

# 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 status 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 – as Chairman of the Supervisory Board – 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 9 meetings in the financial year 2008. The members attended 8 of these in person, while one meeting was conducted as conference call. 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 2008 focused on the acquisition and integration of the CeNeS-group and the capital increase in this regard as well as the development of every compound of the expanded development pipeline, the staff reduction and the termination of the development of Enecadin. The corporate budget planning for 2008 and 2009 drawn up by the Management Board was examined in detail and approved by us. 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 the risk situation and the risk management.

The Management Board kept us informed of the net assets, financial position and results of operations of the group on a regular basis. The basis for this was provided by the monthly and quarterly financial reports, which were presented in due 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 2008.

## Corporate Governance

The concept of corporate governance stands for transparent business management that also aims to create long-term value. The Supervisory Board identifies itself with the principles of the German Corporate Governance Code. At the meeting of the Supervisory Board on 21 November 2008, 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.com](http://www.paion.com). 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 6 June 2008. An explanation of the few deviations from the Code as well as information on the corporate governance of the PAION AG can be found in the Corporate Governance Report, jointly prepared by the Supervisory Board and the Management Board, which appears on pages 16–20 of this annual report.

### Financial statements and consolidated financial statements

The auditing company Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft Köln (“Ernst & Young”) was appointed auditor and group auditor for the financial year 2008 by the Annual General Meeting on 5 May 2008 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 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 drawn up by the Management Board, the management report and the group management report for the financial year 2008 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 Supervisory Board Meeting on 16 March 2009, 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

With effect from 30 July 2008 Prof. Dr. Schlick had resigned his seat on the Supervisory Board of PAION AG on grounds of his responsibilities as a General Partner in a venture capital company with a growing portfolio. The Court of Aachen adopted the proposal submitted unanimously by the Supervisory and Management Boards and appointed Alan Goodman as his successor to the Supervisory Board until the next Annual General Meeting and effective as of 31 July 2008. PAION’s Supervisory and Management Boards thank Prof. Dr. Schlick for his continued and outstanding work.

The acquisition and integration of the CeNeS Pharmaceuticals PLC group as well as the conduct of a clinical study with CNS 7056 and the re-analysis of the substantial M6G database were the special challenges in 2008. The Supervisory Board thanks the members of the Management Board and all of the company’s employees for their great commitment and for their achievements during the fiscal year 2008.

Aachen, March 2009

For the Supervisory Board



**Dr. Walter Wenninger**

Chairman