

## **Report of the Supervisory Board**

Dear Shareholders,

during the 2020 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. In the course of fulfilling its duties, the Supervisory Board received regular, prompt and comprehensive written and verbal reports from the Management Board on the 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.

### **Meetings of the Supervisory Board and focus of deliberations**

The Supervisory Board held a total of five board meetings throughout fiscal year 2020. All board meetings were attended by all board members.

The Supervisory Board established an Audit Committee. Dr. Jörg Spiekerkötter, Dr. Chris Tanner and Dr. Markus Leyck Dieken are members of this committee. Dr. Chris Tanner is chair of the committee and fulfils all requirements of section 100(5) of the German Stock Corporation Act (AktG).

The Supervisory Board established a Human Resources and Nomination Committee. Dr. Jörg Spiekerkötter, Dr. Karin Dorrepaal and Dr. Chris Tanner are members of this committee. Dr. Karin Dorrepaal is chair of the committee.

The Supervisory Board established a Research and Development Committee. Dr. Karin Dorrepaal, Dr. Dr. Irina Antonijevic and Dr. Markus Leyck Dieken are members of this committee. Dr. Dr. Irina Antonijevic is chair of the committee.

No further committees were established.

The Supervisory Board focused on the following topics in particular during fiscal year 2020:

- The strategic positioning of the PAION group
- The funding of the PAION group
- The progress of filings for market approvals for remimazolam
- The Phase III development program of remimazolam in Europe
- The possibilities of an optimal commercialization of remimazolam, either with licensees or through own commercialization in selected territories
- The composition of the Management Board and the staffing of PAION group
- Impacts of the coronavirus pandemic on the business of PAION group

The 2020 corporate budget and the corporate budget planning for 2021 as developed by the Management Board were examined in detail and approved by the Supervisory Board. Based on mid- and long-term corporate planning, the strategic orientation was discussed, reviewed and adjusted. Specific attention was paid to both risk assessment and risk management.

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 report as well as variance analyses with regard to the planning.

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

In fiscal year 2020, no conflicts of interest arose involving the members of the Supervisory Board, as set out in recommendation E.1 of the German Corporate Governance Code in the version dated 16 December 2019.

The Audit Committee held four meetings in the fiscal year 2020 and focused on the following subjects:

- The accounting of the company and the PAION group

- Material accounting issues
- 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

With the exception of two meetings at each of which one member was absent, the meetings of the Audit Committee were attended by all its members.

The Human Resources and Nomination Committee held two meetings in fiscal year 2020 fiscal year and focused on the composition of the Management Board and the Supervisory Board, the staffing of PAION group, the design of the share option scheme 2020 of PAION group and the grant of share options to members of the Management Board. The meetings of the Committee were attended by all its members.

The Research and Development Committee held one meeting in fiscal year 2020 and focused on the European remimazolam Phase III development program in the indication of general anesthesia. The meeting of the Committee was attended by all its members.

### **Changes in the Management Board**

Dr. Jürgen Beck was Chief Development Officer until 31 December 2020 and left the Management Board on 31 December 2020. The Supervisory Board thanks Dr. Beck for the trustful cooperation and his important contribution to the development of remimazolam.

### **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 2019, 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/>. Since the last Declaration of Conformity in December 2019, PAION AG complied with all recommendations of the Code in the version dated 07 February 2017. On 16 December 2019, the Government Commission on the German Corporate

Governance Code agreed on a revised version of the Code that was published in the Federal Gazette on 20 March 2020. PAION AG complied with all recommendations of the revised Code, with the exception of the recommendation in C.5 regarding the number of mandates of Supervisory Board members. 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 2020 by the Annual General Meeting on 27 May 2020 and subsequently mandated by the Supervisory Board. 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 2020 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 30 March 2021, 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 with both, those previously communicated in its reports to the Supervisory Board and independent assessments by 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, reported 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 authorizes 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 fiscal year 2020.

Aachen, March 2021

For the Supervisory Board

Dr Jörg Spiekerkötter  
Chairman