

PAION AGM#2010

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

Wednesday, 19 May 2010, at 10:00 a.m.

at forum M

Buchkremerstrasse 1-7, 52062 Aachen, Germany.

Convenience Translation

PLEASE NOTE:

This document exists in an English and a German version. In case of discrepancies, the German version is decisive and shall prevail any interpretation.

Agenda

1. Presentation of the adopted annual financial statements and the approved consolidated financial statements as of 31 December 2009, the Management Reports for the Company and the Group for the financial year 2009, and the Report of the Supervisory Board for the financial year 2009

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 2009

The Supervisory and Management Boards propose that the actions of the members of the Management Board holding office in the financial year 2009 be formally approved for the financial year 2009.

3. Adoption of a resolution to formally approve the actions of the members of the Supervisory Board for the financial year 2009

The Management and Supervisory Boards propose that the actions of the members of the Supervisory Board holding office in the financial year 2009 be formally approved for the financial year 2009.

4. Adoption of a resolution to appoint the auditors for the annual financial statements and consolidated financial statements for the financial year 2010 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 GmbH Wirtschaftsprüfungsgesellschaft, Cologne office, as auditor for the annual financial statements and the consolidated financial statements for the financial year 2010.
- b) The appointment of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne office, as auditor to perform a review of the abbreviated financial statements and the interim management report for the financial year 2010 in accordance with Sections 37w para. 5 and 37y no. 2 of the Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

5. Adoption of a resolution to approve the remuneration system for members of the Management Board

Pursuant to the Act on the Adequacy of Managerial Salaries (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG), the Annual General Meeting may adopt resolutions to approve the remuneration system for members of the Management Board (Section 120 (4) AktG). The remuneration system for the members of the Company's Management Board and any amendments thereto are explained in detail in the Remuneration Report, which is published as part of the report on Corporate Governance in the Annual Report 2009.

The Management and Supervisory Boards propose that the Annual General Meeting approves the system for remunerating members of the Management Board of PAION AG.

6. Re-election of Dr Walter Wenninger as 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 (Aktengesetz) and Section 12 para. 1 of the articles of association of PAION AG.

Dr Walter Wenninger's period of office is due to expire at the end of the Annual General Meeting 2010. The Supervisory Board proposes the re-election by the Annual General Meeting of Dr Walter Wenninger, German citizen, Diplom-Kaufmann, resident in Leverkusen, to the Supervisory Board as the shareholders' representative. The Annual General Meeting is not bound to elect the proposed candidate.

Dr Wenninger is currently a member of legally prescribed Supervisory Boards and comparable controlling bodies in Germany and abroad at the following companies:

- NOXXON Pharma AG, Berlin, Germany, Chairman of the Supervisory Board
- Evotec AG, Hamburg, Germany, Member of the Supervisory Board
- Recordati Industria Chimica E Farmaceutica S.p.A., Milan, Italy, Member of the Supervisory Board
- Santaris Pharma A/S, Horsholm, Denmark, Vice Chairman of the Supervisory Board

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.

By dint of their professional experience and training, all members of the Supervisory Board have the necessary qualification to act in the capacity of an independent financial expert (in the context of Section 100 (5) AktG). Dr Jörg Spiekerkötter, who has been designated as independent financial expert, has been chairing the Audit Committee since October 2009.

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

Pursuant to Section 21 para. 1 of the articles of incorporation of PAION AG, each member of the Supervisory Board is entitled to remuneration of EUR 20,000 per financial year. In addition, the members of the Supervisory Board will receive a remuneration of EUR 1,500 for each Supervisory Board meeting they attend personally albeit for a maximum of six meetings each year. The Chairman receives twice, the Vice Chairman 1.5 times these amounts.

The Company would like the compilation of the Supervisory Board to reflect PAION's international orientation. The current remuneration structure needs to be amended if the Company is to preserve the possibility of recruiting suitable candidates who live abroad to the Supervisory Board in future. The present remuneration structure is not deemed to be suitable for members of the Supervisory Board who are resident in countries outside Europe as it disregards the additional work and expense resulting from travel in order to physically attend a Supervisory Board meeting.

The Annual General Meeting is therefore requested to adopt a resolution to increase the attendance fee for those members of the Supervisory Board who live in countries outside Europe to EUR 3,000 for each Supervisory Board meeting they physically attend, albeit for a maximum of six meetings each year, starting from 1 January 2010. The Chairman should receive twice, and the Vice Chairman 1.5 times this amount if they are resident in a country outside Europe.

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

a) Attendance fees for members of the Supervisory Board who are resident in a country outside Europe

Members of the Supervisory Board who are resident in a country outside Europe shall be paid EUR 3,000 for each Supervisory Board meeting they physically attend albeit for a maximum of six meetings each year, i.e. the maximum attendance fee payable is EUR 18,000.

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

“In addition to the reimbursement of their expenses, each member of the Supervisory Board is entitled to 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 shall receive EUR 1,500 for each Supervisory Board meeting that they attend personally (attendance fee), but for a maximum of six meetings each year. Members of the Supervisory Board who are resident in a country outside Europe shall receive an attendance fee of EUR 3,000 for each physical attendance at a Supervisory Board meeting, albeit for a maximum of six meetings each year. The Chairman receives twice, the Vice Chairman 1.5 times these amounts.”

8. Adoption of a resolution (i) to authorise the instigation of a stock option plan 2010 to issue stock options with subscription rights to shares of PAION AG to members of the Management Board of PAION AG and to such employees of PAION AG or its group companies as are particularly important for the development and success of the Company while at the same time terminating the issue of any new shares under the stock option plan 2008, and (ii) to create new Conditional Capital 2010 I to service the stock option plan 2010 while at the same time reducing the Conditional Capital 2008 I to the extent that they are not needed to service the stock options granted under the stock option plan 2008, and (iii) to amend the articles of incorporation accordingly

To ensure the future of PAION Group, the definition and successful implementation of long-term strategic corporate goals are crucial. Those individuals whose decisions are closely linked to the development and/or success of the Company are extremely important. The granting of stock options aims to strengthen the interest of these individuals in enhancing the value of the Company over the long term and to create a competitive remuneration element. In order to have an optimal and contemporary stock option plan that can best achieve its defined aims, the Company suggests closing the stock option plan 2008 for new issues and creating a new stock option plan 2010 that is based on the stock option plan 2008 and implements, inter alia, the amendments to the Stock Corporation Act that were introduced with the Act on the Adequacy of Managerial Salaries on 31 July 2009. The Annual General Meeting is requested to adopt a resolution to create Conditional Capital 2010 I to enable the creation of shares from conditional capital to service the stock options from the stock option plan 2010.

The Annual General Meeting held on 5 May 2008 adopted a resolution to create Conditional Capital 2008 I in an amount of EUR 815,000 in order to service the stock option plan 2008 that was resolved at the same time. Currently, 760,235 stock options have been granted under the stock option plan 2008. To the extent that Conditional Capital 2008 I is not needed to service the stock options granted under the stock option plan 2008, the Annual General Meeting is requested to adopt a resolution to reduce, respectively cancel the same.

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

a) To authorise the issue of stock options with subscription rights to shares of PAION AG

With the approval of the Supervisory Board and prior to 18 May 2015, under the stock option plan 2010 the Management Board is authorised to issue up to 720,000 stock options with subscription rights to shares of PAION AG with a term of ten years from the date of issue, each stock option granting the right to subscribe to one share of PAION AG, in line with the following provisions. The stock options may only be subscribed by the members of the Management Board of PAION AG and by key members of staff of PAION AG or one of its Group companies. This authorisation only applies to the Supervisory Board in respect of the granting of stock options to the members of the Management Board.

Shareholders' subscription rights are excluded.

The following key points apply to the issuance of stock options under the stock option plan 2010:

(1) Subscription entitlements, aggregate volume and distribution of the same

Under the stock option plan 2010, stock options may only be granted to a) members of the Management Board of PAION AG ("Group 1") and b) key members of staff of PAION AG or one of its Group companies ("Group 2"). "Group companies" are (i) companies in which PAION AG holds more than 50% of the shares directly or indirectly, (ii) companies in which PAION AG holds more than 50% of the voting rights directly or indirectly, and (iii) companies of which PAION AG is the direct or indirect controlling company on the basis of a control agreement or similar corporate agreement. In consultation with the respective boards that are responsible for the remuneration of the beneficiaries, the Management Board of PAION AG will determine the exact group of beneficiaries and the scope of the stock

options to be offered to each of them for subscription. To the extent that members of the Management Board of PAION AG are granted stock options, these decisions and the issuance of the stock options are the sole responsibility of the Supervisory Board of PAION AG.

Under the stock option plan 2010, a maximum aggregate of 720,000 stock options may be granted to the beneficiaries. Maximum 324,000 stock options in total (equivalent to max. 45% of the total stock options) can be issued to Group 1 beneficiaries; maximum 396,000 stock options in total (equivalent to maximum 55% 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) Issue period and term

The stock options can be issued to beneficiaries in the period between entering the Conditional Capital 2010 I in the Commercial Register and 18 May 2015. Within this period, the relevant boards may only resolve to grant stock options between the ninth Xetra trading day (or a trading day on a comparable successor system that replaces the functions of the Xetra system) (“Xetra trading day”) on the Frankfurt Stock Exchange following the publication of a quarterly or semi-annual Group report of PAION AG or of consolidated financial statements of the Company on the Company’s website and the last day of the calendar quarter in which such publication occurs – subject to the following rules for beneficiaries who sign a service or employment contract with the Company or a Group company for the first time.

Beneficiaries who sign a service or employment contract with the Company or a Group company for the first time may also be granted stock options within a period of three months after commencement of service or employment; in such cases, the relevant boards can also adopt such resolutions outside the timeframe stipulated in the section above. The commitment to grant stock options can, in these cases, form part of the service or employment contract. If the Company or a Group company purchases or acquires an enterprise or part of an enterprise, a person who thus becomes a beneficiary can also acquire stock options within three months from the purchase or acquisition; the commitment to grant stock options may in this case be given even before the purchase or acquisition on condition that it does not take effect until the purchase or acquisition.

Stock options granted to beneficiaries in Group 1 will be issued (“day of issue”) one month after the day on which the Supervisory Board of the Company adopts such resolution, to beneficiaries in Group 2 one month

after the day on which the Management Board adopts such resolution in consultation with the respective boards that are responsible for the remuneration of the beneficiaries, and in those cases where stock options are issued to beneficiaries within three months of commencement of a service or employment contract on the day on which the beneficiary commences service or employment as defined in the employment contract unless the aforementioned rules in this section result in a later day of issue.

The options are issued against signature by the relevant beneficiary of a declaration relating to the subscription of stock options, in which the beneficiary accepts the subscription offer submitted by PAION AG and declares his or her agreement to comply with the terms and conditions of the stock option plan.

The term of the stock options commences on the day of issue and expires at the end of ten years.

(3) Exercise lock-up periods

The stock options may not be exercised during the following “exercise lock-up periods”: a) in each case during a period starting on the third Xetra trading day prior to the end of a financial year quarter of the Company and ending three (3) Xetra trading days after publication of the relevant quarterly or semi-annual Group report relating to that quarter for PAION AG or the consolidated financial statements of PAION AG on the Company’s website; b) from the day on which PAION AG publishes an offer to its shareholders to subscribe to new shares or bonds or other securities with conversion or option rights in the electronic Federal Gazette up until the day on which the Company’s shares with subscription rights are listed for the first time “ex subscription rights” on the Frankfurt Stock Exchange; c) from the day on which PAION AG publishes the payment of a dividend in the electronic Federal Gazette up until the day on which the Company’s shares with dividend rights are listed for the first time “ex dividend” on the Frankfurt Stock Exchange.

(4) Waiting period and non-forfeitability of the stock options

The stock options may only be exercised following expiry of a waiting period of four years from the day of issue. In the case of Group 1 participants the Supervisory Board, and in the case of Group 2 participants the Management Board, can define a waiting period longer than four years in consultation with the respective boards that are responsible for the remuneration of the beneficiaries. The right to exercise the stock options only outside of specific exercise lock-up periods and only provided all other conditions for exercise are met remains unaffected by the expiry of the waiting period.

Subject to certain restrictions that are outlined below in sections (9) (Lapse of the stock options) and (12) (Adjustments), stock options become non-forfeitable after a vesting period of two (2) years from the date of issue (vesting period). In the case of Group 1 participants the Supervisory Board, and in the case of Group 2 participants the Management Board, can in consultation with the respective boards that are responsible for the remuneration of the beneficiaries define a vesting period that is longer than two years as part of the resolution adopted pursuant to Section 3 para. 4.

If the employment or service relationship on which the issue and/or continued validity of stock options is based is suspended between a beneficiary and a PAION Group company by virtue of an agreement between the beneficiary and this company or a unilateral decision made by the beneficiary, the expiry of the waiting period is postponed for the duration of this suspension.

If a controlling interest in PAION AG is acquired as defined by the Securities Acquisition and Takeover Act (Wertpapierübernahmegesetz, WpÜG), (i) the waiting period for all issued stock options ends four years after the day of issue in the case of those stock options whose four-year waiting period has expired, or, in case a waiting period of more than four years has been defined of which four years have, however, already expired, on the day the controlling acquisition comes into effect; (ii) the entitlement to subscribe to shares on the basis of stock options which were issued less than four years previously is converted upon the acquisition of the controlling interest into an entitlement to a corresponding cash settlement based on the share price on the day the controlling acquisition comes into effect; the corresponding stock options lapse. The Company may choose to grant listed shares in the acquiring company instead of the cash settlement, the details of which may be determined by the responsible boards.

(5) Subscription ratio and exercise of subscription rights

Each stock option entitles the holder to purchase one share from the Conditional Capital 2010 I created for this purpose against payment of the exercise price. The new shares participate in the profits from the beginning of the financial year onwards for which, at the time of exercising the subscription right, the Annual General Meeting has not adopted any resolutions in respect of the appropriation of the retained earnings.

Instead of issuing shares from the Conditional Capital 2010 I created for this purpose, the beneficiaries can alternatively be offered the option of purchasing treasury stock or receiving cash compensation, especially if no further shares are available from this Conditional Capital 2010 I.

The Management Board agrees with the Supervisory Board and in consultation with the respective boards that are responsible for the remuneration of the beneficiaries as to which alternatives 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 closing share price in Xetra trading (or a comparable successor system that replaces the functions of the Xetra system) on the day before exercise.

(6) Exercise price

The exercise price corresponds to the unweighted average closing price of PAION AG shares in Xetra trading (or a comparable successor system that replaces the functions of the Xetra system) on the fourth to eighth Xetra trading days following publication of a quarterly or semi-annual Group report of PAION AG or the consolidated financial statements of the Company on the Company's website. Where stock options are issued to beneficiaries within three months from commencing service or employment, the exercise price corresponds to the unweighted average closing price of PAION AG shares in Xetra trading (or a comparable successor system that replaces the functions of the Xetra system) on the fourth to eighth Xetra trading days following the first publication of a quarterly or semi-annual Group report of PAION AG or the consolidated financial statements of the Company on the Company's website following the employment of the relevant beneficiary. The exercise price must be adjusted, if necessary (for more details, see (12) Adjustments below).

(7) Exercise hurdles

Stock options may only be exercised if the closing share price in Xetra trading (or a comparable successor system) on the day prior to exercise exceeds the exercise price by at least the so-called "necessary share price increase". The necessary share price increase is a linear increase of 5% p.a. of the exercise price from the day of issue onwards throughout the entire term of the stock option. The necessary share price increase is $\frac{1}{240}$ (in writing: one-two hundred fortieth) of the exercise price for each completed month following the day of issue, in accordance with Section 187 para. 1 Civil Code (Bürgerliches Gesetzbuch, BGB).

(8) Exercising the stock options

The stock options are exercised by making a written declaration to PAION AG ("confirmation of exercise"). Subject to the provisions of the following sentence, the day of exercise is the day on which the Company

receives the confirmation of exercise. Without incurring an extension of the term of the stock options, confirmations of exercise received by the Company prior to expiry of the waiting period or during an exercise lock-up period are deemed to have been received on the first day following the expiry of the waiting period respectively the lock-up period if the Company has not received written revocation of the confirmation of exercise by the latest at 10:00 a.m. on the last bank working day at the Company's registered office prior to this date.

The Company may determine a facilitated or amended form and delivery of the confirmation of exercise and settlement of the transactions including, above all, internet-based settlement or settlement entirely by third parties.

(9) Lapse of the stock options

Stock options that are not or cannot be exercised up to the end of their term lapse at the end of their term without recourse and compensation without the Company having to issue a corresponding agreement or declaration that the options have lapsed.

Stock options held by Group 2 beneficiaries whose vesting period has not expired lapse without recourse and compensation on the day the employment relationship between the beneficiary and the Company or a Group company effectively ends irrespective of the reasons for this termination, including disability, retirement or death. The same applies if a Group company with which the beneficiary has an employment relationship or a part of a Group company where the beneficiary is employed is excluded from the PAION Group.

In case a Group 2 beneficiary no longer performs his or her task and no longer belongs to the beneficiaries in Group 2 after issue of the stock options but prior to expiry of the vesting period, a certain portion of his or her stock options that is calculated using a specific formula and taking account of any waiting period that has already expired lapses without recourse and compensation on the day on which he or she no longer performs the management function.

In case a Group 2 beneficiary shortens his standard weekly working hours (part-time work) after issue of the stock options but prior to expiry of the vesting period, a certain portion of his or her stock options that is calculated using a further formula and taking account of any vesting period that has already expired lapses without recourse and compensation on the day on which the shortened standard weekly working hours begin.

All stock options not exercised by Group 2 beneficiaries lapse – even if the vesting period has already expired – without recourse and compensation if the Company or a Group company has cause to terminate the employment of the beneficiary for reasons caused by the latter on the day the termination comes into effect.

A portion of the stock options held by Group 1 beneficiaries where the vesting period has not yet expired lapses without recourse and compensation on the day the appointment as member of the Company's Management Board finally ends without reappointment because that member has reached the end of his or her term, resigned, died or for any other reasons, unless such appointment is revoked. In line with this aforementioned sentence and taking account of any vesting period that has already expired, a certain part of the affected Group 1 beneficiaries' stock options that is calculated using a specific formula lapses without recourse and compensation on the day on which the beneficiary's appointment as a member of the Company's Management Board ends.

In the case of valid revocation of an appointment as member of the Management Board pursuant to Section 84 para. 3 Stock Corporation Act (Aktiengesetz, AktG), all of the affected Group 1 beneficiaries stock options that have not been exercised lapse without recourse and compensation, even if the vesting period has already expired.

If the appointment as a member of the Management Board – in the case of Group 1 beneficiaries – or the employment relationship – in the case of Group 2 beneficiaries – ends upon the death of the beneficiary, stock options whose waiting period has expired may be exercised within a period of 24 months from the first trading day on the Frankfurt Stock Exchange following the death of the beneficiary on which the stock options may be exercised, in compliance with the terms and conditions of the stock option plan 2010, and especially of the aforementioned provisions, whereby exercise lock-up periods postpone the expiry of the period, by the beneficiary's heirs and/or legatees, provided that these have proven their right of inheritance to the Company and that the stock options may be transferred to them by virtue of the death of the beneficiary. In the case of joint heirs and/or legatees, only a single authorised representative of all heirs/legatees may exercise their rights arising from the inherited or bequeathed stock options vis-à-vis the Company.

To avoid undue hardship, especially in the case of exclusion from the PAION Group of a Group company or a part of a Group company where the beneficiary is employed or in the case of redundancies or the termination of

service or employment contracts or upon expiry of the appointment to the Management Board, in the case of Group 1 beneficiaries, or termination of the employment relationship, in the case of Group 2 beneficiaries, as a result of the death of the beneficiary during the vesting period, the Management Board, with the approval of the Supervisory Board and in consultation with the respective boards that are responsible for the remuneration of the beneficiaries - in the case of Group 2 beneficiaries – and the Supervisory Board – in the case of Group 1 beneficiaries – may approve special dispensatory agreements in individual cases.

(10) Transferability

The stock options granted to the beneficiaries are not transferable. Stock options may not be disposed of in any way, sub-participations in stock options may not be granted, they may not be pledged nor may fiduciary authority over the stock options be awarded. The same applies to legal transactions that constitute a sale of or charge on the stock options in a commercial sense. If a beneficiary disposes of his or her stock options in contradiction of these rules, the stock options lapse without recourse and compensation. This does not apply to dispositions by virtue of death in favour of the spouse, registered life partner or children of a beneficiary, nor to dispositions in favour of the aforementioned dependents aimed at executing legacies or satisfying a community of heirs. Transferability by succession is excluded unless the beneficiary bequeaths his or her estate to the spouse, registered life partner or children.

(11) Authorisation to define details

The additional provisions for granting 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 Group company boards which are responsible for the remuneration of the beneficiaries.

These details include, above all, selecting individual beneficiaries from the relevant group of beneficiaries, granting stock options to individual beneficiaries, defining the organisation and process for granting and exercising stock options and issuing shares and rules for dealing with stock options in special cases.

(12) Adjustments

If the number of shares issued by the Company changes over the term of the stock options without such change relating to an inflow or outflow of funds (e.g. based on a capital increase from Company funds, a capital reduction or a redistribution of the capital stock), the number of shares to which each stock option gives the right of subscription changes in the same ratio as the aggregate number of shares prior to the change to the aggregate number of shares following the change. In these cases, the exercise price per share changes in the same ratio inversely.

In the case of capital increases against deposits with direct or indirect shareholders' subscription rights, the issuance of convertible or warrant-linked bonds respectively other securities with conversion or option rights, each with direct or indirect shareholders' subscription rights, or the payment of special or bonus dividends but not normal dividends to shareholders, the exercise price and subscription ratio will be adjusted and, as such, redefined, pursuant to Section 317 Civil Code (Bürgerliches Gesetzbuch, BGB) by the Company or by an accountant appointed by the Company and acting as arbitrator, at their discretion and taking account of the relevant rules of Deutsche Börse AG that apply to such a measure. The adjustment and redefinition must be performed in such a way as to ensure that the aggregate value of any beneficiary's stock option entitlement is equal to the value prior to the measure being implemented. An adjustment and redefinition will not be performed if it would involve less than 5% of the exercise price.

In the case that measures implemented by the Company and/or the stock exchanges on which the Company's shares are listed result in the shares no longer being admitted for trading, the Company reserves the right by means of unilateral declaration to the beneficiaries to revoke any stock options granted under this stock option plan 2010 that have not yet been exercised, irrespective of whether such stock options are exercisable or not. In this case, the relevant stock options lapse without recourse upon receipt by the relevant beneficiary of the declaration of revocation ("revocation date"). To the extent that issued stock options are revoked on the revocation date, the Company is obliged to compensate the relevant beneficiary for the affected stock options by offering either comparable rights or an entitlement to cash settlement, at the Company's discretion, with the aim of compensating the relevant beneficiary for the ensuing economic disadvantage suffered by the beneficiary as a result of the revocation of the exercisable stock options on the revocation date, where legally possible and commercially justifiable for the Company.

The effectiveness of the revocation is independent of any agreement concerning the type and amount of compensation and of the introduction of any other employee participation plans.

The aforementioned rules apply accordingly in cases where the Company or a Group company is merged into an acquiring legal entity, carved up or out, converted into a different legal form or incorporated into an acquiring legal entity following the issue of stock options under this stock option plan 2010. In these cases, the compensation may also take the form of subscription rights to shares in an acquiring legal entity or other rights relating to an acquiring legal entity. If the pertinent legal conditions for comparable employee participation plans change during the term of this stock option plan 2010, the Company is entitled to adjust the terms and conditions of the plan accordingly, taking reasonable account of the economic interests of the holders of the stock options, even if the existing plans do not have to be adjusted for legal reasons.

In the course of controlling the adequacy of remuneration, the Supervisory Board – in respect of stock options that have already been issued to Group 1 members – and the Management Board – in respect of stock options that have already been issued to Group 2 members – have the option of placing a restriction on the earnings generated from exercising the stock options in the event of unusual circumstances (e.g. acquisition of the company, sale of parts of the company, reversal of hidden reserves or external influences). This restriction can be implemented by adjusting the exercise price accordingly. In the event that such judgement as defined above is exercised, the Supervisory and/or Management Board will bear in mind that, in the case of a biotechnology company such as PAION Group, the earnings possibilities inherent in stock options are a crucial element that act as an incentive to the beneficiaries. A gain equivalent to as much as 200% of an exercise price that is raised by the necessary share price increase therefore does not constitute unusual circumstances that could be used as grounds for implementing such a restriction.

(13) Reporting obligations, taxes and transaction costs

The Management Board will report each financial year in the annual report on the drawdown of the stock option plan 2010, the stock options granted to the beneficiaries, and the stock options that have been exercised.

The taxes and social security contributions levied in connection with the granting and exercise of the stock options and the transaction costs incurred by any exercise of the stock options must be borne by the relevant beneficiaries.

b) Closing the stock option plan 2008 for new issues

The stock option plan 2008 will be closed for new issues. No further stock options can be issued under the stock option plan 2008. Any stock options already granted can, however, be exercised under the terms and conditions of the stock option plan 2008.

c) Creation of new Conditional Capital 2010 I

The capital stock of the Company will be conditionally increased (Conditional Capital 2010 I) by up to EUR 720,000 additionally by issuing an aggregate of up to 720,000 new bearer shares of no par value. The Conditional Capital 2010 I serves to secure the subscription rights arising from stock options that can be issued by PAION AG under the stock option plan 2010 in the period between entering the Conditional Capital 2010 I in the Commercial Register up until 18 May 2015 based on the authorisation granted by the Annual General Meeting of PAION AG on 19 May 2010. The Conditional Capital increase will only be implemented to the extent to which holders of option rights issued within the framework of the 2010 stock option plan exercise such option rights. The shares from the Conditional Capital 2010 I will be issued at the exercise price defined in lit. a) no. (6) of item 8 of the Agenda for the Annual General Meeting on 19 May 2010. The new shares participate in the profits from the beginning of the financial year onwards for which, at the time of exercising the subscription right, the Annual General Meeting has not adopted any resolutions in respect of the appropriation of the retained earnings. The Management Board is authorised to determine the further details of the implementation of a Conditional Capital increase with the approval of the Supervisory Board.

d) Reduction and amendment of Conditional Capital 2008 I

The Conditional Capital 2008 I will be reduced by EUR 54,765 and amended as follows:

The capital stock of the Company will be conditionally increased (Conditional Capital 2008 I) by up to EUR 760,235 additionally by issuing an aggregate 760,235 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 2008 stock option plan exercise such option rights. The new shares participate in the profits from the beginning of the financial year onwards for which, at the time of exercising the subscription right, the Annual General Meeting has not adopted any resolutions in respect of the appropriation of the retained earnings. 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.

e) Section 4 para. 6 of the articles of incorporation will be amended to read as follows:

“The capital stock of the Company is conditionally increased (Conditional Capital 2008 I) by up to EUR 760,235 additionally by issuing an aggregate 760,235 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 2008 stock option plan exercise such option rights. The new shares participate in the profits from the beginning of the financial year onwards for which, at the time of exercising the subscription right, the Annual General Meeting has not adopted any resolutions in respect of the appropriation of the retained earnings. 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.”

f) The following new para. 7 will be added to Section 4 of the articles of incorporation:

“(7) The capital stock of the Company is conditionally increased (Conditional Capital 2010 I) by up to EUR 720,000 additionally by issuing an aggregate of up to 720,000 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 2010 stock option plan exercise such option rights. The new shares participate in the profits from the beginning of the financial year onwards for which, at the time of exercising the subscription right, the Annual General Meeting has not adopted any resolutions in respect of the appropriation of the retained earnings. 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.”

g) The Supervisory Board is authorised to amend Section 4 paras. 5, 6 and 7 of the articles of incorporation to reflect the relevant drawdown of the Conditional Capitals.

9. Adoption of a resolution to authorise the issue of convertible and/or warrant-linked bonds, the exclusion of subscription rights, and the creation of new Conditional Capital 2010 II and simultaneously to revoke the previous authorisation to issue convertible and warrant-linked bonds and the Conditional Capital I, and to amend the articles of incorporation accordingly

By resolution of the Annual General Meeting on 10 May 2006, the Management Board was authorised to issue once or in several batches and prior to 10 May 2011 convertible and/or warrant-linked 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 of these bonds conversion and/or option rights to new stock equivalent to a share of the capital stock of maximum EUR 6,300,000 in total. Conditional Capital (Conditional Capital I) was created in an amount of EUR 6,300,000 to service these convertible and/or warrant-linked bonds. The authorisation has not yet been implemented and the Conditional Capital I has therefore not been drawn down. In order to improve the financing possibilities of the Company above and beyond 10 May 2011 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/or warrant-linked bonds upon revocation of the former authorisation. The terms and conditions of the bonds should remain materially the same.

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

- a) The Management Board is authorised to issue once or several times prior to 18 May 2015 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 98,000,000 and with a maximum term of 20 years, and to grant the holders or beneficiaries of the bonds conversion and/or option rights to up to 9,800,000 new shares of the Company equivalent to a partial share in the capital stock up to EUR 9,800,000 in total in line with the detailed terms and conditions of the convertible or warrant-linked bonds (“Bond Terms and Conditions”) and/or to substantiate the obligations to convert bonds into new shares in the Bond Terms and Conditions.
- b) The bonds can be euro-denominated or denominated in the legal currency of any OECD country albeit restricted to the corresponding euro equivalent. If the bonds are issued in a currency other than the euro, the reference exchange rate published by the European Central Bank on the day the resolution to issue the bonds is adopted must be used to calculate the equivalent value. 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 and/or beneficiaries of such bonds conversion or option rights to new shares of the Company.

- c) Shareholders must be granted subscription rights in principle to the bonds. 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 bonds as determined using accepted methods of financial calculation. The exclusion of subscription rights only applies, however, to bonds with a conversion or option right to shares equivalent to a share of up to 10% in the capital stock at the time of adopting this resolution. The maximum cap of 10% 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% 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 conversion or option rights and of then outstanding convertible bonds with conversion obligation subscription rights 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 issues can be divided into fractional bonds, each with the same entitlements.
- e) If bearer convertible bonds are issued, the holders of these bonds will be granted the right to exchange their convertible bonds for new shares of the Company in accordance with the details of the bond issuance terms. 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. The swap ratio is calculated by dividing the par value of a convertible 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 convertible 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.
- g) If warrant-linked bonds are issued, one or more warrants will be attached to each warrant-linked 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 warrant-linked bond may not exceed the par value of the warrant-linked bonds; Sections 9 para. 1 and 199 para. 2 AktG remain unaffected. Any peaks can be combined and/or compensated in cash. 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 conversion price/swap ratio must be equivalent (a) to at least 80% 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 and/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% 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 Bond Terms and Conditions 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 and/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 conversion or swap ratio can also be adjusted – where possible by means of division by the reduced conversion or warrant price. Furthermore, the Bond Terms and Conditions can include a clause governing an adjustment of the conversion or option rights in case of a capital reduction, stock split, conversions or comparable measures.
- j) The Management Board is authorised to determine the further details relating to the issuance and structure of the 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 indirect or direct 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 2010 II.
- l) The authorisation to issue bonds as resolved by the Company's Annual General Meeting on 10 May 2006 will be revoked when this new authorisation comes into effect.

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

- m) The capital stock will be increased conditionally by up to EUR 9,800,000 (Conditional Capital 2010 II). The purpose of the conditional capital increase is to grant conversion and warrant rights and/or to stipulate conversion obligations in respect of new shares of the Company relating to and/or for the holders and/or beneficiaries of bonds issued in line with the aforementioned authorisation under lit. a) - k) and prior to 18 May 2015 by the company or by dependent of majority-owned companies under its control. 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 will only be increased to the extent that these rights are utilised or to the extent that the holders and/or beneficiaries with conversion obligations fulfil their conversion obligation and new shares are issued in fulfilment of these rights and/or obligations as defined in the terms and conditions of the bonds. 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 further details for executing a conditional capital increase.

n) Section 4 para. 4 of the articles of incorporation will be amended to read as follows:

“(4) The capital stock can be conditionally increased by up to EUR 9,800,000 (Conditional Capital 2010 II). This conditional capital increase will not proceed unless:

- The holders and/or creditors of conversion rights or warrants linked to the convertible or warrant-linked bonds to be issued before 18 May 2015 by the Company or companies dependent on it or in which it holds a majority stake pursuant to the authorisation resolution adopted by the annual general meeting on 19 May 2010, exercise the conversion and/or option rights, or
- Those holders and/or creditors of the convertible bonds to be issued by the Company or companies dependent on it or in which it holds a majority stake before 18 May 2015 pursuant to the authorisation resolution adopted by the annual general meeting on 19 May 2010, who are bound to convert meet their conversion obligations.

The new shares are entitled to dividends from the start of the financial year in which they are created by exercising conversion and/or option rights or by performing conversion obligations, although the Management Board may stipulate, subject to the Supervisory Board’s consent, that the new shares are entitled to dividends from the start of the financial year for which no resolution by the annual general meeting to apply the reported profits has been adopted at the time the conversion and/or option rights are exercised or conversion obligations performed. 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 I does not come into effect without the new Conditional Capital 2010 II in an amount of EUR 9,800,000 taking its place, the Management Board is instructed not to submit the revocation of the former Conditional Capital I for entry in the commercial register until it is certain that the resolution approving the creation of the new Conditional Capital 2010 II in line with the aforementioned lit. m) above in an amount of EUR 9,800,000 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 authorise the purchase of treasury stock

Unless expressly permitted, the Company must receive special authorisation from the Annual General Meeting to purchase and utilise treasury stock pursuant to Section 71 para. 1 no. 8 AktG. Since the authorisation resolved by the Annual General Meeting on 5 May 2008 for a maximum period of 18 months expired on 9 November 2009, a proposal to adopt a new authorisation resolution shall be submitted to the Annual General Meeting. Pursuant to the Act regarding the implementation of the shareholder rights directive (ARUG) dated 30 July 2009, which amended Section 71 para. 1 no. 8 AktG, this authorisation can now be given for a period of up to five years. The provision of authorisation for a period encompassing full calendar years aims to avoid the expiry of such authorisation between two Annual General Meetings in future. Moreover, an extended period of authorisation permits a more flexible approach to structuring stock-based remuneration systems that are designed to last. Such utilisation of treasury stock is therefore being proposed for resolution.

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

- a) The Management Board is authorised to purchase treasury stock up to an amount equivalent to 10% 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. Stock Corporation Act (Aktiengesetz, AktG), the stock purchased on the basis of this authorisation may not at any time exceed 10% 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, dependent companies or majority-owned companies or by third parties on behalf of the Company or one of its dependent or majority-owned companies. 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 18 May 2015.
- d) At the discretion of the Management Board and with the approval of the Supervisory Board, the stock can be purchased (i) on the stock exchange or (ii) 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 consideration 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 fourth – tenth 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% of the capital stock at the time of adopting this resolution. The maximum cap of 10% 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

Stock Corporation Act (Aktiengesetz, AktG). The maximum cap of 10% 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 Stock Corporation Act (Aktiengesetz, 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, of merging companies, or of licensing products. 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. Stock Corporation Act (Aktiengesetz, 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 plans 2005 and 2008 as resolved by the Annual General Meetings on 30 December 2004 and 5 May 2008, and the stock option plan 2010 to be resolved by this Annual General Meeting. Shareholders' subscription rights are excluded. This authorisation is restricted to a total of 10% of the capital stock. If the Conditional Capitals 2004 II, 2008 I and 2010 I are 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.

II. Adoption of a resolution to amend the articles of incorporation to reflect the Act for implementing the shareholder rights directive (ARUG)

The Act for implementing the shareholder rights directive (ARUG) from 30 July 2009 has resulted in amendments to the deadlines as defined in stock corporation law for registering to attend Annual General Meetings and for providing proof of entitlement to attend and to changes in the regulations for exercising voting rights through proxies. The Management and Supervisory Boards therefore suggest the following amendments to Sections 23 para. 2 and 24 paras. 1 and 2:

“Section 23 para. 2

The Annual General Meeting must be convened at least 30 days prior to the date of the meeting. The notice period must be extended to include the days of the registration period (Section 24 para. 1). Statutory provisions apply to the calculation of this period.

“Section 24 para. 1

Shareholders are entitled to attend the Annual General Meeting and to exercise their voting rights if they have registered to attend the Annual General Meeting and have provided evidence of their share ownership to the Company. The evidence of share ownership must be provided in the shape of a certificate in text form in German or English that is issued by the custodian and refers to the start of the 21st day prior to the Annual General Meeting. The registration and proof of share ownership must be received by the Company at least six days prior to the Annual General Meeting at the address indicated for this purpose in the invitation. Statutory provisions apply to the calculation of this period.

“Section 24 para. 2

Votes may be cast by a proxy. If and to the extent that the assignment of proxy is not subject to the application of Section 135 AktG, the assignment, revocation and proof of proxy must be provided to the Company in text form. In the event that the Company authorises designated voting proxies, the invitation may also define a simplified procedure for assigning and revoking proxy. Proof of proxy can also be transmitted to the Company using a means of electronic communication to be defined in more detail by the Management Board.”

In addition, the Management and Supervisory Boards propose the deletion of the present Section 24 para. 3 without replacement and to re-word the present Section 24 para. 4 and include it as Section 24 para. 3 and para. 4:

“Section 24 para. 3

Subject to corresponding notification in the invitation to the Annual General Meeting, the Chairman of the meeting may permit the full or partial video and audio transmission of the annual general meeting in a form to be determined in more detail by the Chairman of the meeting.”

“Section 24 para. 4

Subject to prior notification in the invitation to the Annual General Meeting, the Management Board may permit shareholders to participate without actually attending the Annual General Meeting or appointing a proxy, and may further permit them to exercise in part or in whole some or all of their rights using electronic means of communication.

Reports to the Annual General Meeting

ad 8: Report by the Management Board to the Annual General Meeting

The commercial success of the PAION Group is largely dependent on its ability to attract and hold qualified staff. This applies, in particular, to highly qualified executives and employees who are courted across national borders and, in part, across sectors of industry and offered attractive remuneration systems. Allowing members of the Management Board and key members of staff to participate in the Company's capital and, as such, in the commercial risks and successes of the Company is an integral part of common international remuneration systems. Granting stock options has been possible in Germany for years and is now common practice. The stock option plan does not just serve as an incentive to the beneficiaries and to strengthen the focus of corporate strategy on increasing the value of the Company over the long term, which is also in the interests of shareholders, but also to strengthen the financial markets' conviction that the Company's management is sufficiently motivated in order to offer further reasons for investing in the Company's shares.

PAION AG has already made use of the legal options and recommendation submitted by the German Corporate Governance Code to allow employees and executives to participate in the Company by launching its stock option plan 2005, the employee participation plan 2006 and stock option plan 2008. In order to have an optimal and contemporary stock option plan that can best achieve its defined aims, the stock option plan 2008 for new issues should be closed and a new stock option plan 2010 created that is based on the stock option plan 2008, and implements, inter alia, the specifications of the Act on the Adequacy of Managerial Salaries (VorstAG) dated 31 July 2009.

Stock options can only be granted to members of the Management Board of PAION AG and to key employees at PAION AG or one of its Group companies who contribute substantially to the development and results of PAION AG. On this basis, the Management Board of PAION AG determines the individual beneficiaries and the scope of the stock options to be offered to each of them for subscription in consultation with the respective boards that are responsible for the remuneration of the beneficiaries. To the extent that members of the Management Board of PAION AG are granted stock options, these decisions and the issuance of the stock options are the sole responsibility of the Supervisory Board of PAION AG.

Each stock option issued under the stock option plan 2010 entitles the holder to purchase one share in PAION AG. The new shares participate in the profits from the beginning of the financial year onwards for which, at the time of

exercising the subscription right, the Annual General Meeting has not adopted any resolutions in respect of the appropriation of the retained earnings. The proposal for resolution does not, however, contain any restrictions concerning new shares created through capital increases, but rather allows treasury stock or cash settlements to be offered as alternatives to beneficiaries who exercise their subscription rights. A maximum aggregate of 665,000 stock options can be issued. The authorisation to issue stock options is limited to 18 May 2015.

The incentive for the beneficiaries is largely defined by the price they have to pay upon exercising the stock option. The proposal for resolution is based on an exercise price that corresponds to the unweighted average closing price of PAION AG shares in Xetra trading (or a comparable successor system that replaces the functions of the Xetra system) on the fourth to eighth Xetra trading days following publication of a quarterly or semi-annual report of PAION AG or the consolidated financial statements of the Company on the Company's website. Where stock options are issued to beneficiaries within three months from commencing service or employment, the exercise price corresponds to the unweighted average closing price of PAION AG shares in Xetra trading (or a comparable successor system that replaces the functions of the Xetra system) on the fourth to eighth Xetra trading days following the first publication of a quarterly or semi-annual report of PAION AG or the consolidated financial statements of the Company on the Company's website following the commence of the service of employment relationship of the relevant beneficiary as defined in the employment contract. In addition, 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 exceeds the exercise price by at least the so-called "necessary share price increase". The necessary share price increase is a linear increase of 5% p.a. of the exercise price from the day of issue onwards throughout the entire term of the stock option. The necessary share price increase is $\frac{1}{240}$ (in writing: one-two hundred fortieth) of the exercise price for each completed month following the day of issue, in accordance with Section 187 para. 1 Civil Code (Bürgerliches Gesetzbuch, BGB).

The stock options may only be issued at specific times in order to avoid, above all, the risk of insider knowledge being exploited. The option of being able to offer participation in the attractive remuneration system with the stock option plan is extremely helpful in the successful search for additional highly qualified employees and – to the extent that this should become necessary in the future – members of the Management Board of PAION AG. The proposal therefore includes a provision that stock options may also be issued to such new employees respectively members of the Management Board within three

months of their commencing service or employment. In such cases, the agreement to issue stock options may form part of the service or employment contract.

If the Company or a Group company purchases or acquires an enterprise or part of an enterprise, a person who thus becomes a beneficiary can also acquire stock options within three months from the purchase or acquisition; the commitment to grant stock options may in this case be given even before the purchase or acquisition on condition that it does not take effect until the purchase or acquisition.

In order to incentivise the beneficiaries over the longer term to increase the value of the Company in the interests of all shareholders, the proposal includes waiting periods prior to the first exercise of the subscription rights. In the case of Group 1 participants the Supervisory Board, and in the case of Group 2 participants the Management Board, can define a waiting period of more than four years in consultation with the respective boards that are responsible for the remuneration of the beneficiaries. The right to exercise the stock options only outside of specific exercise lock-up periods and only provided all other conditions for exercise are met remains unaffected by the expiry of the vesting period. Subject to certain restrictions, stock options become non-forfeitable for all beneficiaries two (2) years after the day of issue (vesting period). In the case of Group 1 participants the Supervisory Board, and in the case of Group 2 participants the Management Board, can – in consultation with the respective boards that are responsible for the remuneration of the beneficiaries – define a vesting period that is longer than two years. Only part of the respective stock options lapse in the event that, prior to the expiry of the vesting period, (x) the appointment of a Group 1 participant to the Management Board finally ends on grounds other than revocation without re-appointment and/or (y) a Group 2 participant (i) no longer performs the task originally assigned to him or her although his or her employment continues, and therefore no longer classifies as a beneficiary, or (ii) reduces his or her weekly working hours.

The right to exercise subscription rights (term) expires at the end of ten years from the day of issue. Stock options that are not or cannot be exercised up to the end of their term lapse at the end of their term without recourse and compensation.

The proposed resolution also excludes in principle the transferability of the stock options granted to the beneficiaries. This aims to secure the personal incentivisation that is one of the purposes of the stock option plan. Finally, the proposed resolution determines that the Supervisory Board is authorised to

define the additional provisions for granting stock options and the additional terms and conditions of exercise where members of the Company's 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 Group company boards which are responsible for the remuneration of the beneficiaries. These details include, above all, selecting individual beneficiaries from the relevant group of beneficiaries, granting stock options to individual beneficiaries, defining the organisation and process for granting and exercising stock options and issuing shares, and rules for dealing with stock options in special cases.

The creation of new conditional capital in an amount of EUR 720,000, equivalent to 720,000 shares, serves primarily to service the rights of the beneficiaries to purchase shares. In order to increase flexibility with regard to the exercise of the subscription rights, the proposed resolution entitles the Company to alternatively offer treasury stock or cash compensation to service the beneficiaries' entitlements.

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 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 above and beyond 10 May 2011, as well.

Depending on market conditions, capital can be raised at attractive conditions by issuing bonds. 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 dependent or majority-owned companies within the Group. In addition to euros, bonds can also be issued in the legal currency of an OECD country.

Shareholders must, in principle, also be granted subscription rights to 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 10% 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 conversion or option price having to be reduced for the holders of existing conversion or option rights in line with the terms and conditions of the convertible and/or warrant-linked bonds, 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 consideration 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. The Company does not currently have any specific plans to implement the authorisation to issue bonds.

In each individual case, the Management and Supervisory Boards of PAION AG will carefully analyse whether to implement the authorisation to issue bonds with or without 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 10: Report by the Management Board pursuant to Sections 71 para. 1 No. 8, 186 para. 4 sent. 2 AktG

Agenda item 10 contains a proposal to authorise the Company to purchase treasury stock in an amount equivalent to up to 10% of the current capital stock prior to 18 May 2015, either itself or through dependent or majority-owned companies or through third parties acting on behalf of the Company.

The Annual General Meeting on 5 May 2008 had already authorised the Company to purchase treasury stock prior to 5 November 2009, 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 expired before the Annual General Meeting 2010, 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% 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 No. 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% 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 or to acquire product licences. 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 Group 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. 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 No. 2 AktG remains unaffected.

Furthermore, the Company needs to be enabled to use treasury stock to service the stock option plans 2005, 2008 and 2010.

The stock option plan 2005 approved by the Annual General Meeting of PAION AG on 30 December 2004, in respect of which today's Annual General Meeting is requested to adopt a resolution closing this stock option plan for new issues, is structured as follows:

Under the stock option plan, rights to the acquisition of shares in PAION AG could be granted to members of the Management Board of PAION AG and to employees of the PAION group, based on their stock options. Each option entitled the holder to purchase one share in the Company against payment of the exercise price. In the case of stock options that were issued within one month from the first listing of PAION AG shares, the exercise price was equivalent to the offering price. The exercise price for stock options issued or due for issue at a later date corresponded to the share price of PAION AG shares that was 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 could be granted in an amount equivalent to 7% maximum of the current capital stock of the Company (approx. EUR 1,110,000)

at the time of launching the stock option plan 2005. The Supervisory Board decided whether to issue options to the members of the Management Board and the further details of such issuance; these decisions were made by the Management Board for the PAION group employees. Stock options could only be exercised in staggered form after a waiting period of two years. Moreover, exercise was 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 could only exercise up to 50% of his stock options during the first year following completion of the waiting period. Subsequently, up to a further 25% of the options could be exercised each year. 45% of the tranche were reserved for the four members of the Management Board and 55% for the remaining eligible employees.

The stock option plan 2008 approved by the Annual General Meeting of PAION AG on 5 May 2008, in respect of which today's Annual General Meeting is requested to adopt a resolution closing this stock option plan for new issues, contains the following key points in addition to the overall structure outlined above:

Under the stock option plan, rights to the acquisition of shares in PAION AG could be granted to members of the Management Board of PAION AG and to employees of the PAION group, based on their stock options. Each option entitled the holder to purchase one share in the Company against payment of the exercise price. In the case of stock options that were issued within one month from the first listing of PAION AG shares, the exercise price was equivalent to the offering price. The exercise price for stock options issued or due for issue at a later date corresponded to the share price of PAION AG shares that was 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 could be granted in an amount equivalent to 3,31% maximum of the existing capital stock of the Company (EUR 815,000). The Supervisory Board decided whether to issue options to the members of the Management Board and the further details of such issuance; these decisions were made by the Management Board for PAION Group employees. Stock options can only be exercised in staggered form after a waiting period of two years. Moreover, exercise was 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. In addition, beneficiaries participating for the first time in a stock option plan issued by PAION AG were only allowed to exercise up to 50% of their stock options in the first year following expiry of the waiting period. Subsequently,

up to a further 25% of the options could be exercised each year. 45% of the tranche were reserved for the members of the Management Board and 55% for the remaining eligible employees.

The full text of the stock option plan 2005 as resolved by the Annual General Meeting on 30 December 2004 and of the stock option plan 2008 as resolved by the Annual General Meeting on 5 May 2008 will be provided to the Company's shareholders upon request. The material features of the stock option plan 2010 are outlined in agenda item 8. The full text of the stock option plan 2010 will be available for inspection during the Annual General Meeting 2010.

The material reasons justifying the approval of PAION AG stock option plans 2005, 2008 and 2010 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 AG 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.

A 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 Annual 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.

Further information relating to the invitation

1. Attendance at the Annual General Meeting

Shareholders who have registered with the Company to attend prior to the Annual General Meeting and who have provided the Company with special proof of their share ownership issued by their custodian in text form 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 BADER & HUBL GmbH
Wilhelmshofstrasse 67
74321 Bietigheim-Bissingen
Telefax: +49 (0)7142 788667-11

or by e-mail to:

hauptversammlung@baderhubl.de

The proof of share ownership must refer to Wednesday, 28 April 2010 00:00 CEST (effective date for provision of proof) and must be furnished to the Company by Wednesday 12 May 2010 at the latest. Admission cards to the Annual General Meeting will be issued to shareholders following receipt of their registration and 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.

Registration to attend the Annual General Meeting does not automatically result in the shares being blocked or restricted. As such, shareholders can still freely dispose of their shares, even once they have registered to attend the Annual General Meeting.

2. Proxy voting rights

Shareholders may exercise their votes in the Annual General Meeting by voting proxy (e.g. a financial institution or a shareholders' association). Proxies must be assigned, revoked and evidence of assignment provided in text form. Exemptions may apply to financial institutions, shareholders' associations and other equivalent individuals or institutions (see Section 135 para. 8 in conjunction with Section 125 para. 5 AktG). Therefore we ask our shareholders

to consult with the respective financial institutions, shareholders' associations or other equivalent individuals or institutions concerning the applicable form requirements. The admission card for shareholders will include a form for such voting proxy. We will provide our shareholders with these forms for granting proxy at the Annual General Meeting on the internet at

www.paion.com/hv.

Pursuant to Section 30a para. 1 no. 5 Securities Trading Act (Wertpapierhandelsgesetz, WpHG), the forms will be sent to the shareholders free of charge on request or provided at the Annual General Meeting.

In addition, we offer 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 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. The 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, sign and return it to the Company prior to the close of business on 17 May 2010 by mail, facsimile or e-mail to the following address:

PAION AG
c/o BADER & HUBL GmbH
Wilhelmshofstrasse 67
74321 Bietigheim-Bissingen
Telefax: +49 (0)7142 788667-11
e-mail: 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.

3. Applications for addenda to the agenda, submitted by a minority as defined in Section 122 para. 2 AktG

Shareholders whose aggregate share ownership equates to a proportionate amount of € 500,000 of the capital stock, i.e. equivalent to 500,000 unit shares, may demand the inclusion of items on the agenda and the publication of the same. Each application must be accompanied by a justification or proposed resolution. Applications must reach the Company at the address indicated in (4.) before the close of 18 April 2010.

4. Applications and election proposals submitted by shareholders

Shareholders who would like to submit queries about the Annual General Meeting or file counter-proposals to the proposals submitted by the Management and/or Supervisory Boards or nominate candidates for election must submit these to the following address only:

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

Counter-proposals and proposals for candidates for election that fulfil the requirements of Sections 126, 127 Stock Corporation Act (Aktengesetz, AktG) and are received in good time prior to the close of 4 May 2010 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.

5. Shareholder rights to information pursuant to Section 131 para. 1 AktG

During the Annual General Meeting any shareholder is entitled to request information from the Management Board about matters relating to the Company, including legal and business relationships to affiliated companies and about the situation of the Group and the companies included in the consolidated financial statements to the extent that such information is necessary to enable a factual judgement of the respective item on the agenda. Pursuant to Section 26 para. 2 of the articles of incorporation, the chairman of the meeting is authorised to place time restrictions on the right of shareholders to speak and ask questions; in particular, he is authorised to define a reasonable period of time for the entire Annual General Meeting, for individual items on the agenda and for individual contributions and questions, either at the start or during the course of the Annual General Meeting.

6. Publications on the website

This invitation to the Annual General Meeting, the documentation and shareholder applications that must be made available, and other information is available on the Company's website at www.paion.com/hv. The invitation was published in the electronic Federal Gazette on 7 April 2010.

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

At the time of convening the Annual General Meeting 2010, PAION AG had issued an aggregate number of 24,602,919 shares conferring 24,602,919 voting rights. The Company does not own any treasury stock.

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 7 April 2010. On the same day, the invitation was forwarded to the media for publication within the European Union in the context of Section 121 para. 4a AktG.

Aachen, April 2010

PAION AG
Management Board

Directions to Annual General Meeting Location

Location: forum M, Buchkremerstrasse 1, 52062 Aachen, Germany

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

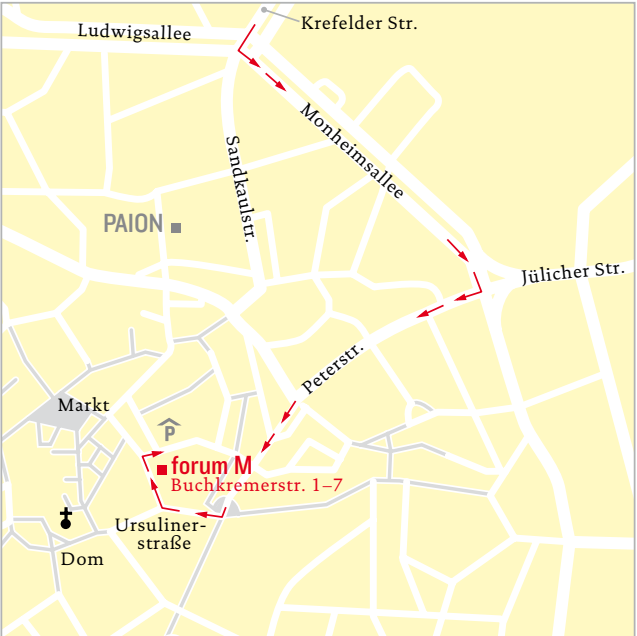
Take a taxi from the main railway station. It will take approx. 10 minutes to get to “forum M”.

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