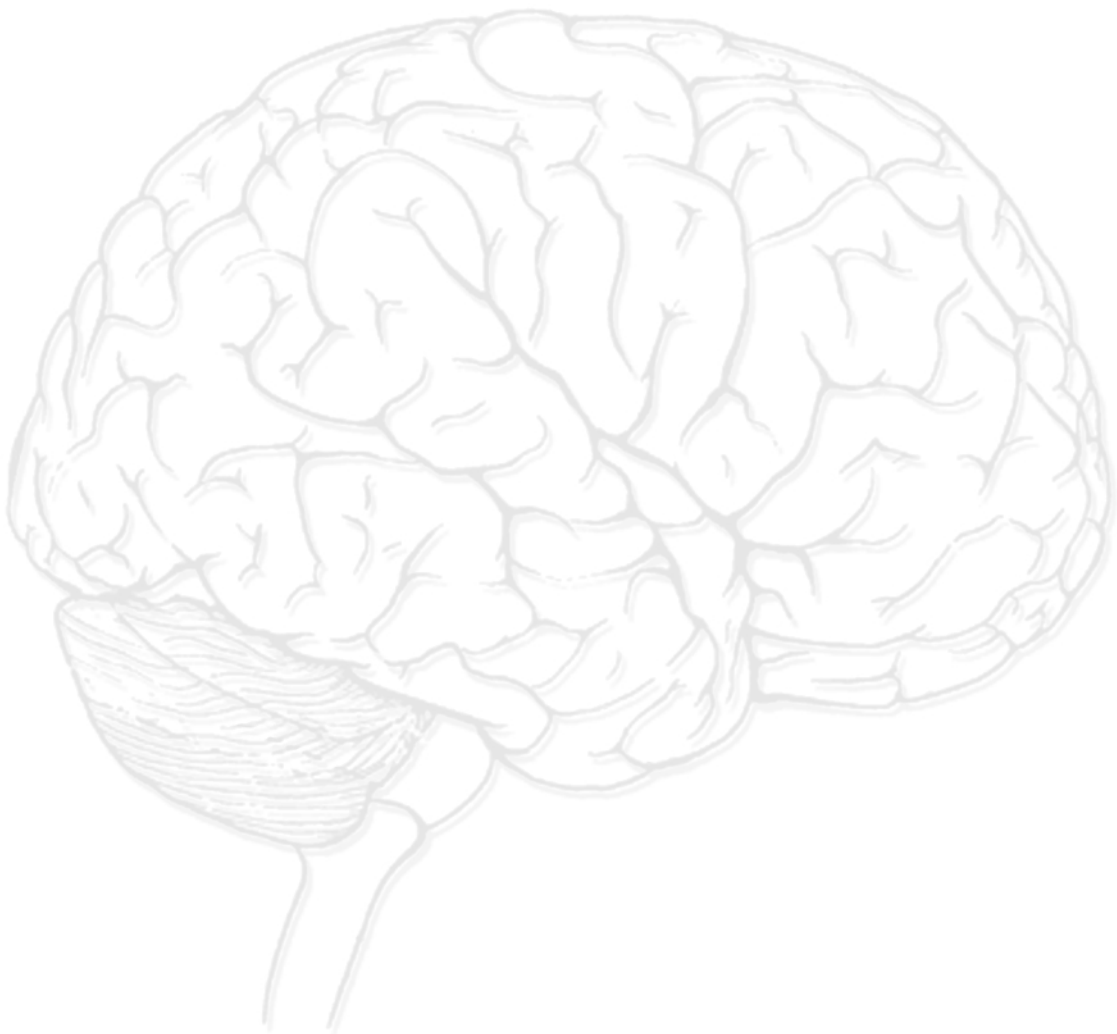


# PAION AR#2004

Annual Report of PAION AG, Aachen

PAION AG 2004



## Key Consolidated Financial Figures, IFRS

	2004	2003*
(all figures EUR k unless otherwise noted)		
<b>Profit and Loss Statement</b>		
Revenues	16,952	709
Research and development expenses	-7,976	-8,812
General and administrative expenses	-5,708	-2,432
Selling and marketing expenses	-647	-49
<b>Net Profit / Loss for the period</b>	<b>176</b>	<b>-10,864</b>
Personnel expenses included therein	-4,178	-4,997
Number of shares outstanding (weighted average, undiluted)	9,508,191	7,848,736
Number of shares outstanding (weighted average, diluted)	9,515,801	-
Earnings (loss) per share in EUR (undiluted)	0.02	-1.38
Earnings (loss) per share in EUR (diluted)	0.02	-
<b>Balance Sheet</b>		
Intangible assets	1,939	732
Cash and cash equivalents	20,889	8,454
Equity	15,312	7,579
Non-current liabilities	4,076	20
Balance sheet total	25,670	10,003
Equity ratio	59.6%	75.8%
<b>Cash flow</b>		
Net cash from operating activities	4,997	-9,567
Net cash from investing activities	-1,444	-729
Net cash from financing activities	8,882	13,175
<b>Employees</b>		
Group employees (average)	49	52

\* the comparative figures for 2003 relate to PAION Deutschland GmbH

# PAION AR#2004

Annual Report of PAION AG

PAION AG 2004





Alexander Vos  
Chief Operating Officer

Dr. Mariola Söhngen  
Chief Medical Officer

Dr. Wolfgang Söhngen  
Chief Executive Officer

Bernhard Hofer  
Chief Financial Officer

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## Letter to the Shareholders



Dr. Wolfgang Söhngen  
Chief Executive Officer of PAION AG

### Dear Shareholders and Friends of PAION,

What you have in front of you now is PAION AG's first ever Annual Report. Five years ago our company was spawned from the idea of developing a protein in the saliva of the vampire bat *Desmodus Rotundus* into a pioneering drug for the treatment of stroke, Desmoteplase. Thanks to the support provided by courageous private and institutional investors, this idea progressed and matured into a successful business model during the ensuing years. Today PAION shares are an interesting investment for the future. PAION has already built a reputation, also internationally, as the "PAIONeer in Stroke".

The past fiscal year 2004 was extremely successful for PAION and saw our company set a number of important directions. Apart from the flotation in the stock market, we also achieved numerous successes at the operating level, first of all in the development of our most important drug, Desmoteplase. Already at the beginning of the year 2004 we were able to present the results of the first clinical Phase II

study for the substance. Many experts regard Desmoteplase as a breakthrough in stroke treatment. Until the end of October 2004, a second Phase II study was completed successfully as well. The results were published in February 2005 and underline the efficacy and safety of Desmoteplase in the treatment of stroke. This has helped us convince more – previously reluctant – companies, investors and clinical investigators of the efficacy of the PAION approach.

When Desmoteplase was granted fast-track status in the US by the FDA in June 2004, this confirmed the importance that Desmoteplase is considered to have for stroke therapy and opens up opportunities for an accelerated approval of Desmoteplase. The fast-track status is reserved for drugs targeting life-threatening diseases. PAION aims to use a similar process for the approval in Europe once the necessary legal framework is established. PAION is actively contributing to putting these conditions in place, also at a political level.

The mid-2004 conclusion of a license and cooperation agreement with Forest Laboratories marked another milestone. Under the terms of the alliance with this renowned US-based pharmaceutical company, PAION will receive upfront and milestone payments of up to US \$ 69.5m plus cost reimbursements as well as very attractive royalty payments after market launch. Under the cost reimbursement plan Forest will advance a substantial portion of the further development costs for the product and carry out a part of the development. In return, Forest has been granted the US and Canadian marketing rights for Desmoteplase. Based on the upfront payment totalling US \$ 22m that was already received in 2004, PAION was able to present for the first time a balanced result and a positive operating cash flow. In view of the high costs that will be incurred for the ongoing and future clinical studies, however, we expect to report losses again for 2005 and the coming years. The agreement with Forest will greatly reduce the development risk for PAION. Such a validation by an established partner, that is so important for a young company, represents a significant step forward in the development of our company. Just like the IPO, the payments received from Forest will provide an important source of funding for our development activities.

2004 also saw us expand our product portfolio. An important step in this direction was the in-licensing of Enecadin, a neuroprotective drug designed to prevent damage to the surrounding neuronal tissue in the event of an acute stroke. Clinical Phase II studies are planned to start in the second half of 2005, also involving tests of Enecadin in combination with Desmoteplase. We believe that the full potential of neuroprotective drugs can be utilised only through such a combined treatment approach, as the agent can access the damaged cells only after the clot blocking the vessel has been dissolved. Our portfolio-deepening efforts focused on extending the therapeutic profile of Desmoteplase to the indication of pulmonary embolism, a thrombotic disease like stroke. Preliminary data from the current Phase II study make us confident that it will demonstrate efficacy in this area, too. In addition we were able to push ahead the pre-clinical studies for our third drug, the anti-coagulant Solulin.

Our non-operating activities culminated in the February 11, 2005 listing of our share at the Frankfurt Stock Exchange. As Germany's first IPO candidate in 2005, we received major press attention and virtually overnight, PAION became known as a promising company with an equally promising portfolio of drugs for stroke treatment – a PAIONeer in Stroke.

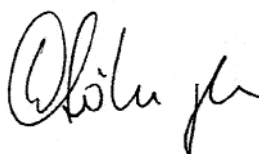
Both, the number of our investors and our capital base were significantly expanded by the flotation which resulted in an inflow of funds amounting to EUR 46m. This is a sound basis to for accelerating the clinical development of our three drugs Desmoteplase, Enecadin and Solulin – and for preparing the market launch of Desmoteplase in Europe. At the same time, we plan to strengthen our position by establishing combinatorial therapies addressing the collateral effects of stroke. Our declared goal is to build an integrated portfolio of drugs for the treatment of stroke and other thrombotic diseases and to become a market leader in these indications.

We are convinced that we will reach these goals together with our highly motivated employees. Each member of our team is committed to the objectives pursued by our company and our employees have shown a strong motivation

beyond the call of duty. My thanks go to all “PAIONeers” who were instrumental in making 2004 our company's most successful year to date.

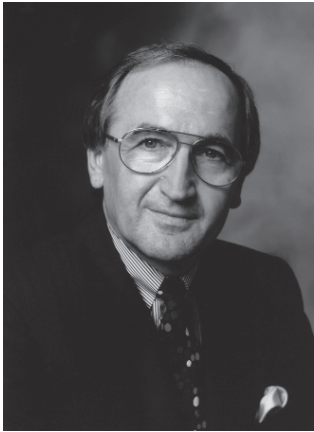
I would be pleased to have your continued support as we move forward on our growth path.

Yours sincerely,



Wolfgang Söhngen

## Report of the Supervisory Board



Dr. Walter Wenninger  
Chairman of the Supervisory Board of PAION AG

### Dear Shareholders,

2004 was an important year for PAION, marking a number of major steps forward in the history of this young company. By concluding a licensing agreement with Forest Laboratories Inc., PAION gained the support of a strong international partner for the further development and marketing of Desmoteplase. Decisive progress was also achieved in the clinical development of the company's products; special mention should be made of the successful completion of the second Phase II study of Desmoteplase in ischaemic stroke treatment. This positive trend has continued since the beginning of this year; February 2005 saw the launch of DIAS-2, a Phase IIb/III study jointly undertaken with Forest Laboratories Inc.

In June 2004 a public limited company (AG) was incorporated in preparation of the successful February 2005 flotation. This public limited company acquired all shares in Paion GmbH (since renamed PAION Deutschland GmbH) by way of a non-cash increase in capital.

Following their appointment on June 2, 2004, the members of the Supervisory Board have fully complied with their duties both under relevant laws and under the company's statutes. The Supervisory Board – and previously the Advisory Board of PAION Deutschland GmbH – monitored and advised the Management Board of the company and the Management of PAION Deutschland GmbH on an ongoing basis.

During the financial year 2004, PAION's management reported on the company's development, on its operating and financial position, on its strategy and orientation as well as on major business events at eight meetings of the Supervisory Board and previously at nine meetings of the Advisory Board. In addition, the Supervisory Board and the Advisory Board received written reports on the progress of the business activities on a monthly and quarterly basis. Moreover, the Management and the Management Board kept the Chairman of the Supervisory Board and the Advisory Board informed of major developments and imminent decisions.

### Focus of Deliberations

The Supervisory Board respectively the Advisory Board held in-depth deliberations with the Management Board and the Management on all matters requiring the approval of the Supervisory Board or the Advisory Board under relevant laws, under the company's statutes or under the standing orders. In the financial year 2004, the supervisory and advisory activities focused on the completion of the fourth financing round, the licensing agreement with Forest Laboratories, the preparation of the stock market flotation (involving the incorporation of PAION AG and the structuring of the underwriting consortium), the definition of the research and development strategy and the in-licensing of the drug Enecadin from Nippon Shinyaku.

### Expansion of the Management Board

Effective September 1, 2004, the Supervisory Board appointed Bernhard Hofer and Alexander Vos to the Management Board

where the two new members joined PAION founders Dr. Wolfgang Söhngen und Dr. Mariola Söhngen who had already been appointed effective June 15, 2004. On October 6, 2004, Dr. Walter Wenninger succeeded Dr. Franz Wirtz as Chairman of the Supervisory Board. Dr. Franz Wirtz continues to serve as the Vice-chairman of the Supervisory Board.

## Corporate Governance

PAION AG plans a far-reaching endorsement of the recommendations of the German Corporate Governance Code as last amended on May 21, 2003. The Management Board and the Supervisory Board will issue a declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG), thereby committing itself to implementing the recommendations to the extent detailed therein.

## Financial Statements and Consolidated Financial Statements

Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Zweigniederlassung Köln, was appointed auditor on the occasion of the foundation of the company on June 2, 2004. Having audited PAION AG's FY 2004 consolidated financial statements comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity, the notes to the financial statements and the management report as well as the financial statements and the management report of PAION AG, Ernst & Young AG Wirtschaftsprüfungsgesellschaft issued an unqualified audit certificate. The financial statements of PAION Deutschland GmbH, which are integrated into the consolidated financial statements of PAION AG, were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft as well and also received an unqualified audit certificate.

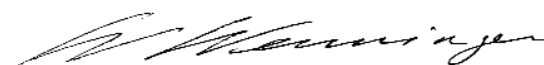
The Management Board made the above mentioned documents available to the members of the Supervisory Board in due time before the balance sheet meeting. The documents

were scrutinised by the Supervisory Board and discussed at length with the Management Board at the balance sheet meeting on March 10, 2005. The auditor attended the balance sheet meeting to explain the key findings of the audit and answer questions from the Supervisory Board.

No objections having been raised against the financial statements and the management reports, the Supervisory Board adopted the financial statements of PAION AG as well as the consolidated financial statements for the financial year 2004 by way of a decision taken on March 10, 2004. These statements are therefore deemed to have been formally approved in accordance with section 172 of the German Stock Corporation Act.

The Supervisory Board would like to thank the members of the Management Board as well as the company's employees for their dedication and their commitment to the company in the past financial year.

Aachen, April 2005

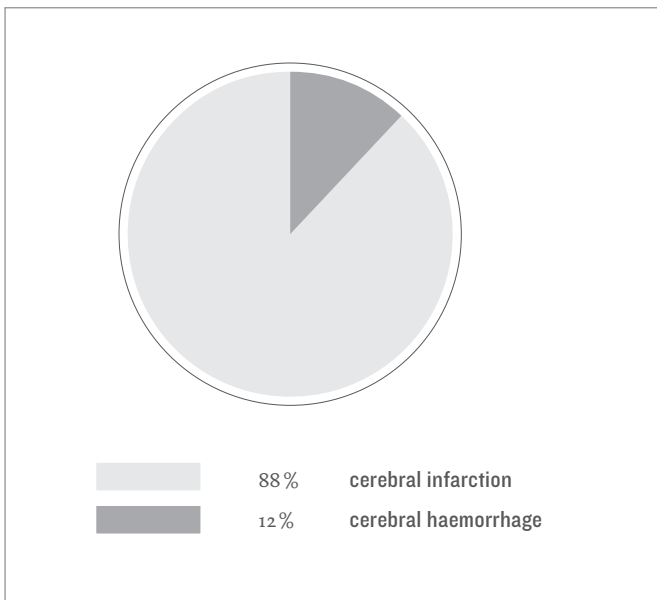


**Dr. Walter Wenninger**

Chairman of the Supervisory Board

## What is a Stroke?

### Relative Occurrence of Factors Causing a Stroke



Heart Disease and Stroke Statistics, American Heart Association, 2004 Update

A stroke is the sudden (“striking”) failure of certain cerebral functions as revealed, for example, by paralysis, uncertain gait or impaired vision and speech.

Ischaemic conditions may persist temporarily in the brain and recede within minutes or hours. A stroke is considered to be complete if the symptoms associated with ischaemia persist for more than one day. In this case, the affected brain tissue has most likely already suffered irreversible damage. Roughly one in three strokes is preceded by temporary attacks – but these are unfortunately often disregarded.

### What causes a stroke?

In the majority of patients, the stroke or cerebral infarction, as it is also known, is caused by ischaemia or a sudden impairment of the blood circulation through the brain. In most cases it is due to arteriosclerosis of the blood vessels supplying the brain. The development of arteriosclerosis depends on a whole series of risk factors, such as high blood pressure, smoking, obesity, lack of exercise or diabetes.

A stroke may also be caused by bleeding inside the brain, so-called cerebral haemorrhages.

## What happens when a stroke occurs and are there different kinds of stroke?

The term stroke embraces a variety of disorders. It is therefore medically important to distinguish more precisely between the different types of stroke and underlying disorders described below, as each must be treated differently.

### 1. Cerebral infarction

In 88%\* of cases, a stroke occurs when certain regions of the brain are no longer supplied with sufficient blood and oxygen. Such impaired circulation or ischaemia is essentially due to one of two causes:

#### a) Thromboembolism:

in this case, an artery is blocked by a clot of blood (thrombus) which has formed, for example, in the heart or in one of the major vessels leading to the brain such as the carotid artery. The thrombus may be released from its original position and entrained into the blood vessels of the brain by the blood-stream (embolism).

#### b) Occlusion of a cerebral artery due to vascular sclerosis

Also known as arteriosclerosis, such sclerotic processes in the actual cerebral or carotid vessels supplying the brain lead to relevant blockages or occlusion to a far lesser extent. Prolonged ischaemia will cause permanent damage to the nerve cells and thus lead to a cerebral infarction.

### 2. Cerebral haemorrhage

Cerebral haemorrhages are responsible for approx. 12%\* of all strokes. In this case, the surrounding brain tissue is flooded with blood emerging under high pressure from a ruptured blood vessel which has usually already been damaged by arteriosclerosis.

## What are the chances of a complete recovery?

Every apoplectic stroke presents a threat to the patient's health, life and quality of life. At least 25% of all stroke patients die during the acute phase of the disorder, i.e. during the first four weeks following the attack (Herman et al. 1980). Those who survive the acute phase are under considerable risk of suffering from the debilitating consequences of the stroke for the rest of their lives. Barely half of all stroke patients are able to live a normal life without external aid six months after the stroke. Roughly one-third are still slightly disabled, more than 20% are moderately, severely or very severely disabled (Wade and Langton Hewer 1987).

At present, there are probably more than one million people living in Germany who are suffering from the consequences of a stroke. Strokes are the commonest single cause of disability in Germany.

## Is a stroke attributable to a particular way of life?

A stroke is an illness which is caused by the interaction of a whole variety of seemingly unrelated risk factors. For many people, these risk factors – especially high blood pressure, smoking, disturbed fat metabolism or obesity – represent the affluence of western industrialised nations. In combination with lack of exercise, these risk factors can lead to arteriosclerotic processes in the body and consequently to massive impairment of the blood circulation, which in turn can lead to a stroke. Quite apart from genetic predispositions, a stroke can therefore be attributable to a person's way of life. This is also evident in comparative studies with native tribes: high blood pressure is virtually unknown among these populations. Up to 40,000 stroke deaths could be avoided in Germany every year if people were more aware of their risk profile and changed their habits accordingly.

## Which risk factors are there?

Some risk factors are beyond our control, such as age, congenital vascular disorders, heart defect or blood disorders. However, the following risk factors can be controlled:
High blood pressure
Diabetes
Cardiac dysrhythmia
Lack of exercise
Smoking
Disturbed fat metabolism
Obesity

## Why is rapid treatment so important?

Time is a decisive factor in treating a stroke because brain tissue reacts even more sensitively to disturbed blood circulation and lack of oxygen than does the cardiac muscle. Treatment to reopen occluded brain vessels, the efficacy of which has been demonstrated in clinical studies, should preferably be initiated within three hours, occasionally within up to six hours, of onset of the symptoms. Time is also an important factor for correctly diagnosing the cause of the stroke: major therapeutic decisions for the future depend on this diagnosis. If the correct treatment (medication, speech therapy, ergotherapy, physiotherapy) is initiated as soon as the diagnosis is complete, this will also improve the patient's chances of complete recovery from the neurological symptoms. All concerned (family, paramedics, emergency doctor) should be fully aware that a stroke is an acute and potentially life-threatening condition requiring immediate admission to a hospital (preferably to a neurological unit).

## Why are stroke patients often admitted to hospital too late?

In the past and even today, a stroke is still considered to be something that primarily afflicts elderly people, a twist of fate, and one for which there is no effective treatment in any case. The illness is often played down, due particularly to misinterpretation of the symptoms and the absence of pain; it is often met with a "wait and see" attitude.

Statistics show that most strokes occur in the early hours or that people only become aware of an attack suffered during the night when they wake up in the morning. One common mistake by patients and their relatives is that they only consult their family doctor shortly before noon or ask him to call by, with the result that it is early or even late afternoon before the doctor actually sees the patient. Valuable time for a quick diagnosis and the right treatment is lost in this way.

## What must be done so that suspected stroke patients are admitted to hospital sooner?

Most of the promising approaches for acute treatment of a stroke can only prove effective if they are initiated within a few hours of the symptoms becoming manifest. Prompt implementation of diagnostic and therapeutic measures requires a smoothly functioning chain of information and emergency help. In other words, every member of the chain – patient, relatives, emergency doctors, paramedics, ambulance drivers, nursing staff and the doctors on duty – must be informed with regard to the subject of strokes and coordinate their actions. A great deal of time can be won through better information and by optimising the organisational structures.

## How is an acute stroke treated?

Treatment of a stroke should start as early as possible. Until now, measures to reopen occluded vessels usually have a chance of success only if taken within up to six hours of onset of the symptoms.

However, other therapeutic measures aimed at preventing the stroke from spreading or preventing further strokes should also be initiated as soon as possible. This includes:

1. Cautious lowering of the blood pressure
2. Ensuring sufficient hydration (if necessary, infusion)
3. Checking and, if necessary, treating high or low blood sugar levels
4. Ensuring oxygen supply (if necessary, artificial respiration)
5. Avoiding further embolisms by giving blood-thinning medication
6. Dissolving the blood clot, e.g. administering rt-PA
7. Surgery
8. Early rehabilitation

## What do the Stroke Units do?

Stroke Units are special units with almost the same medical standard as an intensive care unit. Ideally, they should be part of a neurological department and permit immediate diagnosis of the specific stroke with initiation of the appropriate treatment.

In addition to receiving treatment during the first days following the stroke, patients also undergo intensive clinical observation by specially trained staff with the relevant apparatus. This is accompanied by secondary preventive measures, such as early administration of anti-coagulants (e.g. Heparin, ASS).

Optimum nursing care and accommodation of the patient, thrombosis and pneumonia prevention, as well as early initiation of reactivating care with physiotherapy, ergotherapy and speech therapy are further characteristics of these Stroke Units. Patients remain in the Stroke Unit until they can be returned to the hospital which referred them or until they can be transferred to a normal ward within the same hospital. In straightforward cases, this is usually possible after between three and five days.

## What are the symptoms of stroke?

<b>Sudden onset of:</b>
Paralysis of one side of the body (=hemiparesis) with various manifestations in the arm, leg and/or face (drooping mouth)
Speech and/or comprehension disturbances (aphasia)
Feeling of numbness in the corresponding half of the body or part of it
Other sensory disturbances, such as tingling (formication)
Severe headache (in conjunction with cerebral haemorrhage)
Impaired vision (double vision, blind spots)
Major dizziness and an inability to sit or stand
Pain in the affected skin areas or parts of the body (extremely rare)

## Where are the greatest deficits in acute treatment of stroke patients?

Considerable deficits exist with regard to optimum acute treatment of stroke patients in Germany. Promising novel therapies, such as fibrinolysis, can only prove effective if they are undertaken in good time. The time between onset of the symptoms and commencement of treatment must therefore be reduced considerably. This means firstly that patients with corresponding symptoms must seek medical assistance without delay and secondly that the primary doctor consulted must immediately order the patient's admission to hospital.

Unfortunately, the general public still knows too little about strokes and their symptoms. Many doctors are also still uncertain when it comes to treating a stroke, usually due to the inefficacy of most treatment methods investigated to date. The result, however, is a vicious circle: because people believe there is no effective treatment for stroke, the patient is admitted to hospital too late which in turn means that the efficacy of such novel therapies as early lysis cannot be demonstrated.

The almost innumerable variety of studies investigating stroke therapies has also made it impossible for generally established treatment regimes to become accepted, thus leading to considerable uncertainty among the doctors consulted.

Among the general public, a stroke still does not receive the attention it is due in view of the socio-medical importance of this illness. The existing system of care has not been systematically surveyed, nor has a strategy been drawn up for effective and efficient organisation of the means available with corresponding possibilities for quality control.

Copyright: Stiftung Deutsche Schlaganfall-Hilfe

More information on stroke can be found on

[www.schlaganfall-hilfe.de](http://www.schlaganfall-hilfe.de)

1 Cancer

2 Heart diseases

3 Stroke

About 20 – 25% of the patients die within four weeks.

This makes stroke the third leading cause of death after cancer and heart diseases in Germany.

# Developing a stroke therapy that is accessible for more patients

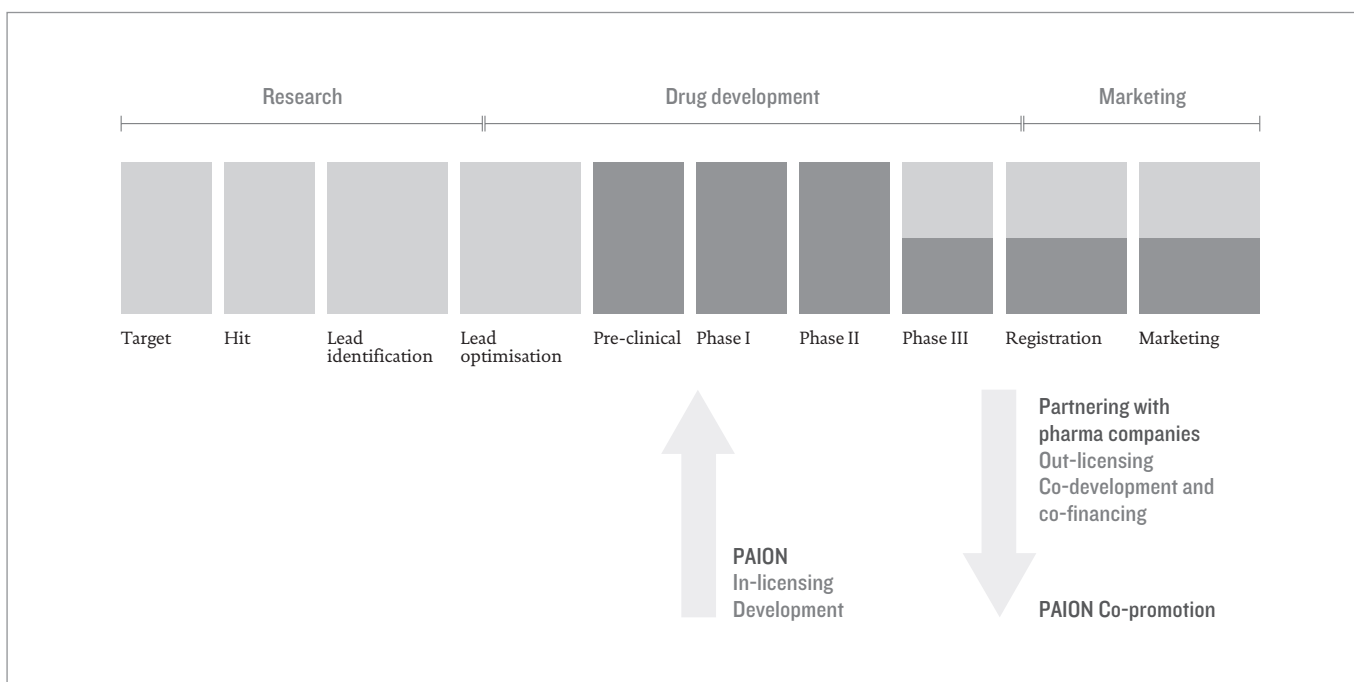
## The PAION Business Model

PAION is a biopharmaceutical company aiming to become a leading player in developing and commercialising drugs for the treatment of stroke and other thrombotic diseases. PAION intends to build a portfolio of complementary drugs for these indications. To achieve this goal, the company uses a so-called “search-and-development” approach. As part of this approach, PAION seeks to identify new compounds with promising potential for the treatment of stroke and other thrombotic diseases, license or otherwise acquire them and advance them through the clinical development and the regulatory approval process.

Where appropriate, particularly during the late stages of the clinical development and approval process and the marketing of PAION’s compounds, the company seeks to collaborate with experienced partners. One such partner is Forest, a company renowned for its marketing strength, with whom

PAION has signed an agreement for the development and commercialisation of Desmoteplase in North America. Going forward, PAION intends to become more actively involved in the commercialisation process, for instance in the context of co-promotion agreements for selected countries. This aspect is also being addressed in the negotiations currently held by PAION with a number of prospective collaboration partners who are interested in commercialisation rights for Europe, Japan and other parts of the world.

## Search-and-Development Approach



## Product Pipeline

PAION is currently focusing its development activities on three drugs – Desmoteplase, Enecadin and Solulin.

<p><b>Desmoteplase</b></p>	<p><b>Indication:</b> Ischaemic stroke</p> <p><b>Therapeutic approach:</b></p> <ul style="list-style-type: none"> <li>- Neuroprotective plasminogen activator with dual effect: protects brain cells and dissolves blood clots</li> <li>- Extension of time window for treatment from three to nine hours</li> </ul> <p><b>Development status:</b></p> <ul style="list-style-type: none"> <li>- Fast-track status (USA)</li> <li>- Two clinical Phase II studies completed</li> <li>- Phase IIb / III- study started</li> </ul> <p><b>Indication:</b> Pulmonary embolism</p> <p><b>Therapeutic approach:</b></p> <ul style="list-style-type: none"> <li>- Plasminogen activator – blood clot-dissolving drug</li> </ul> <p><b>Development status:</b></p> <ul style="list-style-type: none"> <li>- Phase II study (expected to be completed in second half of 2005)</li> </ul>
<p><b>Enecadin</b></p>	<p><b>Indication:</b> Ischaemic stroke</p> <p><b>Therapeutic approach:</b></p> <ul style="list-style-type: none"> <li>- Neuroprotectant – drug that protects brain cells from damage caused by stroke</li> <li>- Mono and combination therapy with Desmoteplase</li> </ul> <p><b>Development status:</b></p> <ul style="list-style-type: none"> <li>- Phase I study (expected to launch in first half of 2005)</li> <li>- Phase II study (expected to launch in second half of 2005)</li> </ul>
<p><b>Solulin</b></p>	<p><b>Indication:</b> Ischaemic stroke, thrombotic diseases</p> <p><b>Therapeutic approach:</b></p> <ul style="list-style-type: none"> <li>- Anticoagulant – drug that prevents the formation of blood clots</li> </ul> <p><b>Development status:</b></p> <ul style="list-style-type: none"> <li>- Pre-clinical</li> <li>- Phase I study (expected to launch in second half of 2005)</li> </ul>

## Perfusion CT makes stroke diagnostics more widely available

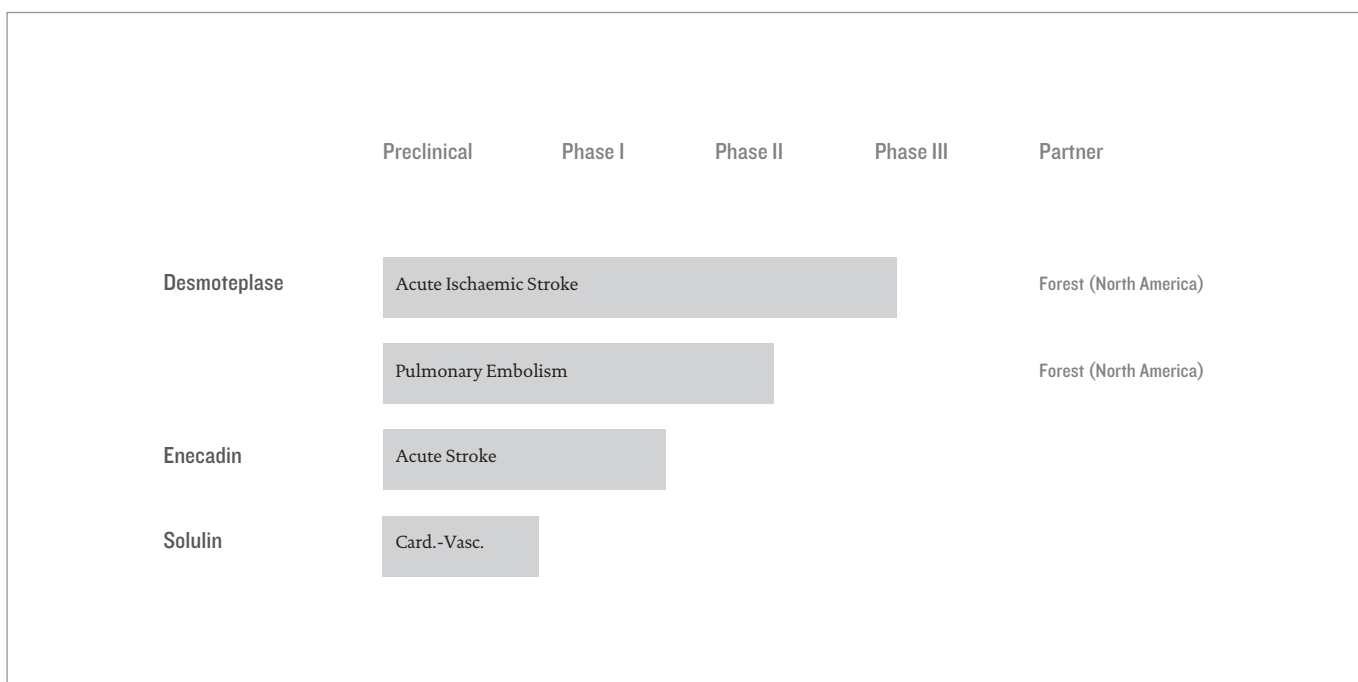
Besides the availability of effective drugs, fast and reliable diagnostics are an important factor in the effective treatment of stroke. In the context of its clinical studies, PAION has shown that imaging technology enables much more far-reaching therapy decisions to be taken than the distinction between cerebral infarction and cerebral haemorrhage by today's computer tomography. Magnetic resonance imaging (MRI), which has been used in the studies to date, allows a distinction to be made between the core of an infarct, i.e. the dead tissue, and the surrounding tissue which has a reduced blood supply but is still viable. Our clinical studies have confirmed that the relation between these two should form the basis for any therapy decision. Only if there is sufficient restorable brain tissue will there be a chance that the clinical symptoms can be improved once the clot has been dissolved.

MRI scanners are currently not available in all hospitals. A special technology called perfusion computer tomography (pCT) allows such a differentiated diagnosis to be made using the more widely available CT scanners.

Many of the CT machines used today are suitable for pCT; they only lack the required software. With a view to making pCT more widely available to a larger number of hospitals and patients, PAION entered into a cooperation agreement with Philips in 2004. Philips has developed a software for the evaluation of perfusion CT scan data which is largely manufacturer-independent.

By making perfusion computer tomography more widely available, a larger number of emergency wards will be able to identify stroke patients who are most likely to benefit from Desmoteplase therapy. Both MRI scans and pCT scans may be used in the clinical Phase IIb/III study initiated in February 2005.

## Pipeline



2,300,000 /year  
in the  
Industrialised  
World

Stroke is one of the major civilisation diseases. Every year 700,000 Americans alone suffer a stroke; in Germany stroke affects 200,000 people.

## The PAION Share

### IPO

PAION's IPO early 2005 marked the beginning of a new phase for the company. The proceeds from the IPO give PAION the means to accelerate the drug development process and to expand its portfolio of products for the treatment of stroke and other thrombotic diseases.

The PAION share was first listed in the Prime Standard segment of the Frankfurt Stock Exchange's official market on February 11, 2005. At EUR 8.35 (Xetra), the closing price on the first day of trading was clearly up on the initial offering price of EUR 8.00, making PAION not only the first European biotech company to go public in 2005 but also Germany's first successful IPO in the year 2005.

In the context of the stock offering, 5.75 million shares were placed in the market (incl. greenshoe option), which represents 36.5 percent of PAION AG's share capital. The issue was clearly oversubscribed, with particularly strong demand from institutional investors in the UK, Switzerland and the USA. Some 7 percent of the shares were placed with private investors. There was no preferential allocation of shares to employees or business partners of PAION AG in the context of a "Friends & Family Programme".

After the IPO, 63.5 percent of all shares are still held by the old shareholders, who have agreed a voluntary lock-up period of six months and twelve months, respectively, in the case of the company founders and Board members, Mariola and Wolfgang Söhngen.

### Key Facts and Figures of the PAION Shares

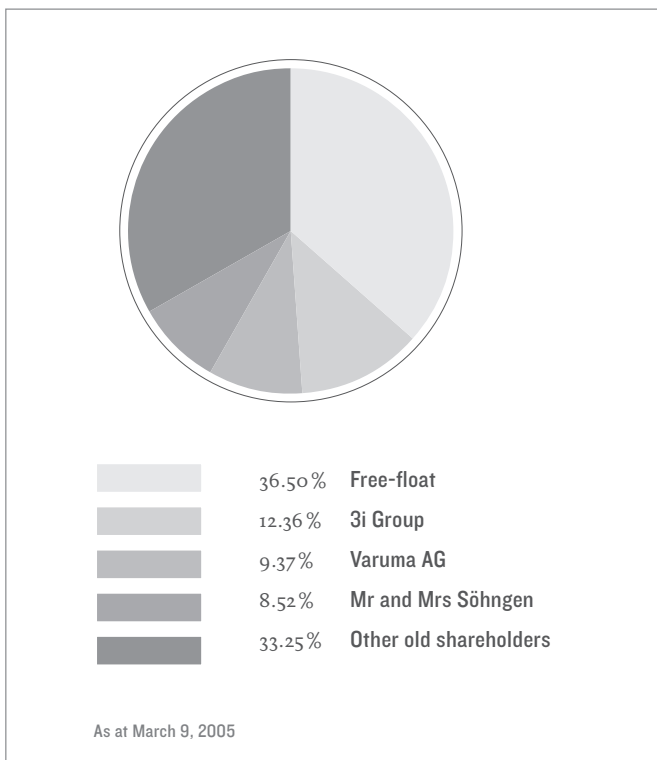
First day of trading	February 11, 2005
Initial offering price	EUR 8.00
First market price	EUR 8.00
Total greenshoe exercised	750,000 shares
Issuing volume (incl. greenshoe)	5,750,000 shares with an imputed par value of EUR 1.00
Issuing volume in euros (incl. greenshoe)	EUR 46,000,000
Type	No-par bearer shares
Market segment	Official market ("Amtlicher Markt")/ Prime Standard of the Frankfurt Stock Exchange
Syndicate	UBS Investment Bank (lead manager), Dresdner Kleinwort Wasserstein, Landesbank Baden-Württemberg
PAION ticker symbol	WKN (ISIN) A0B65S (DE000A0B65S3) PA8

## 2005 Stock Option Programme

In the context of the IPO, PAION has launched a new 2005 stock option programme for the management and the employees of PAION AG.

Although PAION intends to grant stock options in the current fiscal year, none have been granted until the compilation of the consolidated financial statements 2004.

## Shareholder Structure



## Investor Relations

PAION AG is committed to transparent, ongoing and comprehensive communication with all capital market participants. The company has therefore set up an Investor Relations Department, which is headed by Dr. Peer Nils Schröder.

Regular investor relations activities include press conferences, analysts meetings and telephone conferences, which are used to inform the financial community about the company's economic performance and important business events. In addition, we hold numerous one-on-one meetings to establish direct and personal contacts with financial investors and potential institutional investors. The main instrument for communication with private investors is the company's website, which is tailored to the specific requirements of this investor group. The members of the IR team also ensure that all inquiries are answered competently and in a timely manner.

### Do you want to know more on PAION shares?

Tel: +49 -241-4453-152

E-mail: [investor.relations@paion.de](mailto:investor.relations@paion.de)

[www.paion.de](http://www.paion.de)

# USA

# \$ 53.6 b

# / 2004

Stroke causes major economic loss. In the US alone, the estimated direct and indirect costs associated to stroke amounted to US\$ 53.6b in 2004.

# Group Management Report

PAION AG

## Group Management Report for Fiscal Year 2004

### Development of the Pharmaceutical and Biotechnology Industry

The consolidation of the pharmaceutical and biotechnology industry that began in 2001 continued in fiscal year 2004, evidenced by the increasing number of restructurings and mergers. Listed biotechnology companies in Europe and the US rode on the back of the positive trend from the prior year at the start of 2004, gaining in value once again. Share price dips half way through the year evened out again by year-end. The Nasdaq Biotech Index grew 6.1% during the year as a whole, while Deutsche Börse's Prime Pharma & Healthcare Performance Index leapt some 18%.

The Vioxx recall at the end of the third quarter contributed to the temporary dent in confidence on the markets as tighter approval requirements leading to higher prices could not be ruled out. The US Food and Drug Administration (FDA) was heavily criticised as they had initially approved Vioxx. In the meantime, the FDA has announced that it intends to step up reviews of approved drugs. This could lead to drugs that have already been approved having to be validated through additional clinical trials. However, the FDA is not expected to change its approval procedure for areas, such as stroke, where medical need is high and has not been met to date. Notwithstanding this development, the number of drugs approved by the FDA in 2004 increased in comparison to prior year by 31% to 422.

As in the prior year, the window for IPOs in Europe remained firmly shut for the most part. In contrast to the US, where there were 28 IPOs by pharmaceutical and biotechnology companies generating average proceeds of US \$ 54.6m, just 11 IPOs were carried out in Europe. Their average offering volume was some EUR 32.2m but issuers largely failed to achieve their intended volumes and prices and prices did not develop well after the initial listing, fulfilling neither issuers' nor investors' expectations. Despite the ongoing difficult conditions, the highest level of funds since the start of 2003 was attracted in the fourth quarter. At the same time, opportunities for young biotechnology companies to finance their research and development activities picked up thanks to collaboration arrangements with large pharmaceutical companies. This is attributable to the need of pharmaceutical companies to find substitutes for drugs losing patent protection.

## Business Performance

PAION, a biopharmaceutical company, aims to become a leading player in the development and distribution of innovative drugs for the treatment of stroke and other thrombotic diseases for which there is substantial unmet medical need. PAION is currently focusing on developing an extensive medical portfolio for the causal treatment of acute ischaemic stroke which is triggered by blood clots blocking arteries in the brain. This is the most common cause, occurring in some 88% of all strokes. PAION's drug pipeline currently comprises three substances, Desmoteplase, Enecadin and Solulin which, if developed successfully, could be used in future for treating ischaemic stroke. Each of these substances targets a different aspect of stroke, thereby offering a complementary therapy option. Desmoteplase is also being clinically developed at present for treating pulmonary embolism. PAION analyses substances for treating stroke and other thrombotic diseases on an ongoing basis.

## I. Overview of Research and Development Activities

### a. Desmoteplase

PAION's most advanced substance is Desmoteplase, an intravenous therapeutic, which is being developed primarily for the causal treatment of acute ischaemic stroke. Desmoteplase belongs to a group of blood clot-dissolving compounds known as plasminogen activators. Desmoteplase is a genetically engineered version of a plasminogen activator found in the saliva of the vampire bat *Desmodus Rotundus*. Vampire bats are the only mammalian species to feed exclusively on blood.

#### **Clinical Trials for the Indication Ischaemic Stroke**

In October 2003, a Phase II clinical trial for the use of Desmoteplase in treating acute ischaemic stroke was completed in Europe, Singapore and Australia. The trial was called Desmoteplase In Acute Ischaemic Stroke (DIAS). Magnetic resonance imaging (MRI) was used to select patients for the first time in a trial using a thrombolytic. This technology enables salvageable brain tissue, penumbra, to be identified. This strategy aimed to select patients with a high probability of benefiting from reperfusion therapy in the affected areas of the brain. The results of the trial were presented at the International Stroke Conference in San Diego, USA, in February 2004 and published in the *STROKE* journal in January 2005.

At the same time as the DIAS trial, PAION conducted the DEDAS (Dose Escalation Study of Desmoteplase In Acute Ischaemic Stroke) trial in the US and Germany. This trial, the design of which was identical to that of the DIAS trial, was successfully concluded in November 2004. The results of the DEDAS study were presented in February 2005 at the International Stroke Conference in New Orleans, USA, and confirm the positive results for the most effective dose from the DIAS trial.

A Phase IIb/III clinical trial, the design of which has been discussed with the FDA, was launched together with PAION's cooperation partners and licensee, Forest Laboratories, in the US and Europe in February 2005. In this trial, both MRI and perfusion computer tomography (perfusion CT) are used to select and diagnose patients. Perfusion CT is a diagnostic technology that is cheaper than MRI and more widely available. Like MRI it is used to examine the flow of blood to the brain and identify salvageable penumbra.

The FDA has granted Desmoteplase fast-track status for the indication acute ischaemic stroke. The FDA fast-track program is designed to facilitate the development of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. The review procedure for such drugs is to be accelerated by allowing approval-relevant data to be forwarded to the FDA on a rolling basis and discussed with the FDA.

#### **Clinical Trials for the Indication Pulmonary Embolism**

In addition to the clinical studies investigating the efficacy of Desmoteplase in stroke, PAION recently initiated the DEPTH (DEsmoteplase in Pulmonary THromboembolism) trial. This Phase II clinical trial is being carried out in Germany, Hungary and Russia and is designed to assess the safety and efficacy of intravenous Desmoteplase in patients with acute pulmonary embolism. Preliminary data suggest a dosage-dependent improvement in patients' lung function as a result of Desmoteplase. This trial is expected to be completed in 2005.

**Production Development**

Desmoteplase is manufactured externally by a contract manufacturing organisation (CMO). PAION currently has sufficient quantities to carry out the ongoing clinical trials. PAION is currently in advanced negotiations with a CMO on the final formulation for Desmoteplase.

**b. Enecadin**

Enecadin is a neuroprotectant which helps affected brain cells survive longer and treats secondary effects occurring in the early stages of an acute ischaemic stroke. PAION licensed the substance from Nippon Shinyaku Co., Ltd., Kyoto, Japan, in fiscal year 2004.

**Clinical Trials**

PAION has already conducted preclinical trials with respect to Enecadin and plans to begin a Phase I clinical interaction and safety trial in the first half of 2005 and two Phase II clinical trials in the second half of 2005. The substances required for the trials are manufactured by Nippon Shinyaku. Enecadin is to be developed in combination with Desmoteplase.

**c. Solulin**

Solulin is an anticoagulant that may be useful in preventing re-blockage of blood vessels in the secondary treatment of ischaemic stroke in the acute time window and other thrombotic diseases.

PAION is currently investigating Solulin in animal trials and expects to commence Phase I clinical trials in the second half of 2005. The substances required for the trials are manufactured by an external CMO.

## 2. Collaboration Arrangements

### a. License Agreement with Forest Laboratories Ireland Limited

On June 30, 2004, PAION concluded a license agreement with Forest Laboratories Ireland Limited, Clonshaugh, Ireland (hereinafter referred to as “Forest”), a subsidiary of Forest Laboratories, Inc., New York City, New York, USA, on the further development and marketing of Desmoteplase. Under this agreement, Forest has an exclusive license to market Desmoteplase for stroke and other indications in the US and Canada and agrees to pay:

- advance and milestone payments;
- a substantial part of the development expenses for Desmoteplase in connection with preclinical and clinical trials; and
- royalties on receiving market approval.

The advance and milestone payments total US \$ 69.5m, of which US \$ 22m was paid in 2004.

### b. License Agreement with Nippon Shinyaku Co., Ltd.

In September 2004, PAION entered into a license agreement with Nippon Shinyaku Co., Ltd., Kyoto, Japan (hereinafter referred to as “Nippon Shinyaku”), on the granting of worldwide development and marketing rights to Nippon Shinyaku’s neuroprotectant Enecadin. Under the agreement, PAION has an exclusive license to develop and market Enecadin worldwide, with the exception of Japan where PAION and Nippon Shinyaku share the rights. PAION has agreed to make an advance payment and several future milestone payments linked to the achievement of certain targets. PAION is also obligated to pay royalties on future sales of Enecadin on all markets worldwide.

### 3. Net Assets, Financial Position and Results of Operations

#### a. Results of Operations

In fiscal year 2004, PAION generated a net income for the first time since its formation in 2000. This is attributable to the conclusion of the license agreement with Forest which has a marked effect on the results of operations for fiscal year 2004.

	2004	2003
	EUR k	EUR k
Revenues	16,952	709
Cost of revenues	-2,439	-426
<b>Gross profit</b>	<b>14,513</b>	<b>283</b>
Research and development expenses	-7,976	-8,812
General and administrative expenses	-5,708	-2,432
Selling and marketing expenses	-647	-49
Other income (expenses)	-269	84
<b>Operating expenses</b>	<b>-14,600</b>	<b>-11,209</b>
<b>Operating loss</b>	<b>-87</b>	<b>-10,926</b>
Financial result	263	62
<b>Net profit/loss for the period</b>	<b>176</b>	<b>-10,864</b>

**Revenues** increased significantly against the prior year. The total revenues in fiscal year 2004 result exclusively from the license agreement with Forest; EUR 15,592k thereof relates to the transfer of know-how, EUR 703k to the prorated realisation of the signing fee and EUR 657k to the refund of development expenses. Revenues in the prior year mainly stemmed from contract research (EUR 300k) and an advance payment which was recognised in profit and loss due to the end of negotiations on a cooperation agreement (EUR 352k).

**Cost of revenues** comprises 50 % of the fees paid for the worldwide development and marketing rights for Desmoteplase as it is assumed that the territories licensed to Forest make up 50 % of the global market. The remaining cost of revenues of EUR 566k stem from the development expenses allocated to Forest.

**Research and development** expenses mainly relate to individual clinical trials for Desmoteplase and the further development of Desmoteplase production. The reduction in expenses in comparison to the prior year is due to the reclassification of expenses allocated to Forest as cost of revenues, and to the fact that only EUR 503k (prior year: EUR 1,134k) were incurred as expenses for a stock option plan in this area in fiscal year 2004.

The increase in **general and administrative expenses** is largely the result of the remuneration (EUR 1,668k) paid to an external agent in connection with the conclusion of the license agreement with Forest. The increase also relates to the legal and consulting fees in connection with the conclusion of the license agreement with Forest, the capital increase performed at the beginning of 2004 and the preparatory measures for the IPO.

#### b. Net Assets and Financial Position

The balance sheet structure changed significantly in fiscal year 2004. With the balance sheet total increasing by EUR 15,667k to EUR 25,670k and cash and cash equivalents increasing by EUR 12,435k to EUR 20,888k, the equity ratio decreased from 75.8 % to 59.6 %.

	2004	2003	change
	EUR k	EUR k	EUR k
Non-current assets	2,945	1,295	1,650
Current assets	22,725	8,708	14,017
<b>Assets</b>	<b>25,670</b>	<b>10,003</b>	<b>15,667</b>
Equity	15,312	7,579	7,733
Non-current liabilities	4,076	20	4,056
Current liabilities	6,282	2,404	3,878
<b>Equity and liabilities</b>	<b>25,670</b>	<b>10,003</b>	<b>15,667</b>

The increase in **non-current assets** is chiefly attributable to payments of EUR 3,200k to secure the global development and marketing rights to Desmoteplase; 50 % of these payments was recognised as an asset.

The change in **current assets** relates predominantly to the increase in cash and cash equivalents. The cash flows stem from the following areas:

	2004	2003
	EUR k	EUR k
Cash flow from operating activities	4,997	-9,567
Cash flow from investing activities	-1,444	-729
Cash flow from financing activities	8,882	13,175
<b>Change in cash and cash equivalents</b>	<b>12,435</b>	<b>2,879</b>

As a result of the payments by Forest of EUR 17,815k for the transfer of know-how and for the signing fee, positive cash flow from operating activities was generated in fiscal year 2004 for the first time since the formation of the Company. This more than compensated the increase in operating expenses such that overall, cash flow from operating activities of EUR 4,997k was generated.

The cash flow from investing activities in fiscal year 2004 is chiefly attributable to milestone payments of EUR 3,200k to secure the global development and marketing rights for Desmoteplase; 50 % of these payments was recognised as an asset. The expenses in the prior year also related mainly to milestone payments for the securing of worldwide development and marketing rights for Desmoteplase (EUR 700k). These were initially recognised as an asset in full and the share attributable to the US and Canada was accounted for as a disposal (EUR 300k). The cash flow from financing activities mainly stems from the fourth financing round by PAION Deutschland GmbH concluded at the beginning of 2004 (EUR 9,777k) and the cash inflow of unpaid contributions on premiums as of December 31, 2003 (EUR 511k). These cash inflows were contrasted by cash paid for the settlement of a stock option plan for employees and consultants of EUR 1,165k which is to be treated as a repayment of capital under IFRSs. At the end of 2004, an agreement was concluded with employees and consultants participating in the plan under which they receive a cash settlement in three installments instead of the right to acquire shares in PAION Deutschland GmbH. The first installment was paid in December 2004 and January 2005. The second and third installments are due in February 2005 and 2006.

The increase of EUR 4,056k in **non-current liabilities** is primarily due to the accrual of the non-repayable signing fee of EUR 1,758k paid by Forest which will be recognised in profit and loss in relation to the milestones achieved. Furthermore, the increase in non-current liabilities is attributable to the recognition of a provision for the third installment of the cash settlement (EUR 1,200k) in connection with the termination of the stock option plan as well as the recognition of a provision for the refund obligation to Forest (EUR 736k). 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.

**Current liabilities** rose by EUR 3,878k year on year. This is attributable to the increase in trade payables (EUR 1,566k), which mainly rose due to the product development services received but not yet paid as of year-end, the increase in provisions (EUR 1,457k) and other current liabilities (EUR 760k). The increase in provisions and other current liabilities relates in particular to the obligations from the termination of the stock option plan. As of the balance sheet date, EUR 134k was disclosed for the remaining obligations from the first installment and EUR 833k was disclosed as liabilities/provisions for the second installment. Liabilities from wage tax increased by EUR 415k compared to the prior year as a result of the settlement of the stock option plan. In addition, the provisions for consulting fees increased as a result of the IPO on February 11, 2005.

## Personnel Development

PAION's headcount did not change significantly in the course of the fiscal year and stood at 49 on average. Of these 49 employees, 32 worked in research and development and 17 in administration and sales. At the end of 2004, PAION employed 17 employees with a doctorate degree.

As of the balance sheet date, three trainee office clerks and system integration IT assistants were employed.

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

## Risk Report

### I. Risks to Future Development

PAION is a young internationally active biopharmaceutical company and is subject to the industry and market risks which these business activities entail. The occurrence of one or more of these risks could impair PAION's business operations and have considerable effects on its net assets, financial position and results of operations. In order to recognise and assess these risks at an early stage, PAION has set up a risk management system which is integrated into the management of the business; it is described under No. 2 of this section.

#### a. Risks in Relation to Drug Development

PAION's drug pipeline currently comprises three substances: Desmoteplase, Enecadin and Solulin. Desmoteplase is PAION's most advanced substance for which a Phase IIb/III clinical trial in the indication ischaemic stroke was started in February 2005. Before PAION can commercialise Desmoteplase and the other substances, it must demonstrate their safety and efficacy in adequate and well-controlled clinical trials. If PAION is unable to demonstrate that the substances are safe and effective, it will not receive the regulatory approvals necessary to market them.

PAION's ability to adhere to the timetable for the further clinical development of substances is subject to additional risks. There can be no assurance that the data available after completion of the individual clinical trials will be sufficient to form the basis for the next development phase or an application for regulatory approval. In addition, it is possible that the regulatory authorities will demand additional trials, which would entail additional costs for PAION and would significantly delay its receipt of regulatory approval.

The completion of clinical trials depends, among other things, on the ability to enrol a sufficient number of patients to participate in trials. Difficulties in enrolling patients in clinical trials may increase costs and negatively affect the timing and outcome of these clinical trials.

## **b. Risks in Relation to the Manufacture of Pharmaceutical Substances**

PAION does not currently own or operate manufacturing facilities. Accordingly, it relies and expects to continue to rely on third parties for the supply of the active pharmaceutical ingredient Desmoteplase and PAION's other substances and for the manufacture of clinical and commercial quantities of them. PAION may not be in a position to maintain or renew its existing agreements with third parties on terms acceptable to it or at all.

## **c. Risks in Relation to the Marketing of Drugs**

PAION expects to continue to be dependent on collaborative arrangements with experienced partners to complete the development of its drug candidates and to commercialise them successfully. Should PAION fail to enter into collaborations on terms favourable to it or at all, its ability to develop and market its existing and future drug candidates may be reduced which may increase development and marketing expenses.

## **d. Risks in Relation to Patents and Other Intellectual Property**

PAION's business operations are to a large extent dependent on its ability to license, purchase or otherwise acquire patents and other intellectual property protection for new drug candidates with potential. There can be no assurance that patents with respect to the current or future applications will be granted or that any patents granted or licensed will be valid and of sufficient scope to provide PAION with sufficient legal protection or any commercial advantage.

## **e. Risks in Relation to Competition**

PAION operates in the biopharmaceutical industry which is highly competitive and characterised by intensive research efforts and rapid technological change. Its success is highly dependent on its ability to develop existing and new drug candidates on a cost-effective basis and to commercialise them successfully. In doing so, PAION faces and will continue to face intense competition from a variety of competitors, ranging from small biotech companies to large international pharmaceutical conglomerates.

#### f. Risks in Relation to Personnel

PAION's success depends on its key management, scientific and technical personnel, many of whom have substantial experience with the Company and would be difficult to replace. In addition, competition for qualified personnel is intense in PAION's industry and it may be unable to attract highly qualified employees to step up development activities as intended.

#### g. Risks in Relation to Additional Funds

PAION believes that existing cash and cash equivalents and future payments it expects to receive from Forest as well as the net proceeds of the IPO will be sufficient to meet its projected cash requirements until 2007. However, it is possible that it may need additional funding within this timeframe, in order to, for example, in-license new substances and to acquire or invest in businesses, drug candidates or technologies, to fund preclinical studies and clinical trials and to commercialise its drug candidates. PAION's ability to raise additional funds will depend on financial, economic, market conditions and other factors, many of which are beyond its control. If PAION is unable to find financing on favourable terms or at all, it may be forced to reduce its operating expenses by delaying, reducing or discontinuing the clinical development of one or more of its drug candidates.

#### h. Foreign Exchange Risk

Under the concluded license agreements, PAION will be entitled to receivables and will also incur liabilities in US dollars in a considerable amount. The development of the US dollar exchange rate will therefore have a significant influence on future profit and loss.

## 2. Risk Management

The systematic risk management processes created and expanded in previous years were continued. First and second-level management met on a monthly basis and when required to discuss the development of PAION, individual projects, critical situations or potential risks, and to make and prepare decisions. For additional exchanges of information on the development of projects, informational and decision-making meetings were held with first and second-level management and the individual departments. The project coordinators monitor and control processes and project progress on a timely basis which are documented in regular reports.

The financial accounting and cost accounting software Navision implemented in fall 2001 and a corporate planning tool tailored to PAION forms the basis for financial control. Monthly internal reporting is performed on a cost center and cost unit basis, allowing deviations from the budget to be identified at an early stage. Short and long-term corporate planning (cost center planning, projects, budget income statement, budget balance sheet and budget cash flow statement, each on a monthly basis until 2008) was conducted using an Excel-based planning tool. Adjustments to the budget during the year were made using this tool, and various scenarios and sensitivity analyses were used as a basis for strategic decision-making.

PAION informs the supervisory board of PAION AG about corporate development in monthly reports, providing prompt additional information as and when required. At supervisory board meetings in-depth information are provided and all important and strategic decisions made. The supervisory board is also provided with information by telephone and in writing. Due to corporate agreements at the level of PAION Deutschland GmbH, this information and reporting was addressed to the advisory board of PAION Deutschland GmbH and its former shareholders in fiscal year 2004.

## Significant Events Occurring After the Balance Sheet Date

On February 9, 2005, 15,005,552 shares in PAION AG 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. PAION AG generated proceeds of EUR 40m from the issue. As a result of the Greenshoe option being exercised on February 21, 2005, the proceeds from the issue increased to a total of EUR 46m. In connection with the capital increase for the Greenshoe option, the number of PAION AG shares increased by 750,000 to 15,755,552 shares.

## Anticipated Development

PAION will continue to expand its operations on the basis of the financial position it has secured and the proceeds generated through the IPO. For 2005, PAION intends to further advance the clinical development of Desmoteplase and its other drug candidates. With regard to Desmoteplase, PAION began a Phase IIb/III clinical trial with Forest in the US, Australasia and Europe in February 2005. This is PAION's first pivotal clinical trial for Desmoteplase. If the planned clinical trials confirm the results of the Phase II clinical trials PAION has conducted to date and if the regulatory authorities in the European Union and the United States accept the safety and efficacy data available after completion of these trials as the basis for an application for regulatory approval, PAION and Forest may decide to apply for regulatory approval of Desmoteplase. However, for regulatory reasons, PAION will in any event conduct a safety trial using the final Desmoteplase formulation. In addition to developing Desmoteplase with Forest in the Phase IIb/III clinical trial in the indication ischaemic stroke, PAION will also continue to develop Desmoteplase further in the indication pulmonary embolism.

In addition, PAION is currently considering one or more additional collaborations with respect to the development and commercialisation of Desmoteplase in the European Union, Japan and other parts of the world. If PAION enters into such additional collaborations, it will endeavor to retain rights for the joint marketing of the product in certain parts of Europe.

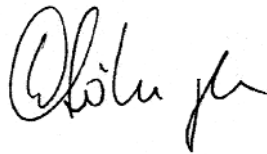
With respect to Enecadin, PAION plans to initiate an interactive and safety Phase I clinical trial in the first half of 2005 and a Phase II clinical trial in the second half of 2005. It expects Solulin to undergo a Phase I clinical trial in the second half of 2005.

PAION is in advanced negotiations with a CMO with regard to supplying the final Desmoteplase formulation and hopes to enter into an agreement in this regard.

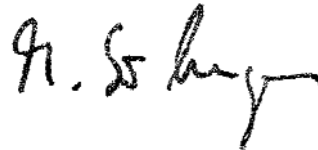
In addition, PAION will continue to evaluate substances in order to identify potential drug candidates to expand its portfolio.

Aachen, March 9, 2005

PAION AG



Dr. Wolfgang Söhngen



Dr. Mariola Söhngen



Bernhard Hofer



Alexander Vos

# Consolidated Financial Statements

PAION AG

## Consolidated Balance Sheet as of December 31, 2004

ASSETS	Note	Dec. 31, 2004 EUR	Dec. 31, 2003* EUR
<b>Non-current assets</b>			
Intangible assets	1.	1,939,469.04	731,600.50
Equipment	2.	1,005,539.22	563,706.83
		<b>2,945,008.26</b>	<b>1,295,307.33</b>
<b>Current assets</b>			
Trade receivables	3.	449,968.18	0.00
Prepaid expenses and other assets	4.	1,386,487.80	253,994.68
Cash and cash equivalents		20,888,829.59	8,453,517.89
		<b>22,725,285.57</b>	<b>8,707,512.57</b>
<b>Total assets</b>		<b>25,670,293.83</b>	<b>10,002,819.90</b>

\* The comparative figures as of December 31, 2003 relate to PAION Deutschland GmbH.

EQUITY AND LIABILITIES	Note	Dec. 31, 2004 EUR	Dec. 31, 2003* EUR
<b>Equity</b>	5.		
Share capital		10,005,552.00	155,350.00
Capital reserve		39,480,795.29	41,774,355.23
Loss carryforward		-34,350,454.31	-23,486,061.09
Net profit (loss) for the period		176,080.59	-10,864,393.22
		<b>15,311,973.57</b>	<b>7,579,250.92</b>
<b>Non-current liabilities</b>			
Finance lease liabilities	6.	281,331.00	19,993.00
Provisions	7.	1,935,702.38	0.00
Deferred income	8.	1,858,869.05	0.00
		<b>4,075,902.43</b>	<b>19,993.00</b>
<b>Current liabilities</b>			
Current portion of finance lease liabilities	6.	70,930.00	6,732.00
Trade payables		2,706,036.38	1,139,800.11
Provisions	7.	2,311,330.95	854,403.15
Accrued liabilities		110,530.00	103,627.85
Other current liabilities	9.	1,059,147.30	299,012.87
Current portion of deferred income	8.	24,443.20	0.00
		<b>6,282,417.83</b>	<b>2,403,575.98</b>
<b>Total equity and liabilities</b>		<b>25,670,293.83</b>	<b>10,002,819.90</b>

\* The comparative figures as of December 31, 2003 relate to PAION Deutschland GmbH.

## Consolidated Income Statement for Fiscal Year 2004

	Note	2004 EUR	2003* EUR
Revenues	10.	16,952,217.47	708,715.27
Cost of revenues		-2,438,792.38	-425,758.29
<b>Gross profit</b>		<b>14,513,425.09</b>	<b>282,956.98</b>
<b>Operating expenses</b>			
Research and development expenses		-7,976,422.59	-8,811,814.02
General and administrative expenses		-5,708,189.15	-2,432,244.10
Selling and marketing expenses		-647,121.00	-49,036.90
Other income (expenses), net	11.	-268,797.42	84,217.68
		<b>-14,600,530.16</b>	<b>-11,208,877.34</b>
<b>Operating loss</b>		<b>-87,105.07</b>	<b>-10,925,920.36</b>
<b>Financial result</b>	12.	<b>263,185.66</b>	<b>61,527.14</b>
<b>Profit (loss) before taxes</b>		<b>176,080.59</b>	<b>-10,864,393.22</b>
<b>Income taxes</b>	13.	<b>0.00</b>	<b>0.00</b>
<b>Net profit (loss) for the period</b>		<b>176,080.59</b>	<b>-10,864,393.22</b>
<b>Basic earnings per share</b>	14.	<b>0.02</b>	<b>-1.38</b>
<b>Diluted earnings per share</b>	14.	<b>0.02</b>	<b>-</b>

\* The comparative figures for fiscal year 2003 relate to PAION Deutschland GmbH

## Consolidated Cash Flow Statement for Fiscal Year 2004

	2004	2003*
	EUR	EUR
<b>Cash flows from operating activities:</b>		
Net profit (loss) for the period	176,080.59	-10,864,393.22
<b>Reconciliation of net profit (loss) for the period to cash flows from operating activities:</b>		
Amortisation/depreciation	354,070.22	882,330.92
Write-ups	-198,201.36	0.00
Gains from the disposal of non-current assets	-3,050.95	0.00
Interest paid on finance leases	6,780.00	2,038.00
Release of investment grants	-6,108.30	0.00
Expenses from stock option plans	803,000.00	1,360,000.00
Effects from the business combination of PAION AG and PAION Deutschland GmbH	-1,027.85	0.00
<b>Change in assets and liabilities which are not attributable to investing or financing activities:</b>		
Trade receivables	-449,968.18	67,744.00
Prepaid expenses and other assets	-432,493.12	-28,491.99
Trade payables	1,566,236.27	-1,042,923.53
Provisions	949,997.76	256,422.18
Other current liabilities	473,852.65	-199,798.71
Deferred income	1,758,458.18	0.00
<b>Net cash from operating activities</b>	<b>4,997,625.91</b>	<b>-9,567,072.35</b>
<b>Cash flows from investing activities:</b>		
Cash paid for investments in intangible assets and equipment	-1,721,480.44	-728,672.75
Cash received from the sale of intangible assets and equipment	277,096.60	0.00
<b>Net cash used in investing activities</b>	<b>-1,444,383.84</b>	<b>-728,672.75</b>
<b>Cash flows from financing activities:</b>		
Capital increase	73,150.00	41,400.00
Contributions to the capital reserve	10,013,564.74	13,148,218.06
Payment of finance lease liabilities	-39,379.00	-15,249.00
Capital repayment due to the settlement of options	-1,165,266.11	0.00
<b>Net cash from financing activities</b>	<b>8,882,069.63</b>	<b>13,174,369.06</b>
 Change in cash and cash equivalents	 12,435,311.70	 2,878,623.96
Cash and cash equivalents at beginning of period	8,453,517.89	5,574,893.93
<b>Cash and cash equivalents at end of period</b>	<b>20,888,829.59</b>	<b>8,453,517.89</b>

\* The comparative figures as of December 31, 2003 relate to PAION Deutschland GmbH.

## Consolidated Statement of Changes in Equity for Fiscal Year 2004

	Share capital EUR	Capital reserve EUR	Loss carryforward EUR	Equity EUR
<b>December 31, 2002*</b>	<b>113,950.00</b>	<b>27,266,137.17</b>	<b>-23,486,061.09</b>	<b>3,894,026.08</b>
Issue of shares	41,400.00	0.00	0.00	41,400.00
Contribution to the capital reserve	0.00	13,352,540.56	0.00	13,352,540.56
Cost of raising capital	0.00	-204,322.50	0.00	-204,322.50
Additional contribution to the capital reserve due to the issue of options	0.00	1,360,000.00	0.00	1,360,000.00
Net loss for the period	0.00	0.00	-10,864,393.22	-10,864,393.22
<b>December 31, 2003*</b>	<b>155,350.00</b>	<b>41,774,355.23</b>	<b>-34,350,454.31</b>	<b>7,579,250.92</b>
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	10,288,564.74	0.00	10,288,564.74
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	0.00	0.00	176,080.59	176,080.59
<b>December 31, 2004</b>	<b>10,005,552.00</b>	<b>39,480,795.29</b>	<b>-34,174,373.72</b>	<b>15,311,973.57</b>

\* The comparative figures as of December 31, 2002 and 2003 relate to PAION Deutschland GmbH.

# Notes to the Consolidated Financial Statements

PAION AG

## Notes for Fiscal Year 2004

### 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. The PAION Group shall hereinafter be referred to as "PAION".

PAION AG was founded on June 2, 2004. The former shareholders of PAION Deutschland GmbH (formerly Paion GmbH) transferred all their shares in PAION Deutschland GmbH to PAION AG in return for shares in the latter as a contribution in kind.

As a result of the formation of PAION AG on June 2, 2004 and the contribution of shares in PAION Deutschland GmbH to PAION AG by the shareholders of PAION Deutschland GmbH, the consolidated financial statements as of December 31, 2004 are the first consolidated financial statements of PAION AG. These consolidated financial statements represent a continuation of the financial statements of PAION Deutschland GmbH which prepared financial statements in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) for the fiscal years ended December 31, 2002 and 2003. Accordingly, the comparative prior-year information presented in these consolidated financial statements is on PAION Deutschland GmbH as the business combination of PAION AG and PAION Deutschland GmbH qualifies as a reverse acquisition under IFRS 3.21, "Business Combinations" (reference is made to the statements under "Consolidation Principles").

PAION, a biopharmaceutical company, aims to become a leading player in the development and distribution of innovative drugs for the treatment of stroke and other thrombotic diseases for which there is substantial unmet medical need. PAION plans to build an integrated drug portfolio using a "search and development" approach. As part of this approach, PAION will seek to identify promising new compounds with potential in the treatment of stroke and other thrombotic diseases, license or otherwise acquire them and

advance them through the clinical development and regulatory approval process. Where appropriate, particularly during the late stages of the clinical development and approval process and the marketing of PAION's drug candidates, collaboration with experienced partners will be sought.

On December 30, 2004, PAION AG applied for admission to trading on the Official Market Segment of the Frankfurt Stock Exchange and to the subsegment of the Official Market Segment with additional post-admission obligations (Prime Standard). The shares of PAION AG were admitted for trading on the Frankfurt Stock Exchange on February 9, 2005. Trading commenced on February 11, 2005.

### Basis of Accounting

In accordance with Sec. 292a HGB ["Handelsgesetzbuch": German Commercial Code], the consolidated financial statements were prepared in compliance with IFRSs and the European Union's accounting directives (Directive 83/349/EEC) and authorised for publication by the supervisory board on March 10, 2005.

Since 2002, the designation "IFRSs" has been used to denote all of the accounting standards promulgated by the International Accounting Standards Board (IASB), London, United Kingdom, and thus replaces the designation "IASS" (International Accounting Standards). Accounting standards published by the IASB before the change in name continue to be referred to as IASS. The IASB made great efforts to devise new and improve existing accounting policies and published some new IASS and IFRSs in this connection. Some of these new and revised standards only apply to periods beginning on or after January 1, 2005 although earlier adoption is encouraged. PAION applied all the accounting policies which had been adopted by the European Union on the date the financial statements were prepared provided the respective criteria were met. In this connection, IFRS 2, "Share-Based Payment", IFRS 3, "Business Combinations", and the IASS revised by the IASB in its improvement projects were voluntarily applied by the Company in the consolidated financial

statements for fiscal year 2004 even though adoption of these standards is only compulsory for fiscal years beginning on or after January 1, 2005.

PAION is still in the process of establishing its business which is shaped by extensive research and development activities. As a result, the consolidated financial statements are only comparable with those of the prior year to a limited extent.

The consolidated financial statements were prepared in Euros. The income statement was prepared using the function of expense method. Research and development expenses are disclosed separately in the income statement due to their significance.

Under IAS 1, “**Presentation of Financial Statements**”, non-current and current assets and non-current and current liabilities must be presented as separate classifications on the face of the balance sheet. Assets, liabilities and provisions due within one year are classified as current.

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

The preparation of 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 consolidated financial statements prepared in accordance with IFRSS are based on the following accounting and consolidation policies which differ from HGB (“Handelsgesetzbuch”: German Commercial Code):

- Leased assets are reported by the beneficial owner under both IFRSS and HGB. The differences between IFRS and HGB relate to the criteria used to determine the beneficial owner. Under IFRSS, the leased asset is recognised by the party which bears the risks and rewards of ownership.
- Under IFRSS, all temporary differences between the carrying amounts in the tax balance sheet and the consolidated commercial balance sheet are recognised as deferred taxes. These also include deferred taxes on tax loss carryforwards if it is probable that these can be utilised.
- In contrast to HGB, the costs directly associated with issuing equity instruments are not expensed but deducted directly from equity according to IFRSS.
- Under IFRSS, share-based payment transactions (using equity instruments) are recognised as an expense and a simultaneous increase in equity on the basis of fair value measurement. HGB does not contain any provisions in this regard and an approach for commercial law purposes consistent with IFRSS and other international standards was rejected in the literature in the past. PAION followed the opinion in the literature in preparing the commercial financial statements.
- In contrast to HGB, non-current liabilities and provisions are discounted under IFRSS.
- Capital is consolidated on the basis of a reverse acquisition in accordance with IFRS 3.21. Group accounting under HGB does not provide for such a capital consolidation method.

## Consolidation Policies

The contribution of all shares in PAION Deutschland GmbH to PAION AG in return for shares in PAION AG was recognised in accordance with IFRS 3, “**Business Combinations**”. The transaction satisfied the criteria for recognition as a reverse acquisition (IFRS 3.21) as the shareholders of PAION Deutschland GmbH have been given the power to govern the financing and operating policies of PAION AG owing to the issue of shares in PAION AG as consideration for the contribution in kind. Pursuant to IFRS 3, consolidated financial statements must be published following the reverse acquisition under the name of the legal parent (PAION AG), but described in the notes as a continuation of the financial statements of the legal subsidiary (PAION Deutschland GmbH). Because such consolidated financial statements represent a continuation of the financial statements of PAION Deutschland GmbH:

- the assets and liabilities of PAION Deutschland GmbH were recognised and measured in the consolidated financial statements at their pre-combination carrying amounts;
- the loss carryforwards and other equity balances recognised in the consolidated financial statements correspond to the loss carryforwards and other equity balances of the legal subsidiary immediately before the business combination;
- the amount recognised as equity in the consolidated financial statements was determined by adding the costs of the business combination to the equity of PAION Deutschland GmbH immediately before the business combination; however, the equity structure appearing in the consolidated financial statements (i.e. the number and type of equity instruments issued) reflects the equity structure of PAION AG, including the shares issued by PAION AG to effect the combination;
- comparative information presented in the consolidated financial statements is on PAION Deutschland GmbH.

Due to the fact that no market price was available for the determination of the fair value of the equity instruments issued with respect to the business combination, the fair value of the equity instruments of PAION AG before the business combination was used as the basis for determining the cost of the combination, as its fair value forms a more reliable basis than the fair value of the equity instruments of PAION Deutschland GmbH. This amount determined in this way was added to the equity of PAION Deutschland GmbH and allocated to the identifiable assets of PAION AG. As a result, no goodwill was recorded in connection with the business combination. In order to accurately present the equity structure of PAION AG after the business combination, subscribed capital was increased by EUR 9,788,079.85 and the capital reserve reduced accordingly in the consolidated financial statements. The subscribed capital as of December 31, 2004 of EUR 10,005,552.00 thus represents the 10,005,552 shares issued by PAION AG.

Intercompany transactions are eliminated. Receivables and liabilities between consolidated entities are offset as are intercompany income and expenses.

## Accounting Policies

### Intangible Assets

Purchased intangible assets are measured at cost. Amortisation of intangible assets is calculated by applying the straight-line method over the useful life of the assets. The useful life of software is determined to be three years, while research and marketing rights for compounds are amortised over the term of the respective patent.

### Equipment

Equipment is recognised at cost less accumulated depreciation. Depreciation is calculated by applying the straight-line method over the estimated useful life of the assets, which normally ranges between three and thirteen years. Low-value assets are fully expensed in the year of acquisition. The Company reviews assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the higher of its fair value less cost to sell and its value in use. If such assets are considered to be impaired, the impairment loss recognised is the amount by which the carrying amount of the assets exceeds the higher of fair value less cost to sell or value in use. If the reasons for an impairment loss cease to apply, write-ups are performed.

Leased equipment which satisfies certain criteria under IAS 17, "Leases", are recognised as an asset, while the present value of lease payments is recognised as a liability. Depreciation is charged straight line on leased assets over the term of the lease.

### Receivables and Other Assets

Trade receivables and other assets are stated at nominal value. Receivables denominated in foreign currency are translated at the closing rate. Exchange gains and losses are recognised in profit and loss.

### Equity

The costs directly associated with issued equity are not expensed but directly deducted from equity. Costs for services received as of the balance sheet date which can be directly attributed to the IPO on February 11, 2005 have been initially recognised as an asset as of December 31, 2004 and will be deducted from the increase in equity resulting from the IPO in fiscal year 2005. This does not relate to costs expensed in prior periods due to the uncertainty surrounding the IPO.

The granting of options (equity instruments) is recognised as an expense and as an increase in equity on the basis of fair value measurement. Modifications on terms, in particular the settlement of claims through cash compensation, are accounted for as a capital repayment.

### Provisions

Provisions are recognised when a present obligation (legal or constructive) exists as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions with a maturity of more than one year are recognised at present value.

### **Liabilities**

Liabilities are stated at the amount repayable, as are liabilities denominated in foreign currency. Exchange gains and losses are recognised in profit and loss.

### **Deferred Income**

Investment grants in connection with the acquisition are recognised as deferred income in the balance sheet. The deferred investment grants are released in line with the depreciation/amortisation of the underlying assets. The amounts released are deducted from research and development expenses.

Non-refundable signing fees received which relate to license agreements are disclosed as deferred income and recognised respectively in profit and loss when the milestones are achieved.

### **Revenues**

Revenues for the fiscal year are recognised when realised. Revenues are recognised when the owed service has been rendered, and the risks of ownership have been transferred and the amount of expected consideration can be measured reliably. Payments related to the sale or out-licensing of compounds or technological know-how are recognised in profit and loss when the services to be rendered on the basis of contractual regulations have been met in full.

### **Research and Development Expenses**

Research expenses are expensed as incurred. Development expenses are recognised as an asset in accordance with IAS 38, “Intangible Assets”, depending on the possible outcome of the development activities and if all of the criteria for recognition are met. These criteria are not currently met, such that development expenses are expensed as incurred.

### **Public Subsidies**

Subsidies that directly relate to expenses incurred in connection with research and development activities are recognised as a reduction of research and development expenses.

### **Income Taxes/Deferred Taxes**

Deferred taxes are recognised according to IAS 12, “Income Taxes”. They are accounted for using the liability method. Deferred taxes are recognised by applying enacted statutory tax rates applicable to future years to temporary differences between the IFRS carrying amounts and the tax bases of existing assets and liabilities. In addition, deferred tax assets are recognised on tax loss carryforwards. The effect of a change in the enacted tax rates on deferred taxes is recorded in the period in which the change is enacted. No deferred tax assets are recognised, if it is probable that some portion or all of the deferred tax assets will not be recoverable.

### **Changes in Accounting Estimates**

As a result of the planned closure of the Berlin research and development facility, impairment losses as well as provisions for contingent losses and for the repayment of grants received were recorded in the financial statements as of December 31, 2003, in accordance with IFRSS. However, in August 2004, it was decided that the facility should remain in operation. Accordingly, these effects were reversed (reference is made to the statements under the section “Notes to the Consolidated Balance Sheet“ under “2. Equipment”, and “7. Provisions”, and “8. Deferred Income”).

## License Agreement With Forest Laboratories Ireland Limited, Clonshaugh, Ireland (“Forest”)

On June 30, 2004, PAION concluded a license agreement with Forest Laboratories Ireland Limited, Clonshaugh, Ireland (hereinafter referred to as “Forest”), a subsidiary of Forest Laboratories, Inc., New York City, New York, USA. The agreement grants Forest an exclusive license with respect to Desmoteplase for 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. Forest has agreed to make upfront payments and milestone payments totaling US \$ 69.5m to PAION, US \$ 22m of which was received in 2004, and to initially assume essentially all future development expenses in connection with Desmoteplase in the indication stroke. Consistent with the assumption with regard to the split of the global market for Desmoteplase, PAION has agreed that, if it obtains regulatory approval for Desmoteplase in Europe or Japan, it will repay up to 50 % of the costs borne directly or indirectly by Forest plus a premium of 20 % as well as interest on the costs to be repaid. PAION has the right to offset the amounts owed to Forest against future royalty payments from Forest to PAION. If the U.S. Food and Drug Administration (FDA) grants regulatory approval for the marketing of Desmoteplase, Forest will be required to use commercially reasonable efforts to market the drug in the United States and Canada and to pay PAION royalties based on its net sales of Desmoteplase in the US and Canadian markets.

In accordance with IAS 18, “Revenue”, milestone payments related to the license agreement with Forest are recorded as revenue when the respective milestones are achieved. Furthermore, royalties on future net sales resulting from the license agreement with Forest are recorded as revenue when the respective sales are generated. The non-refundable upfront payments received by PAION under this agreement are recorded as deferred income and recognised as revenue in proportion to the future milestone payments to be received. The reimbursement of future development expenses

is also recorded as revenue while the corresponding development expenses are accounted for as cost of revenues.

Since the agreement with Forest requires PAION to repay up to 50 % of the reimbursed costs once PAION has received regulatory approval for Desmoteplase in Europe and/or Japan, a provision for this potential repayment obligation by reducing revenues by the net present value of 50 % of the reimbursed costs is recognised. Accordingly, revenues in any given period effectively include only approximately 50 % of the Desmoteplase-related development expenses billed to Forest.

Consistent with the obligation to repay up to 50 % of any cost reimbursements received from Forest once PAION has received regulatory approval for Desmoteplase in Europe and/or Japan, the agreement with Forest also requires PAION to reimburse Forest for up to 50 % of any Desmoteplase-related development expenses incurred by Forest directly. To account for this potential repayment obligation, 50 % of these costs directly borne by Forest are included in the provision discussed above by increasing the research and development expenses by the net present value of this amount.

To account for the 20 % premium on amounts that PAION may have to repay to Forest, a provision in a corresponding amount by increasing research and development expenses is recognised.

With respect to the impact of the license agreement with Forest on the consolidated financial statements, reference is made to the additional disclosures on the respective balance sheet and income statement captions.

## Notes to the Consolidated Balance Sheet

### I. Intangible Assets

Intangible assets break down as follows:

in EUR	Industrial property rights and similar rights and assets
<b>Cost</b>	
Jan. 1, 2003	228,472.22
Additions	709,171.17
Disposals	0.00
<b>Dec. 31, 2003</b>	<b>937,643.39</b>
Additions	1,637,950.05
Disposals	300,000.00
<b>Dec. 31, 2004</b>	<b>2,275,593.44</b>
<b>Accumulated amortisation</b>	
Jan. 1, 2003	94,726.72
Additions	111,316.17
Disposals	0.00
<b>Dec. 31, 2003</b>	<b>206,042.89</b>
Additions	157,003.50
Disposals	26,921.99
<b>Dec. 31, 2004</b>	<b>336,124.40</b>
<b>Carrying amounts as of Dec. 31, 2003</b>	<b>731,600.50</b>
<b>Carrying amounts as of Dec. 31, 2004</b>	<b>1,939,469.04</b>

In fiscal year 2004, EUR 3.2m was paid for obtaining global development and marketing rights for Desmoteplase. EUR 1.6m thereof was recognised as an asset and the remaining 50% expensed due to the outlicensing of Desmoteplase to Forest based on the assumption that the outlicensed area of the United States and Canada accounts for 50% of the global market for Desmoteplase. 50% of the payments made in the prior year of EUR 0.7m for obtaining global development and marketing rights for Desmoteplase were, to the extent that they related to the United States and Canada, also expensed in fiscal year 2004 taking accumulated amortisation into account (EUR 0.3m).

## 2. Equipment

Equipment developed as follows:

in EUR	Technical equipment and machines	Other equipment, factory and office equipment	Total
<b>Cost</b>			
Jan. 1, 2003	71,928.34	1,822,613.25	1,894,541.59
Additions	11,105.62	8,395.96	19,501.58
Disposals	0.00	171,296.35	171,296.35
Reclassifications	191,079.72	-191,079.72	0.00
<b>Dec. 31, 2003</b>	<b>274,113.68</b>	<b>1,468,633.14</b>	<b>1,742,746.82</b>
Additions	386,085.04	55,580.35	441,665.39
Disposals	0.00	53,197.65	53,197.65
<b>Dec. 31, 2004</b>	<b>660,198.72</b>	<b>1,471,015.84</b>	<b>2,131,214.56</b>
<b>Accumulated depreciation</b>			
Jan. 1, 2003	52,193.84	527,127.75	579,321.59
Additions	67,330.62	703,684.13	771,014.75
Disposals	0.00	171,296.35	171,296.35
Reclassifications	79,211.22	-79,211.22	0.00
<b>Dec. 31, 2003</b>	<b>198,735.68</b>	<b>980,304.31</b>	<b>1,179,039.99</b>
Additions	73,412.00	123,654.72	197,066.72
Disposals	0.00	52,230.01	52,230.01
Write-up	0.00	198,201.36	198,201.36
<b>Dec. 31, 2004</b>	<b>272,147.68</b>	<b>853,527.66</b>	<b>1,125,675.34</b>
<b>Carrying amounts as of Dec. 31, 2003</b>	<b>75,378.00</b>	<b>488,328.83</b>	<b>563,706.83</b>
<b>Carrying amounts as of Dec. 31, 2004</b>	<b>388,051.04</b>	<b>617,488.18</b>	<b>1,005,539.22</b>

Equipment includes assets of EUR 348k acquired through finance leases (prior year: EUR 26k); the gross value of these assets as of the balance sheet date came to EUR 410k (prior year: EUR 52k). The increase is attributable to the acquisition of a bioprocess system for the production of Desmotepase.

As a result of the decision to close the Berlin research and development facility and the resulting necessity to sell the laboratory equipment, impairment losses of EUR 522k were recorded in fiscal year 2003 in order to reduce the value of these items to their net realisable value. In August 2004,

it was decided that the facility should remain in operation. Accordingly, the impairment loss on equipment amounting to EUR 198k was reversed in the consolidated financial statements as of December 31, 2004.

### 3. Trade Receivables

Trade receivables relate to reimbursement claims for development expenses relating to Desmotiplase under the license agreement with Forest.

### 4. Prepaid Expenses and Other Assets

Prepaid expenses and other assets mainly include advance payments of VAT of EUR 254k (prior year: EUR 121k), advance payments of corporate income tax of EUR 109k (prior year: EUR 23k), fees of EUR 792k in connection with the capital increase from the IPO (prior year: EUR 0k), and prepaid expenses of EUR 177k for insurance and rental payments (prior year: EUR 91k).

### 5. Equity

In January 2004, PAION Deutschland GmbH received a contribution to the capital reserve outstanding as of the prior-year balance sheet date (EUR 511,291.88).

By shareholders' resolution of May 18, 2004, the subscribed capital of PAION Deutschland GmbH was increased by EUR 23,150. In connection with this capital increase, the former shareholders of PAION Deutschland GmbH contributed EUR 9,777,272.86 to the capital reserve.

PAION AG was founded on June 2, 2004 by Dr. Mariola Söhngen and Dr. Wolfgang Söhngen with capital stock of EUR 50,000.00. The capital stock was paid in full in cash. It was entered in the commercial register on June 30, 2004. By contribution agreement dated September 8, 2004, the nominal capital stock was increased by EUR 9,955,552.00 to EUR 10,005,552.00. Capital was increased by contributing all the shares in PAION Deutschland GmbH in return for the issue of 9,955,552 shares to the former shareholders of PAION Deutschland GmbH. The excess over this in-kind capital increase was transferred to the capital reserve on the basis of the above-mentioned contribution agreement. The capital stock is divided into 10,005,552 no-par shares (ordinary shares). The shares are made out to the bearer.

With respect to the business combination of PAION AG and PAION Deutschland GmbH, reference is made to the statements under "Consolidation Policies".

By virtue of a resolution adopted by the general shareholders' meeting on December 30, 2004, the management board was authorised to increase the capital stock on or prior to December 30, 2009, with the consent of the supervisory board, on one or more occasions, by up to an aggregate of EUR 5,000,000.00 through the issuance of up to 5,000,000 new ordinary no-par value bearer shares in return for cash contributions or contributions in kind (Authorised Capital 2004). By virtue of another resolution adopted by the general shareholders' meeting on December 30, 2004, the management board was authorised to increase capital stock on or before December 30, 2009, on one or more occasions by up to an aggregate amount of EUR 40,000,000.00 through the issuance of convertible or warrant-linked bonds with a maximum term of 20 years and grant the holders or creditors of bonds conversion or option rights to new shares in PAION AG with a proportionate share in capital stock of up to an aggregate of EUR 4,000,000.00 (Conditional Capital 2004 I).

In addition, pursuant to a resolution adopted by the general shareholders' meeting on December 30, 2004, the capital stock of PAION AG was conditionally increased by an aggregate amount of up to EUR 1,000,000.00 through the issuance of an aggregate of up to 1,000,000 new ordinary no-par value bearer shares (Conditional Capital 2004 II). The conditional capital increase may be executed only to the extent that the holders of option rights granted by PAION AG in connection with the Stock Option Plan 2005 exercise their option rights. Options from the Stock Option Plan 2005 have not yet been issued.

On January 21, 2005 the general shareholders' meeting resolved in preparation for the IPO to increase the capital stock of EUR 10,005,552.00 by an aggregate amount of up to EUR 5,000,000.00 in return for a cash contribution through the issuance of an aggregate of up to 5,000,000 new ordinary no-par value bearer shares, each with a notional value of EUR 1.00. On February 9, 2005, the supervisory board, in accordance with the authorisation granted to it by the general shareholders' meeting, resolved to amend the articles of incorporation with regard to the capital increase of EUR 5,000,000.00 implemented in connection with the IPO. In addition, the management board, with the consent of the supervisory board, resolved on February 9, 2005 to increase the capital stock from EUR 15,005,552.00 by an aggregate amount of up to EUR 750,000.00 from Authorised Capital 2004 in return for a cash contribution to an aggregate of EUR 15,755,552.00 through the issuance of up to 750,000 new ordinary no-par value bearer shares, each with a notional value of EUR 1.00. A Greenshoe option was agreed with the underwriter UBS Limited, London, UK, in connection with the IPO. UBS Limited notified the Company on February 21, 2005 that the Greenshoe option had been exercised in full.

### Costs of Capital Increases

Costs of EUR 275k were incurred for consultants (prior year: EUR 204k) in connection with the capital increases. These costs were offset against the capital reserve. Income taxes were not included in offsetting as there was no direct tax advantage. Reference is made to the statements under the section "Notes to the Consolidated Income Statement" under 13. "Income Taxes / Deferred Taxes".

### Stock Option Plans for Employees and External Consultants

In prior years, PAION introduced stock option plans for employees as well as for external consultants which grant "phantom shares" in PAION Deutschland GmbH. In fiscal year 2004, additional phantom shares of EUR 658 and EUR 1,250 were allocated to employees and external consultants, respectively. The fair value of the 1,908 stock options amounted to EUR 803k and was computed using the Black-Scholes option pricing model. The calculation was performed assuming a risk-free interest rate of 2.43% and a volatility of 22.7%. The volatility was computed based on the development of share prices of a comparable biopharmaceutical company. The exercise price was EUR 1.00. An assumption was made that the expected exercise period equals two years. Due to the fact that the shares were not traded on a stock exchange, PAION Deutschland GmbH has fixed the weighted average share price as the 422.34 times the nominal amount based on the capital contribution as of May 18, 2004. This fair value of the option amounting to EUR 803k has been recognised as an expense and as an increase in equity. The fair value of the options granted in fiscal year 2003 of EUR 1,360k was recognised as an increase in the capital reserve and as an expense in 2003.

As of the end of fiscal year 2004, management resolved to terminate the stock option plan and to settle all outstanding subscription rights through cash payments. Appropriate agreements were concluded with the employees and consultants participating in the plans. In order to calculate the settlement, the eligible claims were converted into phantom shares of PAION AG. Settlement is to be made in three

installments. The first installment of EUR 1.3m was almost completely paid in December 2004. The second installment of EUR 0.8m is payable in February 2005. The third installment is due in February 2006 and will be payable as a ratio based on a reference share price to be calculated at that point in time. The reference share price reflects the average, non-weighted, closing price of PAION AG shares in Xetra trading during the ten trading days immediately preceding the end of the year following the admission of PAION AG shares to trading. However, the maximum amount payable to the beneficiaries for each phantom share is capped at 130 % of the offer price less EUR 1.00 per share. The fair value of the third installment amounted to EUR 1.2m and was calculated using the Black-Scholes option pricing model. The cash settlement of the subscription rights is accounted for as a repurchase of an equity interest, i.e. as a reduction of the capital reserve. The capital reserve was thus reduced by EUR 3.3m as of December 31, 2004. The second and third installments due in 2005 and 2006 were recognised as provisions or liabilities as of the balance sheet date. As the agreed cash settlement was not higher than the fair value of the subscription rights, an additional expense was not recognised.

## 6. Finance Lease Liabilities

Liabilities due to lease contracts are recognised when the respective asset is recognised as an asset (finance lease). They are recorded at their present value. Lease payments of EUR 387k (prior year: EUR 30k) are due to the lessor over the next few years. The portion of the interest cost included is EUR 35k. The finance lease liabilities are presented according to their maturity as follows:

in EUR k	Lease payments	Interest portion included	Lease liability
2005	84	13	71
2006	84	10	74
2007	81	7	74
2008	75	4	71
2009	63	1	62
	387	35	352

## 7. Provisions

Provisions developed as follows:

in EUR k	Dec. 31, 2003	Utilisation	Reversal	Reclassi- fication	Addition	Dec. 31, 2004
Obligations from the termination						
of the stock option plan	0	0	0	0	1,874	1,874
Consulting fees	21	15	6	0	1,195	1,195
Refund obligation to Forest	0	0	0	0	736	736
Provision for contingent losses						
from pending transactions	546	110	215	0	0	221
Financial statement costs and audit fees	46	46	0	0	65	65
Bonuses	0	0	0	0	60	60
Repayment of investment grants	214	0	83	-131	0	0
Employers' liability insurance	22	22	0	0	28	28
Other	5	0	0	0	63	68
	854	193	304	-131	4,021	4,247

EUR 1,200k of obligations from the termination of the stock option plan is recognised under non-current liabilities in the consolidated balance sheet as these payments are not due until February 2006. For more information, reference is made to the statements under "5. Equity".

The provision for the refund obligation to Forest covers the potential repayment of 50 % of the costs borne directly or indirectly by Forest plus a premium of 20 % thereon. It is recognised as a non-current provision as the amount is not expected to be reimbursed until 2008. The provisions were discounted to present value. For more information, reference is made to the statements under "License Agreements With Forest Laboratories Ireland Limited, Clonshaugh, Ireland ("Forest")".

The provision for consulting fees mainly covers costs related to the IPO on February 11, 2005. As these costs are offset against the capital increase from the IPO, these costs were initially reported under other assets as of the balance sheet date.

The provision for contingent losses from pending transactions was recognised due to the fact that a leased administration building is no longer used. The provision covers the rental expenses over the remaining term of the lease agreement until August 2009. A provision of EUR 215k was recognised in the prior year for the anticipated vacant premises in Berlin. The provision was reversed in view of the decision made in August 2004 to continue operations at the Berlin facility.

The provision for the repayment of government grants was recognised in fiscal year 2003 for investment grants received in prior years. These grants have to be repaid due to the planned closure of the Berlin research and development facility. Some of the provision was reversed in view of the decision made in August 2004 to continue operations at the Berlin facility and the remaining portion was reclassified under deferred income.

## 8. Deferred Income

Deferred income includes a non-refundable signing fee which fell due upon conclusion of the license agreement with Forest. The signing fee is recognised in profit and loss upon the achievement of the relevant milestones. A portion was recognised in profit and loss in fiscal year 2004 (EUR 703k). Due to the fact that the relevant milestones will not be achieved in the next 12 months, the remaining amount of EUR 1,758k is disclosed under non-current liabilities.

Deferred income also includes an investment grant which PAION received from the Federal Ministry for Education and Research. The deferred investment grants are released in line with the depreciation/amortisation of the underlying assets. The amounts released are deducted from research and development expenses. Due to the planned closure of the Berlin research and development facility and the resulting non-fulfillment of the conditions for the grants, the investment grants received were also recorded under provisions in the IFRS financial statements as of December 31, 2003, together with the partial amount previously recognised in profit and loss. In August 2004, it was decided that the facility should remain in operation. Accordingly, a reclassification to deferred income has been recognised in the consolidated financial statements as of December 31, 2004. The portion of the grants which is not due within the next 12 months is disclosed under non-current liabilities (EUR 100k).

## 9. Other Current Liabilities

Other current liabilities comprise the following items:

	Dec. 31, 2004	Dec. 31, 2003
	EUR k	EUR k
Wage tax	548	133
Obligation from the termination of the stock option plans	293	0
Social security contributions	118	84
Other	100	82
	1,059	299

The obligation from the termination of the stock option plans relates to payments from the first and second installments to external consultants. For more information, reference is made to the statements under "5. Equity".

## Notes to the Consolidated Income Statement

### 10. Revenues

The entire revenues in fiscal year 2004 stem from the license agreement with Forest concluded on June 30, 2004. Revenues of EUR 15,592k were generated from the transfer of know-how in this connection. A portion of EUR 703k of a non-refundable advance payment of EUR 2,461k by Forest was recorded as revenues. The remaining revenues of EUR 657k stem from refunds of development expenses assumed by Forest under the agreement. Revenues in the prior year mainly stem from contract research (EUR 300k) and an advance payment which was recognised in profit and loss due to the end of negotiations on a cooperation agreement (EUR 352k).

## 11. Other Income (Expenses), Net

This item mainly includes exchange losses (EUR 333k) and gains (EUR 20k) as well as other minor effects that cannot be allocated to other line items.

## 12. Financial Result

The financial result breaks down as follows:

	2004	2003
	EUR k	EUR k
Interest income	274	68
Interest expenses	-11	-6
	263	62

## 13. Income Taxes / Deferred Taxes

In fiscal year 2004, PAION managed to generate a marginal profit for the first time which is solely attributable to the conclusion of the license agreement with Forest and the related payments. Losses were incurred from the time of the Company's formation in 2000 up to and including 2003. For tax purposes, losses had to be reported for the entire period up to and including 2004. Tax loss carryforwards thus came to around EUR 36m as of December 31, 2004 (prior year: EUR 32m).

Under current German tax legislation, these tax losses can be carried forward indefinitely and netted against future income. However, the changes in the shareholder structure of PAION Deutschland GmbH in recent years may limit the amount of loss carryforwards utilisable under current tax law.

Applying corporate income tax and the solidarity surcharge at a combined rate of 21.80 % (taking into account the deductibility of the trade tax) as well as a local trade tax rate of 17.36 %, deferred tax assets amounted to EUR 14,118k as of December 31, 2004 (prior year: EUR 12,672k). Debit differences between the tax base and the IFRS carrying amount as of December 31, 2004 result in additional deferred tax assets of EUR 129k (prior year: EUR 280k).

Although a net profit was generated for the first time in fiscal year 2004, losses are expected in future years. Based on this expectation, the Company believes that it is not yet probable that the deferred tax assets can be realised. In accordance with IAS 12.34, "Income Taxes", deferred tax assets were not recognised.

In fiscal year 2004 as in the prior year, costs directly related to capital increases were not expensed but netted directly against the capital reserve. In addition, services received as of the balance sheet date in connection with the capital increase from the IPO were recorded as an asset. The costs will be deducted from the capital reserve when the capital increase is implemented. Due to the loss situation and the fact that deferred tax assets were not capitalised, the costs are deducted from the capital reserve without taking income taxes into account.

The reconciliation of the expected income tax and the current tax expense is shown below applying a tax rate of 39.16%:

	2004	2003
	EUR k	EUR k
Net profit (loss) for the period	176	-10,864
Expected income tax expense (+)/profit (-)	69	-4,254
Change in the reduction of deferred tax assets	1,295	3,794
Costs in connection with capital increases	-418	-80
Cost of the stock option plan	314	533
Reduction in the capital reserve due to the settlement of the stock option plan	-1,305	0
Other	44	8
Actual tax expense	0	0

#### 14. Earnings per Share

Earnings per share are calculated under IAS 33, "Earnings per Share", by dividing net profit (loss) by the weighted average number of shares outstanding during fiscal years 2004 and 2003, 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 was calculated in accordance with the provisions of IFRS 3 "Business Combinations" as follows:

- for the period from January 1, 2004 to the date of the business combination, 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;
- for the date after the business combination, based on the actual number of shares outstanding.

The comparative figures as of December 31, 2003 were calculated based on the net loss of PAION Deutschland GmbH and the weighted number of shares outstanding of PAION Deutschland GmbH.

The calculation was adjusted to take into account the effects from the change in the subscribed capital of PAION Deutschland GmbH during the period from January 1, 2004 to the date of the business combination and during the comparative period.

	2004	2004	2003
	Basic	Diluted	Basic
Shares outstanding (weighted average)	9,508,191	9,515,801	7,848,736
Net profit (loss) in EUR k	176	176	-10,864
Earnings (loss) per share in EUR	0.02	0.02	-1.38

The stock options granted to employees and external consultants were not taken into account when calculating diluted earnings per share for fiscal year 2003 as they would have reduced the loss per share.

## Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement shows how the cash and cash equivalents of PAION have changed during the course of the fiscal year due to inflows and outflows of funds. In accordance with IAS 7, “Cash Flow Statements”, a distinction is made between cash flows from operating, investing and financing activities. The cash and cash equivalents disclosed in the consolidated cash flow statement include cash and bank balances with a maturity of up to three months, based on the date of investment.

## Other Notes

### Related Parties

Transactions with related parties must be disclosed pursuant to IAS 24, “Related Parties”. The management and supervisory boards as well as shareholders qualify as related parties within the meaning of IAS 24.9. With regard to the remuneration of the members of the management and supervisory boards, reference is made to the statements under “Members of the Management Board,” and “Members of the Supervisory Board” in this section.

The shareholder Medical Science Partners International received remuneration amounting to EUR 275k in connection with fundraising activities.

Apart from the above, there are no significant related parties.

### Financial Instruments

PAION did not hold any financial instruments in fiscal years 2004 or 2003.

## Employees and Personnel Expenses

In fiscal year 2004, PAION employed an average of 49 employees, 32 worked in research and development and 17 in administration and sales. The following personnel expenses were incurred in fiscal years 2004 and 2003:

	2004	2003
	EUR k	EUR k
Wages and salaries	3,671	4,549
Social security	507	448
	4,178	4,997

The personnel expenses for fiscal year 2004 shown above include expenses of EUR 278k from the issue of options in connection with stock option plans (prior year: EUR 1,300k).

## Other Financial Obligations

PAION leases administration and research buildings as well as several vehicles. The future minimum lease obligations required under these lease agreements are as follows:

	EUR k
2005	407
2006	379
2007	360
2008	321
Thereafter	735
Total	2,202

The rental and lease expenses under these agreements came to EUR 394k in fiscal year 2004 (prior year: EUR 388k).

In addition, PAION is obligated to make payments under various license and purchase agreements pursuant to which PAION acquired the rights to certain patents. Upon the occurrence of certain events, PAION will be required to make milestone payments in an aggregate amount of up to approximately EUR 16.5m (which is partially payable in US\$) to the contracting partners with respect to licenses for Desmoteplase, Enecadin and Solulin. PAION also agreed to pay royalties based on its future net sales of Desmoteplase, Solulin and Enecadin.

If PAION enters into one or more collaboration arrangements for the development and marketing of Desmoteplase with a partner or partners identified by its strategic advisor, it may be obliged to pay the advisor a success fee under the service agreement.

In connection with the IPO carried out at the beginning of February 2005, PAION concluded agreements with the syndicator and advisors. The resulting costs are deducted directly from the new capital at the time when the capital increase from the IPO is recognised and are thus not expensed. The services received as of the balance sheet date are recognised as an asset (EUR 792k). The total issuing costs for the IPO to be borne by PAION amount to around EUR 4,935k and, if the Greenshoe option is exercised in full, up to EUR 5,280k.

## Members of the Management Board

The members of the management board are:

- Dr. Wolfgang Söhngen, Chief Executive Officer
- Dr. Mariola Söhngen, Chief Medical Officer
- Bernhard Hofer, Chief Financial Officer  
(since September 1, 2004)
- Alexander Vos, Chief Operating Officer  
(since September 1, 2004)

All the members of the management board exercised their functions on a full-time basis. In fiscal year 2004, the members of the management board received the following remuneration (incl. bonuses, insurance, company cars, and cost assumptions):

- |                        |          |
|------------------------|----------|
| – Dr. Wolfgang Söhngen | EUR 260k |
| – Dr. Mariola Söhngen  | EUR 243k |
| – Bernhard Hofer       | EUR 131k |
| – Alexander Vos        | EUR 106k |

The disclosures also include emoluments received by Dr. Wolfgang Söhngen and Dr. Mariola Söhngen in the first months of fiscal year 2004 for their management activities at PAION Deutschland GmbH as well as the emoluments received by Mr. Hofer during his employment period at PAION Deutschland GmbH in 2004. The above remuneration for Mr. Hofer does not include the three installments paid to settle the subscription rights granted to him under the stock option plan. Mr. Hofer received the first installment of EUR 91k to settle his claims in December 2004. The second and third installments which are due in February 2005 and 2006 have been provisioned in the amount of EUR 137k in the consolidated financial statements as of December 31, 2004.

As of December 31, 2004, Dr. Wolfgang Söhngen and Dr. Mariola Söhngen held 672,245 and 675,046 shares, respectively, in PAION AG, including 5,602 shares held by Dres. Söhngen Beteiligungs GmbH & Co. KG, in which Dr. Wolfgang Söhngen and Dr. Mariola Söhngen each hold 50% through Dres. Söhngen Beteiligungs GmbH as general partner and as limited partners.

The members of the Company's management board are also general managers of PAION Deutschland GmbH.

## Members of the Supervisory Board

Members of the supervisory board are:

- Dr. Walter Wenninger, Leverkusen, chairman

Other supervisory board memberships:  
Epidauros AG, Verlags- und Medien Aktiengesellschaft Köln (VEMAG) and Arrow Therapeutics Ltd., London

- Dr. Franz Wirtz, Stolberg, vice chairman

Other supervisory board memberships:  
DASGIP AG and QIAGEN N.V.

- Prof. Dr. Erich Schlick, Otterstadt, head of healthcare at 3i;

Other supervisory board memberships:  
4SC AG, ProCorde GmbH, Immatix GmbH and Verwaltungsrat des Zentralinstituts für seelische Gesundheit Mannheim, University of Heidelberg

The remuneration of the members of the supervisory board may be defined in the articles of incorporation or by the general shareholders' meeting. However, for fiscal year 2004 and the period up to the end of the general shareholders' meeting which decides on the exoneration of the members of the supervisory board for fiscal year 2004, remuneration of the members of the supervisory board can only be determined by the general shareholders' meeting in accordance with the provisions of German stock corporation law. Such a resolution can thus not be made until the general shareholders' meeting is held in 2005.

After his appointment to the supervisory board of PAION AG, Dr. Wenniger was granted subscription rights for the consulting services rendered by him for PAION Deutschland GmbH prior to his supervisory board activities. The subscription rights entitle him to subscribe for shares in PAION Deutschland GmbH. As these subscription rights are now to be settled, Dr. Wenniger is now entitled to a cash settlement paid out in three installments. The first installment of EUR 45k was paid to Dr. Wenniger in January 2005. The second and third installments which are due in February 2005 and 2006 have been provisioned in the amount of EUR 67k in the consolidated financial statements as of December 31, 2004.

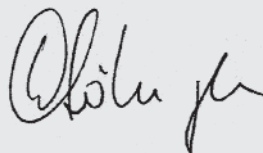
Dr. Wirtz held 182,073 shares in PAION AG as of December 31, 2004.

## Corporate Governance

The supervisory board and management board of PAION AG declare that they are committed to responsible and transparent management and control focused on long-term added value. With PAION AG's stock market listing in fiscal year 2005, the Company will have to issue a declaration of compliance pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] and make this permanently available to shareholders. PAION AG intends to implement most of the recommendations of the German Corporate Governance Code in the version valid as of May 21, 2003.

Aachen, March 9, 2005

PAION AG



Dr. Wolfgang Söhngen



Dr. Mariola Söhngen



Bernhard Hofer



Alexander Vos

## Audit Opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

“We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of cash flows and changes in shareholders’ equity as well as the notes to the financial statements, prepared by PAION AG, Aachen, for the fiscal year from January 1, 2004 to December 31, 2004. The preparation and the content of the consolidated financial statements are the responsibility of the Company’s management board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with International Financial Reporting Standards (IFRSs) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW) as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements.

Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with International Financial Reporting Standards (IFRSs).

Our audit, which also extends to the group management report prepared by the management board for the fiscal year from January 1, 2004 to December 31, 2004, has not led to any reservations. In our opinion, on the whole the group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group’s position and suitably presents the risks to future development. In addition, we confirm that the consolidated financial statements and the group management report for the fiscal year from January 1, 2004 to December 31, 2004 satisfy the conditions required for the Company’s exemption from its obligation to prepare consolidated financial statements and a group management report in accordance with German law.”

Cologne, March 10, 2005

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

Gockel  
Wirtschaftsprüfer

Erdle  
Wirtschaftsprüferin

## Management and Supervisory Board

### Management

**Dr. Wolfgang Söhnngen**  
Chief Executive Officer  
Founder

Following his medical degree, Dr. Wolfgang Söhnngen acquired a PhD and was initially working in the field of Internal Medicine at an academic teaching hospital. This was followed by one-year post-doctoral studies in cardiovascular pharmacology in the United States. Additionally, he had obtained a Master of Business Communication. Prior to founding Paion GmbH, he was employed by Grünenthal GmbH, where his tasks included clinical development, project management, corporate development and strategic planning. During that time, he has established numerous contacts in the industry that were of further use to him after leaving Grünenthal GmbH, first when founding his own consulting firm (Virtueality), which specialised in health-care and since 2000 when founding PAION. Dr Söhnngen is Chairman of the Management Board with PAION.

**Alexander Vos**  
Chief Operating Officer

Following his studies of pharmacy and pharmacology in Amsterdam (Netherlands) and at the Mayo Clinic (USA), he obtained an MBA from Stanford University (USA). He began his career working for the international pharmaceutical practice of McKinsey & Co. He subsequently worked at Genzyme Therapeutics Europe, holding director positions in marketing and business development before assuming global responsibility for a joint venture between Genzyme Corporation and Pharming NV. Before joining PAION's management board in September 2004, Mr. Vos was chief executive officer of MediService AG (Switzerland), one of the leading specialty pharmacy services and drug mail service companies in Europe. As Member of the Management Board, his responsibilities comprise marketing, selling, business development and partnering.

**Dr. Mariola Söhngen**

Chief Medical Officer

Founder

Dr. Söhngen obtained both a PhD in medicine and a Master of Business Communication. Before founding PAION and assuming directorial responsibility for its drug development, she worked for the globally operating pharmaceutical companies Grünenthal GmbH and Ferrer, where she was responsible for clinical developments, project coordination, licensing, strategic project evaluation and interfacing with marketing. In 1998 she founded her own company (Bootcamp), which prepared entrants in the job market for professions in the health care industry. As Member of the Management Board, she is responsible for research and development, amongst others.

**Bernhard Hofer**

Chief Financial Officer

Following completion of his vocational bank training, Mr. Hofer passed the bank officer's exam (Bankfachwirt). Mr. Hofer has more than 20 years of experience in banking and accounting at various leading banks, including Deutsche Bank AG, Commerzbank AG, and IKB Deutsche Industriebank AG, where his duties focused on corporate client relationship management and corporate financing. At Commerzbank AG and IKB Deutsche Industriebank Mr. Hofer held the positions of vice president and deputy regional president. In 2001, Mr. Hofer joined Paion GmbH as Head of Finance. He has been a Member of PAION's Management Board since September 2004, responsible for finance and intellectual property.

## Supervisory Board

**Dr. Walter Wenninger**

Chairman of the Supervisory Board

Dr. Wenninger has been associated with PAION since July 2003 as a member of the advisory board of PAION Deutschland GmbH. He has many years of experience in the pharmaceuticals industry. He joined Bayer group in 1968 and held various management positions in Germany, the United States and Europe within Bayer group. During the six years before he left Bayer group in 2000, Dr. Wenninger was a member of the management board of Bayer AG. Furthermore, Dr. Wenninger is a member of the Management Boards of Robert Koch Stiftung and Deutsche Stiftung für Herzforschung and a member of the Board of Trustees and the Scientific Committee of the Deutsches Krebsforschungszentrum, Heidelberg, Germany.

**Dr. Franz A. Wirtz**

Vice Chairman of the Supervisory Board

Dr. Wirtz is co-founder of PAION Deutschland GmbH and since its foundation, he has been chairman of the advisory board. Dr. Wirtz spent many years working in the pharmaceuticals industry before becoming involved with PAION. Prior to retiring in 1998 he spent more than 35 years as managing director of Grünenthal GmbH, a globally operating pharmaceuticals company. Moreover, he held the position of treasurer of the Federal Association of the Pharmaceutical Industry (Bundesverband der pharmazeutischen Industrie) in Germany for ten years. Dr. Wirtz is an honorary citizen of the Rheinisch-Westfälische Technische Hochschule (RWTH) Aachen and the Chairman of the Förderkreis Tumorzentrum Aachen e.V. Dr. Wirtz is also a founder and the Deputy Chairman of Life-Tec Aachen-Jülich e.V., which accompanies technology transfer from universities in the Euregio (Aachen, Liège, Maastricht) to companies in the field of life sciences.

**Prof. Dr. Erich Schlick**

Member of the Supervisory Board

Prof. Dr. Schlick has been a member of the advisory board of PAION Deutschland GmbH since 2003. He is a professor at the faculty for Clinical Medicine Mannheim, Germany, which is affiliated with the University of Heidelberg. Following research work in the field of immunology and oncology at the National Cancer Institute in Bethesda (USA), Prof. Dr. Schlick began his professional career in 1985 as director of oncology and immunology at Knoll AG, which belonged to the BASF Group. From 1990 to 2000 he was responsible for preclinical and clinical research and development as a member of the management board and the director of worldwide research and development at Knoll AG. Prof. Dr. Schlick has been working for 3i Deutschland GmbH since 2001, where he is currently director and head of the healthcare sector for Germany.

Stroke is one  
of the leading  
causes of severe,  
long-term  
disabilities

## Glossary

<b>Accelerated Approval</b>	The U.S. Food and Drug Administration's accelerated approval regulations apply to drug candidates that have been studied for their safety and effectiveness in treating serious or life-threatening illnesses and that provide meaningful therapeutic benefits to patients over existing treatments.
<b>Anticoagulant</b>	A substance that prevents the clotting of blood.
<b>Cardiovascular</b>	Of or referring to the heart and blood vessels, or to the system and mechanism through which blood is transported through living organisms.
<b>Carotid Artery</b>	Artery at the neck that provides blood supply for the brain.
<b>Cerebral</b>	Of or referring to the brain.
<b>Clinical Study</b>	A rigorously controlled test of a drug candidate or a new invasive medical device on humans.
<b>CMO</b>	Contract Manufacturing Organisation
<b>Core (lesion) of the infarct</b>	The cluster of cells, immediately surrounding a blood clot that has caused an ischaemic stroke, which are cut off from the blood system and die if blood flow is not restored.
<b>CT</b>	Computerised tomography, a diagnostic technology that creates images of internal body tissues.
<b>Desmoteplase</b>	PAION's most advanced drug candidate, an intravenous plasminogen activator that is being investigated for the possible causal treatment of acute ischaemic stroke and acute pulmonary embolism.
<b>Embolism</b>	An embolism occurs when a blood clot breaks loose from its site of formation and travels through the vascular system to a more distal site where it obstructs blood flow.
<b>Enecadin</b>	A drug candidate under investigation by PAION that belongs to the group of neuroprotectants and is designed to protect brain cells from the toxic substances produced by the brain in the aftermath of an ischaemic stroke.

<b>Fast-Track Status</b>	Fast-track status is the status reserved by the U.S. Food and Drug Administration for drugs that have the potential to address unmet medical needs for serious or life-threatening diseases. Drug candidates enjoying fast-track status may qualify for priority review or accelerated approval. The applicant has extended possibilities to discuss its development program with the FDA.
<b>FDA</b>	U.S. Food and Drug Administration, a Rockville, Maryland based agency responsible for the drug approval process in the United States.
<b>Fibrin</b>	A protein that keeps blood clots together.
<b>Final Formulation</b>	Composition of a drug in the form in which it receives regulatory approval.
<b>Formulation</b>	Composition of a drug.
<b>Haemorrhagic Stroke</b>	A stroke caused by a ruptured blood vessel.
<b>HGB</b>	Handelsgesetzbuch (German Commercial Code)
<b>IAS</b>	International Accounting Standard.
<b>IFRS</b>	International Financial Reporting Standards.
<b>In-licensing</b>	Acquire a license
<b>Interaction Study</b>	Clinical study to investigate the interaction of a drug candidate with other drugs.
<b>Invasive Treatment</b>	Surgery
<b>Ischaemic Stroke</b>	A stroke caused by an obstruction of the inflow of arterial blood into the brain.
<b>MRI</b>	Magnetic Resonance Imaging, a noninvasive diagnostic technique that creates computerised images of internal body tissues and is based on nuclear magnetic resonance of atoms within the body induced by the application of radio waves.

<b>Neuroprotectants</b>	A class of therapeutics for the treatment of ischaemic stroke that target the secondary effects of stroke.
<b>Neurotoxicity</b>	The property of a substance of causing damage to nerve cells.
<b>Out-licensing</b>	Sell a licence
<b>Penumbra</b>	An area of cells in the brain surrounding the core of the infarct caused by an ischaemic stroke, which is at risk of being destroyed by reduced blood flow and other effects of stroke.
<b>Perfusion CT</b>	Imaging technology which, unlike normal CT scans, not only reveals the structure of brain tissue, but also shows how much blood is present in the brain and how quickly it is moving. Like MRI, perfusion CT may be used to identify the core infarct and the penumbra of a stroke.
<b>Pivotal Clinical Study</b>	Clinical study which may serve as the basis for an application for regulatory approval of the drug candidate being examined in the study.
<b>Plasmin</b>	A fibrin-digesting substance.
<b>Plasminogen</b>	An inactive enzyme circulating in the blood which may be used to create plasmin.
<b>Plasminogen Activator</b>	An enzyme that converts plasminogen into plasmin.
<b>Pre-Clinical Study</b>	A laboratory test of a new drug candidate or a new invasive medical device on animals or cell cultures that is conducted to gather evidence justifying a clinical study.
<b>Priority Review</b>	A drug candidate is eligible for priority review in a regulatory approval proceeding under U.S. Food and Drug Administration policies if it provides a significant improvement compared to marketed drugs in the treatment, diagnosis or prevention of a disease.

<b>Pulmonary Embolism</b>	Pulmonary embolism occurs when a blood clot that has formed elsewhere in the human body dislodges from its site of formation and travels to the arterial blood supply of one of the lungs where it causes obstruction of blood flow.
<b>rt-PA</b>	Recombinant Tissue Plasminogen Activator, a drug that is only approved for stroke treatment until three hours after the onset of symptoms.
<b>Solulin</b>	An anticoagulant under investigation by PAION for the secondary treatment of ischaemic stroke in the acute time window.
<b>Stroke</b>	A stroke occurs when an artery carrying oxygen and nutrients to the brain is either blocked by a blood clot or bursts.
<b>Thromboembolism</b>	An occlusion of a blood vessel caused by a blood clot that has broken away from its point of formation and travels to another vessel.
<b>Thrombolysis</b>	To break up blood clots that are blocking the flow of blood to specific tissues.
<b>Thrombosis</b>	The formation of a blood clot locally within a blood vessel.
<b>Thrombotic Disease</b>	A disease resulting from the formation of a blood clot in an artery or vein that obstructs vascular blood flow in a certain part of the body, such as the brain, heart or lungs.
<b>Thrombus</b>	A blood clot.

## Financial Calendar

10 March 2005	Publication of the Financial Results 2004
24 March 2005	Release of the Consolidated Financial Statements 2004
9 May 2005	Publication of the Figures on the I. Quarter 2005
10 May 2005	Analyst Conference, Frankfurt/Main, Presentation of the Annual Report 2004 and Release of the Report on the I. Quarter 2005
4 August 2005	Publication of the Figures on the 2. Quarter 2005, Six-Months-Statement 2005
26 August 2005	General Annual Meeting, Aachen
4 November 2005	Publication of the figures on the 3. Quarter 2005, Nine-Months-Statement 2005

The corresponding quarterly reports will be released within one week after publication of the financial key figures.



On average, every 45 seconds someone in the United States has a stroke,



every 3 minutes someone dies of a stroke.



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