

PAION Q3#2006

Interim report on the third quarter 2006
and the nine months period ending 30 September 2006

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Key figures

(all figures in EUR k unless otherwise noted)	Q3 2006 (unaudited)	Q3 2005 (unaudited)	Q1-Q3 2006 (unaudited)	Q1-Q3 2005 (unaudited)
Revenues	5,197	17,293	8,064	17,993
Research and development expenses	-4,038	-2,711	-12,895	-8,326
General and administrative expenses	-1,154	-2,006	-3,431	-3,993
Selling and marketing expenses	-163	-369	-759	-1,143
Net result for the period	-1,984	8,819	-12,761	1,079
Earnings per share in EUR for the period (undiluted)	-0.11	0.61	-0.78	0.07
Earnings per share in EUR for the period (diluted)	-0.11	0.60	-0.78	0.07

	Q1-Q3 2006 (unaudited)	Q1-Q3 2005 (unaudited)
Net cash from operating activities	-10,316	190
Net cash from investing activities	-322	1,100
Net cash from financing activities	14,456	40,322
Average number of group employees	75	63

	09/30/2006 (unaudited)	12/31/2005 (audited)
Intangible assets	512	514
Long-term refund claims resulting from the assumption of development costs	6,661	3,674
Cash and cash equivalents	62,189	58,371
Equity	49,771	52,750
Non-current liabilities	17,434	6,818
Balance sheet total	73,040	66,152
Equity ratio	68.1%	79.7%



Important events of the nine months period ending 30 September 2006

- Sustainable strengthening of the liquidity by approximately EUR 9.4m through a successful capital increase
- Cash-inflow of EUR 7m through a long-term subordinated loan granted by hsbc Trinkaus & Burkhardt KGaA
- Start of Phase IIa clinical study with Enecadin for the indication acute ischaemic stroke
- Initiation of a development programme for new plasminogen activators
- Postponement of the start of the Phase I clinical study with Solulin due to ongoing consultations with BfArM to determine project details
- Phase III clinical study with Desmoteplase DIAS-2 on target
 - By mid-July 2006, almost two thirds of the intended total numbers of patients enrolled in the study worldwide
 - Second of three planned safety analyses successfully conducted
- Agreement between PAION and H. Lundbeck A/S to jointly conduct a second Phase III confirmatory study with Desmoteplase for the treatment of acute ischaemic stroke
 - PAION will assume major responsibility for financing the study
 - Lundbeck will assume a further part of the development cost for the production of Desmoteplase; in the third quarter 2006 this resulted in additional revenues of EUR 3.0m for expenses that occurred in the past and were now assumed retrospectively.
- PAION honoured as finalist in the „vision“ category of the prestigious German Founders Award (Deutscher Gründerpreis)

After having informed the public on 25 October 2006 that patient recruitment for their jointly conducted Phase III study DIAS-2 was put temporarily on hold, PAION and its development partner Forest Laboratories, Inc. were able to report recommencement of patient recruitment on 28 October 2006. This decision came after the independent Data Monitoring Committee (DMC) made a timely evaluation of additional data of the 170 patients included in the study and then recommended to continue the study without any changes to the study protocol.

Management report for the nine months period ending 30 September 2006

Overview

Through the successful closing of a capital increase in the amount of EUR 9.4m and the borrowing of a long-term subordinated loan in the amount of EUR 7.0m which was both conducted in April 2006, the liquidity of PAION was sustainably strengthened. Compared to 31 December 2005, the cash and cash equivalents increased by EUR 3,818k to EUR 62,189k as of 30 September 2006. Compared to the prior year's period, the revenues resulting from the reimbursement of development costs increased by EUR 5,071k to EUR 8,064k in the nine months period ending 30 September 2006. However, total revenues of the reporting period are significantly lower than in the prior year's period in which PAION received a EUR 15,000k one-time payment by Lundbeck for the access to PAION's know-how within the scope of the licensing agreement. For the nine months period ending 30 September 2006, a net loss in the amount of EUR 12,761k has been recorded. Due to the one-time payment made by Lundbeck, a net profit amounting to EUR 1,079k was recorded for the prior year's period.

Patient recruitment for the clinical Phase III study DIAS-2 which explores Desmoteplase in the indication of acute ischaemic stroke has recommenced after a short temporarily hold. At the end of October 2006, approx. 170 patients had already been included in the study which is jointly conducted by PAION and its cooperation partner Forest. Thus PAION reiterates its expectation that patient recruitment could be completed by year-end 2006.

Since February 2006, PAION conducts the Phase IIa study TEST (Tolerability of Enecadin in acute ischaemic Stroke Trial) for the substance Enecadin. Patient enrolment started in the second quarter 2006.

For the Phase I clinical study with Solulin, PAION has started the consultation with the German Federal Institute for Drugs and Medical Devices (BfArM) within the scope of a Scientific Advice. It is the objective to determine details of the planned Phase I study which was already postponed due to the request of the BfArM to generate additional data.

Capital increase and share price development

In early April PAION successfully concluded a capital increase in which 1,000,000 new shares at a price of EUR 9.44 per share were issued to institutional investors in the US and Europe within a private placement. No price discount was granted and the issue price was calculated as the average of the last five XETRA closing prices of the PAION shares at the Frankfurt Stock Exchange prior to 5 April 2006, the day when the decision to increase the share capital was taken. Through this capital increase, PAION achieved an inflow of funds of approx. EUR 9.4 million and sustainably strengthened its liquidity. The new shares were admitted for trading at the Frankfurt Stock Exchange on 24 April 2006.

In the third quarter, the price of PAION shares mainly moved sideways and closed on the last trading date of the third quarter, 29 September 2006, at EUR 9.12 (XETRA). In comparison to the XETRA closing price of EUR 7.89 at 30 December 2005 this corresponds to an increase of 16%. The average daily trading volume in the first nine months 2006 amounted to 27,716 shares.

On 25 October 2006 when the temporary hold of patient recruitment for the ongoing Phase III study DIAS-2 was announced, a noticeable reduction of the share price was recorded. Compared to the closing rate of the previous day, the PAION shares declined by 36.6% and closed at the end of this day at EUR 5.71 (XETRA). The trading volume on this day amounted to 747,300 shares which correspond to 4.5% of PAION's issued shares. On the following days the PAION share slightly improved and in particular after the announcement of the unmodified continuation of the study the PAION share regained noticeable. On 31 October 2006 the closing price of the PAION share was EUR 8.60 (XETRA).

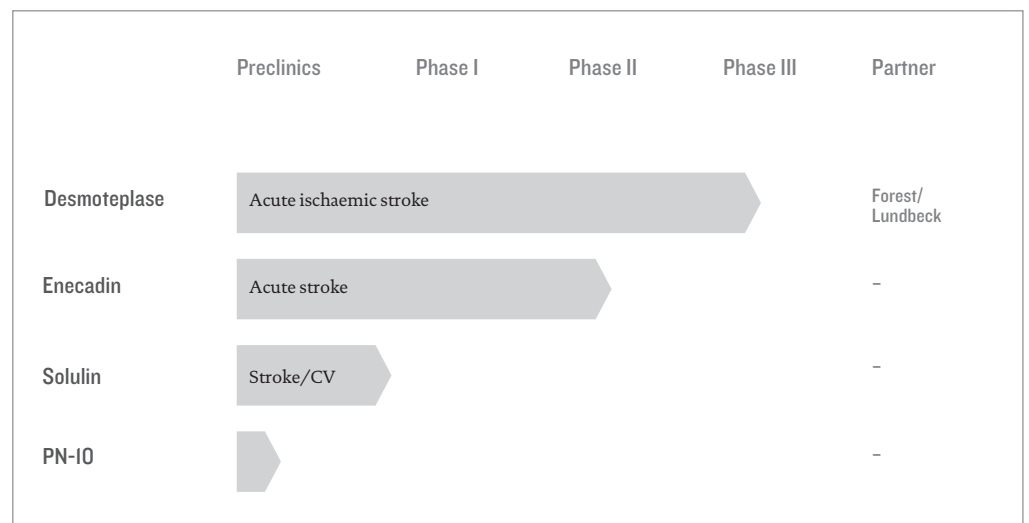
At the end of the third quarter, the investment company Fidelity informed us that their participation in PAION shares exceeded the reporting threshold of 5% and amounted to 5.02%. In the meantime, Fidelity has reduced its interest to 4.8% again. In September, two further shareholders of PAION AG have announced an increase of their equity stake. Innovent, a French company already invested in PAION before the IPO, increased their interest in PAION to 5.66% through the funds managed by them. The US investor X-Mark who participated in the capital increase in April 2006, also expanded his equity stake and currently holds 5.79% of the PAION shares.

Development of PAION's share price in the nine months period ending 30 September 2006



Research and development overview

Currently, PAION focuses its research and development activities on the three drugs Desmoteplase, Enecadin and Solulin. In addition, PAION has initiated a development programme for new plasminogen activators.



PAION's most advanced drug is Desmoteplase, an intravenously administered therapeutic, which is being developed primarily for the causal treatment of acute ischaemic stroke. Desmoteplase belongs to a group of substances that are able to dissolve blot clots, the so-called plasminogen activators. Since February 2005, a Phase III clinical study for Desmoteplase in the indication acute ischaemic stroke, DIAS 2, is being carried out together with PAION's cooperation partner and licensee, Forest. In October 2006, this study was temporarily put on hold, based on a recommendation by the independent Data Monitoring Committee (DMC). Only a few days later, the DMC lifted their hold after having evaluated additional data for the 170 patients currently included in the study. Thus, PAION and Forest can now recommence DIAS-2 without any change in the study protocol. Patient recruitment proceeds as planned and PAION and Forest, despite the short recruitment break, remain confident to reach their goal to complete recruitment by end of this year.

In early August 2006, PAION reported that, with approval of Forest, they have come to an agreement with Lundbeck to conduct an additional confirmatory trial with Desmoteplase in the indication of ischaemic stroke. Currently, PAION and Lundbeck are in consultations with the BfArM about this study. These consultations, however are in no way related to the events within DIAS-2. During these consultations, additional requirements have been defined by the authority, resulting in a delay of the study which was anticipated to start in fourth quarter 2006.

Enecadin is a neuroprotectant which may increase the survival time of brain cells that suffer from lack of blood supply within the course of an acute ischaemic stroke. Therefore Enecadin may serve to reduce neural damage. Since the first quarter 2006 PAION conducts a Phase IIa clinical study under the name of TEST (Tolerability of Enecadin in acute ischaemic Stroke Trial). The objective of this dose-finding study is to examine the safety, efficacy and tolerability of the substance in a timeframe of up to 9 hours after the onset of symptoms in patients who suffered an acute ischaemic stroke.

Solulin is a thrombin modulator which may act as an "intelligent anticoagulant" with anti-inflammatory potential and could prove useful in preventing arterial re-occlusion related to ischaemic stroke and other thrombotic diseases. PAION has already successfully tested Solulin in animal studies and was subsequently preparing to start a Phase I clinical study at mid-year. At the end of the second quarter PAION announced postponement of the study after the German authority BfArM (German Federal Institute for Drugs and Medical Devices) had requested the generation of additional data in their feedback on the CTA (Clinical Trial Application). These additional data mainly relate to pre-clinical and production related issues. Originally, PAION had intended to generate these data for the Phase II regulatory package only. Currently, PAION is negotiating with the BfArM within the scope of a Scientific Advice. The objective of these consultations is a close coordination of certain project details with the authority.

Based on promising preclinical data of Desmoteplase, PAION has initiated an early-stage development programme for new plasminogen activators and plasminogen activator analogues. This programme is named PN-10. In the first half-year 2006, PAION started to develop a stable cell-line for the expression of a first development candidate. Currently, this development candidate is being examined in a preclinical setting.

Net assets, financial position and results of operations

Results of operations

The comparability of the third quarter 2006 and the nine months period ending 30 September 2006 with the corresponding prior year's periods is limited because the prior year's periods were influenced by the licence agreement with Lundbeck which was signed on 11 July 2005 and which led to a payment of Lundbeck in the amount of EUR 15,000k for gaining access to PAION's know-how. Compared to the corresponding prior year's period, the revenues in the nine months period ending 30 September 2006 increased by EUR 5,071k to EUR 8,064k without considering the payment from Lundbeck presented as revenue in the prior year's period. Mainly due to the extension of the research and development activities compared to the first nine months 2005 the operating expenses increased by EUR 3,694k to EUR 16,957k. In the nine months period ending 30 September 2006, a planned net loss of EUR 12,761k was recorded.

EUR k	Q3 2006	Q3 2005	Q1-Q3 2006	Q1-Q3 2005
Revenues	5,197	17,293	8,064	17,993
Costs of Revenues	-2,141	-3,709	-4,912	-4,397
Gross profit	3,056	13,584	3,152	13,596
Research and development	-4,038	-2,711	-12,895	-8,326
General and administrative	-1,154	-2,006	-3,431	-3,993
Selling and marketing	-163	-369	-759	-1,143
Other income (expenses)	16	41	128	199
Operating expenses	-5,339	-5,045	-16,957	-13,263
Operating result	-2,283	8,539	-13,805	333
Financial result	299	280	1,044	746
Taxes on income	0	0	0	0
Net result for the period	-1,984	8,819	-12,761	1,079

The **revenues** of the first nine months 2006 in the amount of EUR 8,064k exclusively result from the reimbursement of development costs by Forest and Lundbeck. In contrast to this the revenues of the prior year's period contained reimbursements of development costs in the amount of EUR 2,993k and an one-time payment from Lundbeck for gaining access to PAION's know-how in the amount of EUR 15,000k. The increase of the revenues resulting from the reim-

bursement of development costs by EUR 5,071k compared to the prior year's period is mainly attributable to the conclusion of the licence agreement with Lundbeck in July 2005. Furthermore, EUR 2,989k results from an agreement with Lundbeck signed in August 2006. In accordance with this agreement Lundbeck retrospectively assumed production development expenses for the period from 11 July 2005 to 30 June 2006.

In the first nine months 2006, the **cost of revenues** in the amount of EUR 4,912k stem from the development activities of this period reimbursed by Forest and Lundbeck. In the prior year's period, the cost of revenues included reimbursed development costs allocated to Forest and Lundbeck amounting to EUR 2,125k and in the amount of EUR 2,272k licence fees paid for the worldwide development and commercialisation rights of Desmoteplase which had to be expensed due to the out-licensing to Lundbeck.

The **research and development** of the nine months period ending 30 September 2006 increased by EUR 4,569k to EUR 12,895k compared to the corresponding prior year's period. In the first nine months 2006, research and development expenses substantially relate to the preparation and execution of the clinical studies with Desmoteplase and the continued development of the production process for Desmoteplase. In addition, expenses incurred mainly for the execution of clinical interaction and safety studies (Phase I) and for the Phase IIa clinical study with the substance Enecadin. Furthermore, the expenses in this period partly result from the development of the production process of Solulin, the preparation of the Phase I clinical study and the execution of preclinical trials with this substance. In the prior year's period, the research and development expenses mainly related to clinical trials for Desmoteplase and development of the production process for Desmoteplase, the execution of clinical interaction and safety studies (Phase I) for the substance Enecadin as well as to the development of the production process of Solulin.

Compared to the prior year's period the **general and administrative expenses** in the first nine months 2006 decreased by EUR 562k to EUR 3,431k. This is mainly due to the fact that a remuneration in the amount of EUR 1,005k paid to an external consultant in connection with the licence agreement with Lundbeck was captured in the prior year's period. Due to the expansion of the business activities, this effect was partly compensated by the increase of the other general and administrative expenses.

Selling and marketing expenses of the nine months period ending 30 September 2006 mainly result from internal expenses and costs in connection with the participation at the European Stroke Conference in Brussels, Belgium. The reduction of the selling and marketing expenses compared to the corresponding prior year's period is primarily attributable to lower legal and consulting fees in this area.

Compared to prior year's period, the **financial result** of the first nine months 2006 significantly improved due to the increasing interest rates and the higher liquidity which resulted in higher investments. The financial result also includes interest expenses in the amount of EUR 290k resulting from the subordinated loan borrowed in April 2006.

Net assets and financial position

Mainly due to the capital increase and the subordinated loan borrowed which was both conducted in April 2006, the total assets increased compared to 31 December 2005 by EUR 6,888k to EUR 73,040k as of 30 September 2006. As a result of the structural changes of the equity and liabilities, the equity ratio as of 30 September 2006 decreased to 68.1% compared to 31 December 2005 (79.7%). Considering the subordinated loan as similar to equity from an economical point of view and a netting from a business point of view of the long-term refund obligations vis-à-vis Forest resulting from the development expenses financed in advance by Forest and the corresponding long-term refund claims against Lundbeck disclosed under assets would have increased the equity ratio by 17.0 percentage points to 85.1%.

EUR k	09/30/2006	12/30/2005	Change
Non-current assets	8,322	5,282	3,040
Current assets	64,718	60,870	3,848
Assets	3,040	66,152	6,888
Equity	49,771	52,750	-2,979
Non-current liabilities	17,434	6,818	10,616
Current liabilities	5,835	6,584	-749
Equity and liabilities	73,040	66,152	6,888

The increase of the non-current assets is primarily the result of the long-term refund claims resulting from the assumption of the development costs against Lundbeck which increased by EUR 2,987k to EUR 6,661k in the reporting period. These refund claims are the result of Lundbeck's obligation to assume PAION's repayment obligation to Forest for the development costs borne directly and indirectly by Forest, including a premium, in the event that Desmoteplase is approved in Europe and/or Japan.

The increase in **current assets** in the amount of EUR 3,848k mainly relates to the increase of the cash and cash equivalents. The change in cash and cash equivalents stems from the following areas:

EUR k	Q1-Q3 2006	Q1-Q3 2005
Cash flow from operating activities	-10,316	190
Cash flow from investing activities	-322	1,100
Cash flow from financing activities	14,456	40,322
Change in cash and cash equivalents	3,818	41,612

The negative cash flow from operating activities in the amount of EUR 10,316k is primarily attributable to the net loss for the period of EUR 12,761k which was partially compensated by expenses arising from option plans with no cash effect (EUR 790k) and amortization/depreciation (EUR 270k).

In the prior year's period, the positive cash flow from investing activities was mainly a result of the fact that the paid and capitalised consideration for the worldwide development and commercialisation rights of Desmoteplase due the licence agreement with Lundbeck was largely treated as a disposal which was offset by a corresponding cash inflow.

The positive cash flow from financing activities in the first nine months 2006 results from the subordinated loan granted by HSBC Trinkaus & Burkhardt KGaA in the amount of EUR 6,720k (after deduction of a debt discount in the amount of EUR 280k) and the cash inflow from the capital increase in the amount of EUR 9,440k. This cash inflow was offset by payments made (EUR 448k) which result from costs directly related to the capital increase. The cash inflows were further reduced by the payment of the last tranche in connection with the settlement of a pre-IPO stock option plan of PAION Deutschland GmbH (EUR 1,192k). In the prior year's period a positive cash flow from financing activities in the amount of EUR 40,322k was achieved which was mainly due to the net proceeds from the IPO (EUR 41,351k).

The increase of **non-current liabilities** by EUR 10,616k is primarily attributable to the subordinated loan and the increase of the provision for the refund obligation to Forest by EUR 3,957k to EUR 8,823k.

The decrease of **current liabilities** by EUR 749k mainly results from the payment of the last tranche in connection with the settlement of a pre-IPO stock option plan of PAION Deutschland GmbH (EUR 1,192k). This effect was partly compensated by the increase of the trade payables (EUR 662k).

Personnel development

In the third quarter 2006, the personnel increase slightly continued. As of 30 September 2006, PAION recorded a total of 78 employees (31 December 2005: 72 employees) while on average 75 employees have been working for PAION in the first nine months 2006 (prior year's period: 63 employees). Of these 75 employees, 52 employees are working in research and development, 19 employees in administration while 4 employees are working in sales and marketing. In the further course of fiscal year 2006, a moderate personnel increase is planned.

In September, the management team of PAION Deutschland GmbH was strengthened by the appointment of a further managing director. PD Dr. Stephan Wnendt has many years of experience in management of biopharmaceutical product development in Europe and the US. At PAION he is responsible for manufacturing, quality assurance, project management and preclinical development.

Significant events occurring after the balance sheet date

On 25 October 2006, patient recruitment was temporarily put on hold for the ongoing Phase III study DIAS-2. By this, PAION and Forest reacted to a recommendation by the independent Data Monitoring Committee (DMC), stating that no patients should be recruited until additional data of the 170 patients randomised so far have been evaluated. Within the scope of this study, the DMC is responsible to make risk-benefit assessments. The committee members received the additional data and analysed these data within a short time. In the night preceding 28 October 2006, having evaluated the data, the DMC recommended that the study should resume without any changes in the study protocol. Immediately after this new recommendation, PAION and Forest have initiated the process to recommence patient recruitment.

Outlook

Patient recruitment of the clinical Phase III study DIAS-2 with Desmoteplase in the indication of acute ischaemic stroke still proceeds according to plan. PAION reiterates its expectation that patient recruitment could be completed by the end of the year. PAION and Lundbeck continue their consultations with BfArM regarding the planned second confirmatory study with Desmoteplase. During these consultations, additional requirements have already been defined by the authority which result in a delay of the study which was anticipated to start in the fourth quarter 2006. In the development of the substance Solulin, PAION still coordinates with the BfArM the project within the scope of a Scientific Advice.

On 10 November 2006, PAION will host a R&D Day in New York City, USA. At this occasion, stroke experts and company representatives will give an overview on the current status of the preclinical and clinical development of Desmoteplase.

In 2006, PAION expects significantly lower revenues than in prior years as no milestone payments from the cooperation partners are planned in fiscal year 2006 and thus the revenues will exclusively comprise allocated development costs.

The research and development expenses of the first nine months 2006 have significantly increased compared to the corresponding prior year's period. Due to the expansion of the development programmes this trend will also continue in the fourth quarter 2006.

As already communicated in the earlier reporting, PAION expects a significantly higher net loss for 2006 compared to prior years.

Aachen, 7 November 2006

PAION AG

The Management Board

Consolidated Balance Sheet

ASSETS	30 Sept. 2006 EUR	31 Dec. 2005 EUR
Non-current assets		
Intangible assets	512,090.94	514,203.61
Equipment	1,148,993.59	1,094,323.22
Long-term refund claims resulting from the assumption of development costs	6,661,218.81	3,673,741.35
	8,322,303.34	5,282,268.18
Current assets		
Trade receivables	1,789,846.31	1,413,196.92
Prepaid expenses and other assets	739,545.56	11,086,605.12
Marketable securities	10,211,132.00	0.00
Cash and cash equivalents	51,977,468.02	48,370,539.85
	64,717,991.89	60,870,341.89
Total assets	73,040,295.23	66,152,610.07

EQUITY AND LIABILITIES	30 Sept. 2006 EUR	31 Dec. 2005 EUR
Equity		
Share capital	16,755,552.00	15,755,552.00
Capital reserve	84,706,767.23	75,925,289.91
Loss carryforward	-38,930,499.47	-34,174,373.72
Net loss for the period	-12,761,037.03	-4,756,125.75
	49,770,782.73	52,750,342.44
Non-current liabilities		
Provisions	8,822,806.40	4,865,892.62
Financial liabilities	6,733,868.33	0.00
Finance lease liabilities	150,785.00	207,485.00
Deferred income	1,726,738.38	1,745,063.28
	17,434,198.11	6,818,440.90
Current liabilities		
Trade payables	4,919,141.47	4,257,091.84
Provisions	642,476.60	459,429.75
Current portion of finance lease liabilities	75,441.00	73,847.00
Accrued liabilities	0.00	166,488.77
Other current liabilities	173,822.12	1,602,536.17
Current portion of deferred income	24,433.20	24,433.20
	5,835,314.39	6,583,826.73
Total equity and liabilities	73,040,295.23	66,152,610.07

Consolidated Income Statement

EUR	1 July – 30 September 2006	1 July – 30 September 2005	1 January – 30 September 2006	1 January – 30 September 2005
Revenues	5,196,642.54	17,292,755.16	8,064,493.96	17,993,438.81
Cost of revenues	-2,141,433.49	-3,708,832.21	-4,912,309.64	-4,397,355.83
Gross profit	3,055,209.05	13,583,922.95	3,152,184.32	13,596,082.98
Research and development expenses	-4,038,371.52	-2,710,863.40	-12,895,195.42	-8,326,370.93
General and administrative expenses	-1,154,240.51	-2,006,020.87	-3,430,934.75	-3,992,888.37
Selling and marketing expenses	-162,677.87	-368,978.36	-759,040.61	-1,143,086.49
Other income (expenses). net	16,581.43	40,970.28	128,426.16	199,339.49
Operating expenses	-5,338,708.47	-5,044,892.35	-16,956,744.62	-13,263,006.30
Operating result	-2,283,499.42	8,539,030.60	-13,804,560.30	333,076.68
Financial income	493,101.05	283,709.79	1,508,735.19	757,300.24
Financial expenses	-193,701.63	-3,759.56	-465,211.92	-11,860.60
Financial result	299,399.42	279,950.23	1,043,523.27	745,439.64
Net loss/net profit for the period before taxes	-1,984,100.00	8,818,980.83	-12,761,037.03	1,078,516.32
Income taxes	0.00	0.00	0.00	0.00
Net loss/net profit for the period	-1,984,100.00	8,818,980.83	-12,761,037.03	1,078,516.32
Earnings per share (undiluted)	-0.11	0.61	-0.78	0.07
Earnings per share (diluted)	-0.11	0.60	-0.78	0.07

Consolidated Cash Flow Statement

EUR	1 January – 30 September 2006	1 January – 30 September 2005
Cash flows from operating activities:		
Net result for the period	-12,761,037.03	1,078,516.32
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Amortization/depreciation	269,744.19	331,229.73
Loss/Profits from the disposal of non-current assets	-98.51	210.99
Interest paid on finance leases	7,550.00	9,723.00
Interest expenses from the adaptation to the effective interest method of loans	13,868.33	0.00
Release of investment grants	-18,324.90	-18,324.90
Expenses from stock option plans	789,750.63	581,627.18
Change in assets and liabilities which are not attributable to investing or financing activities:		
Long-term refund claims resulting from the assumption of development costs	-2,987,477.46	-2,355,247.14
Trade receivables	-376,649.39	-933,001.97
Prepaid expenses and other assets	347,059.56	-1,191,777.74
Trade payables	662,049.63	482,412.74
Provisions	3,973,471.86	2,679,377.24
Other current liabilities	-236,220.73	-474,793.33
Net cash used in/from operating activities	-10,316,313.82	189,952.12
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-322,303.38	-273,341.98
Cash received from the sale of intangible assets and equipment	100.00	1,373,402.49
Net cash used in/from investing activities	-322,203.38	1,100,060.51
Cash flows from financing activities:		
Capital increase	1,000,000.00	5,750,000.00
Contributions to the capital reserve	8,440,000.00	40,250,000.00
Payments in connection with the raising of capital	-448,273.31	-4,648,864.78
Borrowing	6,720,000.00	0.00
Capital repayment due to the settlement of options	-1,192,493.32	-966,778.70
Payment of finance lease liabilities	-62,656.00	-62,652.00
Net cash from financing activities	14,456,577.37	40,321,704.52
Change in cash and cash equivalents	3,818,060.17	41,611,717.15
Cash and cash equivalents at beginning of the period	58,370,539.85	20,888,829.59
Cash and cash equivalents at end of the period	62,188,600.02	62,500,546.74
Composition of cash and cash equivalents at the end of the period:		
Cash	51,977,468.02	24,136,624.00
Marketable securities	10,211,132.00	38,363,922.74
	62,188,600.02	62,500,546.74

Consolidated Statement of Changes in Equity

	Share capital EUR	Capital reserve EUR	Loss carryforward EUR	Equity EUR
31 December 2004	10,005,552.00	39,480,795.29	-34,174,373.72	15,311,973.57
Issue of shares	5,750,000.00	0.00	0.00	5,750,000.00
Contribution to the capital reserve	0.00	40,250,000.00	0.00	40,250,000.00
Cost of raising capital	0.00	-4,648,864.78	0.00	-4,648,864.78
Additional contribution to the capital reserve				
due to the issue of options	0.00	581,627.18	0.00	581,627.18
Net profit for the period	0.00	0.00	1,078,516.32	1,078,516.32
30 September 2005	15,755,552.00	75,663,557.69	-33,095,857.40	58,323,252.29
Issue of shares	0.00	0.00	0.00	0.00
Contribution to the capital reserve	0.00	0.00	0.00	0.00
Cost of raising capital	0.00	0.00	0.00	0.00
Additional contribution to the capital reserve				
due to the issue of options	0.00	261,732.22	0.00	261,732.22
Net loss for the period	0.00	0.00	-5,834,642.07	-5,834,642.07
31 December 2005	15,755,552.00	75,925,289.91	-38,930,499.47	52,750,342.44
Issue of shares	1,000,000.00	0.00	0.00	1,000,000.00
Contribution to the capital reserve	0.00	8,440,000.00	0.00	8,440,000.00
Cost of raising capital	0.00	-448,273.31	0.00	-448,273.31
Additional contribution to the capital reserve				
due to the issue of options	0.00	789,750.63	0.00	789,750.63
Net loss for the period	0.00	0.00	-12,761,037.03	-12,761,037.03
30 September 2006	16,755,552.00	84,706,767.23	-51,691,536.50	49,770,782.73

Selected explanatory notes to the interim financial statements as of 30 September 2006

General information on the parent company and the PAION group

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

Basis of accounting

The unaudited interim financial statements have been prepared in compliance with IFRSS. The regulations of International Accounting Standard (IAS) 34 *Interim Financial Reporting* have been adopted. The interim financial statements as of 30 September 2006 have to be read in connection with the consolidated financial statements as of 31 December 2005.

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

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

Consolidation policies

In comparison to the consolidated financial statements as of 31 December 2005, the consolidation policies adopted in the interim financial statements as of 30 September 2006 are unchanged.

Accounting policies

In comparison to the consolidated financial statements as of 31 December 2005, the accounting policies adopted in the interim financial statements as of 30 September 2006 are unchanged.

Other notes to the Interim Financial Statements

On 5 April 2006, the Management Board, with the approval of the Supervisory Board, decided to increase the share capital from EUR 15,755,552 by EUR 1,000,000 to EUR 16,755,552. The new shares are being used from the Authorised Capital and were issued within a private placement excluding subscription rights for existing shareholders to US and European institutional investors at a price of EUR 9.44 per share. Within the course of the capital increase, PAION raised proceeds of approx. EUR 9.4m. Thereof an amount of EUR 1,000,000 was allocated to share capital and the remaining amount of EUR 8,440,000 to capital reserve. In accordance with IAS 32.37 *Financial Instruments*, costs directly related to the issuing of the new shares (EUR 448,273) were not considered as expense in the profit and loss statement but were directly deducted from the new equity. The capital increase was registered in the commercial register on 13 April 2006 and the shares were admitted for trading at the Frankfurt Stock Exchange on 24 April 2006.

Borrowing of a long-term subordinated loan

Mid April 2006, PAION has been granted a subordinated loan in the amount of EUR 7m from HSBC Trinkaus & Burkhardt KGaA which is part of the so-called “H.E.A.T Mezzanine I-2006”-programme, a structured Mezzanine-financing. The loan is repayable at the end of the maturity period of seven years and was paid after deduction of a debt discount in the amount of EUR 280k. The financial liability which is presented in the balance sheet as non-current liability is carried at amortised cost using the effective interest method in accordance with IAS 39.47 *Financial Instruments*.

Stock option program 2005

Under the stock option plan, 11,615 stock options were granted to employees in April 2006. As the stock options granted in 2005, these stock options were accounted for in accordance with IFRS 2 *Share-Based Payment*. As of 30 September 2006 871,916 stock options were granted in total. Thereof 496,300 stock options were granted to Management Board members and 375,616 stock options to employees. As the vesting period is still running, no options were exercised yet.

Agreement with Lundbeck to conduct a second Phase III study with Desmoteplase

According to the agreement with Lundbeck, PAION will assume major responsibility for financing the study. Under certain conditions, the costs borne by PAION may be reimbursed in full or in part by Lundbeck and/or Forest at a later point in time. These potential refund claims represent contingent assets which are not capitalised in accordance with IAS 37.31 *Provisions, contingent liabilities and contingent assets*.

Aachen, 7 November 2006

PAION AG

The Management Board

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