

Report of the Supervisory Board



Dr. Walter Wenninger
Chairman of the Supervisory Board of PAION AG

Dear Shareholders

During the past fiscal year, the Supervisory Board has performed its duties pursuant to the law and the articles of association and, in fulfilment of its advisory and supervisory function, has closely followed the conduct of the business by 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 has received regular, prompt and comprehensive written and verbal reports from the Management Board on PAION's corporate planning, the state and development of the company as well as all significant business transactions.

We have 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 our approval as well as decisions of fundamental importance. In addition to receiving its reports, I have maintained regular contact with the Management Board, especially with the Chairman of the Management Board and the Chief Financial Officer, and I have kept myself informed of the current business developments, in particular the progress of clinical studies and other essential business transactions.

Meetings of the Supervisory Board and focus of deliberations

The Supervisory Board held a total of 18 meetings in the financial year 2007. The members attended 9 of these in person, while the other 9 meetings were conducted as conference calls. All meetings were collectively attended by the board members. As the Supervisory Board consists of three members, no committees were set up.

Our meetings in the fiscal year 2007 focused on the development of the individual drugs and especially the analysis of the results obtained from the clinical Phase III study with Desmoteplase (DIAS-2). In this context, we had extensive discussions about the continuation of the development program with Desmoteplase, about the decision of PAION's collaboration partner Forest to terminate the collaboration and return all rights to PAION, as well as the expanded license agreement with PAION's collaboration partner Lundbeck. In addition, we debated the implementation of organisational restructuring measures as a consequence of the negative results of the DIAS-2 study. Both prior to and following the publication of the DIAS-2 results, we had in-depth discussions with the Management Board about the strategic direction of the company. Key issues of these discussions were the expansion of the development pipeline as well as the consideration of therapeutic areas other than stroke in the context of M&A transactions or in-licensing activities. In their meetings, the Supervisory Board was informed by the Management Board in detail about the results of evaluating potential companies and individual compounds as well as the status of negotiations with individual companies. Special attention was also paid to the risk situation and the risk management.

The Management Board kept us regularly informed of the net assets, financial position and results of operations of the group. The basis for this was provided by the monthly and quarterly financial reports, which were presented in good time.

No conflicts of interest involving the members of the Supervisory Board, as set out in subsection 5.5 of the German Corporate Governance Code, arose in the financial year 2007.

Corporate Governance

The concept of corporate governance stands for transparent business management that also aims to create long-term value. The Supervisory Board identifies with the principles of the German Corporate Governance Code. At the meeting of the Supervisory Board on 16 November 2007, the Supervisory Board and the Management Board released a joint and updated Declaration of Conformity in accordance with section 161 of the German Stock Corporation Act and subsequently provided the shareholders with permanent access to it on the company's website at www.paion.de. PAION AG complies virtually in full with the recommendations of the Government Commission of the German Corporate Governance Code, including those in the most recently amended version of 14 June 2007. An explanation of the few deviations from the Code as well as information on the corporate governance at PAION can be found in the Corporate Governance Report, jointly written by the Supervisory Board and the Management Board, which appears on pages 10 to 13 of this annual report.

Financial statements and consolidated financial statements

The Cologne office of the auditing company Ernst & Young AG was appointed auditor and group auditor for the financial year 2007 by the Annual General Meeting on 20 June 2007 and subsequently mandated to that effect by the Supervisory Board. In accordance with clause 7.2.1 of the German Corporate Governance Code, the independence of Ernst & Young AG was confirmed to us in writing prior to the Annual General Meeting. Ernst & Young AG has audited the financial statements and consolidated financial statements of PAION AG drawn up by the Management Board, the management report and the group management report for the financial year 2007 and furnished them with an unqualified auditor's opinion. The group financial statements were drawn up in accordance with section 315 a of the German Commercial Code on the basis of the International Financial Reporting Standards (IFRS).

All members of the Supervisory Board received the financial statements and the audit reports from the auditor

well in advance of the meeting on 3 March 2008, where the financial statements were discussed, and studied these documents in detail in preparation for this meeting. At the meeting, the financial statements and consolidated financial statements were discussed in depth with the Management Board. The auditor also took part in this meeting. He reported on the audit, 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 notes with approval the audit reports on the financial statements and consolidated financial statements as well as the management report and the consolidated management report. Following their own audit, the members of the Supervisory Board approve the financial statements and group financial statements prepared by the Management Board. The financial statements are therefore adopted.

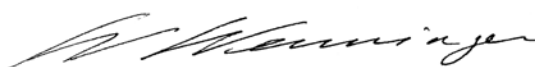
Changes in the Supervisory Board

As of 20 June 2007, Dr Franz Wirtz resigned from the Supervisory Board because he had reached the age limit defined for PAION's Supervisory Board members. At PAION's Annual General Meeting on 20 June 2007, Dr Jörg Spiekerkötter was appointed successor of Dr Franz Wirtz. PAION's Supervisory Board thanks Dr Franz Wirtz, who has accompanied PAION since its inception in 2000, for his continued and outstanding work.

The Supervisory Board thanks the members of the Management Board and all of the company's employees for their great commitment, their professional handling of the set back related to the clinical development of Desmoteplase and for their achievements during the fiscal year 2007.

Aachen, March 2008

For the Supervisory Board



Dr. Walter Wenninger

Chairman