

PAION AGM#2009

Invitation to the Annual General Meeting

PAION AG, Aachen

ISIN DE 000A0B65S3



Invitation to the Annual General Meeting

We hereby invite our shareholders to attend the ordinary Annual General Meeting of PAION AG to be held

on 25 May 2009, at 10:00 a.m. at forum M,
Buchkremerstrasse 1 – 7, 52062 Aachen, Germany.

Agenda

1. Presentation of the adopted annual financial statements and the approved consolidated financial statements as of 31 December 2008, the Management Reports for the Company and the Group for the financial year 2008 including the explanatory report pursuant to Sections 289 para. 4 and 315 para. 4 of the Commercial Code (Handelsgesetzbuch, HGB), and the Report of the Supervisory Board for the financial year 2008

These documents can be reviewed at www.paion.com/hv. They will also be available for inspection at the Annual General Meeting and can also be sent to shareholders immediately and free of charge on request.

2. Adoption of a resolution to formally approve the actions of the members of the Management Board for the financial year 2008

The Supervisory and Management Boards propose that the actions of the members of the Management Board holding office in the financial year 2008 be formally approved for the financial year 2008.

3. Adoption of a resolution to formally approve the actions of the members of the Supervisory Board for the financial year 2008

The Management and Supervisory Boards propose that the actions of the members of the Supervisory Board holding office in the financial year 2008 be formally approved for the financial year 2008.

4. Adoption of a resolution to appoint the auditors for the annual financial statements and consolidated financial statements for the financial year 2009 and to perform a review of the abbreviated financial statements and the interim management report pursuant to Sections 37w para. 5 and 37y no. 2 of the Securities Trading Act (Wertpapierhandelsgesetz, WpHG)

The Supervisory Board proposes the adoption of the following resolutions:

- a) The appointment of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, as auditor for the annual financial statements and the consolidated financial statements for the financial year 2009.

- b) The appointment of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, as auditor to perform a review of the abbreviated financial statements and the interim management report for the financial year 2009 in accordance with Sections 37w para. 5 and 37y no. 2 of the Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

5. Election of Alan Goodman as a new member to the Supervisory Board

The Supervisory Board of PAION AG is comprised of three members in accordance with Sections 95, 96 para. 1, 101 para. 1 Stock Corporation Act (Aktiengesetz) and Section 12 para. 1 of the articles of association of PAION AG. The Supervisory Board proposes the election by the Annual General Meeting of Mr. Alan Goodman, British citizen, Chief Executive Officer of Avlar BioVentures Ltd. Haslingfield, Great Britain, to the Supervisory Board as the shareholders' representative. The Annual General Meeting is not bound to elect the proposed candidate.

Alan Goodman was appointed to the Supervisory Board of PAION AG by the Court of Aachen until the next General Meeting and effective as of 31 July 2008. He succeeds Prof Dr Erich Schlick who resigned from his position effective as of 30 July 2008. Alan Goodman was a chartered management accountant for many years and is the founder of a number of biotech companies including CeNeS pharmaceuticals plc which was acquired by PAION AG in June 2008. He is also founder and CEO of Avlar BioVentures Ltd., a venture capital fund that invests in early stage life science companies.

The appointment would be valid for the period up until the end of the Annual General Meeting that formally approves the actions of the Supervisory Board for the fourth financial year following the assumption of office. The financial year in which office is assumed is not counted.

6. Adoption of a resolution to revoke the previously Approved Capital I, create new Approved Capital 2009 and to amend the articles of incorporation accordingly

By resolution of the Annual General Meeting held on 10 May 2006, the Management Board was authorised to increase the capital stock of the Company with the approval of the Supervisory Board by up to

EUR 7,850,000 by issuing new bearer shares of no par value against payment in cash or kind (Approved Capital I). On the basis of resolutions adopted by the Management and Supervisory Boards on 20 June 2008, this authorisation to increase the capital stock of the Company was implemented virtually in its entirety to execute the purchase of CeNeS Pharmaceuticals plc. by means of share swap. The Company therefore increased the capital stock by EUR 7,847,367.00 on 20 June 2008 by issuing 7,847,367 new bearer shares of no par value against payment in kind. Shareholders' subscription rights for this increase of the capital stock against contribution in kind were excluded. As a result of this capital increase, the remaining available Approved Capital I declined to EUR 2,633.00.

In order to ensure the Company's continued future ability to increase and implement the capital stock, the Annual General Meeting is requested to adopt a resolution to create new Approved Capital I and to revoke 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 25 May 2014, by a total nominal amount of up to EUR 12,300,000.00 by one or several issuances of 12,300,000 new bearer shares of no par value against payment in cash and/or kind (Approved Capital 2009). 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 10 May 2006 for a restricted period up until 10 May 2011 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 I) – will be revoked from the date this new authorisation (Approved Capital 2009) 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 25 May 2014, by a total nominal amount of up to EUR 12,300,000.00 by one or several issuances of total 12,300,000 new bearer shares of no par value against payment in cash and/or kind (Approved Capital 2009). 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.

Subject to the following exceptions, the shareholders must be granted subscription rights. The shares can be taken over by a bank or bank syndicate who commit to offer them for sale to the shareholders of the Company to the extent that they are not offered directly 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 with respect to the Approved Capital 2009 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.”

- d) To ensure that the revocation of the former Approved Capital I 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 I for entry in the commercial register when it is certain that the resolution in respect of the creation of the new Approved Capital 2009 as outlined in lit. a) above in an amount of EUR 12,300,000.00 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 2009 or upon expiry of the period of authorisation.

7. Adoption of a resolution to amend the remuneration of the Supervisory Board

Pursuant to Section 21 para. 1 of the articles of association of PAION AG, each member of the Supervisory Board is entitled to remuneration of EUR 15,000 per financial year, in addition to the reimbursement of their expenses. In addition, the members of the Supervisory Board receive EUR 1,000 for each personal attendance at a Supervisory Board meeting. The Chairman receives twice, the Vice-Chairman 1.5 times these amounts. Compared with other biopharmaceutical companies of a similar size and structure to PAION AG, this annual remuneration which remained unchanged since 2005 is no longer commensurate. The Annual General Meeting is therefore requested to adopt a resolution to increase the remuneration of the members of the Supervisory Board to EUR 20,000 per financial year and to EUR 1,500 per meeting with effect as of 1 January 2009, provided the number of meetings will be limited to a maximum of six per year, for each Supervisory Board meeting.

The Management and Supervisory Boards therefore propose that the Annual General Meeting adopts the following resolutions:

a) Increase of the annual remuneration of the Supervisory Board members

In addition to the reimbursement of their expenses, each member of the Supervisory Board is entitled to a remuneration of EUR 20,000 per financial year.

b) Attendance by members at Supervisory Board meetings

The members of the Supervisory Board receive EUR 1,500 for each personal attendance at a Supervisory Board meeting, but only for a maximum of six meetings per year equating to a total maximum remuneration of EUR 9,000.

c) Section 21 para. 1 of the articles of association will be amended to read as follows:

“In addition to the reimbursement of their expenses, each member of the Supervisory Board is entitled to a remuneration of EUR 20,000 per financial year. 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. In addition, the members of the Supervisory Board receive EUR 1,500 for each personal attendance at a Supervisory Board meeting, but only for a maximum of six meetings per year. The Chairman receives twice, the Vice-Chairman 1.5 times these amounts.”

Reports to the Annual General Meeting

ad 6: Report by the Management Board to the Annual General Meeting pursuant to sections 203 para. 2, 186 para. 4 sent. 2 Stock Corporation Act (Aktiengesetz, AktG)

In view of the fact that the former Approved Capital I has been largely 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 2009.

The authorisation of the Management Board as proposed aims to create new Approved Capital 2009 to ensure the financing flexibility of the Company.

In the interests of the Company and its shareholders, the Management Board needs to be 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 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. 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 also needs to be enabled to exclude shareholders' subscription rights when issuing new shares against payment in kind. As a biopharmaceutical company, in particular, PAION AG 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 further 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 AG to make flexible use of opportunities and to enter into further cooperation agreements, which are particularly important for PAION AG as a developing biopharmaceutical company. Since a capital increase to finance any acquisitions is generally needed at short notice, the Company cannot wait until the next ordinary Annual 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.

The Management Board will report on each utilisation of the approved capital at the next Annual General Meeting.

Attendance at the Annual General Meeting

Shareholders who have provided the Company with special written proof of their share ownership issued by their custodian bank in German or English may attend the Annual General Meeting and exercise their voting rights. Such proof must be provided to the following address:

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

or email to:

HV-Anmeldung@LBBW.de

The proof of share ownership must refer to Monday, 04 May 2009 00:00 CEST and must be furnished to the Company by Monday, 18 May 2009 at the latest. Admission cards to the Annual General Meeting will be issued to shareholders following receipt of their proof of share ownership by the Company. In order to ensure prompt receipt of the admission cards, our shareholders are requested to ensure that they send their proof of share ownership to the Company in good time.

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

Proxy voting rights

Shareholders may exercise their votes in the Annual General Shareholder's Meeting by voting proxy (e.g. a financial institution or a shareholders' association). Generally such voting proxy must be in writing. It may also be submitted by telefax or by email pursuant to the form requirements set forth below. Exemptions may apply to financial institutions, shareholders' associations and other coequal persons or institutions (see Section 135 paras. 9 and 12, and Section 125 para. 5 AktG). Therefore we ask our shareholders to consult with the respective financial institutions, shareholders' associations or other coequal persons or institutions

concerning applicable form requirements. The admission card for shareholders will include a form for such voting proxy. Pursuant to Section 30a para. 1 no. 5 Securities Trading Act (Wertpapierhandelsgesetz, WpHG), we will also provide our shareholders with these forms for granting proxy at the Annual General Meeting on the internet at

www.paion.com/hv.

The forms will be sent to the shareholders free of charge on request. In case of non-use of the form, the proxy in written form must contain all information as required in the form.

In addition, we are offering our shareholders the option of representation at the Annual General Meeting by voting proxies who are appointed by the Company and bound to adhere to instructions. The authorisations can be transmitted in writing, or by facsimile or e-mail. In the event of e-mail transmission, please attach the completed and signed authorisation and instruction form that was enclosed with the admission card. The form may only be sent in electronic format (“PDF” or “TIF”). Even if you choose to authorise the voting proxies, registration and submission of proof of share ownership must be still be provided prior to the deadline as described above. If the voting proxies appointed by the Company are to be authorised, the shareholder must issue clear instructions as to how his or her vote should be exercised for each of the items on the agenda. The authorisation is deemed to be invalid if corresponding instructions are not given. The voting proxies appointed by the Company are bound to vote in accordance with your instructions. Shareholders who would like to avail themselves of this option and issue authorisation to the voting proxies appointed by the Company require an authorisation form for this purpose, which they can also use to give instructions. This form which can also be downloaded from the Internet via www.paion.com/hv will be included with the admission card sent to the shareholders. Shareholders must complete this authorisation and instruction form, and sign and return it to the Company prior to the close of business on 20 May 2009 by mail, facsimile or e-mail to the following address:

PAION AG
c/o BADER & HUBL GmbH
Wilhelmshofstrasse 67
74321 Bietigheim-Bissingen
Facsimile: +49 (0)7142 788667-11
email: hauptversammlung@baderhubl.de

Authorisations and instructions received after this deadline will not be considered.

Furthermore, information relating to the Annual General Meeting and to the authorisation of the voting proxy appointed by the Company can be found on the internet at

www.paion.com/hv.

Queries and proposals submitted by shareholders

Shareholders who would like to request documentation, submit queries to the Annual General Meeting or file counter-proposals to the proposals submitted by the Management and/or Supervisory Boards must exclusively submit these to the following address:

PAION AG
Department Investor Relations
Martinstrasse 10-12
52062 Aachen
Germany
Facsimile: +49 (0)241 4453-120

Counter-proposals and proposals for candidates for election that fulfil the requirements of Sections 126, 127 Stock Corporation Act (Aktiengesetz, 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.com/hv.

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

Total number of shares and voting rights outstanding at the time of convening the Annual General Meeting

Pursuant to Section 30b para. 1 no. 1 Securities Trading Act (Wertpapierhandelsgesetz, WpHG) as amended by the Transparency Directive Implementation Act (Transparenzrichtlinie-Umsetzungsgesetz, TUG), we hereby disclose: At the time of convening the Annual General Meeting 2009, PAION AG had issued an aggregate number of 24,602,919 shares conferring 24,602,919 voting rights.

PAION AG has not been notified of any participation in the Company by a bank, such participation being subject to registration pursuant to Section 21 Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

The invitation to the Annual General Meeting was published in the electronic Federal Gazette (Elektronischer Bundesanzeiger) on 14 April 2009.

Aachen, April 2009

PAION AG
Management Board

Annual General Meeting Location

forum M, Buchkremerstrasse 1, 52062 Aachen, Germany

(Map see last page)

Approach by car

1. Approaching Aachen from Belgium, Dusseldorf or Cologne:

Use the motorway A4 (E40) or A44 (E40) until “Kreuz Aachen” junction. Continue on the A4 (E 314) towards “Heerlen/Aachen Zentrum/Eindhoven/Antwerpen”.

Approaching from the Netherlands:

On passing the border, the motorway from the Netherlands will change into German A4 (E 314).

2. Leave the motorway at the next exit (exit no. 3, “Aachen Zentrum/Würselen”) and turn right in direction Aachen “Krefelder Strasse. B 57”.
3. Continue straight on for approx. 3 km. Coming down from the hill top there is a crossroads with traffic lights. Turn left into “Monheimsallee”.
4. At the next large crossroads with traffic lights turn right into “Peterstrasse”. After approx. 450 m turn left into “Ursulinerstrasse” and then right into “Buchkremerstrasse”. The main entrance of “forum M” is on the right-hand side.
5. Turning right at the next corner you will find a public parking block “Parkhaus Büchel”.

Approach by train

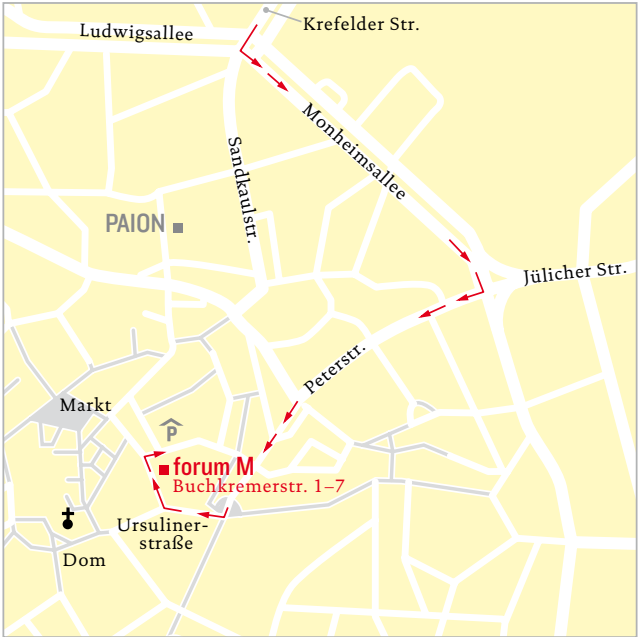
Take a taxi from the main railway station. It will take approx. 10 minutes to get to “forum M”.

Travel expenses and parking fees will not be covered by the company.

Welcome!

Annual General Meeting Location

forum M, Buchkremerstrasse 1, 52062 Aachen, Germany



PAION AG
Martinstrasse 10 – 12 52062 Aachen (Germany)
Phone +49 (0) 241 4453-0
Facsimile +49 (0) 241 4453-120
info@paion.com www.paion.com