thousand due to the fair value measurement at the reporting date. The cash flows from investing activities and financing activities are determined on the basis of actual payment transactions.

The cash flow from investing activities is primarily attributable to an ERP system being implemented (EUR 1,546 thousand).

The cash flow from financing activities results in the amount of EUR -126 thousand from the repayment portion of lease payments.

The cash and cash equivalents reported in the consolidated statement of cash flows include cash on hand and bank balances.

PAION has leased rights of use that are accounted for in accordance with IFRS 16 and are therefore not presented in the cash flow statement in the context of their acquisition. For details, see note (12) to the statement of financial position.

Other explanatory notes

Stock option programs

There are a total of five active stock option programs under which stock options have been or may be granted to members of the Management Board and employees of PAION AG and its subsidiaries in office at the time of grant. The grants are accounted for in accordance with the provisions of IFRS 2. All stock option programs provide for vesting periods, waiting periods and exercise hurdles. The respective exercise price is based on the average share price in a given period prior to the issue of the stock options and any necessary adjustments. The details of the individual programs are shown in the following table.

	Stock option program 2010 Approved 19 May 2010	Stock option program 2014 Approved 21 May 2014
Underlying capital	Conditional capital 2010 I	Conditional capital 2014
Term of the options	10 years	10 years
Vesting period	2 years	2-4 years
Waiting period	4 years	4 years
Number of outstanding options for which the vesting period has expired as of Dec. 31, 2022	670.626	530.010
Exercise condition	Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price	Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price
Exercise price *	EUR 1.31 *1	EUR 1.99 to EUR 2.60
Weighted average exercise price *	EUR 1.31 *1	EUR 2.21
Exercise hurdle at 12/31/2022 *	EUR 2.91 *1	EUR 2.64 to EUR 3.32
Weighted average remaining term to maturity as of Dec. 31, 2022	1.1 years	3.0 years
Further expenditure possible? (as of 31.12.2022)	No	No
Total number of options issued until Dec. 31, 2022	720,000	740,000
Number of options issued as of Dec. 31, 2022 *2	670,626	530,010
to employees	366,876	231,697
to members of the Board of Management	303,750	298,313
Total number of options expired by Dec. 31, 2022	29,374	209,990
of which expired in the reporting year	0	0
Total number of options exercised by Dec. 31, 2022	20,000	0
thereof exercised in the reporting year	0	0
Personnel expenses in the year under review	EUR 0	EUR 0
Fair value at grant date per share option *3	EUR 1.67	EUR 1.02 to EUR 1.39
Basics of the calculation		
Calculation model	Black/Scholes	Black/Scholes
Risk free interest rate	0.7 %	-0.26 % to 0.08 %
Volatility	73.75 %	72.34 % to 83.76
Employee turnover *4	10 % annually	9 % annually

*related to options still issued as of 12/31/2021

*1 (partially) adjusted based on the terms of the stock option program

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

*3 related to total options issued

*4 fluctuation last used as part of the update of the quantity structure carried out up to the end of the respective vesting period.

Stock option program 2016 Approved 25 May 2016	Stock option program 2018 Approved 23 May 2018	Stock option program 2020 Approved 27 May 2020
Conditional capital 2016	Conditional Capital 2018 II	Conditional capital 2020
10 years	10 years	10 years
2-4 years	2-4 years	2 years
4 years	4 years	4 years
564. 472	0	0
Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price	Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price	Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price
EUR 1.90 to EUR 2.60 *1	EUR 1.90 to EUR 2.31 *1	EUR 1.65 *1
EUR 2.26 *1	EUR 2.10 *1	EUR 1.65 *1
EUR 2.28 to EUR 3.24 *1	EUR 2.28 to EUR 2.68 *1	EUR 1.72 *1
5.5 years	7.3 years	9.1 years
No	No	Yes
840,000	886,500	30,000
700,472	751,880	30,000
351,638	404,130	30,000
348,834	347,750	0
139,528	134,620	0
0	36,570	0
0	0	0
0	0	0
KEUR 13	KEUR 110	KEUR 2
EUR 0.75 to EUR 1.70	EUR 0.75 to EUR 0.84	EUR 0.43
Black/Scholes	Black/Scholes	Black/Scholes
-0.40 % to -0, %	-0.44 % to -0.40 %	0,33%
39.03 % to 81.61 %	39.03 % to 56.15	48,63%
7 % annually	7 % annually	7 % annually

Other financial obligations/contingent liabilities

As of the reporting date, there are contractually agreed obligations of approximately EUR 19 million (previous year: EUR 9.0 million). These mainly relate to the production of remimazolam active ingredient, the commissioning of sales services and license agreements for the IT systems. The obligations arising from the production of remimazolam active ingredient are offset by firm customer purchase commitments. The underlying contracts contain variable termination periods of several months at most, so that the financial obligations presented would be reduced in the event of termination of contracts.

Employees and personnel expenses

PAION employed an average of 63 employees in the fiscal year 2022 (prior year: 51 employees). Of the 63 employees, 12 worked in development and 51 in administration and sales. 11 employees on average for the year are attributable to the PAION UK group, 8 to PAION Netherlands B.V. and 7 to PAION Scandic ApS. As of December 31, 2022, the number of employees amounted to 70 (December 31, 2021: 56).

The following personnel expenses were incurred in fiscal years 2022 and 2021:

	2022 KEUR	2021 KEUR
Salaries	7,537	6,233
Social charges	1,059	850
Total	**8,596**	**7,083**

The personnel expenses presented above include (netted) expenses from the granting of stock options under the 2016, 2018 and 2020 stock options programs in the amount of EUR 125 k (prior year: EUR 342 k). Furthermore, personnel expenses include contributions to German, British, Dutch and Danish social security in the amount of EUR 827 thousand (previous year: EUR 699 thousand) and expenses for pensions under defined contribution plans in the amount of EUR 240 thousand (previous year: EUR 147 thousand).

Relationships with related companies and persons

In accordance with IAS 24 "Related Party Transactions," related party transactions must be reported. The Board of Management and Supervisory Board, as well as shareholders, are to be regarded as related parties within the meaning of IAS 24.9. With regard to the compensation and shareholdings of the members of the Board of Management and the Supervisory Board, reference is made to the comments under "Members of the Board of Management" and "Members of the Supervisory Board" in this section.

There were no other relationships with related parties.

Objectives and methods of capital management and financial risk management

The Group manages its capital with the objective of safeguarding the Group companies' ability to continue as a going concern while maximizing long-term value creation for stakeholders. The Group's capital management is subject to cash and cash equivalents and all components of equity and liabilities as reported in the consolidated statement of financial position. As of December 31, 2022, the equity ratio considered in this way is 17.3% (previous year: 19.0%). The Company is not subject to any capital requirements under its Articles of Association. However, it is obliged to issue new shares in connection with option rights granted under the existing stock option programs if stock options are exercised in accordance with the option conditions.

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

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

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

PAION AG uses derivative financial instruments on an event-driven basis as part of the management of currency risks in the Group. In this context, only financial instruments are used that have a clear hedging relationship. No derivative financial instruments were used in the fiscal year 2022.

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

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

In the fiscal year 2022, exchange rate losses of EUR 551k arose from PAION AG's loan to its UK subsidiary PAION UK Ltd. and exchange rate losses of EUR 4k from PAION AG's loan to its Danish subsidiary PAION Scandic ApS, which are recognized in equity. If the EUR/GBP and EUR/DKK exchange rates had been 5% higher at the balance sheet date, the currency position recognized in equity would have decreased by EUR 659k in the fiscal year 2022 compared to the change actually recognized in the fiscal year 2022. If the EUR/GBP and EUR/DKK exchange rates had been 5% lower on the balance sheet date, the currency item recognized in equity would have increased by EUR 659 thousand in fiscal year 2022 compared with the change actually recognized in fiscal year 2022. As the exchange rate effects are recognized directly in equity, there is no impact on profit or loss for the period.

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

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

The interest on bank balances and short-term deposits depends on the development of market interest rates. PAION is therefore exposed to an interest rate risk with these items. A reduction of the interest rates for bank balances and short-term deposits by 10 basis points would have led to a decrease of the consolidated net income by EUR 7k in the fiscal year 2022.

PAION is exposed to market price risks. The market price risk results from the performance-based component of the loan agreement of EUR 20,000k concluded with the European Investment Bank (EIB) in the fiscal year 2019, which is linked to the share price development of PAION AG. Please refer to the comments on financial liabilities in the section on the notes to the consolidated statement of financial position. A 10% higher share price of PAION AG as of the balance sheet date would have resulted in a reduction of net income for the year by EUR 62 thousand. A 10% lower share price of PAION AG at the balance sheet date would have resulted in an increase in the net result for the year of EUR 62k. In order to determine the sensitivities presented for interest rate risk, currency risk and market price risk, the parameters considered in each case were varied, with all other valuation assumptions remaining constant.

Other assets mainly result from sales tax refund claims and advance payments.

Financial instruments

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

		Carrying amount		Fair value	
in KEUR		31.12.2022	31.12.2021	31.12.2022	31.12.2021
Financial assets:					
Cash and cash equivalents	(1)	10,629	6,440	10,629	6,440
Trade receivables	(1)	2,228	1,717	2,228	1,717
Other assets	(1)	138	181	138	181
Financial liabilities:					
Financial debt (underlying liability EIB loan)	(1)	19,129	17,773	19,129	17,773
Trade accounts payable	(1)	8,005	6,585	8,005	6,585
Provisions	(1)	871	2,340	871	2,340
Financial debt (performance-related compensation component EIB loan)	(2)	624	1,711	624	1,711
Liabilities from leasing		599	724	599	724
Other liabilities	(1)	2,019	401	2,019	401

measurement category in accordance with IFRS 9:
(1) Carried at amortized cost
(2) Recognized at fair value through profit or loss

Cash and cash equivalents, trade receivables, other assets, trade payables, provisions and other liabilities almost exclusively have short remaining terms to maturity and their carrying amounts correspond to their fair values at the balance sheet date. The fair values of these financial instruments were determined on the basis of unobservable inputs (Level 3 inputs under IFRS 13). On the one hand, financial debt includes the underlying liability of the EIB loan, which is subsequently measured using the effective interest method, taking into account the current and bullet interest components. The carrying amount corresponds to the

The fair value was determined on the basis of unobservable inputs (Level 3 inputs under IFRS 13) using discounted future cash flows. On the other hand, financial debt includes the bullet component of the EIB loan, which is measured at fair value through profit or loss. This was calculated on the basis of market prices in an active market (level 2 input factor under IFRS 13) using the Black/Scholes model.

There were no changes between the hierarchy levels in the financial year 2022. The recoverability of the financial assets was tested on the basis of historical and expected payment defaults. No default risks were identified and no impairment losses were recognized.

Members of the Board of Directors

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

- Gregor Siebert, CEO, Chairman since December 2022

- Sebastian Werner, CFO since June 2022

- Dr. James Phillips, CEO, Chairman until November 2022

  Memberships in comparable/other domestic and foreign supervisory bodies:
  - Herantis Pharma plc, Espoo/Finland

- Abdelghani Omari until August 2022

The total compensation of the members of the Board of Management amounted to EUR 956 thousand in fiscal year 2022. As of December 31, 2022, no shares options had been issued to the members of the Board of Management in office as of December 31, 2022. For further information on the compensation of the Board of Management, please refer to the explanations in the compensation report.

All members of the Management Board are or were also managing directors of PAION Deutschland GmbH, PAION Holdings UK Ltd and its subsidiaries, PAION Netherlands B.V. and PAION Scandic ApS. The members of the Management Board are or were employed by the Company and its subsidiaries on a full-time basis.

As of December 31, 2022, Mr. Gregor Siebert held 0.07% (50,000 voting rights) of the shares in PAION AG.

Members of the Supervisory Board:

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

- Dr. Jörg Spiekerkötter (until May 25, 2022), Berlin, Chairman; Managing Partner of JSP-Invest GmbH, Potsdam

- Dr. Karin Louise Dorrepaal, Amsterdam/Netherlands, Vice Chairwoman, Chairwoman of the HR and Nominations Committee; former member of the Management Board of Schering AG

  Membership of other supervisory boards required to be established under German law:
  - Gerresheimer AG, Düsseldorf

  Memberships in comparable/other domestic and foreign supervisory bodies:
  - Almirall S.A., Barcelona/Spain
  - Triton Beteiligungsberatung GmbH, Frankfurt
  - Kerry Group plc, Tralee/Ireland
  - Van Eeghen & Co B.V., Amsterdam/Netherlands
  - Intravacc B.V., Bilthoven/Netherlands

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

  Membership of other supervisory boards required to be established under German law:
  - 4SC AG, Planegg-Martinsried (Munich)

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

  Memberships in comparable/other domestic and foreign supervisory bodies:
  - CureVac N.V., Tuebingen, Germany
  - DKSH Holding AG, Zurich/Switzerland
  - Joimax GmbH, Karlsruhe
  - LifeMatrix AG, Zurich/Switzerland
  - Qvanteq AG, Zurich/Switzerland
  - Wyss Zurich (ETH Zurich), Zurich/Switzerland

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

- Michael Schlenk (since May 25, 2022), Büdingen, Chairman, business administration graduate/MBA

  Membership of other supervisory boards required to be established under German law:
  - OXID eSales AG, Freiburg im Breisgau (Chairman)

  Memberships in comparable/other domestic and foreign supervisory bodies:
  - Arcensus GmbH, Rostock (Chairman)
  - University of Potsdam MBA Program, Potsdam

- Gregor Siebert (May 25, 2022 to November 30, 2022), Jugenheim, Chairman of the Commercial Development Committee

The compensation of the Supervisory Board for the financial year 2022 amounted to EUR 202 thousand. For further information on the compensation of the Supervisory Board, please refer to our comments in the Compensation Report.

The members of the Supervisory Board held no shares in PAION AG as of December 31, 2022.

Auditor

In 2022, Baker & Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, headquartered in Düsseldorf, Munich branch, was appointed as auditor for the annual and consolidated financial statements for the fiscal year 2022 by the Annual General Meeting on May 25, 2022 at the proposal of the Supervisory Board . The auditor has received or will receive the following fees for services rendered to PAION AG and its subsidiaries in the fiscal year 2022:

	2022 TEUR	2021 TEUR
Final exam	125	99
	125	**99**

Corporate Governance

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

In December 2022, the Supervisory Board and the Management Board issued the declaration on the Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). In March 2023, the Supervisory Board and the Board of Management submitted an update of the Declaration on the Corporate Governance Code during the year.

The declaration of compliance is published on the website of PAION AG (https://www.paion.com/de/medien-investoren/corporate-governance/entsprechenserklaerung/).

Indication of the existence of a going concern risk

With regard to going concern risks to which the Group is exposed, we refer to the section "Risk and opportunities report" of the group management report. PAION continues to be dependent on the injection of additional funds. In this respect, there is a material uncertainty with regard to the going concern of the Company, as the negotiations on the granting of additional financial resources are well advanced, but at the time of reporting no legally binding commitments have been made.

Supplementary report

On January 19, 2023, PAION had announced the submission of the Remimazolam marketing authorization application by its licensee CRISTÁLIA in Brazil.

On January 25, 2023, the Extraordinary General Meeting approved a capital reduction. The current share capital of the Company of EUR 71,336,992.00 will therefore be reduced to EUR 7,133,699.00 by way of an ordinary capital reduction through the consolidation of shares at a ratio of 10:1. The capital reduction was entered in the commercial register on March 14, 2023.

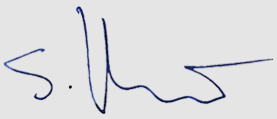
On January 27, 2023, PAION received a positive CHMP opinion recommending approval of Remimazolam for the induction and maintenance of general anesthesia in adults for the EU.

On April 3, PAION received Remimazolam approval from the European Commission for the induction and maintenance of general anesthesia in adults.

There were no other significant events in the period between the reporting date, December 31, 2022, and the date of completion of this report.

Aachen, May 15, 2023

PAION AG



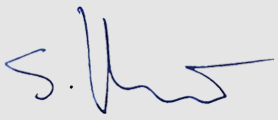
Gregor Siebert Sebastian Werner

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

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

Aachen, Germany, 15 May 2023

PAION AG



Gregor Siebert

Sebastian Werner

AUDITOR'S REPORT OF THE INDEPENDENT AUDITOR

To PAION AG, Aachen

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

Audit Opinions

We have audited the consolidated financial statements of PAION AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2022, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1, 2022 to December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report of PAION AG for the fiscal year from January 1, 2022 to December 31, 2022. In accordance with German legal requirements, we have not audited the content of the group management declaration published on the website indicated in the group management report, which forms part of the group management report. Furthermore, we have not audited the content of the subsections "Clinical Development," "Angiotensin II (GIAPREZA®)" and "Eravacyclin (XERAVA®)" in the section "Economic Report" of the Group management report, nor the description of the non-accounting-related internal control and risk management system in the Group management report and the statement by management on the overall internal control and risk management system in the section "Risk Management" of the Group management report, which are disclosures not included in the Group management report.

In our opinion, based on the findings of our audit, the consolidated financial statements are as follows

- the accompanying consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to § 315e (1) HGB and give a true and fair view of the financial position of the Group as of December 31, 2022 and of its financial performance for the fiscal year from January 1, 2022 to December 31, 2022 in accordance with these requirements and

- the accompanying Group management report as a whole provides a suitable view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements, and accurately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the components of the group management report mentioned in the section "Other information".

In accordance with Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the propriety of the consolidated financial statements and the Group management report.

Basis for the audit judgments

We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 HGB and the EU Regulation on Auditors (No. 537/2014; hereinafter "EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under those provisions and principles is further described in the section "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Group Management Report" of our auditor's report. We are independent of the Group companies in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10 (2) (f) EU-APrVO, we declare that we have not performed any prohibited non-audit services as defined in Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the group management report.

Material Uncertainty Relating to the Continuation of Operations (also a key audit matter)

1. Facts and problem

We refer first to the note "Indication of the existence of a going concern risk" in the notes to the consolidated financial statements as well as the disclosures in the group management report in the section "Indication of the existence of a going concern risk" of the risk and opportunity report, in which the legal representatives describe that PAION AG is dependent on the injection of additional funds to ensure its ability to continue as a going concern and to secure its future solvency. The ability to continue as a going concern is subject to material uncertainties, as negotiations on the granting of additional financial resources are at an advanced stage, but no legally binding commitments were available at the time of reporting.

As stated in the aforementioned sections of the Group management report and the notes to the consolidated financial statements, these events and circumstances indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and that represents a going concern risk within the meaning of § Section 322 (2) sentence 3 HGB.

Our audit opinions on the consolidated financial statements and the Group management report have not been modified with respect to this matter.

The consolidated financial statements of paion AG have been prepared on a going concern basis. As explained in the previous section, circumstances exist that may jeopardize the continued existence of paion AG. Due to the significance for the consolidated financial statements and the group management report as well as due to the existing uncertainty about the occurrence of the assumptions and conditions underlying the going concern assumption, the assessment of the appropriateness of the going concern assumption was a key audit matter for us in the context of our audit. In accordance with Article 10 (2) (c) (ii) EU-Audit Regulation, we summarize our audit response to this risk as follows.

2. Audit approach and findings

We have assessed, on the basis of the budget planning presented, whether the management's assessment of paion AG's ability to continue as a going concern is appropriate. For this purpose, we first checked the planning for formal consistency (arithmetical correctness, correct implementation of the underlying premises). In addition, we compared the revenue planning (in particular the appropriateness of the revenue forecast) with the underlying sales volume planning and checked the plausibility of the planning of the main cost types. We analyzed the other risks presented in the Group management report and assessed their impact on the corporate planning. Based on the results of our audit, we consider the going concern assumption used by the legal representatives to be appropriate.

Other particularly important audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2022 to December 31, 2022. These matters were considered in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In our view, the following matters were most significant in our audit:

- Revenues
- Recoverability of the license agreement with La Jolla Pharmaceutical
- Balance sheet presentation of the loan from the European Investment Bank

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

1.) Facts and problem

2.) Audit procedure and findings

3.) Reference to further information

In the following, we present the audit matters of particular importance:

Revenue recognition

1. The PAION Group recognized revenues of EUR 33,248k in the fiscal year 2022. The revenues mainly result from milestone revenues (EUR 29,433k), the sale of Remimazolam active ingredient to licensees including royalties (EUR 3,037k) and from product sales (EUR 603k). Milestone revenues result from the sale of licenses, the achievement of certain development goals or the granting of development or marketing licenses in certain geographic regions. The agreements with licensees include various performance characteristics and timing. The presentation of revenue resulting from these agreements in the context of revenue recognition represents a high risk of material misstatement, which is why this matter is of great importance in our view.

2. Our audit procedures initially comprised the analysis of the license agreements concluded as of the reporting date, including the services agreed therein, as well as the business and accounting processes in connection with revenue recognition. In particular, we examined whether the conditions required for revenue recognition in the form of contractual performance features had been met in full for the milestone payments recognized as revenue. The sample performed for this purpose included all milestone revenues from licensees recognized in the reporting year. In addition, revenue recognition was reviewed for all sales related to the sale of remimazolam active ingredient. This included a review of the transfer of risk. Royalty revenue was reviewed based on the actual sales volumes of the licensees. The royalty margin was traced on the basis of the license agreements. Based on these audit procedures, we judge the revenue recognition to be accurate.

3. The Company's disclosures on revenue are included in the notes to the consolidated financial statements in the section "Accounting Policies" and in the section "Revenue."

Recoverability of the license agreement with La Jolla Pharmaceutical

1. Under a license agreement dated 12 January 2021, PAION AG acquired from La Jolla Pharmaceutical Company and Tetraphase Pharmaceuticals the exclusive marketing rights for the European Economic Area, the United Kingdom and Switzerland to the already approved drugs Giapreza and Xerava at a total acquisition cost of EUR 18,493k. The drugs expand and complement PAION's existing product portfolio. The recoverability of the licenses is directly dependent on the future marketing success of these drugs. The

impairment test for these assets is complex and depends to a large extent on estimates of future business development, the interest rate used to discount future cash inflows and other estimation variables. These assumptions are inherently subject to significant uncertainties. The valuation of licenses is a particular matter in the context of our audit of the consolidated financial statements.

2. In addition to assessing the useful life of the asset as the basis for amortization, our impairment testing procedures include, in particular, assessing whether there are indications that an impairment loss may have been incurred. The basis for the audit is the marketing plan for the two medicines. The plan is based on the budget for subsequent years prepared by the Management Board and approved by the Supervisory Board, which reflects the sales expectations during the remaining term of the patents for the two drugs to be marketed as well as the costs required to implement the planned sales. The main value-determining parameters were critically assessed; the underlying discount rate was checked for plausibility on the basis of market data, and the valuation methodology was verified. The assumptions and estimates made by management can be qualified as being within the acceptable range.

3. The Company's disclosures on acquired licenses are included in the notes to the consolidated financial statements in the section "Accounting Policies," "Intangible Assets."

Balance sheet presentation of the loan from the European Investment Bank

1. For the financing of research and development activities, PAION AG has entered into a loan agreement with the European Investment Bank for a loan amount of EUR 20,000k and a term of 5 years. The loan amount was fully disbursed to PAION AG in 2021. In addition to the current interest payment, which includes a quarterly interest payment and a bullet interest payment, a bullet performance-based compensation component was agreed, which was measured at EUR 614k as of the reporting date, recognized as a derivative subject to spin-off under financial liabilities and subsequently measured at fair value. As this performance-based compensation component ("synthetic warrant") is linked to the future price of the PAION share at the time of final maturity of the loan, the related future payment obligation of PAION AG is subject to great uncertainty.

2. In order to audit the accounting treatment of the loan agreement, including the performance-related compensation component, we have satisfied ourselves that all contractual agreements have been adequately taken into account and that the allocation of the inflow to the underlying loan and the embedded derivative required for the initial measurement has been made in accordance with the fair values. We have assessed the calculations prepared by the Company for completeness and compliance with the contractual terms.

We have assessed the assumptions and estimates used in the initial and subsequent measurement with regard to the significant measurement parameters, in particular the assumed internal interest rate, and found them to be appropriate. The subsequent measurement of the performance-related compensation component was based on an option pricing model. We consider the assumptions and estimates used to be appropriate.

3. The Company's disclosures on the loan and the performance-related compensation component are included in the notes to the consolidated financial statements in the sections "Accounting policies," "Financial liabilities," "Financial result" and "Financial instruments."

Other information

The legal representatives are responsible for the other information. The other information includes:

- the assurances pursuant to sections 264 (2) sentence 3 and 315 (1) sentence 5 HGB on the consolidated financial statements and the Group management report,
- the corporate governance statement contained in the Group management report,
- the following disclosures not included in the Group management report. Information in the Group management report that is not required by sections 289, 289a or 289b to 289f of the German Commercial Code (HGB) is not part of the Group management report:
    - The information in the subsections "Clinical Development," "Angiotensin II (GIAPREZA®)" and "Eravacycline (XERAVA®)" in the section "Business Report"
    - The descriptions of the non-accounting-related internal control and risk management system and management's statement on the overall internal control and risk management system in the "Risk management" section
- all other parts of the "Annual Report" not yet published.

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

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

- are materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or

- otherwise appear to be materially misrepresented.

Management's Responsibility for the Consolidated Financial Statements and for the Group Management Report

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error (i.e. manipulation of the accounting system or misstatement of assets).

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to going concern. Furthermore, they are responsible for preparing the financial statements on a going concern basis unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position and is consistent in all material respects with the consolidated financial statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for the arrangements and measures (systems) that it determines are necessary to enable the preparation of a group management report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the group management report.

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

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

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the consolidated financial statements and with our audit findings, complies with German legal requirements and suitably presents

the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the group management report.

During the audit, we exercise dutiful judgment and maintain a critical mindset. In addition:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the group management report due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, intentional omissions, misleading representations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and the arrangements and actions relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the going concern basis of accounting used by management and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the group management report or, if such disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. However, future events or conditions may result in the Group being unable to continue as a going concern.

- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs. 1 HGB.

- obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for directing, supervising and performing the audit of the consolidated financial statements. We are solely responsible for our audit opinions.

- We assess the consistency of the group management report with the consolidated financial statements, its compliance with the law and the view it conveys of the Group's position.

- We perform audit procedures on the forward-looking statements made by management in the Group management report. In particular, based on sufficient appropriate audit evidence, we reproduce the significant assumptions made by management regarding the forward-looking statements and evaluate the appropriateness of the information derived from these assumptions. We do not express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events may differ materially from the forward-looking statements.

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

We make a declaration to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where relevant, the actions taken or safeguards implemented to address independence threats.

From the matters we discussed with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure of the matter.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and the Group Management Report Prepared for the Purposes of Disclosure Pursuant to Section 317 (3a) of the German Commercial Code (HGB)

Audit opinion

In accordance with Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance audit to determine whether the reproductions of the consolidated financial statements and the group management report (hereinafter also referred to as "ESEF documents") contained in the file 529900CGHB9UWY40BU45-2022-12-31-en (5).zip and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information in the consolidated financial statements and the group management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the group management report contained in the aforementioned file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from January 1, 2022 to December 31, 2022 contained in the preceding "Report on the audit of the consolidated financial statements and the group management report", we do not express any audit opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file.

Basis for the audit opinion

We conducted our audit of the reproductions of the consolidated financial statements and the group management report contained in the above-mentioned attached file in accordance with Section 317 (3a) of the German Commercial Code (HGB) and in compliance with the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) of the HGB (IDW PS 410 (06.2022)). Our responsibility thereunder is further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents". Our auditing practice has complied with the requirements of the IDW Quality Management Standard: Anforderungen an das Qualitätsmanagement in der Wirtschaftsprüferpraxis (IDW QMS 1).

Responsibility of the legal representatives and the supervisory board for the ESEF documents

The Company's management is responsible for the preparation of the ESEF documents containing the electronic reproductions of the consolidated financial statements and the group management report in accordance with section 328 (1) sentence 4 no. 1 of the HGB and for the award of the consolidated financial statements in accordance with section 328 (1) sentence 4 no. 2 of the HGB.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of ESEF documents that are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB regarding the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibility for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore

- identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- Obtain an understanding of internal control relevant to the audit of ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.

- we assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) 2019/815 as amended at the reporting date regarding the technical specification for this file.

- we assess whether the ESEF documentation provides a consistent XHTML representation of the audited consolidated financial statements and the audited group management report.

- we assess whether the markup of the ESEF documents with inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815, as applicable on the reporting date, provides an adequate and complete machine-readable XBRL copy of the XHTML rendering.

Other information according to Article 10 EU-APrVO

We were elected as auditors of the consolidated financial statements by the Annual General Meeting on May 25, 2022. We were appointed by the Supervisory Board on August 30, 2022. We have served as auditors of PAION AG, Aachen, Germany, without interruption since the fiscal year 2021.

We declare that the audit opinions contained in this audit opinion are consistent with the additional report to the Audit Committee pursuant to Article 11 EU-APrVO (Audit Report).

OTHER MATTERS - USE OF THE AUDIT OPINION

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

NOTE ON THE SUPPLEMENTARY AUDIT

We issue this opinion on the consolidated financial statements and the group management report, as well as on the electronic reproductions of the consolidated financial statements and the group management report, included in the file 529900CGHB9UWY40BU45-2022-12-31-en (5).zip, submitted for audit for the first time and prepared for disclosure purposes, based on our audit in accordance with our professional duties and completed on May 15, 2023, and our supplementary audit completed on May 31, 2023, which related to the first-time submission of the ESEF documents.

AUDITOR IN CHARGE

The auditor responsible for the audit is Dierk Hanfland.

Munich, May 15, 2023 / limited to the review of the ESEF documents mentioned in the note to the supplementary audit: May 31, 2023.

Baker Tilly GmbH & Co KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Hanfland
Certified Public Accountant

Ninnemann
Certified Public Accountant

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info@paion.com
www.paion.com

PAION AG, Aachen

Financial statements

as of December 31, 2022 and

Management Report

for the fiscal year 2022

Content

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31.12.
2022

PAION

Management report for the fiscal year 2022

Fundamentals of PAION AG and the PAION Group

I. Business Model of PAION AG and the PAION Group

PAION AG is a listed specialty pharmaceutical company with innovative active ingredients for use in hospital sedation, anesthesia and intensive care medicine. It acts exclusively as a management and service holding company and in this capacity provides management and other services to its subsidiaries. The services mainly comprise the development of the Group's strategy as well as administrative activities, including accounting, legal, human resources, public relations and controlling. In addition, PAION AG supports the financing of the subsidiaries' ongoing business operations, and the subsidiaries in turn provide services to each other, primarily in the areas of development, supply chain and commercialization. The business activities of the PAION Group (hereinafter also referred to as: PAION) are mainly characterized by the operating activities of the subsidiaries, which are described below.

PAION's portfolio in the reporting year included remimazolam as well as angiotensin II and eravacycline. remimazolam is approved in the USA, the EU/EEA/UK, China, Taiwan and South Korea for procedural sedation and in Japan and South Korea for general anesthesia.

For remimazolam, PAION has licensees in the markets of Japan, Latin America, South Korea, Southeast Asia, Taiwan and the USA. In addition, there are distribution partners in Western, Southern and Eastern Europe. Clinical development has been completed for the use of remimazolam in the indication of procedural sedation; remimazolam has been approved and is already being marketed in the US, EU/EEA/UK, China, Taiwan and South Korea for this indication. For the indication general anesthesia, remimazolam is approved and marketed in Japan and South Korea. PAION had submitted a marketing authorization application to the European Medicines Agency (EMA) at the end of 2021 to extend the approval of remimazolam to include general anesthesia in the EU. The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP; Committee for Medicinal Products for Human Use) adopted a positive opinion on January 27, 2023, recommending approval of remimazolam for the induction and maintenance of general anesthesia in adults. This was finally followed by approval by the European Commission on April 03, 2023.

The various indications for the use of remimazolam will be explained in detail later on.

Fiscal 2022 was characterized by the continuation of the further development of remimazolam, regulatory and, in particular, supply chain and commercial activities.

2. Control system of PAION AG and the PAION Group

PAION AG's financial performance indicators are liquidity (cash and cash equivalents from the statement of financial position and cash flows from the statement of cash flows). In addition, sales revenue, research and development expenses, administrative and selling expenses as well as the number of employees are financial performance indicators of the PAION Group. The financial management system of PAION AG and the PAION Group is based on monthly reporting on a cost center and cost unit basis, which simultaneously shows budget variances of the financial performance indicators. Significant deviations are updated in the short- and long-term corporate planning. In addition, the planned development progress is compared with the planned budget. The planning tool used for this purpose enables management to identify and assess opportunities

and risks at an early stage by simulating various scenarios and to determine their impact on the future development of the company, in particular on the key financial performance indicator of liquidity.

The non-financial performance indicators that are important for PAION's business activities mainly result from development and commercial activities. The clinical, non-clinical, regulatory and production development activities are characterized by the engagement of external service providers. Development activities are managed on the basis of detailed project plans with defined work packages combined with defined reporting and information obligations. The focus is particularly on the data obtained during the development of Remimazolam with regard to its positioning in comparison with competitor products and the progress of development, as well as the data relevant to the approvals and intended areas of application with regard to the safety and efficacy of Remimazolam. The results are processed on an ongoing basis in the internal project teams and reported to the Management Board. Important non-financial performance indicators in the development area are the number of clinical and non-clinical studies conducted and the number of market approvals.

Commercial activities are aimed at marketing the three products Remimazolam, Angiotensin II and Eravacyclin in selected markets in Europe. In addition, the further out-licensing of Remimazolam in markets where PAION does not plan its own distribution is targeted. The status of these activities will be continuously documented and discussed. PAION has already entered into several regional license agreements for Remimazolam. The licensees operate autonomously in their respective licensed territories. However, the collaborations provide for mutual information obligations. Key non-financial performance indicators in the commercial area are the number of countries in which PAION is establishing its own sales force, the number of product launches by PAION and its licensees, and the number of license agreements concluded.

PAION is responsible for the central coordination of the global information flow between the licensees for Remimazolam. The activities are monitored and continuously analyzed and reported to the Management Board.

3. Business activity

PAION's business activities in the fiscal year were mainly determined by the research and development activities as well as the start of the commercialization of the product portfolio, which are reported on in detail in section 2 "Business and Development Review".

Economic Report

I. Macroeconomic and industry-specific conditions

a. Overall economic development

The overall economic recovery from the Covid 19 pandemic in FY 2022 was significantly inhibited by a number of factors, particularly as the year progressed.
These primarily include the Russia-Ukraine war, which at times led to large energy price spikes, the zero-covid policy in China, which contributed to recurring disruptions in global supply chains, as well as high inflation and, as a result, a tightening of interest rate policies by central banks.

Accordingly, GDP in the euro zone increased by 3.5% in fiscal 2022 following growth of 5.3% in the previous year. In Germany, gross domestic product (GDP) increased by 1.9% in fiscal 2022, following economic growth of 2.6% in the previous year.[1] In the USA, economic output recorded an increase of 2.0% in fiscal 2022, compared with growth of 5.9% in 2021. Global GDP rose by 3.4% in the year under review, following an increase of 6.2% in 2021. [2]

Global GDP is expected to increase by 2.9% in 2023. Growth in the euro zone is expected to be significantly lower at 0.7% and in the USA at 1.4%.[3]

For 2023, the IMF sees possible risks regarding a slow economic recovery in China, due among other things to the lower immunization of the population against the Corona virus and the progression of the crisis on the real estate market. According to the IMF, further uncertainties arise from the possibility of a further escalation of the Russia-Ukraine war, persistent inflation, and the intensification of further geopolitical conflicts, especially between China and the USA.[4]

On the stock markets, prices fell significantly in 2022, mainly in response to the outbreak of the Russia-Ukraine war, although an upward trend has been discernible since September. At the end of 2022, the DAX was trading 12.3% below its 2021 closing level, while the Dow Jones had lost around 9% since the beginning of 2022. The EUROSTOXX 50 recorded a loss of 11.7% in 2022.

b. Development of the pharmaceutical and biotechnology industry

The pharmaceutical and biotechnology industry remains fundamentally characterized by steadily rising drug development costs, which are due in particular to ever more extensive and demanding regulatory requirements and the strong trend towards personalized therapies, and which are offset by increasingly lower revenues, for example as a result of intensified competition, as well as price pressure from government regulation. In this context, the Covid 19

[1] Gross domestic product up 1.9% in 2022 - German Federal Statistical Office (destatis.de)
[2] International Monetary Fund: World Economic Outlook Update, January 2023, p. 6
[3] International Monetary Fund: World Economic Outlook Update, January 2023, p.6.
[4] International Monetary Fund: World Economic Outlook Update, January 2023, p. 7.

pandemic has clearly demonstrated the pressure to optimize clinical trial processes.[5] For example, the development costs of a new drug at the major pharmaceutical companies increased by an average of around 15% from 2021 to 2022 in constant prices, while the expected peak revenue potential declined by just under 22% and was thus almost identical to the level in 2020.[6]

In 2022, the Covid 19 pandemic has again had a significant impact on the pharmaceutical and biotechnology industry. In addition to the numerous development projects for vaccines against the virus, the pandemic has above all massively accelerated the pace of innovation and digitization in healthcare systems, posing major challenges for the industry. Furthermore, the Covid 19 pandemic has increased the urgency to make supply chains more sustainable.[7]

The consolidation pressure resulting from these trends was confirmed despite the pandemic in the global transaction volume in the pharmaceutical sector in 2022. For example, the biotech sector worldwide recorded a decline of around 44% as of September 30, 2022 (LTM). Nevertheless, the pharmaceutical industry remains a sector with potential for mergers and acquisitions.[8]

The financing environment in the pharmaceutical and biotechnology industry has clouded over noticeably in 2022. It can be observed that the public capital markets for financing have noticeably lost momentum. After a high IPO volume in the pharmaceutical and biotechnology industry in 2021, the volume in this sector decreased significantly by 71% in the last 12 months as of Q3 2022. Within this, the private venture capital market represented the strongest part of the equity market in 2022, but recorded a 22% year-on-year decline.[9]

M&A financing is facing particular challenges in the face of rising inflation and currency fluctuations. While 2021 was a record year for pharmaceutical company valuations, political, economic and regulatory uncertainties have resulted in declining valuations and noticeably fewer IPOs in 2022. Given declining valuations and the resulting formation of a buyer's market, a wave of acquisitions has failed to materialize in 2022. Nevertheless, pressure is increasing to close deals due to growth gaps and potential gains from access to new resources as well as innovations.[10]

Against the backdrop of a restrictive monetary policy by central banks to combat inflation, declining valuations of pharmaceutical and biotechnology companies were observed in 2022. For example, the DAXsubsector Biotechnology Index fell by 30.8% in 2022 compared with its level at the start of 2022, while the NASDAQ Biotechnology Index closed 2022 with a significant drop of 11.6%.

The main competitive drivers in the pharmaceutical and biotechnology industry are expected to continue in 2023 and maintain consolidation pressure. In addition to rising competitive pressure and steadily increasing demands on the industry, the ability to individualize

[5] Deloitte Health: Seize the digital momentum: Measuring the return from pharmaceutical innovation, 2022; Deloitte Insights: 2022 Global Life Sciences Outlook, 2022; Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023; PwC Health Research Institute: Global Top Health Industry Issues 2021: Innovation fuelled by digital capabilities, 2021.

[6] Deloitte Health: Seize the digital momentum: Measuring the return from pharmaceutical innovation, 2022.

[7] Deloitte Insights: 2023 Global Health Care Outlook: The pandemic that changed everything, 2023.

[8] Torreya: Biopharmaceutical Sector Market Update, October 3, 2022.

[9] Torreya: Biopharmaceutical Sector Market Update, October 3, 2022.

[10] Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023.

therapies is becoming increasingly important for pharmaceutical and biotechnology companies.[11] Due to the expiry of patents in the next few years and greater competition in the area of research & development, acquisition and transaction volumes are expected to increase worldwide in the pharmaceutical industry. According to experts, smaller life science companies in particular will turn towards M&A for their growth financing in view of the currently weak IPO market. [12]

2. Presentation of the course of business and development activities

The PAION Group's product portfolio mainly consists of remimazolam (remimazolam besilate) (EU trade name: Byfavo®) with its three target indications of procedural sedation, general anesthesia and ICU sedation, as well as the products angiotensin II (trade name: GIAPREZA®) and eravacycline (trade name: XERAVA®).

Remimazolam besilate (Byfavo®)

Remimazolam is an ultra-short-acting intravenous benzodiazepine sedative and -anesthetic. In humans, remimazolam is largely degraded to an inactive metabolite by hepatic esterases, a widely distributed type of enzyme, rather than by cytochrome-dependent degradation pathways in the liver. As with other benzodiazepines, an antidote is available in flumazenil for rapid withdrawal of the patient's sedation or anesthesia if needed. Data show that remimazolam has a rapid onset of action and a rapid resolution of effect, with a favorable cardiorespiratory safety profile.

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

In addition to procedural sedation and general anesthesia, sedation in the intensive care unit is another possible indication for remimazolam.

Remimazolam is partnered in the USA (trade name BYFAVO™) with Eagle Pharmaceutical (Eagle), in Japan (trade name Anerem®) with Mundipharma, in South Korea (trade name Byfavo™) and Southeast Asia with Hana Pharm, in Latin America with Cristália and in Taiwan with TTY Biopharm. In addition, PAION has distribution partnerships with Viatris for Belgium, Poland, France and Romania as well as the Southern European countries Italy, Spain and Greece and in Eastern Europe (Estonia, Latvia and Lithuania, Czech Republic, Slovakia, Hungary, Croatia, Slovenia and Bulgaria) with Medis. These markets are currently not served by PAION itself. In all other markets outside Europe and China, remimazolam is available for licensing.

[11] Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023.
[12] Ernst & Young: 2023 EY M&A Firepower report: How life sciences companies can secure value through better dealmaking, 2023.

Procedural sedation market (USA + Europe)

The growth of the procedural sedation market in the U.S. has been driven for many years by the increase in procedural sedation medical procedures, such as colonoscopies, as well as increasing overall demand for preventive care.

In Europe, PAION currently estimates a peak sales potential of approximately EUR 40 million to approximately EUR 50 million annually for procedural sedation based on its own projections. In contrast to the U.S. market, which has a large independent infrastructure for outpatient surgical procedures, procedural sedation in Europe is mainly used in hospitals, where anesthesiologists have the overall responsibility for sedating patients. This has a high synergy potential with the planned commercialization of remimazolam for use in general anesthesia. In addition, the field of day surgery is also growing in Europe, so PAION expects steady growth in short-term sedation there as well. One driver of this development is the establishment and further spread of measures for colorectal cancer screening (diagnostic colonoscopies). However, important users here are also gastroenterologists, for example. Another short- to medium-term factor is the backlog of patients left untreated during the Covid 19 pandemic, which increases the need for a product such as remimazolam to increase process efficiency.

General anesthesia market (Europe)

Based on publicly available statistics from previous years on procedures and surgeries in Europe as well as market research, PAION estimates that approximately 29 million surgeries are performed under general anesthesia in Europe each year. Of these, approximately 10 million procedures are performed on high-risk patients (American Society of Anesthesiologists ("ASA") classifications III or higher) who are particularly susceptible to hemodynamic instability. Approximately 55% of all anesthetics are balanced anesthetics, i.e., a combination of intravenous agents and anesthetic gases, approximately 20% are intravenous anesthetics (TIVA) with propofol, and the remaining approximately 25% are regional anesthetics (e.g., epidural anesthetics). According to PAION's market research, the main anesthetics currently used in Europe for general anesthesia are propofol (mainly for induction) and anesthetic gases, mostly in combination with intravenous opioids.

PAION expects the number and complexity of medical procedures involving the induction and maintenance of anesthesia to increase in Europe in the future, driven in particular by the expected continued aging of the population and advances in surgical techniques. General anesthesia is offered more frequently to elderly patients than it was a few years ago, so that the choice of individual anesthesia is made depending on the type of surgery, the underlying disease and the assessment of the patient's overall physical health, including concomitant diseases.

Accordingly, PAION expects demand for safer agents with low respiratory and cardiovascular depressant effects to increase in Europe in the coming years. This creates promising opportunities for anesthetics with an improved safety profile such as remimazolam, even at higher prices compared to existing generic compounds. In Europe, PAION currently estimates a peak sales potential of approximately EUR 50 million to approximately EUR 60 million annually for general anesthesia based on its own projections.

In adults, myocardial injury in noncardiac surgery (MINS) is the most common cardiovascular complication associated with such procedures. Previous studies have concluded

that intraoperative myocardial injury in noncardiac surgery occurs in approximately 8% of the approximately 200 million patients worldwide each year and results in higher mortality; for example, approximately 10% of patients who suffer such injury die within 30 days of the respective procedure. Among other things, this is thought to be caused by (excessively) low blood pressure and the associated temporary undersupply of oxygen to the heart muscle during the procedure.[13] Based on the safety data available to date, remimazolam could make a significant contribution to reducing this mortality rate by reducing intraoperative drops in blood pressure.

An emerging market driver is the requirement for hospitals to consider their environmental footprint and ecological impact. In this regard, volatile gases used in anesthesia are a major negative factor leading to more frequent use of TIVA and thus an expanded market opportunity for remimazolam as an intravenous anesthetic.

Market for sedation in the intensive care unit

Based on data published in Critical Care Medicine on the average length of treatment in intensive care units in days per year in the U.S. as well as scientific journal articles from Intensive Care Medicine , in which, among other things, the number of admissions to intensive care units per year and the number of adult beds in intensive care units in various countries in the EU were surveyed, PAION estimates that in Europe and the U.S. together there are currently at least 14 million patient days in intensive care units requiring intensive care per year. A recent publication based on eight EU countries estimates 17.5 million patient days (not necessarily sedated) in the EU alone.[14] PAION expects these figures to rise in the coming years due to the aging population in both the USA and Europe and assumes that the demand for safe sedation drugs such as remimazolam will increase against this backdrop in particular, as older patients are significantly more likely to be affected by systemic diseases.

Clinical development

Procedural sedation

The first Phase III study in procedural sedation in the US was successfully completed in 2016; the primary efficacy endpoint was met. The Phase III study was conducted in a total of 461 patients at 13 U.S. study centers and was designed to evaluate the efficacy and safety of remimazolam compared to placebo (and with midazolam as a supplemental medication) in colonoscopy patients. In addition, the study included an open-label midazolam arm for endpoint validation.

The U.S. Phase III program also included a second confirmatory, prospective, double-blind, randomized placebo-controlled, multicenter study with an open-label midazolam arm of 446 bronchoscopy patients. The study was successfully completed in 2017; the primary efficacy endpoint was met. The Phase III study was conducted at 15 U.S. study sites and was designed to evaluate the efficacy and safety of remimazolam compared to placebo (and with midazolam as a supplemental medication) in bronchoscopy patients.

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

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

The U.S. Phase III development program also included a safety study with remimazolam in ASA III/IV colonoscopy patients, which was successfully completed in 2017. The study was conducted with a total of 79 high-risk patients and was designed to evaluate the safety and efficacy of remimazolam compared to placebo (and with midazolam as a supplemental medication) in colonoscopy patients.

Summary of key results from the three Phase III studies:

	Remimazolam	**Placebo**	**Midazolam (Open Label)***
Primary endpoint achieved (ITT)	80,6-91,3 %	0,0-4,8 %	12,9-32,9 %
Time from start of medication to the start of the procedure	4.0-5.0 min	17-19,5 min	15.5-19.0 min
Time from the end of the procedure to fully alert	3.0-6.0 min	5.3-15.0 min	7.0-13.0 min
Time to reach normal (median)	192-402 min	348-936 min	366-444 min

* Comparison with midazolam was descriptive (no significance testing).

General anesthesia

A particular focus in the clinical programs was hemodynamic stability, which addresses an important medical need in general anesthesia. Nonclinical data had indicated, and clinical data have confirmed, that better hemodynamic stability can be achieved with remimazolam than with propofol.

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

In Europe, a randomized, single-blind, propofol-controlled, confirmatory Phase III study was conducted in 425 ASA III/IV patients (American Society of Anesthesiologists classification III-IV) undergoing planned surgery at more than 20 European study sites. The primary study objective was to demonstrate that remimazolam is non-inferior ("non-inferiority") to propofol in its efficacy for induction and maintenance of general anesthesia during planned surgery. The secondary primary objective was to demonstrate improved hemodynamic stability compared with propofol. In the study, remimazolam met both the primary and important secondary endpoints.

ICU sedation

In Japan, a Phase II study for ICU sedation was initiated independently by PAION's former licensee Ono. In isolated cases, higher remimazolam plasma levels than expected based on pure calculation were observed after prolonged administration. Nevertheless, the exploratory study was terminated early by Ono in 2013. Patients were successfully sedated, and no serious unexpected adverse events were observed.

The phenomenon of increased remimazolam plasma levels was then carefully investigated by means of a series of nonclinical tests and pharmacokinetic modeling. None of the experiments performed were able to replicate the findings or provide an explanatory model for the elevated plasma levels. Further analysis revealed that such pharmacokinetic deviations are frequently observed when sedating agents such as midazolam and propofol are used in the ICU, and that the most likely explanation is the severity of the patient's illness in the ICU.

In 2021, an IIT (investigator-initiated) REHSCU study [15] (IIT: Investigator Initiated Trial) was conducted. This study, conducted at the University of Nantes, evaluated remimazolam for sedation of patients in the intensive care unit. Thirty patients were enrolled in the study. Particularly with regard to pharmacokinetics, the study provided further evidence for the successful use of remimazolam for sedation of patients in the intensive care unit.

PAION is currently not pursuing further development in this indication.

Pediatric development

PAION submitted a pediatric development plan to the EMA in 2018, which was approved in November 2019. This development plan calls for the conduct of various studies over several years, starting in the short-sedation setting. The clinical trials will be conducted initially in adolescents and then progressively in progressively younger children. In September 2021, PAION and Acacia, then remimazolam licensee for the U.S., announced the initiation of a pivotal study evaluating remimazolam in sedation of pediatric patients. The study will involve approximately 100 children and adolescents, ages up to and including 17 years, at leading facilities in the United States and Denmark. If the program is successful, it is expected that the EU and U.S. approvals of remimazolam will be expanded to include mild to moderate sedation for procedures in pediatric patients.

Post-approval obligations and life cycle management

PAION is currently working and will continue to work on a number of formulation developments as well as preparing and conducting non-clinical and clinical studies for remimazolam to fulfil post-approval obligations and for life cycle management. Most of these activities are pediatric studies to make these drugs available for use in children.

Regulatory activities

In Europe, remimazolam is approved for the indication of procedural sedation.

Procedural sedation: The European Commission granted marketing authorization for remimazolam in the EU (including EEA countries) in March 2021. The decision by the UK Medicines and Healthcare products Regulatory Agency (MHRA) for approval in the UK followed in June 2021.

General anesthesia: Based on the positive results of the European Phase III study in general anesthesia, PAION submitted an extension of marketing authorization application for remimazolam for the indication general anesthesia to the EMA in December 2021. The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP; Committee for

[15] REmimazolam Infusion in the Context of Hypnotic Shortage in the Critical Care Unit During the Pandemic of COVID-19, the REHSCU Study (REHSCU).

Medicinal Products for Human Use) adopted a positive opinion on January 27, 2023, recommending approval of remimazolam for the induction and maintenance of general anesthesia in adults. This was finally followed by approval by the European Commission on April 03, 2023.

In addition, the UK Medicines & Healthcare products Regulatory Agency (MHRA) will also review a possible approval in the UK.

Commercial activities

PAION has established its own commercialization infrastructure for its own commercialization activities in selected target markets, including the necessary production, supply and distribution structures as well as the marketing and sales processes for the entire product portfolio. Nevertheless, PAION follows a business model based on low fixed assets and maintains only central functional areas in its own organization in order to focus on its core competencies. Accordingly, remimazolam or the active pharmaceutical ingredient for remimazolam is manufactured, packaged and labelled by several external contract manufacturers for PAION and/or its cooperation partners. In addition, PAION has entered into agreements as a one-stop solution for distribution processes. Agreements have also been entered into with vendors for the provision of medical/scientific contacts and key account management services. Currently, PAION sources angiotensin II and eravacycline under a separate supply agreement from La Jolla, a subsidiary of Innoviva.

In the UK, the company has a partnership with Clinigen for the supply of PAION's products. With further successful listings of remimazolam in National Health Service (NHS) Trust hospitals, PAION expects to see sustained growth in the uptake of its products in the UK going forward.

In Scandinavia, Denmark acts as a distribution center, with sales activities currently focused on remimazolam.

In the Netherlands, all three products are listed and available. PAION's sales team is expanding the original target group of anesthesiologists to gastroenterologists and therefore expects strong synergies and highly efficient use of the sales force by marketing multiple products.

Based on the approval of remimazolam for the induction and maintenance of general anesthesia in adults by the European Commission, PAION is now preparing for commercialization in general anesthesia.

PAION has further advanced the commercialization of angiotensin II in 2022. It is currently commercially available in Germany, Austria, UK, Portugal, Denmark, Sweden and Finland. The commercialization of eravacycline was also intensified in 2022. It is currently commercially available in the Netherlands, Germany, Austria, UK, Portugal, Denmark, Sweden and Finland.

Initial applications of the products indicate good market acceptance PAION has received positive feedback from customers about their experience with remimazolam in particular. The build-up of commercial sales involving experienced distribution partners has gradually taken effect in 2022, accompanied by a moderate increase in product sales. Viatris and Medis are

preparing the launch of the products and need approval for pricing and reimbursement in most countries.

To achieve PAION's goal of becoming a leading specialty pharmaceutical company in anesthesia and critical care, the following key elements of the strategy have been identified:

PAION aims to become a recognized market player with innovative products in the field of anesthesia and intensive care medicine in the coming years;

PAION has established its own marketing capabilities combined with distribution partners in Europe. Medis has already started product sales;

PAION plans to continue the staggered rollout of remimazolam, angiotensin II and Eravacyclin in its European target markets and to achieve rapid sales growth to reach profitability in the mid-term; and

PAION intends to continue to explore synergy potentials, in-licensing of additional products and other opportunities to support longer-term growth.

Partner activities

Licensees generated product sales of EUR 5.3 million in 2022 (prior year: EUR 7.5 million including China); this results in royalties for PAION of EUR 0.7 million (prior year: EUR 0.6 million including China).

In the **USA,** remimazolam (trade name: BYFAVO™) has been marketed in the indication of procedural sedation since the beginning of 2021. In mid-2022, the US specialty pharmaceutical company Eagle Pharmaceutical acquired Acacia. The license agreement remains valid and will be transferred to Eagle Pharmaceutical. PAION expects this transaction to have a positive impact on the sales development of remimazolam in the US. In early May 2023, Eagle had announced that the Centers for Medicare & Medicaid Services ("CMS") has implemented a unique, product-specific billing code for Remimazolam. The introduction of a unique so-called "J-code" (reimbursement code) for Remimazolam in the U.S. is an important step in facilitating reimbursement and expanding patient access to remimazolam.

In **Japan,** Mundipharma initiated clinical trials (Investigator Initiated Clinical Trials) in 2021 to evaluate the efficacy and safety of remimazolam (brand name Anerem®) in Japanese patients undergoing gastrointestinal endoscopy, which were successfully completed in 2022. These studies are a prerequisite for the planned regulatory submission in procedural sedation, which is scheduled for 2023.

In **South Korea,** licensee Hana Pharm has successfully continued marketing remimazolam (brand name Byfavo™) in both general anesthesia and procedural sedation indications. Hana Pharm is pursuing a local launch and positioning strategy and reports that interest from the Korean anesthesia community is strong. Hana Pharm has supported numerous investigator-initiated studies in Korean hospitals, including such prestigious institutions as Seoul National University and Samsung Seoul Hospital. Hana Pharm also completed its new production facility. The total investment was approximately EUR 43 million. The new facility introduced a freeze-dried injection line for the mass production of remimazolam and a BFS (Blow Fill Seal) system for the automated production of plastic ampoules.

In **China,** PAION entered into a patent assignment agreement for remimazolam (trade name Ruima®) with Humanwell in early 2022. Under the agreement, PAION transferred all of its

Chinese remimazolam patents and sold the related future royalties on sales in China from the license agreement with Yichang Humanwell to Humanwell for EUR 20.5 million. Yichang Humanwell was released from all future royalty payments to PAION and the license was terminated.

PAION terminated the license agreement for **Russia**, **Turkey** and the **Mena** (Middle East and North Africa) region with Russia's R-Pharm in March 2022 after R-Pharm failed to pay outstanding milestones.

In **Canada,** PAION and Pharmascience Inc. agreed in early 2022 to terminate the license agreement that granted Pharmascience Inc. exclusive rights to develop and commercialize remimazolam in Canada. PAION retains full access to all market data generated by Pharmascience and plans to explore strategic options for the commercialization of remimazolam in Canada.

Furthermore, PAION also succeeded in entering the **Eastern European markets in** 2022. In February 2022, an exclusive cooperation agreement was signed with Medis, d.o.o. covering the supply, distribution, marketing and sales of remimazolam, angiotensin II and eravacycline for Eastern Europe (Estonia, Latvia and Lithuania, Czech Republic, Slovakia, Hungary, Croatia, Slovenia and Bulgaria).

In April 2022, PAION and Cristália signed an exclusive license agreement for the development and commercialization of remimazolam in **Latin America.** Cristália intends to commercialize remimazolam in procedural sedation and general anesthesia and has submitted marketing authorization applications for both indications in Brazil at the end of 2022.

PAION continued to expand its distribution structures in the second half of 2022. In November 2022, PAION entered into an exclusive collaboration agreement with Viatris for the launch, marketing and commercial distribution of remimazolam, angiotensin II and eravacycline for **Belgium, Poland, France** and **Romania** as well as in the **Southern European countries Italy, Spain and Greece.**

In addition, in November, Taiwanese licensee TTY Biopharm had received approval from the Taiwan Food and Drug Administration (TFDA) for remimazolam for Injection for the induction and maintenance of short-acting sedation in adults in **Taiwan.** The market launch took place in December 2022. In addition, TTY Biopharm submitted the marketing authorization application in general anesthesia in March 2023.

Angiotensin II and Eravacycline

PAION AG and PAION Deutschland GmbH have entered into a license agreement with La Jolla Pharmaceutical Company for angiotensin II (GIAPREZA®) and Eravacyclin (XERAVA®) in January 2021. In addition to a payment of USD 22.5 million already made, La Jolla is entitled to further payments contingent on the achievement of certain commercial milestones. In July 2022, it was announced that Innoviva Inc, a diversified holding company with a portfolio of royalty and other healthcare assets, planned to acquire La Jolla. The acquisition was completed on August 22, 2022. The existing agreement remains unaffected.

The agreement grants PAION an exclusive license to market these two approved products in the European Economic Area, UK and Switzerland.

Angiotensin II (GIAPREZA®)

Angiotensin II for injection is an FDA-approved vasoconstrictor to increase blood pressure in adults with septic or other distributive shock. Angiotensin II is approved by the European Commission and the United Kingdom Food and Drug Administration for the treatment of refractory hypotension in adults with septic or other distributive shock who remain at low blood pressure despite adequate volume restitution and use of catecholamines and other available vasopressor therapies. Angiotensin II mimics the endogenous angiotensin II peptide, which plays a central role in the renin-angiotensin-aldosterone system, which in turn regulates blood pressure.

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

The pivotal phase III study of angiotensin II for the treatment of high-output shock (ATHOS-3) was a randomized, placebo-controlled, double-blind, international, multicenter phase III safety and efficacy study in which adults with septic shock or other distributive shock who experienced hypotension despite fluid and vasopressor therapy were randomized 1:1 to angiotensin II or placebo and 321 patients were treated. The primary efficacy endpoint, an increase in blood pressure, was achieved by 70% of angiotensin II-treated patients compared with 2% of placebo-treated patients; $p < 0.001$.

The European summary of product characteristics is available on the EMA website: www.ema.europa.eu/en/medicines/human/EPAR/giapreza.

PAION has started the commercialization of angiotensin II in Germany in 2021 and in the Netherlands in January 2022. It has also been commercially available in Austria since February 2022.

Market

Regarding angiotensin II, the occurrence of distributive shock due to sepsis remains one of the most important unmet medical needs in healthcare. According to the information available to PAION, the mortality rate of patients with septic shock is higher than for most other acute conditions requiring hospitalization (including pneumonia, acute myocardial infarction and heart failure). A relatively high mortality rate is seen in shock patients who do not respond to existing treatment options. Globally, an estimated 47 to 50 million sepsis cases and at least 11 million sepsis-related deaths occur each year, accounting for approximately 20% of all deaths worldwide. Sepsis mortality rates vary from 15% to more than 50% depending on the country[16]. The first line of therapy in septic shock is catecholamines (such as dopamine, epinephrine or norepinephrine) and the second line of therapy consists of vasopressors (alternative drugs that constrict blood vessels, such as argipressin or vasopressin), while the prioritization of

[16] World Sepsis Day, What is sepsis? September 2020 (https://www.worldsepsisday.org/sepsis)

angiotensin II varies from market to market. PAION estimates that approximately 100,000 to 150,000 patients with septic shock do not respond adequately to first- and second-line treatments and would be eligible for angiotensin II treatment. In addition, certain existing second-line drugs are not reimbursed in certain European countries due to their lack of efficacy in catecholamine-resistant septic shock, which may provide an opportunity to establish angiotensin II as a second-line drug in the relevant markets.

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

Eravacycline (XERAVA)®

Eravacycline for injection is a novel fluorocycline from the tetracycline class. Eravacycline is an antibiotic used to treat complicated intra-abdominal (affecting the abdomen) infections (cIAI) in adults. According to the Infectious Diseases Society of America (IDSA), a cIAI is defined as an infection that spreads beyond the wall of a hollow viteum of origin into the abdominal cavity and is associated with an abscess or peritonitis.[17]

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

Eravacycline has been shown to be as effective as alternative antibiotics in two main studies in adults with cIAI. The main indicator of efficacy in both studies was the cure rate of infections. In the first study, involving 541 patients, eravacycline was compared with ertapenem (another antibiotic). After about one month, 87% of patients treated with eravacycline were cured of their infection, compared with 89% of patients treated with ertapenem. In the second study, involving 500 patients, eravacycline was compared with meropenem (a carbapenem antibiotic commonly used for this indication in Europe). After about one month, 92% of patients treated with eravacycline and 92% of patients treated with meropenem were cured of their infection.

Eravacycline is approved by the FDA for the treatment of complicated abdominal infections in patients 18 years of age and older. Eravacycline is approved by the European Commission and the UK Medicines Agency for the treatment of abdominal infections in adults. Official guidelines for the appropriate use of antibacterial drugs should be considered.

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

PAION has started marketing eravacycline in 2021 in the Netherlands. In April 2022, PAION was informed that the German Federal Joint Committee (G-BA) has endorsed PAION's application for eravacycline as a reserve antibiotic. Thus, eravacycline is granted an additional benefit compared to standard care. In August 2022, the marketing of eravacycline was started and since then it can be ordered and delivered to customers in Germany via direct sales.

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

Market

Eravacycline competes with several established antibiotics on the market for complicated intra-abdominal infections. In particular, established generic antibiotic classes, including the carbapenem class, the cephalosporin class or fluoroquinolones, form the first line of therapy, while established non-generic antibiotics such as avibactam, ceftazidime and ceftolozane-tazobactam typically form the second line of therapy in the relevant markets. Clinical studies have shown that eravacycline has favorable specifications and comparable activity to ertapenem and meropenem, two widely used carbapenem-class antibiotics that have been on the market for decades. Due to the steadily increasing use of carbapenems, resistance to carbapenems has also increased, particularly in Europe, and strains of pathogens that are particularly difficult to treat have been identified in several European countries[18] . PAION available information indicates that a large number of infections occur in Europe each year, resulting in a significant number of deaths due to bacteria that are resistant to antibiotics. This in turn leads to significant costs for healthcare systems. Eravacycline offers several advantages over carbapenems. First, eravacycline shows significantly higher efficacy against a broad spectrum of typically multidrug-resistant pathogens. In addition, eravacycline can be prescribed even if the causative agent of the infection has not yet been identified. In addition, eravacycline does not need to be adjusted in patients with impaired renal function.

In Europe, PAION currently estimates a peak sales potential of approximately EUR 25 million to approximately EUR 35 million annually based on its own projections.

[18] Magiorakos, A. P., Suetens, C., Monnet, D.L. et al. (2013), The rise of carbapenem resistance in Europe: just the tip of the iceberg?, Antimicrob Resist Infect Control 2, 6 (2013) (https://aricjournal.biomedcentral.com/articles/10.1186/2047-2994-2-6).

3. Net Assets, Financial Position and Results of Operations of PAION AG

a. Earnings

In fiscal year 2022, the net result deteriorated by EUR 25,143 thousand compared with the previous year to a net loss for the year of EUR 31,218 thousand. The net loss for the year resulted mainly from write-downs on financial assets of EUR 28,938 thousand. This was offset by a reduction in other operating expenses and an increase in sales revenue from affiliated companies, which had a positive impact on the net result for 2022. The reduction in other operating expenses is mainly due to expenses incurred in connection with the capital increase in the previous year.

Due to the unscheduled write-down of financial assets, the annual result is outside the forecast of approximately EUR -2 million to approximately EUR -3.5 million made in the previous year for 2022.

	31.12.2022 KEUR	31.12.2021 KEUR	Change in result KEUR
Revenues	3,135	2,519	616
Other operating income	460	872	-412
Personnel expenses	-3,038	-2,613	-425
Depreciation and amortization	-30	-25	-5
Other operating expenses	-3,392	-4,749	1,357
Operating result	**-2,865**	**-3,996**	**1,131**
Financial result	-28,353	-2,079	-26,274
Net result	**-31,218**	**-6,075**	**-25,143**

In the reporting period, **revenues** increased by EUR 616k compared to the prior year and resulted entirely from management and other services provided to the subsidiaries, thereof EUR 1,477k (prior year: EUR 1,202k) to PAION UK Ltd, EUR 951k (prior year: EUR 801k) to PAION Deutschland GmbH, EUR 589k (prior year: EUR 470k) to PAION Netherlands B.V. and EUR 118k (prior year: EUR 46k) to PAION Scandic ApS.

Other operating income decreased by EUR 412k in the reporting period compared to the prior year and includes income from recharges to subsidiaries of EUR 420k (prior year: EUR 720k), thereof EUR 124k (prior year: EUR 410k) to PAION UK Ltd, EUR 187k (prior year: EUR 202k) to PAION Deutschland GmbH, EUR 59k (prior year: EUR 92k) to PAION Netherlands B.V. and EUR 50k (prior year: EUR 16k) to PAION Scandic ApS. Income from exchange rate differences was realized in the amount of EUR 19k (prior year: EUR 125k).

Personnel expenses increased by EUR 425 thousand to EUR 3,038 thousand.

Other operating expenses decreased by EUR 1,357k to EUR 3,392k compared to the previous year and mainly comprise legal and consulting fees (EUR 1,631k; previous year: EUR 3.186k), expenses for IT and licenses (314k; previous year: 477k), insurance, contributions and fees (221k; previous year: 258k), expenses for the remuneration of the Supervisory Board (202k; previous year: 162k), costs for renting office space (162k; previous year: 148k), and financial statement and audit costs (165k; previous year: 90k). The decrease in other operating expenses compared with the previous year is primarily due to lower expenses for legal and consulting fees and third-party services, which in the previous year related in particular to financing activities and were EUR 1,647k lower this reporting year. The decrease in expenses for IT and licenses is mainly related to the new ERP system, for which only current costs were incurred in the reporting year.

Compared to the previous year, the **financial result decreased** by EUR 26,274 thousand to EUR

-28,353 thousand. The decrease is mainly due to the impairment of financial assets in the amount of EUR 28,938k (prior year: EUR 0k), which is attributable to the impairment of the investment in PAION Holdings UK Ltd. This was offset by the increase in interest income, which resulted mainly from the valuation of the variable component of the EIB loan. The resulting income amounts to EUR 1,060k (prior year: expense EUR 1,674k).

b. Net assets and financial position

Total assets amounted to EUR 127,242k as of December 31, 2022, a decrease of EUR 31,551k compared to the previous year's reporting date. The equity ratio as of the balance sheet date is 81.5 % (previous year: 85.0 %). Cash and cash equivalents amounted to EUR 5,227 thousand as of December 31, 2021 and increased by EUR 7,303 thousand compared to the previous year's reporting date.

	31 Dec. 2022 KEUR	31 Dec. 2021 KEUR	Change KEUR
Fixed assets	68,227	95,645	-27,418
Current assets and prepaid expenses	59,014	63,147	-4,133
Assets	**127,241**	**158,792**	**-31,551**
Equity	103,738	134,956	-31,218
Non-current liabilities	22,133	22,344	-211
Current liabilities	1,370	1,492	-122
Shareholder's equity and liabilities	**127,241**	**158,792**	**-31,551**

Fixed assets decreased in the reporting year, in particular due to the impairment loss on financial assets of EUR 28,938k, which is attributable to the valuation of PAION UK. Intangible assets increased by EUR 1,544k in the reporting year, which includes in particular the ERP system that will be put into operation at the beginning of 2023.
As of the balance sheet date, non-current assets comprise the shares in PAION Holdings UK Ltd (EUR 65,373 k; prior year: EUR 94,311 k), the shares in PAION Deutschland GmbH (EUR 450 k; prior year: EUR 450 k), the shares in PAION Netherlands B.V. (EUR 10 k; prior year: EUR 10 k), the shares in PAION Scandic ApS (EUR 5 k; prior year: EUR 5 k), as well as intangible assets (EUR 2,302 k; prior year: EUR 758 k) and property, plant and equipment (EUR 87 k; prior year: EUR 111 k).

Current assets (including prepaid expenses) decreased by EUR 4,133k to EUR 59,014k in the fiscal year 2022. Thereby, the loan issued to PAION UK Ltd. decreased by EUR 15,105k to EUR 9,665k, the loan issued to PAION Netherlands B.V. increased by EUR 2,415k to EUR 12,304k as of December 31, 2022, the loan issued to PAION Deutschland GmbH increased by EUR 2,790k to EUR 23,330k and the loan issued to PAION Scandic ApS increased by EUR 2,369k to EUR 3,140k. Cash and cash equivalents increased by EUR 2,076k from EUR 5,227k to EUR 7,303k as of December 31, 2022.

Non-current liabilities of EUR 22,133k are fully related to the EIB loan of EUR 20,000k drawn in the prior year, which will be repaid from 2024 until 2026, and include, in addition to the settlement amount of the loan, the accrued portion of the 2026 bullet interest component of EUR 1.520k and a provision for the performance-related compensation component of the loan in the amount of EUR 613k, which relates to a payment obligation that is dependent on the share price of PAION AG and also has a final maturity.

The decrease in **current liabilities** by EUR 122 thousand to EUR 1,370 thousand is mainly due to a decrease in trade payables by EUR 126 thousand in the course of ordinary activities.

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

	2022 KEUR	2021 KEUR
Cash flow from operating activities	-2,483	-3,916
Cash flow from investing activities	5,981	-35,337
Cash flow from financing activities	-1,422	26,852
Change in cash and cash equivalents	**2,076**	**-12,401**

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

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

The **cash flow from investing activities** primarily results from the (net) loan repayments from subsidiaries (EUR 7,531 k; prior year: EUR 34,658 k) and payments for an ERP system currently being implemented (EUR 1,546 k; prior year: EUR 550 k).

The **cash flow from financing activities** results from interest payments (EUR -1,422 thousand). In the previous year, the cash flow resulted from the utilization of the EIB loan (EUR 20,000 thousand), the rights issue completed in April 2021 with gross proceeds of EUR 7,847 thousand, and interest payments (EUR -995 thousand).

4. Net Assets, Financial Position and Results of Operations of the PAION Group

At Group level, a consolidated net result of EUR -579k (previous year: EUR -21,786k) was generated in the financial year 2022. On the assets side, the main items in the consolidated balance sheet as of December 31, 2022 are intangible assets (EUR 19,585k; previous year: EUR 19,653k), cash and cash equivalents (EUR 10,629k; previous year: EUR 6,440k), inventories (EUR 3,720k; previous year: EUR 4,822k), prepaid expenses and other assets (EUR 1,256k; previous year: EUR 3.255 thousand) and trade receivables (EUR 2,228 thousand; previous year: EUR 1,717 thousand) and, on the liabilities side, financial liabilities (EUR 19,753 thousand; previous year: EUR 19,485 thousand), equity (EUR 6,615 thousand; previous year: EUR 6,999 thousand), trade payables (EUR 8,005 thousand; previous year: EUR 6,585 thousand) and provisions (EUR 871 thousand; previous year: EUR 2,340 thousand).

Employees

PAION employed an average of 63 employees in the fiscal year 2022 (prior year: 51 employees). Of the 63 employees, 12 worked in development and 51 in administration and sales. 11

employees on average for the year are attributable to the PAION UK group, 8 to PAION Netherlands B.V., 7 to PAION Scandic ApS and 20 to PAION AG. As of December 31, 2022, the number of employees amounted to 70 (December 31, 2021: 56).

Impact of the Covid 19 pandemic on PAION AG and the PAION Group

Since the beginning of 2020, a new form of the coronavirus (SARS-CoV-2), which causes the respiratory disease Covid-19, had spread internationally. The pandemic had led to sometimes massive restrictions on public life worldwide, as well as significant declines in economic output. The success of containment measures, the resulting rate of spread of the virus, and the resulting restrictions in place, particularly in public areas, varied greatly from region to region and also varied significantly depending on the infection. At the time of this writing, most of the measures have been lifted and the transition from pandemic to endemic is underway.

In the past fiscal year, the Covid 19 pandemic again severely restricted market access in some countries such as the USA.

To date, the pandemic has had a moderate direct impact on the PAION Group. On the one hand, PAION currently still realizes a significant portion of its revenues from milestone payments. The underlying milestones are largely independent of the general economic development. On the other hand, PAION was able to continue its business activities almost unchanged even under significant restrictions in public life, as the presence of employees in the business premises was in most cases not mandatory for the normal continuation of operations. On the other hand, however, access to clinics and prescribers has been limited due to the impact of Covid-19 on the healthcare system, resulting in moderate product sales in some cases. PAION hopes to accelerate growth in 2023.

Overall, there has been a moderate direct impact of the pandemic on the PAION Group's net assets, financial position and results of operations to date. Due to limited access to hospitals and prescribers, PAION experienced moderate negative effects of the pandemic on its own marketing of the products Remimazolam, Angiotensin II and Eravacycline. A positive impact could be the backlog of patients who, during the Covid-19 pandemic, remained untreated, increasing the need for a product such as Remimazolam to increase process efficiency.

Reference to compensation report pursuant to Section 162 AktG

The remuneration report pursuant to Sec. 162 AktG is published on the website of PAION AG (https://www.paion.com/de/medien-investoren/corporate-governance/verguetung-vorstand-und-aufsichtsrat/) .

Disclosures pursuant to Section 289a HGB and explanatory report

Composition of the subscribed capital

As of December 31, 2022, the subscribed capital of PAION AG amounts to EUR 71,336,992.00 and is divided into 71,336,992 no-par value shares, each with a notional interest in the share capital of EUR 1.00. The no-par value shares are bearer shares and are fully paid up. A claim by shareholders to securitization of their shares is excluded in accordance with Section 6 (2) of the

Articles of Association. All shares carry the same rights and obligations. Each share entitles the holder to one vote at the Annual General Meeting and is decisive for the shareholders' share in profits. The rights and obligations of shareholders are set out in detail in the provisions of the German Stock Corporation Act (AktG), in particular sections 12, 53a et seq., 118 et seq. and 186 AktG.

Restrictions affecting voting rights or the transfer of shares

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

Shareholdings in the capital exceeding 10% of the voting rights

Under the German Securities Trading Act, any investor whose share of voting rights in the Company reaches, exceeds or falls below certain thresholds as a result of acquisitions, disposals or otherwise must notify the Company and the German Federal Financial Supervisory Authority (BaFin). The lowest threshold for this notification requirement is 3%. Direct or indirect shareholdings in the capital of the Company that reached or exceeded 10% of the voting rights at December 31, 2022 have not been reported to the Company.

Shares with special rights conferring powers of control

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

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

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

Statutory provisions and provisions of the Articles of Association on the appointment and dismissal of members of the Executive Board and amendments to the Articles of Association

The appointment and dismissal of members of the Executive Board are governed by sections 84 and 85 of the German Stock Corporation Act (AktG) and the supplementary provisions of the Rules of Procedure of the Supervisory Board, which stipulate an age limit of 65 for Executive Board members. Pursuant to § 84 AktG, members of the Executive Board may be appointed by the Supervisory Board for a maximum of five years. A repeated appointment or extension of the term of office, in each case for a maximum of five years, is permissible. Pursuant to § 8 (1) of the Articles of Association, the Executive Board shall consist of at least one person. The Supervisory Board determines the number of members of the Board of Management. Furthermore, pursuant to Section 84 (2) of the German Stock Corporation Act (AktG) and Section 8 (2) of the Articles of Association, the Supervisory Board may appoint a member of the Board of Management as Chairman.

An amendment to the Articles of Association is governed by Sections 179 and 133 of the German Stock Corporation Act in conjunction with Section 27 of PAION AG's Articles of Association. According to PAION AG's Articles of Association, the resolution of the Annual General Meeting required to amend the Articles of Association may be adopted by a simple majority of the share capital represented when the resolution is adopted, to the extent permitted by law.

Authority of the Board of Management to issue or repurchase shares

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital on one or more occasions in the period up to May 26, 2026 by up to a total of EUR 35,668,496.00 by issuing up to 35,668,496 new no-par value bearer shares in return for cash contributions or contributions in kind (Authorized Capital 2021). In the case of capital increases against contributions in kind, the Executive Board is also authorized, with the approval of the Supervisory Board, to exclude subscription rights. In the case of capital increases against cash contributions, shareholders are to be granted subscription rights. The new shares may also be underwritten by one or more banks with the obligation to offer them to the shareholders for subscription. The Executive Board is authorized, with the approval of the Supervisory Board, to exclude fractional amounts from shareholders' subscription rights. The Executive Board is also authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights if the issue price of the new shares is not significantly lower than the stock market price and the shares issued in return for cash contributions in accordance with Art. 186 par. 3 sentence 4 AktG with exclusion of subscription rights do not exceed a total of 10% of the capital stock as of May 27, 2021 and at the time the authorization is exercised. The Executive Board is also authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights to the extent necessary to grant subscription rights to holders of convertible bonds, profit participation rights or option rights within the meaning of Section 221 AktG.

Furthermore, the Management Board has the option to issue bearer and/or registered convertible bonds, bonds with warrants, profit participation rights and/or participating bonds ("Bonds") on one or more occasions until May 26, 2026 in a total amount of up to EUR 125,000.000.00 with or without a limited term with the approval of the Supervisory Board and to grant the holders or creditors of Bonds conversion or option rights to new shares of PAION AG with a pro rata amount of the share capital of up to a total of EUR 31,000,000.00 (Conditional Capital 2021). In principle, the shareholders are to be granted a subscription right to the bonds. However, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to the bonds in whole or in part in certain cases. Furthermore, the Company is authorized to issue 676,626 shares (Conditional Capital 2010 I), 530,010 shares (Conditional Capital 2014), 702,672 shares (Conditional Capital 2016), 806,250 shares (Conditional Capital 2018 II) and 1,200,000 shares (Conditional Capital 2020) to service the stock option programs 2010, 2014, 2016, 2018 and 2020.

Significant agreements of the Company that are conditional upon a change of control following a takeover bid

In the event of a change of control, the EIB has the right to terminate the existing loan agreement and demand early repayment of loan tranches already granted.

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

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

With regard to other existing compensation agreements with members of the Board of Management, we refer to the above explanations in the compensation report.

Corporate governance declaration in accordance with section 289f of the German Commercial Code (HGB)

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

Risk and opportunities report

I. Reference to the existence of a going concern risk

As a precautionary measure, it is pointed out that PAION AG continues to rely on the injection of additional funds to ensure its ability to continue as a going concern and to safeguard its future solvency. The ability to continue as a going concern is subject to significant uncertainties, as negotiations on the provision of additional funding are well advanced, but at the time of reporting no legally binding commitments have been made. In the event that the planned financing measures fail, there is a high probability that the current corporate strategy cannot be continued. With regard to the need for future financing measures, reference is also made to the comments in the sections "Financing risks" and "Financial outlook 2023".

These events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and represents a going concern risk.

2. Risk Management

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

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

The financial accounting and cost accounting software "Microsoft Dynamics NAV" (from January 2023 SAP) introduced as well as a corporate planning tool based on Excel and adapted to PAION form the basis for controlling. Internal reporting on a cost center and cost unit basis is carried out on a monthly basis, ensuring early identification of budget variances. The Excel-based planning tool forms the basis for short, medium and long-term corporate planning (cost center

planning, cost unit or project planning, budgeted P&L, budgeted balance sheet and budgeted cash flow statement). With the help of this planning tool, management and controlling are able to identify and evaluate opportunities and risks at an early stage by simulating various scenarios and to determine their influence on the future development of the company, in particular on the key financial control parameter of liquidity.

The implemented internal control system comprises both regulations for managing the company's activities and regulations for monitoring compliance with these regulations. Key measures of the internal control system are the application of the dual control principle, the definition of business transactions requiring approval, the limited granting of signatory and bank powers of attorney, the standardization of workflows by means of work instructions, the monitoring of compliance with specified process steps by means of checklists, and the establishment of measures to protect data and IT systems. PAION has appointed an internal compliance officer. The compliance officer monitors adherence to the company-wide compliance guidelines and reports once a year in writing on his activities and on any findings.

PAION has implemented a matrix organization that combines both the project organization and the departmental organization. Within these organizational structures, detailed reporting and information structures are in place to ensure early identification and communication of risks. The individual projects are managed and monitored by project teams. The project teams report on an ongoing basis - also in written form - on the current progress of the projects as well as on potential risks to the individual department heads as well as to the company management.

The risk management system is reviewed once a year and discussed with the Supervisory Board or the Audit Committee. The risk analysis is updated during the year and presented to the Supervisory Board. Particular risks are communicated on an ad hoc basis. A comprehensive risk inventory is carried out annually. The internal control system is reviewed on an ongoing basis with regard to the effectiveness of the controls and adjusted as necessary. Accounting-related risk management system and internal control system

PAION AG's internal control system includes all measures that serve to achieve and implement the decisions of the Management Board. On the one hand, the focus is on ensuring the correctness and efficiency of accounting. On the other hand, the internal control system is intended to ensure that material legal requirements are complied with. Both process-independent and process-integrated monitoring measures form the basis of this internal control system. Within PAION AG, the Audit Committee of the Supervisory Board is entrusted with process-independent auditing activities.

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

The accounting-related risk management system and internal control system also address the risk of material misstatements in the annual and interim financial statements. Key process-integrated measures and controls in accounting are the clear allocation of responsibilities, the dual control principle, the separation of functions, the use of an appropriate financial accounting

system and the associated authorization concept, and the use of checklists and internal work instructions.

There is also a clear division of responsibilities between the respective departments in order to identify potential errors and risks at an early stage and to counteract them. Furthermore, Controlling is responsible for the early detection and identification of potential risks in the company. To this end, individual financial statements and consolidated financial statements are prepared monthly for internal purposes. The monthly, interim and annual financial statements are analyzed with the help of Group-wide controlling with regard to budget/actual variances as well as implausibilities and inconsistencies in accounting. In this context, automated control mechanisms defined in the consolidation system help to identify erroneous information and correct it at Group level.

The financial reports are submitted to the Supervisory Board on a quarterly basis. The quarterly reports and the half-yearly and annual financial statements are published and discussed with the Supervisory Board's Audit Committee or with the Supervisory Board prior to publication.

Significant matters relating to the preparation of the financial statements are discussed with the Audit Committee in a timely manner. The Audit Committee also determines additional audit areas and focal points for the auditor.

As part of their audit of the financial statements, the auditors are also required to report to the Supervisory Board on any risks or control weaknesses relevant to financial reporting and any other material weaknesses in the risk management system and internal control system identified during their audit work.

Throughout the accounting process, a wide range of controls are carried out within various responsibilities and departments in order to comply with legal requirements and ensure quality assurance. In order to monitor the functionality and effectiveness of the defined controls, these are examined at regular intervals on the basis of random samples. In principle, it should be noted that an internal control system, regardless of its design, cannot guarantee absolute certainty that all matters recorded in the course of accounting are presented correctly and completely. The Board of Management has no indication that the internal control system and the risk management system as a whole were not appropriate or effective as of December 31, 2022.

3. Significant risks

As part of the early identification of risks, risks are initially recorded as gross risks prior to the introduction of suitable risk-reducing measures with regard to the potential amount of damage and the probability of occurrence. Net risks are determined with regard to the amount of damage and probability of occurrence, taking into account risk-reducing measures introduced, and are classified on the basis of the resulting expected value. In evaluating potential risks, both internal and known relevant external factors are taken into account according to their relevance. The categories used for probabilities of occurrence and damage levels as well as the classification of the resulting net risks can be seen in the following table:

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

In the following, the identified risks are explained together with the risk-reducing measures introduced in each case and classified according to the table above. The classification relates to the net risks, taking into account the risk-reducing activities A very high risk is defined as a loss amount that exceeds EUR 5 million in the event of occurrence. These are identified separately as such. Net risks classified as "very low risk" and "low risk" are not presented, as they do not have a significant impact on the decisions of a reasonable user. In the course of the necessary aggregation of risks, some of the risks presented below may consist of individual sub-risks. In this case, the risk classification presented always refers to the highest of the individual sub-risks. Any changes in the risk classification compared with the previous year are indicated in each case. Where risks recorded in the previous year no longer exist or risks were recorded for the first time in the reporting year, this is not explained separately.

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

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

aa) Development and approval risks

All three products are approved in the EU. Regarding the marketing authorization application for general anesthesia, PAION received a positive CHMP opinion on the 50mg dosage in January 2023. This was finally followed by approval by the European Commission on April 03, 2023. For all products, there are obligations to carry out certain development work (such as in clinical and

non-clinical studies) even after approval. As is widely practiced in the pharmaceutical industry, contract research organizations (CROs) are contracted to conduct the studies. PAION exercises the monitoring and control functions customary in the industry. Nevertheless, there is a fundamental risk that inadequate performance of the studies could lead to necessary improvements and delays in the approval process or, in the worst case, to the withdrawal of a granted marketing authorization. To reduce this risk, CROs are carefully selected and regularly reviewed on the basis of defined processes and criteria. In addition, both the conduct of clinical trials at the respective study centers and the study data generated are controlled and monitored by independent third parties. This represents an increased risk. The risk classification has decreased by one category compared to the previous year. In the event of occurrence, the potential loss amount could be very high.

To ensure compliance with regulatory requirements, PAION works with experienced regulatory service providers. PAION regularly evaluates the services provided, also taking into account external comparative data, but due to the highly specialized expertise of the service providers, PAION cannot fully evaluate the services provided with regard to adequacy and compliance with regulatory requirements. Despite the high reputation of the contracted service providers, there is therefore a risk that regulatory requirements, for example with regard to documentation or quality assurance requirements, are not adequately fulfilled and that this jeopardizes the granting or maintenance of market approvals. This is a moderate risk. The risk classification has decreased by one category compared to the previous year

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

The results of clinical and non-clinical studies are not predictable. There is always a risk that unexpected, serious side effects may occur or that promising results of previous studies may not be confirmed to the same extent in subsequent studies and that previously defined primary and/or secondary endpoints of a study may not be met. The reasons for the latter can be both the insufficient suitability of the drug candidate for the intended indication and the respective study designs. If this risk materializes, there may be significant delays in further development or even a discontinuation of development or commercialization of the active ingredient concerned. These are typical development risks whose occurrence can only be influenced to a limited extent. With regard to the occurrence of unexpected, serious side effects, these include careful dose finding prior to the start of the study and close monitoring of safety aspects of the study, as well as, with regard to the results of studies and the achievement of primary and secondary endpoints, a study design and protocol carefully selected in advance of the study with the help of external experts and/or, in the course of the study, potential dose adjustments or modified study protocols,

insofar as there are indications of their necessity. The occurrence of unexpected serious adverse events is a moderate risk. In the event of inadequate study results and failure to achieve primary and secondary endpoints, this is a high risk. In case of occurrence, the potential amount of damage could be very high.

As part of the development of remimazolam for adult use, a follow-on development for pediatric use is mandatory in both the US and the EU. If there are delays such that this cannot be completed in the EU according to PAION's agreed timeline with the EMA, there is a risk that the marketing authorization in procedural sedation or general anesthesia may be withdrawn. PAION is working on the implementation of the pediatric development plan in the EU to minimize this risk. It is a high risk. In case of occurrence, the potential amount of damages could be very high.

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

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

In addition, regulatory authorities regularly conduct inspections with respect to the (manufacturing of the) drugs prior to granting marketing authorization. There is a risk that

quality deficiencies at PAION, PAION's contract manufacturers or other service providers engaged by PAION in this context could be identified by the authorities in the course of such inspections, which could lead to delays in market approval. To minimize this risk, PAION maintains a close cooperation with its contract manufacturers and service providers and regularly conducts audits itself to ensure a consistently high quality of manufacturing and related processes and documentation. PAION also cooperates with renowned and experienced external service providers for this purpose. This is an increased risk. In case of occurrence, the potential amount of damages could be very high.

bb) Commercialization risks

Various risks result from the commercialization of their products.

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

There is a risk that PAION or PAION's licensees will not be sufficiently successful in preparing the market through pre-marketing and market access activities, such as communication and exchange with the scientific community, and therefore the forecast volumes cannot be sold in the market. Paion adapts its organizational structure to the challenges and invests in product marketing. In addition, PAION benefits from the cooperation with distribution partners. In order to reduce this risk, PAION continues to work on the preparation of the relevant markets, including by bringing in external experts to communicate with the scientific community, by working with key opinion leaders and by building and expanding the internal commercial team There is also a regular exchange of information with licensees. As a large number of planned investigations and procedures were initially cancelled or postponed due to the Covid 19 pandemic, their subsequent catch-up and the resulting induced increased demand for sedatives and/or anesthetics may support the successful launch of remimazolam It is a high risk. If it were to occur, the potential amount of damage could be very high. In order to successfully market the products, PAION's distribution structures (for its own marketing in parts of Europe) or those of licensees, if not already in place, must be fully established There is a risk that this process may not be completed, or not completed at all, depending on the region and regulatory process. In order to minimize the risk to a large extent, PAION continues to work on establishing the sales structure with its own representatives as well as external distribution partners. In addition, PAION maintains a regular exchange of information with its licensees. This is a high risk. In case of occurrence, the potential loss amount could be very high.

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

cc) Production and purchasing risks

In preparation for commercialization, PAION has successfully completed so-called scale-up processes for the manufacture of Remimazolam together with experienced and renowned contract manufacturing organizations (CMOs), which serve to validate the technical feasibility of manufacturing even larger quantities of the product. However, the commercial production of Remimazolam has not yet been tested as a regular process, so there is a risk that remimazolam cannot be produced at commercial scale quickly enough, in sufficient quantity and/or quality, and/or at a competitive cost to the market. There is a financial risk of advance payments made/still to be made and purchase values due to binding purchase commitments entered into for third-party production (Cambrex - EUR 15 million) in the absence of sales. -This also applies in principle to the products angiotensin II and eravacycline, although these have been manufactured on a commercial scale for some time. To reduce this risk, PAION is working closely with the contract manufacturers to identify potential savings as well as opportunities to increase efficiency, such as increasing batch sizes, on the one hand, and to identify and address potential weaknesses in the processes at an early stage, on the other hand. In addition, PAION plans to maintain a safety stock of products. This is a high risk. In case of occurrence, the potential amount of damage could be very high.

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

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

PAION supplies licensees in different regions with remimazolam active ingredient in some cases. In the context of marketing, PAION is exposed to product liability risks. This also applies to the planned own marketing of remimazolam in certain European markets. PAION works with experienced and renowned CMOs for the production of both the active pharmaceutical ingredient (API) and the finished applicable product (DP), and the production process is regularly monitored by PAION's quality assurance department based on predefined processes and requirements and in close cooperation with the CMOs and licensees. Contractual liability

arrangements are in place with both CMOs and licensees. In addition, PAION has taken out product liability insurance to reduce the risk to a large extent and to limit any damage. This is a high risk. In case of occurrence, the potential amount of damages could be very high.

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

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

ee) Risks in connection with licensees

As global development and commercialization activities for remimazolam progress, licensees are increasingly conducting major clinical trials and are increasingly focused on important regulatory coordination, meetings with the respective regulatory authorities, submission of regulatory applications and preparation for potential commercialization. There is a risk that the results of clinical trials, discussions with regulatory authorities or the evaluation of marketing authorization applications by regulatory authorities may make the further development and/or commercialization of remimazolam no longer attractive to existing licensees in the respective market they have licensed and they may terminate their license for this reason. In order to mitigate this risk, PAION is in regular communication with all licensees and participates, as appropriate, in the evaluation of development plans, marketing authorization applications and strategies and analyses for price negotiations with authorities in order to share the extensive experience in the clinical development of remimazolam and the related also regulatory interaction with authorities with the licensees and thus ensure the successful conduct of clinical studies and the fulfillment of the respective regulatory requirements for both studies and marketing authorization applications as well as the best possible preparation of a potential commercialization. This is a moderate risk. The risk rating has decreased by one category compared to the previous year.

There is also the risk that there are delays in the development, regulatory processing and/or subsequent potential commercialization of remimazolam in the licensed territories and that PAION does not receive milestone payments and/or royalties at all or receives them late as a result. As the underlying original risks, which are already depicted in the other sections, are manifold and sometimes differ significantly depending on the licensee, no categorization of this risk is provided here.

b. Financial risks

aa) Financing risks

PAION expects future payments from existing collaborations and collaborations to be entered into in the future, if any, which will be used to finance part of its short- and mid-term funding requirements. Nevertheless, PAION requires additional funding for the further development and planned commercialization of remimazolam, eravacycline and angiotensin II in Europe. Additional funding requirements could also arise due to delays or cost increases in development and commercialization. Failure to achieve targets agreed with licensees could result in milestone payments and royalty income being received later than planned or not being received at all.

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

PAION carries out short-, medium- and long-term planning of its cash requirements and updates these on an ongoing basis in order to identify additional cash requirements in a timely manner and to take appropriate measures. Furthermore, PAION is in regular and close contact with investors as well as (potential) pharma partners and licensees. A capital reduction as a basis for a future potential capital increase was approved by the shareholders. The financing measures mentioned in the risk and opportunity report under the item "Indication of the existence of a going concern risk" should provide sufficient funds for the commercialisation phase. This continues to be a very high risk. The financing risk is unchanged compared to the previous year.

In case of occurrence, the potential amount of damage could be very high.

bb) Currency risks

PAION partly concludes contracts in foreign currencies, primarily in U.S. dollars, British pounds and Danish kroner. A strong increase of these currencies against the euro could make development and commercialization costs more expensive. To mitigate this risk, PAION also holds cash in U.S. dollars, British pounds and Danish kroner. Currency risks further arise from potential future revenue-based royalty payments to be made by licensees in different currencies depending on the licensed market, in particular in U.S. dollars from potential commercialization in the U.S.A., as well as from the translation of the individual financial statements of the U.K. and Danish subsidiaries from local currency into euros, as for the U.K. and Danish subsidiaries the British pound and the Danish krone, respectively, is the functional currency.

Currency risks are systematically recorded and monitored on the basis of short- and medium-term planning. With the approval of the Supervisory Board, the Management Board has drawn up clear rules on the hedging instruments to be used to limit currency risks. Under certain conditions, hedging transactions are concluded or corresponding foreign currency holdings are

maintained for foreign currency positions where the amount and timing of cash flows are relatively certain. This is a moderate risk.

cc) Liquidity and default risks

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

dd) Tax risks

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

The development costs for remimazolam are supported by tax credits due to current tax legislation in the United Kingdom. The determination of the refund claims is based on the determination methodology agreed between PAION and the UK tax authorities in previous years. If the determination methodology is changed or no longer recognized by the tax authorities, reimbursement claims already recognized could no longer be recoverable in such a case and credits received that have not yet been finally reviewed by the authorities could have to be partially or fully repaid. Due to a change in the law, PAION will no longer be eligible for tax incentives through tax credits in the fiscal year 2022. This is a low risk. The risk classification has decreased by one category compared to the previous year. Within the PAION Group, there is a diverse exchange of services between the companies, also across national borders. Due to the increasing complexity of the service relationships, particularly against the background of the planned commercialization of remimazolam, angiotensin II and eravacycline, there is a risk that the transfer prices applied and the underlying transfer methods will not be (fully) recognized by tax authorities and that litigation costs and/or possible (higher) tax payments (than planned) may be incurred. This is an increased risk.

The British subsidiary PAION UK Ltd, which holds the rights to remimazolam, is expected to generate significant income from licenses in the future if remimazolam is successfully marketed in the various territories. As a result of the final arrangement of the UK's exit from the EU, which is contractually fixed at the end of 2020, PAION could be subject to additional taxation in Germany on the basis of these revenues in the future, which could lead to significant additional tax payments for PAION due to the significantly higher tax rate in Germany and the more

restrictive minimum taxation compared to the UK. These tax payments would have a corresponding negative impact on liquidity. This is a high risk. The risk rating has decreased by one category compared to the previous year

In case of occurrence, the potential amount of damage could be very high.

With the beginning of commercialization, products are sold to European and other foreign countries. The supply chain of products is complex, and VAT legislation also imposes complex requirements for invoicing and documentation. If these requirements are not met correctly, fines could become due or VAT amounts could have to be paid that cannot be reclaimed. Paion reviews business transactions with tax advisors to ensure compliance with tax rules. This is a moderate risk.

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

ee) Insolvency risk

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

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

As discussed in section b (aa and cc), these events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and represents a going concern risk.

ff) Risks from loan financing

PAION has taken out a loan in the amount of EUR 20 million in 2021. There is a risk that PAION may only be able to pay part of the interest or repayments due, late or not at all. In order to minimize the risk, part of the interest is due at maturity and the repayment of the loan is scheduled to take place only from the fourth year after the loan was taken out. Nevertheless, ongoing interest of 6% or 7.5% (depending on the tranche) is payable. Should this risk materialize, it could in the worst case lead to PAION's insolvency. This is a high risk. In case of occurrence, the potential loss amount could be very high.

c. IT Risks

As a globally active group, PAION has complex IT systems that enable the instantaneous exchange of data via both stationary and mobile devices and on which PAION urgently relies for its

business activities. There is a risk that third parties could gain unauthorized access and delete, corrupt or use confidential data to PAION's disadvantage or intentionally damage the IT infrastructure. This could occur through direct attacks, access via mobile devices or the introduction of malware that is unintentionally installed or executed by the user. PAION has implemented an integrated multi-level security concept that largely reduces the risk of such accesses. It is an increased risk. In case of occurrence, the potential amount of damage could be very high.

Substantial parts of the IT infrastructure are hosted with external providers. There is a risk that incidents such as hardware defects at the IT hosts could cause substantial parts of the IT systems to fail and that, as a result, PAION would not be able to fulfill contractual or regulatory obligations in a timely manner, for example, and/or data could be irrevocably deleted. In order to reduce this risk as far as possible, PAION works with experienced and renowned IT service providers that have redundant and physically separate systems in order to still be able to guarantee the uninterrupted functionality of the IT infrastructure in the event of damage. Data is backed up on a daily basis. In addition, the existing IT infrastructure is currently being transformed into a cloud-based environment. This is an increased risk.
In parallel to the establishment of sales structures, PAION is currently also introducing a Group-wide ERP system in order to be able to control and map the relevant processes, such as purchasing, sales and finance, in an integrated software system. The planned ERP system was introduced on 01.01.2023. If the ERP system is not available, this may lead to the interruption of operating processes. To reduce the risk, paion has implemented measures as well as carefully selected the external service provider to operate the ERP. . Contingency plans are part of the service package with the service provider. This is an increased risk. The risk classification has increased by one category compared to the previous year. In the event of occurrence, the potential amount of damage could be very high.

d. Legal and compliance risks

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

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

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

4. Market opportunities

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

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

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

PAION believes that having its own distribution infrastructure for the hospital market in selected European markets will provide the opportunity to acquire or in-license additional products in the future in order to further increase both revenues and profitability.

Remimazolam besilate

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

The development in general anesthesia has been completed in the EU, Japan and South Korea and remimazolam is marketed in Japan and South Korea. PAION submitted an extension of the marketing authorization application for remimazolam for the indication general anesthesia at the end of 2021. The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP; Committee for Medicinal Products for Human Use) adopted a positive opinion on January 27, 2023, recommending approval of remimazolam for the induction and maintenance of general anesthesia in adults. This was finally followed by approval by the European Commission on April 03, 2023. Based on publicly available statistics on procedures and surgeries in the EU as well as market research, PAION estimates that approximately 29 million surgeries are performed

under general anesthesia in the EU each year. Based on its own projections, PAION currently estimates an annual peak sales potential of approximately EUR 50 million to approximately EUR 60 million for general anesthesia in Europe.

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

Angiotensin II and Eravacycline

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

Overall picture of opportunities and risks

In selected European markets, the company has started its own marketing activities. For all other regions, the goal is to find licensees or distribution partners. PAION is well positioned to find additional licensees. Pharmaceutical companies increasingly need to add new substances to their product portfolio that have proven their efficacy at an advanced stage of clinical development or are already approved and represent an economically attractive alternative in the global healthcare environment characterized by increasing cost consciousness. PAION is in partnering discussions with potential additional licensees for remimazolam. Overall, PAION has the opportunity to generate significant revenue from the potential commercialization of its product portfolio or significant licensing income. The annual peak revenue potential is approximately EUR 200m.

PAION made good progress in implementing its strategy in the fiscal year. Remimazolam is already marketed in many countries. PAION also continued to commercialize remimazolam, angiotensin II and eravacycline in European countries. Applications of the

products indicate good market acceptance and there is positive feedback from customers about the experience with remimazolam in particular. The establishment of commercial distribution involving experienced distribution partners, such as Viatris and Medis, is gradually having an impact, accompanied by a moderate increase in product sales. The risk of failure in the development of remimazolam has thus been further reduced, while the chances of successful marketing in an increasing number of regions worldwide have increased. Overall, the opportunity situation has improved compared to the previous year.

The company's own marketing activities in parts of Europe require, in particular, the establishment and expansion of a sales infrastructure. However, the costs cannot yet be covered by revenues from product sales or royalties, so there is a substantial need for additional financing in the short to medium term. To this end, PAION entered into an agreement with Humanwell during the fiscal year for the sale of remimazolam patents and future remimazolam royalties in China for EUR 20.5 million. However, PAION will need additional funds to successfully market the product portfolio in Europe. The financing risk remains high compared to the previous year. Overall, the risk situation is increased compared to the previous year.

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

Supplementary report

Reference is made here to the supplementary report in the notes to the consolidated financial statements.

Forecast Report

Business outlook (non-financial performance indicators)

PAION's focus in 2023 will remain on the commercialization of its product portfolio, consisting of the approved products remimazolam (Byfavo®), angiotensin II (GIAPREZA®) and eravacycline (XERAVA®). Remimazolam is also expected to be marketed in Germany, Portugal, and Austria by the end of 2023. Following remimazolam approval by the European Medicines Commission for the induction and maintenance of general anesthesia in adults on 03 April 2023, PAION plans to launch remimazolam in general anesthesia in Europe early in the second half of 2023.
Planned research and development activities mainly relate to pediatric development and the processing of post-approval commitments and life-cycle management for remimazolam, Angiotensin II and Eravacyclin. In addition, minor activities take place in the area of production development.

With remimazolam marketed in the U.S., Japan, South Korea and much of Europe, PAION expects product sales and revenues from licensees and distributors to increase, resulting in increased royalty income.

Financial outlook 2023 (Financial performance indicators)

PAION expects revenues of approximately EUR 13 million to approximately EUR 19 million in 2023. Approximately EUR 1 million of revenues are expected from existing licensees and approximately EUR 12 million from sales of remimazolam active ingredient. Revenues from distribution partners in Europe and revenues from own sales of remimazolam, angiotensin II and eravacycline are expected to range from approximately EUR 2 million to approximately EUR 4 million.

The cost of sales will amount to approximately EUR 11 million to approximately EUR 15 million.

The focus of activities in 2023 will continue to be on marketing and sales, so that administrative and selling expenses of approximately EUR 10 million to approximately EUR 13 million are expected, depending on the progress of commercial activities. Research and development expenses are budgeted between approximately EUR 4 million and approximately EUR 6 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) of approximately EUR -15 million to approximately EUR -13 million are forecast for 2023.

PAION expects stable headcount at previous year's level in 2023

The key assumption for the outlook is that the activities of PAION and the licensees will continue as planned. Furthermore, the planning is based on the assumption that the further funding requirements can be at least partially covered by financing measures in the course of the fiscal year 2023. Delays would lead to a postponement of significant cost blocks and/or revenues into 2024 or beyond.

PAION expects increasing revenues in the coming years, both from licensing agreements and from its own commercialization in parts of Europe. The Management Board of PAION AG is working at full speed to establish a solid financing concept. In particular, additional funding will be required for the further expansion of the sales infrastructure, the ongoing sales activities in Europe as well as so-called "post-approval commitments" towards the respective regulatory authorities, e.g. possible Phase IV studies after approval or market launch of the products. According to current planning, there is a financing requirement of approximately EUR 30 million in the coming years until break-even, which could be raised through various financing measures as well as additional partnerships. Based on cash on hand, expected payments from revenues as well as potential financing and/or out-licensing, PAION expects to have sufficient cash and cash equivalents for the next 12 months, taking into account the current planning.

Aachen, May 15, 2023

PAION AG

Gregor Siebert Sebastian Werner

Financial Statements

PAION AG

Balance sheet as of December 31, 2022

Assets	31.12.2022 EUR	31.12.2021 EUR
Fixed Assets		
Intangible Assets		
Franchises, trademarks, patensts, licenses and similar rights	2,301,745.31	758,093.03
Equipment		
Plant and machinery	22,066.68	38,785.68
Other plant, factory and office equipment	65,269.61	72,065.95
Financial assets		
Shares in affiliated companies	65,838,391.39	94,776,394.39
Securities	0.00	11.70
	65,838,391.39	94,776,406.09
	68,227,472.99	95,645,350.75
Current assets		
Receivables and other assets		
Receivables from affiliated companies	51,516,656.74	57,445,266.09
Other assets	152,727.15	383,146.35
	51,669,383.89	57,828,412.44
Cash at bank and bank balances	7,302,702.91	5,226,565.00
	58,972,086.80	63,054,977.44
Prepaid expenses	41,639.41	91,476.27
	127,241,199.20	**158,791,804.46**

EQUITY AND LIABILITIES	31.12.2022 EUR	31.12.2021 EUR
Equity		
Subscribed capital	71,336,992.00	71,336,992.00
thereof: 71,336,992 no-par value shares (prior year: 71.336.992 non par value shares)		
[illegible] (prior year: EUR 34,915,558.00)		
Capital reserve	154,689,892.92	154,689,892.92
Accumulated loss	-122,288,458.50	-91,070,494.33
	103,738,426.42	134,956,390.59
Accruals		
Other accruals	1,376,835.54	2,384,236.63
Liabilities		
Liabilities to financial institutions	21,654,583.34	20,804,583.34
thereof due in up to one year:		
EUR 135.000,00 (prior year: EUR 135.000,00)		
Trade payables	364,746.93	490,940.33
thereof due in up to one year:		
EUR 364.746,93 (prior year: EUR 490.940,33)		
Liabilities to affiliated companies	29,781.39	45,483.68
thereof due in up to one year:		
EUR 29.781,39 (prior year: EUR 45.483,68)		
Other liabilities	76,825.58	110,169.89
thereof due in up to one year:		
EUR 76.825,58 (prior year: EUR 110.169,89)		
thereof for taxes: EUR 59.749,98 (prior year: EUR 48.534,72)		
thereof relating to social security: EUR 8.597,13 (prior year: EUR 12.231,10)		
	22,125,937.24	21,451,177.24
	127,241,199.20	**158,791,804.46**

Income statement for the financial year 2022

	2022 EUR	2021 EUR
Revenues	3,135,280.27	2,518,617.74
Other operating income	459,549.53	871,720.81
Personnel expenses		
Wages and salaries	-2,748,230.07	-2,363,404.37
Social security	-289,901.54	-249,666.19
	-3,038,131.61	-2,613,070.56
Depreciation and amortization	-29,914.00	-25,064.00
Other operating expenses	-3,392,282.78	-4,748,656.28
Other interest and similar income thereof from affiliated companies EUR 1.796.591,27 (prior year: EUR 1.392.022,14)	2,857,077.34	1,392,163.84
Depreciation on financial assets	-28,938,014.70	0.00
Other interest and similar expenses	-2,271,528.22	-3,471,016.71
Result before tax	**-31,217,964.17**	**-6,075,305.16**
Net result for the year	**-31,217,964.17**	**-6,075,305.16**
Loss carryforward	-91,070,494.33	-84,995,189.17
Accumulated costs	**-122,288,458.50**	**-91,070,494.33**

Appendix

PAION AG

Preliminary note

The annual financial statements of PAION AG, Heussstr. 25, 52078 Aachen, HRB 12528, Register Court Aachen, for the fiscal year from January 1, 2022 to December 31, 2022 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG), as amended. The balance sheet and income statement comply with the classification requirements of sections 266 and 275 HGB. The notes to the financial statements have been prepared on the basis of sections 284 to 288 HGB.

The shares of PAION AG are admitted to trading on the Frankfurt Stock Exchange and are listed in the Prime Standard of the regulated market. Pursuant to Sec. 267 (3) Sentence 2 HGB, PAION AG qualifies as a large corporation because the securities it issues are traded on an organized market within the meaning of Sec. 2 (11) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act].

Accounting and valuation methods

1. Fixed assets are valued at acquisition cost and depreciated on a scheduled basis. Amortization is calculated using the straight-line method. The useful life of intangible assets is between three and five years. Low-value assets with acquisition costs of up to EUR 800 are written off in full in the year of acquisition. If necessary, unscheduled write-downs are made to the lower fair value. If the reason for such write-downs no longer exists, the write-downs are reversed in accordance with Section 253 (5) HGB.
2. Financial assets are carried at the lower of cost or fair value.
3. Receivables and other assets are generally measured at nominal value. Receivables denominated in foreign currencies are translated at the average spot exchange rate at the balance sheet date. In the case of a remaining term of more than one year, the realization principle (Section 252 (1) No. 4 half-sentence 2 HGB) and the acquisition cost principle (Section 253 (1) Sentence 1 HGB) are observed.
4. Provisions are recognized on the basis of prudent business judgment and are necessary and adequate. Provisions with a term of more than one year are discounted at the average market interest rate of the last seven financial years corresponding to their remaining term.
   The provision for the performance-related compensation component of the loan drawn from the European Investment Bank (EIB) was estimated as of the reporting date on the basis of the closing rate of the PAION share and discounted in accordance with the term.
5. Liabilities are recognized at the settlement amount. Liabilities denominated in foreign currencies are generally translated at the average spot exchange rate on the reporting date. In the case of a remaining term of more than one year, the realization principle (§ 252 (1) no. 4 half-sentence 2 HGB) and the acquisition cost principle (§ 253 (1) sentence 1 HGB) are observed.

The income statement has been prepared using the nature of expense method in accordance with Section 275 (2) HGB.

Notes to the balance sheet and income statement items

(I) Fixed assets

Shares in affiliated companies as of December 31, 2022 relate to PAION Holdings UK Ltd (EUR 65,373k), PAION Deutschland GmbH (EUR 450k), PAION Netherlands B.V. (EUR 10k) and PAION Scandic ApS (EUR 5k). Additions to intangible assets in the reporting year relate in the amount of EUR 1,546k to an ERP system implemented at the beginning of 2023. The composition and development of non-current assets is as follows:

	Acquisition and production costs			
	01.01.2022	Additions	Disposals	31.12.2022
	EUR	EUR	EUR	EUR
Intangible assets				
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	822,104.08	1,545,955.28	0.00	2,368,059.36
	822,104.08	1,545,955.28	0.00	2,368,059.36
Property, plant and equipment				
Technical equipment and machinery	54,619.68	0.00	0.00	54,619.68
Other equipment, office and business equipment	80,573.95	4,095.66	0.00	84,669.61
	135,193.63	4,095.66	0.00	139,289.29
Financial assets				
Shares in affiliated companies	141,974,891.49	0.00	0.00	141,974,891.49
Securities held as fixed assets	11.70	0.00	0.00	11.70
	141,974,903.19	0.00	0.00	141,974,903.19
	142,932,200.90	**1,550,050.94**	**0.00**	**144,482,251.84**

	Accumulated depreciation			Carrying amounts	
01.01.2022	Additions	Disposals	31.12.2022	31.12.2022	31.12.2021
EUR	EUR	EUR	EUR	EUR	EUR
64,011.05	2,303.00	0.00	66,314.05	2,301,745.31	758,093.03
64,011.05	**2,303.00**	**0.00**	**66,314.05**	**2,301,745.31**	**758,093.03**
15,834.00	16,719.00	0.00	32,553.00	22,066.68	38,785.68
8,508.00	10,892.00	0.00	19,400.00	65,269.61	72,065.95
24,342.00	**27,611.00**	**0.00**	**51,953.00**	**87,336.29**	**110,851.63**
47,198,497.10	28,938,003.00	0.00	76,136,500.10	65,838,391.30	94,776,394.39
0.00	11.70	0.00	11.70	0.00	11.70
47,198,497.10	**28,938,014.70**	**0.00**	**76,136,511.80**	**65,838,391.30**	**94,776,406.09**
47,286,850.15	**28,967,928.70**	**0.00**	**76,254,778.85**	**68,227,472.99**	**95,645,350.75**

(2) Receivables from affiliated companies

Receivables from affiliated companies break down as follows as of December 31, 2022:

EUR	Total	thereof loans	thereof from services and interest
PAION UK Ltd	10,723,538.68	9,665,000.00	1,058,538.68
PAION Germany GmbH	24,555,528.30	23,330,000.00	1,225,528.30
PAION Netherlands B.V.	12,915,215.11	12,304,000.00	611,215.11
PAION Scandic ApS	3,322,374.65	3,140,000.00	182,374.65
	51,516,656.74	**48,439,000.00**	**3,077,656.74**

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

(3) Other assets

Other assets as of December 31, 2022 mainly relate to sales tax receivables (EUR 122k; previous year: EUR 293k). Other assets also include security deposits for rent (EUR 22k; previous year: EUR 112k); these have a remaining term of more than one year.

(4) Equity

As of December 31, 2022, the share capital amounts to EUR 71,336,992.00 (previous year: EUR 71,336,992.00) and is divided into 71,336,992 no-par value shares (previous year: 71,336,992 shares). There were no changes to the share capital in the reporting year.

By resolution of the Annual General Meeting on May 27, 2020, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital on one or more occasions in the period up to May 26, 2025 by up to a total of EUR 26,134,928.00 by issuing up to 26,134,928 new no-par value bearer shares in return for cash contributions or contributions in kind (Authorized Capital 2020). On March 19, 2021, the Management Board resolved, with the approval of the Supervisory Board, to issue 5,095,499 no-par value bearer shares against cash contributions under the authorization granted by the Annual General Meeting.

to grant subscription rights to existing shareholders at a subscription price of EUR 1.54 per share. The Existing shareholders were able to subscribe for the new shares at a subscription ratio of 13:1 during the subscription period from March 24, 2021 to April 6, 2021. A US investor had undertaken to acquire the shares not subscribed by existing shareholders or other investors in the subscription offer at the subscription price. Upon completion of the capital measure, the Company's share capital was increased by EUR 5,095,499.00 from EUR 66,241,493.00 to EUR 71,336,992.00 through the issue of 5,095,499 new shares. The capital increase with gross issue proceeds of EUR 7.8 million was entered in the commercial register on April 9, 2021. Authorized Capital 2020 decreased to EUR 21,039,429.00 as a result of this capital measure.

By resolution of the Annual General Meeting on May 27, 2021, the Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital in the period up to May 26, 2026, on one or more occasions by up to a total of EUR 35,668,496.00 by issuing up to 35,668,496 new no-par value bearer shares in return for cash contributions or contributions in kind (Authorized Capital 2021). In addition, the Executive Board has been authorized to use up to EUR 7,133,699.00 of Authorized Capital 2021 for cash capital increases, excluding

subscription rights. The remaining Authorized Capital 2020 in the amount of EUR 21,039,429.00 was cancelled.

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

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

At the Annual General Meeting on 19 May 2010, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 720,000.00 by issuing up to a total of 720,000 new no-par value bearer shares (Conditional Capital 2010 I). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2010 I to EUR 676,626.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2010 exercise their option rights. Under the Stock Option Program 2010, 670,626 stock options have been issued to current and former members of the Management Board and employees of the PAION Group as of December 31, 2022. So far, 20,000 stock options have been exercised. As of December 31, 2022, the Conditional Capital 2010 I amounts to EUR 676,626.00.

At the Annual General Meeting on 21 May 2014, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 740,000.00 by issuing up to a total of 740,000 new no-par value bearer shares (Conditional Capital 2014). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2014 to EUR 530,010.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2014 exercise their option rights. Under the Stock Option Program 2014, 530,010 stock options have been issued to former and current members of the Management Board and employees of the PAION Group as of December 31, 2022. The stock options have not yet been exercised. As of December 31, 2022, the Conditional Capital 2014 amounts to EUR 530,010.00.

At the Annual General Meeting on 25 May 2016, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 840,000.00 by issuing up to a total of 840,000 new no-par value bearer shares (Conditional Capital 2016). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2016 to EUR 702,672.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2016 exercise their option rights. Under the Stock Option Program 2016, 700,472 stock options have been issued to former and current members of the Management Board and employees of the PAION Group as of December 31, 2022. The stock options have not yet been exercised. As of December 31, 2022, the Conditional Capital 2016 amounts to EUR 702,672.00.

At the Annual General Meeting on May 23, 2018, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 900,000.00 by issuing up

to a total of 900,000 new no-par value bearer shares (Conditional Capital 2018 II). At the Annual General Meeting on May 27, 2021, it was resolved to adjust the Conditional Capital 2018 II to EUR 806,250.00. The conditional capital increase can only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2018 exercise their option rights. Under the Stock Option Program 2018, 751,880 stock options have been issued to former and current members of the Management Board and employees of the PAION Group as of December 31, 2022. The stock options have not yet been exercised. As of December 31, 2022, the Conditional Capital 2018 II amounts to EUR 806,250.00.

At the Annual General Meeting on May 27, 2020, it was resolved to conditionally increase the share capital of PAION AG by up to a total of EUR 1,200,000.00 by issuing up to a total of 1,200,000 new no-par value bearer shares (Conditional Capital 2020). The conditional capital increase may only be implemented to the extent that the holders of option rights granted by PAION AG under the Stock Option Program 2020 exercise their option rights. As of December 31, 2022, 30,000 stock options have been issued to employees of the paion group under the stock option program 2020. As of December 31, 2022, the Conditional Capital 2020 amounts to EUR 1,200,000.00.

As in the previous year, the capital reserve amounted to EUR 154,689,892.92 as of December 31, 2022 and did not change during the reporting year.

(5) Provisions

Provisions break down as follows:

	31.12.2022 KEUR	31.12.2021 KEUR
Performance-based component EIB loan	614	1.674
Bonuses	182	348
Outstanding cost invoices	89	146
Acquisition and audit costs	92	76
Legal and consulting fees	134	54
Other	266	86
	1,377	**2,384**

The provision for the performance-related compensation component of the loan drawn from the European Investment Bank (EIB) (cf. section (6) Liabilities to banks) in the amount of EUR 614k (prior year: EUR 1,674k) relates to a payment obligation dependent on the share price of PAION AG at the time of repayment of the last part of the respective tranche of the loan and due at that time. These payments are due in the fiscal year 2026; the amount was estimated as of the reporting date on the basis of the closing rate of the PAION share and discounted in accordance with the term.

(6) Liabilities to banks

PAION AG has drawn down the first two tranches of the loan totaling EUR 12,500k in February 2021 and the third and final tranche of the loan totaling EUR 7,500k in June 2021 under the EUR 20,000k loan agreement entered into with the EIB in the fiscal year 2019. Each tranche has a term of five years and is repaid from the 39th month after disbursement. The interest rate consists of a current cash interest component of 6% (tranche 3) and 7.5% (tranches 1 and 2), a deferred bullet interest component of 3% (tranche 3) and 5% (tranches 1 and 2), and a performance-related bullet component. The liabilities to banks of EUR 21,655 thousand as of December 31, 2022 relate in full to the settlement amount of the loan totaling EUR 20,000 thousand and current and bullet interest totaling EUR 1,655 thousand (cf. on the performance-related compensation component section (5) Provisions).

(7) Liabilities to affiliated companies

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

(8) Revenues

Revenues result entirely from management and other services provided to subsidiaries, thereof EUR 1,477k (prior year: EUR 1,202k) to PAION UK Ltd, EUR 951k (prior year: EUR 801k) to PAION Deutschland GmbH, EUR 589k (prior year: EUR 470k) to PAION Netherlands B.V. and EUR 118k (prior year: EUR 46k) to PAION Scandic ApS.

(9) Other operating income

Other operating income includes income from recharges to subsidiaries amounting to EUR 420k (prior year: EUR 720k), thereof EUR 124k (prior year: EUR 410k) to PAION UK Ltd, EUR 187k (prior year: EUR 202k) to PAION Deutschland GmbH, EUR 59k (prior year: EUR 92k) to PAION Netherlands B.V. and EUR 50k (prior year: EUR 16k) to PAION Scandic ApS. Income from exchange rate differences was realized in the amount of EUR 19k (prior year: EUR 125k).

(10) Other operating expenses

Other operating expenses mainly comprise legal and consulting fees (EUR 1,631 k; prior year: EUR 3,186 k), expenses for IT and licenses (EUR 314 k; prior year: EUR 477 k), insurance, contributions and fees (EUR 221 k; prior year: EUR 258 k), expenses for the remuneration of the Supervisory Board (EUR 202 k; prior year: EUR 162 k), costs for renting office space (EUR 162 k; prior year: EUR 148 k), travel expenses (EUR 114 k; prior year: EUR 33 k), and financial statement and audit costs (EUR 165 k; prior year: EUR 90 k). The decrease in other operating expenses compared to the previous year is primarily the result of lower expenses (EUR 1,647k) for legal and consulting fees as well as third-party services, which were incurred in the previous year, particularly in connection with financing activities. The decrease in expenses for IT and licenses is mainly related to the new software introduced in the previous year, where only ongoing costs were incurred in the reporting year and no implementation costs.

(11) Other interest and similar income

Other interest and similar income includes the reversal of the provision for the performance-related compensation component of the EIB loan in the amount of EUR 1,060 thousand (PY: EUR 0 thousand).

(12) Write-downs of financial assets

The impairment loss on financial assets in the amount of EUR 28,938k is due to the write-down of PAION Holdings UK Ltd.

(13) Other interest and similar expenses

Other interest and similar expenses include expenses for current and bullet interest on the loan drawn down by the EIB amounting to EUR 2,238 thousand (previous year: EUR 1,733 thousand) and expenses for negative interest on bank balances amounting to EUR 34 thousand (previous year: EUR 64 thousand). In the previous year, other interest and similar expenses also included expenses for the final maturity performance-based compensation component of the EIB loan in the amount of EUR 1,674 thousand.

(14) Income relating to other periods

Income relating to other periods amounts to EUR 21 thousand in fiscal year 2022 and mainly results in the amount of EUR 5 thousand from the reversal of provisions and in the amount of EUR 13 thousand from charges passed on to third parties.

(15) Taxes

As of December 31, 2022, the Company's tax loss carryforwards for corporate income tax amount to approximately EUR 43.4 million (previous year: EUR 41.5 million) and for trade tax to approximately EUR 40.8 million (previous year: EUR 39.4 million). Due to current German tax legislation, these loss carryforwards can be carried forward without any time limit and used to offset future profits in accordance with the tax framework (e.g. minimum taxation).

The combined German income tax rate is 32.45% and results from the corporate income tax rate of 15.0%, the solidarity surcharge, which is levied on corporate income tax at a rate of 5.5%, and trade income tax at a rate of 16.625%.

Applying the currently applicable combined German income tax rate would result in deferred tax assets of EUR 14,073 thousand (previous year: EUR 13,117 thousand) for the tax loss carryforwards as of December 31, 2022.

Asset differences between the tax base and the HGB carrying amount would result in deferred tax assets of EUR 29 thousand as of December 31, 2022. The asset differences result from the different valuation of the performance-related compensation component of the loan drawn down from the European Investment Bank (EIB) due to different

discount rates under commercial and tax law. The option of not recognizing deferred tax assets was exercised.

Other mandatory data

(1) Number of employees on average

In fiscal year 2022, the company employed an average of 18 employees (previous year: 15 employees).

(2) Other financial obligations

The credit facility granted to the affiliated company PAION UK Ltd. amounts to EUR 40,000k as of the balance sheet date. As of the balance sheet date, the utilization amounts to EUR 9,665k.

The credit facility granted to the affiliated company PAION Deutschland GmbH amounts to EUR 25,000k as of the balance sheet date. As of the balance sheet date, the utilization amounts to EUR 23,330k.

The credit facility granted to the affiliated company PAION Netherlands B.V. amounts to EUR 13,000k as of the balance sheet date. As of the balance sheet date, the utilization amounts to EUR 12,304k.

The credit facility granted to the affiliated company PAION Scandic ApS amounts to EUR 4,000k as of the balance sheet date. As of the balance sheet date, the utilization amounts to EUR 3,140k.

As of the balance sheet date, there were rental and lease obligations of EUR 806 thousand (previous year: EUR 318 thousand).

In addition, other financial obligations amounting to EUR 382k existed as of the balance sheet date. These relate in particular to IT services and software.

(3) Stock option programs

There are a total of five active stock option programs under which stock options have been or may be granted to members of the Management Board and employees of PAION AG and its subsidiaries in office at the time of grant. All stock option programs provide for vesting periods, waiting periods and exercise hurdles and equity-settled compensation. The respective exercise price is based on the average share price in a certain period prior to issuance and any necessary adjustments. Details of the individual programs are shown in the following table:

	Stock option program 2010 **Approved 19 May 2010**	**Stock option program 2014** **Approved 21 May 2014**
Underlying capital	Conditional capital 2010 I	Conditional capital 2014
Term of the options	10 years	10 years
Vesting period	2 years	2-4 years
Waiting period	4 years	4 years
Number of outstanding options for which the vesting period has expired as of Dec. 31, 2022	670,626	530,010
Exercise condition	Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price	Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price
Exercise price *	EUR 1.31 *1	EUR 1.99 to EUR 2.60
Weighted average exercise price *	EUR 1.31 *1	EUR 2.21
Exercise hurdle at 12/31/2022 *	EUR 2.91 *1	EUR 2.64 to EUR 3.32
Weighted average remaining term to maturity as of Dec. 31, 2022	1.1 years	3.0 years
Further expenditure possible? (as of 31.12.2022)	No	No
Total number of options issued until Dec. 31, 2022	720,000	740,000
Number of options issued as of Dec. 31, 2022 *2	670,626	530,010
to employees	366,876	231,697
to members of the Board of Management	303,750	298,313
Total number of options expired by Dec. 31, 2022	29,374	209,990
of which expired in the reporting year	0	0
Total number of options exercised by Dec. 31, 2022	20,000	0
thereof exercised in the reporting year	0	0

*related to options still issued as of 12/31/2022

*1 (partially) adjusted based on the terms of the stock option program

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

Stock option program 2016 Approved 25 May 2016	Stock option program 2018 Approved 23 May 2018	Stock option program 2020 Approved 27 May 2020
Conditional capital 2016	Conditional Capital 2018 II	Conditional capital 2020
10 years	10 years	10 years
2-4 years	2-4 years	2 years
4 years	4 years	4 years
564,472	0	0
Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price	Cum. Value appreciation Share price of 5% per year since issue in relation to exercise price	Cum. Value appreciation Share price of 5% per year since issue in relation to the exercise price
EUR 1.90 to EUR 2.60 *1	EUR 1.90 to EUR 2.31 *1	EUR 1.65 *1
EUR 2,26 *1	EUR 2,10 *1	EUR 1.65 *1
EUR 2.28 to EUR 3.24 *1	EUR 2.28 to EUR 2.68 *1	EUR 1.72 *1
5.5 years	7.3 years	9.1 years
No	No	Yes
840,000	886,500	30,000
700,472	751,880	0
351,638	404,130	0
348,834	347,750	0
139,528	134,620	0
0	36,570	0
0	0	0
0	0	0

(4) Management Board and Supervisory Board

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

- Gregor Siebert, CEO, Chairman since December 2022
- Sebastian Werner, CFO since June 2022
- Dr. James Phillips, CEO, Chairman until November 2022

  Memberships in comparable/other domestic and foreign supervisory bodies:
  - Herantis Pharma plc, Espoo/Finland
- Abdelghani Omari until August 2022

The total compensation of the members of the Board of Management amounted to EUR 956 thousand in the financial year 2022. As of December 31, 2022, no stock options had been issued to the members of the Board of Management in office as of December 31, 2022. For further information on the compensation of the Board of Management, please refer to the comments in the compensation report.

All members of the Management Board are or were also managing directors of PAION Deutschland GmbH, PAION Holdings UK Ltd and its subsidiaries, PAION Netherlands B.V. and PAION Scandic ApS. The members of the Management Board are or were employed by the Company and its subsidiaries on a full-time basis.

As of December 31, 2022, Mr. Gregor Siebert held 0.07% (50,000 voting rights) of the shares in PAION AG.

Members of the Supervisory Board:

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

- Dr. Jörg Spiekerkötter (until May 25, 2022), Berlin, Chairman; Managing Partner of JSP-Invest GmbH, Potsdam
- Dr. Karin Louise Dorrepaal, Amsterdam/Netherlands, Vice Chairwoman, Chairwoman of the HR and Nominations Committee; former member of the Executive Board of Schering AG

  Membership of other supervisory boards required to be established under German law:
  - Gerresheimer AG, Düsseldorf

  Memberships in comparable/other domestic and foreign supervisory bodies:
  - Almirall S.A., Barcelona/Spain
  - Triton Beteiligungsberatung GmbH, Frankfurt
  - Kerry Group plc, Tralee/Ireland
  - Van Eeghen & Co B.V., Amsterdam/Netherlands
  - Intravacc B.V., Bilthoven/Netherlands
- Irina Antonijevic, M.D. (until January 27, 2022), Boston, MA/USA, Chair of the Research and Development Committee; Chief Medical Officer and Head of R&D at Triplet Therapeutics, Inc., Cambridge, MA/USA

  Membership of other supervisory boards required to be established under German law:
  - 4SC AG, Planegg-Martinsried (Munich)
- Dr. Hans Christoph Tanner, Horgen/Switzerland, Chairman of the Audit Committee, former Head of Transactions of Cosmo Pharmaceuticals N.V., Amsterdam/Netherlands, and former Chief Financial Officer & Head of Investor Relations of Cassiopea SpA, Milan/Italy

  Memberships in comparable/other domestic and foreign supervisory bodies:
  - CureVac N.V., Tuebingen, Germany
  - DKSH Holding AG, Zurich/Switzerland
  - Joimax GmbH, Karlsruhe
  - LifeMatrix AG, Zurich/Switzerland
  - Qvanteq AG, Zurich/Switzerland
  - Wyss Zurich (ETH Zurich), Zurich/Switzerland
- Dr. Markus Leyck Dieken, Berlin, Member of the Supervisory Board; Managing Director of gematik GmbH, Berlin
- Michael Schlenk (since May 25, 2022), Büdingen, Chairman, business administration graduate/MBA

  Membership of other supervisory boards required to be established under German law:
  - OXID eSales AG, Freiburg im Breisgau (Chairman)

Memberships in comparable/other domestic and foreign supervisory bodies:

- Arcensus GmbH, Rostock (Chairman)
- University of Potsdam MBA Program, Potsdam

- Gregor Siebert (May 25, 2022 to November 30, 2022), Jugenheim, Chairman of the Commercial Development Committee

The compensation of the Supervisory Board for the financial year 2022 amounted to EUR 202 thousand. For further information on the compensation of the Supervisory Board, please refer to our comments in the Compensation Report.

The members of the Supervisory Board held no shares in PAION AG as of December 31, 2022.

(5) Shareholdings

The Company holds the following shares directly and indirectly:

EUR	Shares in %	Currency	Equity as of 12/31/2022 *	Annual result 2022 *
PAION Germany GmbH, Aachen	100	EUR	-18,360,105.30	-9,626,660.39
PAION Holdings UK Ltd, Cambridge/UK	100	GBP	75,999,986.41	4,774.57
PAION UK Ltd, Cambridge/UK	100	GBP	-12,013,099.77	11,834,848.73
TheraSci Limited, Cambridge/UK	100	GBP	0.00	0.00
PAION Netherlands B.V., Heerlen/Netherlands	100	EUR	298,515.75	36,137.53
PAION Scandic ApS, Odense/Denmark	100	DKK	-27,627,684.76	-19,479,816.87
PAION Portugal Farmacêutica Unipessoal Lda, Lisbon/Portugal	100	EUR	5,000.00	0.00

*) Accounting in accordance with local accounting standards

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

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

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

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

3. Details of person subject to the notification obligation
Name: Cosmo Pharmaceuticals N.V.
City and country of registered office: Amsterdam/Netherlands

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

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

6. Total positions

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

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

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

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

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

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

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

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

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

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

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

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

Date of general meeting:

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

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

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

(7) Auditor

The auditor's fees for the fiscal year
2022 are disclosed in the consolidated financial statements of PAION AG.

(8) Corporate Governance

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

In December 2022, the Supervisory Board and the Management Board issued the declaration on the Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). In March 2023, the Supervisory Board and the Board of Management submitted an update of the Declaration on the Corporate Governance Code during the year.

The declaration of compliance is published on the website of PAION AG (https://www.paion.com/de/medien-investoren/corporate-governance/entsprechenserklaerung/).

(9) Indication of the existence of a going concern risk

Please refer to the section "Risk and Opportunity Report" in the management report for information on risks to the continued existence of PAION AG as a going concern. PAION continues to be dependent on the injection of additional funds. In this respect, there is a material uncertainty with regard to the Company's ability to continue as a going concern, as negotiations on the granting of additional financial resources are at an advanced stage, but no legally binding commitments have been made at the time of reporting.

(10) Supplementary report

On January 19, 2023, PAION had announced the submission of the Remimazolam marketing authorization application by its licensee CRISTÁLIA in Brazil.

On January 25, 2023, the Extraordinary General Meeting approved the capital reduction.

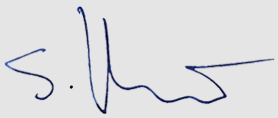
On January 27, 2023, PAION received a positive CHMP opinion recommending approval of Remimazolam for the induction and maintenance of general anesthesia in adults for the EU.

On April 3, PAION received Remimazolam approval from the European Commission for the induction and maintenance of general anesthesia in adults.

There were no other significant events in the period between the reporting date, December 31, 2022, and the date of completion of this report.

Aachen, May 15, 2023

PAION AG



Gregor Siebert Sebastian Werner

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

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

Aachen, Germany, 15 May 2023

PAION AG

Gregor Siebert Sebastian Werner

AUDITOR'S REPORT OF THE INDEPENDENT AUDITOR

To PAION AG, Aachen

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

Audit Opinions

We have audited the financial statements of PAION AG, which comprise the balance sheet as of December 31, 2022, and the income statement for the fiscal year from January 1, 2022 to December 31, 2022, and the notes to the financial statements, including a description of the accounting policies. We have also audited the management report of PAION AG for the fiscal year from January 1, 2022 to December 31, 2022. In accordance with German legal requirements, we have not audited the content of the corporate governance statement pursuant to Secs. 289f, 315d HGB published on the website indicated in the management report, which forms part of the management report. Furthermore, we did not audit the content of the subsections "Clinical Development," "Angiotensin II (GIAPREZA®)" and "Eravacyclin (XERAVA®)" in the section "Economic Report" of the management report, nor the description of the non-accounting-related internal control and risk management system in the management report, nor the statement by management on the overall internal control and risk management system in the section "Risk Management" of the management report, which are disclosures not included in the management report.

In our opinion, based on the findings of our audit, the consolidated financial statements are as follows

- the accompanying annual financial statements comply in all material respects with the provisions of German commercial law applicable to corporations and give a true and fair view of the net assets and financial position of the Company as of December 31, 2022 and of its results of operations for the fiscal year from January 1, 2022 to December 31, 2022 in accordance with German principles of proper accounting; and

- the accompanying management report as a whole provides a suitable view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements, and accurately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the components of the management report mentioned in the section "Other information" .

In accordance with Section 322 (3) Sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the correctness of the annual

financial statements and the management report.

Basis for the audit judgments

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 HGB and the EU Regulation on the Audit of Annual Financial Statements (No. 537/2014; hereinafter "EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under those regulations and standards is further described in the "Auditor's Responsibility for the Audit of the Annual Financial Statements and Management Report" section of our auditor's report. We are independent of the Company in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10 (2) (f) EU-APrVO, we declare that we have not performed any prohibited non-audit services as defined in Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

Material uncertainty in connection with the going concern (also a key audit matter)

1. Facts and problem

We refer first to the statement "Indication of the existence of a going concern risk" in the notes to the financial statements and the disclosures in the section "Risk and opportunities report" of the management report, in which the legal representatives describe that the Company is dependent on the injection of additional funds to ensure its ability to continue as a going concern and to safeguard its future ability to make payments. The ability to continue as a going concern is subject to significant uncertainties, as negotiations on the provision of additional financial resources are at an advanced stage, but at the time of reporting no legally binding commitments had yet been made.

As stated in the notes and management report, these events and circumstances indicate that a material uncertainty exists which may cast significant doubt upon the Company's ability to continue as a going concern and which constitutes a going concern risk within the meaning of Section 322 (2) sentence 3 HGB.

Our audit opinions on the annual financial statements and management report have not been modified with respect to this matter.

The financial statements of paion AG have been prepared on a going concern basis. As explained in the previous section, circumstances exist that may jeopardize the continued

existence of paion AG. Due to the significance for the financial statements and the management report as well as due to the existing uncertainty about the occurrence of the assumptions and conditions underlying the going concern assumption, the assessment of the appropriateness of the going concern assumption was a key audit matter for us in the context of our audit. In accordance with Article 10 (2) (c) (ii) EU-Audit Regulation, we summarize our audit response to this risk as follows.

2. Audit approach and findings

We have assessed, on the basis of the budget planning presented, whether the management's assessment of paion AG's ability to continue as a going concern is appropriate. For this purpose, we first checked the planning for formal consistency (arithmetical correctness, correct implementation of the underlying assumptions). In addition, we compared the revenue planning (in particular the appropriateness of the revenue forecast) with the underlying sales volume planning and checked the plausibility of the planning of the main cost types. We analyzed the other risks presented in the management report and assessed their impact on the company's planning. Based on the results of our audit, we consider the going concern assumption used by the legal representatives to be appropriate.

Other particularly important audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were considered in the context of our audit of the financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In our view, the following matters were most significant in our audit:

Impairment of shares in affiliated companies

Recoverability of receivables from affiliated companies

Balance sheet presentation of the loan from the European Investment Bank

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

1.) Facts and problem

2.) Audit procedure and findings

3.) Reference to further information

In the following, we present the audit matters of particular importance:

Impairment of shares in affiliated companies:

1. At EUR 65,838 thousand, the shares in affiliated companies reported in the Company's financial statements represent around 52% of the balance sheet total and are therefore of major significance for the Company's net assets. The impairment test of these assets is complex and depends to a large extent on estimates of future business development, the interest rate used to discount future cash inflows and other estimated variables. These assumptions are inherently subject to significant uncertainties.

2. In testing the recoverability of the shares, we satisfied ourselves as to the reasonableness of the significant value-determining assumptions and the appropriateness of the parameters used. In addition, the processes and controls in place were analyzed and discussed in detail with the Board of Management. The planning is based on the budget for subsequent years prepared by the Executive Board and approved by the Supervisory Board, which reflects the sales expectations during the remaining term of the patents for the three pharmaceutical products to be marketed and the costs required to implement this growth. The main value-determining parameters were critically assessed; the underlying discount rate was checked for plausibility on the basis of market data, and the valuation methodology was reconstructed. The assumptions and estimates made by management can be qualified as being within the acceptable range.

3. the Company's disclosures on shares in affiliated companies are presented in the notes to the financial statements in the sections "Accounting policies" and "Shareholdings.

Impairment of receivables from affiliated companies:

1. At EUR 51,517k, the receivables from affiliated companies reported in the Company's financial statements account for approximately 40% of total assets and are therefore also of material importance for the Company's financial position. The recoverability of these receivables, which are mainly based on loans granted and also on the exchange of services within the Group, is directly related to the future business development of the PAION Group and the individual subsidiaries and their ability to meet their contractually agreed interest and other payment obligations.

2. The impairment test of receivables was performed on the basis of the planning calculations of the individual subsidiaries, which were derived from the overall Group-wide planning. In doing so, it was assessed whether the subsidiaries are expected to have sufficient cash and cash equivalents to fully meet their future contractual payment obligations to PAION AG. For the assessment of the overall planning of the PAION Group, we refer to our

comments on the audit field "Impairment of investments in affiliated companies" in the previous paragraph.

3. The Company's disclosures on receivables from affiliated companies are included in the notes to the financial statements in the sections "Accounting policies" and "Receivables from affiliated companies".

Balance sheet presentation of the loan from the European Investment Bank

1. To finance research and development activities, PAION AG has entered into a loan agreement with the European Investment Bank for a loan amount of EUR 20,000k and a term of 5 years. In addition to the current interest payment, which includes a quarterly interest payment and a bullet interest payment, a bullet performance-based compensation component was agreed upon, which was valued at EUR 614k as of the reporting date and recognized under other provisions. As the performance-based compensation component ("synthetic warrant") is linked to the future price of the PAION share at the time of final maturity of the loan, the related future payment obligation of PAION AG is subject to great uncertainty.

2. In order to audit the accounting treatment of the loan agreement, including the performance-related compensation component, we have satisfied ourselves that all contractual arrangements have been adequately accounted for. We assessed the calculations prepared by the Company for completeness and compliance with the contractual terms. The performance-related compensation component was valued on the basis of an option pricing model. We consider the assumptions and estimates used to be appropriate.

3. The Company's disclosures on the loan and the performance-related compensation component are included in the notes to the consolidated financial statements in the sections "Accounting policies," "Provisions," "Liabilities to banks," and "Other interest and similar income/expense."

Other information

The legal representatives or the Supervisory Board are responsible for the other information. The other information includes:

- the assurances pursuant to sections 264 (2) sentence 3, 289 (1) sentence 5 of the German Commercial Code (HGB) on the annual financial statements and management report,

- the corporate governance statement contained in the management report,
- the disclosures not included in the management report listed below. Non-management report disclosures are disclosures in the management report that are not required by sections 289, 289a or 289b to 289f HGB:
    - The information in the subsections "Clinical Development," "Angiotensin II (GIAPREZA®)" and "Eravacycline (XERAVA®)" in the section "Business Report"
    - The descriptions of the non-accounting-related internal control and risk management system and management's statement on the overall internal control and risk management system in the "Risk management" section
- all other parts of the "Annual Report" not yet published.

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

In connection with our audit, we have a responsibility to read the other information referred to above and, in doing so, assess whether the other information is

are materially inconsistent with the annual financial statements, management report or our knowledge obtained in the audit, or

otherwise appear to be materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the management report

Management is responsible for the preparation and fair presentation of these financial statements in accordance with German principles of proper accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error (i.e., accounting manipulations and misstatements of assets).

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to going concern. Furthermore, they are responsible for preparing the financial statements on the basis of the going concern principle, unless factual or legal circumstances prevent this.

Furthermore, management is responsible for the preparation of the management report, which as a whole provides a suitable view of the Company's position and is consistent in all material respects with the annual financial statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for the arrangements and measures (systems) that it determines are necessary to enable the preparation of a management report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the management report.

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

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

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides a suitable view of the Company's position and is consistent, in all material respects, with the annual financial statements and the audit findings, complies with German legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinions on the annual financial statements and the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU-APrVO and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and management report.

During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore

- Identify and assess the risks of material misstatement of the annual financial statements and management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, intentional omissions, misleading representations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the financial statements and the arrangements and actions relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the going concern basis of accounting used by management and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and management report or, if such disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our audit opinion. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- we assess the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the

underlying transactions and events in such a way that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

- we assess the consistency of the management report with the annual financial statements, its compliance with the law and the understanding of the Company's position given by it.

- We perform audit procedures on the forward-looking statements made by management in the management report. In particular, based on sufficient appropriate audit evidence, we reproduce the significant assumptions underlying the forward-looking statements made by management and evaluate the appropriateness of the information derived from these assumptions. We do not express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events may differ materially from the forward-looking statements.

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

We make a declaration to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where relevant, the actions taken or safeguards implemented to address independence threats.

From the matters we discussed with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure of the matter.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Report on the audit of the electronic reproductions of the annual financial statements and management report prepared for disclosure purposes in accordance with Section 317 (3a) of the German Commercial Code (HGB)

Audit opinion

In accordance with Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance audit to determine whether the reproductions of the annual financial statements and management report (hereinafter also referred to as "ESEF

documents") contained in the file JA (2).zip and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code on the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information in the annual financial statements and management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the annual financial statements and management report contained in the aforementioned file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. We do not express any opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file beyond this opinion and our opinions on the accompanying annual financial statements and the accompanying management report for the financial year from January 1, 2022 to December 31, 2022 contained in the preceding "Report on the audit of the annual financial statements and management report".

Basis for the audit opinion

We conducted our audit of the reproductions of the annual financial statements and management report contained in the above-mentioned attached file in accordance with Section 317 (3a) of the German Commercial Code (HGB) and in compliance with the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) of the German Commercial Code (HGB) (IDW PS 410 (06.2022)). Our responsibility thereunder is further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents". Our auditing practice has complied with the requirements of the IDW Quality Management Standard: Requirements for Quality Management in the Auditing Practice (IDW QMS 1).

Responsibility of the legal representatives and the supervisory board for the ESEF documents

The Company's management is responsible for the preparation of the ESEF documents containing the electronic reproductions of the annual financial statements and management report in accordance with section 328 (1) sentence 4 no. 1 HGB and for the certification of the annual financial statements in accordance with section 328 (1) sentence 4 no. 2 HGB.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of ESEF documents that are free from material noncompliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB

regarding the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibility for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. During the audit we exercise professional judgment and maintain a critical attitude. Furthermore

- identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- Obtain an understanding of internal control relevant to the audit of ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.

- we assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) 2019/815 as amended at the reporting date regarding the technical specification for this file.

- we assess whether the ESEF documentation provides a content equivalent XHTML reproduction of the audited financial statements and the audited management report.

- we assess whether the markup of the ESEF documents with inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815, as applicable on the reporting date, provides an adequate and complete machine-readable XBRL copy of the XHTML rendering.

Other information according to Article 10 EU-APrVO

We were elected as auditors of the annual financial statements by the Annual General Meeting on May 25, 2022. We were appointed by the Supervisory Board on August 30, 2022. We have served as auditors of PAION AG, Aachen, Germany, without interruption since the fiscal year 2021.

We declare that the audit opinions contained in this audit opinion are consistent with the additional report to the Audit Committee pursuant to Article 11 EU-APrVO (Audit Report).

OTHER MATTERS - USE OF THE AUDIT OPINION

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

NOTE ON THE SUPPLEMENTARY AUDIT

We issue this opinion on the financial statements and management report and on the electronic reproductions of the financial statements and management report that were submitted for audit for the first time, contained in the file JA (2).zip, and prepared for disclosure purposes, based on our audit in accordance with professional standards, which was completed on May 15, 2023, and our supplementary audit, which was completed on May 31, 2023, and related to the submission of the ESEF documents for the first time.

AUDITOR IN CHARGE

The auditor responsible for the audit is Dierk Hanfland.

Munich, May 15, 2023 / limited to the review of the ESEF documents mentioned in the note to the supplementary audit: May 31, 2023.

Baker Tilly GmbH & Co KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Hanfland
Certified Public Accountant

Ninnemann
Certified Public Accountant

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