

PAION Q2#2007

Consolidated financial report on the first half-year 2007

Contents

Interim group management report for the first half-year 2007	3
Overview	3
Share price development	4
Research and development overview	5
Net assets, financial position and results of operations	6
Personnel development	10
Changes in the Supervisory Board	11
Risks and opportunities report	11
Outlook	12
Consolidated balance sheet	14
Consolidated income statement	16
Consolidated cash flow statement	17
Consolidated statement of changes in equity	18
Selected explanatory notes to the consolidated interim financial statements as of 30 June 2007	19
Declaration of the Management Board pursuant Secs. 264 para. 2 sentence 3 and 289 para. 1 sentence 5 HGB (German Commercial Code)	21
Review report	22

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Key figures

(all figures in EUR k unless otherwise noted)	Q2 2007 (unaudited)	Q2 2006 (unaudited)	H1 2007 (unaudited)	H1 2006 (unaudited)
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Revenues	991	1511	2,285	2,868
Research and development expenses	-6,280	-4,421	-9,632	-8,857
General and administrative expenses	-1,439	-1,185	-2,452	-2,277
Selling and marketing expenses	-259	-335	-466	-596
Net result for the period	-6,767	-5,514	-10,932	-10,777
Earnings per share in EUR for the period (basic)	-0.40	-0.34	-0.65	-0.67
Earnings per share in EUR for the period (diluted)	-0.40	-0.34	-0.65	-0.67

	H1 2007 (unaudited)	H1 2006 (unaudited)
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Net cash from operating activities	-7,680	-10,205
Net cash from investing activities	-136	-198
Net cash from financing activities	-317	14,348
Average number of group employees	86	75

	06/30/2007 (unaudited)	12/31/2006 (audited)
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Intangible assets	873	524
Long-term refund claims resulting from the assumption of development costs	8,152	8,011
Cash and cash equivalents	49,055	57,189
Equity	34,977	45,471
Non-current liabilities	19,249	19,212
Balance sheet total	61,032	70,050
Equity ratio	57.3%	64.9%

Interim group management report for the first half-year 2007

Overview

On 31 May 2007, first results of the Phase III study with Desmoteplase in acute ischemic stroke (DIAS-2) which was jointly conducted with our cooperation partner Forest Laboratories, Inc. were presented at the European Stroke Conference in Glasgow. The study showed no statistically significant difference in clinical improvement 90 days after treatment between stroke patients which received either Desmoteplase or placebo. Thus the primary endpoint of the study was not met. In particular, the unusual high clinical improvement in the placebo group is not consistent with previously observed patterns in PAION's DIAS/DEDAS studies and large-size, placebo-controlled acute stroke trials. The absence of consistency with previous findings is surprising. Currently, PAION together with its cooperation partners Forest and H. Lundbeck A/S are conducting in-depth analyses to better understand the data of the DIAS-2 study.

Following the publication of these negative results, PAION shares initially lost approx. 64% of its value and on 29 June 2007 traded at EUR 2.91 (XETRA).

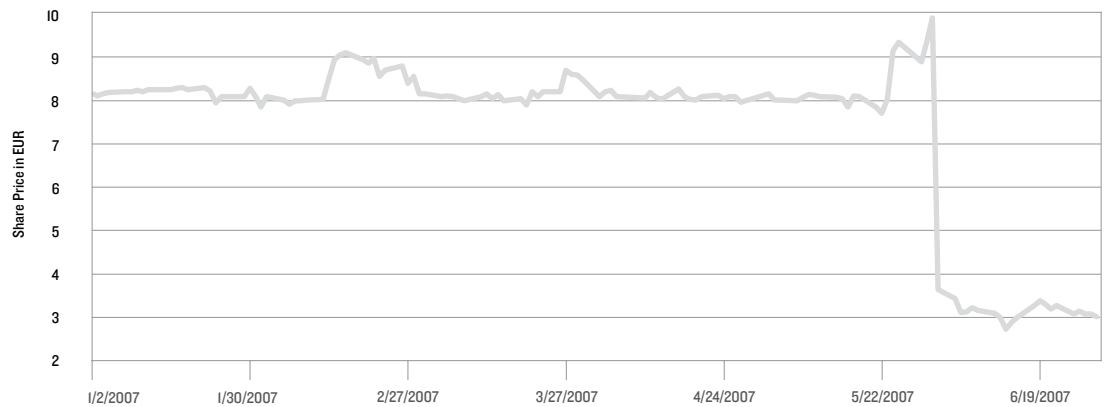
As a first reaction on the unexpected outcome of the DIAS-2 study an action plan was established which, among others, includes a significant reduction of internal and external costs. As part of these measures taken, the number of employees is being reduced by 25% within short.

In the first half-year 2007, with EUR 10,932k the net loss for the period was comparable to the result of the corresponding prior year's period (EUR 10,777k). As of 30 June 2007, the cut-off date for the period, PAION remained at a solid cash position of EUR 49,055k. As of 30 June 2007, the underlying assumption of Desmoteplase's chances to receive regulatory approval in the future as set forth in the principles of accounting remained unchanged. However, in reaction to the results of DIAS-2 the assumption regarding the approval date was changed which resulted in present value adjustments amounting to EUR 633k (net) in the reporting period. In this respect, reference is made to the accounting principles on pages 19 and 20 of this consolidated financial report.

Share price development

Until just before the publication of the DIAS-2 results, the price of PAION shares moved sideways at approx. EUR 8.00 except for a short peak increase to EUR 9.00 mid-February. Starting in mid-May, the trading volume increased and the share price rose to EUR 9.80 (XETRA) as of 31 May 2007. On 1 June 2007, the day after the publication of the negative DIAS-2 results the share price sharply dropped and lost 63.9% intraday while approx. 6.2 million shares were traded. Later on in June, the share price continued to decline and reached EUR 2.91 (XETRA) on 29 June 2007, the last trading day of the reporting period. The average daily trading volume (XETRA and Frankfurt Floor) of the first half-year 2007 amounted to 120,770 shares.

Development of PAION's share price in the first half-year 2007



Research and development overview

PAION's research and development activities are currently focused on three substances: Desmoteplase, Enecadin and Solulin. These substances target different aspects of a stroke, thereby offering complementary therapeutic options.

PAION's most advanced substance is **Desmoteplase**, an intravenous therapeutic, which could primarily be applied for the causal treatment of acute ischemic stroke. Desmoteplase belongs to a group of blood clot-dissolving compounds known as plasminogen activators. Together with its cooperation partner Forest, PAION has conducted a clinical Phase III study (DIAS-2) with Desmoteplase. This acute ischemic stroke study enrolled 186 patients and explored the clinical improvement of patients who received 90 mcg/kg or 125 mcg/kg Desmoteplase compared to patients who received a placebo. Patients were treated within a 3-9 hour time window and were eligible for treatment only in case of a distinct penumbra of at least 20% (penumbra = insufficiently perfused but still salvageable tissue area around the primary location of stroke), which was confirmed by magnetic resonance imaging (MRI) or perfusion computed tomography (PCT). The primary endpoint in the study was defined as the difference in percentage in clinical improvement 90 days after treatment between patients treated either with study drug or with placebo. Initial results of the DIAS-2 study were published on 31 May 2007 and also presented at the European Stroke Conference in Glasgow. The data showed no statistically significant difference in clinical improvement comparing the two Desmoteplase dose groups and placebo. Thus, the primary end point of the study was not met. Improvement of clinical outcome was found with 47.4% of patients treated with 90 mcg/kg Desmoteplase and 36.4% of patients treated with 125 mcg/kg Desmoteplase, compared to a surprisingly high 46.0% in the placebo group. Regarding the improvement in the placebo group these findings are neither consistent with previously observed patterns in PAION's DIAS/DEDAS studies nor large-size, placebo-controlled acute stroke trials. However, with respect to safety, both Desmoteplase dose groups met the expectations. The rate of symptomatic intracranial bleeding within 72 hours after study drug administration was 3.5% in the 90 mcg/kg dose group and 4.5% in the 125 mcg/kg group and thus was well below the limit that was predefined in the study protocol. PAION and its cooperation partners Forest and Lundbeck are currently conducting in-depth analyses in order to be able to better understand the results of the DIAS-2 study.

As a reaction on the DIAS-2 results, the preparations for the additional confirmatory study with Desmoteplase in acute ischemic stroke, which PAION jointly planned with cooperation partner Lundbeck, were put on hold. The future development programme of Desmoteplase as well as the decision of the two cooperation partners whether to continue the collaboration or not will now largely depend on the results of the detailed analyses of DIAS-2 data. Only on this basis it will then be possible for PAION and its cooperation partners to decide on the possible future development programme.

Enecadin is a neuroprotectant which may increase the survival time of affected brain cells and therefore may serve to reduce neural damage within the course of an acute ischemic stroke. Since the first quarter of 2006, PAION is conducting the clinical Phase IIa study TEST (Tolerability of Enecadin in acute ischemic Stroke Trial). This dose-finding study examines the safety, efficacy and tolerability of the substance in a timeframe of up to nine hours after the onset of symptoms in patients who have suffered an acute ischemic stroke. In the second quarter 2007 patient recruitment for the first dose group within the study was completed. An analysis of the first dose group is currently being conducted.

Solulin is a thrombin modulator which may act as an “intelligent anticoagulant” with anti-inflammatory potential and which might be useful in preventing arterial re-occlusion related to ischemic stroke and other thrombotic diseases. PAION currently prepares a Phase I clinical study with this substance which is anticipated to start in the fourth quarter 2007..

Net assets, financial position and results of operations

Results of operations

Compared to the prior year's period, the loss of the period increased by EUR 155k to EUR 10,932k. A milestone obligation towards Schering AG for the substance Desmoteplase which did not have a cash impact so far has been proportionally captured as expense and therefore influenced the loss of the first half-year 2007 by EUR 2,632k. In consequence of the results of the DIAS-2 study the assumption regarding the potential approval date of Desmoteplase has been changed. This led to present value adjustments in connection with the accounting of the long-term refund claims due from Lundbeck and the long-term repayment obligation due to Forest which resulted in a one-time profit in the amount of EUR 633k in the reporting period. Furthermore, the result of the period was affected by restructuring expenses amounting to EUR 327k. In this context we refer to our explanations regarding accounting policies and restructuring measures on the pages 19 and 20 of this consolidated financial report.

	Q2 2007 EUR k	Q2 2006 EUR k	H1 2007 EUR k	H1 2006 EUR k
Revenues	991	1,511	2,285	2,868
Cost of Revenues	-920	-1,388	-2,168	-2,771
Gross profit	71	123	117	97
Research and development	-6,280	-4,421	-9,632	-8,857
General and administrative	-1,439	-1,185	-2,452	-2,277
Selling and marketing	-259	-335	-466	-596
Other income (expenses)	38	10	58	112
Operating expenses	-7,940	-5,931	-12,492	-11,618
Operating result	-7,869	-5,808	-12,375	-11,521
Financial result	1,102	294	1,443	744
Taxes on income	0	0	0	0
Net result for the period	-6,767	-5,514	-10,932	-10,777

As in the prior year's period, the revenues of the first six months 2007 in the amount of EUR 2,285k exclusively resulted from the reimbursement of development costs by Forest and Lundbeck. The reduction of the revenues is primarily due to lower reimbursable costs of the DIAS-2 study in the first half-year 2007 and to the fact that since the direct inclusion of Lundbeck into the contractual relationship with the contract manufacturing organisation (CMO) of Desmoteplase in the second quarter 2007 Lundbeck directly bears the proportional cost of production development.

In the first half-year 2007, the cost of revenues in the amount of EUR 2,168k stem from the development activities of this period reimbursed by Forest and Lundbeck. In the prior year's period, the cost of revenues also resulted exclusively from reimbursed development costs allocated to Forest and Lundbeck.

The research and development expenses of the first six months 2007 increased by EUR 775k to EUR 9,632k compared to the corresponding prior year's period. The research and development expenses of the reporting period contain a milestone obligation towards Schering

which was proportionally captured as expense. The whole milestone obligation amounts to EUR 3m and is recorded as provision. Due to the out-licensing of the development rights of the substance Desmoteplase to Forest and Lundbeck EUR 2,632k thereof have been recorded as expense. The remaining amount has been capitalised as intangible asset. Without considering these expenses, a reduction of the research and development expenses by EUR 1,857k to EUR 7,000k would have been recorded in the first half-year 2007 compared to the corresponding prior year's period. This reduction is due to significant lower development expenses in connection with the production of the substance Desmoteplase. In contrast to this, the development expenses of the substances Enecadin and Solulin increased compared to the corresponding prior year's period.

Compared to the prior year's period the **general and administrative expenses** in the reporting period increased only slightly and amounted to EUR 2,452k (prior year's period: EUR 2,277k).

The **financial result** of the first six months 2007 was affected by a one-time profit in the amount of EUR 633k. This effect results from the modification of the assumption regarding the approval date of Desmoteplase as a consequence of the results of the DIAS-2 study. The modification led to adjustments of the present value of the long-term refund claims due from Lundbeck and the long-term repayment obligation due to Forest. Without this one-time income, an increase of the financial result by only EUR 66k would have been recorded compared to the prior year's period mainly resulting from a higher interest rate level.

Net assets and financial position

Mainly due to the net loss of the first half-year 2007 the balance sheet total as of 30 June 2007 decreased by EUR 9,018k to EUR 61,032k compared to 31 December 2006. The equity ratio as of 30 June 2007 reduced to 57.3% compared to 31 December 2006 (64.9%). 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 21.4 percentage points to 78.7%.

The rise in **non-current assets** is chiefly the result of PAION's portion of the milestone obligation due to the original licensor Schering AG for the development and marketing rights of Desmoteplase. This portion amounts to EUR 368k and was capitalised as intangible asset. The non-current assets mainly contain the long-term refund claims resulting from the assumption of the development costs against Lundbeck which amounted to EUR 8,152k as of 30 June 2007. These refund claims are the result of Lundbeck's obligation to assume PAION's repayment obligation to Forest for the development costs borne by Forest, including a premium, in the

	06/30/2007	12/31/2006	Change
	in EUR k	in EUR k	in EUR k
Non-current assets	10,073	9,699	374
Current assets	50,959	60,351	-9,392
Assets	61,032	70,050	-9,018
Equity	34,977	45,471	-10,494
Non-current liabilities	19,249	19,212	37
Current liabilities	6,806	5,367	1,439
Equity and liabilities	61,032	70,050	-9,018

event that Desmoteplase is approved in Europe and/or Japan. Regarding the retention of the assumption of an approval of Desmoteplase reference is made to our explanations concerning accounting policies on the pages 19 and 20 of this consolidated financial report. The long-term refund claims against Lundbeck are recognised at present value. In consequence of the results of the DIAS-2 study the period which is considered when calculating the present value has been changed. This led to a reduction of the refund claims in the amount of EUR 1,951k. Without this adjustment an increase of the refund claims against Lundbeck in the amount of EUR 2,093k would have been recorded compared to 31 December 2006.

The reduction in **current assets** in the amount of EUR 9,392k mainly relates to the decrease of the cash and cash equivalents (EUR 8,133k) and the trade receivables (EUR 1,186k). The change in cash and cash equivalents stems from the following areas:

	H1 2007	H1 2006
	in EUR k	in EUR k
Cash flow from operating activities	-7,680	-10,205
Cash flow from investing activities	-136	-198
Cash flow from financing activities	-317	14,348
Change in cash and cash equivalents	-8,133	3,945

The negative cash flow from operating activities in the amount of EUR 7,680k is primarily attributable to the net loss for the period of EUR 10,932k adjusted by the increase of the provisions (EUR 5,597k), the reduction of the trade receivables (EUR 1,186k), the increase of the long-term refund claims against Lundbeck (EUR 2,086k; without considering the present value adjustment) and the reduction of the trade payables (EUR 1,783k).

The negative cash flow from financing activities in the first half-year 2007 mainly resulted from interest payments of the subordinated loan borrowed in April 2006 from HSBC Trinkaus & Burkhardt KGaA. In the prior year's period, the positive cash flows from financing activities are chiefly due to cash flows from the capital increase of EUR 9,440k and the subordinated loan of EUR 6,720k (net of the debt discount of EUR 280k). These cash inflows were offset by payments made of EUR 448k which resulted 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 PAION Deutschland GmbH's pre-IPO stock option plan (EUR 1,192k).

Compared to 31 December 2006, the **non-current liabilities** as of 30 June 2007 increased only slightly. This development was significantly affected by the present value adjustment already mentioned. Due to this present value adjustment, the long-term refund obligation to Forest which is recognised at present value decreased by EUR 2,584k to EUR 10,798k as of 30 June 2007.

The **current liabilities** as of 30 June 2007 increased by EUR 1,439k to EUR 6,806k compared to 31 December 2006. This increase is predominantly due to the milestone obligation to Schering in the amount of EUR 3,000k which is recorded as provision. This effect was partly compensated by the reduction of the trade payables by EUR 1,783k.

Personnel development

In the course of the action plan aiming at the reduction of internal and external costs, a short-term adaptation of the personnel structure including a 25% reduction in the number of employees was announced by PAION on 22 June 2007. The affected employees have already been notified about their dismissal for operational reasons. The personnel reduction affects almost every part of the company and is carried out with the provision that the development organisation as such remains functional.

PAION employed an average of 86 employees in the first half-year 2007 (fiscal year 2006: 77 employees). Of these 86 employees, 64 employees are working in research and development, 19 employees in administration while 3 employees are working in sales and marketing. The current reduction in personnel will have an effect on the average number of employees only in the coming quarters.

Changes in the Supervisory Board

On 20 June 2007 Dr. Jörg Spiekerkötter, Kleinmachnow (Germany), was elected to the company's supervisory board by the annual general meeting. He replaces Dr. Franz A. Wirtz who will reach the age limit defined for members of the supervisory board of PAION AG this year and who has therefore resigned. Further members of the board are Dr. Walter Wenninger (chairman), Leverkusen (Germany), and Prof. Dr. Erich Schlick, Otterstadt (Germany). In its constituent meeting on 20 June 2007, the supervisory board appointed Prof. Dr. Schlick to its vice chairman.

Dr. Spiekerkötter has many years of experience in the pharmaceutical industry where he has held executive positions in the areas of finance, law and human resources. Until May 2007 he was the Chief Financial Officer of Organon BioSciences N.V., Oss (Netherlands), where he left after the acquisition of the company by the American pharmaceutical company Schering-Plough. Until September 2006 he was the Chief Financial Officer at Schering AG in Berlin (Germany), and before that he headed the Legal Department at Hoechst Schering AgrEvo GmbH in Berlin (Germany). Currently, Dr. Spiekerkötter is working as a lawyer. Dr. Spiekerkötter is not a member of any other supervisory board or comparable controlling boards.

Risks and opportunities report

As a young biopharmaceutical company PAION is mainly dependent on the successful development of its most advanced substance Desmoteplase. In view of the achieved development status and the cooperation with Forest and Lundbeck Desmoteplase currently is the most important value driver within PAION's development pipeline. In case of continuation of the development programme with Desmoteplase in the indication of ischemic stroke significant delays compared to the original development plan will occur due to the negative results of the DIAS-2 study. This will also lead to a significant later marketing authorisation. At the moment, it cannot be excluded that the currently conducted comprehensive analyses of the DIAS-2 results will result in discontinuing of the development programme of Desmoteplase in the indication of stroke.

In case of a discontinuation of the development programme the chance of future profits with this substance in the indication stroke and the outstanding milestone payments from the cooperation partners in the amount of currently up to EUR 80m would not be realisable anymore. The general conditions for PAION would be changed strongly. PAION's cash and cash equivalents currently amount to a solid EUR 49m, however, further financial resources will be required in the medium term for example to finance preclinical studies and clinical trials, to in-license new substances, to acquire or invest in businesses, substances or technologies. If at that point in time PAION were unable to raise financial resources on favourable terms or at all, it could be forced to reduce its operating expenses by delaying, reducing or discontinuing the clinical development of one or more of its substances.

For further explanations regarding the significant risks and opportunities to the future development reference is made to the risks and opportunities report in the group management report for fiscal year 2006. The other risks mentioned there have not changed materially in the first half-year 2007.

Outlook

The future development of the PAION Group will largely depend on the results of the detailed analyses of the DIAS-2 data and on the decision by the cooperation partners whether to continue the cooperation.

Within the framework of the action plan that was decided by the management board and the supervisory board, various strategic options are currently being evaluated. This includes the re-assessment and re-positioning of internal projects, also in indications other than stroke to provide alternatives, as well as the evaluation of external projects.

The financial outlook for fiscal year 2007 also largely depends on the results of the detailed analysis of DIAS-2 data, the decision of the cooperation partners and on the strategic positioning afterwards. At this point in time, PAION expects a net loss for 2007 on a comparable level as in 2006. However, deviations could occur in relation to events and measures taken.

Consolidated Interim Financial Statements

PAION AG

Consolidated Balance Sheet as of 30 June 2007

ASSETS	30 June 2007 EUR	31 Dec. 2006 EUR
Non-current assets		
Intangible assets	872,905.34	524,246.44
Equipment	1,047,615.23	1,163,871.92
Long-term refund claims resulting from the assumption of development costs	8,152,329.30	8,010,826.74
	10,072,849.87	9,698,945.10
Current assets		
Trade receivables	1,104,876.84	2,290,567.20
Prepaid expenses and other assets	798,933.44	871,707.98
Marketable securities	15,266,713.63	0.00
Cash and cash equivalents	33,788,600.03	57,188,779.78
	50,959,123.94	60,351,054.96
Total assets	61,031,973.81	70,050,000.06

EQUITY AND LIABILITIES	30 June 2007 EUR	31 Dec. 2006 EUR
Equity		
Share capital	16,755,552.00	16,755,552.00
Capital reserve	85,469,697.97	85,032,116.76
Loss carryforward	-56,316,554.35	-38,930,499.47
Loss for the period	-10,931,951.00	-17,386,054.88
	34,976,744.62	45,471,114.41
Non-current liabilities		
Provisions	10,810,683.62	10,616,825.08
Financial liabilities	6,632,122.53	6,741,483.43
Finance lease liabilities	97,883.00	133,320.00
Deferred income	1,708,413.48	1,720,630.08
	19,249,102.63	19,212,258.59
Current liabilities		
Trade payables	2,726,226.16	4,508,927.03
Provisions	3,637,382.28	442,446.78
Current portion of finance lease liabilities	71,544.00	74,163.00
Other current liabilities	346,540.92	316,657.05
Current portion of deferred income	24,433.20	24,433.20
	6,806,126.56	5,366,627.06
Total equity and liabilities	61,031,973.81	70,050,000.06

Consolidated Income Statement

EUR	1 April – 30 June 2007	1 April – 30 June 2006	1 January – 30 June 2007	1 January – 30 June 2006
Revenues	991,002.17	1,511,059.90	2,285,197.50	2,867,851.42
Cost of revenues	-919,628.33	-1,387,921.76	-2,168,155.28	-2,770,876.15
Gross profit	71,373.84	123,138.14	117,042.22	96,975.27
Research and development expenses	-6,280,139.46	-4,420,764.14	-9,631,748.61	-8,856,823.90
General and administrative expenses	-1,438,841.58	-1,184,646.47	-2,451,829.14	-2,276,694.24
Selling and marketing expenses	-258,812.09	-334,827.08	-466,572.89	-596,362.74
Other income (expenses). net	37,855.43	9,531.84	57,817.21	111,844.73
Operating expenses	-7,939,937.70	-5,930,705.85	-12,492,333.43	-11,618,036.15
Operating result	-7,868,563.86	-5,807,567.71	-12,375,291.21	-11,521,060.88
Financial income	3,076,166.64	496,956.40	3,573,019.76	1,015,634.14
Financial expenses	-1,973,976.45	-203,255.22	-2,129,679.55	-271,510.29
Financial result	1,102,190.19	293,701.18	1,443,340.21	744,123.851
Loss for the period before taxes	-6,766,373.67	-5,513,866.53	-10,931,951.00	-10,776,937.03
Income taxes	0,00	0,00	0,00	0,00
Loss for the period	-6,766,373.67	-5,513,866.53	-10,931,951.00	-10,776,937.03
Earnings per share (basic)	-0.40	-0.34	-0.65	-0.67
Earnings per share (diluted)	-0.40	-0.34	-0.65	-0.67

Consolidated Cash Flow Statement

EUR	1 January – 30 June 2007	1 January – 30 June 2006
Cash flows from operating activities:		
Net result for the period	-10,931,951.00	-10,776,937.03
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Amortization/depreciation	267,086.41	173,767.74
Loss/Profits from the disposal of non-current assets	3,900.86	0.49
Interest expenses and interest income	-1,443,340.21	-744,123.85
Release of investment grants	-12,216.60	-12,216.60
Expenses from stock option plans	437,581.21	525,578.86
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	-2,086,421.42	-1,928,527.67
Trade receivables	1,185,690.36	59,596.71
Prepaid expenses and other assets	178,578.65	210,179.66
Trade payables	-1,782,700.87	-574,289.36
Provisions	5,597,345.53	2,485,131.23
Other current liabilities	29,883.87	-249,570.09
	-8,556,563.21	-10,831,409.91
Interest received	876,127.46	626,910.25
Net cash used in operating activities	-7,680,435.75	-10,204,499.66
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-135,889.48	-198,181.55
Net cash used in investing activities	-135,889.48	-198,181.55
Cash flows from financing activities:		
Capital increase	0.00	1,000,000.00
Contributions to the capital reserve	0.00	8,440,000.00
Payments in connection with the raising of capital	0.00	-448,273.31
Borrowing	0.00	6,720,000.00
Capital repayment due to the settlement of options	0.00	-1,192,493.32
Interest paid	-275,372.89	-129,446.88
Payment of finance lease liabilities	-41,768.00	-41,771.00
Net cash used in/from financing activities	-317,140.89	14,348,015.49
Change in cash and cash equivalents	-8,133,466.12	3,945,334.28
Cash and cash equivalents at the beginning of the period	57,188,779.78	58,370,539.85
Cash and cash equivalents at the end of the period	49,055,313.66	62,315,874.13
Composition of cash and cash equivalents at the end of the period:		
Cash	33,788,600.03	52,180,706.93
Marketable securities	15,266,713.63	10,135,167.20
	49,055,313.66	62,315,874.13

Consolidated Statement of Changes in Equity

	Share capital EUR	Capital reserve EUR	Loss carryforward EUR	Equity EUR
31 December 2005	15,755,552.00	75,925,289.91	-38,930,499.47	52,750,342.44
Issue of shares	1,000,000.00	0.00	0.00	1,000,000.00
Contribution to the capital reserve	0.00	8,440,000.00	0.00	8,440,000.00
Cost of raising capital	0.00	-448,273.31	0.00	-448,273.31
Additional contribution to the capital reserve				
due to the issue of options	0.00	525,578.86	0.00	525,578.86
Loss for the period	0.00	0.00	-10,776,937.03	-10,776,937.03
30 June 2006	16,755,552.00	84,442,595.46	-49,707,436.50	51,490,710.96
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	589,521.30	0.00	589,521.30
Loss for the period	0.00	0.00	-6,609,117.85	-6,609,117.85
31 December 2006	16,755,552.00	85,032,116.76	-56,316,554.35	45,471,114.41
Issue of shares	0.00	0.00	0.00	0.00
Contribution to the capital reserve	0.00	0.00	0.00	0.00
Cost of raising capital	0.00	0.00	0.00	0.00
Additional contribution to the capital reserve				
due to the issue of options	0.00	437,581.21	0.00	437,581.21
Loss for the period	0.00	0.00	-10,931,951.00	-10,931,951.00
30 June 2007	16,755,552.00	85,469,697.97	-67,248,505.35	34,976,744.62

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

General information

In accordance with Sec. 37w (2) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] and in connection with Sec. 37y WpHG the semi-annual financial report of PAION AG contains consolidated interim financial statements, an interim group management report and a statement of the management board according to Secs. 264 (2) sentence 3 and 289 (1) sentence 5 HGB [“Handelsgesetzbuch”: German Commercial Code]. The consolidated interim financial statements have been prepared pursuant to the International Financial Reporting Standards (IFRS) for interim reporting. The interim group management report has been prepared in accordance to the applicable regulations of the WpHG.

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

Basis of accounting

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

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

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

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

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

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

Accounting policies

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

The underlying assumptions have been primarily retained unchanged compared to the consolidated financial statements as of 31 December 2006. In particular the assumption regarding an approval of Desmoteplase in Europe and/or Japan which is decisive for the accounting of the long-term repayment obligation due to Forest and the long-term refund claims due from Lundbeck has been retained in the consolidated interim financial statements as of 30 June 2007. This assumption is based on a probability assessment by the management board. After the results of DIAS-2, the probability of an approval of Desmoteplase in Europe and/or Japan has decreased, however the management board assumed that the probability of an approval is still greater than 50% as the overall data show a sufficient efficacy and a sufficient safety profile.

The still ongoing analyses of the results of the DIAS-2 study and the decisions of both cooperation partners regarding the continuation of the collaboration will have a significant impact on the probability assessment and the accounting of the repayment obligation and the refund claims. The termination of the cooperation by Forest would lead to a derecognition of both positions and to a realisation of the signing fee paid by Forest which is shown under deferred income as a result of the then absent contractual basis. As in this case no repayment obligation on the part of PAION would exist, the derecognition of the repayment obligation and the refund claims as well as the realisation of the signing fee would result in a one-time profit in the amount of EUR 4,315k (based on the amounts stated on 30 June 2007). These consequences would also arise in case of a termination of the cooperations by both partners, Forest and Lundbeck, at the same time. If only Lundbeck would terminate the cooperation this would only lead to a write-off of the refund claims towards Lundbeck and thus result in an one-time expense amounting to EUR 8,152k (based on the amounts stated on 30 June 2007). The above-mentioned income as well as the expense resulting from the write-off

of the refund claims towards Lundbeck would not have any impact on the cash and cash equivalents.

Based on the assumption that the development of Desmoteplase will continue, a milestone payment due to the original licensor Schering AG in the amount of EUR 3m has been recorded as provision in the consolidated interim financial statements as of 30 June 2007. From PAION's point of view this milestone payment is only payable within the continuation of the development program with Desmoteplase. Inline with the procedure in the past, a part of the milestone obligation (EUR 2,632k) has been expensed due to the out-licensing to Forest and Lundbeck as research and development expenses. The remaining part of the milestone obligation in the amount of EUR 368k was capitalised as intangible asset.

In accordance with IAS 37.45 Provisions, Contingent Liabilities and Contingent Assets and IAS 39.43 Financial Instruments: Recognition and Measurement the long-term repayment obligation due to Forest and the long-term refund claims due from Lundbeck are recognised at present value. The period which is used for the calculation of the present value was adjusted due to the results of the DIAS-2 study. This led to an additional interest income amounting to EUR 2,584k and to an additional interest expense amounting to EUR 1,951k which were captured in the results of the first half-year 2007.

Restructuring measures

As a consequence of the negative results of the DIAS-2 study, measures have been taken to reduce the internal and external costs. Among other things, a reduction of the headcount was part of it. For the expressed operational dismissals an accrual was setup at the cut-off date of the reporting period, 30 June 2007, which contains the owing salary and severance payments (EUR 258k).

Stock option program 2005

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

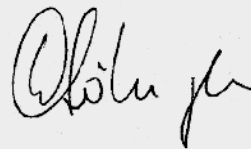
Related parties

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

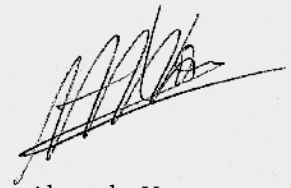
Declaration of the Management Board pursuant Secs. 264 para. 2 sentence 3 and 289 para. 1 sentence 5 HGB [German Commercial Code]

“To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.”

Aachen, 31 July 2007
PAION AG



Dr. Wolfgang Söhngen



Alexander Vos



Bernhard Hofer



Dr. Mariola Söhngen

Review Report

To PAION AG, Aachen:

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

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

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

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

Without qualifying this opinion, we draw attention to the explanations in the interim group management report. In sections 'Risk and Opportunities Report' and 'Outlook', it states that the future development of the PAION Group will largely depend on the results of the detailed data-analyses of the clinical trial 'DIAS-2' and on the decision by the cooperation partners (Forest Laboratories, Inc. und H. Lundbeck A/S) whether to continue the cooperation. As in view of the achieved development status and the above mentioned cooperations the substance Desmoteplase currently is the most important value driver within PAION's development pipeline, the general conditions for PAION would be changed strongly if the development programme of Desmoteplase in the indication of stroke should be discontinued.

Cologne, Germany, July 31, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(s) Gockel
Wirtschaftsprüfer
(German Public Auditor)

(s) Schlöder
Wirtschaftsprüfer
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