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PAION AG

Aachen

- ISIN DE 000A0B65S3 -

Invitation to the Annual General Meeting

We hereby invite our shareholders to attend an ordinary annual general meeting of PAION Aktiengesellschaft to be held on Wednesday, 10 May 2006, at 10.00 a.m. at Forum M, Buchkremerstrasse 1-7, D-52062 Aachen.

Agenda

- 1. Presentation of the adopted annual financial statements and the approved consolidated financial statements as of 31 December 2005, the management reports for the Company and the Group, and the report of the Supervisory Board for the fiscal year 2005**

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- 2. Adoption of a resolution to formally approve the actions of the members of the Management Board for the fiscal year 2005**

The Management and Supervisory Boards propose that the actions of the members of the Management Board be formally approved for the fiscal year 2005.

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- 3. Adoption of a resolution to formally approve the actions of the Supervisory Board for the fiscal year 2005**

The Management and Supervisory Boards propose that the actions of the members of the Supervisory Board be formally approved for the fiscal year 2005.

4. Appointment of the auditors for the fiscal year 2006

The Supervisory Board proposes the appointment of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Cologne, as auditor of the annual financial statements and the consolidated financial statements for the fiscal year 2006.

5. 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 up until 10 May 2011, 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 shares 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.

Subject to the following exceptions, the shareholders must be granted subscription rights. The shares can be taken over by a bank or 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.

- 1) The Management Board is hereby authorised to exclude peak amounts from the shareholders' subscription rights, with the approval of the Supervisory Board.
- 2) In the case of capital increases for the purpose of acquiring companies, participations in companies or parts of companies or for entering into or implementing cooperation agreements, the Management Board is further authorised to exclude shareholders' subscription rights with the approval of the Supervisory Board. This applies, in particular, to capital increases against contributions in kind.

- 3) 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.

- 4) 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 up until 10 May 2011, 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.

6. 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 up until 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 services 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 up until 10 May 2011 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 bank or 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 subscription 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 of 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 the 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 1). 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 up until 10 May 2011 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 up until 10 May 2011 by the Company or its dependent or majority-owned companies on the basis of the authorisation granted by the annual general meeting on 10 May 2006 actually make use of their conversion or option right; or
- the holders or beneficiaries of the convertible bonds to be issued up until 10 May 2011 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 10 May 2006 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.

7. 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 26 August 2005 is only valid until 26 February 2007. 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 Board 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, controlled 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 10 November 2007. The authorisation granted by the Company's annual general meeting on 26 August 2005 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 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 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.

- (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. 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.

Reports to the Annual general meeting

ad 5: 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 needs to be enabled to exclude shareholders' subscription rights when acquiring companies or parts of companies and when entering into cooperation agreements. As a biopharmaceutical 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 partnerships and cooperation agreements, which can be enormously important, particularly for companies operating in the pharmaceuticals industry, for example to jointly develop or market drugs. Since decisions to acquire companies or parts of companies or participations in companies, to enter into cooperation agreements or to exercise marketing rights must, in all likelihood, be taken within a short period of time, the Company cannot wait until the next ordinary general meeting, which generally only takes place once a year.

When acquiring companies or parts of companies and entering into cooperation agreements, it can be practical to grant shares in order to conserve Company liquidity or to comply with taxation conditions in various countries. The Management Board therefore needs to be enabled to exclude shareholders' subscription rights when issuing new shares against payment in kind. 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.

The creation of approved capital and the option of excluding subscription rights, also in the case of cash capital increases, aims to enable PAION to make flexible use of opportunities to acquire participations in companies or to enter into further cooperation agreements or extend existing cooperation agreements, which are particularly important for PAION as a developing biopharmaceutical company. For example, the licensing agreement signed for Desmoteplase with H. Lundbeck A/S on 11 July 2005 grants PAION the option of conducting co-promotion in important European countries. Exercising this option of proprietary co-promotion would mean that PAION would evolve from a pure research and development company into a pharmaceuticals company with sales capabilities. Exercising this option would, however, also require that the Company co-finances the sales activities, which necessitates the availability of correspondingly secured financing. Since the decision on whether to exercise the co-promotion rights will probably have to be taken within a short period of time, Approved Capital needs to be resolved in order to secure the financing of this venture. When entering into or expanding cooperation agreements, and when acquiring companies or parts of companies it can be in PAION's interest to exclude shareholders' subscriptions rights. This also applies to cash capital increases. At the time of exercising its authorisation, the Management and Supervisory Boards of PAION AG will definitely carefully

ensure that the value of the new shares is reasonable compared to the value of the consideration.

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 subscription 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 6: 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 subscription 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 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.

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 biopharmaceutical 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 and Supervisory Boards of PAION AG will carefully analyse whether to implement the authorisation to issue bonds with subscription rights excluded, and will only do so when the Management and Supervisory Boards are convinced that it is in the best interests of the Company

ad 7: Report by the Management Board pursuant to Sections 71 para. 1 No. 8, 186 para. 4 sent. 2 AktG

Agenda item 7 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 10 November 2007, either itself or through dependent or majority-owned companies or through third parties acting on behalf of the Company.

The annual general meeting on 26 August 2005 had already authorised the Company to purchase treasury stock prior to 26 February 2007, 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 will probably expire before the annual general meeting 2007, 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 ensures 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 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 biopharmaceutical 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 biopharmaceutical 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 5 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 2005 stock option plan approved by the annual general meeting of PAION AG on 30 December 2004 is structured as follows:

The stock option plan can grant rights to the acquisition of shares in Paion AG to members of the Management Board of PAION AG and to employees of the PAION group, based on their stock options. Each option entitles the holder to purchase one share in the Company against payment of the exercise price. In the case of stock options that are issued within one month from the first listing of PAION AG shares, the exercise price is equivalent to the offering price. The exercise price for stock options issued or due for issue at a later date will correspond to the share price of PAION AG shares that is valid at the time of first issuance of the stock options by the Supervisory Board in the relevant year. 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 (approx. EUR 1,110,000). The Supervisory Board decides whether to issue options to the members of the Management Board and the further details of such issuance; these decisions are made by the Management Board for the PAION group employees. Stock options may only be exercised in staggered form after a lock-up period of two years. Moreover, exercise is contingent upon the share price of PAION AG at the time of exercise having risen by 1/240 per calendar month relative to the share

price of the Company at the time of issuance of the option. Furthermore, the eligible Management Board member or employee may only exercise up to 50% of his stock options during the first year following completion of the lock-up period. Subsequently, up to a further 25% of the options can be exercised each year. In the case of a change of control at the Company, the lock-up period for all stock options issued expires 2 years from the day of issue. 45% of the tranche are reserved for the four members of the Management Board and 55% for the remaining eligible employees

The full text of the stock option plan as resolved by the annual general meeting on 30 December 2004 will be provided to the Company's shareholders upon request.

The material reasons justifying the approval of the PAION stock option plan 2005 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 biopharmaceutical 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

Shareholders who have registered with the following address and provided proof of their share ownership may attend the annual general meeting and exercise their voting rights:

PAION AG
c/o Landesbank Baden-Württemberg
Abteilung 4027 H Hauptversammlungen
Am Hauptbahnhof 2
70173 Stuttgart

or by E-Mail to:

4027S_HV_Eintrittskarten@LBBW.de

Registration must take place by the close of business on 03 May 2006 at the latest.

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. This proof must refer to 19 April 2006, 00:00 CET.

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 voting proxies who are appointed by the Company and bound to adhere to instructions. In such cases, authorisations and instructions can be transmitted in writing or by facsimile. Details can be found in the documentation furnished to the shareholders together with their admission cards.

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

Shareholders will be provided with the documentation mentioned in agenda item 1 immediately upon request.

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

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

Counterproposals and proposals for candidates for election that fulfil the requirements of Sections 126, 127 AktG and are received in good time at this address will be made available upon receipt to other shareholders in line with statutory provisions on the internet at

www.paion.de/hv.

Any comments by the administration will also be published on the aforementioned internet page.

Further information relating to the annual general meeting and the authorisation of the voting proxies appointed by the Company can be found on the internet at www.paion.de/hv.

Aachen, March 2006

PAION AG

Management Board