

PAION Q3#2005

Interim report on the third quarter 2005
and the nine months period ending 30 September 2005

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Key figures

(all figures in EUR k unless otherwise noted)	Q3 2005 (unaudited)	Q3 2004 (unaudited)	Q1-Q3 2005 (unaudited)	Q1-Q3 2004 (unaudited)
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Revenues	17,293	303	17,993	16,599
Research and development expenses	-2,711	-1,995	-8,326	-5,064
General and administrative expenses	-2,006	-1,741	-3,993	-4,625
Selling and marketing expenses	-369	-67	-1,143	-417
Net result for the period	8,819	-3,685	1,079	5,285
Earnings per share in EUR for the period (undiluted)	0.61	-0.43	0.07	0.57
Earnings per share in EUR for the period (diluted)	0.60	-	0.07	0.57

	Q1-Q3 2005 (unaudited)	Q1-Q3 2004 (unaudited)
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Net cash from operating activities	190	7,550
Net cash from investing activities	1,100	-802
Net cash from financing activities	40,322	10,069
Average number of group employees	63	44

	09-30-2005 (unaudited)	12-31-2004 (audited)
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Intangible assets	531	1,939
Financial assets	2,355	0
Cash and cash equivalents	62,501	20,889
Equity	58,323	15,312
Non-current liabilities	5,337	4,076
Balance sheet total	69,631	25,670
Equity ratio	83.8%	59.6%



Important events of the nine months period ending 30 September 2005

- Successful IPO resulting in an inflow of funds of EUR 46m leads to sustainable improvement of equity ratio
- Publication of the positive outcome of the DEDAS clinical Phase II study (indication: acute ischaemic stroke) at the International Stroke Conference, New Orleans, USA
- Start of clinical Phase III study for Desmoteplase in acute ischaemic stroke which will be carried out together with Forest
- Presentation of the combined analysis of DIAS and DEDAS Phase II results (indication: acute ischaemic stroke) at the European Stroke Conference in Bologna, Italy
- Start of clinical interaction and safety studies for Enecadin
- Successful conclusion of a licensing agreement with H. Lundbeck A/S regarding development and distribution rights for Desmoteplase in Europe, Asia and all other territories except North America leads to the initial inflow of EUR 15m in the third quarter 2005

Management report for the nine months period ending 30 September 2005

Overview

At the beginning of the third quarter 2005, PAION was able to win H. Lundbeck A/S, Valby-Copenhagen, Denmark, as additional cooperation partner for the development and commercialisation of Desmoteplase. Due to the licensing agreement with Lundbeck, PAION was able to generate revenues of EUR 16.9m in the third quarter alone, EUR 15m of which were already received. The inflow of funds compensated for the operating expenses of the nine months period ending 30 September 2005. Thus, a positive net result for the period amounting to EUR 1.1m was achieved. Liquidity was sustainably improved by the received payment.

PAION was able to successfully establish the production process for the drug Solulin. In September, a cGMP production run was started.

By now, most of the study centres for the clinical Phase III study of Desmoteplase in the indication of acute ischaemic stroke have been initiated and are actively participating in the study which is jointly conducted with cooperation partner Forest.

Share price development

The PAION share price started with a marked increase into the third quarter 2005 reaching its quarterly high at EUR 8.80 (Xetra) in early August 2005. This was a 17 percent improvement compared to the Xetra closing price of 30 June 2005 (EUR 7.50). Later on during the quarter, the share price declined and closed at EUR 7.65 (Xetra) on 30 September 2005.

The average daily trading volume between the IPO on 11 February and 30 September 2005 amounted to 45,694 shares. Adjusted by the very high trading volume of the first four days totalling 3,506,358 shares, the average daily trading volume amounted to 25,050 shares.

Since mid-August 2005 when the voluntary six-month lock-up period for pre-IPO investors expired (except for the Management Board members Dr Mariola and Dr Wolfgang Söhngen), the free-float amounts to 73.29 percent.

PAION share price development



Cooperation with Lundbeck A/S, Valby-Copenhagen, Denmark

On 11 July 2005, PAION Deutschland GmbH and Lundbeck signed a licensing agreement covering the future development and commercialisation of Desmoteplase. Within the scope of the agreement, Lundbeck receives an exclusive license for the development and commercialisation of Desmoteplase in the European and Japanese markets as well as for all other territories except the US and Canada which have already been out-licensed to Forest. PAION retained a co-promotion option for major European markets. Lundbeck has agreed to the following considerations:

- one time payment for gaining access to PAION's know-how
- milestone payments
- royalties or a profit share, respectively
- assumption of a part of the past and future development costs including, i.a. the repayment obligation that PAION has towards Forest regarding development costs currently directly and indirectly borne by Forest and which will be due on regulatory approval of Desmoteplase in Europe and/or Japan.

On signing of the agreement, Lundbeck made a single non-refundable payment of EUR 15m for gaining access to PAION's know-how. Milestone payments may amount to up to EUR 50m and will be due in the course of the development of Desmoteplase in the indication of acute ischaemic stroke until approval. The total amount of milestone payments depends on the number of co-promotion options regarding the most important European markets PAION chooses to exercise.

After deduction of the royalties that PAION will have to pay to Schering, PAION will receive double-digit royalties from Lundbeck for the countries in which Lundbeck has full market exclusivity. In countries where PAION chooses to co-promote, PAION will receive a 50 percent share in profit.

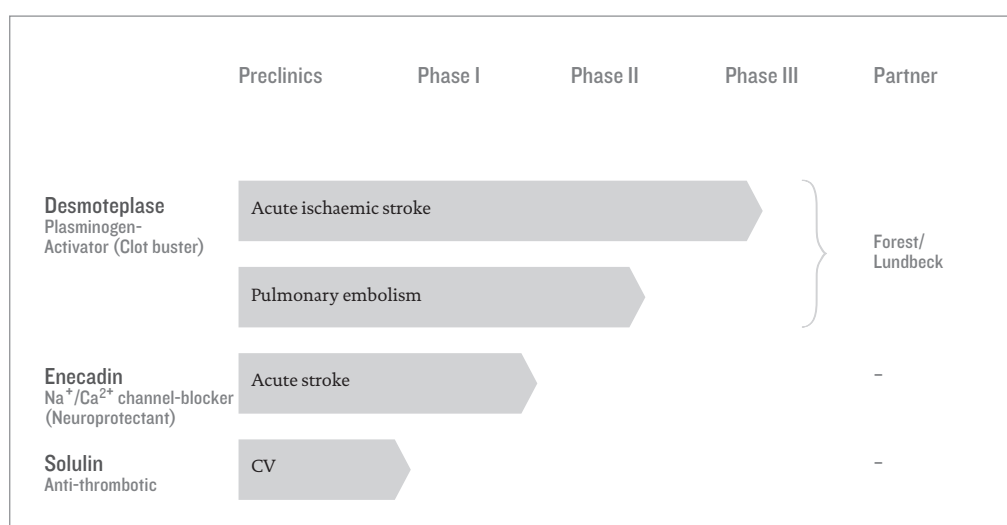
Like the amount of royalties, the exact part of past and future development costs that will be assumed by Lundbeck also depends on the extent to which PAION decides to opt for co-promotion. If PAION exercised all co-promotion options, PAION would have to cover up to approx. 18 percent of the joint development costs on approval of Desmoteplase in Europe and Japan.

Lundbeck and Forest cover and pay the majority of development costs for Desmoteplase. Thus, PAION's risk structure and liquidity has sustainably improved through these contracts.

Research and development overview

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

PAION's Development 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. Until the end of 2004, 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 January 2005, the results of the DIAS study were published in the *STROKE* journal while the DEDAS results were presented in February 2005 at the International Stroke Conference in New Orleans, USA. The DEDAS results confirm the positive results for the best dosage of the DIAS study. A combined analysis of both DIAS and DEDAS was presented on 28 May 2005 at the European Stroke Conference in Bologna, Italy. In spring 2004, Desmoteplase was assigned fast-track status by the US Food and Drug Administration (FDA) for the indication acute ischaemic stroke.

Based on a study protocol that was discussed with the FDA, a clinical Phase III study of Desmoteplase in acute ischaemic stroke was started as planned in February 2005 together with PAION's collaboration partner and licensee Forest. For this study, MRI (magnetic resonance imaging) as well as perfusion computer tomography (PCT) 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 (penumbra) can be

detected. Computer tomographs are more widely available and less expensive than MRI. Due to regulatory reasons, PAION originally planned to conduct together with Forest an additional safety study to broaden the safety profile of Desmoteplase and expected a start towards the end of 2005. Based on ongoing consultations between the cooperation partners regarding the filed study protocol it is now expected to start this study in 2006.

Apart from the clinical studies regarding the efficacy of Desmoteplase in stroke, PAION conducts the Phase II study DEPTH (DEsmoteplase in Pulmonary THromboembolism) in Germany, Hungary and Russia. The study aims at evaluating the safety and efficacy of intravenously administered Desmoteplase with patients suffering from acute pulmonary embolism. Within the reporting period, the last patient was included into the study, the data currently being analysed. The results will be announced shortly. During the study, preliminary data had suggested that Desmoteplase leads to a dose-dependent improvement of lung function in patients.

Another part of PAION's pipeline is Enecadin. This substance was in-licensed from Nippon Shinyaku Co., Ltd., Kyoto, Japan, in the fiscal year 2004. Enecadin is a so-called neuro-protectant which is believed to improve the chance of survival for brain cells that have no adequate blood supply. It will thus be tested for treatment of secondary effects within acute ischaemic stroke and is also planned to be developed in combination with Desmoteplase. In the second quarter of 2005, drug interaction and safety studies were started in order to provide additional data for Enecadin's safety profile. The preparations for the start of a clinical Phase II study have been nearly completed.

PAION's portfolio is further enhanced by Solulin, an anti-inflammatory thrombin modulator, or "intelligent anticoagulant", which could prove useful for the prevention of re-stroke in the acute time window of ischaemic stroke or for the treatment of other thrombotic diseases. Currently, PAION is preparing a clinical Phase I study for which the screening of subjects has already started. In the third quarter 2005, the production process for recombinant Solulin was successfully established at a CMO (contract manufacturing organisation). A cGMP production run is currently being carried out. The substance received from this run will be used in the planned clinical Phase I and Phase II studies.

Net assets, financial position and results of operations

Results of operations

The comparability of the current reporting period, the third quarter 2005, with the prior year's reporting period is limited because the current numbers are significantly influenced by the income and expenses resulting from the license agreement with Lundbeck which was signed on 11 July 2005. The effect does not impact the comparability of the nine months periods as the nine months period ending 30 September 2004 was influenced by comparable numbers due to the license agreement with Forest which was signed in the second quarter 2004.

Due to the signing of the license agreement with Lundbeck, significant revenues were generated in the current reporting period. The revenues of the nine months period ending 30 September 2005 were 8.4 percent higher than the revenues of the corresponding prior year's period. In total, the revenues amounted to EUR 17,993k in the nine months period ending 30 September 2005. The operating expenses of the nine months period ending 30 September 2005 were compensated by the revenues so that a net profit in the amount of EUR 1,079k was generated. Due to the extension of the research and development activity the net profit was smaller than in the corresponding prior year's period.

EUR k	Q3 2005	Q2 2004	Q1-Q3 2005	Q1-Q3 2004
Revenues	17,293	303	17,993	16,599
Cost of Revenues	-3,709	-264	-4,397	-1,537
Gross profit	13,584	39	13,596	15,062
Research and development expenses	-2,711	-1,995	-8,326	-5,064
General and administrative expenses	-2,006	-1,741	-3,993	-4,625
Selling and marketing expenses	-369	-67	-1,143	-417
Other income (expenses)	41	1	199	-209
Operating expenses	-5,045	-3,802	-13,263	-10,315
Operating result	8,539	-3,763	333	4,747
Financial result	280	78	746	146
Taxes on income	0	0	0	392
Net result for the period	8,819	-3,685	1,079	5,285

The **revenues** of the nine months period ending 30 September 2005 mainly result from the payment of Lundbeck for gaining access to PAION's know-how (EUR 15,000k). The further revenues in the amount of EUR 2,993k arise from the reimbursement of development costs by Forest and Lundbeck. In the corresponding prior year's period, the revenues stem exclusively from the license agreement with Forest. Those revenues were generated from the transfer of know-how (EUR 15,592k), from the proportionate realisation of a signing fee (EUR 704k) and from the reimbursement of development costs (EUR 303k).

In the nine months period ending 30 September 2005, the **cost of revenues** include in the amount of EUR 2,272k license fees paid for the worldwide development and commercialisation rights of Desmoteplase which have to be expensed due to the out-licensing to Lundbeck. The remaining cost of revenues in the amount of EUR 2,125k result from the development activities reimbursed by Forest and Lundbeck. In the prior year reporting period and based on the assumption that the territories licensed to Forest make up 50 % of the global market, cost of revenues comprised 50 % of the license fees paid until 30 September 2004 for the worldwide development and commercialisation rights for Desmoteplase. Furthermore, the cost of revenues included reimbursed development costs allocated to Forest (EUR 303k).

The **research and development expenses** of the nine months period ending 30 September 2005 increased by EUR 3,262k to EUR 8,326 compared to the corresponding prior year's period. This increase is due to the marked expansion of the research and development activities in the current fiscal year. If the development costs which are classified as cost of revenue due to the reimbursement by Forest and Lundbeck had also been taken into account, an increase of EUR 5,084k would have been noted. Furthermore, in the nine months period ending 30 September 2005 the research and development expenses were set off against subsidies amounting to EUR 1,906k. In the nine months period ending 30 September 2005, research and development expenses mainly relate to clinical trials for Desmoteplase and the continued production development for Desmoteplase. In addition, expenses incurred mainly for the execution of clinical interaction and safety studies (Phase I) and for the preparation of a clinical Phase II study for the substance Enecadin. Furthermore, the expenses in this period partly result from the development of the production process of Solulin and the execution of animal trials with this substance. In the prior year's period, the research and development expenses mainly related to clinical trials for Desmoteplase and production development for Desmoteplase.

Compared to the prior year's period the **general and administrative expenses** in the nine months period ending 30 September 2005 decreased by EUR 632k. This is largely due to the fact that the remuneration paid to an external consultant in connection with the license agreement with Lundbeck was EUR 768k lower than the remuneration paid in connection with the license agreement with Forest in the prior year's period. Furthermore, the prior year expenses included legal and consulting fees in connection with the capital increase performed during the second quarter of 2004 and the preparatory measures for the IPO. In the nine months period ending 30 September 2005, the higher involvement of personnel and management resources to the IPO process and the installation respectively expansion of the investor relations and finance departments lead to increased general and administrative expenses.

Selling and marketing expenses mainly result from internal cost and legal and consulting fees.

Compared to prior year's period, the **financial result** of the nine months period ending 30 September 2005 significantly improved due to the higher liquidity which resulted in higher investments.

Net assets and financial position

The high inflow of funds during the current fiscal year from the IPO in the first quarter 2005 and the payment from Lundbeck for gaining access to PAION's know-how in the third quarter 2005 lead to a significant improvement of the balance sheet structure. At the cut-off date of the reporting period, 30 September 2005, the balance sheet total as well as the shareholders' equity increased significantly in comparison to the numbers as of 31 December 2004. With the balance sheet total increasing by EUR 43,961k to EUR 69,631k and equity increasing by EUR 43,011k to EUR 58,323k the equity ratio improved from 59.6 % to 83.8 %.

EUR k	09/30/2005	12/31/2004	Change
Non-current assets	3,869	2,945	924
Current assets	65,762	22,725	43,037
Assets	69,631	25,670	43,961
Equity	58,323	15,312	43,011
Non-current liabilities	5,337	4,076	1,261
Current liabilities	5,971	6,282	-311
Equity and liabilities	69,631	25,670	43,961

The increase of the **non-current assets** mainly results from the receivables due from Lundbeck which are classified as other long-term asset (EUR 2.355k). These receivables result from Lundbeck's obligation to assume in case of obtaining regulatory approval of Desmoteplase in Europe and/or Japan PAION's repayment obligation to Forest which contains the development expenses directly and indirectly borne by Forest including an incidental premium. This increase is contrasted by the proportionate disposal of license fees paid for the worldwide development and commercialisation rights of Desmoteplase due to the out-licensing to Lundbeck (EUR 1,372k). The license fees were recorded as intangible assets so far.

During the third quarter 2005 the liquidity could be further increased by EUR 8,320k to EUR 62,501k, after an increase by EUR 33,292k in the first half-year 2005. The cash flows stem from the following areas:

EUR k	Q1-Q3 2005	Q1-Q3 2004
Cash flow from operating activities	190	7,550
Cash flow from investing activities	1,100	-802
Cash flow from financing activities	40,322	10,069
Change in cash and cash equivalents	41,612	16,817

Due to the payment from Lundbeck for gaining access to PAION's know-how in the third quarter 2005 a small positive cash flow from operating activities could be achieved in the first nine months period ending 30 September 2005. In the prior year's period, the high positive cash flow from operating activities mainly resulted from a payment from Forest for know-how transfer which significantly exceeded the operating expenditures.

The positive cash flow from investing activities mainly results from the proportionate disposal of license fees paid for the worldwide development and commercialisation rights of Desmoteplase due the out-licensing to Lundbeck.

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 4,649k due to costs directly related to the IPO. In addition, obligations regarding a pre-IPO stock option plan of PAION Deutschland GmbH amounting to EUR 967k were settled in the first half-year 2005. The overall cash flow from financing activities was positive and amounted to EUR 40,322k. 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 31 December 2003, amounting to EUR 511k and from cash inflows from the capital increase performed during the second quarter of 2004 (EUR 9,777k).

The increase of **non-current liabilities** by EUR 1,261k is primarily due to the increase of the provision for the refund obligation to Forest by EUR 2,534k to EUR 3,270k. 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. This was contrasted by 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. 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 226k) and government grants (EUR 83k).

Personnel development

PAION's growth track is also reflected in the continuously increasing number of employees. In parallel to the expansion of development activities regarding Desmoteplase, Enecading and Solulin, the number of PAION's employees was again increased in the third quarter 2005. On average for the nine months period ending 30 September 2005, 63 employees have been working for PAION which represents a growth by 14 employees in comparison to 2004's twelve months figure. Of these 63 employees, 39 are working in research and development, 20 employees in administration while 4 employees are working in sales and marketing. It is planned to continue the personnel increase in the remaining months of the fiscal year 2005.

Elections to the Supervisory Board

According to Section 30 para. 2 AktG (German Stock Corporation Act), members of the Supervisory Board can only be appointed until the first Shareholder Meeting that decides on the formal approval of the actions of the Supervisory Board for the first fiscal year. Therefore, an election to the Supervisory Board was necessary on the Annual General Meeting of 26 August 2005.

At the Annual General Meeting, Dr Walter Wenninger and Dr Franz A. Wirtz were re-elected as Supervisory Board members.

Furthermore, it was decided that Prof Dr Wolfgang Blättchen will leave the Supervisory Board as of 30 September 2005. For the period starting 1 October 2005, Prof Dr Erich Schlick was elected to the Supervisory Board. In the past, Prof Dr Erich Schlick was already member of the Supervisory Board but was obliged to retire prematurely effective as of 25 May 2005 because of legal work commitments. As these commitments no longer exist after 1 October 2005 when Prof Dr Erich Schlick joined Wellington Partners Venture Capital GmbH, Munich, he is able to serve the company again from this point in time onwards. Prof Dr Schlick is member of the Board of Directors at the Zentralinstituts für Seelische Gesundheit, Mannheim.

At the Annual General Meeting Prof Dr Wolfgang Blättchen was elected as substitute member for Prof Dr Erich Schlick effective as of 1 October 2005. Prof Dr Blättchen shall become member of the Supervisory board if Prof Dr Schlick retires before his term ends and provided that the Annual General Meeting has not elected a successor before Prof Dr Schlick's retirement.

In their meeting on 13 September 2005, the Supervisory Board members elected Dr Walter Wenninger as Chairman of the Supervisory Board and Dr Franz A. Wirtz as Deputy Chairman.

Outlook

The inflow of funds from the IPO as well as from the licensing partners Forest and Lundbeck secures the implementation of the planned development activities for Desmoteplase, Enecadin and Solulin far beyond the fiscal year 2005.

Total revenues for the fiscal year 2005 will be composed of the payment by Lundbeck amounting to EUR 15m as well as of cost-reimbursements by Forest and Lundbeck that are due for joint development projects.

Currently, there are delays in single projects which are due to additional consultations with development partners and individual authorities. The start of the supportive safety study for Desmoteplase will thus be shifted to 2006. This leads to reduced expenses for the company but also to lower revenues than originally planned. Despite this timeline shift, no delay for the approval process is expected. From today's point of view, the net loss for the fiscal year 2005 will be lower and total liquidity at year-end will be higher than originally expected at the publication of the half-year report.

Aachen, 3 November 2005

PAION AG

The Management Board

Consolidated balance sheet

ASSETS	09/30/2005	12/31/2004
EUR		
Non-current assets		
Intangible assets	530,798.61	1,939,469.04
Equipment	982,708.42	1,005,539.22
Financial Assets	2,355,247.14	0.00
	3,868,754.17	2,945,008.26
Current assets		
Trade receivables	1,382,970.15	449,968.18
Prepaid expenses and other assets	1,878,265.54	1,386,487.80
Marketable securities	38,363,922.74	0.00
Cash	24,136,624.00	20,888,829.59
	65,761,782.43	22,725,285.57
Total assets	69,630,536.60	25,670,293.83

EQUITY AND LIABILITIES	09/30/2005	12/31/2004
EUR		
Equity		
Share capital	15,755,552.00	10,005,552.00
Capital reserve	75,663,557.69	39,480,795.29
Loss carryforward	-34,174,373.72	-34,350,454.31
Net profit for the period	1,078,516.32	176,080.59
	58,323,252.29	15,311,973.57
Non-current liabilities		
Finance lease liabilities	226,227.00	281,331.00
Provisions	3,269,542.66	1,935,702.38
Deferred income	1,840,554.15	1,858,869.05
	5,336,323.81	4,075,902.43
Current liabilities		
Current portion of finance lease liabilities	73,105.00	70,930.00
Trade payables	3,188,449.12	2,706,036.38
Provisions	2,283,273.14	2,311,330.95
Accrued liabilities	169,508.98	110,530.00
Other current liabilities	232,191.06	1,059,147.30
Current portion of deferred income	24,433.20	24,443.20
	5,970,960.50	6,282,417.83
Total equity and liabilities	69,630,536.60	25,670,293.83

Consolidated income statement

EUR	1 July – 30 September 2005	1 July – 30 September 2004	1 January – 30 September 2005	1 January – 30 September 2004
Revenues	17,292,755.16	302,833.53	17,993,438.81	16,598,611.98
Cost of revenues	-3,708,832.21	-263,551.36	-4,397,355.83	-1,536,397.86
Gross profit	13,583,922.95	39,282.17	13,596,082.98	15,062,214.12
Operating expenses				
Research and development expenses	-2,710,863.40	-1,994,941.74	-8,326,370.93	-5,063,893.62
General and administrative expenses	-2,006,020.87	-1,740,639.82	-3,992,888.37	-4,625,349.26
Selling and marketing expenses	-368,978.36	-67,689.57	-1,143,086.49	-416,470.58
Other income (expenses), net	40,970.28	817.99	199,339.49	-209,133.81
	-5,044,892.35	-3,802,453.14	-13,263,006.30	-10,314,847.27
Operating result	8,539,030.60	-3,763,170.97	333,076.68	4,747,366.85
Financial result	279,950.23	77,723.85	745,439.64	146,346.04
Profit/Loss for the period before taxes	8,818,980.83	-3,685,447.12	1,078,516.32	4,893,712.89
Income taxes	0.00	0.00	0.00	391,600.00
Net result for the period	8,818,980.83	-3,685,447.12	1,078,516.32	5,285,312.89
Earnings per share (undiluted)	0.61	-0.43	0.07	0.57
Earnings per share (diluted)	0.60	-	0.07	0.57

Consolidated cash flow statement

EUR	1 January – 30 September 2005	1 January – 30 September 2004
Cash flows from operating activities:		
Net result for the period	1,078,516.32	5,285,312.89
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Amortization/depreciation	331,229.73	236,144.73
Write-ups	0.00	-198,201.36
Loss/Profits from the disposal of non-current assets	210.99	0.00
Deferred tax assets	0.00	-391,600.00
Interest paid on finance leases	9,723.00	3,347.00
Release of investment grants	-18,324.90	0.00
Expenses from stock option plans	581,627.18	803,000.00
Effects from the business combination of PAION AG and PAION Deutschland GmbH	0.00	-1,027.85
Change in assets and liabilities which are not attributable to investing or financing activities:		
Long-term asset resulting from the assumption of development costs	-2,355,247.14	0.00
Trade receivables	-933,001.97	-527,102.56
Prepaid expenses and other assets	-1,191,777.74	-181,229.43
Trade payables	482,412.74	-87,350.86
Provisions	2,679,377.24	836,496.14
Other current liabilities	-474,793.33	13,600.82
Deferred income	0.00	1,758,458.18
Net cash from operating activities	189,952.12	7,549,847.70
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-273,341.98	-1,075,426.73
Cash received from the sale of intangible assets and equipment	1,373,402.49	273,131.14
Net cash used in investing activities	1,100,060.51	-802,295.59
Cash flows from financing activities:		
Capital increase	5,750,000.00	73,150.00
Contributions to the capital reserve	40,250,000.00	10,288,564.74
Payments in connection with the raising of capital	-4,648,864.78	-275,000.00
Capital repayment due to the settlement of options	-966,778.70	0.00
Payment of finance lease liabilities	-62,652.00	-17,579.00
Net cash used in financing activities	40,321,704.52	10,069,135.74
Change in cash and cash equivalents	41,611,717.15	16,816,687.85
Cash and cash equivalents at beginning of the period	20,888,829.59	8,453,517.89
Cash and cash equivalents at end of the period	62,500,546.74	25,270,205.74
Composition of cash and cash equivalents at the end of the period:		
Cash	24,136,624.00	25,270,205.74
Marketable Securities	38,363,922.74	0.00
Cash and cash equivalents at end of the period	62,500,546.74	25,270,205.74

Consolidated statement of changes in equity

EUR	Share capital	Capital reserve	Loss carryforward	Equity
31 December 2003*	155,350.00	41,774,355.23	-34,350,454.31	7,579,250.92
Issue of shares	23,150.00	0.00	0.00	23,150.00
Contribution to the capital reserve	0.00	10,288,564.74	0.00	10,288,564.74
Cost of raising capital	0.00	-275,000.00	0.00	-275,000.00
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
Additional contribution to the capital reserve due to the issue of options	0.00	803,000.00	0.00	803,000.00
Net profit for the period	0.00	0.00	5,285,312.89	5,285,312.89
30 September 2004	10,005,552.00	42,812,840.12	-29,065,141.42	23,753,250.70
Decrease in the capital reserve due to the settlement of options	0.00	-3,332,044.83	0.00	-3,332,044.83
Net loss for the period (10/1 – 12/31/2004)	0.00	0.00	-5,109,232.30	-5,109,232.30
31 December 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	581,627.18	0.00	581,627.18
Net profit for the period	0.00	0.00	1,078,516.32	1,078,516.32
30 September 2005	15,755,552.00	75,663,557.69	-33,095,857.40	58,323,252.29

* The comparative figures for 31 December 2003 relate to PAION Deutschland GmbH.

Selected explanatory notes to the interim financial statements as of 30 September 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.

Basis of accounting

The unaudited interim financial statements have been prepared in compliance with IFRSS. The regulations of International Accounting Standard (IAS) 34 Interim Financial Reporting have been adopted. The interim financial statements as of 30 September 2005 have to be read in connection with the consolidated financial statements as of 31 December 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 31 December 2004, the consolidation policies adopted in the interim financial statements as of 30 September 2005 are unchanged.

Accounting policies

In comparison to the consolidated financial statements as of 31 December 2004, the accounting policies adopted in the interim financial statements as of 30 September 2005 are unchanged.

Other notes to the interim financial statements

License agreement with H. Lundbeck A/S, Valby-Copenhagen, Denmark

With signing the agreement, Lundbeck made a first payment in the amount of EUR 15m. During the development of Desmoteplase in acute ischaemic stroke until obtaining regulatory approval, additional payments of up to EUR 50m in form of milestone payments will be due. The total amount of the milestone payments to be made is depending on the exercised number of co-promotion options which PAION has in the major European markets. Furthermore, Lundbeck assumes a part of the accrued and future development costs which, among others, include PAION's repayment obligation against Forest. This repayment obligation arises in case of obtaining regulatory approval of Desmoteplase in Europe and/or Japan and refers to direct and indirect development costs originally borne by Forest. In addition, after market approval of Desmoteplase Lundbeck will pay royalties in the countries with exclusivity for Lundbeck. In countries where PAION exercises the co-promotion option, PAION will gain a net profit share.

In accordance with IAS 18 Revenue the payment in the amount of EUR 15m already made by Lundbeck in connection with the access to PAION's know-how was recorded as revenue. Milestone payments related to the license agreement with Lundbeck are recorded as revenue when the respective milestones are achieved. Furthermore, royalties on future net sales resulting from the license agreement with Lundbeck are recorded as revenue when the respective sales are generated.

For a better understanding of the accounting of the receivables due from Lundbeck resulting from the assumption of a part of the development expenses it is at first necessary to explain the accounting of the development costs assumed by Forest. With the license agreement concluded in 2004 between PAION Deutschland GmbH and Forest, Forest has received an exclusive license with respect to the development and commercialisation of Desmoteplase in the US and Canadian markets. The agreement assumes that the United States and Canada on the one hand, and Europe and Japan on the other, each represent 50 % of the global market for Desmoteplase. As consideration for the granted rights Forest has agreed among others to initially assume essentially all future development expenses in connection with Desmoteplase in the indication stroke. On obtaining regulatory approval for Desmoteplase in Europe and/or Japan PAION has to repay to Forest up to 50 % of the costs borne directly or indirectly by Forest. As compensation for the assumed financial risk by Forest, PAION has to pay in addition a premium of 20 % of this repayment amount to Forest.

For the repayment obligation which results from the reimbursed costs by Forest and which arise in case of obtaining regulatory approval, PAION recognises a provision by reducing revenues by the net present value of 50 % of the reimbursed costs. Accordingly, revenues in any given reporting period effectively include only approximately 50 % of the Desmoteplase-related development expenses billed to Forest. PAION also recognises a provision for the corresponding, potential repayment obligation resulting from the cost directly borne by Forest. In this connection the net present value of 50 % of the costs directly borne by Forest is considered. The set up of this provision leads to a corresponding increase of PAION's research and development costs. The additional premium of 20 % of the total repayment obligation is considered by a set up of a provision in the corresponding amount and by an increase of the research and development costs.

Regarding the accounting of the receivables due from Lundbeck resulting from the assumption of development costs differentiation between the following two cost categories is necessary:

1. Development expenses incurred by PAION directly and not reimbursed by Forest
2. Development expenses from PAION's repayment obligation against Forest
 - a. Development expenses incurred by PAION directly and reimbursed by Forest
 - b. Development expenses incurred by Forest directly.

The receivable due from Lundbeck resulting from the **first cost category** is recorded as revenue while the corresponding development expenses are classified as cost of revenues. This costs are mainly current expenses for production development. These receivables are immediately due and therefore classified as accounts receivables.

The receivable due from Lundbeck resulting from the **cost category 2a** is recorded as revenue while the corresponding expenses are classified as cost of revenues.

The receivable due from Lundbeck resulting from the **cost category 2b** is recorded by reducing the corresponding development expenses.

The premium of 20 % on the cost categories 2a and 2b which is payable to Forest will also be reimbursed by Lundbeck. This receivable is recorded by reducing the corresponding development expenses.

The amount of the receivable due from Lundbeck resulting from the cost categories 2a and 2b is depending on the number of co-promotion options that PAION chooses to exercise. The current accounting is based on the assumption that PAION exercises all options and thus only the lowest receivable due from Lundbeck is recorded. If PAION should not exercise any co-promotion option in the future, PAION has a receivable due from Lundbeck in the total amount of the repayment obligation against Forest.

The receivables due from Lundbeck resulting from the cost categories 2a and 2b are due when regulatory approval for Desmoteplase in Europe and/or Japan is obtained. As the maturity is more than 1 year the receivables are classified as other long-term asset within the non-current assets. Due to the operating character of this long-term asset the changes of the long-term asset are considered as cash flow from operating

activities in the consolidated cash flow statement and not in the cash flow from investing activities. This presentation corresponds to the changes of the long-term repayment obligation towards Forest which are also considered in the cash flow from operating activities.

Aachen, 3 November 2005
PAION AG

The Management Board

Report of the Supervisory Board

The interim report of the third quarter 2005 and the nine months period ending 30 September 2005 was submitted to the Supervisory Board and explained by the Management Board. The Supervisory Board approved the interim report of the third quarter 2005 and the nine months period ending 30 September 2005.

Aachen, 3 November 2005

Chairman of the Supervisory Board
Dr. Walter Wenninger

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