

## **Declaration of Conformity with German Corporate Governance Code**

(convenience translation: only the German version is binding)

According to section 161 of the German Stock Corporation Act (AktG), the Board of Directors and the Supervisory Board of PAION AG are obliged to declare annually compliance with and deviations from the recommendations of the Federal German Corporate Governance Code Commission (Regierungskommission Deutscher Corporate Governance Kodex), published by the German Federal Ministry of Justice (Bundesministerium für Justiz) in the Electronic Federal Gazette (eBundesanzeiger) of 24 July 2006.

The Board of Directors and the Supervisory Board of PAION AG declare according to section 161 AktG that PAION AG complies with the recommendations of the German Corporate Governance Code in the presently valid release of 12 June 2006 with the following exceptions.

### **1. Directors and officers' liability insurance (no. 3.8 para. 2)**

The German Corporate Governance Code recommends that those companies which take out Directors and Officers' liability insurance (D & O) for the Board of Directors and the Supervisory Board should agree on a suitable deductible. The current D & O insurance of PAION AG does not include a deductible for the Board of Directors or the Supervisory Board. The insurance does not cover damages incurred through fraud, default or wilful breach of duty.

### **2. Possibility of limitation (cap) of long-term variable components of compensation (no. 4.2.3 para. 3)**

The German Corporate Governance Code recommends an agreement on the Supervisory Board's possibilities to limit the variable components of the Directors' compensations intended as long-term incentive in the case of extreme and unforeseen developments. The bonus agreements with the individual members of the Board of Directors include limited amounts to be paid out only in the event of their reaching pre-defined targets. The stock option agreements for 2005 with the individual members of the Board of Directors include limitations only on the number of stock options. There are no limitations on the value development of the stock options granted, as this is directly dependent on the development of the price of the PAION shares.

### **3. Formation of Committees (no. 5.3.1)**

The German Corporate Governance Code recommends that the Supervisory Board form specialised committees, taking into consideration the specific requirements of the company and the size of the Supervisory Board. PAION AG's Supervisory Board consists of three members. As efficient functioning of the Supervisory Board is ensured, it has decided not to form committees.

### **4. Compensation of the members of the Supervisory Board (no. 5.4.5 para. 2)**

The German Corporate Governance Code recommends that the members of the Supervisory Board receive both fixed and performance-oriented compensation. The Supervisory Board members of PAION AG receive a fixed compensation. Currently, no performance-oriented compensation is provided.

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