

Declaration of Conformity with the German Corporate Governance Code

(convenience translation: only the German version is binding)

In accordance with section 161 of the German Stock Corporation Act (AktG), the Management Board and the Supervisory Board of PAION AG have an obligation to declare each year that the company has complied and is complying with the latest recommendations of the "Government Commission German Corporate Governance Code" or which of the recommendations have not been or are not being applied.

The last declaration of conformity in accordance with section 161 AktG was issued on 16 November 2007 by the Management Board and the Supervisory Board of PAION AG. For the period between 17 November 2007 and 8 August 2008, the declaration below refers to the previous version of the German Corporate Governance Code which was published on 14 June 2007. For the period thereafter, the declaration refers to the latest version of the German Corporate Governance Code which was last amended on 6 June 2008 and published by the Federal Ministry of Justice in the electronic Federal Gazette on 8 August 2008.

Pursuant to section 161 of the German Stock Corporation Act, the Management Board and the Supervisory Board of PAION AG declare that PAION AG is complying with the recommendations contained in the German Corporate Governance Code with the following exceptions:

1. Deductible in Directors' and Officers' (D & O) liability insurance policies (clause 3.8 paragraph 2)

The German Corporate Governance Code recommends that a suitable deductible is agreed for D & O insurance policies that the company takes out for members of the management and supervisory boards. The existing D & O insurance policy taken out by PAION AG does not provide for any deductible for members of the Management Board and members of the Supervisory Board in an insured event. The insurance cover is not provided if the damages incurred in insured events are attributable to fraudulent actions, omissions or conscious breach of duty.

2. Possibility of a limit (cap) on long-term variable remuneration components (clause 4.2.3 paragraph 3)

The German Corporate Governance Code recommends that the Supervisory Board agrees a possible limit (cap) on the variable remuneration components with long-term incentives of the members of the Management Board in the event of extraordinary, unforeseen developments. The share option agreements concluded with the individual members of the Management Board within the framework of the stock option plans 2005 and 2008 merely provide for a limit on the quantity of shares. Concerning the development in value of the share options granted, which is linked directly to the performance of PAION shares, no limitations have been agreed.

3. Severance payment cap in the event of premature termination of a Management Board member's contract due to a change of control (clause 4.2.3 paragraph 5)

The German Corporate Governance Code recommends that payments promised in the event of premature termination of a Management Board member's contract due to a change of control shall not exceed 150% of the severance payment cap. The existing contracts with the Management Board members do envisage in case of a change of control a severance payment in the amount of the capitalised and discounted total fixed remuneration for the period up to the original expiry of the contract but at least an amount equivalent to 1.5 times the annual total fixed compensation. In particular cases this rule can result in an exceeding of the recommended severance payment cap.

4. Formation of committees (clause 5.3.1)

The German Corporate Governance Code recommends that the Supervisory Board, depending on the specific conditions at the company and the number of its members, form professionally qualified committees. The Supervisory Board of PAION AG consists of three members. The efficient execution of the activity of the Supervisory Board is ensured, such that the Supervisory Board has refrained from forming any committees.

5. Remuneration of the members of the Supervisory Board (clause 5.4.6 paragraph 2)

The German Corporate Governance Code recommends that the members of the Supervisory Board receive both fixed and performance-related remuneration. The members of the Supervisory Board of PAION AG receive fixed remuneration. Performance-related remuneration is not currently envisaged for the members of the Supervisory Board.

Aachen, 21 November 2008

The Management Board of PAION AG

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Bernhard Hofer

Dr. Mariola Söhngen

Alexander Vos

Dr. Gavin Kilpatrick

The Supervisory Board of PAION AG

Dr. Walter Wenninger

Alan Goodman

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