

Report of the Supervisory Board

Dear Shareholders,

during the 2017 fiscal year, the Supervisory Board performed its duties pursuant to the law, the company's articles of association and the by-laws and, in fulfilment of its advisory and supervisory function, closely followed the business conduct of the Management Board. The Supervisory Board was directly involved in all decisions of major importance to the company and the group. In the course of fulfilling its duties, the Supervisory Board received regular, prompt and comprehensive written and verbal reports from the Management Board on PAION AG's corporate planning, the state and development of the company and the group as well as all significant business transactions.

The Supervisory Board carefully examined, discussed and voted on the decisions or measures of the Management Board that, pursuant to the law, the articles of association or the by-laws of the Management Board, require its approval as well as other decisions of fundamental importance. In addition to receiving its reports, the Chairman of the Supervisory Board maintained continued contact with the Management Board. The Chairman kept himself informed of the current business development, the liquidity situation, the progress of the development activities with remimazolam and the possibilities of its optimal commercialization as well as other essential business transactions.

Changes in the Supervisory Board

On 17 May 2017 the Annual General Meeting elected Dr. Dr. Irina Antonijevic and Dr. Chris Tanner to the Supervisory Board, effective 12 June 2017, increasing the Board to five members.

Changes in the Management Board

Dr. Jürgen Raths, Chief Operating Officer (COO) and member of the Management Board, left the company in March 2017.

Dr. Jürgen Beck was appointed as member of the Management Board and Chief Development Officer (CDO) with effect from 1 January 2018.

Meetings of the Supervisory Board and focus of deliberations

The Supervisory Board held a total of eight board meetings throughout the 2017 fiscal year. The members attended six of these in person, while two meetings were conducted as joint conference calls. All board meetings were attended by all board members.

The Supervisory Board established an Audit Committee. Dr. Jörg Spiekerkötter, Mr John Dawson and Dr. Chris Tanner are members of this committee. Mr John Dawson was appointed chair of the committee and fulfils all requirements of section 100(5) of the German Stock Corporation Act (AktG).

The Supervisory Board established an HR and Nomination Committee. Dr. Jörg Spiekerkötter, Dr. Karin Dorrepaal and Dr. Chris Tanner are members of this committee. Dr. Karin Dorrepaal was appointed chair of the committee.

The Supervisory Board established a Research and Development Committee. Dr. Jörg Spiekerkötter, Dr. Karin Dorrepaal and Dr. Dr. Irina Antonijevic are members of this committee. Dr. Dr. Irina Antonijevic was appointed chair of the committee.

No further committees were established.

The Supervisory Board focused on the following topics during the 2017 fiscal year:

- The strategic positioning of the PAION Group
- The funding of the PAION Group
- The Phase III development programs of remimazolam in the U.S. and Europe
- The possibilities of an optimal commercialization of remimazolam, either with a partner or through own commercialization in certain territories
- The composition of the Management Board and the staffing of PAION Group
- Partnering discussions in Japan and the conclusion of a license agreement with Mundipharma

Adjustments to the 2017 corporate budget and the corporate budget planning for 2018 as developed by the Management Board were examined in detail and approved by the Supervisory Board. Based on mid- and long-term corporate planning as well as scenario comparisons, the strategic orientation was discussed, reviewed and adjusted. Special attention was also paid to both the risk situation and risk management of the company.

The Management Board kept the Supervisory Board regularly informed of the net assets, financial position and results of operations of the PAION group. The basis for this were the timely presented monthly finance reports, quarterly statements, the half-year and annual financial reports as well as variance analyses with regard to the planning.

The Supervisory Board respectively its Audit Committee discussed quarterly statements and the half-year financial report with the Management Board before publication.

No conflicts of interest involving the members of the Supervisory Board, as set out in number 5.5 of the German Corporate Governance Code, arose in the 2017 fiscal year.

The audit committee held four meetings in the fiscal year 2017 and focused on the following subjects:

- The accounting of the company and the PAION Group
- Material accounting issues
- The audit tender for the 2017 audit of financial statements and consolidated financial statements of PAION AG
- The award of the audit engagement to the auditor and the determination of the audit focus
- The monitoring of the accounting process, the effectiveness of the risk management system and the internal control system

The meetings of the Audit Committee were attended by all its members.

The HR and Nomination Committee held two meetings in the 2017 fiscal year and focused on the composition of the Management Board and the staffing of PAION Group. The meetings of the Committee were attended by all its members.

The Research and Development Committee held two meetings in the 2017 fiscal year and focused on the Phase III development programs of remimazolam in the U.S. and Europe. The meetings of the Committee were attended by all its members.

Corporate Governance

The concept of corporate governance stands for transparent business management that also aims to create long-term value. The Supervisory Board subscribes to the principles of the German Corporate Governance Code. In December 2017, the Supervisory Board and the Management Board jointly released an updated Declaration of Conformity in accordance with section 161 of the German Stock Corporation Act which was subsequently rendered available on the company's website at <http://www.paion.com/media-and-investors/corporate-governance/declaration-of-conformity/>. At the time of declaration in December 2017 PAION AG complied with all recommendations of the Government Commission German Corporate Governance Code in its version dated 7 February 2017. Information on corporate governance at PAION AG can be found in the joint declaration on Corporate Governance by the Supervisory Board and the Management Board. The declaration can be found in the annual report and is publicly available on the company's website at <http://www.paion.com/media-and-investors/corporate-governance/declaration-on-corporate-governance/>.

Financial statements and consolidated financial statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, branch office Cologne, ("Ernst & Young") was appointed auditor and group auditor for the financial year 2017 by the Annual General Meeting on 17 May 2017 and subsequently mandated by the Supervisory Board. In accordance with number 7.2.1 of the German Corporate Governance Code, the independence of Ernst & Young was confirmed to us in writing prior to the Annual General Meeting. Ernst & Young has audited the Financial Statements and Consolidated Financial Statements of PAION AG prepared by the Management Board, the Management Report and the Group Management Report for the financial year 2017 and furnished them with an unqualified auditor's opinion. The Group Financial Statements were drawn up in accordance with section 315e of the German Commercial Code (HGB) on the basis of the International Financial Reporting Standards (IFRS).

All members of the Supervisory Board received the financial statements as well as the audit reports from the auditor well in advance of the Supervisory Board Meeting on 21 March 2018, in which the Financial Statements were discussed. They studied these documents in detail in preparation for this meeting. During the meeting,

the Supervisory Board discussed and examined the Financial Statements and Consolidated Financial Statements of PAION AG, the Management Report and the Group Management Report. The assessments made by the Management Board in the Management Report and the Group Management Report were consistent both with those previously communicated in its reports to the Supervisory Board and own assessments of the Supervisory Board. The auditor also took part in this meeting. He reported on the audit, especially that no major weaknesses in the internal control system and risk management system with respect to the accounting process existed, commented on the focal points of the audit and was available to answer questions and provide supplementary information to the Supervisory Board.

The Supervisory Board approves the audit reports on the Financial Statements and Consolidated Financial Statements as well as on the Management Report and the Group Management Report. The Supervisory Board does not raise any objections and approves the Financial Statements and Group Financial Statements prepared by the Management Board. The Financial Statements are therefore adopted.

The Supervisory Board would like to thank the members of the Management Board and all employees for their great commitment and their achievements during the 2017 fiscal year.

Aachen, March 2018

For the Supervisory Board

Dr Jörg Spiekerkötter
Chairman