

PAION Q3#2007

Consolidated financial report on the third quarter 2007
and the nine-month period ending 30 September 2007

Contents

Interim group management report for the nine-month period ending 30 September 2007	3
Overview	3
Share price development	4
Research and development overview	4
Net assets, financial position and results of operations	7
Personnel development	11
Changes in the Supervisory Board	12
Risks and opportunities report	12
Outlook	13
Consolidated balance sheet	14
Consolidated income statement	16
Consolidated cash flow statement	17
Consolidated statement of changes in equity	18
Selected explanatory notes to the consolidated interim financial statements as of 30 September 2007	19
Review report	21

01/01
09/30
2007

Key figures

(all figures in EUR k unless otherwise noted)	Q3 2007 (unaudited)	Q3 2006 (unaudited)	Q1-Q3 2007 (unaudited)	Q1-Q3 2006 (unaudited)
---	------------------------	------------------------	---------------------------	---------------------------

Revenues	2,145	5,197	4,430	8,064
Research and development expenses	2,865	-4,038	-6,767	-12,895
General and administrative expenses	-765	-1,154	-3,217	-3,431
Selling and marketing expenses	-21	-163	-487	-759
Net result for the period	4,240	-1,984	-6,692	-12,761
Earnings per share in EUR for the period (basic)	0.25	-0.11	-0.40	-0.78
Earnings per share in EUR for the period (diluted)	0.25	-0.11	-0.40	-0.78

	Q1-Q3 2007 (unaudited)	Q1-Q3 2006 (unaudited)
--	---------------------------	---------------------------

Net cash from operating activities	-10,638	-10,040
Net cash from investing activities	-155	-322
Net cash from financing activities	-477	14,180
Average number of group employees	82	75

	09/30/2007 (unaudited)	12/31/2006 (audited)
--	---------------------------	-------------------------

Intangible assets	504	524
Long-term refund claims resulting from the assumption of development costs	0	8,011
Cash and cash equivalents	45,918	57,189
Equity	39,346	45,471
Non-current liabilities	6,764	19,212
Balance sheet total	48,479	70,050
Equity ratio	81.2%	64.9%

Interim group management report for the nine-month period ending 30 September 2007

Overview

After results of the Phase III study of Desmoteplase in acute ischemic stroke (DIAS-2) showed no statistically significant difference in clinical improvement after treatment between stroke patients who received Desmoteplase or a placebo, an analysis of the study results was initiated, under the lead of PAION, placing primary emphasis on explaining the unusually high placebo response rate. The findings provide an explanation for the surprisingly good results achieved by the placebo group and provide a scientific rationale for the further development of Desmoteplase in acute ischemic stroke. In August 2007, i.e. during the analysis phase, PAION's collaboration partner, Forest Laboratories Inc. announced the termination of the collaboration and the return of all rights to Desmoteplase for North America. PAION's partner H. Lundbeck A/S, which had acquired the rights to Desmoteplase for all countries outside of North America, is currently evaluating the findings of the analysis.

Forest's termination of the collaboration had a significant impact on the results in the third quarter of 2007 and the nine-month period ending 30 September 2007. The resulting extraordinary effects gave rise to income of EUR 4,337k and were the main reasons for the noticeably lower net loss in the first nine months of 2007 (EUR 6,692k; prior year: EUR 12,761k) compared to the corresponding prior-year period. It thus resulted in a permanent change in the structure of the balance sheet in comparison to prior periods. Compared to 31 December 2006, the balance sheet total as of 30 September 2007 declined by EUR 21,571k to EUR 48,479k while the equity ratio rose to 81.2% (31 December 2006: 64.9%). As of the reporting date for the period, 30 September 2007, PAION had a solid EUR 46m in cash and cash equivalents at its disposal.

Share price development

Following the publication of the DIAS-2 results at the end of May 2007 and the related drop in share price of around 70% by the end of June 2007, the rate of decline slowed and the share price stabilized in the second half of the third quarter between EUR 1.70 and EUR 1.80 while trading volumes decreased. On the last trading day of the third quarter, 28 September 2007, the PAION share closed at EUR 1.69 (XETRA). The average daily trading volume (XETRA and Frankfurt floor) in the first nine months of 2007 was 104,373 shares.

Development of PAION's share price in the nine-month period ending 30 September 2007



Research and development overview

PAION's research and development activities are currently focused on three substances: Desmoteplase, Enecadin and Solulin.

PAION's most advanced substance is **Desmoteplase**, an intravenous therapeutic, which is primarily being developed for the causal treatment of acute ischemic stroke. Desmoteplase belongs to a group of blood clot-dissolving substances known as plasminogen activators. Between spring 2005 and the end of 2006, PAION conducted together with its former collaboration partner, Forest, a Phase III study of Desmoteplase which enrolled 186 patients and explored the clinical improvement of patients who received 90 mcg/kg or 125 mcg/kg Desmoteplase compared to patients who received a placebo. They were treated within three to nine hours after the onset of stroke symptoms. Stroke patients were only eligible for treatment if a distinct area of insufficiently perfused but still salvageable tissue around the primary location of stroke, a so-

called penumbra, was detected with a volume of at least 20% compared to the infarct core. Such a penumbra had to be confirmed either by magnetic resonance imaging (MRI) or perfusion computed tomography (PCT). The primary efficacy endpoint in the study was defined as the difference in percentage in clinical improvement 90 days after treatment between the patient groups either treated with study drug or with placebo. Top-line results of the study were published at the end of May 2007. Neither dose investigated showed a statistically significant difference in clinical improvement in comparison to the placebo group. Thus the primary efficacy endpoint of the study was not achieved. Regarding safety, Desmoteplase met the expectations for both doses. It was particularly surprising that an unusually large number of patients in the placebo group (46.0%) showed a strong clinical improvement. Moreover, the patients treated in the DIAS-2 study generally showed only relatively slight stroke symptoms, meaning that their medical conditions had good chances of improvement. However, this on its own did not sufficiently explain the results of the study.

Starting end of June 2007, PAION and its collaboration partners analysed the results of the study, placing primary emphasis on explaining the unusually high placebo response rate.

As early as August 2007, i.e., before the analysis was finished, Forest announced its decision to return its development and marketing rights for North America acquired in 2004 in view of anticipated delays in development and additional investments expected. PAION now has the opportunity to find a new partner for these countries which represent significant market potential for Desmoteplase.

After the end of the third quarter of 2007, PAION announced the findings from its data analysis. The main cause for the unexpectedly high placebo rate seems to be that a large portion of the DIAS-2 patients did not have an occlusion of one of the major cerebral arteries at the start of treatment, despite the detection of penumbra. This became apparent after subsequent analysis of the images made of the blood vessels in the brain (angiographs). These patients benefited less from the effects of the blood clot-dissolving substance Desmoteplase. In the past, stroke experts have assumed the presence of a penumbra to be a key indication of both visible (in the larger brain arteries) and non-visible occlusions (in smaller arteries) and thus justifying reperfusion therapy regardless of whether a visible (partial) occlusion in the larger cerebral arteries is actually detected. The results of the DIAS-2 analysis are currently being discussed with leading stroke experts so that these findings can be used in potential new trials. In PAION's opinion, the findings provide a sound rationale for the further development of Desmoteplase. However, the continuation of Desmoteplase development depends on whether sufficient funding can be obtained. Lundbeck's pending decision on whether it will continue the collaboration will have a decisive impact on whether PAION will be able to fund the next development steps.

Enecadin is a neuroprotectant which may increase the survival time of affected nerve cells and thus treat neuronal damage during acute ischemic stroke. PAION has been conducting the clinical Phase IIa study TEST (Tolerability of Enecadin in acute ischemic Stroke Trial) since the first quarter of 2006. The study is designed as a multicentric, double-blind, randomized,

placebo-controlled dose-finding study to examine the safety and tolerability of the substance as well as to obtain first indications of its efficacy in patients with acute ischemic stroke in a time-frame of up to nine hours after the onset of symptoms. Patient enrolment for the first dose tier of this study was completed in the second quarter of 2007. The subsequent safety review of the study held by the independent Data Monitoring Committee (DMC) did not give rise to any reservations regarding the safety of the substance. Since on the long run PAION intends to combine Enecadin with blood clot-dissolving substances such as Desmoteplase, PAION has decided not to start recruitment for the next dose tier of the TEST study until a decision has been made on the strategic re-evaluation of the development pipeline.

Solulin is a thrombin modulator which may act as an “intelligent anticoagulant” with anti-inflammatory potential and which could be useful for the treatment of thrombo-embolic diseases. The substance is an improved recombinant variant of the human protein thrombomodulin. As announced recently, PAION has initiated a clinical Phase I study in which the substance will for the first time be tested on humans. The first healthy volunteers have already received low doses of the substance and tolerated them well. The study is designed to evaluate Solulin’s safety, tolerability and pharmacokinetics and to obtain information on pharmacodynamic properties of the substance with intravenous injection. It is being conducted as a single-center, randomized, single-blind, placebo-controlled Phase I study. Initial results are expected in early 2008.

Net assets, financial position and results of operations

Results of operations

The third quarter of 2007 and the nine-month period ending 30 September 2007 were impacted significantly by various extraordinary effects. The extraordinary effects in the third quarter of 2007 resulted in income of EUR 6,969k. Without these extraordinary effects, a net loss for the period of EUR 2,729k would have been reported in the third quarter of 2007. The extraordinary effects relate to the reversal of the long-term repayment obligations to Forest and the de-recognition of the long-term refund claims against Lundbeck (EUR 2,668k) and the reversal of the signing fee paid by Forest in fiscal year 2004 and recognised as deferred income (EUR 1,669k). In addition, the reversal of a provision for a possible milestone obligation to Bayer-Schering Pharma AG led to income of EUR 2,632k.

For the nine-month period ending 30 September 2007, these extraordinary effects, together with those recognised in the second quarter of 2007, resulted in income of EUR 4,643k. Without the extraordinary effects, a net loss for the period of EUR 11,335k would have been recorded in the reporting period. The extraordinary effects in the second quarter of 2007 gave rise to an overall expense of EUR 2,326k, attributable to a provision for a possible milestone obligation to Bayer-Schering (-EUR 2,632k), restructuring expenses (-EUR 327k) and present-value adjustments to the long-term repayment obligations to Forest and the long-term refund claims against Lundbeck (EUR 633k).

For more detailed notes relating to the milestone obligation to Bayer-Schering and the impact of the termination of the collaboration with Forest, please also see our comments on page 20 in this consolidated financial report.

	Q3 2007 EUR k	Q3 2006 EUR k	Q1–Q3 2007	Q1–Q3 2006 EUR k
Revenues	2,145	5,197	4,430	8,064
Cost of Revenues	-431	-2,141	-2,599	-4,912
Gross profit	1,714	3,056	1,831	3,152
Research and development	2,865	-4,038	-6,767	-12,895
General and administrative	-765	-1,154	-3,217	-3,431
Selling and marketing	-21	-163	-487	-759
Other income (expenses)	112	16	170	128
Operating expenses	2,191	-5,339	-10,301	-16,957
Operating result	3,905	-2,283	-8,470	-13,805
Financial result	335	299	1,778	1,044
Taxes on income	0	0	0	0
Net result for the period	4,240	-1,984	-6,692	-12,761

EUR 1,669k of revenues in the first nine months of 2007 comprise an deferred income from a signing fee which was released early due to the termination of the collaboration with Forest. As in prior periods, the remaining revenues are attributable to the refund of development costs by Forest and Lundbeck. The cause for the decline in revenues is primarily that chargeable costs have decreased because the costs of the DIAS-2 study have been largely invoiced and that Lundbeck bears a portion of costs of production development directly ever since Lundbeck became party to the contract with the manufacturer (CMO) from the second quarter of 2007 onwards.

Cost of revenues of EUR 2,559k in the nine-month period ending 30 September 2007 was the result of the development expenses generated in the period which were refunded by Forest and Lundbeck. The prior-year period's cost of revenues also related exclusively to development expenses charged on to Forest and Lundbeck.

At EUR 6,767k, research and development expenses in the first nine months of 2007 were far lower than in the corresponding prior-year period. This was mainly due to net income of EUR 2,668k generated from the reversal of the long-term repayment obligations to Forest and the derecognition of the long-term refund claims against Lundbeck which was offset against research and development expenses. Without this income, research and development expenses would have merely dropped EUR 3,460k to EUR 9,435k in comparison to the prior-year period.

This decline reflects the noticeably lower development expenses related to the production of Desmoteplase. By contrast, development costs for Enecadin and Solulin have risen in comparison to the prior-year period.

Compared to the prior year, **general administration** expenses decreased slightly, amounting to EUR 3,217k (prior-year period: EUR 3,431k).

For the nine-month period ending 30 September 2007, the financial result was impacted by non-recurring income of EUR 633k. This effect recognised in the second quarter of 2007 resulted from the modification of the assumption regarding the approval date of Desmoteplase as a consequence of the results of the DIAS-2 study. The modification led to adjustments of the present value of the long-term refund claims against Lundbeck and the long-term repayment obligation to Forest. Without this non-recurring income, the financial result would, compared to the prior-year period, have increased only EUR 101k, mainly due to the higher interest rates.

Net assets and financial position

A permanent change has occurred in the structure of the balance sheet as of 30 September 2007 in comparison to prior periods. Largely as a result of the reversal of the long-term repayment obligations to Forest, the derecognition of the long-term refund claims against Lundbeck and the reduction in cash and cash equivalents, the balance sheet total as of 30 September 2007 dropped EUR 21,571k to EUR 48,479k in comparison to 31 December 2006. As of 30 September 2007, the equity ratio rose to 81.2% against 64.9% on 31 December 2006. Accounting for the sub-ordinated loan as economic equity increases the equity ratio by 13.7 percentage points to 94.9%.

	09/30/2007 in EUR k	12/31/2006 in EUR k	Change in EUR k
Non-current assets	1,482	9,699	-8,217
Current assets	46,997	60,351	-13,354
Assets	48,479	70,050	-21,571
Equity	39,346	45,471	-6,125
Non-current liabilities	6,764	19,212	-12,448
Current liabilities	2,369	5,367	-2,998
Equity and liabilities	48,479	70,050	-21,571

The decline in **non-current assets** is almost exclusively due to the derecognition of the long-term refund claims against Lundbeck. These refund claims were derived from Lundbeck's obligation to assume PAION's repayment obligations to Forest for the development expenses borne by Forest, including a premium, in the event that Desmoteplase were approved in Europe and/or Japan. For additional notes, please also see our comments on the termination of the collaboration with Forest on page 20 of this consolidated financial report.

Current assets dropped by EUR 13,354k to EUR 46,997k compared with 31 December 2006 chiefly as a result of the reduction in cash and cash equivalents (EUR 11,270k) and the decline in trade receivables (EUR 1,642k). The change in cash and cash equivalents stems from the following areas:

	Q1–Q3 2007 in EUR k	Q1–Q3 2006 in EUR k
Cash flow from operating activities	-10,638	-10,040
Cash flow from investing activities	-155	-322
Cash flow from financing activities	-477	14,180
Change in cash and cash equivalents	-11,270	3,818

The negative cash flow from operating activities (EUR 10,638k) is primarily attributable to the net loss for the period adjusted for the non-cash extraordinary effects of EUR 11,662k.

The negative cash flow from financing activities in the nine-month period ending 30 September 2007 is attributable to interest payments on the subordinated loan received from HSBC Trinkaus & Burkhardt KGaA in April 2006. The positive cash flows from financing activities in the prior-year period originated mainly from the cash flows from the capital increase of EUR 9,440k and the subordinated loan of EUR 6,720k (net of the debt discount of EUR 280k). These cash inflows were offset by payments of EUR 448k made in relation to the capital increase. The cash inflows were reduced by payment of the last tranche in connection with the settlement of PAION Deutschland GmbH's pre-IPO stock option plan (EUR 1,192k).

The remarkable drop in **non-current liabilities** as of 30 September 2007 by EUR 12,448k to EUR 6,764k compared to 31 December 2006 is attributable to the reversal of the repayment obligations to Forest and the signing fee received from Forest in fiscal year 2004 which was previously recognised as deferred income. In this context please also see our comments on the impact of the termination of the collaboration with Forest on page 20 of this consolidated financial report.

In comparison to 31 December 2006, **current liabilities** were down EUR 2,998k to EUR 2,369k as of 30 September 2007 mainly due to the reduction in trade payables by EUR 2,812.

Personnel development

As part of a package of measures aimed at reducing internal and external costs, PAION announced in the second quarter of 2007 that it would modify its personnel structure in the near future and reduce the headcount by 25%. The personnel cutbacks, which affected almost all areas of the company, were carried out on the condition that the development unit was retained.

On average, PAION employed 82 employees in the first nine months of 2007 (fiscal year 2006: 77 employees). Of the 82 employees, 61 worked in research in development, 18 in administration, and 3 in sales. The cutback will have a more noticeable effect on the average headcount in the coming quarters. As of 30 September 2007, the number of employees was 61.

Changes in the Supervisory Board

The PAION AG annual general meeting appointed Dr. Jörg Spiekerkötter, Kleinmachow (Germany) to the supervisory board on 20 June 2007. Dr. Spiekerkötter replaced Dr. Franz A. Wirtz, who will attain the age threshold set by PAION AG for supervisory board members this year and has thus resigned from the supervisory board. The other members of the supervisory board are Dr. Walter Wenninger (chairman), Leverkusen (Germany) und Prof. Erich Schlick, Otterstadt (Germany). At its constituent meeting on 20 June 2007, the supervisory board appointed Dr. Erich Schlick as deputy chairman.

Dr. Spiekerkötter has many years of experience in the pharmaceutical industry where he held management positions in finance, legal affairs and human resources. He has been CFO of Conergy AG, Hamburg (Germany) from the beginning of November 2007. Dr. Spiekerkötter is not a member of any other supervisory board.

Risks and opportunities report

As a young bio-pharmaceutical company, PAION depends heavily on the successful development of its most advanced substance Desmoteplase. Desmoteplase is currently PAION's key value driver in its development pipeline in view of the development stage attained and the collaboration with Lundbeck. In August 2007, Forest decided to terminate its collaboration to develop Desmoteplase. Lundbeck has not made a decision so far. If Lundbeck decides against the continuation of its collaboration, a major source of funding for the future development of Desmoteplase would be lost. Currently, it is unclear whether PAION will then be able to attract new collaboration partners or obtain alternative financing to continue the development of Desmoteplase. If Lundbeck terminates the collaboration, future steps in the development program with Desmoteplase in the indication stroke could be postponed or discontinued due to financial uncertainty. If the development program is discontinued, potential future income in the indication stroke related to this substance would no longer be realisable. The general conditions for PAION would be changed strongly. Should the development program with Desmoteplase for the indication acute ischemic stroke be continued, progress in the original development plan will be significantly delayed due to the negative results of the DIAS-2 study which will also push back regulatory approval. Although, PAION currently has considerable funds of EUR 46m, it will require further financing in the medium term to pay for, for example, preclinical studies and clinical trials, inlicense new substances or acquire or invest in businesses, drug candidates or technologies. If PAION is unable to raise financing on favorable terms or at all, it could be forced to reduce its operating expenses by delaying, reducing or discontinuing the clinical development of one or more of its drug candidates.

Additional comments on the material risks and opportunities related to future development are provided in the risk and opportunity report in the consolidated management report for fiscal year 2006. The remaining risks mentioned there have not changed significantly in the first nine months of 2007.

Outlook

Now that the results of the analysis of the DIAS-2 data have delivered an explanation for the surprisingly high placebo response rate and at the same time provided a scientific rationale for the further development of Desmoteplase, emphasis is being placed on securing sufficient funding for potential future development steps which include the renewed outlicensing of the North American territory. Lundbeck's decision whether to continue or to end the collaboration will play a pivotal role in these efforts.

Various other strategic options are currently being evaluated, including alternatives to the indication stroke and licensing and M&A projects.

Consolidated Balance Sheet as of 30 September 2007

ASSETS	30 Sept. 2007 EUR	31 Dec. 2006 EUR
Non-current assets		
Intangible assets	503,602.34	524,246.44
Equipment	978,931.35	1,163,871.92
Long-term refund claims resulting from the assumption of development costs	0.00	8,010,826.74
	1,482,533.69	9,698,945.10
Current assets		
Trade receivables	648,710.39	2,290,567.20
Prepaid expenses and other assets	429,525.23	871,707.98
Marketable securities	15,426,730.72	0.00
Cash and cash equivalents	30,491,708.19	57,188,779.78
	46,996,674.53	60,351,054.96
 Total assets	 48,479,208.22	 70,050,000.06

EQUITY AND LIABILITIES	30 Sept. 2007 EUR	31 Dec. 2006 EUR
Equity		
Share capital	16,755,552.00	16,755,552.00
Capital reserve	85,599,386.86	85,032,116.76
Loss carryforward	-56,316,554.35	-38,930,499.47
Loss for the period	-6,691,854.97	-17,386,054.88
	39,346,529.54	45,471,114.41
Non-current liabilities		
Provisions	6,446.02	10,616,825.08
Financial liabilities	6,644,487.87	6,741,483.43
Finance lease liabilities	79,909.00	133,320.00
Deferred income	33,229.57	1,720,630.08
	6,764,072.46	19,212,258.59
Current liabilities		
Trade payables	1,696,840.86	4,508,927.03
Provisions	258,730.68	442,446.78
Current portion of finance lease liabilities	70,876.00	74,163.00
Other current liabilities	317,725.48	316,657.05
Current portion of deferred income	24,433.20	24,433.20
	2,368,606.22	5,366,627.06
Total equity and liabilities	48,479,208.22	70,050,000.06

Consolidated Income Statement

EUR	1 July – 30 Sept. 2007	1 July – 30 Sept. 2006	1 January – 30 Sept. 2007	1 January – 30 Sept. 2006
Revenues	2,144,807.20	5,196,642.54	4,430,004.70	8,064,493.96
Cost of revenues	-431,060.96	-2,141,433.49	-2,599,216.24	-4,912,309.64
Gross profit	1,713,746.24	3,055,209.05	1,830,788.46	3,152,184.32
Research and development expenses	2,865,141.12	-4,038,371.52	-6,766,607.49	-12,895,195.42
General and administrative expenses	-765,306.07	-1,154,240.51	-3,217,135.21	-3,430,934.75
Selling and marketing expenses	-20,677.48	-162,677.87	-487,250.37	-759,040.61
Other income (expenses), net	112,335.51	16,581.43	170,152.72	128,426.16
Operating expenses	2,191,493.08	-5,338,708.47	-10,300,840.35	-16,956,744.62
Operating result	3,905,239.32	-2,283,499.42	-8,470,051.89	-13,804,560.30
Financial income	488,756.61	493,101.05	4,061,776.37	1,508,735.19
Financial expenses	-153,899.90	-193,701.63	-2,283,579.45	-465,211.92
Financial result	334,856.71	299,399.42	1,778,196.92	1,043,523.27
Profit/Loss for the period before taxes	4,240,096.03	-1,984,100.00	-6,691,854.97	-12,761,037.03
Income taxes	0.00	0.00	0.00	0.00
Profit/Loss for the period	4,240,096.03	-1,984,100.00	-6,691,854.97	-12,761,037.03
Earnings per share (basic)	0.25	-0.11	-0.40	-0.78
Earnings per share (diluted)	0.25	-0.11	-0.40	-0.78

Consolidated Cash Flow Statement

EUR	1 January – 30 Sept. 2007	1 January – 30 Sept. 2006
Cash flows from operating activities:		
Net result for the period	-6,691,854.97	-12,761,037.03
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Amortization/depreciation	356,082.44	269,744.19
Loss/Profits from the disposal of non-current assets	4,359.86	-98.51
Interest expenses and interest income	-1,778,196.92	-1,043,523.27
Release of investment grants	-18,324.90	-18,324.90
Release of deferred income	-1,669,075.61	0.00
Expenses from stock option plans	567,270.10	789,750.63
Change in assets and liabilities which are not attributable to investing or financing activities:		
Long-term refund claims resulting from the assumption of development costs	6,065,907.88	-3,152,590.43
Trade receivables	1,641,856.81	-376,649.39
Prepaid expenses and other assets	633,107.09	577,461.83
Trade payables	-2,812,086.17	662,049.63
Provisions	-8,218,043.67	4,189,956.89
Other current liabilities	1,068.43	-236,220.73
Interest received	1,279,763.84	1,059,640.23
Net cash used in operating activities	-10,638,165.79	-10,039,840.86
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-155,157.63	-322,303.38
Cash received from the sale of intangible assets and equipment	300.00	100.00
Net cash used in investing activities	-154,857.63	-322,203.38
Cash flows from financing activities:		
Capital increase	0.00	1,000,000.00
Contributions to the capital reserve	0.00	8,440,000.00
Payments in connection with the raising of capital	0.00	-448,273.31
Borrowing	0.00	6,720,000.00
Capital repayment due to the settlement of options	0.00	-1,192,493.32
Interest paid	-415,341.45	-276,472.96
Payment of finance lease liabilities	-61,976.00	-62,656.00
Net cash used in/from financing activities	-477,317.45	14,180,104.41
Change in cash and cash equivalents	-11,270,340.87	3,818,060.17
Cash and cash equivalents at the beginning of the period	57,188,779.78	58,370,539.85
Cash and cash equivalents at the end of the period	45,918,438.91	62,188,600.02
Composition of cash and cash equivalents at the end of the period:		
Cash	30,491,708.19	51,977,468.02
Marketable securities	15,426,730.72	10,211,132.00
	45,918,438.91	62,188,600.02

Consolidated Statement of Changes in Equity

	Share capital EUR	Capital reserve EUR	Loss carryforward EUR	Equity EUR
31 December 2005	15,755,552.00	75,925,289.91	-38,930,499.47	52,750,342.44
Issue of shares	1,000,000.00	0.00	0.00	1,000,000.00
Contribution to the capital reserve	0.00	8,440,000.00	0.00	8,440,000.00
Cost of raising capital	0.00	-448,273.31	0.00	-448,273.31
Additional contribution to the capital reserve				
due to the issue of options	0.00	789,750.63	0.00	789,750.63
Loss for the period	0.00	0.00	-12,761,037.03	-12,761,037.03
30 September 2006	16,755,552.00	84,706,767.23	-51,691,536.50	49,770,782.73
Issue of shares	0.00	0.00	0.00	0.00
Contribution to the capital reserve	0.00	0.00	0.00	0.00
Cost of raising capital	0.00	0.00	0.00	0.00
Additional contribution to the capital reserve				
due to the issue of options	0.00	325,349.53	0.00	325,349.53
Loss for the period	0.00	0.00	-4,625,017.85	-4,625,017.85
31 December 2006	16,755,552.00	85,032,116.76	-56,316,554.35	45,471,114.41
Issue of shares	0.00	0.00	0.00	0.00
Contribution to the capital reserve	0.00	0.00	0.00	0.00
Cost of raising capital	0.00	0.00	0.00	0.00
Additional contribution to the capital reserve				
due to the issue of options	0.00	567,270.10	0.00	567,270.10
Loss for the period	0.00	0.00	-6,691,854.97	-6,691,854.97
30 September 2007	16,755,552.00	85,599,386.86	-63,008,409.32	39,346,529.54

Selected explanatory notes to the consolidated interim financial statements as of 30 September 2007

General information

In accordance with Sec. 37x (3) and 37w (2) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] in conjunction with Sec. 37y WpHG the quarterly financial report of PAION AG contains interim consolidated financial statements and an interim group management report. The interim consolidated financial statements have been prepared pursuant to the International Financial Reporting Standards (IFRS) for interim reporting. The interim group management report has been prepared in accordance with the applicable provisions of the German Securities Trading Act [“Wertpapierhandelsgesetz”: WpHG].

The interim consolidated financial statements comprise PAION AG as parent company, registered at Martinstrasse 10-12, 52062 Aachen (Germany), and the wholly-owned subsidiary PAION Deutschland GmbH, Aachen, which is fully consolidated.

Basis of accounting

The interim consolidated financial statements have been prepared in accordance with Sec. 315a (1) HGB and IFRSs as adopted by the European Union (EU), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All IFRSs issued by the International Accounting Standards Board (IASB), London, UK, which were effective as of the balance sheet date of 30 September 2007 and applied by PAION, have been adopted by the European Commission for application in the EU. During the reporting period of the interim consolidated financial statements, the following standards which had already been adopted by the European Commission became effective:

- IFRS 7: In August 2005, the IASB published IFRS 7, “Financial Instruments – Disclosures”, which redefines the disclosure requirements for financial instruments. IFRS 7 must be applied for reporting periods beginning on or after 1 January 2007 and supersedes the disclosure requirements of IAS 32, “Financial Instruments – Disclosure and Presentation”.

- IAS 1: International Accounting Standard (IAS) 1: In August 2005, the IASB issued an amendment to IAS 1, “Presentation of Financial Statements”, setting forth the disclosure requirements in relation to objectives, policies and processes for managing capital. The requirements are mandatory for reporting periods beginning on or after 1 January 2007.

Application of these new or revised standards will in some cases lead to additional disclosures in the next consolidated financial statements as of 31 December 2007. PAION’s financial position and financial performance were not affected by the application of these standards.

The regulations of International Accounting Standard (IAS) 34 **Interim Financial Reporting** have been adopted. The interim consolidated financial statements as of 30 September 2007 have to be read in connection with the consolidated financial statements as of 31 December 2006.

The preparation of the interim consolidated 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 consolidated 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 2006, the consolidation policies adopted in the interim consolidated financial statements as of 30 September 2007 are unchanged.

Accounting policies

In comparison to the consolidated financial statements as of 31 December 2006, the accounting policies adopted in the interim consolidated financial statements as of 30 September 2007 are unchanged.

Termination of the cooperation between PAION and Forest

In August 2007, Forest announced the termination of its collaboration with PAION regarding the joint development of Desmoteplase and the return to PAION of all rights to develop and market Desmoteplase in North America granted under the collaboration agreement. The termination of the collaboration agreement does not give rise to any repayment obligations for PAION relating to the milestone payments and reimbursements received from Forest in the past. The repayment obligations towards Forest which would have arisen in the event that regulatory approval for Desmoteplase had been granted in Europe and/or Japan, recognised as provision in past financial statements, were reversed in the current reporting period.

The refund claims against Lundbeck related directly to these repayment obligations were also derecognised due to the lack of a reference value. The reversal of the repayment obligations and the derecognition of the refund claims resulted in non-recurring income of EUR 2,668k in the third quarter 2007 which was offset against research and development expenses in the consolidated income statement.

The non-repayable signing fee received from Forest in fiscal year 2004, which was previously recognised as deferred income in the consolidated balance sheet, was also reversed due to the termination of the collaboration, resulting in additional revenue of EUR 1,669k in the third quarter of 2007.

Neither the non-recurring income nor the recognition of revenue had an impact on cash and cash equivalents.

Milestone obligation to Bayer-Schering Pharma AG

Due to the publication of the results of the DIAS-2 study, a milestone obligation to the original licensor Bayer-Schering Pharma AG of EUR 3m was recognised as a provision in the interim consolidated financial statements as of 30 June 2007. In the meantime, PAION and Bayer-Schering have reached an understanding that the results of the DIAS-2 study do not trigger this milestone obligation. The postings made in the second quarter of 2007 were thus reversed in the third quarter of 2007. The resulting income of EUR 2,632k was offset against research and development expenses in the third quarter.

Stock option program 2005

Under the stock option plan, 94,847 stock options with an exercise price of EUR 8.00 were granted to employees in April 2007. These stock options were accounted for in accordance with IFRS 2 **Share-Based Payment**. As of 30 September 2007, 955,147 stock options had been granted in total. Thereof, 496,300 stock options were granted to Management Board members and 458,847 to employees. No options have been exercised yet.

Related parties

Transactions with related parties have not changed compared to the consolidated financial statements as of 31 December 2006.

Aachen, 6 November 2007

PAION AG

The Management Board

Review Report

To PAION AG, Aachen:

We have reviewed the condensed consolidated interim financial statements – comprising the balance sheet, income statement, cash flow statement, statement of changes in equity and selected explanatory notes – together with the interim group management report of PAION AG, Aachen, for the period from January 1 to September 30, 2007 which are components of the interim financial report pursuant to § (Article) 37x Abs. (paragraph) 3 WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally in accordance with the International Standard on Review Engagements “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (ISRE 2410). Those standard require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and thus provides less assurance than an

audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Without qualifying this opinion, we draw attention to the explanations in the interim group management report. In section ‘Risk and Opportunities Report’, it states that the future development of the PAION Group depends heavily on the successful development of Desmoteplase the most important value driver within its development pipeline. If, after PAION’s cooperation partner Forest Laboratories Inc. decided to discontinue the collaboration in August 2007, also H. Lundbeck A/S the second cooperation partner should decide against the continuation of its collaboration, a major source of funding for the future development of Desmoteplase would be lost, thus, leading to a financial uncertainty with regard to the further development of Desmoteplase which may postpone or discontinue the development program with Desmoteplase. This would change the general conditions for PAION strongly.

Cologne, Germany, November 6, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(s) Gockel
Wirtschaftsprüfer
(German Public Auditor)

(s) Schlöder
Wirtschaftsprüfer
(German Public Auditor)

PAION AG

Martinstraße 10 – 12 52062 Aachen

Phone +49 241 4453-0

Fax +49 241 4453-100

info@paion.de www.paion.de