



PAION AG

Aachen

- ISIN DE 000A0B65S3 -

Invitation to the Annual General Meeting

(Convenience translation – only the German version is binding)

We hereby invite our shareholders to attend an ordinary annual general meeting of PAION Aktiengesellschaft to be held on Friday, 26 August 2005, at 11.00 a.m. at forum M, Buchkremerstrasse 1-7, 52062 Aachen, Germany.

Agenda

- 1. Presentation of the finalised annual financial statements and the approved consolidated financial statements as of 31 December 2004, the Management Reports for the Company and the Group, and the Report of the Supervisory Board for the financial year 2004**

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- 2. Adoption of a resolution to formally approve the actions of the members of the Management Board for the financial year 2004**

The Management and Supervisory Boards propose that the actions of the members of the Management Board be formally approved for the financial year 2004.

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- 3. Adoption of a resolution to formally approve the actions of the Supervisory Board for the financial year 2004**

The Management and Supervisory Boards propose that the actions of the members of the Supervisory Board be formally approved for the financial year 2004.

4. Appointment of the auditors to audit the annual financial statements for the financial year 2005

The Supervisory Board proposes the appointment of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Cologne, to audit the annual financial statements and the consolidated annual financial statements for the financial year 2005.

5. Election of new members to the Supervisory Board

Pursuant to Section 12 para. 1 of the articles of incorporation together with Section 95 sent. 1 Stock Corporation Act (*Aktiengesetz*, AktG), the Company's Supervisory Board is comprised of three members who are elected by the shareholders pursuant to Sections 96 para 1, 101 para 1 AktG. The Annual General Meeting is not bound to elect the proposed candidates.

With effect from 25 May 2005, the District Court (*Amtsgericht*) of Aachen has appointed Prof. Dr. Wolfgang Blättchen to succeed Prof. Dr. Erich Schlick to the Supervisory Board following the latter's premature retirement from the same. The terms of Prof. Dr. Wolfgang Blättchen and the other members of the Supervisory Board expire at the end of the ordinary annual general meeting 2005.

Prof. Dr. Erich Schlick was obliged to retire prematurely from the Supervisory Board because of legal work commitments. Since these commitments will no longer exist after 1 October 2005, he will be able to serve the Company again from this point in time onwards. In view of this, the Supervisory Board proposes that Prof. Dr. Blättchen be elected to the Supervisory Board for a period until 30 September, and, at the same time, that Prof. Dr. Schlick be re-elected to the Supervisory Board from 1 October 2005 onwards until the end of the term of the remaining members. Prof. Blättchen will continue to offer his services as a substitute member.

The Supervisory Board therefore proposes that

- Dr. Walter Wenninger, Leverkusen, businessman
- Dr. Franz A. Wirtz, Stolberg, businessman

be re-elected to the Supervisory Board for the period up until the end of the annual general meeting that formally approves the actions of the members of the Supervisory Board for the financial year 2009.

Moreover, the Supervisory Board proposes that

- Prof. Dr. Wolfgang Blättchen, Leonberg, management consultant

be elected to the Supervisory Board for a limited period up until the close of business on 30 September 2005.

Moreover, the Supervisory Board proposes that

- Prof. Dr. Erich Schlick, Otterstadt, doctor

be re-elected to the Supervisory Board with effect from the start of business on 1 October 2005 up until the end of the annual general meeting that approves the actions of the members of the Supervisory Board for the financial year 2009.

Moreover, the Supervisory Board proposes that

- Prof. Dr. Wolfgang Blättchen, Leonberg, management consultant

be elected as a substitute member of the Supervisory Board with effect from the start of business on 1 October 2005, to replace Prof. Dr. Erich Schlick. Should Prof. Dr. Schlick retire from the Supervisory Board prior to the end of his regular term and should the annual general meeting not elect a successor prior to such retirement, Prof. Dr. Blättchen would become a member of the Supervisory Board. The term of Prof. Dr. Blättchen after succeeding to the Supervisory Board would expire at the end of the annual general meeting that elects a successor for Prof. Dr. Schlick but at the latest upon expiry of the regular term of the predecessor, Prof. Dr. Schlick.

The proposed candidates are currently also members of legally stipulated Supervisory Boards and comparable controlling bodies in Germany and abroad of the following companies:

Prof. Dr. Wolfgang Blättchen

Supervisory Board mandates:

- AIXTRON AG, Aachen
- APCOA Parking AG, Leinfelden-Echterdingen
- GARDENA AG, Ulm
- HAUBROK AG, Dusseldorf (Vice-Chairman)
- HORVÁTH AG, Stuttgart, (Vice-Chairman)
- MARC O'POLO AG, Stephanskirchen (Chairman)
- tec2b AG, Stuttgart (Chairman)

Prof. Dr. Erich Schlick

Supervisory Board mandates:

- 4SC AG, Martinsried

Comparable controlling bodies:

- immatics biotechnologies GmbH, Tübingen (Member of the Advisory Council)
- Zentralinstitut für Seelische Gesundheit, Mannheim (Member of the Board of Directors)

Dr. Walter Wenninger

Supervisory Board mandates:

- EPIDAUROS Biotechnologie AG, Bernried (Vice-Chairman)
- Verlags- und Medien Aktiengesellschaft (VEMAG), Cologne

Comparable controlling bodies:

- Arrow Therapeutics Ltd., London (Board of Directors)

Dr. Franz A. Wirtz

Supervisory Board mandates:

- DASGIP AG, Jülich

Comparable controlling bodies:

- QIAGEN N. V., KJ Venlo, Netherlands
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6. Adoption of a resolution in respect of the remuneration of the Supervisory Board for the financial year 2004

Those members of the Supervisory Board, who were members of the Supervisory Board of the Company during the financial year 2004, performed their duties as members of the first Supervisory Board appointed by the founders of the company pursuant to the provisions of the Stock Corporation Act for the first partial financial year. Pursuant to Section 113 para. 2 AktG and Section 21 para. 1 sent. 5 of the articles of incorporation, only the annual general meeting can adopt a resolution in respect of any remuneration to be paid to the members of the first Supervisory Board.

The Management and Supervisory Boards therefore propose that the annual general meeting adopts the following resolution:

For the partial financial year 2004 the members of the Supervisory Board will be awarded a base remuneration for performing their duties as members of the Supervisory Board of EUR 6,417, in addition to the reimbursement of their expenses and the legally stipulated sales tax. Extrapolated over a calendar year, this amount would be equivalent to an annual base remuneration of EUR 11,000. In addition, the members of the Supervisory Board will receive EUR 1,000 for each personal attendance at a Supervisory Board meeting in 2004. The Chairman of the Supervisory Board will be paid twice the amount of the base remuneration and meeting attendance fee, the Vice-Chairman 1.5 times the same amounts.

The remuneration is payable upon conclusion of the ordinary annual general meeting to be held on 26 August 2005.

7. Adoption of a resolution to amend the articles of incorporation in respect of the remuneration of the Supervisory Board

An amendment to the remuneration of the members of the Supervisory Board is proposed, which would take effect from 1 January 2005 and reflect the heightened demands placed on the duties performed by the Supervisory Board of a listed company. This revised remuneration would reflect both the responsibility and scope of duties of the members of the Supervisory Board, and the economic situation of the Company – in line with legal provisions and, moreover, as stipulated by the German Corporate Governance Code. There are, however, no plans to link the remuneration to performance. The system of fixed

remuneration of the members of the Supervisory Board aims to eliminate any potential conflicts of interest arising from the controlling duties of the Supervisory Board. Furthermore, Section 21 para. 1 sent. 5 of the articles of incorporation, which governs the adoption of resolutions in respect of the remuneration of the first Supervisory Board, should be deleted, and the clause relating to pro rata claims for remuneration by the members of the Supervisory Board should be defined more clearly. The other provisions of the articles of incorporation, such as the meeting attendance fee of EUR 1,000 and a higher rate of remuneration for the Chairman and Vice-Chairman of the Supervisory Board, should not be amended.

The Management and Supervisory Boards therefore propose that the annual general meeting adopts the following resolution:

- a) Section 21 para. 1 sent. 1 of the articles of incorporation will be amended to read as follows:

“(1) In addition to the reimbursement of their expenses, each member of the Supervisory Board is entitled to remuneration of EUR 15,000 per financial year.”

- b) The following sentence 2 will be added after Section 21 para. 1 sent. 1:

“Any member of the Supervisory Board, who does not perform Supervisory Board duties for the Company for the entire financial year, can only claim pro rata remuneration in a ratio equivalent to his or her actual term of duty relative to the entire financial year.”

- c) Section 21 para. 1 sent. 4 and 5 of the currently prevailing articles of incorporation will be deleted without substitution.

8. Adoption of a resolution to revoke the previously Approved Capital 2004, create new Approved Capital I and to amend the articles of incorporation accordingly

By resolution of the annual general meeting held on 30 December 2004, the Management Board was authorised to increase the capital stock of the Company with the approval of the Supervisory Board by up to EUR 5,000,000 by issuing new bearer shares of no par value against payment in cash or kind (Approved Capital 2004). On the basis of resolutions adopted by the Management and Supervisory Boards on 9 February 2005, this authorisation to increase the capital stock of the Company was implemented in part to service the over-allotments resulting from the IPO. The Company therefore increased the capital stock by EUR 750,000 on 23 February 2005 by issuing 750,000 new bearer shares of no par value against payment in cash. Shareholders' subscription rights were excluded. As a result of this capital increase, the remaining available Approved Capital 2004 declined to EUR 4,250,000. In order to ensure the Company's continued future ability to increase and implement the capital stock, which has increased to include approvable capital from capital increases relating to the IPO of the Company pursuant to Section 202 para. 3 AktG, the annual general meeting is requested to consider resolving the creation of a new Approved Capital I and revoking the former authorisation.

The Management and Supervisory Boards therefore propose that the annual general meeting adopts the following resolution:

- a) The Management Board is authorised to raise the capital stock of the Company with the approval of the Supervisory Board and prior to 26 August 2010, by a total nominal amount of up to EUR 7,850,000 by one or several issuances of new bearer shares of no par value against payment in cash and/or kind (Approved Capital I). Both ordinary and/or non-voting preferred shares may be issued. The Management Board is authorised to determine with the approval of the Supervisory Board the further details in respect of the share rights and conditions of issuance.

In the case of capital increases against payments in kind, the Management Board is further authorised, with the approval of the Supervisory Board, to exclude subscription rights.

In the case of capital increases against payment in cash, the shareholders must be granted subscription rights. The shares can be taken over by a syndicate of banks committing to offer them to the Company's shareholders if the shares are not offered for direct sale to the shareholders.

- 1) The Management Board is hereby authorised to exclude peak amounts from the shareholders' subscription rights, with the approval of the Supervisory Board.
- 2) The Management Board is further authorised to exclude shareholders' subscription rights with the approval of the Supervisory Board if the issue price of the new shares is not substantially lower than the stock exchange listed price and if the shares issued against payment in cash and with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG do not exceed 10 percent in total of the capital stock at the time of adopting this resolution.

The maximum cap of 10 percent of the capital stock is reduced by the proportionate amount of capital stock relating to such treasury stock as is sold by the Company during the term of this authorisation with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG. The maximum cap of 10 percent of the capital stock is further reduced by the proportionate amount of capital stock relating to such shares as are issuable or issued to service warrant-linked and/or convertible bonds provided that the bonds are issued during the term of this authorisation with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG.

- 3) The Management Board is further authorised to exclude shareholders' subscription rights, with the approval of the Supervisory Board, to the extent necessary to be able to grant the holders of convertible bonds, convertible profit-participation rights or options as outlined in Section 221 AktG a subscription right such as they would be entitled to if they were to exercise their conversion or option rights or to fulfil their conversion obligations.
- b) The authorisation of the Management Board as granted by the annual general meeting on 30 December 2004 for a restricted period up until 30 December 2009 to increase the capital stock of the Company with the approval of the Supervisory Board pursuant to Section 4 para. 3 of the articles of incorporation by one or several issuances of new bearer shares of no par value against payment in cash or kind (Approved Capital 2004) will be revoked from the date this new authorisation comes into effect to the extent that it has not been implemented.

- c) In Section 4 of the articles of incorporation para. 3 will be amended to read as follows:

“The Management Board is authorised to raise the capital stock of the Company with the approval of the Supervisory Board and prior to 26 August 2010, by a total nominal amount of up to EUR 7,850,000 by one or several issuances of new bearer shares of no par value against payment in cash and/or kind (Approved Capital I). Only ordinary shares and/or non-voting preferred shares may be issued in each case. The Management Board is authorised to determine with the approval of the Supervisory Board the further details in respect of the share rights and conditions of issuance. In the case of capital increases against payments in kind, the Management Board is further authorised, with the approval of the Supervisory Board, to exclude subscription rights. In the case of capital increases against payment in cash, the shareholders must be granted subscription rights. The new shares can be taken over by one or more banks who commit to offer them for sale to the shareholders. The Management Board is hereby authorised to exclude peak amounts from the shareholders’ subscription rights, with the approval of the Supervisory Board. The Management Board is further authorised to exclude shareholders’ subscription rights with the approval of the Supervisory Board if the issue price of the new shares is not substantially lower than the stock exchange listed price and if the shares issued against payment in cash and with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG do not exceed 10 percent in total of the capital stock at the time of adopting this resolution. The maximum cap of 10 percent of the capital stock is reduced by the proportionate amount of capital stock relating to such treasury stock as is sold by the Company during the term of this authorisation with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG. The maximum cap of 10 percent of the capital stock is further reduced by the proportionate amount of capital stock relating to such shares as are issuable or issued to service warrant-linked and/or convertible bonds provided that the bonds are issued during the term of this authorisation with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG. The Management Board is further authorised to exclude shareholders’ subscription rights, with the approval of the Supervisory Board, to the extent necessary to be able to grant the holders of convertible bonds, convertible profit-participation rights or options as outlined in Section 221 AktG a subscription right such as they would be entitled to if they were to exercise their conversion or option rights or to fulfil their conversion obligations.”

- d) To ensure that the revocation of the former Approved Capital 2004 does not come into effect without the new Approved Capital I taking its place, the Management Board is instructed to only submit the resolution adopted in lit. b) above in respect of the revocation of the former Approved Capital 2004 for entry in the commercial register when it is certain that the resolution in respect of the creation of the new Approved Capital 1 as outlined in lit. a) above in an amount of EUR 7,850,000 and the corresponding amendment to the articles of incorporation as outlined in lit. c) above will be entered in the commercial register immediately following the registration of the revocation.
- e) The Supervisory Board is authorised to amend Section 4 para. 3 of the articles of incorporation to reflect the relevant drawdown of Approved Capital I, or upon expiry of the period of authorisation.
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9. Adoption of a resolution to authorise the issue of convertible and warrant-linked bonds and the creation of new Conditional Capital I and simultaneously to revoke the previous authorisation to issue convertible and warrant-linked bonds and the Conditional Capital 2004 I, and to amend the articles of incorporation accordingly

By resolution of the annual general meeting on 30 December 2004, the Management Board was authorised to issue once or in several batches and prior to 30 December 2009 convertible and/or warrant-linked bonds for a total par value of up to EUR 40,000,000 and with a maximum term of 20 years, and to grant the holders of these bonds conversion or option rights to new stock equivalent to a share of the capital stock of maximum EUR 4,000,000 in total. Conditional Capital 2004 I was created in an amount of EUR 4,000,000 to service these convertible and/or warrant-linked bonds. The authorisation has not yet been implemented and the Conditional Capital 2004 I has not been drawn down. The capital increases implemented by the Company within the framework of the IPO prior to the creation of Conditional Capital 2004 I permit an increase in the Conditional Capital to the extent stipulated in Section 192 para. 3 AktG. In order to improve the financing possibilities of the Company and to give the Company more scope for action, the annual general meeting is therefore requested to consider a resolution in respect of the creation of new conditional capital and the authorisation to issue convertible and warrant-linked bonds upon revocation of the former authorisation. The terms of issuance should remain materially the same.

The Management and Supervisory Boards therefore propose that the annual general meeting adopts the following resolution:

- a) The Management Board is authorised to issue once or several times prior to 26 August 2010 and with the approval of the Supervisory Board bearer and/or registered convertible and/or warrant-linked bonds (hereafter collectively "bonds") for a total par value of up to EUR 63,000,000 and with a maximum term of 20 years, and to grant the holders or beneficiaries of the bonds conversion or option rights to new shares of the company equivalent to a partial share in the capital stock up to EUR 6,300,000 in total in line with the detailed terms and conditions of the convertible or warrant-linked bonds.
- b) The bonds can be euro-denominated or denominated in the legal currency of any OECD country albeit restricted to the corresponding euro equivalent. They can also be issued by directly or indirectly majority-owned companies of the Company; in such case the Management Board is authorised to assume the guarantee for the bonds for the Company and to grant the holders or beneficiaries of such bonds conversion or option rights to new shares of the Company.
- c) The bonds can be taken over by a syndicate of banks committing to offer them for sale to the shareholders of the Company if they are not offered directly for sale to the shareholders. Shareholders' subscription rights can, however, be excluded in part or in full in the following cases:
 - 1) The Management Board is authorised to exclude the subscription rights of shareholders of the Company, with the approval of the Supervisory Board, if the bonds are issued against payment in cash and the issue price is not substantially lower than the theoretical market value of the fractional bonds as determined using accepted methods of financial calculation. The exclusion of subscription rights only applies, however, to fractional bonds with a conversion or option right to shares equivalent to a share of up to 10 percent in the capital stock at the time of adopting this resolution. The maximum cap of 10 percent of the capital stock is reduced by the proportionate amount of capital stock relating to such shares as are issued by

means of capital increase during the term of this authorisation with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG. The maximum cap of 10 percent of the capital stock is further reduced by the proportionate amount of capital stock relating to such treasury stock as is sold by the Company during the term of this authorisation with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG.

- 2) The Management Board is authorised to exclude the subscription rights of shareholders of the Company, with the approval of the Supervisory Board, to the extent necessary to grant the holders or beneficiaries of then outstanding warrants, option rights, convertible bonds and convertible profit-participation certifications subscriptions rights to convertible bonds or warrant-linked bonds to the extent to which they would be entitled if they were to exercise their conversion or option rights or to fulfil their conversion obligations.
 - 3) The Management Board is authorised to exclude the subscription rights of shareholders of the Company, with the approval of the Supervisory Board, in order to exclude peak amounts resulting from the subscription ratio from the shareholders' subscription rights.
 - 4) The Management Board is authorised to exclude the subscription rights of shareholders of the Company, with the approval of the Supervisory Board, if the bonds are issued in connection with the acquisition of companies, participations in companies or parts of companies against payment in cash and/or kind, provided that the value of the acquisition is reasonable in comparison with the theoretical market value of the bonds as determined using accepted methods of financial calculation.
- d) The bond issue can be divided into fractional bonds, each with the same entitlements.
- e) If bearer convertible bonds are issued, the holders of the bonds will be granted the right to exchange their fractional bonds for new shares of the Company in accordance with the details of the bond issuance terms. The swap ratio is calculated by dividing the par value of a fractional bond by the fixed conversion price for one new share of the Company. The swap ratio can also be calculated by dividing the issue price of a fractional bond, which is lower than the par value, by the fixed conversion price for one new share of the Company. The swap ratio could also be variable and the conversion price fixed within a pre-determined bandwidth and dependent upon the performance of the share price during the term or during a certain period within the term. The swap ratio can in each case be rounded up or down to whole figures; moreover, an additional sum can be determined for payment in cash. Furthermore, peaks can be combined and/or compensated in cash.
- f) The swap terms can also stipulate mandatory conversion at the end of the term (or at an earlier point in time). Lastly, the bond issuance terms could include a clause to the effect that the company can, in case of conversion, pay the value in cash in accordance with the details of the bond terms instead of granting the beneficiaries shares of the Company, such cash payment to represent the average price of the Company's shares at the closing of XETRA trading (or a comparable successor system) over the last one to ten trading days immediately prior to the declaration of conversion. The proportionate share in the capital stock of the shares to be issued at conversion may not exceed the par value of the convertible bonds; Sections 9 para. 1 and 199 para. 2 AktG remain unaffected.

- g) If warrant-linked bonds are issued, one or more warrants will be attached to each fractional bond, each warrant entitling the holder to purchase new shares of the Company in line with the details of the option terms to be determined by the Management Board. The proportionate share in the capital stock of the share entitlement of each fractional bond may not exceed the par value of the warrant-linked bonds; Sections 9 para. 1 and 199 para. 2 AktG remain unaffected. The term of the warrants may not exceed 20 years. The term of the warrants may not exceed the term of the warrant-linked bond.
- h) Where the bonds are not issued in connection with the acquisition of companies, participations in companies or parts of companies against payment in cash and/or kind, the conversion or warrant price for one share of the Company (subscription price) to be determined in each case and even in the case of a variable swap ratio/conversion price must be equivalent (a) to at least 80 percent of the average closing price of the Company's shares in XETRA trading (or a comparable successor system) (i) on the ten trading days immediately prior to the day the Management Board adopts a resolution to issue convertible or warrant-linked bonds, or (ii) on the five trading days immediately preceding the public notification of an offer to subscribe to the bonds, or (iii) on the five trading days immediately preceding the Company's issuance of a declaration of acceptance following a public call for submission of subscription offers, or (b) to at least 80 percent of the average closing price of the Company's shares in XETRA trading (or a comparable successor system) on those days on which the subscription rights are traded on the Frankfurt Stock Exchange with the exception of the last two days on which the subscription rights are traded; if the bonds are issued in connection with the acquisition of companies, participations in companies or parts of companies, the fixing of the conversion price can deviate from the above.
- i) Notwithstanding Sections 9 para. 1 and 199 para. 2 AktG, the conversion or warrant price can be reduced on the grounds of a dilution protection clause in line with the details of the issuance terms of the convertible or warrant-linked bonds by means of a corresponding cash payment upon exercise of the conversion right or by means of a reduced contribution if the Company increases its capital stock during the conversion or warrant period and grants its shareholders subscription rights or if it issues additional convertible or warrant-linked bonds or convertible or warrant-linked profit participation certificates or other warrants and the holders or conversion or option rights are not granted subscription rights to the extent to which they would be entitled upon exercise of the conversion or option rights. Instead of a cash payment or reduction in the contribution, the swap ratio can also be adjusted – where possible, by means of division by the reduced conversion price. Furthermore, the terms can include a clause governing an adjustment of the conversion or option rights in case of a capital reduction.
- j) The Management Board is authorised to determine the further details relating to the issuance and structure of the convertible and/or warrant-linked bonds, in particular in respect of the interest rate, issue price, term and denomination, conversion or warrant price and the conversion or warrant period, with the approval of the Supervisory Board, respectively with the approval of the boards of the participation companies issuing the convertible and/or warrant-linked bonds.
- k) The Supervisory Board is authorised to amend Section 4 para. 4 of the articles of incorporation to reflect the relevant drawdown of Conditional Capital I.

- l) The authorisation to issue convertible and/or warrant-linked bonds as resolved by the Company's annual general meeting on 30 December 2004 will be revoked when this new authorisation comes into effect.

In order to create the capital required for the convertible and warrant-linked bonds, the Management and Supervisory Boards propose that the annual general meeting adopts the following further resolutions:

- m) The capital stock will be conditionally increased by up to EUR 6,300,000 (Conditional Capital I). The purpose of the conditional capital increase is to grant equity rights to the holders or beneficiaries of bonds issued in line with the aforementioned authorisation under lit. a) - k) and prior to 26 August 2010 by the Company or its dependent or majority-owned companies. The new shares will be issued at the conversion or warrant price to be determined in each case in accordance with lit. a) - j). The conditional capital increase will only be executed to such an extent as these rights are used or to the extent that the holders or beneficiaries who are obligated to convert actually fulfil their conversion obligations. The new shares participate in the profits from the beginning of the financial year onwards in which they were created as a result of the exercise of conversion or option rights or of the fulfilment of conversion obligations; the Management Board can alternatively, with the approval of the Supervisory Board, determine that the new shares participate in the profits from the beginning of the financial year onwards for which the annual general meeting has not adopted any resolutions in respect of the appropriation of the balance sheet profit at the time the conversion or option rights are exercised or the conversion obligations fulfilled. The Management Board is authorised to determine the details for executing a conditional capital increase.
- n) In Section 4 of the articles of incorporation, para. 4 will be amended to read as follows:

"(4) The capital stock can be conditionally increased by up to EUR 6,300,000 by issuing up to 6,300,000 unit shares of no par value (Conditional Capital I). The conditional capital increase will only be executed to the extent to which

- the holders or beneficiaries of conversion rights or warrants attached to the convertible or warrant-linked bonds to be issued prior to 26 August 2010 by the Company or its dependent or majority-owned companies on the basis of the authorisation granted by the annual general meeting on 26 August 2005 actually make use of their conversion or option right; or
- the holders or beneficiaries of the convertible bonds to be issued prior to 26 August 2010 by the Company or its indirectly or directly majority-owned companies on the basis of the power of authorisation granted by the annual general meeting on 26 August 2005 who are obligated to convert actually fulfil their conversion obligations.

These new shares participate in profits from the beginning of the financial year onwards in which they were created as a result of the exercise of conversion or option rights or of the fulfilment of conversion obligations; the Management Board can alternatively, with the approval of the Supervisory Board, determine that the new shares participate in the profits from the beginning of the financial year onwards for which the annual general meeting has not adopted any resolutions in respect of the appropriation of the balance sheet profit at the time the conversion or option rights are exercised or the conversion obligations fulfilled. The Management Board is authorised to determine the further

structure of the equity rights and the further details relating to the execution of the conditional capital increase, with the approval of the Supervisory Board."

- o) In order to ensure that the revocation of the former Conditional Capital 2004 I does not come into effect without the new Conditional Capital I in an amount of EUR 6,300,000 taking its place, the Management Board is instructed not to submit the revocation of the former Conditional Capital 2004 I for entry in the commercial register until it is certain that the resolution approving the creation of the new Conditional Capital I in line with the aforementioned lit. m) above in an amount of EUR 6,300,000 and the corresponding amendment to the articles of incorporation in accordance with lit. n) above will be entered in the commercial register immediately following the registration of the revocation.

10. Adoption of a resolution to create Conditional Capital III to service the 2005 stock option plan and to amend the articles of incorporation accordingly

The annual general meeting held on 30 December 2004 adopted a resolution to create "Conditional Capital 2004 II" in order to service the stock option plan valued at EUR 1,000,000 that was resolved at the same time. According to the terms of the warrants, subscription rights can be granted in an amount equivalent to 7 percent maximum of the current capital stock of the Company (approx. EUR 1,110,000). In order to be able to create shares from conditional capital to service all the stock options that can be granted on the basis of the 2005 stock option plan, the annual general meeting is requested to consider adopting a resolution to create further Conditional Capital III for this purpose.

The 2005 stock option plan approved by the annual general meeting on 30 December 2004 is structured as follows:

"(1) Beneficiaries and aggregate volume

Within the framework of the 2005 stock option plan, PAION AG subscription rights ("stock options") can only be issued to members of the Management Board of PAION AG ("Group 1") and key members of staff of PAION AG and its group companies, *i.e.*, companies in which PAION AG holds, directly or indirectly, more than 50 percent of the shares or voting rights, or companies of which PAION AG is the direct or indirect controlling company on the basis of a control agreement or similar group agreement ("Group 2"). Over a period of four years an aggregate of 7 percent of the post-IPO capital stock, but no more than 1,200,000 stock options can be issued to both groups within the framework of the stock option plan, which will run for nearly four years. The aggregate volume of stock options will be split as follows among the two groups of beneficiaries:

- (a) Maximum 540,000 stock options in total (equivalent to maximum 45 percent of the total stock options) can be issued to Group 1 beneficiaries;
- (b) Maximum 660,000 stock options in total (equivalent to maximum 55 percent of the total stock options) can be issued to Group 2 beneficiaries.

Beneficiaries belonging to both groups can only be granted stock options if these are deducted from the Group 1 quota.

(2) Structure

- (a) Issue periods: Stock options can be issued within one month following the IPO and subsequently once a year between the 11th and 26th days of trading on the Frankfurt Stock Exchange following publication of the Company's consolidated annual financial statements. The day of issue for Group 1 beneficiaries is the day on which the Company's Supervisory Board adopts the relevant resolution to grant the stock options, and for Group 2 beneficiaries the day on which the Management Board adopts the relevant resolution to grant the stock options.
- (b) Holding period: The stock options may only be exercised following expiry of the holding period, which begins on the day of issue and ends two years from the day of issue for one half of the stock options issued to any one beneficiary; three years from the day of issue for a further quarter of the stock options issued to any one beneficiary, and four years from the day of issue for a further quarter of the stock options issued to any one beneficiary. In the case of a change of control as defined in the German Takeover Act (*Wertpapierübernahmegesetz, WpÜG*), the holding period is reduced to a uniform two years.
- (c) Exercise period: Following expiry of the relevant holding period, the stock options can be exercised during their ten-year term. They lapse without substitution at the end of the term.
- (d) Lock-up periods: The stock options may not be exercised during the following "exercise lock-up periods":
 - aa) within thirty days preceding the publication of a quarterly report or the consolidated annual financial statements of the Company and within three days following such publication. The beneficiaries must be informed in good time of any planned publication dates. If the publication is delayed, the lock-up period is extended accordingly;
 - bb) from the day on which PAION AG publishes an offer to its shareholders to purchase new shares or bonds or other such securities with convertible or option rights in the (electronic) Federal Gazette up until the day on which the Company's shares with subscription rights are listed on the Frankfurt Stock Exchange for the first time "ex subscription rights";
- (e) Exercise price and exercise hurdle: The stock options may only be exercised if the closing share price in Xetra trading (or a comparable successor system) ("stock exchange price") on the day prior to exercise is higher by 1/240 of the closing share price in Xetra trading (or a comparable successor system) on the day of issue ("allocation price") for each month that has expired since the day of issue. The stock options can only be exercised against payment of the exercise price. In the case of options issued directly after the IPO, the "exercise price" per stock option is 100 percent of the IPO subscription price; for options issued at a later date, the exercise price is 100 percent of the stock exchange price on the day prior to the first issue within a calendar year.
- (f) Non-transferability: The stock options are non-transferable, and may only be exercised by the beneficiaries. They can however be bequeathed to the spouse or children of the beneficiaries.

(3) Fulfilment of the subscription right

Instead of issuing shares from Conditional Capital 2004 II, which was created for this purpose, the beneficiaries can be offered the option of purchasing treasury stock or receiving cash compensation. The Management Board agrees with the Supervisory Board as to which alternative should be offered to the beneficiaries in each instance in the case of Group 2 beneficiaries; the Supervisory Board makes this decision when Group 1 beneficiaries are affected. When making the decision, these boards must be guided solely by the interests of the Company and its shareholders. The amount of cash compensation should be equivalent to the difference between the exercise price and the opening share price in Xetra trading (or a comparable successor system) on the day of exercise.

(4) Additional provisions

The additional provisions for exercising the stock options and the additional terms and conditions of exercise are determined by the Supervisory Board if members of the Management Board are affected. Otherwise the Company's Management Board is responsible for defining the details and will make its decision, where stipulated by law, with the agreement of those holding company boards, which are responsible for the remuneration of the beneficiaries. The additional provisions include, in particular:

- (a) Identification of the beneficiaries and determination of the number of stock options to be granted to each one
- (b) Regulation of the provisions governing the execution of the stock option plan
- (c) Procedures for granting and exercising stock options and for the lapse of the same
- (d) Regulations governing the treatment of stock options in special cases, e.g. if a beneficiary leaves the PAION Group, dies, or lives or works abroad.

(5) Taxation

The beneficiaries are liable for all taxes levied on the exercise of the stock options or the sale of the shares by the beneficiaries.

(6) Reporting obligations

The Management Board will report each financial year in the annual report on the utilisation of the stock option plan, the stock options granted to the beneficiaries, and the stock options that have been exercised."

In respect of the stock option plan, the Management and Supervisory Boards propose the adoption of the following resolution:

- a) The capital stock of the Company will be conditionally increased (Conditional Capital III) by up to EUR 110,000 additionally by issuing an aggregate 110,000 new bearer shares of no par value. The Conditional Capital increase will only be implemented to the extent to which holders of option rights issued within the framework of the 2005 stock option plan exercise such option rights. The new shares participate in profits from the beginning of the financial year onwards in which they are created by exercising the subscription right. The Management Board is authorised to determine the further details of the implementation of the Conditional Capital increase with the approval of the Supervisory Board. The Board is, in particular, authorised to implement the capital

increase at its discretion by utilising Conditional Capital 2004 II and/or Conditional Capital III with the approval of the Supervisory Board.

- b) The following para. 6 will be added to Section 4 of the articles of incorporation:

"(6) The capital stock of the Company is conditionally increased (Conditional Capital III) by up to EUR 110,000 additionally by issuing an aggregate 110,000 new bearer shares of no par value. The Conditional Capital increase will only be implemented to the extent to which holders of option rights issued within the framework of the 2005 stock option plan exercise such option rights. The new shares participate in profits from the beginning of the financial year onwards in which they are created by exercising the subscription right. The Management Board is authorised to determine the further details of the implementation of the Conditional Capital increase with the approval of the Supervisory Board. The Board is, in particular, authorised to implement the capital increase at its discretion by utilising Conditional Capital 2004 II and/or Conditional Capital III with the approval of the Supervisory Board."

- c) The Supervisory Board is authorised to amend Section 4 para. 6 of the articles of incorporation to reflect the relevant drawdown of the Conditional Capital III.

11. Adoption of a resolution to authorise the purchase of treasury stock

The currently existing authorisation to purchase treasury stock as resolved by the annual general meeting on 30 December 2004 is only valid until 30 June 2006. To date no use has been made of this authorisation. In order to continue to have the possibility of buying back shares, the annual general meeting is requested to consider adopting a resolution to revoke the authorisation granted last year and to grant the Management new authorisation to purchase treasury stock for a period of 18 months commencing on the date the resolution is adopted.

The Management and Supervisory Boards therefore propose that the annual general meeting adopts the following resolution:

- a) The Management Board is authorised to purchase treasury stock up to an amount equivalent to 10 percent of the capital stock at the time of adopting this resolution, with the approval of the Supervisory Board; together with other shares owned by the Company or assigned to the Company pursuant to Section 71a et seqq. AktG, the stock purchased on the basis of this authorisation may not at any time exceed 10 percent of the capital stock. The authorisation may not be used for the purpose of trading treasury stock.
- b) The authorisation can be exercised either in full or in several partial amounts by the Company, independent companies or majority-owned companies or by third parties on behalf of the Company. The authorisation can be exercised for any legally permissible purpose and for one or more of the aims outlined in lit. e).
- c) The authorisation to purchase stock is valid until 26 February 2007. The authorisation granted by the Company's annual general meeting on 30 December 2004 to purchase treasury stock will be revoked upon this new authorisation coming into effect.
- d) At the discretion of the Management Board and with the approval of the Supervisory Board, the stock can be purchased (1) on the stock exchange or (2) by means of a

public purchase offer submitted to all the Company's shareholders. If the stock is purchased on the stock exchange, the Company can avail itself of the services of third parties and can use derivatives, provided that the third parties adhere to the following restrictions.

- (1) If the shares are purchased on the stock exchange, the value paid per share (excl. ancillary costs) may not be more than 10% above or more than 10% below the average closing price in XETRA trading (or a comparable successor system) over the last three trading days prior to the Company committing to purchase the shares.
 - (2) If the shares are purchased by means of a purchase offer submitted to all the Company's shareholders, the purchase price or the purchase price bandwidth offered per share (excl. ancillary costs) may not be more than 20% above or below the average closing price in XETRA trading (or a comparable successor system) over the 4th – 10th trading days prior to the day the offer is published. The scope of the offer can be restricted. Where a purchase offer submitted to all the Company's shareholders results in the volume of tendered shares exceeding the repurchase volume, the declarations of acceptance must be treated proportionately; shareholders' rights to tender their shares in the ratio of their participation quotas can be excluded. A preferential acceptance of smaller lots of up to 100 tendered shares per shareholder can be included as a clause. The purchase offer can stipulate further terms and conditions.
- e) The Management Board is authorised to use the Company's shares purchased on the basis of this authorisation for all legally permissible purposes, with the approval of the Supervisory Board.
- (1) The Management Board is authorised, with the approval of the Supervisory Board, to sell the treasury stock purchased on the basis of the aforementioned authorisation by other means than on the stock exchange or by offering the shares to all shareholders on condition that the shares are sold against payment in cash and at a price that is not substantially lower than the stock exchange listing of the Company's shares at the time of the sale.

Shareholders' subscription rights are excluded. This authorisation is restricted to a total of 10 percent of the capital stock at the time of adopting this resolution. The maximum cap of 10 percent of the capital stock is reduced by the proportionate amount of capital stock relating to such shares as are issued by means of capital increase during the term of this authorization with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG. The maximum cap of 10 percent of the capital stock is further reduced by the proportionate amount of capital stock relating to such shares as are issuable to service warrant-linked and/or convertible bonds provided that the bonds are issued during the term of this authorization with subscription rights excluded pursuant to Section 186 para. 3 sent. 4 AktG.

- (2) The Management Board is authorised, with the approval of the Supervisory Board, to transfer the treasury stock purchased on the basis of the aforementioned authorisation to third parties to the extent that such shares are transferred against payment in kind for the purpose of acquiring companies, parts of companies or participations in companies or of merging companies. Shareholders' subscription rights are excluded.

- (3) The Management Board is authorised, with the approval of the Supervisory Board, to use the treasury stock purchased on the basis of the aforementioned authorisation to service conversion or option rights granted by the Company or a group company with the bond issue or to fulfil conversion obligations arising from bonds issued by the Company or a group company. As such, shareholders' subscription rights are excluded.
 - (4) The Management Board is authorised, with the approval of the Supervisory Board, to issue the treasury stock purchased on the basis of the aforementioned authorisation as employee shares to the Company's current and retired employees and to affiliated companies as defined in Section 15 et seqq. AktG. As such, shareholders' subscription rights are excluded.
 - (5) The Management Board is authorised, with the approval of the Supervisory Board, to use the treasury stock purchased on the basis of the aforementioned authorisation to service the stock option plan resolved by the annual general meeting on 30 December 2004 and outlined in more detail in agenda item 10. The stock option plan must comply with the requirements listed in agenda item 10. Shareholders' subscription rights are excluded. This authorisation is restricted to a total of 10 percent of the capital stock. If the Conditional Capital 2004 II and III is drawn down to any extent for this purpose, the drawdown must be included in the relevant calculation in respect of this authorisation.
 - (6) The Management Board is authorised, with the approval of the Supervisory Board, to withdraw the treasury stock purchased on the basis of the aforementioned authorisation without the need for any further resolution by the annual general meeting. The withdrawal results in a capital reduction.
- f) The aforementioned authorisations to sell or withdraw treasury stock can be exercised in full or in parts, once or several times, separately or jointly. The Management Board will inform the annual general meeting of the reasons behind and purpose of purchasing treasury stock, of the number of purchased shares and their corresponding share in the capital stock, and of the price paid for the shares at the next annual general meeting.

12. Amendment of the articles of incorporation in respect of the depository period

The provisions of the articles of incorporation in respect of the depository period need to be adapted to the text of Section 123 para. 3 sent. 1 AktG and simplified.

The Management and Supervisory Boards therefore propose that the annual general meeting adopts the following resolution:

- a) Section 24 (Attendance at Annual general meetings) para. 1 of the articles of incorporation will be amended to read as follows:

"(1) Only those shareholders are entitled to attend the annual general meeting and to exercise their voting rights, who have deposited their shares during normal business hours by the end of the seventh day preceding the meeting at the latest and who leave such shares until the completion of the annual general meeting with the Company or with any other custodians indicated in the invitation. The obligation to deposit shares is deemed to be met if the shareholders freeze their shares at their custody bank until the

end of the annual general meeting. The deposit or freeze of the shares must be proven by such means as are indicated in more detail in the invitation. Furthermore, the conditions for attending the annual general meeting will be laid down in the invitation.“

- b) The Management Board is instructed not to submit this amendment to the articles of incorporation for entry in the commercial register if the amendments to the articles of incorporation proposed in agenda item 13 are approved and their conditions for registration as outlined in agenda item 13 lit. d) fulfilled.

13. Amendment of the articles of incorporation to reflect the requirements of the government's draft Act on Corporate Integrity and Modernisation of the Right to Contest Shareholders' Resolutions (*Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts*, UMAG): amendments to sections 3, 23, 24 and 26 of the articles of incorporation

The draft Act on Corporate Integrity and Modernisation of the Right to Contest Shareholders' Resolutions (*Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts*, UMAG) as adopted by the lower house of German parliament (*Bundestag*) on 16 June 2005 proscribes, *inter alia*, an amendment to the terms and conditions for attending annual general meetings. According to this amendment, attendance at an annual general meeting or exercising voting rights can no longer be made dependent on the shares being deposited prior to the annual general meeting. Instead, the articles of incorporation can stipulate that holders of bearer shares must prove their entitlement to attend an annual general meeting or exercise their voting rights. Moreover, the UMAG envisages the authorisation in the articles of incorporation that the Chairman of the annual general meeting can place reasonable time limits on the right of shareholders to speak and ask questions.

The Act is due to come into effect on 1 November 2005. Should this indeed be the case, the Act would come into effect before the next ordinary annual general meeting of the Company. In order to ensure clarity, in respect both of the conditions for attending the Company's annual general meeting in 2006 and of the preparation and execution of the same, the articles of incorporation need to be amended by this annual general meeting to reflect future legislation.

The Management Board is instructed, however, not to submit the amendments to the articles of incorporation for entry in the commercial register until the Act has come into force.

The Management and Supervisory Boards therefore propose that the following resolutions be adopted:

- a) Section 3 (Notifications) of the articles of incorporation will be extended to include the following sentence 2:

"To the extent that the Act stipulates that declarations or information be made available to the shareholders without proscribing any fixed form for this, the provision of such information on the Company's website is deemed to be sufficient."

- b) Section 23 (Convening the annual general meeting) para. 2 of the articles of incorporation will be amended to read as follows:

"The annual general meeting must be convened at least 30 days before the day by the end of which shareholders must have registered to attend the annual general meeting pursuant to Section 24 para. 1 of the articles of incorporation."

- c) Section 24 (Attendance at annual general meetings) paras. 1 and 2 of the articles of incorporation will be amended to read as follows:

"(1) Only shareholders who have registered by the end of the seventh day preceding the annual general meeting and have provided proof of their share ownership to the Company or a custodian indicated in the invitation may attend the annual general meeting and exercise their voting rights. Registration can be filed in writing, by facsimile or in text form, and must be in German or English. Where the seventh day preceding the annual general meeting is a Sunday or public holiday, registration can be filed on the following workday.

(2) Proof of share ownership must be provided in the shape of written or text confirmation in German or English by the custodian bank or a central depository for securities or a custodian indicated in the invitation. The proof of ownership must refer to the day preceding the annual general meeting as legally stipulated in Section 123 para. 3 sent. 3 AktG (*Record Date*)."

- d) Section 26 (Chairing the annual general meeting) para. 2 of the articles of incorporation will be extended to include the following sentence:

"The Chairman of the meeting is authorised to place reasonable time limits on the right of shareholders to speak and ask questions. He or she is, in particular, entitled to determine a reasonable time frame for conducting the entire annual general meeting, for individual agenda items and for individual spoken contributions and questions asked, such reasonable time frame to be determined either at the beginning of the annual general meeting or during the course of the same."

- e) The Management Board is instructed not to file the amendments to the articles of incorporation as listed under a) - d) for entry in the commercial register unless and until the UMAG with the aforementioned provisions in respect of shareholder information, attendance at annual general meetings, calculation of the invitation period and limitation of rights to speak and ask questions has come into effect in the version adopted by the Bundestag on 16 June 2005. Should the final wording of the UMAG only vary immaterially from the version adopted by the Bundestag on 16 June 2005, the Management Board is instructed to file for entry of the amendments in the commercial register, whereby the amendments to the articles of incorporation can be filed separately for entry in the commercial register to the extent that they reflect the wording of the UMAG as enforced. The Management Board is instructed not to file the amendments to the articles of incorporation listed under a) - d) for entry in the commercial register if the UMAG has not come into force by the time the ordinary annual general meeting is convened in 2006.

Reports to the Annual general meeting

ad 8: Report by the Management Board pursuant to Sections 203 para. 2, 186 para. 4 sent. 2 AktG

In view of the fact that the former Approved Capital 2004 has been partially drawn down, and taking into account the capital increases executed since the creation of the last approved capital, which result in an increase of the maximum approvable capital pursuant to Section 202 para. 3 AktG, the annual general meeting is requested to approve the creation of new Approved Capital I.

The authorisation of the Management Board as proposed aims to create Approved Capital I to ensure the financing flexibility of the Company.

The Management Board also needs to be enabled to exclude shareholders' subscription rights when issuing new shares against payment in kind. As a bio-pharmaceutical company, in particular, PAION faces global competition. The Company must therefore be in a position to act quickly and flexibly at all times and in the interests of its shareholders. This includes the acquisition of companies or participations in companies and the execution of cooperation agreements, which can be enormously important, particularly for companies operating in the pharmaceuticals industry, for example to jointly develop or market medication. In return, it can be practical to grant shares in order to conserve Company liquidity or to comply with taxation conditions in various countries. The creation of approved capital and the option of excluding subscription rights aims to enable PAION to make flexible use of opportunities and to enter into further cooperation agreements, which are particularly important for PAION as a developing bio-pharmaceutical company. Since a capital increase to finance any acquisitions is generally needed at short notice, the Company cannot wait until the next ordinary general meeting, which only takes place once a year. At the time of exercising its authorisation, the Management and Supervisory Boards of PAION AG will carefully review the value of the new shares and the value of the acquisition target, i.e. the value of the company or part of the company to be purchased or of the participation to be acquired in a company to ensure that they are reasonable.

In the interests of the Company and its shareholders, the Management Board needs to be further authorised to use the approved capital with the approval of the Supervisory Board to execute a cash capital increase excluding shareholders' subscription rights provided that the issue price is not substantially lower than the stock exchange price. This authorisation will enable the simplified exclusion of subscriptions rights as permitted by Section 203 para. 1 in connection with Section 186 para. 3 sent. 4 AktG. The authorisation will enable the Company to react quickly and flexibly to exploit market opportunities in its various fields of business and any resulting capital needs to be met at short notice without having to undergo the time-consuming and cost-intensive processing of subscription rights. The authorisation to exclude subscription rights when issuing new shares based on Section 186 para. 3 sent. 4 AktG is restricted to maximum 10 percent of the Company's capital stock, whereby the value of the capital stock existing at the time the resolution is adopted is used as the basis for calculation. Shares are deducted from this cap if issued elsewhere with subscription rights excluded in accordance with or relative to Section 186 para. 3 sent. 4 AktG. Shareholder protection against dilution is guaranteed by the stipulation that the shares may only be sold at a price that is not substantially lower than the relevant stock exchange price. This ensures reasonable protection of the shareholders' assets and voting rights. The final fixing of the sale price for treasury stock will be decided shortly before the sale. In fixing the price, the Management Board will strive to keep any disagio on the stock exchange price as low as

possible, taking the then prevailing market conditions into consideration. Interested shareholders can maintain their stake at substantially the same conditions by purchasing additional shares on the market.

Furthermore, the Management Board needs to be enabled to exclude shareholders' subscription rights, with the approval of the Supervisory Board, in order to grant the holders or beneficiaries of conversion and/or option rights or convertible bonds with conversion obligations attached a subscription right to the extent to which they would be entitled upon exercise of the conversion or option rights or after fulfilment of the conversion obligations. If the authorisation is implemented, this will prevent the option or conversion price having to be reduced for the holders of existing conversion or option rights in line with the option and conversion terms and conditions, or the Company possibly having to grant another form of dilution protection.

In each individual case, the Management Board will carefully analyse whether it will need to implement the authorisation to increase the capital with exclusion of shareholders' subscription rights. This option will only be implemented if the Management and Supervisory Boards are convinced that it is in the best interests of the Company and, as such, its shareholders.

Where the shareholders' subscription rights are not excluded in principle from the implementation of the approved capital, the Management Board needs to be authorised to exclude peak amounts from shareholders' subscription rights with the approval of the Supervisory Board. Such option to exclude subscription rights is necessary to be able to produce a technically executable subscription ratio. Given the restriction to peak amounts, the effect of any ensuing possible dilution on the shareholders will be minimal. The new shares excluded from shareholders' subscription rights as free peaks will be utilised as best possible for the Company either by means of sale on the stock exchange or by other means.

The Management Board will report on each utilisation of the approved capital at the next annual general meeting.

ad 9: Report by the Management Board pursuant to Sections 221 para. 4 sent. 2, 186 para. 4 sent. 2 AktG

In addition to the conventional means of raising borrowed and equity capital, issuing convertible bonds and/or warrant-linked bonds (or a combination of the two) can offer opportunities to exploit attractive alternative means of raising financing on the capital markets, depending on the market situation. The Management Board is of the opinion that it is in the interests of the Company to make such financing options available to it as well.

The issuance of convertible bonds and/or warrant-linked bonds (collectively “bonds”) makes it possible to raise capital at attractive terms and conditions. The ensuing conversion or option premiums benefit the Company’s capital base and allow the Company to make use of low-cost financing options. In addition to granting conversion and/or option rights, the additionally planned option to incorporate conversion obligations provides better scope for structuring such financing instruments. The authorisation will ensure that the Company has the necessary flexibility to place the bonds itself or through directly or indirectly held participations. In addition to euros, bonds can also be issued in other currencies, such as the legal currency of an OECD country.

Shareholders must, in principle, also be granted subscription rights to convertible or warrant-linked bonds. When issuing bonds against payment in cash, however, the Management Board needs to be authorised to exclude shareholders’ subscription rights pursuant to Section 186 para. 3 sent. 4 AktG, with the approval of the Supervisory Board, to the extent that the issuance of shares to service conversion or option rights or conversion obligations is restricted to ten percent of the Company’s capital stock. Shares issued elsewhere with subscriptions rights excluded in accordance with or relative to Section 186 para. 3 sent. 4 AktG are deducted from this cap. Shareholders are protected against dilution by the stipulation that the bonds may only be sold at a price that is not substantially lower than their theoretical market value. The option of excluding subscription rights gives the Company the flexibility it needs to be able to exploit favourable developments on the capital markets at short notice. Unlike the issuance of bonds with subscription rights, in this case it is important that the issue price can only be determined immediately prior to placement, thus avoiding any increased price fluctuation risk for the subscription period. Shareholders wishing to maintain their stake in the Company’s capital stock can do so by purchasing additional shares on the stock exchange.

Furthermore, the Management Board needs to be enabled to exclude shareholders’ subscription rights, with the approval of the Supervisory Board, in order to grant the holders or beneficiaries of conversion and/or option rights or conversion bonds with conversion obligations attached subscription rights to the extent to which they would be entitled upon exercise of the conversion or option rights or fulfilment of the conversion obligations. If the authorisation is implemented, this will prevent the option or conversion price having to be reduced for the holders of existing conversion or option rights in line with the option and conversion terms and conditions, or the Company possibly having to grant another form of dilution protection.

The Management Board is also authorised to exclude peak amounts from subscription rights with the approval of the Supervisory Board. Such peak amounts can result from the amount of each issue volume and the creation of a practicable subscription ratio. In such cases, excluding subscription rights makes it easier to process the capital measure. The free peaks excluded from shareholders’ subscription rights will be utilised as best possible for the Company either by means of sale on the stock exchange or by other means.

The Management Board is further authorised to exclude shareholders' subscription rights with the approval of the Supervisory Board if the bonds are being issued against payment in cash and/or kind for the purpose of acquiring companies, participations in companies or parts of companies, or for entering into partnerships, provided that the value of the payment in kind is reasonable compared with the theoretical market value of the bonds as determined using accepted methods of financial calculation. This makes it possible to use bonds in suitable cases to finance acquisitions and, as such, to acquire interesting targets at short notice without burdening cash flow. This is particularly important for the Company, since, as a bio-pharmaceutical company, PAION faces international competition and it can prove to be beneficial to be able to resort to international partnerships and participations to develop or market medication. In each individual case, the Management Board will carefully analyse whether to implement the authorisation to issue bonds with subscription rights excluded, and will only do so when it is in the best interests of the Company.

ad 11: Report by the Management Board pursuant to Sections 71 para. 1 Nr. 8, 186 para. 4 sent. 2 AktG

Agenda item 9 contains a proposal to authorise the Company to purchase treasury stock in an amount equivalent to up to 10 percent of the current capital stock prior to 26 February 2005, either itself or through dependent or majority-owned companies or through third parties acting on behalf of the Company.

The annual general meeting on 30 December 2004 had already authorised the Company to purchase treasury stock equivalent to an arithmetic share in the capital stock of up to EUR 1,000,555 in total prior to 30 June 2006, and to sell these shares under certain conditions elsewhere than on the stock exchange or by offering them to the shareholders. This authorisation has not been implemented to date. Since it expires before the annual general meeting 2006, a new authorisation is needed to enable the future purchase of treasury stock by the Company.

The authorisation aims to enable the Management Board to purchase treasury stock on the stock exchange or by means of a public purchase bid in an aggregate amount equivalent to up to 10 percent of the Company's current capital stock in the interests of both the Company and its shareholders. The treasury stock purchased by the Company can be resold on the stock exchange or by means of a public offer to all shareholders. These options ensure that both the purchase and re-issue of the shares adhere to the principle of equal treatment of shareholders. In the case of a public purchase bid, each shareholder who is willing to sell can decide how many and, once the price range has been determined, at what price he is willing to tender shares. If the number of shares tendered at the fixed price exceeds the number required by the Company, the tender offers must be accepted on the basis of allotment, whereby the option should exist to give preferential acceptance to smaller lots tendered or to smaller parts of tendered offers up to a maximum of 100 shares. This helps to prevent both fractional amounts when determining the quotas to be purchased, and small residual holdings, and as such simplifies the technical settlement of the process.

The proposal for resolution also includes enabling the Management Board, with the approval of the Supervisory Board, to sell the treasury stock purchased on the basis of the authorisation elsewhere than on the stock exchange or by extending an offer to all shareholders, if the treasury stock is sold at a price that is not substantially lower than the stock exchange listing of PAION AG shares at the time of the sale. This authorisation, which is equivalent to an exclusion of subscription rights, utilises the option of a simplified exclusion of subscription rights as permitted by Section 71 para. 1 Nr. 8 AktG with corresponding application of Section 186 para. 3 sent. 4 AktG. Its purpose, in particular, is to enable Company shares to be offered to institutional investors and/or to extend the shareholder structure in the interests of the Company. In doing so, the Company will be able to react quickly and flexibly to favourable stock exchange developments. Shareholders' interests are protected by the stipulation that the shares may only be sold at a price that is not substantially lower than the stock exchange listing of PAION AG shares at the time of the sale. This guarantees reasonable protection of the shareholders' assets and voting rights. The authorisation based on Section 186 para. 3 sent. 4 AktG to exclude subscription rights when selling treasury stock is restricted to maximum 10 percent in total of the Company's capital stock, whereby the value of the capital stock is taken as being the current value existing at the time of adopting the resolution in respect of this authorisation. Shares that are issued elsewhere with subscription rights excluded in accordance with or relative to Section 186 para. 3 sent. 4 AktG are deducted from this cap. Shareholder protection against dilution is guaranteed by the stipulation that the shares may only be sold at a price that is not substantially lower than the relevant stock exchange price. The final fixing of the sale price for treasury stock will be decided shortly before the sale. In fixing the price, the Management

Board will strive to keep any disagio on the stock exchange price as low as possible, taking the then prevailing market conditions into consideration. Interested shareholders can maintain their stake at substantially the same conditions by purchasing additional shares on the market.

The Management Board needs to be further authorised, with the approval of the Supervisory Board, to utilise the treasury stock purchased on the basis of the proposed authorisation to finance the acquisition of companies or participations in other companies. The global competition for market opportunities in the bio-pharmaceutical segment is increasingly necessitating the use of this type of acquisition financing as well. The proposed authorisation should give the Company the necessary scope to be able to quickly and flexibly exploit any acquisition opportunities that arise and to offer an optimal financing structure. This option to acquire participations and enter into partnerships is particularly important for PAION given the global competition on the bio-pharmaceutical market, where sales and research cooperation agreements and appropriate participations can be particularly important. The proposed exclusion of subscription rights reflects this necessity. When determining the valuation relations, the Management Board will ensure reasonable protection of the shareholders' interests. The Approved Capital I as proposed in agenda item 8 will also be available for the Company to use when acquiring companies or participations in other companies. When deciding on the type of shares to be acquired to finance such transactions, the Management Board will be guided solely by the interests of the Company and its shareholders.

In addition, the Management Board needs to be able to use the treasury stock purchased on the basis of the proposed authorisation, with the approval of the Supervisory Board, to service the rights of holders or beneficiaries of convertible and/or warrant-linked bonds issued by the Company or a wholly owned associated company. If the company makes use of this possibility there will be no need to conditionally increase capital and, as such, shareholders' interests will not be affected by this additional option.

Moreover, the Company needs to be enabled to issue the treasury stock purchased on the basis of the authorisation as employee shares to employees of the Company and its affiliates. The right to buy back shares to be offered to employees of the Company or its affiliates pursuant to Section 71 para. 1 Nr. 2 AktG remains unaffected.

Furthermore, the Company needs to be enabled to use treasury stock to service stock option plans. The proposal for resolution in agenda item 10 already outlines the material provisions of the stock option plan. As such, only the material reasons justifying the approval of a stock option plan are explained below:

Granting stock options or subscription rights to employees and executives, which allow these beneficiaries to purchase shares of the Company under certain terms and conditions, is an internationally accepted form of remuneration, which has become increasingly more common in Germany over recent years. The purpose being to incentivise the beneficiaries to improve their performance in order to further increase the value of a company and, as such, to aid the performance of the stock exchange price of the shares, in comparison with other companies as well, in the interests of the shareholders and the company. At the same time, such plans enable a company to compete for outstanding employees and executives on the international market. As a bio-pharmaceutical company, PAION is particularly dependent on highly qualified scientific and technical experts. Given the aforementioned aims, any treasury stock acquired and resold to service the stock option plan can only be offered to the beneficiaries, and not to the shareholders.

The stock option plan represents an element of remuneration aimed at supporting a long-term increase in the value of the Company by further increasing the motivation of the beneficiaries.

Compared with conditional capital, the use of treasury stock or an appropriate cash compensation payment within the framework of a stock option plan can be implemented to exploit tax advantages in the shape of deductible personnel expenses.

Lastly, the authorisation to purchase treasury stock will enable shares to be withdrawn without the need for any further resolution by the general meeting. Such authorisation is equally common and allows the Company to react appropriately and flexibly to relevant developments on the capital markets.

The Management Board will inform the next annual general meeting of any implementation of the authorisation to purchase treasury stock.

Attendance at the Annual General Meeting

Those shareholders who deposit their shares with the Company, a notary public, a central depository for securities or the following custodian during normal business hours and leave them there until the end of the annual general meeting are entitled to attend the annual general meeting and to exercise their voting rights:

Landesbank Baden-Württemberg in Stuttgart.

The shares must have been deposited by the close of business on 19 August 2005 at the latest. The shares are also deemed to have been deposited if they are frozen by a bank with the approval and for the benefit of the custodian until the end of the annual general meeting.

If the shares are deposited with a notary public, a central depositor for securities or the custodian indicated, the certificate proving such deposit must be submitted to the Company by 22 August 2005 at the latest.

Shareholders who do not wish to attend the annual general meeting in person may grant proxy, for example to a bank or shareholders' association, to exercise their voting rights. In such cases, the granting of proxy must be notified in writing in good time (Section 126 Civil Code (*Bürgerliches Gesetzbuch*, BGB)).

PAION AG also offers its shareholders the option of representation at the annual general meeting by employees of the Company or by authorised voting proxies appointed by the Company. In such cases, authorisations and instructions can be transmitted in writing or via the internet. Details can be found in the documentation furnished to the shareholders.

Admission cards and voting cards will be issued to shareholders and proxies entitled to attend the meeting.

If you wish to request documentation or submit proposals for the annual general meeting, please send all correspondence only to the following address:

PAION AG
Investor Relations
Martinstrasse 10-12
52062 Aachen
Facsimile: (0241) 4453-523.

Shareholder proposals requiring publication will be published immediately upon receipt on the following internet page
www.paion.de/hv

This applies, in particular to duly submitted counterproposals and proposals for candidates for election, received by us by the close of business on 12 August 2005. Any comments by the administration will also be published on the aforementioned internet page.
Further information relating to the annual general meeting can be found on the internet at www.paion.de/hv.

Aachen, July 2005

PAION AG

Management Board