

PAION Q1#2005

Condensed Interim Report of PAION AG

Contents

Interim Management Report for the First Quarter 2005	3
Overview	3
IPO and share price development	3
Research and development overview	4
Net assets, financial position and results of operations	6
Personnel development	9
Significant events occurring after the balance sheet date	9
Outlook	9
Consolidated balance sheet	10
Consolidated profit and loss statement	12
Consolidated cash flow statement	13
Consolidated statement of changes in equity	14
Selected notes to the interim financial statements as of 31 March 2005	15
Report of the supervisory board	16

01/01
03/31
2005

PAION AG

Important Events of the First Quarter 2005

- Successful IPO resulting in an inflow of funds of EUR 46m
- Publication of the positive results of the DEDAS clinical trial at the International Stroke Conference, New Orleans, USA
- Start of Phase IIb/III clinical trial for Desmoteplase in acute ischaemic stroke together with Forest

Key figures

(all figures in EUR k unless otherwise noted)	Q1 2005 (unaudited)	Q1 2004* (unaudited)
Revenues	363	0
Research and development expenses	-3,006	-1,312
General and administrative expenses	-885	-462
Selling and marketing expenses	-226	-99
Net result for the period	-3,808	-1,826
Number of shares outstanding (average)	12,927,774	8,664,398
Earnings per share in EUR for the period	-0.29	-0.21
Net cash from operating activities	-4,148	-2,041
Net cash used in investing activities	-124	-5
Net cash from financing activities	41,367	509
Average number of Group employees	56	42

	3/31/2005 (unaudited)	12/31/2004 (audited)
Intangible assets	1,948	1,939
Cash and cash equivalents	57,984	20,889
Equity	52,913	15,312
Non-current liabilities	3,622	4,076
Balance sheet total	62,762	25,670
Equity ratio	84.3%	59.6%

* The comparative figures for the period 1/1/2004 to 3/31/2004 relate to PAION Deutschland GmbH.

Interim management report for the first quarter 2005

Overview

In the first quarter 2005, PAION continued its successful development like in the financial year 2004. Following extensive preparations since mid 2004, PAION AG successfully conducted its IPO in February 2005. The gross proceeds amounting to EUR 46m significantly improved PAION's equity ratio from 59.6 % as of 31 December 2004 to 84.3 % as well as its liquid funds that improved from EUR 20.9m to EUR 58m.

Research and development activities in the first quarter 2005 were advanced according to plan. In early February, the results of the successful Phase II clinical trial DEDAS for Desmoteplase in acute ischaemic stroke were published. Shortly afterwards, the joint Phase IIb/III clinical trial with our collaboration partner Forest Laboratories ("Forest") was started. As at the end of the quarter, PAION has almost completed the preparations for drug interaction studies for the drug Enecadin. These studies shall provide additional data to Enecadin's safety profile.

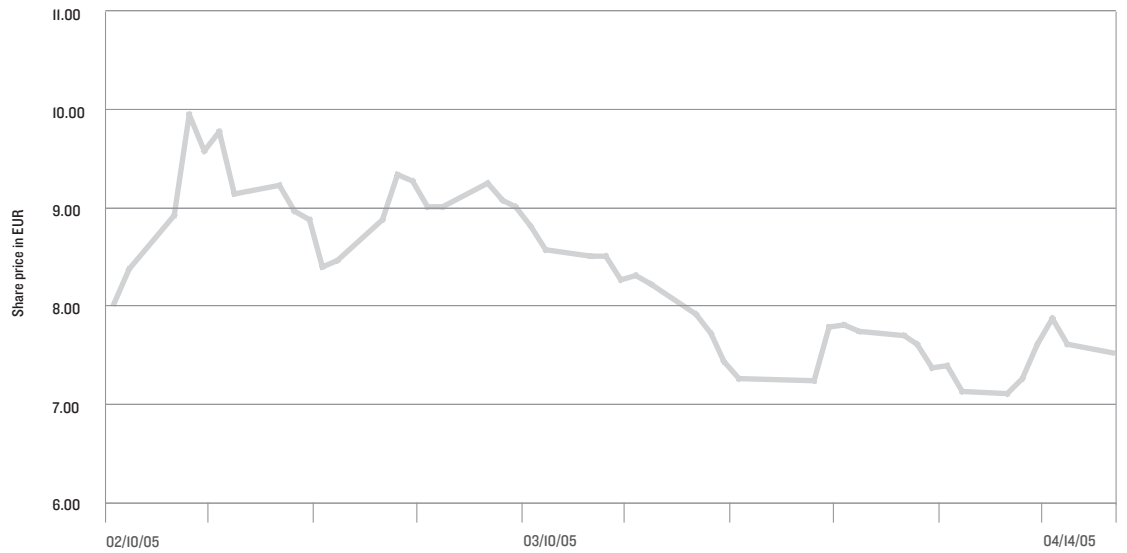
IPO and share price development

PAION shares were first traded at the Frankfurt Stock Exchange on February 11, 2005. At the first trading day, the stock, which is listed at the Prime Standard segment of the official market, closed at EUR 8.35 (Xetra) which was well above the issuing price of EUR 8.00.

After the initial placement of 5,000,000 shares, additional 750,000 shares were allocated by fully exercising the over-allotment option (greenshoe). The total proceeds of the IPO amounted to EUR 46m. At the end of March, the freefloat was 36.5%. The Management Board Members Mariola and Wolfgang Söhngen have agreed to a voluntary lock-up period of 12 months, while a voluntary six-months lock-up period applies for all other pre-IPO shareholders.

In the first days of trading, the trading volume in PAION shares was very high and the share price increased by up to 24.1%. In parallel to the stock market development, PAION shares declined in the weeks after the IPO. On 31 March 2005, the Xetra closing price was EUR 7.78. Until mid April, the average trading volume was 120,370 shares per day. Not taking into account the very high trading volume within the first four days of between 351,672 and 1,764,764 shares, the adjusted average daily trading volume from February to mid April was 46,593 shares.

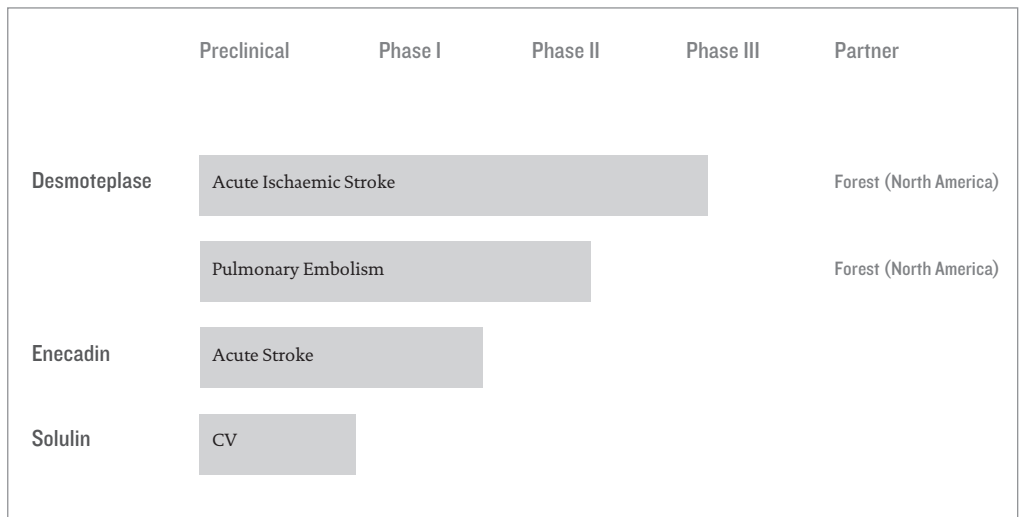
Share price development



Research and development overview

PAION focuses its research and development activities on the three drugs Desmoteplase, Enecadin and Solulin.

PAION's Diversified Clinical Pipeline



PAION's most advanced drug is Desmoteplase, an intravenously administered therapeutic, which is being developed primarily for the causal treatment of acute ischaemic stroke. Desmoteplase belongs to a group of substances that are able to dissolve blot clots, the so-called plasminogen activators. To date, two Phase II clinical studies have been successfully conducted regarding the treatment of acute ischaemic stroke with Desmoteplase. These studies were dubbed Desmoteplase In Acute ischaemic Stroke (DIAS) and Dose Escalation study of Desmoteplase In Acute ischaemic Stroke (DEDAS). In February 2005, the results of the DIAS study were published in the *STROKE* journal. The DEDAS results were presented in February 2005 at the International Stroke Conference in New Orleans, USA. They confirm the positive results for the best dosage of the DIAS study. Desmoteplase was assigned fast-track status by the US Food and Drug Administration (FDA) for the indication acute ischaemic stroke.

As planned, a clinical Phase IIb/III study of Desmoteplase in acute ischaemic stroke was started in February 2005 together with PAION's collaboration partner and licensee Forest. The design of the study was discussed with the FDA. For this study, MRI (magnetic resonance imaging) as well as perfusion computer tomography (CT) can be used for inclusion of patients and diagnostics. Perfusion CT is a diagnostic technique that allows to visualise blood flow in the brain using a contrast agent. Thus potentially salvageable brain tissue can be detected by using computer tomographs which are more widely available and less expensive than MRI. As for today and due to regulatory reasons, PAION plans to conduct another security study to broaden the safety profile of Desmoteplase in fiscal year 2005.

Apart from the clinical studies regarding the efficacy of Desmoteplase in stroke, PAION in 2004 initiated the DEPTH study (DEsmoteplase in Pulmonary THromboembolism). This Phase II study is conducted in Germany, Hungary and Russia and aims at evaluating the safety and efficacy of intravenously administered Desmoteplase in patients with acute pulmonary embolism. Preliminary data suggest a dose-dependant improvement of lung function by Desmoteplase. Completion of this study is anticipated within the current fiscal year.

Enecadin is also part of PAION's pipeline. The substance was in-licensed from Nippon Shinyaku Co., Ltd., Kyoto, Japan, during the fiscal year 2004. Enecadin is a so-called neuroprotectant which is believed to improve the survival of brain cells which have no adequate blood supply. It will thus be tested for treatment of secondary effects within acute ischaemic stroke. PAION has already conducted preclinical studies with Enecadin. In the first quarter, the preparations were almost finished for the start of the interaction studies that shall provide additional data for the safety profile of this substance. In the second half of 2005, two clinical Phase II studies are planned. Enecadin will be developed for mono therapy as well as in combination with Desmoteplase.

PAION's portfolio is further enhanced by Solulin, a thrombin scavenger which could be used for the prevention of restroke in the acute time window of ischaemic stroke or for the treatment of other thrombotic diseases. Currently, PAION is conducting animal trials with Solulin. In the second half of 2005, we anticipate the start of Phase I clinical studies.

Net assets, financial position and results of operations

Results of operations

The first quarter 2005 was characterised by the enhancement of the development activities. In the previous year's period, the development activities were mostly focused on the development of Desmoteplase for the treatment of acute ischaemic stroke and pulmonary embolism. In contrast to this, the expenses of the reporting period also refer to the drugs Enecadin and Solulin. This leads to a higher net loss for the period which amounted to EUR 3,808k, as planned.

	Q1 2005	Q1 2004
	EUR k	EUR k
Revenues	363	0
Cost of Revenues	-366	0
Gross profit	-3	0
Research and development expenses	-3,006	-1,312
General and administrative expenses	-885	-462
Selling and marketing expenses	-226	-99
Other income (expenses)	119	11
Operating expenses	-3,998	-1,862
Operating result	-4,001	-1,862
Financial result	193	36
Net loss for the period	-3,808	-1,826

All **revenues** for the first quarter 2005 result exclusively from the licensing agreement with Forest that was closed in June 2004 and relate to cost-reimbursements for development expenses.

Cost of revenues stem from the development expenses allocated to Forest.

Research and development expenses mainly relate to clinical trials for Desmoteplase and the further production development for Desmoteplase. Additional expenses in the first quarter 2005 incurred mainly in relation to the preparation of clinical interaction studies for Enecadin as well as costs for the production development for Solulin. Research and development expenses were set off against subsidies amounting to EUR 399k.

The increase in **general and administrative expenses** is largely the result of allocating more personnel and management resources to the IPO process and the installation respectively expansion of the investor relations and finance departments.

Net assets and financial position

Due to the IPO, the balance sheet structure changed significantly throughout the first quarter 2005. With the balance sheet total increasing by EUR 37,092k to EUR 62,762k and equity increasing by EUR 37,601k to EUR 52,913k the equity ratio improved from 59.6% to 84.3%.

	03/31/2005	12/31/2004	Change
	EUR k	EUR k	EUR k
Non-current assets	2,952	2,945	7
Current assets	59,810	22,725	37,085
Assets	62,762	25,670	37,092
Equity	52,913	15,312	37,601
Non-current liabilities	3,623	4,076	-453
Current liabilities	6,226	6,282	-56
Equity and liabilities	62,762	25,670	37,092

In the first quarter 2005, cash and cash equivalents increased by EUR 37,095k to EUR 57,984k. The cash flows stem from the following areas:

	Q1 2005 EUR k	Q1 2004 EUR k
Cash flow from operating activities	-4,148	-2,041
Cash flow from investing activities	-124	-5
Cash flow from financing activities	41,367	509
Change in cash and cash equivalents	37,095	-1,537

Predominantly based on the higher research and development expenses, a negative cash flow from operating activities was generated in the first quarter 2005, amounting to EUR 4,148k. Due to low investing activities within the first three months of the fiscal year 2005, the corresponding negative cash flow only amounted to EUR 124k.

The proceeds from the IPO that was conducted in February 2005 amounted to EUR 46,000k. This inflow of funds has to be set off against cash disbursements amounting to EUR 3,645k due to costs directly related to the IPO and which were already paid until 31 March 2005. In addition, obligations regarding a pre-IPO stock option plan of PAION Deutschland GmbH amounting to EUR 967k were settled. The overall cash flow from financing activities was positive and amounted to EUR 41,367k. In previous year's period, the cash flow from financing activities had mainly stemmed from the cash inflow of unpaid contributions on premiums as of December 31, 2003, amounting to EUR 511k.

The reduction of non-current liabilities by EUR 453k is primarily due to the reclassification to current liabilities of a provision for the third instalment of the cash settlement (EUR 1,200k) in connection with the termination of the stock option plan. This was contrasted by the increase of the provision for the refund obligation to Forest by EUR 772k to EUR 1,507k. The refund obligation will arise on Desmoteplase being approved in Europe and/or Japan and relates to 50 % of the costs borne directly and indirectly by Forest plus a premium of 20 % of this amount. In addition, the non-current liabilities comprise a non-repayable signing fee totalling EUR 1,758k which was already paid by Forest and which will be recognised in profit and loss in relation to the milestones achieved as well as finance lease liabilities (EUR 263k) and government grants (EUR 94k).

Personnel development

PAION's headcount increased, both in comparison with previous year's period (42 employees) as well as in comparison to the fiscal year 2004 (49 employees). In the first quarter 2005, PAION has been employing 56 employees on average. Of these 56 employees, 36 worked in research and development (previous year's period: 29) and 20 employees in administration and sales (previous year's period: 13).

It is planned to further increase headcount in fiscal year 2005 in connection with the planned development projects.

Significant events occurring after the balance sheet date

Effective as of 25 May 2005, Prof. Dr. Erich Schlick, Director and Head of the Healthcare Sector Germany with PAION's investor 3i Deutschland GmbH, will resign from his Supervisory Board position at PAION in accordance with internal guidelines of 3i. For the period until the reelection of the Supervisory Board at the Annual General Meeting that is scheduled for the end of August 2005, PAION has initiated the appropriate measures pursuant section 104 of the Stock Corporation Act (AktG) for the appointment of a successor.

Outlook

PAION will continue to expand its operations on the basis of the financial position it has secured and the proceeds generated through the IPO. In the next quarters, PAION intends to further advance the clinical development of Desmoteplase and its other drugs. PAION currently expects that it will be able to achieve the goals for the fiscal year 2005 which are described in the research and development overview.

Aachen, May 9, 2005
PAION AG

The Management Board

Consolidated Balance Sheet as of March 31, 2005

ASSETS	3/31/2005	12/31/2004
	EUR	EUR
Non-current assets		
Intangible assets	1,947,732.09	1,939,469.04
Equipment	1,004,111.38	1,005,539.22
	2,951,843.47	2,945,008.26
Current assets		
Trade receivables	354,803.67	449,968.18
Prepaid expenses and other assets	1,470,572.33	1,386,487.80
Cash and cash equivalents	57,984,469.45	20,888,829.59
	59,809,845.45	22,725,285.57
Total assets	62,761,688.92	25,670,293.83

EQUITY AND LIABILITIES	3/31/2005	12/31/2004
	EUR	EUR
Equity		
Share capital	15,755,552.00	10,005,552.00
Capital reserve	75,140,093.25	39,480,795.29
Loss carryforward	-34,174,373.72	-34,350,454.31
Net profit (loss) for the period	-3,807,991.11	176,080.59
	52,913,280.42	15,311,973.57
Non-current liabilities		
Finance lease liabilities	263,148.00	281,331.00
Provisions	1,506,508.23	1,935,702.38
Deferred income	1,852,770.75	1,858,869.05
	3,622,426.98	4,075,902.43
Current liabilities		
Current portion of finance lease liabilities	71,648.00	70,930.00
Trade payables	3,757,489.54	2,706,036.38
Provisions	1,929,304.58	2,311,330.95
Accrued liabilities	214,236.06	110,530.00
Other current liabilities	228,870.14	1,059,147.30
Current portion of deferred income	24,433.20	24,443.20
	6,225,981.52	6,282,417.83
Total equity and liabilities	62,761,688.92	25,670,293.83

Consolidated Income Statement

	January 1 – March 31, 2005	January 1 – March 31, 2004*
	EUR	EUR
Revenues	362,887.80	0.00
Cost of revenues	-365,515.47	0.00
Gross profit	-2,627.67	0.00
Operating expenses		
Research and development expenses	-3,005,642.52	-1,311,818.37
General and administrative expenses	-885,220.31	-462,188.56
Selling and marketing expenses	-226,367.67	-98,312.43
Other income (expenses), net	119,025.66	10,741.02
	-3,998,204.84	-1,861,578.34
Operating loss	-4,000,832.51	-1,861,578.34
Financial result	192,841.40	35,932.52
Loss for the period before taxes	-3,807,991.11	-1,825,645.82
Income taxes	0.00	0.00
Net loss for the period	-3,807,991.11	-1,825,645.82
Earnings per share (diluted and undiluted)	-0.29	-0.21

* The comparative figures for the period from January 1 to March 31, 2004 relate to PAION Deutschland GmbH.

Consolidated Cash Flow Statement

	January 1 – March 31, 2005	January 1 – March 31, 2004*
	EUR	EUR
Cash flows from operating activities:		
Net result for the period	-3,807,991.11	-1,825,645.82
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Amortization/depreciation	116,926.68	76,026.37
Interest paid on finance leases	3,420.00	383.00
Release of investment grants	-6,108.30	0.00
Expenses from stock option plans	58,162.74	0.00
Change in assets and liabilities which are not attributable to investing or financing activities:		
Trade receivables	95,164.51	0.00
Prepaid expenses and other assets	-784,083.53	82,404.38
Trade payables	47,506.96	-267,654.62
Provisions	562,374.25	-38,838.60
Other current liabilities	-433,387.17	-67,535.06
Net cash from operating activities	-4,148,014.97	-2,040,860.35
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-124,811.89	-5,434.07
Cash received from the sale of intangible assets and equipment	1,050.00	0.00
Net cash used in investing activities	-123,761.89	-5,434.07
Cash flows from financing activities:		
Capital increase	5,750,000.00	0.00
Contributions to the capital reserve	40,250,000.00	511,291.88
Payments in connection with the raising of capital	-3,644,918.58	0.00
Capital repayment due to the settlement of options	-966,778.70	0.00
Payment of finance lease liabilities	-20,886.00	-2,029.00
Net cash from financing activities	41,367,416.72	509,262.88
Change in cash and cash equivalents	37,095,639.86	-1,537,031.54
Cash and cash equivalents at beginning of period	20,888,829.59	8,453,517.89
Cash and cash equivalents at end of period	57,984,469.45	6,916,486.35

* The comparative figures for the period from January 1 to March 31, 2004 relate to PAION Deutschland GmbH.

Statement of Changes in Consolidated Equity

	Share capital EUR	Capital reserve EUR	Loss carryforward EUR	Equity EUR
December 31, 2003*	155,350.00	41,774,355.23	-34,350,454.31	7,579,250.92
Contribution to the capital reserve	0.00	511,291.88	0.00	511,291.88
Net loss for the period	0.00	0.00	-1,825,645.82	-1,825,645.82
March 31, 2004*	155,350.00	42,285,647.11	-36,176,100.13	6,264,896.98
Issue of shares	23,150.00	0.00	0.00	23,150.00
Effect from the business combination of PAION AG and PAION Deutschland GmbH	9,827,052.00	-9,778,079.85	0.00	48,972.15
Contribution to the capital reserve	0.00	9,777,272.86	0.00	9,777,272.86
Cost of raising capital	0.00	-275,000.00	0.00	-275,000.00
Additional contribution to the capital reserve due to the issue of options	0.00	803,000.00	0.00	803,000.00
Decrease in the capital reserve due to the settlement of options	0.00	-3,332,044.83	0.00	-3,332,044.83
Net profit for the period (04/01-12/31/2004)	0.00	0.00	2,001,726.41	2,001,726.41
December 31, 2004	10,005,552.00	39,480,795.29	-34,174,373.72	15,311,973.57
Issue of shares	5,750,000.00	0.00	0.00	5,750,000.00
Contribution to the capital reserve	0.00	40,250,000.00	0.00	40,250,000.00
Cost of raising capital	0.00	-4,648,864.78	0.00	-4,648,864.78
Additional contribution to the capital reserve due to the issue of options	0.00	58,162.74	0.00	58,162.74
Net loss for the period	0.00	0.00	-3,807,991.11	-3,807,991.11
March 31, 2005	15,755,552.00	75,140,093.25	-37,982,364.83	52,913,280.42

* The comparative figures for December 31, 2003 and March 31, 2004 relate to PAION Deutschland GmbH.

Selected Explanatory Notes to the Interim Financial Statements as of March 31, 2005

General Information on the Parent Company and the PAION Group

PAION AG is the parent company and has its registered office at Martinstrasse 10–12, 52062 Aachen, Germany. In addition to PAION AG, the consolidated financial statements also include the parent company's sole subsidiary, PAION Deutschland GmbH, Aachen, on the basis of full consolidation.

PAION AG was founded on June 2, 2004. The former shareholders of PAION Deutschland GmbH transferred all their shares in PAION Deutschland GmbH to PAION AG in return for shares in the latter as a contribution in kind. Accordingly, the information of the comparative prior reporting period as of March 31, 2004 is on PAION Deutschland GmbH as the business combination of PAION AG and PAION Deutschland GmbH qualifies as a reverse acquisition under International Financial Reporting Standard (IFRS) 3.21, "Business Combinations".

Basis of Accounting

The unaudited, condensed interim financial statements have been prepared in compliance with PAIONs. The regulations of International Accounting Standard (IAS) 34 **Interim Financial Reporting** have been adopted. The interim financial statements as of March 31, 2005 have to be read in connection with the consolidated financial statements as of December 31, 2004.

The preparation of interim financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities, income and expenses and contingent liabilities. Actual amounts may differ from the estimates.

The interim financial statements do not contain any segment information as no reportable business or geographical segments could be identified.

Consolidation Policies

In comparison to the consolidated financial statements as of December 31, 2004, the consolidation policies adopted in the interim financial statements as of March 31, 2005 are unchanged.

Accounting Policies

In comparison to the consolidated financial statements as of December 31, 2004, the accounting policies adopted in the interim financial statements as of March 31, 2005 are unchanged.

Other Notes to the Interim Financial Statements

Increase of Share Capital

On February 9, 2005, the PAION AG shares were admitted to trading on the Official Market Segment of the Frankfurt Stock Exchange and to the Prime Standard, the sub-segment of the Official Market Segment with additional post-admission obligations. Trading commenced on February 11, 2005. In the course of the initial public offering a capital increase of 5,000,000 shares was initially accomplished. As a result of the complete Greenshoe option being exercised on February 21, 2005, the number of shares of PAION AG increased by further 750,000 shares to 15,755,552 shares in total. Under consideration of the complete exercised Greenshoe option, PAION AG generated proceeds of EUR 46m from the issue. Thereof an amount of EUR 5,750,000 was transferred to share capital and the remaining amount of EUR 40,250,000 to capital reserve.

In accordance with IAS 32.37 **Financial Instruments**, cost directly related to the issuing of the new shares amounting to EUR 4,648,864.78 were not considered as expense in the profit and loss statement but were directly deducted from the new equity. The deduction was made against the capital reserve.

Stock Option Programme 2005

As of March 10, 2005, 949,305 stock options were granted to the members of the management board and employees of the PAION group from the stock option programme 2005. Half of the stock options granted can be exercised after 2 year at the earliest. A quarter of the stock options granted can be exercised after 3 and 4 years, respectively. The accounting of the stock options granted are in accordance with IFRS 2 **Share-based Payment**. The fair value of the stock options at the grant date was computed using the Black/Scholes option pricing model. During the vesting period of 2 to 4 years, the fair value will be recognised as personnel expenses. In the reporting period, an amount of EUR 58k has been considered as expense and as an increase in capital reserve.

Earnings per Share

Earnings per share are calculated under IAS 33, "Earnings per Share", by dividing the result for the period by the weighted average number of shares outstanding during the reporting period and the corresponding prior year period, respectively. Against the background of the business combination of PAION AG and PAION Deutschland GmbH during fiscal year 2004, the weighted average number of shares outstanding of the prior year period were based on the number of shares outstanding of PAION AG, which are deemed to be the number of shares issued by PAION AG to the shareholders of PAION Deutschland GmbH in accordance with IFRS 3. The capital increase of PAION Deutschland GmbH, accomplished after March 31, 2004, but before the business combination took place, was considered proportional.

	Q1 2005 undiluted	Q1 2004 undiluted
Shares outstanding (weighted average)	12,927,774	8,664,398
Result for the period in EUR k	-3,808	-1,826
Earnings per share in EUR	-0.29	-0.21

The stock options were not taken into account when calculating diluted earnings per share for the reporting period and the corresponding prior year period as they would have reduced the loss per share.

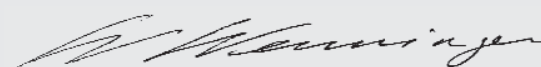
Aachen, May 9, 2005
PAION AG

The Management Board

Report of the Supervisory Board

During the Supervisory Board meeting on May 9, 2005, the Management Board has submitted and explained the interim report of the first quarter of 2005 to the Supervisory Board. The interim report of the first quarter of 2005 was approved by the Supervisory Board.

Aachen, May 9, 2005



Chairman of the Supervisory Board
Dr. Walter Wenninger

PAION AG

Martinstraße 10 – 12 52062 Aachen

Phone +49-(0)241-4453-0

Fax +49-(0)241-4453-100

info@paion.de www.paion.de