Global Offering of 5,000,000 Ordinary Bearer Shares
Offer Price € 8.00 per Share

This international offering is part of an initial public offering (the "Offering") of 5,000,000 newly issued no par value ordinary bearer shares of PAION AG, a stock corporation (*Aktiengesellschaft*) incorporated in the Federal Republic of Germany (the "New Shares"), by way of a global offering. The Offering also includes a public offering in the Federal Republic of Germany pursuant to a separate offering circular in the German language and a public offering in Switzerland.

The initial public offer price (the "Offer Price") for the Offered Shares in the international offering is the same as in the public offerings in the Federal Republic of Germany and in Switzerland.

All of our ordinary bearer shares were admitted to trading on the official market segment (*amtlicher Markt*) (the "Official Market Segment") of the Frankfurt Stock Exchange under the symbol PA8 on February 9, 2005. It is expected that trading in our shares will commence on or about February 11, 2005. Prior to the Offering, there has been no public market for our shares.

The Offered Shares are being offered severally by UBS Limited (the "Global Coordinator" or "UBS Investment Bank") on behalf of the other banks specified herein (together with the Global Coordinator, the "Underwriters"), subject to their right to reject any order in whole or in part and subject to their receipt of the Offered Shares from us. It is expected that payment for and delivery of the Offered Shares will be made on or about February 11, 2005 through Clearstream Banking AG, Frankfurt am Main.

Investing in our shares involves risks. See "Risk Factors" beginning on page 18.

In connection with the Offering, we have granted the Underwriters an option to subscribe for up to an additional 750,000 of our ordinary bearer shares (the "Greenshoe Shares" and, together with the New Shares, the "Offered Shares") at the Offer Price (the "Over-Allotment Option"). The Over-Allotment Option is exercisable for a period beginning on the date that our ordinary bearer shares commence trading on the Official Market Segment of the Frankfurt Stock Exchange and ending 30 calendar days thereafter.

The Offered Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and are being offered and sold only pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, including in the United States to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the Securities Act ("Rule 144A") and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). For a description of the restrictions on resale and transfer of the Offered Shares, see "Notice to Investors and Transfer Restrictions".

Global Coordinator and Bookrunner
UBS Investment Bank

Co-Lead Manager
Dresdner Kleinwort Wasserstein

Co-Manager
Landesbank Baden-Württemberg

Selling Agent
Sparkasse Aachen

Offering Circular, dated February 9, 2005

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In making an investment decision, investors should rely on their own examination of our company and the terms of the Offering, including the merits and risks involved. Any decision to buy Offered Shares should be based solely on this offering circular (the "Offering Circular"). Our shares have not been approved, disapproved or recommended by any federal or state securities commission or regulatory authority of the United States. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

No person has been authorized to give any information or to make any representations in connection with this international offering other than those contained in this Offering Circular. If any information is given or any representations are made, such information or representations must not be relied upon as having been authorized by us or the Global Coordinator, the Underwriters, any of their respective affiliates, advisors or selling agents or any other person. At any time following the date of this Offering Circular, the information contained in this Offering Circular may no longer be correct and our affairs may have changed.

No representation or warranty, express or implied, is made by the Global Coordinator, the Underwriters or any of their respective affiliates, advisors or selling agents as to the accuracy or completeness of the information set forth in this Offering Circular, and nothing contained herein is, or shall be relied upon as, a promise or representation by any of the Global Coordinator, the Underwriters or any of their respective affiliates, advisors or selling agents.

No representation is made by us, the Global Coordinator, the Underwriters or any of our or their respective representatives to prospective investors as to the legality of an investment in the Offered Shares, and prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Prospective investors should consult their own advisors as to the legal, tax, business, financial and related aspects of an investment in the Offered Shares.

This Offering Circular has been prepared solely for use in connection with the international offering. This Offering Circular is personal to each offeree and does not constitute an offer to any persons or to the public generally to purchase or otherwise acquire Offered Shares. Distribution of this Offering Circular to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular.

This Offering Circular does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Offered Shares. The distribution of this Offering Circular and the offering of shares may, in certain jurisdictions, be restricted by law and this Offering Circular may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized, or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this Offering Circular comes are required to inform themselves of and observe all such restrictions. Neither we nor the Global Coordinator nor any of the Underwriters accept any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

No action has been or will be taken in any jurisdiction other than the Federal Republic of Germany or Switzerland that would permit a public offering of the Offered Shares or the possession, circulation or distribution of this Offering Circular or any other material relating to us or the Offered Shares in any jurisdiction where action for that purpose is required. Accordingly, the Offered Shares may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Offered Shares may be distributed or published in or from any country or jurisdiction except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Offered Shares have not been and will not be registered under the Securities Act, or with any securities authority of any state of the United States, and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Offered Shares are only being offered pursuant to exemptions from, or in transactions not subject to, registration, including (i) in the United States only to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (ii) outside the United States only in offshore transactions (as defined in, and in accordance with, Regulation S). Prospective investors are hereby notified that sellers of the Offered Shares may be relying on the

exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on resales, see "Notice to Investors and Transfer Restrictions".

In connection with the Offering, the Global Coordinator may, for the account of the Underwriters, over-allot or effect transactions with a view to supporting the market price of our shares at levels above those that might otherwise prevail in the open market for a limited period after the first day of trading of our shares on the Frankfurt Stock Exchange. Such transactions may be effected on the Frankfurt Stock Exchange, in the over-the-counter market or otherwise, and shall be carried out in accordance with applicable rules and regulations. Such stabilizing, if commenced, may be discontinued at any time without prior notice and will in any event be discontinued 30 calendar days after the first day of trading of our shares on the Frankfurt Stock Exchange.

Notice to Investors and Transfer Restrictions

Because of the following restrictions, prospective purchasers of the Offered Shares are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Offered Shares.

Each purchaser of the Offered Shares will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser is (A) (i) a QIB or a registered broker-dealer acting for the account of a QIB, (ii) aware, and each beneficial owner of such shares has been advised, that the sale of the Offered Shares to it is being made in reliance on Rule 144A, (iii) acquiring such shares for its own account or for the account of a QIB, as the case may be, and (iv) aware that the Offered Shares are "restricted securities" within the meaning of the Securities Act or (B) purchasing, and the person, if any, for whose account it is acquiring the Offered Shares is purchasing, the Offered Shares in an offshore transaction, as such term is defined in Rule 902 under the Securities Act, in accordance with Regulation S.

2. The purchaser is aware that the Offered Shares have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A in a transaction not involving any public offering in the United States.

3. The purchaser understands that the Offered Shares may not be reoffered, resold, pledged or otherwise transferred except (A) (i) to a person whom the purchaser reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), or (iv) pursuant to an effective registration statement under the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States. **No representation can be made as to the availability of the exemption from registration under the Securities Act provided by Rule 144 thereunder for resales of the Offered Shares.**

4. The purchaser acknowledges that we, the Global Coordinator, the Underwriters and others will rely upon the truth and accuracy of the foregoing representations and agreements.

Notice to New Hampshire Residents

Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes, or RSA, with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that any exemption or exception is available for a security or a transaction means that the Secretary of State of New Hampshire has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

Notice to United Kingdom Investors

The Offered Shares may not be offered or sold to any person in the United Kingdom, except to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or

agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended).

This document is for distribution only to persons who (i) have professional experience in matters relating to investments, (ii) are persons falling within Article 49(2)(a) to (d) (that is, high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended), (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issuance, subscription or sale of any shares may otherwise lawfully be communicated or caused to be communicated in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to us (all such persons together being referred to as ''relevant persons''). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

Use of Terms and Conventions

In this Offering Circular, unless otherwise stated or the context otherwise requires, references to ''we'', ''us'', ''our'' and similar references refer to PAION AG together with its subsidiary PAION Deutschland GmbH.

The following product or technology designations, whether appearing with or without the symbol ''TM'' or ''®'', are our trademarks (among others): Paion, Paioneer and the bat symbol. All other trademarks appearing in this Offering Circular are owned by third parties.

Forward-Looking Statements

This Offering Circular includes certain statements about future events and developments and with respect to future financial results as well as other statements that do not relate to historical facts and events. This applies, in particular, to the statements in the Offering Circular relating to future financial results, plans and expectations with respect to our business, growth, profitability and the general economic conditions to which we are exposed. Such forward-looking statements are included, in particular, in the sections ''Summary'', ''Risk Factors'', ''Dividend Policy and Net Income (Loss) per Share'', ''Management's Discussion and Analysis of Financial Condition and Results of Operations'', ''Business Description'', ''Regulation'', ''Business Transactions and Legal Relationships with Related Parties'' and ''Recent Business Developments and Outlook''. Forward-looking statements can be identified by the use of the words ''expect'', ''assume'', ''presume'', ''probably'', ''may'', ''will'', ''should'', ''believe'', ''estimate'', ''forecast'', ''plan'', ''intend'', ''according to estimates'', ''is of the opinion'', ''to the knowledge of'' or other similar phrases.

Such forward-looking statements are subject to risks and uncertainties and are based on current estimates, plans and assumptions made by us to the best of our knowledge and are based on factors, the non-occurrence or occurrence of which could cause our actual results of operations, financial condition and profitability to differ materially or to be more negative than those expressly or implicitly assumed or described by these forward-looking statements. These factors include, in particular:

- our future profitability;
- our ability to develop, obtain approval for, and market Desmoteplase and other drug candidates;
- the continuation of our relationship with Forest Laboratories Ireland Limited and our achievement of specific milestones in the development and registration of drug candidates;
- our ability to enter into one or more additional collaborations for the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world;
- the timely supply by third party manufacturers of sufficient quantities of the raw materials, drugs and finished pharmaceuticals that we need;
- our ability to find patients to participate in clinical trials;

- the care with which third parties perform and document the research we commission them to perform, which forms the basis of future applications for approval;
- our ability to enter into agreements with third parties focusing on the joint development and marketing of drugs on commercially acceptable terms, and to guarantee the proper performance of such contracts by the other parties;
- our ability to market newly approved drugs successfully;
- our ability to obtain additional capital, as needed;
- our ability to license new compounds;
- the retention of our current management and other key members of staff;
- our ability to acquire insurance coverage on commercially acceptable terms;
- the effectiveness of the intellectual property rights we use and our ability to defend these rights against third-party infringements;
- our ability to license useful intellectual property rights held by third parties;
- our ability to grow efficiently;

and other factors which are mentioned in this Offering Circular or are currently unknown.

You are therefore strongly advised to read the sections "Risk Factors", "Dividend Policy and Net Income (Loss) per Share", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business Description", "Regulation" and "Recent Business Developments and Outlook", which include a more detailed description of those factors which could have an impact on our business development and our ability to pay dividends.

In light of these risks, uncertainties, assumptions and other factors, it is possible that the future events referred to in this Offering Circular may not occur at all or may not occur to the extent outlined in this Offering Circular. This also applies to the forward-looking estimates and forecasts derived from third-party sources (see "References to Sources of Market and Other Data").

Consequently, neither we nor our management can give any assurances regarding the accuracy of the opinions set forth in this Offering Circular or the actual occurrence of the predicted developments. All of the following statements that can be attributed either to us or to individuals acting on our behalf are subject to the qualifications stated in this Offering Circular. Furthermore, you should note that neither we nor the Underwriters assume any obligation to update such forward-looking statements or to adjust them in light of future events or developments, except as required by law.

References to Sources of Market and Other Data

In this Offering Circular, all figures relating to markets and sales in the medicinal drug sector (insofar as such sales do not relate exclusively to us) have been derived from sources in the public domain, particularly studies prepared by third parties or our estimates, which estimates are, in turn, based on published data or figures from sources in the public domain.

We quote figures and market data from, among other sources, publications of the American Heart Association, the Stiftung Deutsche Schlaganfall-Hilfe, the Organisation for Economic Co-operation and Development, the New England Journal of Medicine, CareInternet.net, the U.S. Department of Health and Human Services, the Thieme Verlag and the Scrip newsletter issued by PJB Publications on October 19, 2004. We have not verified the figures, market data and other information on which third parties have based their studies. Therefore we accept no liability for the accuracy of any information included in this Offering Circular which is derived from third-party studies.

A glossary of the technical terms and abbreviations used herein is included at the end of this Offering Circular.

Currency Presentation and Exchange Rate Information

The amounts stated in this Offering Circular in "€", "EUR" or "euro" refer to the legal currency of the Federal Republic of Germany as from January 1, 1999. References to "U.S.$", "USD" or "U.S. Dollars" relate to the legal currency of the United States of America.

The following table shows for the period from January 1, 2000 through February 9, 2005 the period end, average, high and low noon buying rates in New York City for cable transfers of euro as certified for customs purposes by the Federal Reserve Bank of New York expressed as U.S. dollars per € 1.00.

Year	Period end	Average[(1)]	High	Low
2000	0.939	0.921	1.034	0.827
2001	0.890	0.891	0.954	0.837
2002	1.049	0.950	1.049	0.859
2003	1.260	1.141	1.260	1.036
2004	1.354	1.248	1.363	1.180
Month in 2005				
January	1.305	1.312	1.348	1.295
Through February 9	1.280	1.290	1.302	1.277

(1) The average of the noon buying rates on the last business day of each month during the relevant one-year period, and with respect to monthly information, the average of the noon buying rates on each business day for the relevant period.

The noon buying rate for the euro on February 9, 2005 was € 1.00 = U.S.$ 1.280.

The above rates are provided for convenience only and may differ from the exchange rates used in the preparation of our annual consolidated financial statements and other financial information appearing in this Offering Circular.

Available Information

For so long as any of the Offered Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are not subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any holder or beneficial holder of Offered Shares, or to any prospective purchaser of Offered Shares designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act upon the written request of any such holder or beneficial holder. Any such request should be directed to us at the attention of Peer Nils Schröder (+49 241 4453-0) (pn.schroeder@paion.de).

Inspection of Supporting Documents

The documents referred to in this Offering Circular, insofar as they relate to us, may be inspected during regular business hours at our offices, located at Martinstrasse 10-12, 52062 Aachen, Germany, as well as at UBS Limited, c/o UBS Investment Bank AG, Stephanstrasse 14-16, 60313 Frankfurt am Main, Germany. Future annual reports and interim reports of us will be available at our offices and the offices of the paying and depositary agent mentioned in this Offering Circular (see "General Information on PAION and PAION AG — Notices, Paying and Depositary Agent").

Enforcement of Foreign Judgments and Service of Process

We are organized under the laws of the Federal Republic of Germany and most of our assets are located outside the United States. In addition, all members of our management board (*Vorstand*) and supervisory board (*Aufsichtsrat*) are non-residents of the United States and their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such persons with respect to matters arising under the federal securities laws of the United States or to enforce against us or such persons judgments of courts of the United States, whether or not predicated upon the civil liability provisions of the federal securities or other laws of the United States or any state thereof.

The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal or state securities laws, may not be enforceable, either in whole or in part, in Germany. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in Germany, such party may submit to the German court the final judgment that has been rendered in the United States. In the above circumstances, a judgment by a federal or state court of the United States against us or such persons will be regarded by a German court only as evidence of the outcome of the dispute to which such judgment relates, and a German court may choose to re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Germany.

Address

Our address is Martinstrasse 10-12, D-52062 Aachen, Germany, and our telephone number is +49 (0) 241 4453-0.

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Statement of Compliance with the Going-Public Principles

In preparing the Offering Circular, we complied with the Going-Public Principles (the "Principles") issued by Deutsche Börse AG as in effect on August 1, 2004. However, contrary to Section 3.3 of the Principles, the order of the sections in the Offering Circular does not conform to the order provided for in the Principles. Contrary to Section 4.1.1 of the Principles, we also disclosed certain risk factors which are not specifically related to our business operations and business environment. With respect to Section 4.1.2 of the Principles, which provides that the risk factors should be listed in the order of their economic materiality to us, see the introduction to "Risk Factors".

Subject-Matter of the Offering Circular

The subject-matter of this Offering Circular is the offering of up to 5,750,000 of our ordinary bearer shares with no par value (no par value shares), each with a notional value of € 1.00 and full dividend rights as from fiscal year 2004, as detailed below:

- 5,000,000 shares from the capital increase against cash contributions as approved by the extraordinary shareholders' meeting on January 21, 2005 and registered with the commercial register on February 9, 2005 (the "IPO Capital Increase"), and
- up to 750,000 shares from the capital increase against cash contributions resolved on February 9, 2005 by our management board with the consent of our supervisory board to service the Over-Allotment Option granted to UBS Limited for the account of the Underwriters (the "Greenshoe Capital Increase").

Summary

The following description summarizes selected information from this Offering Circular. This summary should be read and understood only in conjunction with the more detailed information provided in other parts of this Offering Circular. This summary does not contain all of the information that is important to investors. Investors should therefore carefully read the entire Offering Circular, particularly the section entitled "Risk Factors" and the information contained in the section "Financial Statements" before making an investment decision.

PAION

We are a development stage biopharmaceutical company aiming to become a leader in developing and commercializing innovative drugs for the treatment of stroke and other thrombotic diseases for which there is a substantial unmet medical need. We intend to build an integrated portfolio of drugs using a "search-and-development" approach. As part of this approach, we 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 our drug candidates, we seek to collaborate with experienced partners.

Since our inception in 2000, the year in which PAION Deutschland GmbH was founded, we have raised approximately € 51 million from the issuance of shares to various venture capital groups and private investors in four financing rounds. From our inception to September 30, 2004, we accumulated a net loss of € 28.8 million.

Drug Candidates

The current focus of our drug development efforts is the treatment of ischemic stroke, the most common type of stroke, which occurs when an artery in the brain is obstructed by a blood clot.

Desmoteplase

Our most advanced drug candidate is Desmoteplase, an intravenous therapeutic that we are developing primarily for the causal treatment of acute ischemic stroke. We licensed Desmoteplase from Schering Aktiengesellschaft, or Schering, in 2001.

We believe Desmoteplase is more effective and has a better safety profile than other therapies currently approved for the causal treatment of acute ischemic stroke. Our clinical trials have demonstrated that Desmoteplase is effective up to nine hours after an ischemic stroke has occurred, which is six hours longer than the time during which Alteplase, the only intravenous drug currently approved for the causal treatment of acute ischemic stroke, may be administered. In addition, our studies have shown that Desmoteplase has a significantly reduced risk of bleeding in the brain compared with both Alteplase and the Merci Retrieval System, a catheter-like mechanical device designed to remove blood clots, which is the only causal treatment of acute ischemic stroke other than Alteplase that has received regulatory approval. In June 2004, Desmoteplase received fast-track designation from the U.S. Food and Drug Administration, or FDA, for the indication acute ischemic stroke. We completed a Phase II clinical trial for Desmoteplase in Europe, Singapore and Australia in 2003 and another Phase II clinical trial in the United States in 2004. In the first quarter of 2005, we plan to commence a Phase IIb/III clinical trial in the United States, Australasia and Europe, based on a trial protocol which we have discussed with the FDA. This clinical trial will be our first pivotal clinical trial for Desmoteplase. A pivotal clinical trial is a clinical trial which may serve as the basis for an application for regulatory approval of the drug candidate being examined in the trial. In addition, we are considering conducting one or more clinical trials in parallel to the planned Phase IIb/III clinical trial to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained so far. If the planned clinical trials confirm the results of the Phase II clinical trials we have 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, we and our collaborative partner Forest Laboratories Ireland Limited, or Forest, may decide to apply for regulatory approval of Desmoteplase without conducting any further Phase III clinical trials. However, for regulatory reasons, we will in any event conduct a safety trial using the final formulation of Desmoteplase.

In addition, we are seeking to extend the therapeutic profile of Desmoteplase to other indications beyond acute ischemic stroke, such as acute pulmonary embolism. Pulmonary embolism is caused by a blood clot obstructing the supply of arterial blood to the lungs, which can trigger a variety of complications and, in severe cases, death. Desmoteplase is currently undergoing a Phase II clinical trial in patients with pulmonary embolism in Germany and several eastern European countries.

Enecadin and Solulin

Our other main drug candidates are Enecadin and Solulin. We licensed Enecadin from Nippon Shinyaku Co., Ltd. Enecadin belongs to a class of therapeutics called neuroprotectants, which offer potential benefits in the treatment of the secondary effects of acute ischemic stroke. Solulin, the rights to which we acquired from Schering in 2001, is a compound that prevents blood clotting and may be useful in the secondary treatment of recurring ischemic strokes in the acute time window. We have already conducted preclinical trials with respect to Enecadin and plan to begin a Phase I clinical interaction and safety trial in the first half of 2005 and a Phase II clinical trial in the second half of 2005. Interaction trials are clinical trials examining the interaction of a drug candidate with other drugs. Solulin is currently in the preclinical development stage and is expected to undergo a first Phase I clinical trial in the second half of 2005.

Collaborations with Third Parties

Consistent with our strategy to collaborate with experienced partners during the late stages of the clinical development and approval process and the commercialization of our drug candidates, we entered into an agreement with Forest in June 2004. Forest is a wholly-owned subsidiary of Forest Laboratories, Inc., which has guaranteed Forest's payment obligations under the agreement. The agreement grants Forest an exclusive license with respect to the commercialization of Desmoteplase in the United States and Canada. In return, Forest has agreed to make upfront and milestone payments in the aggregate amount of up to U.S.$69.5 million to us, U.S.$22 million of which we already received in 2004. Each milestone payment is contingent on our achievement of a predefined goal in connection with the development of Desmoteplase. In addition, Forest has agreed to bear a substantial portion of the future Desmoteplase related development costs pursuant to a mutually agreed development plan insofar as these costs relate to the indications acute ischemic stroke or acute pulmonary embolism and are required to obtain regulatory approval in the United States and/or Canada. The exact scope and timing of the development work to be carried out and any cost reimbursements are set out in the development plan, as described below. We have agreed that, if we obtain regulatory approval for Desmoteplase in the European Union, we will repay 35%, and if we obtain regulatory approval in Japan, 15% (that is, altogether 50%) of the costs borne by Forest. In each case, we have also agreed to pay a premium of 20% of this amount to compensate Forest for the risk it has assumed in funding the development of Desmoteplase. If Desmoteplase receives regulatory approval in the United States and/or Canada, Forest will be obliged to pay us royalties based on its net sales of Desmoteplase in the relevant markets. The net royalty rate, that is, the difference between the rate at which Forest will pay royalties to us and the rate at which we will pay royalties to Schering and potentially other parties, would, for so long as Desmoteplase enjoys market exclusivity, be staggered according to the net sales achieved by Forest and amount to approximately 12%, 17% or 22% (depending on the net sales bracket). The net royalty rate will decline on a country-by-country basis to the extent Desmoteplase faces competition from generics, subject to a minimum rate. For more detailed information on our agreement with Forest, see "Business Description–Strategic Alliances and Other Collaborations–Forest Laboratories Ireland Limited".

The current development plan we have agreed with Forest covers the further clinical development of Desmoteplase only with respect to the indication acute ischemic stroke and not with respect to the indication acute pulmonary embolism. However, we are currently negotiating with Forest to include the indication pulmonary embolism in the development plan. The current development plan provides for two clinical trials, a Phase IIb/III clinical trial and a Phase III clinical trial, each to be conducted both inside and outside United States. Under the terms of the development plan, Forest will bear costs associated with the Phase III clinical trial only after completion of the Phase IIb/III clinical trial. As described above, we are considering conducting one or more clinical trials in parallel to the Phase IIb/III clinical trial planned for the first quarter of 2005 to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. The current development plan covers neither the clinical trials to expand the patient population nor the additionally planned safety trial using the final formulation of Desmoteplase. However, we are currently in negotiations with Forest regarding the funding of these trials with a view to amending the development plan accordingly. If the planned clinical trials confirm the results of the Phase II clinical trials we have conducted to date and if the regulatory authorities accept the safety and efficacy data available after completion of these trials as the basis for an application for

regulatory approval, we and Forest may decide to apply for regulatory approval of Desmoteplase without conducting the Phase III clinical trials provided for in the current development plan.

We are currently considering one or more additional collaborations with respect to the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world. If we enter into any such additional collaborations, we will seek to obtain co-promotion rights for certain parts of Europe. However, there can be no assurance that we will be able to enter into any additional collaborations with respect to Desmoteplase on terms we consider favorable or at all.

Strategy

Our goal is to become a leader in developing and commercializing innovative drugs for the treatment of stroke and other thrombotic diseases for which there is a substantial unmet medical need. Consistent with this overall goal, the key elements of our strategy are as follows:

- Finalize the development of Desmoteplase for the indication acute ischemic stroke and extend the therapeutic profile of this drug candidate to other indications.
- Build an integrated portfolio of drugs for the treatment of stroke and other thrombotic diseases with complementary modes of action.
- Expand our ''search-and-development'' approach.
- Establish selective collaborations with experienced partners to leverage, to the greatest extent possible, our clinical development experience.
- Complement collaborations with the creation of a specialty sales and marketing organization in selected markets.

Risk Factors

You should carefully consider certain risks before making a decision to purchase our shares in the Offering. We are substantially dependent on the success of Desmoteplase. Any of our drug candidates, including Desmoteplase, could fail at any stage of development. Moreover, we depend on Forest for substantially all of our revenues and to fund the future development and commercialization of Desmoteplase in the United States and Canada. If the development or commercialization of Desmoteplase fails or if we lose Forest as a collaboration partner, our cash flows, revenues and results of operations may be adversely affected, and we may be unable to continue as a going concern. For more information on the risks associated with purchasing our shares, see ''Risk Factors''.

Summary of the Offering

Subject Matter of the Offering	5,000,000 (plus a potential over-allotment of up to 750,000) ordinary bearer shares with no par value of PAION AG. The Offering consisted of a public offering in the Federal Republic of Germany and Switzerland as well as international private placements to certain institutional investors outside the Federal Republic of Germany and Switzerland. The number of Offered Shares has not been changed. In the United States, the Offered Shares were offered for sale only to qualified institutional buyers as part of a private placement in reliance on Rule 144A under the Securities Act. Outside the United States, the Offered Shares were offered in reliance on Regulation S under the Securities Act.
Underwriters/Selling Agent	In addition to UBS Investment Bank, acting as Global Coordinator, Dresdner Bank Aktiengesellschaft and Landesbank Baden-Württemberg have been designated as Underwriters. Investors were able to submit purchase orders for the Offered Shares to each of these banks. Furthermore, Sparkasse Aachen is acting as selling agent for Landesbank Baden-Württemberg.
Offering Period	The offering period ran from and including January 25, 2005 up to and including February 9, 2005 at 12:00 noon (Frankfurt time) following an extension announced on February 7, 2005 for retail investors (natural persons) and for institutional investors.
Price Range and Offer Price	The price range within which investors were able to submit purchase orders was initially between € 11.00 and € 14.00 per Offered Share. The initial price range was published in the *Frankfurter Allgemeine Zeitung* on January 24, 2005 and thereafter in the German Federal Gazette (*Bundesanzeiger*). On February 7, 2005 we announced that as from such date we would accept purchase orders at or above € 8.00. Except for the lowering of the lower end of the price range and the extension of the offering period, the terms of the Offering have not been changed. We determined the Offer Price of € 8.00 per Offered Share on the basis of a bookbuilding process on February 9, 2005 together with the Global Coordinator. The Offer Price was published via electronic media, such as Reuters or Bloomberg, on February 9, 2005, and is expected to be published via the *Frankfurter Allgemeine Zeitung* on February 10, 2005 and thereafter via the Federal Gazette (*Bundesanzeiger*). Investors may obtain the Offer Price from the Underwriters.
Delivery and Settlement	Delivery of the Offered Shares against payment of the Offer Price is expected to take place on February 11, 2005.
Over-Allotment Option	We have granted UBS Limited for the account of the Underwriters an option to acquire from us up to 750,000 additional shares to service over-allotments, such additional shares to come from a capital increase resolved by our management board with the approval of our supervisory board on February 9, 2005, against payment in cash. The Over-Allotment Option may be exercised by UBS Limited for the account of the Underwriters within 30 calendar days following the first day of trading in our shares on the Frankfurt Stock Exchange.
Stabilization	In connection with the Offering, the Global Coordinator is authorized to effect over-allotments and to take other stabilization measures, either by itself or through any of its affiliates, in each case in accordance with applicable laws.

General Allotment Criteria	We and the Underwriters will adhere to the "Principles for the Allotment of New Share Issues to Retail Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) (the "Allotment Principles"), issued on June 7, 2000 by the Exchange Commission of Experts (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). Any allotments of Offered Shares to retail investors in Germany as part of the Offering by the Underwriters and their affiliates will be made by applying criteria consistent with the Allotment Principles.
Listing	All of our ordinary bearer shares were admitted to trading on the Official Market Segment of the Frankfurt Stock Exchange and to the sub-segment of the Official Market Segment with additional post-admission obligations (Prime Standard) on February 9, 2005. Trading is expected to commence on February 11, 2005.
Dividend rights	The Offered Shares include full dividend rights as from fiscal year 2004 of PAION AG, that is, as from the date of inception of PAION AG, which was June 2, 2004. Economically, the Offered Shares will participate in our results for the full calendar year 2004, which include the results of PAION Deutschland GmbH. However, we currently do not expect to generate a profit for the foreseeable future. As long as we do not generate a profit, dividend payments are not permitted under German law. See also "Dividend Policy and Net Income (Loss) per Share".
Lock-up agreed between us and the Underwriters	To the extent permitted by law, we agreed vis-à-vis the Underwriters, subject to certain exceptions, including in connection with strategic transactions, not to announce or carry out a capital increase from authorized or contingent capital or to submit a capital increase proposal to our shareholders without the prior written consent of the Global Coordinator for 12 months following the admission to trading of our shares. The same restrictions apply to the issue of warrants or conversion rights for our shares or other transactions having a similar economic effect, see "Underwriting".
Lock-up agreed between the Existing Shareholders and the Underwriters	Shareholders who held shares of our company prior to the Offering agreed vis-à-vis the Underwriters, subject to certain exceptions, that they will not, without the prior written consent of the Global Coordinator, directly or indirectly, offer, sell or announce the sale of any of our shares or take any action having the same economic effect as a sale. For management board members holding shares, this undertaking will apply for 12 months after the admission to trading of our shares, for all other shareholders who held shares prior to the Offering, it will apply for 6 months after the admission to trading. See "Underwriting".
Use of Proceeds	Based on the Offer Price of € 8.00 per Offered Share, the gross proceeds from the Offering will amount to € 40,000,000 (or up to approximately € 46,000,000 if the Over-Allotment Option is exercised in full). We intend to use the net proceeds of up to approximately € 35,065,000 (or up to approximately € 40,720,000, assuming the Over-Allotment Option is exercised in full), if necessary, for the clinical development of Desmoteplase in the indication pulmonary embolism and to conduct additional clinical trials in the indication ischemic stroke, such as, for example, trials combining Desmoteplase with neuroprotectants or other clinical trials not covered by Forest or any other collaboration partner. We also plan to use the net proceeds to further develop Enecadin and Solulin, to fund pre-marketing activities for our lead drug candidate Desmoteplase in the European Union and to enable us to implement a more pro-active in-

	licensing strategy with a view to expanding our portfolio of drug candidates. In addition, we will use portions of the net proceeds to partially settle the employee participation plan 2001-2004. Depending on our use of the net proceeds for the purposes described above, we intend to invest all or a portion of the net proceeds in short- and medium-term interest-bearing financial instruments.
International Securities Identification Number (ISIN)	DE000A0B65S3
German Securities Identification Number (WKN)	A0B65S
Common Code	021018104
Trading Symbol	PA8

Summary Financial Information

The table below presents summary financial information for the years ended December 31, 2001, 2002 and 2003 and the nine-month periods ended September 30, 2003 and 2004, which have been derived, respectively, from our audited annual financial statements as of and for the years ended December 31, 2002 and 2003 and our unaudited interim financial statements as of and for the nine-month periods ended September 30, 2004 prepared on the basis of International Financial Reporting Standards, or IFRS. Financial data as of, and for periods ended on, a date on or before December 31, 2003 relate to PAION Deutschland GmbH, and financial data as of, and for periods ended on, a date after December 31, 2003 relate to PAION AG and its wholly-owned subsidiary PAION Deutschland GmbH. You should read this information in conjunction with the section of this Offering Circular entitled ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our financial statements, including the related notes, contained in this Offering Circular and the other financial information included elsewhere in this Offering Circular.

	As of and for the year ended December 31,			As of and for the nine months ended September 30,		Accumulated from inception[1] to September 30,
	2001[2]	2002[2]	2003[2]	2003[2]	2004[2]	2004[2]
				(unaudited)		(unaudited)
			(€ in thousands)			
Income Statement Data						
Revenues	16	445	709	634	16,599[3]	17,791
Cost of revenues	(8)	(217)	(426)	(258)	(1,536)	(2,198)
Gross profit	8	228	283	376	15,062	15,593
Operating expenses						
Research and development expenses	(9,062)	(8,851)	(8,812)	(7,191)	(5,064)	(33,781)
General and administrative expenses	(930)	(2,326)	(2,432)	(1,769)	(4,625)	(10,891)
Selling and marketing expenses	0	0	(49)	(13)	(416)	(466)
Income (loss) from operating activities	(9,983)	(10,949)	(11,010)	(8,598)	4,957	(29,544)
Other income (expense)						
Financial results	68	19	62	44	146	279
Other income/(expense), net	88	64	84	(1)	(209)	29
Net income (loss) before income tax	(9,828)	(10,866)	(10,864)	(8,554)	4,894	(29,236)
Income taxes	0	0	0	0	392	392
Net income (loss)	(9,828)	(10,866)	(10,864)	(8,554)	5,285	(28,844)
Balance Sheet Data						
Cash and cash equivalents	2,719	5,575	8,454		25,270[4]	
Intangible assets	120	134	732		1,381	
Total assets	4,259	7,317	10,003		29,042	
Current liabilities	2,319	3,242	2,404		2,823	
Shareholders' equity	1,649	3,894	7,579		23,753[4]	
Cash Flow Data						
Net cash used in operating activities	(9,253)	(9,385)	(9,428)	(7,338)	7,724	(21,200)
Net cash used in investing activities	(1,344)	(681)	(729)	(723)	(1,075)	(3,893)
Net cash provided by financing activities	12,902	12,921	13,035	7,996	10,168	50,363

(1) The date of our inception is deemed to be July 20, 2000, the date on which PAION Deutschland GmbH was founded. PAION AG was founded on June 2, 2004. On September 8, 2004, PAION AG acquired all of the outstanding shares of PAION Deutschland GmbH, retroactively as of August 1, 2004, against issuance to its former shareholders of shares in proportion to their former ownership interests in PAION Deutschland GmbH.

(2) Columns may not add due to rounding.

(3) Includes the proportionate release of a non-refundable upfront payment and know-how transfer payments totaling € 16.3 million received from Forest and recognized as revenues in connection with the conclusion of an agreement granting Forest an exclusive license with respect to the commercialization of Demoteplase in the United States and Canada. For more information on our agreement with Forest, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Introduction'', ''— Accounting Impact of Our Agreement with Forest'' and ''Business Description — Strategic Alliances and Other Collaborations — Forest Laboratories Ireland Limited''.

(4) The acquisition by PAION AG of the outstanding shares of PAION Deutschland GmbH was accounted for as a reverse acquisition in the interim consolidated financial statements of PAION AG for the nine months ended September 30, 2004. Accordingly, the accounting impact of this acquisition on the financial information presented in this Offering Circular is limited to a difference of € 48,972 in the "shareholders' equity" and "cash and cash equivalents" lines of the balance sheet, reflecting the statutory minimum capital of PAION AG of € 50,000 less losses of € 1,028 accumulated by PAION AG due mainly to expenses in connection with the formation of PAION AG up until the contribution of the ownership interests of PAION Deutschland GmbH.

Before deciding to purchase shares in the Offering, you should carefully review and consider the following risk factors and the other information contained in this Offering Circular. The occurrence of one or more of the risks described below may have a material adverse effect on our cash flows, results of operations and financial condition and endanger our ability to continue as a going concern. Moreover, our share price could fall significantly if any of these risks were to materialize, in which case you could lose all or part of your investment. You should note that the risks discussed below are not the only risks to which we are exposed. Additional risks and uncertainties, which are not currently known to us or which we currently believe are immaterial, could likewise impair our business operations and have a material adverse effect on our cash flows, results of operations, financial condition, our ability to continue as a going concern and the price of our shares. The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on our cash flows, results of operations and financial condition, our ability to continue as a going concern or the price of our shares.

Risks Related to Our Business

We have not been profitable to date and may never achieve profitability.

From our inception in 2000 to September 30, 2004, we accumulated a net loss of € 28.8 million. In 2003, we had a net loss of € 10.9 million. Although we had net income of € 5.3 million in the nine-month period ended September 30, 2004, we expect to incur net losses for the foreseeable future.

To become profitable, we will need to develop and commercialize drugs. We have never generated revenues from the commercialization of drugs, and there can be no assurance that we will be able to do so in the future. For the foreseeable future, we expect our revenues to consist principally of cost reimbursements relating to the development of Desmoteplase and milestone payments under our licensing agreement with Forest Laboratories Ireland Limited, or Forest, and any other collaboration agreements that we may enter into in the future. For more information on our agreement with Forest, see ''Business Description — Strategic Alliances and Other Collaborations — Forest Laboratories Ireland Limited''. The amount and timing of any such payments will depend on our ability to make progress in the clinical development of Desmoteplase and our other drug candidates. At the same time, we have incurred, and expect to continue to incur, significant operating expenses. If Desmoteplase fails to show positive results in any of its ongoing or upcoming clinical trials and we do not receive regulatory approval, or if Desmoteplase, once approved, does not achieve market acceptance, we may never generate sufficient revenues to enable us to cover our operating expenses. Accordingly, there can be no assurance that we will ever become profitable or that our profits will be greater than the substantial amounts we have invested in the past.

We are substantially dependent on the success of Desmoteplase, our lead drug candidate.

Desmoteplase is our only drug candidate that is in an advanced stage of clinical development. We have expended significant time, money and effort developing Desmoteplase. Before we can commercialize Desmoteplase, we will need to demonstrate its safety and efficacy in adequate and well-controlled Phase III clinical trials.

With respect to the acute ischemic stroke indication of Desmoteplase, we completed a Phase II clinical trial in Europe, Singapore and Australia in 2003 and another Phase II clinical trial in the United States in 2004. In the first quarter of 2005, we plan to commence a Phase IIb/III clinical trial in the United States, Australasia and Europe. In parallel to this clinical trial, we are considering conducting one or more clinical trials to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. See ''Business Description — Scientific Background'' for more information on acute ischemic stroke and acute pulmonary embolism and ''Business Description — Drug Pipeline — Desmoteplase — History and prior clinical trials of Desmoteplase'' for a detailed description of these clinical trials. Although Desmoteplase has shown promising results in all clinical trials for the indication acute ischemic stroke we have conducted to date, these results are not indicative of success in future clinical trials, and any clinical trials for the indication acute pulmonary embolism may not be successful. Adverse results in clinical trials are possible at any time. For example, we were forced to temporarily halt our first Phase II clinical trial with respect to Desmoteplase due to a greater than expected number of patients

suffering from cerebral hemorrhage, or bleeding in the brain. Although we received permission to recommence the trial after changing the dosage parameters and ultimately were able to conclude the trial successfully, there can be no assurance that we will be able to repeat these successful results in future clinical trials. If we are unable to demonstrate that Desmoteplase is safe and effective, we will not receive the regulatory approvals necessary to market Desmoteplase.

Our ability to adhere to the timetable for the further clinical development of Desmoteplase is subject to additional risks. If the planned Phase IIb/III clinical trial and the clinical trials we plan to conduct in parallel to this clinical trial with a view to expanding the patient population confirm the results of the Phase II clinical trials we have conducted to date and if the regulatory authorities accept the data available after completion of these trials as the basis for an application for regulatory approval, we and Forest may decide to apply for regulatory approval of Desmoteplase without conducting any further Phase III clinical trials. However, there can be no assurance that the data available after completion of the planned clinical trials will be sufficient to form the basis for an application for regulatory approval. In addition, it is possible that the regulatory authorities will demand additional Phase III clinical trials, which would cause us additional costs and would significantly delay our receipt of regulatory approval for Desmoteplase.

In addition, we could experience substantial delays in obtaining regulatory approval for Desmoteplase if we fail to identify a new contract manufacturing organization, or CMO, to provide us with the final formulation of Desmoteplase which we intend to use to market the drug once we have received regulatory approval. We plan to use the final formulation of Desmoteplase only in the planned safety trial but not in the Phase IIb/III clinical trial planned for the first quarter of 2005 or the clinical trials to expand the patient population which we plan to conduct in parallel to that clinical trial. Since the regulatory authorities normally would expect that the final formulation of a drug candidate is used in a pivotal clinical trial, this strategy could lead to delays if the U.S. Food and Drug Administration, or FDA, the European Medicines Agency, or EMEA, or other relevant regulators were to require additional tests to demonstrate that the final formulation is comparable to the formulation we have used in clinical trials to date. Although we expect that the regulatory authorities will regard the medical need to find a causal treatment for acute ischemic stroke outside the three-hour time window as so important that they will consider the use of the final formulation in the planned safety trial to be sufficient for regulatory approval purposes, there can be no assurance that this will be the case.

Although Desmoteplase has received fast-track designation by the FDA, this designation does not guarantee faster development, review or approval compared to conventional FDA procedures. If regulatory approval is significantly delayed, other treatments for acute ischemic stroke could be developed, which could decrease or even eliminate the market potential of Desmoteplase.

Even if we are able to launch Desmoteplase in a timely manner, we may be unable to commercialize it effectively. In addition to risks affecting our ability to effectively market drugs generally, our ability to effectively commercialize Desmoteplase is subject to a number of specific risks, including limitations on the number of stroke patients who may be treated with Desmoteplase due to logistical difficulties involved in getting stroke patients to treatment centers within Desmoteplase's nine-hour treatment window and the limited availability of the diagnostic technologies necessary to select patients eligible to receive Desmoteplase.

If, as a result of any of the factors described above, we are unable to complete the development of Desmoteplase on the current timetable or to commercialize it effectively, our cash flows, revenues and results of operations may be adversely affected. If we fail to complete the development of Desmoteplase, we may find it difficult or impossible to obtain new funding and be unable to continue as a going concern.

We depend on Forest for substantially all of our revenues and to fund a substantial portion of the future development of, and to commercialize, Desmoteplase in the United States and Canada.

On June 30, 2004, we entered into a license agreement with Forest. The agreement grants Forest an exclusive license with respect to Desmoteplase for the United States and Canada. In return, Forest has agreed to make upfront and milestone payments in the aggregate amount of U.S.$69.5 million to us, U.S.$22 million of which we already received in 2004. In addition, Forest has agreed to bear a substantial portion of the future Desmoteplase related development costs pursuant to a mutually agreed development plan insofar as these costs relate to the indications acute ischemic stroke or acute pulmonary embolism and are required to obtain regulatory approval in the United States and/or Canada. Forest has agreed to bear these costs either directly, by carrying out the relevant work itself, or indirectly, by reimbursing us for the expenses we incur in carrying

out this work. We have agreed that, if we obtain regulatory approval for Desmoteplase in the European Union and/or Japan, we will repay up to 50% of the costs borne by Forest plus a premium of 20% of this amount to compensate Forest for the risks it has incurred in agreeing to fund the development of Desmoteplase. If we choose to offset any amounts we are required to repay against future royalty payments, we must pay interest on the amounts owed to Forest from the time Desmoteplase receives regulatory approval in the European Union or Japan, as the case may be. If the FDA grants regulatory approval for the commercialization of Desmoteplase, Forest has agreed to use commercially reasonable efforts to market the drug in the U.S. and Canadian markets and to pay us royalties based on its net sales of Desmoteplase. See "Business Description — Strategic Alliances and Other Collaborations — Forest Laboratories Ireland Limited" for a detailed description of this agreement.

We currently depend on our agreement with Forest for substantially all of our revenues. In the nine months ended September 30, 2004, our revenues consisted solely of the proportionate release of an upfront payment, a know-how transfer payment and cost reimbursements received from Forest, and we expect that payments under this agreement will continue to account for a substantial portion of our revenues for the foreseeable future. In addition, if we obtain regulatory approval for Desmoteplase, we expect to depend on royalties paid by Forest for a significant portion of our future revenues.

We also depend on Forest to fund a substantial portion of the future development of Desmoteplase. The exact scope and timing of the development work to be carried out with respect to Desmoteplase and of any cost reimbursements we may receive are set out in a mutually agreed development plan, which may change as the development of Desmoteplase progresses. The current development plan covers the further clinical development of Desmoteplase only with respect to the indication acute ischemic stroke and not with respect to the indication acute pulmonary embolism. However, we are currently negotiating with Forest to include the indication pulmonary embolism in the development plan. The current development plan provides for two clinical trials, a Phase IIb/III clinical trial and a Phase III clinical trial, each to be conducted inside and outside the United States. Under the terms of the development plan, Forest will bear costs associated with the Phase III clinical trial only after completion of the Phase IIb/III clinical trial. We are currently considering conducting one or more clinical trials in parallel to the Phase IIb/III clinical trial planned for the first quarter of 2005 to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. Although we are currently in negotiations with Forest regarding the funding of the clinical trials to expand the patient population and the additionally planned safety trial, the development plan agreed between us and Forest currently does not cover these trials.

In addition, we depend on Forest to commercialize Desmoteplase in the U.S. and Canadian markets. The amount of any royalties we receive from Forest following regulatory approval of Desmoteplase in the United States and/or Canada depends on the amount of resources that Forest will commit to the marketing of this drug. Although Forest is required to use commercially reasonable efforts to market the drug, there can be no assurance that its marketing efforts will be successful or that it will be able to pay us any royalties owed to us.

Forest is entitled to terminate its agreement with us under certain circumstances, including in the event that Schering Aktiengesellschaft, or Schering, from whom we have licensed Desmoteplase, terminates its agreement with us as a result of an act or omission by us. In addition, Forest has the right to terminate the agreement if it determines that Desmoteplase presents safety or efficacy issues that are likely to prevent or significantly delay the obtaining of regulatory approval for Desmoteplase or result in a labeling or indications that would significantly adversely affect the commercialization of Desmoteplase.

If Forest were to terminate its agreement with us and we could not find, or experienced delays in finding, a replacement, the development of Desmoteplase on the current timetable could be adversely affected or fail, which would hurt our results of operations and cash flows and potentially endanger our ability to continue as a going concern.

We depend on entering into one or more additional collaborations for the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world.

We are currently considering one or more additional collaborations with respect to the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world. To be able to enter into, and implement, such collaborations, we will have to successfully manage any interdependencies with our agreement with Forest and the complexities typically arising in connection with global clinical

development programs with multiple parties. For this reason and other uncertainties inherent in the process of negotiating collaborative arrangements, there can be no assurance that we will be able to enter into additional collaborations with respect to Desmoteplase on terms favorable to us or at all. If we fail to enter into one or more such additional collaborations, we ultimately would have to bear all Desmoteplase development expenses we may have to repay to Forest in the event we obtain regulatory approval of Desmoteplase in the European Union and/or Japan, that is, 50% of all Desmoteplase related development expenses initially borne by Forest plus a 20% premium and, potentially, interest. In addition, we would have to bear all Desmoteplase development costs not borne by Forest. The development plan agreed between us and Forest covers both the Phase IIb/III clinical trial planned for the first quarter of 2005 and a possible global Phase III clinical trial. In addition, we are currently in negotiations with Forest regarding the funding of one or more clinical trials, which would be conducted in parallel to these clinical trials, to expand the patient population, and a safety trial. Should further clinical trials limited to Europe become necessary, which we currently do not expect, we would have to bear the costs of these trials ourselves. Moreover, because we currently have no sales and marketing organization of our own and, with respect to Europe, intend to establish a specialty sales and marketing organization of only limited scope, we may experience difficulties commercializing Desmoteplase in markets that are not covered by the Forest agreement. Each of these risks could materially adversely affect our cash flows, results of operations and financial condition.

Our drug development efforts are focused in an area that historically has been characterized by a high degree of failure.

We invest significant resources in the screening of a broad range of compounds with a view to identifying those which we believe have significant commercial potential in the treatment of stroke and other thrombotic diseases. Currently, we only have a small number of drug candidates under development, and the risk that any or all of them will fail is extremely high. According to pharmaceutical industry statistics published by the Pharmaceutical Research and Manufacturers of America in 2003, only one in approximately 1,000 drug candidates is ever tested in clinical trials, and only one in approximately five drug candidates that enters clinical trials receives regulatory approval for marketing as a prescription drug. Historically, the failure rate has been especially high in the area of thrombotic diseases generally and even higher in the area of stroke, which is the focus of our business. In addition, the results of preclinical trials and early clinical trials may not be indicative of the results achieved in late-stage clinical trials, as adverse effects may become apparent even in the later stages of the development process. Therefore, even though we currently expect that Desmoteplase, Enecadin and Solulin are safe and effective, adverse effects that become evident at a later stage in their respective development processes could delay or prevent their approval by the relevant regulatory authorities. If this risk were to materialize with respect to any of our drug candidates, our ability to realize a profitable return on our investments in that drug candidate would be diminished, which could adversely affect our cash flows, results of operations and financial condition.

We may be unable to license or purchase new drug candidates on commercially attractive terms or at all.

We do not currently conduct any drug discovery research and rely solely on our ability to identify promising new compounds with a high commercial potential. We intend either to license the rights to such compounds, to purchase them or to acquire the companies which own them. As a result, our future success substantially depends on our ability to establish collaborations with third parties to license promising new compounds or to finance the licensing or purchase of these compounds or the companies that own them. We may not be able to enter into such license agreements or make such purchases on terms that are acceptable to us or at all. If we are unable to identify new drug candidates with a high commercial potential or enter into collaborations or licensing and purchase agreements on terms acceptable to us, our business, results of operations, cash flows and financial condition may be adversely affected.

We rely on third parties to supply the active pharmaceutical ingredient of our drug candidates and to manufacture clinical and commercial quantities of them. If we lose any of these third parties as partners or they fail to provide ingredients of a satisfactory quality, in sufficient quantities, at acceptable prices and in a timely manner, the clinical development and commercialization of our drug candidates could be materially delayed.

We do not currently own or operate any manufacturing facilities. As a result, we currently rely and expect to continue to rely on third parties for the supply of the active ingredient of Desmoteplase and our other drug candidates and for the manufacture of them in clinical and commercial quantities. We may not be able to

maintain or renew our existing arrangements with third parties on terms acceptable to us or at all. In addition, our reliance on third party suppliers and manufacturers poses additional risks that we would not face if we produced the relevant ingredients ourselves. These risks include:

- non-compliance by third party suppliers or manufacturers with regulatory and quality control standards,
- breach by third party suppliers or manufacturers of our agreements with them,
- termination or nonrenewal of an agreement with third party suppliers or manufacturers for reasons that are beyond our control, and
- sanctions imposed by regulatory authorities if compounds supplied or manufactured by a third party supplier or manufacturer fail to comply with applicable regulatory standards.

If we were to lose one of our key suppliers or CMOs for the sourcing and supply of Desmoteplase or any of our other drug candidates, we would have to find a replacement supplier or CMO, which could delay the clinical development of the relevant drug candidate by up to a year and a half. Moreover, we may from time to time be required to change suppliers or CMOs to comply with applicable regulatory requirements, which could also introduce delays. For example, since our relationship with the CMO which historically has supplied us with Desmoteplase has recently ended, we must enter into a similar arrangement with another CMO. We have recently identified a CMO that would be capable of supplying us with the final Desmoteplase formulation and are currently in advanced discussions with that CMO regarding a potential collaboration. For regulatory reasons, we intend to use the final formulation in the safety trial which we plan to conduct. If we fail to reach an agreement with this or another suitable CMO or if the FDA, the EMEA or other relevant regulators were to require additional tests to demonstrate that the final formulation of Desmoteplase is comparable to the formulation we have used in clinical trials to date, we could experience substantial delays in completing the development of Desmoteplase.

Difficulties in enrolling patients in our clinical trials may increase costs and negatively affect the timing and outcome of our clinical trials.

The completion of our clinical trials depends, among other things, on our ability to enroll a sufficient number of patients, which is a function of many factors, including:

- the limited number of patients available for our clinical trials, due to, among other things, competition for patients by clinical trial programs for other treatments,
- the therapeutic endpoints chosen for evaluation,
- the eligibility criteria for the clinical trial,
- the size of the patient population required for analysis of the trial's therapeutic endpoints,
- our ability to recruit clinical trial investigators with the appropriate competencies and experience,
- the proportion of patients leaving the study before reaching an endpoint, and
- the availability of adequate insurance.

We may experience difficulties in enrolling patients in clinical trials, which could increase the costs of these trials and affect adversely their timing and outcome.

The contract research organizations, or CROs, and freelance trial monitors that we and our collaborators rely on to conduct clinical trials may not be diligent, which could materially harm the development of our drug candidates.

We rely on CROs and freelance trial monitors to conduct clinical trials. As a result, our ability to influence the time or amount of resources committed to our clinical trials is limited. In addition, CROs and freelance trial monitors generally receive only a fixed fee for their services and no performance-based incentives. If the fees we pay are less than those paid by our competitors or not sufficient to cover the expenses of our CROs and freelance trial monitors, they may neglect our projects or otherwise fail to perform in a satisfactory manner. In addition, although we conduct periodic reviews with respect to our CROs and freelance trial monitors, they may fail to comply with applicable study protocols and other regulations. If any of these risks occur, the development of our drug candidates may be adversely affected and their regulatory approval may be delayed

or denied. In addition, any violation of the relevant clinical trial protocols and other regulations by our CROs or freelance trial monitors may have an adverse effect on the perception of our drugs in the market.

We are, and expect to continue to be, dependent on collaborative arrangements to complete the development of our drug candidates and to commercialize them successfully. These collaborative arrangements may place the development and commercialization of our drug candidates outside of our control, may require us to relinquish important rights or may otherwise be on terms unfavorable to us.

We expect to depend on collaborative arrangements with experienced partners to complete the development and commercialization of our existing and future drug candidates for the foreseeable future. If we fail to enter into collaborations on favorable terms or at all, our ability to develop and commercialize our existing or future drug candidates could be delayed and our costs of development and commercialization could increase. Our dependence on collaborative arrangements with experienced partners subjects us to a number of risks, including the following:

- We may not be able to control the amount or timing of resources that our collaborators devote to our drug candidates.
- We may be required to relinquish important rights, including intellectual property, marketing and distribution rights.
- We may not receive any future milestone payments or royalties if a collaborator fails to develop or commercialize one of our drug candidates.
- A collaborator may develop a competing drug candidate either by itself or in collaboration with others, including one or more of our competitors.
- Our collaborators may experience financial difficulties, which could adversely affect their ability to develop or commercialize one or more of our drug candidates.
- A collaborator's willingness or ability to complete its obligations under our arrangements may be adversely affected by business combinations or significant changes in a collaborator's business strategy.
- We may experience delays in, or increases in the costs of, the development of our drug candidates due to the termination or expiration of collaborative research and development arrangements.

If any of these risks were to materialize, our ability to develop and commercialize one or more of our drug candidates would be impaired and our results of operations, financial condition and cash flows would be adversely affected.

Even if our drug candidates receive regulatory approval, we may not be able to build an effective sales and marketing organization to prepare and assist with their marketing in Europe, which may impair their commercial potential.

We intend to establish our own specialty sales and marketing organization to assist with the marketing of our drug candidates in certain parts of Europe. The immediate task of this organization will be to prepare the launch of Desmoteplase, assist with its marketing and educate hospitals and doctors about the substantial therapeutic benefits of this drug. If we fail to create an effective sales and marketing organization or our sales and marketing efforts are unsuccessful, the size of the potential market for our drug candidates and our ability to realize revenues from Desmoteplase could be adversely affected.

We may need substantial additional funding and may be unable to raise capital as soon as it is needed, which could force us to delay, reduce or eliminate our drug licensing or our purchase of new drug candidates and the development and commercialization of our existing drug candidates.

We believe that the net proceeds of the Offering, our existing cash balances and future payments we expect to receive from Forest will be sufficient to meet our projected cash requirements until 2007. However, it is possible that we may need additional funding within this timeframe, in order to, for example, in-license new compounds and to acquire or invest in businesses, compounds or technologies, to fund preclinical studies and clinical trials, including studies with respect to Enecadin and Solulin and the extension of the therapeutic profile of Desmoteplase to additional indications, and to commercialize our drug candidates. We may seek such financing through public or private financings, collaborations or other arrangements. It may not be

possible, however, to obtain such funding, if needed, on terms attractive to us or at all. Our ability to raise additional funds will depend on financial, economic, market conditions and other factors, many of which are beyond our control. Furthermore, any additional equity financing may dilute existing stockholders, and any debt financing we may obtain may be subject to restrictive covenants. Similarly, financing obtained through collaborative arrangements with third parties may require us to forego certain rights to, or revenues from, any of our current or potential drug candidates. If we are unable to find financing on favorable terms or at all, we may be forced to reduce our operating expenses by delaying, reducing or discontinuing our funding of the clinical development of one or more of our drug candidates. For example, in 2002, we licensed a promising new compound from Millennium Pharmaceuticals, Inc. However, in 2003, we were forced to discontinue its development due to, among other reasons, our inability to obtain further funding.

Because we depend on our key management, scientific and technical personnel, our ability to compete would be adversely affected if we were unable to retain our existing qualified employees or hire and retain new ones.

Our success depends on our key management, scientific and technical personnel, many of whom have substantial experience with our company and would be difficult to replace. In particular, we are highly dependent on our chief executive officer, Dr. Wolfgang Söhngen, our chief operating officer, Alexander Vos, our chief medical officer, Dr. Mariola Söhngen, and our chief financial officer, Bernhard Hofer. In addition, competition for qualified personnel is intense in our industry and we may be unable to attract highly qualified employees. If we lose key management or scientific and technical personnel or do not succeed in attracting highly qualified personnel in the future, our ability to compete in the rapidly evolving markets targeted by us may be adversely affected.

We may have difficulty maintaining directors and officers insurance in sufficient amounts and at commercially viable rates, which may impair our ability to recruit and retain qualified directors and officers and have an adverse impact on our results of operations and financial condition.

D&O insurance covers the expenses incurred by companies and their management in defending against and resolving claims relating to the conduct of the members of our management and supervisory boards. These claims are extremely expensive to defend against and resolve. We are required under certain of our directors' and officers' employment contracts to purchase D&O insurance, provided such insurance is available to us on commercially reasonable terms, and we very recently purchased D&O insurance. However, we may not be able to maintain sufficient insurance coverage at commercially reasonable rates or at all. If we are unable to maintain D&O insurance or determine that the D&O insurance available to us is not commercially reasonable, we may be unable to recruit and retain qualified directors and officers or provide adequate incentives for our current and future directors and officers. If we become required to defend against and resolve securities and other claims raised against us or our management, our results of operations and financial condition could be harmed.

Our business will be adversely affected if we are unable to obtain and defend patents and other forms of intellectual property protection for new drug candidates or if the rights associated with our intellectual property do not provide us with effective protection.

Our business depends in large part on our ability to license, purchase or otherwise obtain patents and other forms of intellectual property protection for new drug candidates with a potential in the treatment of ischemic stroke and other thrombotic diseases. Although we are primarily a development company that is not actively engaged in research, we may from time to time make patentable discoveries or inventions. While we intend to prosecute patents for these discoveries and inventions aggressively, the process of obtaining patents is lengthy and expensive. There can be no assurance that patents with respect to our current or future applications will be granted or that any patents granted or licensed to us will be valid and of sufficient scope to provide us with sufficient legal protection or any commercial advantage. For example, many countries have compulsory licensing laws under which we may be compelled to grant licenses to third parties (for example, if a third party's product which requires one of our patents is needed to meet a threat to public health or safety in that country, we have failed to exploit one of our patents in that country or a third party has patented improvements). In addition, most countries limit the enforceability of patents against government agencies or government contractors. In these countries, we may be unable to enjoin infringement and may be limited to monetary relief, which would materially diminish the value of our patents or licenses.

Patentable ideas, developments, discoveries and inventions made by employees working in Germany are subject to the provisions of the German Act on Employees' Inventions (*Gesetz über Arbeitnehmererfindungen*), which regulates employers' entitlement to, and compensation for, inventions made by their employees in the course of their employment. If we fail to comply with the provisions of this Act, we may be unable to obtain effective patent protection for the ideas, developments, discoveries and inventions of our employees. In addition, if we or any of our licensors fail to pay any required renewal or annual fees for the patents or patent applications owned or licensed by us or if measures in connection with the maintenance or defense of patents or patents applications are not taken with respect to the relevant patent offices in a timely manner or at all, the relevant patents or patent applications will expire earlier than their scheduled term. We are typically neither legally nor factually in a position to take required maintenance action with respect to patents or patent applications licensed by us or to cause any of our licensors to fully defend such patents or patent applications against any claims raised against them.

We cannot be sure that the inventors of the inventions covered by our patents and patent applications are entitled to the earliest priority date since patent applications are maintained in secrecy for eighteen months after filing and publications of discoveries and inventions in the scientific literature often lag behind the time these discoveries and inventions were made. Furthermore, inventions for which patent applications in the United States have been filed on or before November 29, 2000 are published only after the relevant patents have been granted. As a result of the "first-to-invent concept" of U.S. patent law, there may be instances where we must participate in interference proceedings to determine the priority of one or more of our inventions, which could result in the loss of our patent position if it turns out that a third party has filed a patent for the same or a similar invention before the filing date assigned to our patent.

In addition to our patents, we have a limited number of trademarks. While we seek to protect our trademarks by registering them in most of the countries where we intend to market drugs, trademark protection consists primarily of a right to sue against infringing uses of a trademark and, in order to be effective, requires extensive policing. If we fail to detect instances of trademark infringement or if we do not succeed in defending our trademarks in court, our reputation in the market and our ability to protect our trademarks in the future may be harmed.

Much of our technology and many of our processes are not eligible for patent or trademark protection and if we fail to protect this intellectual property effectively, our business will suffer.

Much of our technology and many of our processes are not eligible for patent or trademark protection but are the result of the knowledge, experience and skills of our scientific and technical personnel. To protect our trade secrets, proprietary know-how, technology and processes, we require all employees, contractors, consultants, advisors and collaborators, including potential collaborators, to enter into confidentiality agreements that prohibit the disclosure of confidential information and, where appropriate, require disclosure to us of all ideas, developments, discoveries and inventions related to our proprietary trade secrets, know-how, technology and processes. Under these agreements, our employees, contractors, consultants, advisors and collaborators are generally obligated to assign to us all rights to such ideas, developments, discoveries and inventions, and to reasonably assist us in any further prosecution of patent applications filed to cover such inventions. However, it is possible that our employees, contractors, consultants, advisors and collaborators, may breach the agreements we have entered into with them, and, if they do, we may not have adequate remedies. It is also possible that our trade secrets or unpatentable know-how will otherwise become known to, or be independently developed by, competitors, in which case we are unlikely to have effective remedies.

Technologies that may be useful or necessary for the manufacture, use or sale of our drug candidates may be unavailable to us.

Third parties, including our competitors, may hold patents or other forms of intellectual property protection for ideas, developments, discoveries and inventions that are or may be useful or necessary for the manufacture, use or sale of one or more of our drug candidates. These ideas, developments, discoveries and inventions may be unavailable to us or available to us only on unfavorable terms. In addition, some of our advisors and consultants are currently employed by universities or other commercial entities. Most of these individuals are parties to agreements pursuant to which certain of the work product created by them belongs or is automatically transferred to their employers. While we and these individuals try to maintain records that make it clear that the work that these individuals do for us is not subject to these agreements, it is always possible that an employer such as a university will assert ownership of a discovery or invention that an individual has developed for us.

Claims that we infringe a third party's intellectual property may give rise to burdensome litigation, which in case of a negative outcome may result in potential liability for damages or impede or delay the development and commercialization of our drug candidates.

As a result of the key role that intellectual property plays in our industry, we may from time to time become involved in litigation as either plaintiff or defendant. Third parties may assert claims of infringement of their patents or other intellectual property, including trademarks, and bring legal actions against us or our collaborators, including Forest, as a result of actions by us or our employees. This risk is particularly significant as the industry in which we operate is characterized by the existence of a large number of patents and frequent litigation based on allegations of infringement. The patents we own or license from third parties may not be sufficiently strong to deter, or defend us against, claims alleging infringement of patents owned by a third party. The owners and licensees of these and other patents may file one or more infringement actions against us or our collaborators. Patent litigation can involve complex factual and legal questions, and its outcome is typically uncertain. Any claim relating to infringement of patents that is successfully asserted against us may result in us having to pay substantial damages. Even if we were to prevail, any litigation could be costly and time-consuming and would divert our attention from our business. Furthermore, if a patent infringement suit is brought against us or one of our collaborators, we or our partners may be forced to terminate or delay developing, manufacturing or marketing drug candidates that are claimed to infringe a third party's intellectual property unless that party permits us or our collaborators to use its intellectual property. Even if we are able to successfully resolve such a dispute, any resulting delay in our ability to bring a drug to market could materially adversely affect our results of operations.

We have obtained and expect to continue to obtain technologies and licenses and have purchased and expect to continue to purchase compounds from third parties. Although we conduct due diligence investigations prior to obtaining new technologies or licensing or purchasing compounds, there can be no assurance that in the course of such investigations we will detect all potential ownership or validity issues relating to these technologies and compounds. As a result, we may discover that we do not have enforceable or exclusive rights to some of our products or processes, which may adversely affect our cash flows, results of operations and financial condition.

Our cash flows and operating results are likely to fluctuate considerably for the foreseeable future, depending on the timing and amount of upfront and milestone payments, which may adversely affect our share price.

Our cash flows and results of operations are likely to fluctuate significantly from period to period for the foreseeable future. In the near term, our revenues will mainly consist of cost reimbursements for the clinical development of Desmoteplase and upfront and milestone payments under our licensing agreement with Forest and, potentially, other collaboration agreements. The timing and amount of these payments will materially depend on our ability to successfully advance the clinical development of our drug candidates, particularly Desmoteplase, in accordance with the schedules stipulated in the relevant agreements. In addition, although we attempt to present our results consistently from period to period, the way we account for our revenues and costs may change in any given period in light of the development status of our drug candidates, the terms of any future collaboration agreements we may enter into and changes in applicable accounting standards. Accordingly, we anticipate that our revenues will fluctuate significantly from period to period for the next several years. Fluctuating results may cause us to fail to meet the expectations of securities analysts and investors, which could have an adverse impact on our share price.

Currency fluctuations may expose us to increased costs and revenue decreases.

We currently generate substantially all of our revenues in U.S. dollars. For example, milestone payments under our license agreement with Forest, which is currently the most important source of our revenues, are denominated in U.S. dollars. At the same time, we incur most of our expenses in euro. As a result, in periods where the value of the U.S. dollar declines relative to the value of the euro, our profitability will decrease. The euro is also our reporting currency. As a result, fluctuations between the value of the euro relative to the value of the U.S. dollar may cause our reported revenues and results to vary significantly from period to period.

We may experience difficulties managing our growth, which could adversely affect our results of operations.

As our clinical development programs advance, we expect that the number of our employees and the scope of our operations will increase. To manage our anticipated future growth, we must continue to improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train addi-

tional personnel. Because we are a development stage company, we may not be able to effectively manage the expansion of our operations or recruit and train additional personnel. The physical expansion of our operations could increase our expenses materially and may burden management and business development resources. Our future financial performance and our ability to commercialize our drug candidates and to compete effectively will depend, in part, on our ability to manage future growth effectively.

As our business grows, we may make strategic acquisitions of businesses and technologies that we believe complement or enhance our existing drug candidates or provide us with access to new drug candidates. In pursuing these acquisitions, we may face competition from other companies operating in the pharmaceutical industry. Our ability to make acquisitions may also be limited by applicable antitrust, anti-takeover and other regulations in the United States, the European Union and any of the other jurisdictions in which we do business. If one or more of these risks materialize, we may be unable to make desirable acquisitions or to complete them on terms attractive to us. If that occurs, our ability to grow in certain of our business areas may be adversely affected.

To the extent that we are successful in making acquisitions, we may have to expend substantial amounts of cash, incur debt, assume loss-making business units and incur other types of expenses. We may also face difficulties in successfully integrating the businesses or technologies we acquire into our existing organization. Each of these risks may have an adverse effect on our business, cash flows, results of operations and financial condition.

We may be or become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the nature of our business activities, we may be classified as a passive foreign investment company, or PFIC, by the United States Internal Revenue Service, or IRS, for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we are a PFIC, U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and may become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (1) 75% or more of our gross income in any taxable year is passive income or (2) the average percentage of our assets by value in any taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%. The calculation of the value of our assets will be based, in part, on the then market value of our shares, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in the Offering. We cannot assure you that we will not be a PFIC in 2005 or any future taxable year. For more information on PFICs, see ''United States Federal Income Taxation — Additional United States Federal Income Tax Considerations — PFIC Rules''.

Risks Related to the Industry in Which We Operate

Because the industry in which we operate is characterized by constant innovation and technological change, our success depends on our ability to develop and commercialize innovative drugs on a cost-effective basis.

We operate in the biopharmaceuticals industry, which is highly competitive and characterized by intensive research efforts and rapid technological change. Our success is highly dependent on our ability to identify new drug candidates with significant commercial potential in the area of stroke and other thrombotic diseases, to develop these drugs on a cost-effective basis and to commercialize them successfully. In doing so, we face and will continue to face intense competition from a variety of competitors, ranging from small biotech companies to large national and international pharmaceutical conglomerates. Based on almost any measure, we are significantly smaller than many of our competitors, which often have substantially larger financial, research and development, and sales and marketing resources than we do. As a result, our competitors may succeed in developing and commercializing drugs that are superior to our own drugs or that the market perceives to be more attractive. In light of the ongoing consolidation of our industry, we expect that competitive pressures to which we are subject will increase in the future.

Because our business is subject to extensive governmental regulation, including price controls, our ability to market drugs is subject to administrative constraints over which we have only limited control.

The development, manufacture and marketing of drug candidates is subject to extensive governmental regulation. Regulatory approval is required in each jurisdiction in which we operate before any new drug candidate may be marketed in that jurisdiction. The process for obtaining regulatory approval to commercialize drug candidates is rigorous, time-consuming and costly, and it is impossible to predict the extent to which this process may be affected by legislative and regulatory developments. Even after a drug candidate has been approved, it may be subject to regulatory action based on newly discovered facts concerning its safety or efficacy, which may adversely affect its commercialization, require changes to its labeling and result in its withdrawal from the market altogether.

Once we have received regulatory approval for a drug, the drug will be subject to price controls imposed by authorities and health care providers in various countries and in some markets require special approval before patients are entitled to be reimbursed for purchasing it. The existence of price controls can limit the revenues that we may earn from the sale of our drugs. Price controls vary by country and may cause substantial disparities in the market price for our drugs in different markets. Many governments and private medical care providers, such as Health Maintenance Organizations, or HMOs, and social security organizations, have recently introduced or are currently in the process of introducing patient reimbursement schemes that favor replacing brand name pharmaceuticals with cheaper generic pharmaceuticals.

We may become exposed to costly and damaging product liability actions and may not be able to maintain sufficient product liability insurance to cover claims against us. Even in the absence of product liability lawsuits, unforeseen side effects could harm sales of our products.

We face the risk of substantial liability for damages in the event a patient experiences adverse side effects during clinical trials or once one of our drug candidates has been launched commercially. If any of our products were to cause adverse side effects, we could incur substantial losses in excess of our insurance coverage, which could negatively impact our financial condition, results of operations and cash flows. Our products are intended to be used to treat acute ischemic stroke and other thrombotic diseases, and patients suffering from these diseases and physicians treating them may conclude that the therapeutic benefits of our products outweigh the potential risk of side effects. However, patients who suffer complications may attribute these complications to the drug and, as a consequence, bring product liability actions against us.

Although the clinical trial process is designed to identify and assess potential adverse side effects, it is always possible that a drug, even after approval, may cause unforeseen adverse side effects. Such side effects could adversely affect the safety profile of the drug. Even if these side effects do not result in the drug's withdrawal from the market, they could reduce any competitive advantage the drug may have, especially if alternative drugs offer comparable therapeutic benefits with the potential for less severe or fewer adverse side effects.

To reduce our exposure to product liability actions, we maintain insurance. We are required to obtain insurance for each patient enrolled in a clinical trial. We expect to obtain more extensive product liability insurance once we have obtained regulatory approval for one or more of our product candidates. However, our current or future insurance policies may not be adequate or sufficient to cover all product liability claims that may be brought against us, and we may not be able to obtain adequate insurance coverage on commercially reasonable terms in the future. In addition, our insurance policies cannot protect us against reputational harm that we may suffer if the market perceives our drug candidates to be unsafe or ineffective due to unforeseen adverse side effects.

Risks Related to the Offering

Prior to the Offering, our shares were not publicly traded and there can be no guarantee that a liquid market for our shares will develop after the Offering.

Our shares were admitted to trading on the Frankfurt Stock Exchange on February 9, 2005. It is expected that trading in our shares will commence on or about February 11, 2005. Prior to the Offering, our shares have not been traded on a public market. We set the Offer Price of € 8.00 through a book building procedure after consultation with the Global Coordinator. However, there can be no guarantee that the agreed Offer Price

will reflect the price at which the shares will be traded or that an active and liquid trading market for our shares will develop or will be sustained after the Offering.

The members of our management and supervisory boards as well as a majority of our investment partners own a significant percentage of our shares and as a result will be able to exercise significant control over our company. These shareholders may take decisions that may be adverse to your interests.

Following completion of the Offering, the members of our management and supervisory boards, assuming that they will not acquire or sell further shares until completion of the Offering and execution of the Greenshoe Capital Increase, in the aggregate will beneficially own approximately 10.15% (or approximately 9.67%, if the Over-Allotment Option is exercised in full) of our outstanding shares. Under the aforementioned assumption, other current shareholders in the aggregate will beneficially own an aggregate of approximately 56.52% (or approximately 53.83%, if the Over-Allotment Option is exercised in full) of our outstanding shares. These shareholders will be able to influence our management and affairs and all matters requiring shareholder approval, including the election of members of the supervisory board and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of our company and might negatively affect the market price of our shares.

The future sale of a substantial number of our shares could adversely affect the price of our shares.

Following completion of the Offering, shareholders who held shares of our company prior to the Offering (the "Existing Shareholders"), assuming that they will not acquire or sell further shares until completion of the Offering and execution of the Greenshoe Capital Increase, will hold approximately 66.68% (or approximately 63.50%, if the Over-Allotment Option is exercised in full) of our outstanding shares. In connection with the Offering, these shareholders have agreed to certain restrictions on the sale or other disposition of their shares under a lock-up agreement. See "Underwriting" and "General Information on PAION — Shareholder Structure Before and After the Offering" for more information on our current shareholders and the restrictions on the sale or other disposition of their shares. Future substantial sales by our shareholders of our shares in the open market after the expiration of the lock-up agreement or the public perception that such share sales will occur may cause the market price of our shares to fall. This would reduce the value of your shares and could make it difficult for us to issue new shares at a favorable time and price.

We will have broad discretion in how we use the proceeds from the Offering, and if we fail to use them effectively, the price of our shares may decline.

Our management board will have considerable discretion in its use of the net proceeds of the Offering. We currently intend to use the net proceeds, if necessary, for the clinical development of Desmoteplase in the indication pulmonary embolism and to conduct additional clinical trials in the indication stroke, such as, for example, trials combining Desmoteplase with neuroprotectants or other clinical trials not covered by Forest or another collaborative partner of us. We also plan to use the proceeds to further develop Enecadin and Solulin, to fund pre-marketing activities for Desmoteplase in the European Union and to enable us to implement a more pro-active in-licensing strategy with a view to expanding our portfolio of drug candidates. In addition, we will use portions of the net proceeds to partially settle the employee participation plan 2001-2004. Depending on our use of the net proceeds for the purposes described above, we intend to invest all or a portion of the net proceeds in short- and medium-term interest-bearing financial instruments. However, our plans may change and we could fail to use these proceeds to improve or maintain our operating results and financial condition or enhance the value of our shares. The failure of our management to use the net proceeds from the Offering effectively may result in financial losses that could have a material adverse effect on our business.

We have never paid dividends on our shares, and we do not anticipate paying dividends for the foreseeable future.

We have never paid any dividends on our shares. Under German corporate law, our history of losses prevents us from paying dividends. As long as we are not profitable and if we are unable to maintain profitability, we will not be able to pay out dividends. We currently intend to use any future net income to fund the development and commercialization of our drug candidates and to grow our operations. As a result, capital appreciation, if any, of our shares will be your sole potential source of gain from your investment in our shares for the foreseeable future.

The price of our shares may be highly volatile.

The market prices for shares of pharmaceutical companies similar to ours historically have been highly volatile. Following the Offering, the price of our shares could fluctuate significantly, particularly as a result of fluctuations in our actual or forecasted results of operations, publications of results from clinical trial programs, regulatory actions, failure of any of our drug candidates, announcements of the introduction of new drugs by us or our competitors, changes in general economic conditions or other factors. General share price volatility, particularly for the biotech and biopharmaceutical sector, could also exert pressure on the price of our shares.

Subject Matter of the Offering, Timetable, Publications

The Offering comprised 5,000,000 of our ordinary bearer shares with no par value (no par value shares), each with a notional value of € 1.00 and full dividend rights as from fiscal year 2004. In addition, we granted UBS Limited for the account of the Underwriters an Over-Allotment Option to acquire up to 750,000 additional shares, such shares to come from the Greenshoe Capital Increase resolved by our management board, with the consent of our supervisory board, on February 9, 2005. The 5,000,000 New Shares and the Over-Allotment Option of up to 750,000 Greenshoe Shares, if exercised in full, would amount to € 5,750,000.00 of our share capital.

The Offering consisted of a public offering in the Federal Republic of Germany and Switzerland, and an international offering to institutional investors outside the Federal Republic of Germany and Switzerland by the Underwriters under the management of the Global Coordinator. The number of Offered Shares has not been changed.

In the United States, the Offered Shares were offered for sale to qualified institutional buyers as part of a private placement in reliance on Rule 144A under the Securities Act. Outside the United States, the Offered Shares were offered in reliance on Regulation S under the Securities Act.

In addition to the Global Coordinator, the Underwriters for the Offering include Dresdner Bank Aktiengesellschaft and Landesbank Baden-Württemberg. Investors were able to submit purchase orders for the Offered Shares to each of these banks. Furthermore, Sparkasse Aachen is acting as selling agent for Landesbank Baden-Württemberg. The Underwriters purchased the 5,000,000 New Shares with the obligation to place them, together with any over-allotment, as part of the Offering. For a summary of the provisions of the underwriting agreement, including termination rights, see "Underwriting".

Offering Period, Price Range, Offer Price and Allotment

The offering period ran from and including January 25, 2005 up to and including February 9, 2005 at 12:00 noon (Frankfurt time) following the extension of the offering period announced on February 7, 2005 for retail investors (natural persons) and for institutional investors.

The price range within which investors were able to submit purchase orders was initially between € 11.00 and € 14.00 per Offered Share. The initial price range was published in the *Frankfurter Allgemeine Zeitung* on January 24, 2005 and thereafter in the German Federal Gazette (*Bundesanzeiger*). On February 7, 2005 we announced that as from such date we would accept purchase orders at or above € 8.00. Except for the lowering of the lower end of the price range and the extension of the offering period, the terms of the Offering have not been changed.

We determined the Offer Price of € 8.00 per Offered Share on the basis of a bookbuilding process on February 9, 2005 together with the Global Coordinator. The Offer Price was published via electronic media, such as Reuters or Bloomberg, on February 9, 2005 and is expected to be published via the *Frankfurter Allgemeine Zeitung* on February 10, 2005 and thereafter via the Federal Gazette (*Bundesanzeiger*). Investors may obtain the Offer Price from the Underwriters.

The allotment of the Offered Shares that were subscribed for is expected to take place on February 9, 2005. It is expected that investors who have placed buy orders through an Underwriter or the Selling Agent may obtain information concerning the number of Offered Shares allotted to them from such Underwriter or the Selling Agent beginning on February 10, 2005. The Offer Price is expected to be due for payment on February 11, 2005 against delivery of the shares.

Timetable for the Offering:

January 24, 2005	Publication of the initial price range
January 25, 2005	Commencement of the offering period
February 9, 2005	Close of the offering period at 12:00 noon Frankfurt time for retail investors (natural persons) and for institutional investors
February 9, 2005	Determination of the Offer Price; publication of the Offer Price via electronic media, such as Reuters or Bloomberg
February 9, 2005	Listing order issued by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*); allotment of Offered Shares
February 10, 2005	Publication of the Offering Circular for listing purposes by way of an announcement in the *Frankfurter Allgemeine Zeitung* and on our website
February 10, 2005	Publication of the Offer Price via the *Frankfurter Allgemeine Zeitung*
February 11, 2005	Listing, first day of trading
February 11, 2005	Book-entry delivery of the shares following payment of the Offer Price

Delivery and Settlement

Delivery of the Offered Shares is expected to take place on February 11, 2005 following payment of the Offer Price.

Share Capital Prior to and Following Completion of the Capital Increase(s)

Prior to the Offering, our registered share capital was € 10,005,552.00 (for information on our shareholder structure, see ''General Information on PAION and PAION AG — Shareholder Structure (Prior to and Following Completion of the Offering)'').

The subscription rights of our existing shareholders were excluded with respect to the New Shares in the resolution adopted by our general shareholders' meeting on January 21, 2005 relating to the share capital increase. During the general shareholders' meeting, the shareholders waived their right to receive and inspect and to be presented with a report of the management board relating to the exclusion of their legal subscription rights. With regard to the Over-Allotment Option granted to UBS Limited for the account of the Underwriters to purchase up to an additional 750,000 of our shares (see ''— Stabilization Measures/Over-Allotment Option''), the subscription rights of our existing shareholders were also excluded for the Greenshoe Capital Increase resolved on February 9, 2005.

Following registration of the IPO Capital Increase, our registered share capital amounts to € 15,005,552.00. If the Over-Allotment Option is exercised in full, then, following registration of the Greenshoe Capital Increase, our registered share capital will be € 15,755,552.00.

The Existing Shareholders will therefore hold approximately 63.50% of our registered share capital following completion of the Offering (provided the Over-Allotment Option is exercised in full).

Percentage of Share Capital Offered (following the Capital Increase)

Taking into account the IPO Capital Increase, which was resolved by our general shareholders' meeting on January 21, 2005 and entered in the commercial register on February 9, 2005, the Offered Shares account for 33.32% of our shares (or 36.50%, if the Over-Allotment Option is exercised in full).

General and Specific Information Concerning the Shares

Voting Rights

Each share carries one vote at our general shareholders' meeting. There are no voting restrictions.

Dividend Rights

The Offered Shares include full dividend rights as from fiscal year 2004.

Form and Representation of the Shares

All of our shares have been issued as ordinary bearer shares with no par value (no par value shares). The shares are or will be represented by one or more global certificates without dividend coupons and are or will be deposited with Clearstream Banking AG, Frankfurt am Main, acting as securities clearing and depositary

bank. Pursuant to Section 6 (2) of our articles of association, shareholders are not entitled to receive physical share certificates, unless otherwise stipulated by the regulations of a stock exchange on which our shares are listed or by other legal provisions.

ISIN/Common Code/Symbol

International Securities Identification Number (ISIN)	DE000A0B65S3
German Securities Identification Number (WKN)	A0B65S
Common Code	021018104
Stock Exchange Symbol	PA8

Stabilization Measures/Over-Allotment Option

In connection with the Offering, UBS Limited is acting as stabilization manager for the account of the Underwriters and may, either itself or through affiliates, take measures to stabilize the stock exchange or market price of our shares in order to counterbalance any existing sales pressure. Stabilization measures may be taken starting on the date on which our shares are first listed and must be completed no later than 30 calendar days after such date. Within one week after the end of the stabilization period, information will be published in a reasonable manner, in particular through publication in the *Frankfurter Allgemeine Zeitung* and by means of a press release and an announcement posted on our website, pursuant to Section 9 (3) of EC Regulation 2273/2003, announcing whether stabilization measures were implemented, on what date stabilization measures commenced, the date of the last stabilization transaction and the price range within which stabilization transactions occurred.

Stabilization measures may result in a higher stock exchange or market price of our shares than would have been the case in the absence of such measures. In addition, such measures may result in a stock exchange or market price at a level that is not sustainable. However, the stabilization manager is under no obligation to take stabilization measures, and, to the extent that such measures are taken, they may be terminated at any time. In no event will measures be taken to stabilize the stock exchange or market price of our shares above the issue price, that is, the Offer Price of € 8.00.

In view of possible stabilization measures, shares in an amount of up to 15% of the New Shares may be allotted to investors in addition to the 5,000,000 New Shares being offered (this is referred to as over-allotment). The shares needed to cover over-allotments initially will be made available to UBS Limited, acting as stabilization manager, for the account of the Underwriters, by Dr. Wolfgang Söhngen and Dr. Mariola Söhngen by means of a securities loan (the "Securities Loan").

In this regard, we have granted UBS Limited, in its capacity as stabilization manager and for the account of the Underwriters, the option to acquire up to 750,000 Greenshoe Shares, that is, up to 15% of the New Shares, at the Offer Price of € 8.00, within the 30-day period following the listing of our shares on the Frankfurt Stock Exchange. The Over-Allotment Option may be exercised to the extent that shares have been placed by way of over-allotment.

Pursuant to EC Regulation 2273/2003, the relevant details of any over-allotments and the exercise of the Over-Allotment Option will be published promptly, including by means of a press release.

General Allotment Criteria

At the date of commencement of the offering period, we and the Global Coordinator had not entered into any agreement relating to the allotment procedure. We and the Underwriters will adhere to the "Principles for the Allotment of New Share Issues to Retail Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) (the "Allotment Principles") issued by the Exchange Commission of Experts (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance on June 7, 2000. Any allotments of Offered Shares to retail investors in Germany as part of the Offering by the Underwriters and their affiliates will be made based on criteria consistent with the Allotment Principles.

Selling Restrictions, Transferability

With the exception of the shares that are subject to the selling restrictions under the shareholder lock-up agreement described below, our shares are freely transferable.

Lock-up of PAION

In connection with the Offering, we have agreed vis-à-vis the Underwriters to restrictions (so-called "lock-up" restrictions) on our ability to issue and sell shares and related securities of our company for a 12-month period following the admission of our shares to the Official Market Segment of the Frankfurt Stock Exchange, subject to limited exceptions. Our management board and our supervisory board are not authorized, without the prior written consent of the Global Coordinator, which consent shall not be unreasonably withheld, (a) to exercise an authorization pursuant to our articles of association to increase our share capital or (b) to submit a proposal for a share capital increase to any shareholders' meeting for resolution. Furthermore, we have agreed not to, directly or indirectly, (i) offer, allot, issue, lend, pledge, sell, conclude any option or contract to sell, or otherwise transfer or dispose of or post as collateral, any of our shares (including securities that represent rights to subscribe for our shares) or any security which is convertible into or exchangeable for, or otherwise represents the right to acquire or sell, our shares, or enter into any transaction (including a derivatives transaction) having an economic effect similar to a transaction described above, or (ii) enter into any swap or similar agreement that transfers to another, in whole or in part, any elements of ownership of our shares, whether any such transaction described in clauses (i) or (ii) above is to be settled by delivery of our shares, or in cash, or (iii) announce an intention to engage in any transaction described in clauses (i) or (ii). After expiry of the lock-up period, we may issue new shares and carry out any of the above-mentioned transactions unrestrictedly.

The above restrictions shall not apply to the Offered Shares, to the offer, sale or transfer by us of shares in relation to the management and employee participation plan 2005 or to shares issued against contribution in cash or in kind directly to third parties in connection with a joint venture, acquisition, collaboration, licensing or other strategic transactions if the relevant party has agreed to comply with the restrictions set forth in clause (b) in the above paragraph and the restrictions applicable to us.

Lock-up of the Shareholders

In connection with the Offering, each of the Existing Shareholders has agreed vis-à-vis the Underwriters to restrictions (so-called "lock-up" restrictions) on its ability to dispose of shares and related securities of our company for a certain period. In the case of Dr. Wolfgang Söhngen and Dr. Mariola Söhngen, this period is 12 months, and in the case of the other Existing Shareholders, 6 months, in each case following the admission of our shares to the Official Market Segment of the Frankfurt Stock Exchange. An aggregate of 10,005,552 shares of our company held by Existing Shareholders will be subject to lock-up restrictions, as well as such shares of our company as Dr. Wolfgang Söhngen or Dr. Mariola Söhngen may purchase during their lock-up period.

In connection with the lock-up agreement, the Existing Shareholders agreed with the Underwriters not to, without the prior written consent of the Underwriters, directly or indirectly (i) offer, lend, pledge, sell, conclude any option or contract to sell, or otherwise transfer or dispose of or post as collateral, any of our shares (including securities that represent rights to subscribe for our shares) or any security which is convertible into or exchangeable for, or otherwise represents the right to acquire or sell, our shares, or enter into any transaction (including a derivatives transaction) having an economic effect similar to a transaction described above, or (ii) enter into any swap or similar agreement that transfers to another, in whole or in part, any elements of ownership of our shares, whether any such transaction described in clauses (i) or (ii) above is to be settled by delivery of shares, or in cash, or (iii) announce an intention to engage in any transaction described in clauses (i) or (ii).

The above restrictions shall not apply (i) to shares made available to the Global Coordinator by Dr. Wolfgang Söhngen and Dr. Mariola Söhngen or other Existing Shareholders pursuant to the Securities Loan so long as such shares are subject to the Securities Loan, (ii) to Offered Shares and other securities which may be purchased by the Existing Shareholders (with the exception of Dr. Wolfgang and Dr. Mariola Söhngen), (iii) to shares of our company (or shares of entities that hold our shares) transferred by Dr. Wolfgang Söhngen or Dr. Mariola Söhngen to their children, provided that the relevant child assumes the lock-up restrictions or

(iv) to certain transactions of Existing Shareholders with consolidated or associated companies, or companies, to which a consulting or trust relationship exists, if the final outcome of the imputation of share ownership in accordance with Section 22 of the Securities Trading Act (*Wertpapierhandelsgesetz*) is not affected, or the transfer is effected by certain legal successions.

No further agreements have been entered into and no further measures have been taken to secure such lock-up restrictions. After expiry of the lock-up periods, the Existing Shareholders are not restricted in selling their shares and carrying out any of the transactions mentioned above.

Stock Exchange Listing

Our entire share capital, which amounts to € 15,005,552.00 following registration of the IPO Capital Increase resolved on January 21, 2005, was admitted to trading on the Official Market Segment of the Frankfurt Stock Exchange and to the sub-segment of the Official Market Segment with additional post-admission obligations (Prime Standard) on February 9, 2005. Trading in our shares is expected to commence on February 11, 2005.

Designated Sponsor

UBS Limited will assume the function of designated sponsor. A designated sponsor ensures higher liquidity of shares by, among other things, setting binding prices for the purchase and sale of the shares.

Use of Proceeds

In connection with the Offering, we will receive the proceeds from the IPO Capital Increase (together with the proceeds from the Greenshoe Capital Increase, if the Over-Allotment Option is exercised) less the issuance costs to be paid by us. Based on the Offer Price of € 8.00 per Offered Share, the gross proceeds from the Offering will amount to € 40,000,000 (or up to approximately € 46,000,000, including the gross proceeds from the Greenshoe Shares, if the Over-Allotment Option is exercised in full). The issuance costs to be paid by us amount to a total of up to approximately € 4,935,000 (or up to approximately € 5,280,000, if the Over-Allotment Option is exercised in full); commissions of the Underwriters are expected to amount to up to approximately € 2,300,000 (or up to approximately € 2,645,000, if the Over-Allotment Option is exercised in full).

We intend to use the net proceeds in an amount of up to approximately € 35,065,000 (or up to approximately € 40,720,000, assuming the Over-Allotment Option is exercised in full), if necessary, for the clinical development of Desmoteplase in the indication pulmonary embolism and to conduct additional clinical trials in the indication ischemic stroke, such as, for example, trials combining Desmoteplase with neuroprotectants or other clinical trials not covered by Forest or any other collaboration partner, as well as to further develop Enecadin and Solulin, to fund pre-marketing activities for Desmoteplase in the European Union and to enable us to implement a more pro-active in-licensing strategy with a view to expanding our portfolio of drug candidates. The amount and timeframe of our actual expenditures will depend on numerous factors that cannot be determined at present. Moreover, approximately 2.3% of the net proceeds, (or approximately 2.0% if the Over-Allotment Option is exercised in full), will be used to partially settle the employee participation plan 2001-2004 (see ''Employee Participation Plans–Employee Participation Plan 2001-2004 of PAION Deutschland GmbH''). Depending on our use of the net proceeds for the purposes described above, we intend to invest all or a portion of the net proceeds in short- and medium-term interest-bearing financial instruments.

Dividend Policy and Net Income (Loss) per Share

PAION AG was founded on June 2, 2004 and has not yet paid any dividends on its shares. Currently, we do not expect to generate net income for the foreseeable future. As long as we do not generate net income, we are not permitted to make dividend payments under German law. Should we record net income in the future, we plan to allocate it to profit reserves and to use it to finance our business development and organic growth. Therefore, we do not assume that we will pay dividends for the foreseeable future (see "Information on the Share Capital of PAION AG and Applicable Regulations — Provisions in the Articles of Association and other Applicable Regulations — Dividends").

The following overview shows the results of PAION Deutschland GmbH (rounded to two decimals) for the years ended December 31, 2001, 2002 and 2003, in each case converted to a portion of a share in our share capital having a notional value of € 1.00:

	Year ended December 31,		
	2001	2002	2003
	(€)		
Net income (loss) according to IFRS	(9,828,025.19)	(10,865,823.38)	(10,864,393.22)
Per portion of a share (diluted and undiluted)[1]	(95.20)	(96.17)	(77.55)
Net income (loss) according to German GAAP	(9,888,806.65)	(10,866,459.38)	(9,769,463.72)
Per portion of a share (diluted and undiluted)[2]	(95.79)	(96.18)	(69.73)

(1) Corresponds to the result of net income (loss) according to IFRS divided by the weighted average number of portions of a share outstanding in the relevant year. The calculation was based on 140,100 portions of a share in 2003, 112,983 portions of a share in 2002 and 103,234 portions of a share in 2001. Given the losses generated in these years, subscription rights with respect to shares in our company were not eligible for inclusion in the calculation of our diluted result since they would have reduced the loss per portion of a share figure.

(2) Net income (loss) per portion of a share means net income (loss) according to German GAAP divided by the weighted average number of portions of a share outstanding in the relevant period. This average figure was determined in accordance with IAS 33, since German GAAP do not provide for an appropriate calculation method. See footnote (1) above for the portions of a share taken into account.

We did not pay dividends with respect to the years ended December 31, 2001, 2002 or 2003.

Capitalization

The following table shows our capitalization as of September 30, 2004, both actual and adjusted by the IPO Capital Increase, based on the issuance of 5,000,000 New Shares as part of the IPO Capital Increase (prior to exercise of the Over-Allotment Option) and an Offer Price of € 8.00 per Offered Share and following deduction of the Underwriters and other issuance costs (see ''Use of Proceeds'' for information on the amount and use of the proceeds from the Offering).

The table should be read in conjunction with our unaudited interim consolidated financial statements as of and for the nine months ended September 30, 2004 and the related notes (see ''Financial Statements'').

	September 30, 2004[1]	
	Actual	Adjusted
	(unaudited) (€ in thousands)	
Long-term finance lease obligations	299	299
Equity:		
Registered share capital	10,006	15,006
Capital reserve	42,813	72,878
Loss carry-forward	(34,350)	(34,350)
Net income	5,285	5,285
Equity, total	23,753	58,819
Total capitalization	24,052	59,118

(1) Columns may not add due to rounding.

Selected Financial Information

The table entitled ''Selected Financial Information'' below presents selected financial data for the years ended December 31, 2001, 2002 and 2003 and the nine-month periods ended September 30, 2003 and 2004, which have been derived, respectively, from our audited annual financial statements as of and for the years ended December 31, 2002 and 2003 and our unaudited interim financial statements as of and for the nine-month periods ended September 30, 2004. References herein to ''we'', ''us'', ''our'' refer to PAION Deutschland GmbH in connection with any discussion of financial information as of any date, or for any period ended, on or before December 31, 2003 and to PAION AG and its consolidated subsidiary, PAION Deutschland GmbH, in connection with any discussion of financial information as of any date, or any period ended, after December 31, 2003. You should read this information in conjunction with the section of this Offering Circular entitled ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our financial statements, including the related notes, contained in this Offering Circular and the other financial information included elsewhere in this Offering Circular. See our audited annual financial statements as of and for the two years ended December 31, 2003 and 2002 set forth beginning on page F-11 and our unaudited interim consolidated financial statements as of and for the nine-month periods ended September 30, 2004 set forth beginning on page F-87.

Except as otherwise indicated, all financial information presented herein has been prepared on the basis of International Financial Reporting Standards, or IFRS, which differ in certain significant respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP. For a description of the significant differences between IFRS and U.S. GAAP insofar as they affect our financial statements and our interim consolidated financial statements, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Summary of Certain Significant Differences between IFRS and U.S. GAAP''.

Our annual financial statements as of and for the years ended December 31, 2002 and 2003 have been audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm and were issued with an unqualified auditor's opinion.

Our interim consolidated financial statements as of and for the nine-month period ended September 30, 2004 have not been audited. These financial statements are not necessarily indicative of our future financial condition and results of operations as of and for the year ended December 31, 2004 and should be read in conjunction with the audited financial statements contained in this Offering Circular, the related notes and the other financial information included in this Offering Circular.

	As of and for the year ended December 31,			As of and for the nine months ended September 30,		Accumulated from inception[1] to September 30,
	2001[2]	2002[2]	2003[2]	2003[2]	2004[2]	2004[2]
				(unaudited)		(unaudited)
			(€ in thousands)			
Income Statement Data						
Revenues	16	445	709	634	16,599[3]	17,791
Cost of revenues	(8)	(217)	(426)	(258)	(1,536)	(2,198)
Gross profit	8	228	283	376	15,062	15,593
Operating expenses						
Research and development expenses	(9,062)	(8,851)	(8,812)	(7,191)	(5,064)	(33,781)
General and administrative expenses	(930)	(2,326)	(2,432)	(1,769)	(4,625)	(10,891)
Selling and marketing expenses	0	0	(49)	(13)	(416)	(466)
Income (loss) from operating activities	(9,983)	(10,949)	(11,010)	(8,598)	4,957	(29,544)
Other income (expense)						
Financial results	68	19	62	44	146	279
Other income/(expense), net	88	64	84	(1)	(209)	29
Net income (loss) before income tax	(9,828)	(10,866)	(10,864)	(8,554)	4,894	(29,236)
Income taxes	0	0	0	0	392	392
Net income (loss)	(9,828)	(10,866)	(10,864)	(8,554)	5,285	(28,844)
Balance Sheet Data						
Cash and cash equivalents	2,719	5,575	8,454		25,270[4]	
Intangible assets	120	134	732		1,381	
Total assets	4,259	7,317	10,003		29,042	
Current liabilities	2,319	3,242	2,404		2,823	
Shareholders' equity	1,649	3,894	7,579		23,753[4]	
Cash Flow Data						
Net cash used in operating activities	(9,253)	(9,385)	(9,428)	(7,338)	7,724	(21,200)
Net cash used in investing activities	(1,344)	(681)	(729)	(723)	(1,075)	(3,893)
Net cash provided by financing activities	12,902	12,921	13,035	7,996	10,168	50,363

(1) The date of our inception is deemed to be July 20, 2000, the date on which PAION Deutschland GmbH was founded. PAION AG was founded on June 2, 2004. On September 8, 2004, PAION AG acquired all of the outstanding shares of PAION Deutschland GmbH, retroactively as of August 1, 2004, against issuance to its former shareholders of shares in proportion to their former ownership interests in PAION Deutschland GmbH.

(2) Columns may not add due to rounding.

(3) Includes the proportionate release of a non-refundable upfront payment and know-how transfer payments totaling € 16.3 million received from Forest Laboratories Ireland Limited, or Forest, and recognized as revenues in connection with the conclusion of an agreement granting Forest an exclusive license with respect to the commercialization of Demoteplase in the United States and Canada. For more information on our agreement with Forest, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Introduction", "— Accounting Impact of Our Agreement with Forest" and "Business Description — Strategic Alliances and Other Collaborations — Forest Laboratories Ireland Limited".

(4) The acquisition by PAION AG of the outstanding shares of PAION Deutschland GmbH was accounted for as a reverse acquisition in the interim consolidated financial statements of PAION AG for the nine months ended September 30, 2004. Accordingly, the accounting impact of this acquisition on the financial information presented in this Offering Circular is limited to a difference of € 48,972 in the "shareholders' equity" and "cash and cash equivalents" lines of the balance sheet, reflecting the statutory minimum capital of PAION AG of € 50,000 less losses of € 1,028 accumulated by PAION AG due mainly to expenses in connection with the formation of PAION AG up until the contribution of the ownership interests of PAION Deutschland GmbH.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our financial statements and our interim consolidated financial statements, including the related notes, contained in this Offering Circular and the other financial information included elsewhere in this Offering Circular. For our audited annual financial statements as of and for the years ended December 31, 2003, 2002 and 2001, see page F-11 et seq., and for our unaudited interim consolidated financial statements as of and for the nine-month period ended September 30, 2004, see page F-87 et seq. References herein to "we", "us", "our" refer to PAION Deutschland GmbH in connection with any discussion of financial information as of any date, or for any period ended, on or before December 31, 2003 and to PAION AG and its consolidated subsidiary, PAION Deutschland GmbH, in connection with any discussion of financial information as of any date, or any period ended, after December 31, 2003. Our financial statements have been prepared on the basis of International Financial Reporting Standards, or IFRS, which differ in certain significant respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP. For a description of the significant differences between IFRS and U.S. GAAP insofar as they affect our financial statements and our interim consolidated financial statements, see "— Summary of Certain Significant Differences between IFRS and U.S. GAAP". The following discussion of our financial condition and results of operations contains forward-looking statements that are based on assumptions about our future business developments. As a result of many factors, including the risks set forth in the section entitled "Risk Factors" and elsewhere in this Offering Circular, our actual results may differ materially from those anticipated by these forward-looking statements.

Introduction

We are a development stage biopharmaceutical company aiming to become a leader in developing and commercializing innovative drugs for the treatment of stroke and other thrombotic diseases for which there is a substantial unmet medical need. We intend to build an integrated portfolio of drugs using a "search-and-development" approach. As part of this approach, we 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 our drug candidates, we seek to collaborate with experienced partners.

Our most advanced drug candidate is Desmoteplase, an intravenously injectable therapeutic that we are developing primarily for the causal treatment of acute ischemic stroke. We believe Desmoteplase is more effective and has a better safety profile than other currently available causal therapies for the treatment of acute ischemic stroke. Our other main drug candidates are Enecadin and Solulin. As with Desmoteplase, we are developing Enecadin and Solulin for the treatment of stroke and other thrombotic diseases. Enecadin offers potential benefits in the treatment of the secondary effects of acute ischemic stroke. Solulin prevents blood clotting and may be useful in the secondary treatment of recurring ischemic strokes in the acute time window.

We licensed Desmoteplase from Schering Aktiengesellschaft, or Schering, in 2001. In return we have agreed to make certain milestone payments to Schering and to pay royalties based on our future net sales of the drug. We are currently in discussions with Schering to acquire all of Schering's rights to Desmoteplase in consideration for a fixed purchase price, milestone payments and ongoing royalty payments.

On June 30, 2004, we entered into a license agreement with our collaborative partner Forest Laboratories Ireland Limited, or Forest, a wholly-owned subsidiary of Forest Laboratories, Inc. The agreement grants Forest an exclusive license with respect to the commercialization of Desmoteplase in the United States and Canada. The principal financial terms of the agreement are as follows:

- ***Upfront and milestone payments.*** Forest has agreed to make upfront and milestone payments of up to U.S.$69.5 million to us, U.S.$22 million of which we already received in 2004. Each milestone payment is contingent on our achievement of a predefined goal in connection with the development of Desmoteplase.

- *Sharing of Desmoteplase development expenses.* Forest has agreed to bear a substantial portion of the future Desmoteplase development expenses insofar as they are required to obtain regulatory approval in the United States and/or Canada. Forest has agreed to bear these costs either directly, by carrying out the relevant work itself, or indirectly, by reimbursing us for the expenses we incur in carrying out this work. The exact scope and timing of the work to be carried out with respect to Desmoteplase and of any cost reimbursements we may receive are set forth in a mutually agreed development plan, as described in greater detail below.

- *Repayment of up to 50% of the Desmoteplase development expenses borne directly or indirectly by Forest.* Consistent with the fact that the agreement grants Forest an exclusive right to commercialize Desmoteplase only with respect to the United States and Canada, in the event we obtain regulatory approval for Desmoteplase in the European Union and/or Japan, we will have to repay a portion of the Desmoteplase development expenses borne directly or indirectly by Forest. In particular, the agreement provides that, in the event we obtain regulatory approval for Desmoteplase in the European Union we will repay 35%, and if we obtain regulatory approval for Desmoteplase in Japan, 15% (that is, altogether 50%) of the expenses borne by Forest. In each case, we agreed to pay a premium of 20% of this amount to compensate Forest for the financial risk it incurred in funding the development of Desmoteplase. We have the option to offset these reimbursements to Forest against future royalty payments from Forest to us. However, if we choose this option, we must pay interest on the amounts owed to Forest from the time Desmoteplase receives regulatory approval in the European Union or Japan, as the case may be.

- *Royalties.* If Desmoteplase receives regulatory approval in the United States and/or Canada, Forest will be obliged to pay us royalties based on a percentage of its net sales of Desmoteplase in the United States, Canada, or both, as the case may be. The net royalty rate, that is, the difference between the rate at which Forest will pay royalties to us and the rate at which we will pay royalties to Schering and potentially other parties, would, for so long as Desmoteplase enjoys market exclusivity, be staggered according to the net sales achieved by Forest and amount to approximately 12%, 17% or 22% (depending on the net sales bracket). The net royalty rate will decline on a country-by-country basis to the extent Desmoteplase faces competition from generics, subject to a minimum rate.

While the agreement with Forest covers both the indications acute ischemic stroke and acute pulmonary embolism, the current development plan covers the further clinical development of Desmoteplase only with respect to the indication acute ischemic stroke. However, we are currently negotiating with Forest to include the indication pulmonary embolism in our development plan. The current development plan provides for two clinical trials, a Phase IIb/III clinical trial and a Phase III clinical trial, each to be conducted both inside and outside the United States. Under the terms of the development plan, Forest will bear costs associated with the Phase III clinical trial only after completion of the Phase IIb/III clinical trial. We are currently considering conducting one or more clinical trials in parallel to the Phase IIb/III clinical trial planned for the first quarter of 2005 to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. The current development plan covers neither these clinical trials to expand the patient population nor the additionally planned safety trial using the final formulation of Desmoteplase. However, we are currently in negotiations with Forest regarding the funding of these trials with a view to amending the development plan accordingly. If the clinical trials planned for 2005 confirm the results of the Phase II clinical trials we have 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, we and Forest may decide to apply for regulatory approval of Desmoteplase without conducting the Phase III clinical trials provided for in the current development plan.

We are currently considering one or more additional collaborations with respect to the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world. If we enter into any such additional collaborations, we will seek to obtain co-promotion rights for certain parts of Europe. However, there can be no assurance that we will be able to enter into any additional collaborations with respect to Desmoteplase on terms favorable to us or at all. For more information on the importance to us of entering into such collaborations and the related risks, see "Risk Factors — Risks Related to Our Business — We depend on entering into one or more additional collaborations for the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world" and "Risk Factors — Risks Related to Our Business — We are, and expect to continue to be, dependent on collaborative arrangements to complete the development of our drug candidates and to commercialize them successfully.

These collaborative arrangements may place the development and commercialization of our drug candidates outside of our control, may require us to relinquish important rights or may otherwise be on terms unfavorable to us''.

Overview of Results of Operations and Liquidity

The following table breaks down our revenues, cost of revenues, research and development expenses, net income (loss) for the periods indicated and cash and cash equivalents as of the end of the periods indicated:

	Year ended December 31,			Nine months ended September 30,		Accumulated from inception to September 30,
	2001	2002	2003	2003	2004	2004
					(unaudited)	(unaudited)
			(€ in thousands)			
Revenues	16	445	709	634	16,599	17,791
Cost of revenues	(8)	(217)	(426)	(258)	(1,536)	(2,198)
Research and development expenses	(9,062)	(8,851)	(8,812)	(7,191)	(5,064)	(33,781)
Net income (loss)	(9,828)	(10,866)	(10,864)	(8,554)	5,285	(28,844)
Cash and cash equivalents	2,719	5,575	8,454	5,510	25,270	

From our inception in July 2000 to September 30, 2004, we accumulated a net loss of € 28.8 million. In 2003, we had a net loss of € 10.9 million. Although we had net income of € 5.3 million in the nine-month period ended September 30, 2004, we expect to incur net losses for the foreseeable future. For more information on the risk that we may never become profitable, see ''Risk Factors — Risks Related to Our Business — We have not been profitable to date and may never achieve profitability''. Based on our current corporate planning, we expect that PAION Deutschland GmbH, which is considered a separate entity for German corporate income tax purposes, will have taxable net income of up to € 1.0 million in 2004. This net income is due primarily to revenues resulting from one-time payments received from Forest. We expect that PAION Deutschland GmbH will be able to offset this income against its existing tax loss carry-forwards. Accordingly, we recorded a deferred tax of asset € 0.4 million in our unaudited interim consolidated financial statements for the nine months ended September 30, 2004, corresponding to the expected amount of tax savings of PAION Deutschland GmbH. We calculated this deferred tax asset based on a corporate income tax rate of 21.8% and a trade tax rate of 17.36%. Subject to this one-time event and unless we were to enter agreements with additional collaboration partners and receive further upfront and milestone payments under these agreements we do not expect to generate taxable profits for at least the next several years. Therefore, we are unlikely to be able to record deferred tax assets in connection with our remaining tax loss carry-forwards in the next several years. Moreover, even if we were profitable, we may be unable to use all our tax loss carry-forwards as the ultimate tax treatment is uncertain and will depend on the facts and circumstances. Accordingly, we do not expect to show a deferred tax asset in our consolidated financial statements for the year ended December 31, 2004 or future periods.

From our inception up to and including June 2004, we funded our operations primarily through approximately € 51 million received from the issuance of our shares to venture capital groups and to a lesser extent through government subsidies. In the nine months ended September 30, 2004, our main sources of funding were cash payments from Forest and proceeds from the issuance of our shares in the fourth financing round, which closed in May 2004. We expect to fund our operations over the next several years primarily from the net proceeds of the Offering, our existing cash balances, and cost reimbursements relating to the development of Desmoteplase and milestone payments under our agreement with Forest and similar payments under other collaboration agreements we may enter into in the future. Our long-term objective is to supplement cost reimbursements and milestone payments under collaborative agreements with third parties with revenues in the form of royalties under licensing and co-promotion agreements such as our agreement with Forest and our own sales of drugs. For more information on our financial dependence on Forest and on possible fluctuations in our liquidity and results of operations, see ''Risk Factors — Risks Related to Our Business — We depend on Forest for substantially all of our revenues and to fund a substantial portion of the future development of, and to commercialize, Desmoteplase in the United States and Canada'' and ''Risk Factors — Our cash flows and operating results are likely to fluctuate considerably for the foreseeable future, depending on the timing

and amount of upfront and milestone payments, which may adversely affect our share price''. As of September 30, 2004, our cash and cash equivalents were € 25.3 million.

Accounting Impact of Our Agreement with Forest

As of July 1, 2004, our agreement with Forest has impacted the way we account for Desmoteplase related revenues and expenses.

Forest Agreement

As described under ''— Introduction'', Forest has agreed to bear a substantial portion of our future Desmoteplase development costs, either by reimbursing us for any costs we incur in carrying out the relevant development work or by incurring these costs directly.

To the extent we incur costs in carrying out Desmoteplase related development work for which Forest has agreed to reimburse us, we book the relevant amounts as revenues in the period in which we invoice them to Forest. Because the Forest agreement does not cover the European Union and Japan, which, as described above, under the agreement are deemed to represent 35% and 15% of the worldwide market for Desmoteplase, respectively, we may have to repay up to 50% of these costs upon obtaining regulatory approval for Desmoteplase in the European Union and/or Japan. To account for this potential liability, we set up a provision by reducing our revenues by the net present value of the amount we expect to have to repay, assuming the repayment will become due in 2008. Accordingly, our reported revenues in any given period include only approximately 50% of the development costs invoiced to Forest for reimbursement. Conceptually, this amount relates to development work carried out with respect to the United States and Canada. To account for the cost of earning this revenue, we include 50% of any development costs we invoice to Forest in cost of revenues. The balance of these costs, which are deemed to relate to the European Union and Japan, are included in research and development expenses.

Our accounting for Desmoteplase development expenses may also be affected by the timing of when we invoice these expenses to Forest for reimbursement. To the extent we invoice such expenses to Forest in the same quarter they are incurred, they are treated as described above. Otherwise, they are initially recorded as research and development expenses. If we invoice all or portion of these costs to Forest in a subsequent quarter of the same fiscal year, we reverse 50% of the amount included in research and development expenses and include it in cost of revenues.

If, on the other hand, Forest carries out Desmoteplase related development work itself, the underlying costs do not show up on our income statement directly. However, for the reasons described above, we may have to repay up to 50% of the costs incurred by Forest upon receiving regulatory approval of Desmoteplase in the European Union and/or Japan. Accordingly, we set up a provision for this potential repayment obligation by increasing research and development expenses by the net present value of the amount we expect to have to pay.

Given that we will have to pay a 20% premium on any payments due to Forest (whether as a result of our obligation to repay cost reimbursements received or because we have agreed to contribute to any costs incurred by Forest directly), we set up an additional provision in the amount of 20% of the net present value of the expected repayment obligation by taking a charge to research and development expenses.

If we decide to offset any of our payments to Forest against future royalties, we will also set up a provision for the interest payable on the amounts due to Forest by taking a charge to financial results.

In the event we enter into one or more additional collaborations for the development and commercialization of Desmoteplase with respect to territories not covered by the Forest agreement, we would account for any cost reimbursements we may receive from our collaboration partner or partners in a manner consistent with the principles applied under the Forest agreement. To the extent such cost reimbursements relate to amounts we would owe Forest upon obtaining regulatory approval for Desmoteplase in the European Union and/or Japan, we would reverse all or a portion of the provisions we have made to account for our potential repayment obligations to Forest. However, there can be no assurance that we will find such a partner or partners or be able to enter into such agreements.

Schering Agreement

As described above, under our license agreement with Schering, which we concluded in 2001 and which was amended in 2003, we agreed to make certain milestone payments to Schering. These payments were capitalized and amortized over the life of the patents subject to the agreement. Any amortization charges were recorded as research and development expenses. The Forest agreement has impacted the way we account for the milestone payments, we make under our agreement with Schering. Since July 1, 2004, we capitalize only 50% of these payments, based on the assumption that we will generate revenues under the Forest agreement in 50% of the worldwide market for Desmoteplase. The balance is recorded as cost of revenues. We will apply the same accounting treatment to payments in the amount of € 1.2 million we have made to *Universidad Nacional Autonoma de Mexico,* or UNAM, in connection with the settlement of certain rights for Desmoteplase in December 2004 and payments which we may be required to make to Teijin Limited, or Teijin (in case we license Desmoteplase to a collaborative partner in Japan). For additional information on our potential contractual commitments to Teijin, see ''— Commitments and Contingencies''.

Results of Operations

Nine months ended September 30, 2003 and 2004

Revenues

As we currently have no drugs on the market, we do not generate revenues from royalties or our own sales of drugs. In the nine months ended September 30, 2004, we had revenues of € 16.6 million compared with € 0.6 million in the nine months ended September 30, 2003.

The increase in revenues in the nine months ended September 30, 2004 primarily reflects € 15.6 million from a know-how transfer payment we received under our agreement with Forest. It also reflects € 0.7 million from the amortization of a non-refundable upfront payment we received under this agreement. The payment was initially recorded as deferred income and is being amortized on a pro rata basis in proportion to the know-how transfer and milestone payments we receive under the Forest agreement. The increase in our reported revenues also reflects € 0.3 million resulting from cost reimbursements invoiced to Forest in the amount of € 0.53 million, after reduction by € 0.26 million to set up a provision for the possibility that we may have to repay up to 50% of this cost reimbursement to Forest.

We expect that for the foreseeable future our revenues will consist principally of cost reimbursements relating to the development of Desmoteplase and milestone payments under our agreement with Forest and similar payments under other collaboration agreements that we may enter into in the future. The timing and amount of these payments will depend on our ability to successfully advance the clinical development of our drug candidates, particularly Desmoteplase, in accordance with the development plans set forth in the relevant agreements.

Our long-term objective is to supplement cost reimbursements and milestone payments under collaborative agreements with third parties with revenues in the form of royalties under licensing and co-promotion agreements such as our agreement with Forest and our own sales of drugs.

Cost of revenues

Cost of revenues consists of costs which arise in connection with, and are directly attributable to, the generation of the revenues in the relevant period to which they relate. Cost of revenues were € 1.5 million in the nine months ended September 30, 2004 compared to € 0.3 million in the nine months ended September 30, 2003.

The increase in cost of revenues in the nine months ended September 30, 2004 primarily reflects 50% of a € 2 million milestone payment made to Schering, which was triggered by the conclusion of our agreement with Forest, and € 0.3 million from the release of 50% of certain payments we made under our agreement with Schering, and which we had originally capitalized in full. The increase also reflects € 0.3 million in Desmoteplase development expenses.

Research and development expenses

Consistent with our ''search-and-development'' approach, our research and development expenses generally consist of costs associated with the conduct of pre-clinical and clinical trials of our drug candidates and the screening of new drug development opportunities, production development expenses related to the manufac-

turing of clinical quantities of drug candidates, related personnel expenses, overhead, amortization of intangible assets and depreciation of equipment and facilities costs.

Research and development expenses in the nine months ended September 30, 2004 were € 5.1 million, reflecting a decrease of 29.6% compared with the nine months ended September 30, 2003. This decrease primarily reflects a substantial reduction in costs associated with our in-house drug discovery and related research efforts due to the scaling-back of the activities of our R&D laboratory in Berlin, Germany, a decrease in clinical development expenses, and the reversal of a provision made in connection with the planned closure of our R&D laboratory in Berlin, Germany. The decrease also reflects the fact that since July 1, 2004, 50% of the Desmoteplase development expenses invoiced to Forest for reimbursement are recorded in cost of revenues. The effect of this decrease was partially offset by an increase in certain production development expenses incurred for Desmoteplase, which Forest did not reimburse to us under the mutually agreed development plan. Research and development expenses also included a charge of approximately € 53,000 to set up a provision for the 20% premium we may be required to pay in connection with the repayment of cost reimbursements to Forest.

General and administrative expenses

General and administrative expenses mainly consist of personnel and overhead expenses related to general administration and incurred by our management, bookkeeping, controlling, human resources and IT departments, amortization of intangible assets and depreciation of equipment, facilities costs and professional fees paid for legal and consultancy services in connection with our outlicensing activities, preparation for the offering and capital increases.

In the nine months ended September 30, 2004, general and administrative expenses more than doubled to € 4.6 million from € 1.8 million in the nine months ended September 30, 2003. This increase primarily reflects € 1.8 million associated with the successful outlicensing of Desmoteplase to Forest, which consisted primarily of success and retainer fees of € 1.7 million paid to strategic advisors whom we hired to assist us in identifying strategic opportunities and partners, and other advisory fees. It also reflects expenses for legal and consultancy fees of € 0.9 million arising in connection with the Offering.

Selling and marketing expenses

We currently do not have any drugs on the market. In the nine months ended September 30, 2004, selling and marketing expenses rose to € 0.4 million from approximately € 13,000 in the corresponding period of the previous year, reflecting the expansion of our sales and marketing activities in connection with our efforts to out-license Desmoteplase. This expansion led to a reallocation of personnel and overhead expenses and charges relating to the amortization of intangible assets and depreciation of equipment and facilities from other line items to selling and marketing expenses.

Financial Results

Financial results consists of interest income from short-term investments and interest expenses. In the nine months ended September 30, 2004, financial results increased to € 0.1 million from approximately € 44,000 in the nine months ended September 30, 2003, reflecting an increase in interest income from short-term investments.

Other income/expense, net

Other income/expense, net consists of a variety of income and costs items that cannot be allocated to other line items. In the nine months ended September 30, 2004, other expense, net of € 0.2 million primarily reflected losses from fluctuations in foreign exchange rates. In the nine months ended September 30, 2003 other expense, net was negligible.

Years ended December 31, 2001, 2002, 2003

Revenues

In the three years ended December 31, 2003, we generated our revenues principally from research and development work performed under contracts with a small number of third parties, including in particular Schering. We completed all of these projects in 2003. Because our revenues in each of the three years ended December 31, 2003 resulted from a limited number of discrete projects, we believe that a year-on-year comparison of our revenue figures for these periods is not meaningful. We had revenues of € 0.7 million in 2003, € 0.4 million in 2002 and negligible revenues in 2001. Most of our revenues in these three years relate to contract work performed for Schering by our R&D laboratory in Berlin, Germany, under a research

framework agreement, which expired on December 31, 2003. Our 2003 revenues also include a non-refundable down-payment of € 0.4 million, recorded under other liabilities in the prior year, which we received from Teijin in connection with the negotiation of a term sheet for development work with respect to Desmoteplase in Japan that was subsequently abandoned.

Cost of revenues

In the three years ended December 31, 2003, cost of revenues primarily comprised expenses incurred in connection with research and development work performed for third parties. Cost of revenues was € 0.4 million in 2003 and € 0.2 million in 2002. In 2001, cost of revenues was negligible.

Research and development expenses

In addition to the types of research and development expenses we generally incur, in the three years ended December 31, 2003, we also incurred research and development expenses in connection with our in-house research and development, or R&D, activities aimed at identifying new drug candidates. In 2003, we substantially curtailed the activities of our R&D laboratory in Berlin, Germany, and accordingly do not expect to incur significant research and development expenses in connection with drug discovery for the foreseeable future.

Our research and development expenses in the three years ended December 31, 2003 were influenced by the fact that we received research grants and investment subsidies from the German Federal Ministry of Education and Research and the State of North Rhine-Westphalia. While research grants were recorded as a reduction of research and development expenses, investment grants received for the acquisition of specific assets were capitalized and have been and will be released as an offsetting item to research and development expenses over the useful life of the relevant assets. Assets acquired with investment grant funds must be held for a period of at least five years; otherwise the grant must be repaid.

Research and development expenses remained relatively stable in 2003, decreasing from € 8.9 million in 2002 to € 8.8 million in 2003. In 2003, research and development expenses of € 8.8 million included, as an offsetting item, € 0.6 million in research grants received for projects in the preclinical, analytical and production areas. In 2002, research and development expenses of € 8.9 million included, as an offsetting item, research grants of € 2.3 million, mainly reflecting grants to finance the production development of Desmoteplase. Excluding these items, research and development expenses would have declined by 16%, from € 11.2 million in 2002 to € 9.4 million in 2003. This decline primarily reflects our termination in 2003 of the PN-05 project, which related to the development of a drug candidate for stroke and certain other neurological indications in collaboration with Millennium Pharmaceuticals, Inc. This decline also reflects a decrease in production development expenses and a decrease in expenses associated with our in-house drug discovery program as a result of the substantially reduced activities of our R&D laboratory in Berlin, Germany. This decline was partially offset by additional expenses of € 1.1 million arising in connection with the grant of subscription rights to our employees and external consultants as well as charges of € 0.5 million as a result of an extraordinary write-down of fixed assets and € 0.2 million as a result of setting up accruals for potential losses due to the anticipated vacancy of leased premises as a result of the planned closure of the R&D laboratory in Berlin, Germany.

In 2002, research and development expenses decreased slightly, from € 9.1 million in 2001 to € 8.9 million in 2002. Excluding grants, research and development expenses would have increased by 23%, from € 9.1 million in 2001 to € 11.2 million in 2002. This increase primarily reflects € 1.5 million in research and development expenses relating to the PN-05 project, a significant increase in research and development expenses incurred in our R&D laboratory in Berlin, Germany, and an expansion of our drug discovery program.

General and administrative expenses

In 2003, general and administrative expenses increased slightly by 4.3%, from € 2.3 million in 2002 to € 2.4 million. This increase primarily reflects € 0.2 million in additional expenses arising in connection with the grant of subscription rights to administrative personnel and external consultants under the employee participation plan 2001-2004. In 2002, general and administrative expenses rose from € 0.9 million in 2001 to € 2.3 million, primarily reflecting an increase in recruiting expenses and additional consultancy expenses in connection with our funding activities.

Selling and marketing expenses

We did not incur any selling and marketing expenses in 2001 or 2002. In 2003, we incurred selling and marketing expenses of € 49,000 in connection with preparations for the outlicensing of Desmoteplase.

Financial results

We had financial results of approximately € 62,000, approximately € 19,000 and approximately € 68,000 in 2003, 2002 and 2001, respectively.

Other income/expense, net

Other income, net was approximately € 84,000, approximately € 64,000 and approximately € 88,000 in 2003, 2002 and 2001, respectively, reflecting cost transfers and income from the operation of the staff cafeteria.

Liquidity and Capital Resources

From our inception to September 30, 2004, we funded our operations primarily through issuances of our shares to venture capital groups and from government subsidies and, more recently, through cash payments from our collaboration partner Forest. We expect to fund our operations over the next several years primarily from the net proceeds of the Offering, existing cash balances and future payments received from our existing and future collaboration partners. Our cash and cash equivalents were € 25.3 million as of September 30, 2004.

Financing Rounds

Since our inception in 2000, we have raised approximately € 51 million from the issuance of our shares to various venture capital groups and private investors in four financing rounds. The first financing round in November 2000 raised a total of € 28.6 million, which was disbursed in several installments. It was followed by further financing rounds raising € 3.9 million in July 2001, € 8.4 million in August 2003 and € 9.8 million in May 2004. The financing round which closed in May 2004 was based on a post-money valuation of our company of € 79.8 million.

In connection with the third and fourth financing rounds we paid performance-related bonuses of € 0.2 million and € 0.3 million, respectively, to our financial advisors Medical Science Partners International, or MSPI, for the referral of new shareholders. We deducted these fees from our additional paid-in capital.

Government Subsidies

In 2001, 2002 and 2003, we received € 52,000, € 2.3 million and € 0.6 million, respectively, in subsidies from the German Federal Ministry of Education and Research and the State of North-Rhine Westphalia. In the nine months ended September 30, 2004, we received € 44,000 in subsidies from the German Federal Ministry of Education and Research. No contractual obligations for repayment exist.

Cash Flow

The following table highlights selected cash flow data for each of the three years ended December 31, 2003 and the nine months ended September 30, 2003 and 2004:

Cash Flow Statement

	Year ended December 31,			Nine months ended September 30,	
	2001	2002	2003	2003	2004
	(€ in thousands)				
Net cash from (used in) operating activities	(9,253)	(9,385)	(9,428)	(7,338)	7,724
Net cash used in investing activities	(1,344)	(681)	(729)	(723)	(1,075)
Net cash provided by financing activities	12,902	12,921	13,035	7,996	10,168

Net cash from (used in) operating activities

In the nine months ended September 30, 2004, net cash from operating activities was € 7.7 million reflecting primarily net income for the period, adjusted for non-cash expenses of € 0.8 million. Operating cash flow was positively affected by the receipt of cash payments of € 17.8 million under our agreement with Forest, of which € 16.3 million was recognized in revenues and € 1.8 million was recorded as deferred income. Net cash used in operating activities was € 9.4 million in both 2003 and 2002 and € 9.3 million in 2001. In each year

during this period, our operating cash flow primarily reflects the net loss in the relevant year adjusted for non-cash depreciation and amortization and, in 2003 and 2002, respectively, € 1.4 million and € 0.1 million in non-cash expenses relating to the grant of subscription rights to our employees and external consultants. In addition, our operating cash flow in 2003 reflects € 0.4 million in provisions, mainly for the repayment of government investment grants and for potential losses due to the anticipated vacancy of the leased premises due to our intention at that time to close down our R&D laboratory in Berlin, Germany, and a € 0.5 million extraordinary write-down of equipment in connection with this planned closure. Our 2002 operating cash flow includes similar provisions for lease payments relating to our former headquarters in Stolberg, Germany, which remained vacant after our relocation to Aachen, Germany.

Net cash used in investing activities

In the nine months ended September 30, 2004, net cash used in investing activities was € 1.1 million, primarily reflecting 50% of a € 2 million payment we made to Schering in connection with the conclusion of our agreement with Forest. Net cash used in investing activities was € 0.7 million in both 2003 and 2002, and € 1.3 million in 2001. In 2003, net cash used in investing activities primarily reflects payments to Schering in connection with our license agreement with Schering for Desmoteplase. Net cash used in investing activities in 2002 primarily reflects the relocation of our corporate headquarters from Stolberg, Germany, to Aachen, Germany and the purchase of office furniture and IT equipment. In 2001 net cash used in investing activities primarily reflects the purchase of laboratory and IT equipment for our R&D laboratory in Berlin, Germany.

Net cash provided by financing activities

In the nine months ended September 30, 2004, net cash provided by financing activities was € 10.2 million, primarily reflecting issuances of our shares in the amount of € 10.3 million, the effect of which was partially offset by the payment of a performance-related bonus of € 0.3 million to our financial advisors MSPI for the referral of new shareholders. Net cash provided by financing activities was € 13.0 million in 2003 and € 12.9 million in both 2002 and 2001. Cash flow from financing in 2003 primarily reflects € 13.4 million from issuances of our shares, the effect of which was partially offset by the payment of a performance-related bonus of € 0.2 million to our financial advisors MSPI for the referral of new shareholders. Cash flow from financing in 2002 primarily reflects € 13.0 million from issuances of our shares and the prepayment of several bank loans. In 2001, cash flow from financing included € 12.9 million from issuances of our shares.

Future Funding Requirements

We believe that the net proceeds of the Offering, our existing cash balances and future payments we expect to receive from Forest and other collaboration partners will be sufficient to meet our projected cash requirements for the foreseeable future. However, it is possible that we may seek additional financing within this time frame. We may seek such financing through public or private financings, collaborations or other arrangements. We cannot assure you, however, that any funding, if needed, will be available to us on attractive terms, or at all. Furthermore, any additional equity financing may be dilutive to shareholders, and any debt financing may subject us to restrictive covenants. Similarly, financing obtained through collaborations with third parties may require us to forego certain rights to, or revenues from, any of our current or potential drug candidates. If we are unable to find financing on acceptable terms, we may be forced to reduce research and development expenses by delaying, reducing or discontinuing our funding of the clinical development of one or more of our drug candidates.

Our future capital requirements depend on a numerous factors, including the following:

- the number of potential new drug candidates we identify and decide to develop;
- the progress, timing and completion of preclinical testing and clinical trials for any of our current or future drug candidates, including Desmoteplase;
- the time and costs involved in obtaining regulatory approval for our drug candidates and any delays we may encounter as a result of evolving regulatory requirements or adverse results with respect to any of these drug candidates;
- the costs involved in filing patent applications and enforcing patents or defending ourselves against claims of infringements raised by third parties;
- our ability to establish strategic alliances with experienced collaboration partners;

- our ability to achieve market acceptance for our drug candidates and any costs involved in establishing an effective sales and marketing organization;
- selling and marketing activities we undertake in connection with the anticipated commercialization of Desmoteplase and costs involved in the creation of an effective sales and marketing organization; and
- the amount of revenues, if any, we may derive either directly or in the form of royalty payments from future sales of drugs.

For more information to the risks associated with our future funding needs, see ''Risk Factors — Risks Related to Our Business — We may need substantial additional funding and may be unable to raise capital as soon as it is needed, which could force us to delay, reduce or eliminate our drug licensing or our purchase of new drug candidates and the development and commercialization of our existing drug candidates''.

Commitments and Contingencies

The following table provides a maturity analysis of certain of our material contractual obligations as of September 30, 2004:

	Payments due in[1]					
	the fourth quarter 2004	2005	2006	2007	2008	Thereafter
	(€ in thousands)					
Operating leases	152	405	372	353	320	735
Capital leases	12	84	84	82	75	69
Total	164	489	456	435	395	804

(1) Columns may not add due to rounding.

We lease our administrative facilities, our R&D laboratory in Berlin, Germany, and certain of our vehicles under operating leases. The table above sets forth our future minimum lease commitments under our fixed-term leases. We show lease payments under operating leases as expenses in our income statement under general and administrative expenses, research and development expenses, cost of revenues and selling and marketing expenses. We show amounts owed under finance leases as liabilities on the balance sheet.

At September 30, 2004, we did not have any liabilities vis-à-vis financial institutions.

In addition, we are obligated to make payments under various license and purchase agreements pursuant to which we acquired the rights to certain patents. Upon the occurrence of certain events, we will be required to make milestone payments in an aggregate amount of up to approximately € 16.5 million (which amount is partially payable in U.S.$) to Schering, Nippon Shinyaku Co., Ltd., or Nippon Shinyaku, and Tejin (in case we license Desmoteplase to a collaborative partner in Japan), with respect to our licenses for Desmoteplase, Enecadin and Solulin. We also agreed to pay Schering royalties based on our future net sales of Desmoteplase and Solulin. Similarly, we agreed to make royalty payments to Nippon Shinyaku based on our future net sales of any drugs based on Enecadin.

If we enter into one or more additional collaborations for the development and commercialization of Desmoteplase with a partner or partners identified by our strategic advisor, we may be obliged to pay the advisor a success fee under the service agreement.

Off-balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

Disclosure About Market Risk

Historically, our results of operations and financial condition have not been materially influenced by fluctuations in foreign currency exchange rates. However, our future results of operations and financial condition could be materially adversely affected by foreign currency exchange rate fluctuations, particularly between the euro, the currency in which we incur most of our expenses, and the U.S. dollar, in which we have received and

will continue to receive payments under our agreement with Forest. These payments were our most important source of revenues in the nine months ended September 30, 2004 and we expect they will continue to be a major revenue source in the foreseeable future. Accordingly, in periods in which the foreign currency exchange rate for the U.S. dollar declines relative to that of the euro, our profitability will decrease. In addition, the euro is our reporting currency and therefore fluctuations in the foreign currency exchange rates between the euro and the U.S. dollar may cause our reported revenues to vary significantly from period to period. For more information on the risk that our revenues and results of operations are subject to currency fluctuations, see "Risk Factors — Risks Related to Our Business — Currency fluctuations may expose us to increased costs and revenue decreases".

As we invest a substantial amount of our cash and cash equivalents in bank deposits with maturities of less than three months, our financial results are also subject to changes in the general level of interest rates. The objective of our investment activities is to preserve the value of these cash and cash equivalents until they are required to fund our operations.

We do not currently hedge our exposure to any of the risks described above.

Critical Accounting Policies

In addition to the accounting policies discussed above, we have identified the following critical accounting policies which require our management to make assumptions about matters that were uncertain at the time those policies were applied and with respect to which management reasonably could have made different assumptions in the relevant period or with respect to which changes in the assumptions reasonably likely to occur from period to period would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. You should read the following paragraphs in conjunction with our financial statements and our interim consolidated financial statements, including the related notes, set forth beginning on page F-1.

Research and Development Expenses

We account for research and development expenses under IAS 38 "Intangible Assets'. The standard defines development expenses as costs incurred in connection with the application of research findings or other knowledge to a plan or design for the production of new materials, products or processes prior to the commencement of commercial production. Under IAS 38, development costs must be capitalized if, among other things, it is sufficiently certain that the future economic benefits flowing from the product or process being developed will cover not only the relevant manufacturing, selling and marketing, and administrative expenses but also the development costs themselves.

As a result, our management has determined that, given the numerous uncertainties inherent in the process governing the development and regulatory approval of Desmoteplase and our other drug candidates, the conditions for capitalizing development expenses set forth in IAS 38 have not been satisfied in the case of any of these drug candidates due to the fact that, among other things, we have not received regulatory approval for any of our drug candidates. Accordingly, we expense all of our development costs as incurred.

Notwithstanding the fact that we do not capitalize our Desmoteplase development expenses due to the uncertainties described above, we set up provisions to provide for possible payments due to our reimbursement obligation to Forest of the Desmoteplase development expenses borne by it upon regulatory approval of Desmoteplase in the European Union and/or Japan. For more information on these provisions, see "— Accounting Impact of Our Agreement with Forest".

Employee Participation Plan 2001-2004

Under IFRS 2 'Share-based Payment', we are required to account for share-based compensation paid to third parties, including in connection with our stock-based employee participation plan 2001-2004, using a fair-value based model. For more information on the employee participation plan 2001-2004 for our employees and certain of our external consultants, see "Directors and Employees — Employee Participation Plans — Employee Participation Plan 2001-2004 of PAION Deutschland GmbH". Specifically, the standard requires us to record the fair value of the subscription rights issued under our employee participation plan 2001-2004 as an expense in our income statement. As required, we determine the fair value of the options using a generally accepted valuation methodology and have made various assumptions about, among other things, interest rates, price volatility and vesting periods. For more information on how we calculate the fair value of

the option, see Note 9 to our financial statements for the year ended December 31, 2003 set forth beginning on page F-22.

In connection with the Offering, the employee participation plan 2001-2004 was amended and it was agreed that all outstanding subscription rights would be settled by a cash payment in three installments. See "Directors and Employees — Employee Participation Plans — Employee Participation Plan 2001-2004 of PAION Deutschland GmbH" for more information on the amendments to our employee participation plan 2001-2004 agreed in connection with the Offering. The cash settlement of the outstanding subscription rights will be accounted for as a repurchase of an equity interest, or as a reduction of our paid-in capital, except to the extent that the payment exceeds the fair value of the subscription rights measured at the repurchase date. Any such excess will be recorded as an expense in the income statement and, depending on whether they relate to employees or external consultants, allocated to research and development, general and administrative or selling and marketing expenses.

Recent Accounting Pronouncements

The International Accounting Standards Board, or IASB, has undertaken considerable work to develop new accounting standards and improve existing ones, which is now substantially complete. In December 2003, the IASB released the following pronouncements, applicable to us: IAS 1, "Presentation of Financial Statements", IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", IAS 16, "Property, Plant and Equipment", IAS 17, "Leases", IAS 24, "Related Parties Disclosures", IAS 27, "Consolidated and Separate Financial Statements", IAS 32, "Financial Instruments: Disclosure and Presentation", IAS 33, "Earnings per Share", IAS 39, "Financial Instruments: Recognition and Measurement". The revised standards are required to be applied for financial statements covering periods beginning on or after January 1, 2005, but earlier application is encouraged.

To date, the IASB has released four International Financial Reporting Standards, or IFRS, that generally apply to us: IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 2, "Share-based Payment", IFRS 3, "Business Combinations" and IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". IFRS 2 and 5 will become effective for annual periods beginning on or after January 1, 2005, but earlier application is encouraged.

We have adopted all of the above-mentioned accounting standards that had been endorsed by the IASB at the time we prepared our IFRS financial statements, to the extent the relevant conditions were satisfied. Given that we were founded in 2000 and therefore presented the first financial statements for fiscal years 2001 and 2000 on the basis of IFRS, IFRS 1 applied in 2001. For more information on our significant accounting policies, see Note 2 of our financial statement for the year ended December 31, 2003 set forth beginning on page F-17. There are currently no recent or pending accounting pronouncements which we expect to have a material impact on the preparation of our financial statements for future periods.

Summary of Certain Significant Differences between IFRS and U.S. GAAP

We prepare our consolidated financial statements on the basis of IFRS. The following discussion summarizes significant differences between IFRS and U.S. GAAP with respect to the capitalization of development costs and the setting up of provisions, insofar as they affect our consolidated financial statements. You should note that this summary does not purport to fully describe all differences between IFRS and U.S. GAAP.

Development expenses in accordance with IAS 38 "Intangible Assets" are defined as costs incurred by the application of research findings or other knowledge to a plan or design for the production of new materials, products and processes prior to the commencement of commercial production. Under IAS 38.57, we are required to capitalize development costs if we can demonstrate all of the following:

- the technical feasibility of completing the relevant intangible asset so that it will be available for internal use or sale;
- our intention to complete the intangible asset and use or sell it;
- our ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits (among other things, we must demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset);
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- our ability to measure reliably the expenditure attributable to the intangible asset during its development.

In the opinion of management, due to the regulatory approval process and other uncertainties inherent in the development of our drug candidates, the criteria for capitalizing development costs of a drug candidate are not met until the relevant drug candidate has received regulatory approval and it is probable that future economic benefits will flow to us. To date, none of our drug candidates has obtained regulatory approval and, accordingly, we expense all development costs as incurred.

Under U.S. GAAP development expenses must be expensed in the period in which they are incurred.

In accordance with IFRS, the Company sets up provisions if they correspond to an obligation to a third party, such obligation is deemed probable to occur and the amount of such obligation can be reasonably measured.

Under U.S. GAAP, accruals are set up based upon higher probability thresholds than under IFRS, taking into consideration the uncertainty of R&D projects. Accordingly, the timing of recording accruals may differ between IFRS and U.S. GAAP.

Introduction

We are a development stage biopharmaceutical company aiming to become a leader in developing and commercializing innovative drugs for the treatment of stroke and other thrombotic diseases for which there is a substantial unmet medical need. We intend to build an integrated portfolio of drugs using a ''search-and-development'' approach. As part of this approach, we 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 commercialization of our drug candidates, we seek to collaborate with experienced partners.

Stroke is the third leading cause of death in the United States and one of the most common causes of adult long-term disability. The current focus of our drug development efforts is the treatment of ischemic stroke, the most common type of stroke, which occurs when an artery in the brain is obstructed by a blood clot.

Our most advanced drug candidate is Desmoteplase, an intravenous therapeutic that we are developing primarily for the causal treatment of acute ischemic stroke. We licensed Desmoteplase from Schering Aktiengesellschaft, or Schering, in 2001.

We believe Desmoteplase is more effective and has a better safety profile than other therapies currently approved for the causal treatment of acute ischemic stroke. Our clinical trials have demonstrated that Desmoteplase is effective up to nine hours after an ischemic stroke has occurred, which is six hours longer than the time during which Alteplase, the only intravenous drug currently approved for the causal treatment of acute ischemic stroke, may be administered. In addition, our studies have shown that Desmoteplase has a significantly reduced risk of bleeding in the brain compared with both Alteplase and the Merci Retrieval System, a catheter-like mechanical device designed to remove blood clots, which is the only causal treatment of acute ischemic stroke other than Alteplase that has received regulatory approval. In June 2004, Desmoteplase received fast-track designation from the U.S. Food and Drug Administration, or FDA, for the indication acute ischemic stroke. We completed a Phase II clinical trial for Desmoteplase in Europe, Singapore and Australia in 2003 and another Phase II clinical trial in the United States in 2004.

In the first quarter of 2005, we plan to commence a Phase IIb/III clinical trial in the United States, Australasia and Europe, based on a trial protocol which we have discussed with the FDA. This clinical trial will be our first pivotal clinical trial for Desmoteplase. A pivotal clinical trial is a clinical trial which potentially may serve as the basis for an application for regulatory approval of the drug candidate being examined in the trial. In addition, we are considering conducting one or more clinical trials in parallel to the planned Phase IIb/III clinical trial to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. If the planned clinical trials confirm the results of the Phase II clinical trials we have 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, we and Forest Laboratories Ireland Limited, or Forest, may decide to apply for regulatory approval of Desmoteplase without conducting any further Phase III clinical trials. However, for regulatory reasons, we will in any event conduct a safety trial using the final formulation of Desmoteplase. For more information on our dependence on our leading drug candidate Desmoteplase, see ''Risk Factors — Risks Related to Our Business — We are substantially dependent on the success of Desmoteplase, our lead drug candidate''.

In addition, we are seeking to extend the therapeutic profile of Desmoteplase to other indications beyond acute ischemic stroke, such as acute pulmonary embolism. Pulmonary embolism is caused by a blood clot obstructing the supply of arterial blood to the lungs, which can trigger a variety of complications and, in severe cases, death. Desmoteplase is currently undergoing a Phase II clinical trial in patients with pulmonary embolism in Germany and several eastern European countries.

Consistent with our strategy to collaborate with experienced partners during the late stages of the clinical development and approval process and the commercialization of our drug candidates, we have entered into an agreement with Forest in June 2004. Forest is a wholly-owned subsidiary of Forest Laboratories, Inc., which

has guaranteed Forest's payment obligations under the agreement. The agreement grants Forest an exclusive license with respect to the commercialization of Desmoteplase in the United States and Canada. In return, Forest agreed to make upfront and milestone payments in the aggregate amount of up to U.S.$69.5 million to us, U.S.$22 million of which we already received in 2004. Each milestone payment is contingent on our achievement of a predefined goal in connection with the development of Desmoteplase. In addition, Forest has agreed to bear a substantial portion of the future Desmoteplase related development costs pursuant to a mutually agreed development plan insofar as they are required to obtain regulatory approval in the United States and/or Canada. Although the agreement covers both acute ischemic stroke and acute pulmonary embolism, the current development plan we have agreed with Forest covers only acute ischemic stroke. As described above, we are considering conducting one or more clinical trials in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. The current development plan covers neither these clinical trials to expand the patient population nor the additionally planned safety trial using the final formulation of Desmoteplase. However, we are currently in negotiations with Forest regarding the funding of these trials with a view to amending the development plan accordingly. We have agreed that, if we obtain regulatory approval for Desmoteplase in the European Union, we will repay 35%, and if we obtain regulatory approval in Japan, 15% (that is, altogether 50%) of the costs borne by Forest. In each case, we have also agreed to pay a premium of 20% of this amount to compensate Forest for the risk it has assumed in funding the development of Desmoteplase.

If Desmoteplase receives regulatory approval in the United States and/or Canada, Forest will be obliged to pay us royalties based on its net sales of Desmoteplase in the relevant markets. The net royalty rate, that is, the difference between the rate at which Forest will pay royalties to us and the rate at which we will pay royalties to Schering and potentially other parties, would, for so long as Desmoteplase enjoys market exclusivity, be staggered according to the net sales achieved by Forest and amount to approximately 12%, 17% or 22% (depending on the net sales bracket). The net royalty rate will decline on a country-by-country basis to the extent Desmoteplase faces competition from generics, subject to a minimum rate. For more detailed information on our agreement with Forest, see "— Strategic Alliances and Other Collaborations — Forest Laboratories Ireland Limited".

We are currently considering one or more additional collaborations with respect to the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world. If we enter into any such additional collaborations, we will seek to obtain co-promotion rights for certain parts of Europe. However, there can be no assurance that we will be able to enter into any additional collaborations with respect to Desmoteplase on terms favorable to us or at all.

Our other main drug candidates are Enecadin and Solulin. We licensed Enecadin from Nippon Shinyaku Co., Ltd., or Nippon Shinyaku, in September 2004. Enecadin belongs to a class of therapeutics called neuroprotectants, which offer potential benefits in the treatment of the secondary effects of acute ischemic stroke. Solulin, the rights to which we acquired from Schering in 2001, is a compound that prevents blood clotting and may be useful in the secondary treatment of recurring ischemic strokes in the acute time window. We have already conducted preclinical trials with respect to Enecadin and plan to begin a Phase I clinical interaction and safety trial in the first half of 2005 and a Phase II clinical trial in the second half of 2005. Interaction trials are clinical trials examining the interaction of a drug candidate with other drugs. Solulin is currently in the preclinical development stage and is expected to undergo a first Phase I clinical trial in the second half of 2005. We have used a portion of the upfront and technology transfer payments we received under our agreement with Forest with respect to Desmoteplase to initiate development programs with respect to Enecadin and Solulin.

Historically, research and development work performed for third parties has accounted for most of our revenues. We expect that, for the foreseeable future, our revenues will mainly consist of cost reimbursements for Desmoteplase from Forest and upfront and milestone payments under our agreement with Forest and other collaborations with third parties. Our long-term objective is to generate revenues from royalties under licensing and co-promotion agreements and our own sales of drugs.

Strategy

Our goal is to become a leader in developing and commercializing innovative drugs for the treatment of stroke and other thrombotic diseases for which there is a substantial unmet medical need. We intend to achieve this goal by exploiting our core expertise in identifying compounds with potential in the treatment of stroke and

other thrombotic diseases, licensing or otherwise acquiring these compounds and advancing them through the clinical development and regulatory approval process. Where appropriate, we intend to achieve our goals in collaboration with experienced partners.

Consistent with this overall goal, the key elements of our strategy are as follows:

- *Finalize the development of Desmoteplase for the indication acute ischemic stroke and extend the therapeutic profile of this drug candidate to other indications.* Our immediate strategy is to obtain regulatory approval for Desmoteplase and to successfully market this drug as an innovative therapeutic for the causal treatment of acute ischemic stroke. We believe the fact that the FDA has granted fast-track status to Desmoteplase shows that the FDA shares our view that Desmoteplase has the potential of addressing an unmet medical need. In addition, we believe that our agreement with Forest validates the commercial potential of Desmoteplase. Our arrangement with Forest should enable us to complete the development of Desmoteplase and, if and when Desmoteplase receives regulatory approval, will permit us to earn royalties based on our partner's net sales of this drug. We intend to further exploit the commercial potential of Desmoteplase by extending its labeling to other thrombotic diseases. To this end, we are currently conducting a clinical trial in which we are investigating Desmoteplase in patients with pulmonary embolism. We intend to initiate similar clinical trials with respect to other thrombotic diseases after completing initial safety studies. These clinical trials may include investigations of Desmoteplase in the treatment of heart attacks in elderly patients and peripheral arterial occlusive disease, a condition characterized by poor blood circulation in the legs that can lead to death.

- *Build an integrated portfolio of drugs for the treatment of stroke and other thrombotic diseases with complementary modes of action.* Our long-term goal is to create an integrated portfolio of drugs for the treatment of stroke and other thrombotic diseases around Desmoteplase. We see significant commercial opportunities in the development of therapeutics for ischemic stroke and especially the acute treatment of the secondary effects of this disease, including the destruction of brain cells in the aftermath of a stroke and associated inflammation and depression. In addition, we intend to develop therapies combining drugs with complementary modes of action. Such combination therapy strategies have proven very successful in the treatment of heart attacks and may be equally promising in the treatment of ischemic stroke and related diseases. Accordingly, a key element of our strategy is to develop and market therapies that combine drugs aimed at different pathophysiological aspects of ischemic stroke. For example, in September 2004, we obtained the rights to Enecadin, a substance designed to protect brain cells from toxic substances produced by the body in the event of a stroke and to optimize the energy consumption of these cells, thereby helping them to live longer in the aftermath of a stroke. We intend to conduct trials combining Desmoteplase with Enecadin as soon as we have completed initial safety tests with respect to this substance.

- *Expand our "search-and-development" approach.* In building an integrated drug portfolio and expanding into additional indications, we intend to continue our successful "search-and-development" approach, which involves identifying promising new compounds with commercial potential, licensing or purchasing these compounds or acquiring the companies that own them and advancing them through the clinical development and their regulatory approval process. We believe this strategy has been validated on several occasions, including by our collaborative partner Forest. In selecting new compounds for development, we target indications in respect of which there is a substantial unmet medical need. Within these areas, our focus are projects that are not pursued by large pharmaceutical companies because they do not constitute a strategic fit for these companies but at the same time are too complex to be handled by small companies lacking our expertise. To maximize our return on investment and minimize our risk, we concentrate on compounds whose method of action has already been established and which potentially address multiple indications. We focus on compounds that have already undergone preclinical animal and toxicity tests. Our aim is to investigate these compounds in placebo-controlled trials (that is, trials in which the compound being tested need not be compared against drugs that have already received regulatory approval) with clearly defined patient groups and short follow-up periods. We believe this approach increases our chances to demonstrate in clinical trials that our drug candidates have substantial medical benefits and to quickly obtain regulatory approval for them.

- *Establish selective collaborations with experienced partners to leverage our clinical development experience to the greatest extent possible.* To generate the greatest possible benefits from our expertise in advancing drug candidates through the clinical development and regulatory approval process, we selectively form development and marketing collaborations with experienced partners in the pharmaceuticals industry.

Such collaborations are an effective way of funding the late-stage development of our drug candidates and of assisting us with their commercialization. For example, we believe that our agreement with Forest should provide us with sufficient funds to cover the future development of Desmoteplase. In addition, the agreement will enable us to earn royalties from Forest's net sales of this drug in the United States and Canada, which are markets where we do not intend to build a sales and marketing organization of our own. We are currently considering one or more additional collaborations with respect to the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world. If we enter into any such additional collaborations, we will seek to obtain co-promotion rights for certain parts of Europe. We believe we are well-positioned to seek such collaborations, as pharmaceuticals companies have a growing need to add drugs to their pipeline for which proof of concept has already been shown in clinical trials. In addition, since October 2004, we have been collaborating with Philips Medical Systems (Cleveland), Inc., or Philips, to promote the use of perfusion computer tomography, or CT, a novel imaging technology, in hospitals. We believe this arrangement will provide a greater number of hospital emergency units access to the technology necessary to select patients who are most likely to benefit from Desmoteplase, thereby substantially increasing the potential market for Desmoteplase.

- *Complement collaborations with the creation of a specialty sales and marketing organization in certain parts of Europe.* In addition to forming development and commercialization collaborations with experienced partners in the pharmaceuticals industry, we intend to establish a specialty sales and marketing organization for certain parts of Europe. We plan to use this organization to prepare the launch of Desmoteplase, assist with its marketing and educate hospitals and doctors about the substantial therapeutic benefits of this drug. We believe that the European stroke market, in particular, is readily accessible by a specialty sales and marketing presence due to the concentration and limited number of emergency units equipped for stroke treatment.

Scientific Background

Overview

We focus on the development of innovative therapeutics for the treatment of acute ischemic stroke and other thrombotic diseases. According to CareInternet.net, thrombotic diseases are the most common cause of death and disability among adults in Western countries. They result 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, the heart or the lungs. Blood clots may form locally in the affected blood vessel, which is referred to as thrombosis, or initially develop elsewhere in the circulatory system and subsequently detach and travel to obstruct blood flow in the heart, lungs or brain, which is referred to as thromboembolism.

Stroke

According to the 2004 Heart Disease and Stroke Statistics published by the American Heart Association, stroke is the third leading cause of death in the United States (after heart diseases and cancer) and the most common cause of adult long-term disability. Each year about 700,000 people experience a new or recurrent stroke in the United States. Approximately 500,000 of these strokes are first-time attacks and 200,000 are recurrent attacks. On average, every 45 seconds someone in the United States has a stroke, and every three minutes somebody dies of a stroke. The American Heart Association estimates the direct and indirect economic burden of stroke in the United States in 2004 to be U.S.$53.6 billion. According to information published by the Stiftung Deutsche Schlaganfall-Hilfe every year approximately 200,000 people in Germany have a stroke. According to the Organisation for Economic Co-operation and Development, 15-20% of stroke patients who are 75 years or older die within four weeks. The incidence of stroke is likely to increase in the future due to an expanding population of elderly people, a growing epidemic of obesity, diabetes and physical inactivity and a greater prevalence of heart diseases. Stroke is a disease that is not limited to western societies. According to the October 19, 2004 edition of the Scrip newsletter, a recent study published by the Chinese Ministry of Health found that obesity and high blood pressure have increased significantly in China over the past ten years, and stroke rates are almost four times higher in China than in the western hemisphere.

A stroke occurs when an artery carrying oxygen and nutrients to the brain is either blocked by a clot or bursts. A stroke caused by a blocked artery is called an ischemic stroke. A stroke caused by a ruptured blood vessel is called a hemorrhagic or bleeding stroke. According to the above-mentioned publication of the American Heart Association, ischemic strokes account for approximately 88% of all strokes.

There are two types of ischemic stroke: cerebral thrombosis and cerebral embolism. Cerebral thrombosis occurs when a blood clot, or thrombus, develops inside a blood vessel of the brain. Cerebral embolism occurs when a blood clot, or embolus, initially forms at another location in the human body, usually the heart, other areas of the upper chest or the neck, then breaks loose and travels through the bloodstream to the brain until it reaches a blood vessel that is too narrow to let it pass through.

Ischemic strokes may have a variety of causes. One frequent cause is atherosclerosis, a disease leading to the development of fatty deposits lining the walls of a blood vessel.

When an ischemic stroke occurs, the nerve cells in the immediate neighborhood of the blood clot causing the stroke are cut off from blood supply. If restoration of blood flow, or reperfusion, does not occur quickly enough, these cells will die. The cluster of cells immediately surrounding the blood clot causing the stroke form what is known as the ''core'' of the infarct. They are surrounded by an at-risk area of cells with reduced blood supply called the ''penumbra''. The death of the core sets in motion a chain reaction of complex chemical and electrical processes known as the ischemic cascade. This process leads to the release of free radicals and other toxic substances, which destroy the cellular compounds in the penumbra. The ischemic cascade may take anywhere from several minutes to several days, depending on the patient. As additional nerve cells die, the core infarct grows, and the initially reversible damage in the penumbra becomes permanent. As nerve cells in an area of the brain die, the abilities and functions they once controlled, such as speech, movement or memory, are compromised or lost.

The specific abilities lost or affected depend on the size and location of the core infarct in the brain. The ultimate effect of the stroke depends on to what extent the penumbra recovers during reperfusion. For example, a less severe stroke ultimately may result in short-term effects that have no lasting impact or only minor effects such as weakness of an arm or leg, whereas a major stroke may result in death or leave a patient paralyzed on one side or cause him or her to lose the ability to express and process language.

Transient ischemic attacks, or TIAs, are temporary conditions with symptoms similar to those of a stroke. However, the blood clot occurs only for a brief period of time and tends to resolve itself naturally. This process is called ''spontaneous thrombolysis''. Even though the symptoms of a TIA disappear after a short time, TIAs are strong indicators of a possible future major stroke.

Other Thrombotic Diseases

In addition to causing ischemic stroke, thrombosis and thromboembolism can cause a variety of other diseases that may lead to death or long-term disability. These diseases include arterial thromboses (including peripheral arterial occlusion disease, which can lead to the amputation of legs, and coronary artery disease, which can lead to heart attacks) and venous thromboses (including pulmonary embolism and deep vein thrombosis).

According to information published by the U.S. Department of Health and Human Services, pulmonary embolism is one of the most common causes of death among bedridden hospitalized patients. According to this governmental department, each year around 600,000 Americans develop pulmonary embolism, and around 60,000 die from it. According to Thiemes Innere Medizin, a scientific publication of the Thieme Verlag, there are approximately 200,000 cases of pulmonary embolism in Germany every year. The disease occurs when a blood clot that has formed somewhere else in the human body becomes dislodged from its site of formation and travels to the arterial blood supply of one of the lungs, causing vascular obstruction and impaired gas exchange. In the vast majority of cases, pulmonary embolism is caused by deep vein thrombosis, which is a disease that originates in the deep veins of the legs.

Drug Pipeline

While we continuously evaluate compounds that we believe may be candidates for the treatment of a variety of thrombotic diseases, our current focus is developing a comprehensive portfolio of drugs for the causal treatment of ischemic stroke. Because a stroke initiates a complex chain of chemical and electrical processes in the brain, we seek to combat the disease at various points in the process by using drugs with a clearly defined profile, combinations of different therapies with complementary modes of action and careful patient selection. Our drug pipeline currently contains three drug candidates for the treatment of ischemic stroke: Desmoteplase, Enecadin and Solulin. Each drug candidate is aimed at a different aspect of the disease, providing complementary therapeutic possibilities. In addition, based on studies we have conducted, we believe that the blood clot dissolving properties of Desmoteplase and the anticoagulant properties of Solulin

may also be effective against other thrombotic diseases, such as pulmonary embolism and deep vein thrombosis.

Drug Pipeline

Drug candidate	Indication	Development status
Desmoteplase	Ischemic stroke	Phase II — two clinical trials completed
		Phase IIb/III — clinical trial in preparation, expected to launch in the first quarter of 2005
		Regulatory filings — currently expected for 2007
	Pulmonary embolism	Phase II — one clinical trial ongoing
		Regulatory filings — currently expected for 2008
Enecadin	Secondary effects of stroke	Phase I — clinical trial (first use) completed
		Phase I — clinical trials (interaction and safety trial) expected to launch in the first half of 2005
		Phase II — clinical trial expected to launch in second half of 2005
Solulin	Thrombotic diseases	Preclinical trials ongoing
		Phase I — clinical trial (first use) expected to launch in the second half of 2005

Desmoteplase

Overview

We are developing Desmoteplase for the causal treatment of acute ischemic stroke and acute pulmonary embolism. We licensed Desmoteplase from Schering in 2001. We are currently in discussions with Schering to acquire all rights to Desmoteplase from Schering in consideration for a fixed purchase price, milestone payments and ongoing royalty payments.

Desmoteplase belongs to a group of blood clot-dissolving compounds known as plasminogen activators. Plasminogen activators convert plasminogen, an inactive enzyme circulating in the blood, into plasmin, a fibrin-digesting substance. By attacking fibrin, the protein that keeps blood clots together, plasmin dissolves blood clots and restores blood flow. 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. To support this diet, their saliva contains very potent plasminogen activators, which evolution has optimized for the rapid dissolution of fresh blood clots to guarantee the survival of the species. Thanks to this property, Desmoteplase has several advantages over other plasminogen activators. See ''— Market opportunity'' for a discussion of these advantages.

As described in detail under ''— History and prior clinical trials of Desmoteplase'', Desmoteplase successfully completed a Phase II clinical trial for the indication acute ischemic stroke in Europe, Singapore and Australia in October 2003. This trial was the first clinical stroke trial using a thrombolytic to employ magnetic resonance imaging, or MRI, to select stroke patients who have a significant penumbra left and are therefore most likely to benefit from reperfusion therapy. MRI is a noninvasive diagnostic technique for the creation of computerized images of internal body tissues, including brain tissues affected by an obstruction of blood flow. We completed another Phase II clinical trial in the United States in November 2004. Detailed results of this trial are expected to be published at a conference held by the American Stroke Association in early February of 2005. We plan to commence a Phase IIb/III clinical trial, the trial protocol for which has been discussed with the FDA, in the United States and Europe in the first quarter of 2005. In this trial, we will use MRI as

well as perfusion CT. Perfusion CT is a diagnostic technology that is cheaper than MRI and more widely available. As is the case with normal CT scans, perfusion CT scans are made by passing X-rays through the brain. In addition to revealing the structure of brain tissue, however, perfusion CT scans also show how much blood is present in the brain and how quickly it is moving. In addition, we are considering conducting one or more clinical trials in parallel to the planned Phase IIb/III clinical trial to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. The FDA has granted Desmoteplase fast-track status for the indication acute ischemic stroke. The FDA fast-track program is a program designed to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. For more information on the FDA's fast-track program, see ''Regulation — Regulation in the United States — Fast-track designation''.

With respect to pulmonary embolism, we are currently investigating Desmoteplase in a Phase II clinical trial in Germany and several eastern European countries. We expect to conclude this trial in 2005.

Existing treatment regimens

t-PA-based plasminogen activators. The most widely used therapeutics for the causal treatment of thrombotic diseases are plasminogen activators based on a substance called human tissue plasminogen activator, or t-PA, which is a plasminogen activator found naturally in the human body. t-PA has been in use since the mid-1980s and succeeded first-generation thrombolytics, such as streptokinase and urokinase, which were associated with a significantly higher bleeding risk. Alteplase, which is based on a genetically engineered version of t-PA called recombinant t-PA, or rt-PA, is currently the only plasminogen activator approved for the causal treatment of acute ischemic stroke. In addition, there are several other plasminogen activators based on genetically engineered versions of t-PA, which have received regulatory approval for the treatment of a variety of thrombotic diseases, not including ischemic stroke. The efficacy of the plasminogen activators in the area of acute ischemic stroke is currently undergoing investigator-initiated clinical trials in humans. Currently, Alteplase is only approved for use during the first three hours after the onset of stroke symptoms. Practical difficulties in meeting this timeframe limit the number of stroke patients eligible for treatment with Alteplase. The principal risk associated with Alteplase is that it may cause bleeding in the brain, which is often fatal.

Catheter-based medical devices. A novel medical strategy for the causal treatment of acute ischemic stroke involves the use of catheter-based medical devices. The first marketable device of this type, the Mechanical Embolus Removal in Cerebral Ischemia Retrieval System, or Merci Retrieval System, was recently approved by the FDA. The device consists of three components: a retriever, a microcatheter and a balloon guide catheter. Once the location of a blood clot has been identified, the balloon guide catheter is inserted in the cardiovascular system through a small incision in an artery in the groin. The balloon guide catheter is maneuvered up to the carotid artery in the neck to allow a guide wire and the microcatheter to be deployed through the balloon guide catheter and moved just beyond the clot. A retriever device ensnares the clot. The balloon guide catheter is inflated to temporarily arrest the forward flow of blood while the clot is being pulled into the balloon guide catheter and completely out of the body. Afterwards, the balloon guide catheter is deflated to restore blood flow.

The Merci Retrieval System may be used beyond the three-hour window for which Alteplase has been approved. The principal risks associated with this device are bleeding in the brain and bleeding at the location of the vessel punctures. In addition, the device is fragile and may break, which can cause additional complications. As a result, the Merci Retrieval System is currently considered only a therapy of last resort.

Anticoagulants and antiplatelets. A class of therapeutics that is frequently used in the prevention and symptomatic treatment of thrombotic disorders are blood-thinning drugs, including anticoagulants and antiplatelets. While most of the antiplatelets that are currently on the market (such as Aspirin or Clopidrogel) have their main application in the *prevention* of ischemic strokes and heart attacks, Abciximab is an antiplatelet that is also being investigated in the *acute treatment* of stroke. Whereas t-PA-based drugs dissolve blood clots, blood-thinning drugs prevent arteries from being blocked and from re-blocking. However, like t-PA-based drugs, most of them, including those identified above, are associated with bleeding complications. In addition, antiplatelets are considered to be less effective than plasminogen activators since they merely prevent the formation of a blood clot but are not themselves capable of removing the blood clot.

Neuroprotectants. Neuroprotectants are a class of therapeutics for the treatment of the neuronal damage resulting from stroke, brain trauma or spinal cord injury. Unlike plasminogen activators, which are aimed at

dissolving the blood clot causing a stroke, neuroprotectants are aimed at protecting the affected brain cells from further damage during the ischemic cascade. Given that the death of penumbral brain cells may occur over a period of many hours, neuroprotectants may be administered as long as penumbra is available and the core infarct has not reached its final size. While no neuroprotectant is currently available on the market with the exception of Japan, various drug candidates are in advanced stages of clinical development. So far, no clinical trial investigating a neuroprotectant in stroke patients has been successfully completed. In our view, clinical trials investigating neuroprotectants in combination with a plasminogen activator, such as Desmoteplase, which is capable of resolving the primary blood clot, would have a greater chance of success, as the neuroprotectant, in order to get to the affected brain cells, depends on the restoration of blood flow by the plasminogen activator.

Market opportunity

We believe there is a substantial unmet medical need for an effective causal treatment of victims of acute ischemic stroke. As discussed, Alteplase is only approved for use during the first three hours after the onset of stroke symptoms. Catheter-based medical devices are only considered a therapy of last resort. Blood-thinning drugs are significantly less effective than thrombolytics. And neuroprotectants, while potentially beneficial in combination with a thrombolytic, contain no mechanism for dissolving blood clots. We believe that Desmoteplase is well-positioned to address this unmet medical need. In our view, the FDA's decision to grant Desmoteplase fast-track status reflects the potential of Desmoteplase in the treatment of acute ischemic stroke.

Our experience with the clinical trials discussed below suggests that Desmoteplase is more effective in stroke patients than t-PA-based drugs. We believe that the superior efficacy of Desmoteplase is a result of its longer half life, its greater fibrin specificity and its lack of neurotoxicity. Specifically, we believe that Desmoteplase has the following benefits over t-PA-based drugs and similar therapies in the acute treatment of ischemic stroke:

- *Extension of time window for treatment from currently three hours to up to nine hours.* In clinical studies of Desmoteplase, we have been able to extend the time window for the treatment of ischemic stroke patients to up to nine hours from the onset of symptoms, compared with three hours in the case of Alteplase. We believe this extension creates a substantial market opportunity, as it is difficult and often impossible to meet the three-hour time window. Stroke victims are often unable to recognize the symptoms of their disease or, if they do, to take timely action, and therefore depend on the help of bystanders. However, most people are not adequately informed about stroke symptoms and the importance of getting stroke patients to hospitals quickly. Moreover, there are substantial logistical difficulties in organizing ambulance and hospital services to enable doctors to meet the prescribed three-hour window. According to an article published in the New England Journal of Medicine in 1995, the median time from stroke onset to arrival of the patient in the emergency room of a stroke unit is between three and six hours. In addition, before treatment can be commenced, a brain scan must be carried out on the patient to see if the stroke is ischemic or hemorrhagic. As a result of these factors and due to various contraindications, only a small number of ischemic stroke patients are currently treated with Alteplase. Desmoteplase would substantially expand the universe of patients eligible to receive a thrombolytic. We expect that, if Desmoteplase receives regulatory approval for the nine-hour time window and hospitals adopt this treatment, they will implement logistical changes which will lead to an increase in the number of patients who arrive in a stroke unit within nine hours.

- *Longer half-life compared with t-PA.* Clinical studies have demonstrated that Desmoteplase has a half-life in excess of two hours, which is longer than t-PA. As a result, Desmoteplase should stand a higher chance than t-PA-based drugs of resolving not only the primary blood clot causing an ischemic stroke but also any microembolic particles remaining or forming during reperfusion, thereby improving the drug's efficacy. In addition, its extended duration of action means it is possible to administer the drug in a single injection over a brief period of time, compared with the need for lengthy intravenous infusions in the case of t-PA-based drugs.

- *Greater fibrin specificity compared with t-PA.* Compared with t-PA, Desmoteplase is substantially more specific to fibrin, which is the protein that keeps blood clots together. This enhanced fibrin specificity of Desmoteplase should result in a reduced risk of bleeding compared with t-PA.

- *Lack of neurotoxicity.* Pre-clincial and other experiments have confirmed that Desmoteplase does not have the neurotoxic effects of t-PA-based drugs, that is, it does not kill brain cells, which should lead to better clinical efficacy, a longer treatment window and a lower risk of bleeding.
- *No activation by beta amyloid.* Desmoteplase appears not to be activated by beta amyloid, a protein deposit that builds up in the brains of elderly people and patients suffering from Alzheimer's disease, where it forms plaques. As a result, the treatment with Desmoteplase should have a lower risk of bleeding in elderly patients than the treatment with t-PA-based drugs.

Given the substantial similarities in the disease profiles of ischemic stroke and other thrombotic diseases, we believe that Desmoteplase has additional market opportunities in the treatment of a variety of other thrombotic diseases, including pulmonary embolism, heart attack and peripheral arterial occlusive disease.

Moreover, we believe that its beneficial therapeutic properties make Desmoteplase an ideal candidate for therapies combining it with other drugs with complementary methods of action, particularly neuroprotectants such as Enecadin. Such combination therapy strategies have proved to be very successful in the treatment of heart attacks, and we believe they are equally promising in the treatment of other thrombotic diseases, particularly acute ischemic stroke.

We believe we can enhance the market opportunity for Desmoteplase by working with Forest to educate physicians and hospitals about the advantages of this drug candidate, particularly the extended time window during which it may be administered. For this reason, we plan to promote the adoption of perfusion CT technologies in hospitals. As explained above, both MRI and perfusion CT make it possible to identify and distinguish the core lesion of a stroke from the surrounding penumbra, thereby enabling the treating doctors to select those stroke patients who are most likely to benefit from treatment with Desmoteplase. Unlike MRI, however, which requires special equipment not found in many hospitals, perfusion CT scans of the brain may be made by extending the functionality of commonly available CT machines with the help of special imaging supporting software. We expect that perfusion CT technology will gain rapid acceptance in the market. To speed up this process, we entered into a license agreement with Philips in October 2004, under which Philips has granted us a license to permit hospitals to use Philips's perfusion CT technology in clinical trials. We believe this arrangement will give a greater number of emergency units the possibility to identify patients with a good chance to benefit from therapy with Desmoteplase. We also believe that the availability of perfusion CT technology will positively influence the size of the Desmoteplase market.

History and prior clinical trials of Desmoteplase

Early studies in animals suggested that Desmoteplase was effective in treating victims of ischemic stroke. Following the completion of pre-clinical experiments, several Phase I and II clinical trials were conducted between 1995 and 1999.

In the Phase I clinical trials, healthy volunteers were given sub-therapeutic dosages of Desmoteplase. These trials showed that Desmoteplase is well-tolerated and that it has a relatively long half-life compared with t-PA.

Following the successful completion of Phase I clinical trials by Schering, Schering conducted the DEEP (Desmoteplase in the Establishment of Early Patency) trial, which was a Phase II clinical trial held in Germany and the Netherlands. In this trial, Desmoteplase was tested in 26 heart attack patients with the goal of examining the drug's tolerability and efficacy.

The DEEP trial showed that, given its high fibrin specificity, Desmoteplase may carry a reduced risk of bleeding, which led to the hypothesis that Desmoteplase may be effective in the treatment of ischemic stroke.

After we licensed the rights to Desmoteplase from Schering in 2001, we initiated and, in October 2003, successfully concluded the DIAS (Desmoteplase In Acute ischaemic Stroke) trial, a placebo-controlled, multi-center, randomized (that is, patients were randomly placed in the test or control groups) Phase II clinical trial involving 104 patients with ischemic stroke. The goal of this trial was to test Desmoteplase in stroke patients and to find the optimal dosage. The trial was carried out at 44 hospitals in 10 European countries, Singapore and Australia.

The DIAS trial was the first clinical stroke trial using a thrombolytic to employ MRI. The decision to use MRI was made based on the assumption that this strategy would make it possible to select patients with a high probability of benefiting from reperfusion therapy.

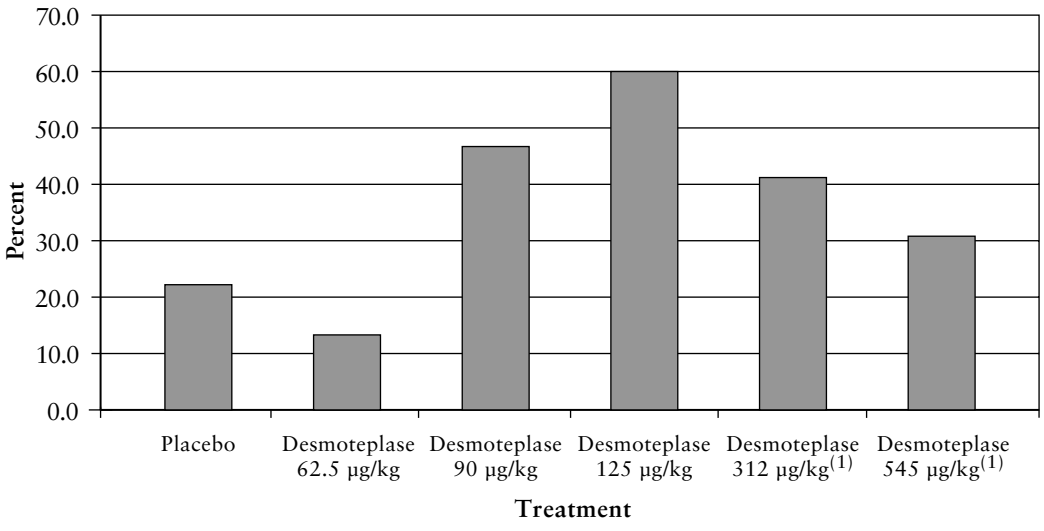
The DIAS trial as initially designed was aimed at investigating the therapeutic effect of fixed dosages of 25mg, 37.5mg and 50mg per patient. The dosages were chosen based on the results of the DEEP trial. However, after 47 patients, the trial was temporarily halted in accordance with pre-defined rules for the interruption of the trial in the event of safety issues. These rules had been developed by a safety board composed of internationally renowned stroke experts which had been formed specifically for the DIAS trial. The suspension became necessary because it turned out that a greater than expected number of patients receiving higher dosages had suffered from symptomatic bleeding in the brain, or cerebral hemorrhage, and some of them had died. An interim results analysis suggested overdosing as the most likely reason for the excessive rate at which symptomatic cerebral hemorrhage had occurred. However, it also showed that even the lowest dosage levels were effective.

Based on recommendations from the safety board and a thorough analysis by us, the trial was continued using significantly lower dosages adjusted to the patients' body weight of 62.5 µg/kg, 90 µg/kg and 125 µg/kg. Ultimately, the DIAS trial confirmed the safety of Desmoteplase at the weight-adjusted dosages. Overall, there was only one instance of symptomatic cerebral hemorrhage among the patients treated with the 62.5 µg/kg, 90 µg/kg and 125 µg/kg dosages of Desmoteplase. The trial also showed that a clinically relevant greater proportion of patients treated with 90 µg/kg or 125 µg/kg of Desmoteplase experienced a substantial reduction in the size of their stroke lesion and a reopening of the brain vessels as well as a substantial improvement in their overall clinical condition, as described in detail below.

To measure the therapeutic efficacy of Desmoteplase, we used the National Institute of Health Stroke Scale, or NIHSS, the modified Rankin Scale, or MRS, and the Barthel Index, or BI, which are stroke assessment scales designed by third parties to evaluate many of the domains of neurological deficits in stroke patients, including motor, sensory, and visual impairments. The NIHSS, the MRS and the BI are widely used in stroke trials. To participate in the DIAS trial, stroke patients had to satisfy various clinical criteria and to show an NIHSS score between four and 20 at least once during the period from three to nine hours after onset of stroke symptoms. An NIHSS score between four and 20 includes stroke patients with a variety of neurological deficits ranging from mild to more severe symptoms. Patients were randomly divided into groups who received either a placebo or one of several dosages of Desmoteplase.

The DIAS trial showed that 90 days after commencement of treatment, a greater number of patients who received 90 µg/kg or 125 µg/kg of Desmoteplase achieved the predefined clinical endpoint for the DIAS trial than patients who had received other dosages or placebo. The clinical endpoint was predefined as an improvement in neurological functions, as determined by the following criteria: (1) an improvement in the NIHSS score of eight points or a final NIHSS score of one point or less (indicating a significant improvement in specific neurological functions) and (2) an MRS score of two points or less (indicating independence as opposed to dependence on others) and (3) a BI score of 75 points or more (indicating minor restrictions in daily life compared with major restrictions). The following chart illustrates how many patients receiving 90 µg/kg or 125 µg/kg of Desmoteplase achieved the clinical endpoint compared with patients receiving other dosages or placebo:

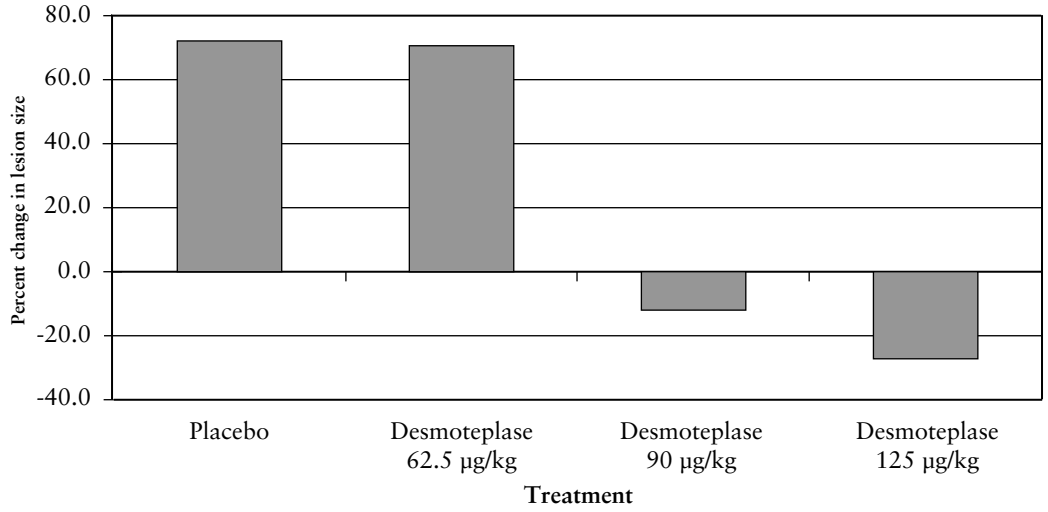
DIAS — Achievement of clinical endpoint 90 days after the onset of stroke symptoms



(1) The 312 µg/kg and 545 µg/kg dosages were not actually administered in a form adjusted to the patients' body weight during the DIAS trial. Rather, they represent the medians of the weight-adjusted equivalents of the 25mg fixed dosage and the 37.5mg and 50mg fixed dosages, respectively, which were administered during the first stage of the DIAS trial. As discussed in the text preceding the table, the dosage parameters were altered during the trial and lower weight-adjusted dosages were introduced when it turned out that a greater than expected number of patients receiving higher dosages had suffered from bleeding in the brain and some of them had died as a result.

In addition to the clinical endpoint, we also measured several other efficacy related variables, including the size of the core lesion of patients treated with Desmoteplase 30 days after the onset of stroke symptoms. In this respect, an MRI showed that on average patients who had received 90 µg/kg or 125 µg/kg of Desmoteplase had experienced a reduction in the size of their core lesion, as illustrated by the following table:

DIAS — Change in core lesion size at 90 µg/kg or 125 µg/kg of Desmoteplase after 30 days(1)



(1) As described below, the reduction in core lesion size observed in the DIAS trial at the 90 µg/kg and 125 µg/kg dosages could not be confirmed in the DEDAS trial.

In addition to the DIAS trial, we conducted the DEDAS (Dose Escalation study of Desmoteplase in Acute ischaemic Stroke) trial, a multi-center, placebo-controlled, randomized Phase II clinical trial, which we initiated in December 2002 and completed in November 2004. We launched this trial with the goal of confirming the results obtained in the DIAS trial. The clinical trial was performed at 22 hospitals in the United States. As in the DIAS trial, the DEDAS trial used MRI technology to identify those patients who were most likely to benefit from treatment with Desmoteplase.

In terms of safety, the results of the DEDAS trial were consistent with the corresponding data of the DIAS trial. In the DEDAS trial itself, no instances of symptomatic bleeding in the brain occurred. Combining the data of the DIAS trial and the DEDAS trial, only one patient out of 29 receiving the 90 µg/kg dosage suffered from symptomatic bleeding in the brain; no patient receiving the 125 µg/kg dosage experienced this complication.

In terms of efficacy, the results of the DEDAS trial were encouraging, although not in all respects consistent with those of the DIAS trial.

Regarding the key parameter, the percentage of patients achieving the clinical endpoint, the results of the DEDAS trial were consistent with those of the DIAS trial with respect to the 125 µg/kg dosage. However, with respect to the 90 µg/kg dosage, the relevant percentage was significantly lower in the DEDAS trial than in the DIAS trial. We believe this is due to the fact that in the DEDAS trial the trial protocol had been violated with respect to eight of a total of 14 patients receiving the 90 µg/kg dosage. For example, the trial included patients who had no penumbra and were thus unlikely to benefit from Desmoteplase. With respect to the 125 µg/kg dosage, the trial protocol was violated in four out of a total of 15 cases.

As in the DIAS trial, the DEDAS trial also measured the size of the core lesion 30 days after the onset of stroke symptoms. In this respect, the DEDAS trial showed that on average neither the 90 µg/kg dosage nor the

125 µg/kg dosage led to a reduction of the size of the core lesion. While the results appeared to show that the 125 µg/kg dosage had a stabilizing effect on the growth of the lesion, patients receiving the 90 µg/kg dosage experienced a substantial increase in their lesion size, including compared with patients treated with placebo. We believe this is due to the small sample size and the relatively large number of violations of the trial protocol which occurred in the patient group treated with the 90 µg/kg dosage.

Given the relatively small number of patients treated in the DIAS and DEDAS trials, we expect to verify the clinical results obtained in these trials in the Phase IIb/III clinical trial which we plan to commence in the first quarter of 2005.

The results of the DEDAS trial were presented to the scientific community at a conference held by the American Stroke Association in early February 2005.

Current clinical trials

In addition to our clinical studies investigating the efficacy of Desmoteplase in stroke, we have recently initiated the DEPTH (DEsmoteplase in Pulmonary THromboembolism) trial, a multi-center, rt-PA-controlled, randomized Phase II clinical trial carried out in Germany, Hungary and Russia designed to assess the safety and efficacy of intravenous Desmoteplase in patients with acute pulmonary embolism. The substance against which Desmoteplase is tested in this trial is Alteplase. Preliminary data suggest a dosage dependent improvement in patients' lung function as a result of Desmoteplase. We expect to complete this trial in 2005.

In June 2004, Desmoteplase was granted fast-track designation by the FDA for the indication acute ischemic stroke.

Planned additional clinical trials

We intend to conduct additional clinical trials with a view to obtaining further data on Desmoteplase and exploring its efficacy in treating ischemic strokes.

In the first quarter of 2005, we plan to commence the DIAS 2 trial in the United States, Australasia and Europe, based on a trial protocol which we have discussed with the FDA. This clinical trial will be a Phase IIb/III clinical trial and our first pivotal clinical trial for Desmoteplase. In addition, the DIAS 2 trial will be the first clinical stroke trial to use perfusion CT in addition to MRI. As requested by the FDA, the DIAS 2 trial will compare two different Desmoteplase dosages (90 µg/kg and 125 µg/kg) and compare them against placebo. In addition, we are considering conducting one or more clinical trials in parallel to the planned Phase IIb/III clinical trial to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. Moreover, for regulatory reasons, we will in any event conduct a safety trial using the final formulation of Desmoteplase.

In addition to the DIAS 2 trial, the development plan currently agreed between us and Forest provides for a DIAS 3 trial, a Phase III clinical trial which would be larger than the DIAS 2 trial and which we and Forest would conduct after this clinical trial in the event we fail to obtain regulatory approval for Desmoteplase on the basis of the DIAS 2 trial and the other clinical trials described above.

However, if the DIAS 2 trial and the planned additional clinical trials to expand the patient population confirm the results of the Phase II clinical trials conducted by us to date and the regulatory authorities in the European Union and the United States accept the safety and efficacy data for Desmoteplase available after completion of these trials as the basis for an application for regulatory approval, we and Forest may decide to apply for regulatory approval of Desmoteplase without conducting the DIAS 3 trial or any other Phase III clinical trials.

We also plan to conduct clinical trials combining Desmoteplase with compounds capable of inhibiting the ischemic cascade, such as inflammation, the release of cell-damaging free radicals and other toxic substances, brain swelling and re-occlusion of blood vessels. We are particularly interested in conducting trials combining Desmoteplase with neuroprotective agents and are continuously evaluating opportunities for conducting studies with one of the neuroprotectants currently under development. The combination of drugs with complementary modes of action has proved to be a very successful strategy in the treatment of heart attacks. Given that stroke and other thrombotic diseases have a similar disease profile, we expect that such strategies may also be effective in the treatment of these diseases.

Enecadin

Enecadin is a neuroprotectant for the treatment of the secondary effects that occur in the early stages after an ischemic stroke. We licensed the compound from Nippon Shinyaku Co., Ltd. in 2004.

Although a number of clinical trials investigating the therapeutic benefits of neuroprotectants have failed over the course of the past several years, we suspect these failures are largely the result of an inadequate trial design and the fact that neuroprotectants were not systematically combined with reperfusion strategies, so that they had only a small chance of getting to the brain cells affected by the stroke. By setting up appropriately designed clinical trials, especially combination trials with Desmoteplase, we believe we should be able to demonstrate the safety and efficacy of Enecadin. See ''— Drug Development'' for a more detailed discussion of the shortcomings in the design of clinical trials in the area of stroke.

We have already conducted preclinical trials with respect to Enecadin and plan to begin a Phase I clinical interaction and safety trial in the first half of 2005 and a Phase II clinical trial in the second half of 2005.

Solulin

Solulin is an anticoagulant that may be useful in the secondary treatment of ischemic stroke in the acute time window and other thrombotic diseases. In 2001, we acquired all patent rights to Solulin from Schering in consideration for payment of a fixed purchase price and ongoing royalties.

Solulin is a genetically engineered version of thrombomodulin, a protein found naturally in the human body, which works by inactivating thrombin, a substance facilitating the clotting of blood. Because Solulin acts only from the moment thrombin is formed, it should carry a significantly reduced risk of bleeding compared with the anticoagulants currently available. Given its unique properties, we believe that Solulin potentially may prevent re-blockage of blood vessels, which is a complication that sometimes occurs in the treatment of strokes and other thrombotic diseases. The characteristics and mode of action of Solulin may also make it a suitable candidate for the treatment of other thrombotic diseases where anticoagulants available on the market are either ineffective or not indicated.

We are currently investigating Solulin in animal studies and expect to commence Phase I clinical trials in the second half of 2005. In addition, we are investigating reports of possible neuroprotective properties of Solulin resulting from the fact that thrombin, the substance that it deactivates, has neurotoxic effects and can cause brain edema.

Drug Development

A key element of our strategy is our ''search-and-development'' approach. We seek to license or purchase compounds with a significant commercial potential from third parties and advance these compounds through the clinical development and regulatory approval process in collaboration with experienced partners. For more information on the risks associated with this strategy, see ''Risk Factors — Risks Related to Our Business — We may be unable to license or purchase new drug candidates on commercially attractive terms or at all''. From our inception in 2000 to September 30, 2004, we spent a total of € 28.7 million (of which € 2.7 million were reimbursed through research grants) on the development of Desmoteplase, € 0.5 million on the development of Enecadin and € 1.7 million (of which € 0.3 million were reimbursed through research grants) on the development of Solulin.

Historically, we have also conducted an in-house drug discovery program in our research and development, or R&D, laboratory in Berlin, Germany. Among other things, this program has provided us with a proprietary genomics discovery platform, which we call the Mechanism-Based Comparative Genomics discovery platform. Genomics refers to the study of an organism's entire hereditary information, or genome. Consistent with our search-and-development approach, we have recently made the strategic decision to substantially curtail the activities of our R&D laboratory. However, we believe we would be able to reactivate the laboratory and its drug discovery platform at any time in the event we believe it is desirable for us to do so.

We believe there are currently a number of interesting compounds on the market. In selecting compounds for clinical development, we concentrate on those which we believe have a clearly established method of action and potentially multiple indications. We focus on substances that have already undergone preclinical animal and toxicity tests. We believe that our expertise in the area of ischemic stroke and our experience in conducting clinical trials enable us to identify those compounds that are of most interest to us. To stay current on new developments in the area of ischemic stroke, we regularly participate in industry meetings and

scientific conferences and subscribe to a number of publications focusing on stroke and other thrombotic diseases. In addition, we have built an international network of stroke experts with whom we consult regarding compounds that potentially may be useful in the treatment of stroke. We also review compounds presented to us by third parties. Our aim is to select compounds which we believe we can investigate in placebo-controlled clinical trials (that is, clinical trials in which the compound being tested is not required to be compared against drugs that have already received regulatory approval) with clearly defined patient groups and short follow-up periods. We believe this approach increases our chances to demonstrate that our drug candidates have substantial medical benefits and to obtain fast-track designation for them. In addition, we intend to initiate clinical trials investigating Desmoteplase in combination with drug candidates, such as Enecadin, that have a complementary mode of action.

A key element of our search-and-development strategy is to design our clinical trials to maximize our chances to successfully advance promising new drug candidates through the regulatory approval process. In our view, the way in which many clinical trials in the area of thrombotic diseases are currently set up is suboptimal, and we believe that these shortcomings are largely responsible for the relatively high degree of failure in this area. Some of these shortcomings include the fact that the guidelines established for clinical trials, for example, with respect to patient selection, often diverge from the criteria used in preclinical studies, such as animal tests. Therefore, promising results obtained in animal studies may not be repeated in the clinical phase. Moreover, pharmaceutical companies occasionally base studies on drug candidates for the treatment of thrombotic diseases on their experience in the cardiovascular field without sufficiently taking into account the important differences between cardiac and vascular tissue on the one hand and brain tissue on the other. In addition, companies typically base their trials on large patient populations in order to achieve the broadest possible labeling. The downside of this strategy is that it creates the risk that beneficial therapeutic effects that can only be observed in a subgroup of patients are buried in the overall results. This is why we have, for example, decided to test Desmoteplase only in patients who have salvageable penumbra.

Consistent with our strategic focus on projects that are not pursued by large pharmaceutical companies but at the same time are too complex to be handled by small startup companies that lack our expertise, we have set up a flexible organizational structure for our clinical development programs: We maintain a core group of qualified scientists in-house, while outsourcing substantial portions of the development process to third parties. We rely on third parties for the labor-intensive aspects of the administration of clinical trials, including monitoring and data management, while retaining the overall responsibility for the development of our drug candidates, including the setup of clinical trials, the formulation of patient selection criteria, drug dosage decisions, the evaluation of any clinical and other data obtained and all interaction with regulatory authorities.

For each development project, we form a separate project team, consisting of a project manager, a clinical trial group which consists of, at a minimum, a trial manager and a senior level trial monitor, and dedicated regulatory, production and pre-clinical experts. In addition, we make sure that each team has access to adequate administrative support. Our clinical development partners mainly include contract research organizations, or CROs, and freelance trial monitors, who are often equally effective but less expensive than globally operating CROs. In most of the countries in which our clinical trials are conducted, we cooperate with a single CRO or freelance trial monitor. To ensure that our CROs and freelance trial monitors perform satisfactorily and comply with all applicable regulations, we rely on a combination of contractual incentives, quality checks before hiring new contractors and regular reviews. In addition, we perform periodic system audits covering specific aspects of the clinical development process across all CROs and freelance trial monitors with which we maintain relationships. For more information on the risks associated with collaborations with CROs, see ''Risk Factors — Risks Related to Our Business — The contract research organizations, or CROs, and freelance trial monitors that we and our collaborators rely on to conduct clinical trials may not be diligent, which could materially harm the development of our drug candidates''.

Strategic Alliances and Other Collaborations

Forest Laboratories Ireland Limited

On June 30, 2004, PAION Deutschland GmbH entered into a License Agreement with Forest Laboratories Ireland Limited, or Forest. Forest is a wholly-owned subsidiary of Forest Laboratories, Inc., which has guaranteed Forest's payment obligations under the agreement. The agreement grants Forest an exclusive license with respect to the commercialization of Desmoteplase in the United States and Canada. The license

covers all indications of Desmoteplase. However, the milestone payments agreed to date are limited to the acute ischemic stroke and acute pulmonary embolism indications of Desmoteplase. In the event Forest and we decide to develop Desmoteplase for additional indications, Forest and we are contractually obliged to enter into good faith negotiations regarding these additional indications. Under the agreement, we remain solely responsible for any payments owed to third parties under our arrangements with Schering.

Forest has agreed to make upfront and milestone payments in the aggregate amount of up to U.S.$69.5 million to us, U.S.$22 million of which we already received in 2004. Each milestone payment is contingent on our achievement of a predefined target in connection with the development of Desmoteplase, including the initiation of Phase III clinical trials and the receipt of regulatory approval from the FDA. In addition, Forest has agreed to bear a substantial portion of the future Desmoteplase related development costs for preclinical and clinical trials pursuant to a mutually agreed development plan insofar as these costs relate to the indications acute ischemic stroke or acute pulmonary embolism and are required to obtain regulatory approval in the United States and/or Canada. Forest has agreed to bear these costs either directly, by carrying out the relevant development work itself, or indirectly, by reimbursing us for the expenses we incur in carrying out this work. The exact scope and timing of the development work to be carried out and of any cost reimbursements are set out in the mutually agreed development plan, as described below. Consistent with the fact that the agreement grants Forest the exclusive right to commercialize Desmoteplase only with respect to the United States and Canada, in the event we obtain regulatory approval for Desmoteplase in the European Union and/or Japan, we will have to repay a portion of the Desmoteplase development expenses borne directly or indirectly by Forest. In particular, the agreement provides that, in the event we obtain regulatory approval for Desmoteplase in the European Union we will repay 35% of the expenses borne by Forest, and if we obtain regulatory approval for Desmoteplase in Japan, we will repay 15% (that is, altogether 50%) of the expenses borne by Forest. In each case, we agreed to pay a premium of 20% of this amount to compensate Forest for the financial risk it incurred in funding the development of Desmoteplase. We have the option to offset these reimbursements to Forest against future royalty payments from Forest to us. However, if we choose this option, we must pay interest on the amounts owed to Forest from the time Desmoteplase receives regulatory approval in the European Union or Japan, as the case may be.

The current development plan we have agreed with Forest covers the further clinical development of Desmoteplase only with respect to the indication acute ischemic stroke and not with respect to the indication acute pulmonary embolism. However, we are currently negotiating with Forest to include the indication pulmonary embolism in the development plan. The current development plan provides for two clinical trials, a Phase IIb/III clinical trial and a Phase III clinical trial, each to be conducted both inside and outside the United States. Under the terms of the development plan, Forest will bear costs associated with the Phase III clinical trial only after completion of the Phase IIb/III clinical trial. As described under ''— Drug Pipeline — Desmoteplase — Planned additional clinical trials'', we plan to conduct the Phase III clinical trial only if we fail to obtain regulatory approval for Desmoteplase on the basis of the Phase IIb/III clinical trial planned for the first quarter of 2005 and the other clinical trials described above.

If Desmoteplase receives regulatory approval in the United States and/or Canada, Forest will use commercially reasonable efforts to commercialize Desmoteplase in the U.S. and/or Canadian markets, as the case may be. Forest will pay us royalties on a quarterly basis in an amount equal to a specified percentage of its net sales of Desmoteplase in these markets. The net royalty rate, that is, the difference between the rate at which Forest will pay royalties to us and the rate at which we will pay royalties to Schering and potentially other parties, would, for so long as Desmoteplase enjoys market exclusivity, be staggered according to the net sales achieved by Forest and amount to approximately 12%, 17% or 22% (depending on the net sales bracket). The net royalty rate will decline on a country-by-country basis to the extent Desmoteplase faces competition from generics, subject to a minimum rate. Forest's obligation to pay royalties applies to all indications of Desmoteplase. The applicable percentage depends on the total annual net sales of Desmoteplase by Forest in the United States and Canada, with higher percentages applying to brackets of higher net sales. We believe that the royalty rate reflects the substantial therapeutic potential of Desmoteplase. The royalty rate will be reduced on a country-by-country basis to the extent Desmoteplase faces competition from generics, subject to a minimum rate. In the event that Forest fails to meet certain minimum sales requirements, we are entitled to co-market Desmoteplase alongside Forest, unless Forest pays the royalty differential to us. The agreement provides that the cost of any promotional Desmoteplase samples distributed in the territory covered by the agreement during the first two years of commercialization will be shared, subject to a maximum.

Forest and we are jointly responsible for identifying a contract manufacturing organization, or CMO, of the active ingredient of Desmoteplase for clinical trial and commercialization purposes. In addition, Forest has the right to name at least one additional supplier. We are contractually required to cooperate with Forest in qualifying this additional supplier at our own expense. Forest is responsible for all supply related expenses insofar as they are incurred in connection with the distribution of Desmoteplase in the territory covered by the agreement, provided that we will share these costs equally once they exceed a certain threshold. The agreement grants Forest the right to manufacture Desmoteplase anywhere in the world.

The agreement remains in force for so long as Desmoteplase is developed, manufactured or commercialized in the United States or Canada. In the event that our licensing arrangement with Schering terminates during the term of the agreement for any reason other than an act or omission by us, we and Forest are contractually obliged to enter into good faith negotiations to determine whether any modifications to the agreement should be made. If the termination of our licensing arrangement with Schering is the result of an act or omission by us, Forest will have the right to terminate the agreement. In addition, Forest and we each have the right to terminate the agreement for cause, subject to a limited possibility to cure breaches (except in the case of insolvency). Moreover, we have the right to terminate the agreement in the event Forest fails to meet certain minimum sales targets. Forest has the right to terminate the agreement in the event it determines that Desmoteplase presents safety or efficacy issues that are likely to prevent or significantly delay the obtaining of regulatory approval for Desmoteplase or result in a labeling or indications that would significantly adversely affect the commercialization of this drug. If we disagree with this determination, Forest must continue to honor its obligations under ongoing studies for a period of six months to permit a smooth transition.

Schering Aktiengesellschaft

On January 11, 2001, PAION Deutschland GmbH entered into a License Agreement with Schering Aktiengesellschaft, or Schering. The agreement was amended on February 7, 2003 and on March 1, 2004. The following description covers the License Agreement, as amended. Under the agreement, Schering granted us an exclusive worldwide license for all of its rights and know-how regarding the use of Desmoteplase in the prevention, treatment, mitigation and cure of cerebral stroke and arterial and venous thrombosis. We may extend the field covered by the agreement to cover additional indications unless Schering notifies us that the development of a Desmoteplase-based drug for any such indication would have a significant negative impact on its business. In return, we agreed to make certain payments to Schering, including within 30 days after initiation of the first Phase III clinical trial or the conclusion of a contract with a partner (such as Forest), upon the availability of the results of the first Phase III clinical trial and within 30 days after the first commercial sale of a drug whose sole active ingredient is Desmoteplase. In addition, we agreed to pay Schering a royalty based on the future net sales of the drug. The royalty rate is subject to adjustment in the event that there is no longer any valid claim under any of Schering's Desmoteplase patents, provided a competing generic drug based on the same active ingredient has achieved a certain market share. The agreement remains in force for so long as Desmoteplase is developed, manufactured or commercialized in any country in the world. Schering has the right to terminate the agreement if we fail to achieve certain development milestones due to our negligent or willful actions or omissions. We are currently in negotiations with Schering regarding the termination of the agreement and the purchase of Schering's rights to Desmoteplase.

On January 11, 2001, we also entered into a Technology Purchase Agreement with Schering for the purchase by us of Schering's patent rights and know-how with respect to Solulin and certain related compounds and technologies. In return, we made an upfront payment to Schering. In addition, we agreed to pay Schering a certain amount upon receipt of regulatory approval of the first drug based on the compounds and technologies covered by the agreement and running royalties based on these drugs' net sales. The agreement affords Schering a limited opportunity to participate in future collaborations between us and third parties regarding the compounds and technologies subject to the agreement. The agreement provides that the terms and conditions of any such participation will be negotiated between us and Schering in good faith.

Nippon Shinyaku Co., Ltd.

On September 29, 2004, PAION Deutschland GmbH entered into an agreement with Nippon Shinyaku Co., Ltd., or Nippon Shinyaku.

Under the agreement, Nippon Shinyaku granted us an exclusive worldwide license except for Japan (where the license is co-exclusive, which means that as far as Japan is concerned we will act side by side with Nippon Shinyaku) relating to the development and distribution of drugs based on Enecadin. In return, we granted Nippon Shinyaku a semi-exclusive royalty-free license for Japan with respect to all of our future patents and

know-how relating to Enecadin. This cross-license will be extended to the rest of the world on a royalty-bearing basis after the termination of the agreement. We also agreed to make an upfront payment to Nippon Shinyaku, various payments contingent on the achievement of certain milestones and royalty payments based on our future net sales of any drugs based on Enecadin. The royalty rate varies by country, depending on whether or not we have granted a third party a sublicense with respect to that country. Once Nippon Shinyaku's Enecadin patents in a particular country have expired or a generic drug based on Enecadin has been launched in that country, the royalty rate for that country will be reduced.

We are solely responsible for, and are required to use reasonable commercial efforts in, conducting pre-clinical and clinical studies, obtaining regulatory approval, manufacturing and marketing Enecadin-based drugs except for Japan (where we share this responsibility with Nippon Shinyaku).

We will source the active pharmaceutical ingredient from Nippon Shinyaku but have the right to choose an alternative CMO in certain circumstances. Nippon Shinyaku will provide us with free quantities of the compound for the conduct of Phase I and Phase II clinical trials.

The term of the agreement is ten years from the later of the first commercial sale of Enecadin or the expiration of the last-to-expire patent covering the compound. Upon expiration of this term, the agreement shall automatically renew for successive two-year periods unless terminated by either party upon six months' prior notice. Either party may terminate the agreement for cause.

Philips Medical Systems (Cleveland), Inc.

On October 19, 2004, PAION Deutschland GmbH entered into an agreement with Philips Medical Systems (Cleveland), Inc., or Philips. Under the agreement, Philips granted us a non-exclusive, non-transferable, non-royalty bearing license to use perfusion CT related data evaluation software developed by Philips in connection with the conduct of Phase IIb and Phase III clinical trials. Philips agreed to provide us with copies of the software and to provide us with training. In addition, Philips will provide ongoing support unless doing would create an undue financial burden on Philips. The license covers up to 150 copies of the software and expires on December 31, 2007. If we exceed this threshold, fail to cause all investigational sites to return the software to Philips at the expiration date or do not comply with certain ongoing reporting requirements, we will have to pay a royalty to Philips. The agreement may be terminated for cause by either party.

Supplies, Raw Materials and Manufacturing

We do not currently own or operate manufacturing facilities. Accordingly, we rely and expect to continue to rely on third parties for the supply of the active pharmaceutical ingredient of our drug candidates and for the manufacture of clinical and commercial quantities of them.

We historically have obtained Desmoteplase from SynCo Bio Partners, a Dutch CMO. Since our relationship with SynCo Bio Partners has recently ended, we will have to enter into a similar arrangement with another CMO. We have recently identified a CMO that would be capable of supplying us with the final Desmoteplase formulation and are currently in advanced discussions with that CMO regarding a potential collaboration. We currently have sufficient quantities of the Desmoteplase formulation provided to us by SynCo Bio Partners to initiate the upcoming Phase IIb/III clinical trial. However, in addition, for regulatory reasons, we plan to use the final Desmoteplase formulation in a safety trial.

Under our agreement with Forest, Forest has the right to qualify at least one alternative supplier of the active pharmaceutical ingredient of Desmoteplase. We are contractually required to cooperate with Forest in qualifying this additional supplier at our own expense.

We rely on our collaborative partner Nippon Shinyaku for the manufacture of Enecadin. Solulin will be manufactured by a CMO in Germany.

Given that the clinical development of any of our drug candidates could be delayed by up to a year and a half as a result of the loss of the CMO responsible for that drug candidate, we continuously review our arrangements with our existing suppliers and CMOs. We are confident that our current arrangements provide us with sufficient quantities of the active ingredient of each of our drug candidates for the foreseeable future. With respect to Desmoteplase, we are currently in advanced discussions with a CMO regarding a potential collaboration for the supply of the final formulation of Desmoteplase. If we reach an agreement with this CMO, we expect to be able to complete the clinical development of Desmoteplase within the currently

envisaged timeframe. However, we could experience substantial delays if we are unable to enter into such an agreement or if the competent regulators ultimately were to require additional tests to demonstrate that the final Desmoteplase formulation is comparable to the formulation we have used in our clinical trials to date. For more information, see "Risk Factors — Risks Related to Our Business — We rely on third parties to supply the active pharmaceutical ingredient of our drug candidates and to manufacture clinical and commercial quantities of them. If we lose any of these third parties as partners or they fail to provide compounds of a satisfactory quality, in sufficient quantities, at acceptable prices and in a timely manner, the clinical development and commercialization of our drug candidates could be materially delayed".

Sales and Marketing

To market Desmoteplase or any of our other drug candidates once they have received regulatory approval, we intend to rely on a combination of experienced partners and, with respect to Europe, a limited specialty sales and marketing organization of our own. In seeking collaborations with third parties, we make a distinction between licensees on the one hand and co-promotion partners on the other. Licensees are partners that we intend to use in markets which we do not serve ourselves, for example, because we do not have the resources or expertise necessary to serve these markets or because we do not consider them a strategic focus. By contrast, in certain parts of Europe, we plan to create a sales and marketing presence of our own and potentially cooperate with co-promotion partners.

To commercialize Desmoteplase in the United States and Canada, we entered into an agreement with Forest in June 2004, which requires Forest to use commercially reasonable efforts to market Desmoteplase in these markets once it has been approved. In return, Forest will pay us royalties in an amount equal to a specified staggered percentage of the Desmoteplase net sales achieved by it in the U.S. and Canadian markets. In addition, we are currently considering one or more additional collaborations with respect to the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world. If we enter into any such additional collaborations, we will seek to obtain co-promotion rights for certain parts of Europe. However, there can be no assurance that we will be able to enter into any additional collaborations with respect to Desmoteplase on terms favorable to us or at all. For more information on the importance to us of entering into collaborations and the related risks, see "Risk Factors — Risk Related to Our Business — We depend on entering into one or more additional collaborations for the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world" and "— We are, and expect to continue to be, dependent on collaborative arrangements to complete the development of our drug candidates and to commercialize them successfully. These collaborative arrangements may place the development and commercialization of our drug candidates outside of our control, may require us to relinquish important rights or may otherwise be on terms unfavorable to us". For more information on our collaborative arrangements with Forest, see "— Strategic Alliances and Other Collaborations — Forest Laboratories Ireland Limited".

The primary task of our future specialty sales and marketing organization will be to prepare the launch of Desmoteplase, assist with its marketing and educate hospitals and doctors about the substantial therapeutic benefits of this drug, particularly the extended time window during which it may be administered. In this regard, we also plan to promote the adoption of perfusion CT technology in hospitals to give a greater number of emergency units access to the technologies necessary for the selection of stroke patients who are most likely to benefit from Desmoteplase. To support this effort, we entered into an agreement with Philips in October 2004, which permits us to provide hospitals participating in clinical trials of Desmoteplase with perfusion CT technology. For more information on the risk that we may fail to create an effective sales and marketing organization, see "Risk Factors — Risks Related to Our Business — Even if our drug candidates receive regulatory approval, we may not be able to build an effective sales and marketing organization to prepare and assist with their marketing in Europe, which may impair their commercial potential".

Intellectual Property

Consistent with our strategy to identify promising external drug development opportunities in the areas of stroke and other thrombotic diseases and to advance them through the clinical development and regulatory approval process, we may from time to time purchase or license intellectual property from third parties. For example, we licensed Desmoteplase from Schering and are currently in discussions with Schering to enter into an agreement under which we may acquire all of Schering's rights to the drug candidate in consideration for a

fixed purchase price, milestone payments and ongoing royalty payments. In addition, we licensed the rights to Enecadin from Nippon Shinyaku and purchased the rights to Solulin from Schering.

Although we are primarily a development company that is not actively engaged in research, we may from time to time make patentable discoveries and inventions. We actively seek legal protection for any drug candidates we discover, any processes and technologies we invent and any other proprietary information that is commercially important to our business. To obtain intellectual property protection for patentable discoveries and inventions, we file for, prosecute and maintain U.S., European and/or foreign patents. However, there can be no assurance that our currently pending or future patent applications will result in patents being granted or that, if patents are issued or licensed to us, they will be valid or of sufficient scope to provide us with sufficient legal protection or a commercial advantage in the marketplace. For example, many countries have compulsory licensing laws under which we may be obliged to grant licenses to third parties (for example, if a third party's product which requires one of our patents is needed to meet a threat to public health or safety in that country, we have failed to exploit one of our patent in that country or a third party has patented improvements). In addition, most countries limit the enforceability of patents against government agencies or government contractors. In these countries, we may be unable to enjoin infringement and may be limited to monetary relief, which would materially diminish the value of our patents or licenses.

Patentable ideas, developments, discoveries and inventions made by employees working in Germany are subject to the provisions of the German Act on Employees' Inventions (*Gesetz über Arbeitnehmererfindungen*), which regulates employers' entitlement to, and compensation for, inventions made by employees in the course of their employment. Any employee making an invention that either resulted from his or her employment position or is essentially based on the employer's know-how must report such invention to the employer in writing. If the employer claims the invention in whole or in part, ownership of the invention passes from the employee to the employer, subject to payment of a just compensation. If the employer does not claim the invention within four months of the written notice, the employee may freely dispose of or use it and the employer loses all rights related to it. If we fail to comply with these provisions, we may be unable to obtain effective patent protection for the ideas, developments, discoveries and inventions of our employees. In addition, if we or any of our licensors fail to pay any required renewal or annual fees for the patents or patent applications owned or licensed by us or if measures in connection with the maintenance or defense of patents or patents applications are not taken with respect to the relevant patent offices in a timely manner or at all, the relevant patents or patent applications will expire earlier than their scheduled term. We are typically not in a position to take required maintenance action with respect to patents or patent applications licensed by us or to cause any of our licensors to fully defend such patents or patent applications against any claims raised against them.

We cannot be sure that the inventors of the inventions covered by our patents and patent applications are entitled to the earliest priority date since patent applications are maintained in secrecy for eighteen months after filing and publications of discoveries and inventions in the scientific literature often lag behind the time these discoveries and inventions were made. Furthermore, inventions for which patent applications in the United States have been filed on or before November 29, 2000 are published only after the relevant patents have been granted. As a result of the "first-to-invent concept" of U.S. patent law, there may be instances where we must participate in interference proceedings to determine the priority of one or more of our inventions, which could result in the loss of our patent position if it turns out that a third party has filed a patent for the same or a similar invention before the filing date assigned to our patent.

Generally, a patent expires 20 years after the date on which a patent application for the underlying discovery or invention has been filed. However, U.S. patents issued under patent applications filed before June 8, 1995 expire after the later of 17 years after issuance or 20 years after the filing date. The protection of certain U.S. patents covering pharmaceuticals may be extended by up to five years under provisions of the Hatch-Waxman Act in the United States. Similar protection is available in the European Union in the form of supplementary protection certificates, which were introduced by EU Regulation 1768/92, and in other countries. See "Regulation — Regulation in the United States — Drug Price Competition and Patent Term Restoration Act of 1984" and "Regulation — Regulation in the European Union".

Of those families of patents and patent applications to which we have rights either as owner or licensee or which we have filed, the table below summarizes those families that we believe are most relevant to our business.

Patent families

Drug	Subject-matter	Application date	Status	Paion rights	Expiration date[1]
Desmoteplase	Desmoteplase — active ingredient	February 13, 1990	Granted: Europe[2], United States, Japan, others	Licensed from Schering	Most countries: February 13, 2010, United States: December 28, 2016
Desmoteplase	Desmoteplase — different versions of the Desmoteplase protein	July 20, 1989	Granted: Europe[2], United States, Japan, others	Licensed from Schering	Most countries: July 20, 2009, United States: November 3, 2015
Desmoteplase	Method for isolation and purification of Desmoteplase	January 31, 1997	Granted: Europe[2], United States, Japan, others	Licensed from Schering	Most countries: January 31, 2017, United States: February 5, 2016
Desmoteplase	Use of Desmoteplase in extended time window	October 31, 2002	Pending: Europe[2], United States, Japan, others	Filed by Paion	October 31, 2022 (if patent is granted)
Desmoteplase	Use of Desmoteplase as neuroprotective agents in the treatment of depression	May 5, 2004	Pending	Filed by Paion	May 5, 2024 (if patent is granted)
Enecadin	Active compound NS-7 and compositions comprising NS-7	September 8, 1995	Granted: Europe[2], United States, Japan, others	Licensed from Nippon Shinyaku	Most countries: September 8, 2015
Enecadin	A process for the manufacture of NS-7	September 7, 2001	Notice of allowance in Europe[2], pending: United States, Japan	Licensed from Nippon Shinyaku	September 7, 2021
Solulin	Thrombomodulin analog with modified glycosylation site	August 8, 1991	Granted: Europe[2], United States, Australia; pending: Canada; withdrawn: Japan	Owned by Paion	Most countries: August 15, 2011, United States: November 14, 2012
Solulin	Oxidation resistant thrombomodulin analog	April 9, 1991	Granted: Europe[2], United States, Japan, others	Owned by Paion	Most countries: April 9, 2011, United States: April 9, 2010
Solulin	Protease resistant thrombomodulin analog	February 5, 1993	Granted: Europe[2], United States, Japan; pending: Europe, Japan	Owned by Paion	Most countries: February 5, 2013, United States: July 5, 2015 and May 16, 2017

(1) The protection of certain patents covering pharmaceuticals may be extended by up to five years. See "Regulation — Regulation in the United States — Drug Price Competition and Patent Term Restoration Act of 1984" and "Regulation — Regulation in the European Union".

(2) A European patent generally grants protection in all member countries of the European Patent Convention designated by us.

In addition to our patents, we have a limited number of trademarks.

Much of our technology and many of our processes are not eligible for patent or trademark protection but are the result of the knowledge, experience and skills of our scientific and technical personnel. To protect our trade secrets, know-how, technology and processes, we require all employees, contractors, consultants, advisors and collaborators, including potential collaborators, to enter into confidentiality agreements that prohibit the disclosure of confidential information and, where appropriate, require disclosure to us of all ideas, developments, discoveries and inventions related to our know-how, trade secrets, technology and processes. For a description of the risks associated with our intellectual property to the extent it is not eligible

for patent or trademark protection, see "Risk Factors — Risks Related to Our Business — Much of our technology and many of our processes are not eligible for patent or trademark protection and if we fail to protect this intellectual property effectively, our business will suffer" and "— Technologies that may be useful or necessary for the manufacture, use or sale of our drug candidates may be unavailable to us".

As a result of the key role that intellectual property plays in the pharmaceuticals industry, we may from time to time become involved in costly and time-consuming litigation as either plaintiff or defendant. Third parties may assert patent or other intellectual property infringement claims and bring legal actions against us or our strategic partners, including Forest, Schering and Nippon Shinyaku. For more information on intellectual property related litigation risks, see "Risk Factors — Risks Related to Our Business — Claims that we infringe a third-party's intellectual property may give rise to burdensome litigation which in case of a negative outcome may result in potential liability for damages or impede or delay the development and commercialization of our drug candidates" and "— Our business will be adversely affected if we are unable to obtain and defend patents and other forms of intellectual property protection for new drug candidates or if the rights associated with our intellectual property do not provide us with effective protection".

Competition

As all of our drug candidates are still under development, we currently compete less in terms of marketing drugs and more in terms of recruiting scientists and clinical development personnel and enrolling patients in clinical trials. Many of the companies with which we compete in this regard have significantly greater financial, manufacturing, marketing and development resources and substantially greater research capabilities than we do. In addition, to the extent they conduct clinical stroke trials, especially large-scale Phase III clinical trials, we may face difficulties recruiting patients for the study of Desmoteplase and our other drug candidates. Although this risk creates the possibility of a delay in the completion of our clinical trials for Desmoteplase, we believe the collaboration we entered into with Forest in June 2004, which is a company that has successfully competed for patients with other companies in the past, mitigates this risk to a certain extent. For more information on potential difficulties in our recruitment of patients and key employees, see "Risk Factors — Risks Related to Our Business Difficulties in enrolling patients in our clinical trials may increase costs and negatively affect the timing and outcome of our clinical trials" and "— Because we depend on our key management, scientific and technical personnel, our ability to compete would be adversely affected if we were unable to retain our existing qualified employees or hire and retain new ones".

If Desmoteplase receives regulatory approval, we will face additional competition. The treatment of stroke is one of the most competitive areas in the pharmaceuticals industry. There are three types of potential future competitors of Desmoteplase: t-pA-based plasminogen activators, medical devices and other therapeutics, including neuroprotectants. While Desmoteplase will compete head to head with t-PA-based plasminogen activators and catheter-based medical devices, we believe that other therapeutics pose less of a threat. In our view, neuroprotectants are even candidates for combination trials with Desmoteplase to improve the overall clinical outcome in patients with acute ischemic stroke.

The following table provides an overview of the main competitors of Desmoteplase with respect to the indication acute ischemic stroke along with an indication of their development stage:

Competitors of Desmoteplase with respect to the indication acute ischemic stroke

Product	Company (brand name)	Type	Status
Therapies currently available on the market			
Alteplase	Genentech, Inc. (Activase) Boehringer Ingelheim GmbH (Actilyse)	t-PA-based Plasminogen activator	Approved for ischemic stroke
	Concentric Medical, Inc. (Merci Retrieval System)	Medical device	Approved for ischemic stroke
Therapies under development(1)			
Reteplase(1)	Johnson & Johnson (Centocor, Inc.) (Retavase) Boehringer Mannheim GmbH (Rapilysin)	t-PA-based Plasminogen activator	Approved for cardiac diseases, under investigation for ischemic stroke (Phase II)(2)
Tenecteplase(1)	Genentech, Inc. (TNKase) Boehringer Ingelheim GmbH (Metalyse)	t-PA-based Plasminogen activator	Approved for cardiac diseases, under investigation for ischemic stroke (Phase II)(2)
Abciximab(1)	Johnson & Johnson (Centocor, Inc.; Centocor B.V.) (Reopro)	Antiplatelet	Approved for cardiac diseases, under investigation for ischemic stroke (Phase III)
Cerovive(3)	Renovis, Inc.	Neuroprotectant	Under investigation for ischemic stroke (Phase III)

(1) This therapeutic is currently undergoing clinical trials for ischemic stroke and is already approved for certain other thrombotic diseases.

(2) These clinical trials are investigator-initiated and not sponsored by the manufacturer.

(3) This therapeutic is currently undergoing clinical trials for ischemic stroke and has not yet received regulatory approval for any other indication.

t-PA-based plasminogen activators. If and when Desmoteplase receives regulatory approval, we expect that its only direct competitor will be Alteplase. As described above, we believe that Desmoteplase enjoys substantial advantages over Alteplase. Accordingly, we expect that the competitive threat to Desmoteplase resulting from Alteplase will be limited. The principal benefit of Desmoteplase is that it is capable of restoring blood flow in stroke patients up to nine hours after the onset of stroke symptoms, whereas Alteplase is only approved for use during a three-hour window. In addition, clinical trials suggest that Desmoteplase is more effective than Alteplase and that it has a better overall risk-benefit profile.

In addition to Alteplase, potential competitors of Desmoteplase include Reteplase and Tenecteplase, which, like Alteplase, are plasminogen activators based on t-PA. Reteplase and Tenecteplase are currently undergoing limited clinical trials for the acute treatment of ischemic stroke. Both drugs have already received regulatory approval for the treatment of heart attacks. Because the current trials are investigator-initiated and not industry-sponsored, their results are not expected to lead to a change in the labeling of these drugs. However, they may stimulate off-label usage by doctors. Given that Reteplase and Tenecteplase are derived from t-PA, our assessment of the competitive threat posed by these drugs is similar to our analysis of Alteplase.

See ''— Drug Pipeline — Desmoteplase — Existing treatment regimens'' for more information on t-PA-based plasminogen activators.

Catheter-based medical devices. Catheter-based medical devices, such as the Merci Retrieval System, are potentially also a source of competition to Desmoteplase. However, because their use involves significant risks, including bleeding in the brain, death and bleeding at the location of the vessel punctures, they are currently viewed merely as a therapy of last resort. This explains, for example, why the Merci Retrieval System has only received a limited label. Moreover, the use of such devices is limited to areas of the brain that can be reached by catheters.

Other therapeutics. In addition, a large number of alternative therapeutic approaches are being investigated for the acute treatment of ischemic stroke. In our view, none of these compounds is likely to compete head-to-head with Desmoteplase.

Among these substances is Abciximab, an antiplatelet approved for the treatment of certain cardiac diseases. Abciximab is currently in Phase III clinical trials for the acute treatment of ischemic stroke. Compared with Desmoteplase, however, we believe that Abciximab is less effective and associated with a greater risk of bleeding.

Cerovive, like Enecadin, is a neuroprotectant designed to protect brain cells from the toxic substances produced by the brain in the aftermath of an ischemic stroke or to improve the energy consumption of those cells which are under ischemic stress. While Cerovive is being developed for the treatment of ischemic stroke (the drug candidate is currently in Phase III clinical trials), it does not contain an effective mechanism for dissolving blood clots and restoring the blood flow to brain cells affected by a stroke. In our view, a successful stroke therapy primarily requires an effective reperfusion strategy, which may be complemented with tissue-saving therapeutics. As a result, we do not view Cerovive as a direct competitor to Desmoteplase. However, we believe it potentially may be very effective in combination with Desmoteplase.

Facilities

Our headquarters are located in Aachen, Germany. We lease approximately 2,350 square meters (17,200 square feet) in this facility, which houses our corporate offices, under an operating lease expiring in August 2012. The lease is automatically renewed for successive three-year periods thereafter unless terminated by either party upon twelve months' notice. We are currently in negotiations for leasing additional space at our headquarters. In addition, we co-lease approximately 260 square meters (2,800 square feet) for our research laboratory in Berlin, Germany. We also have continuing rent payment obligations under a lease contract for a building in Stolberg, Germany, which previously housed our headquarters. This contract will expire August 2009. We do not own real property, neither with, nor without structures.

We believe our existing facilities and the additional facilities we are planning to lease are sufficient to meet our needs for the foreseeable future and, if needed, additional space will be available in the near term at a reasonable cost to us.

Investments

In 2001, 2002 and 2003, we made investments in the aggregate amount of € 2.8 million. In the nine-month period ended September 30, 2004, our investments totalled € 1.1 million.

For more information on our investments in 2001, 2002 and 2003 and in the nine-month period ended September 30, 2004, see the discussion of net cash used in investing activities under "Management's Discussion and Analysis of Financial Condition and Results of Operations". Our investments primarily included the in-licensing of Desmoteplase, our acquisition of laboratory equipment for our R&D laboratory in Berlin, Germany, and the purchase of office equipment and software for our facility in Aachen, Germany.

In the fourth quarter of 2004, certain rights with respect to Desmoteplase were purchased from UNAM with our own resources which were capitalized in an amount of € 0.6 million. Based on preliminary data collected by us, we expect that our investments in 2004 (including finance leasing) will amount to approximately €2 million. However, final 2004 results will be available only upon publication of our financial statements for the year ended December 31, 2004, which we expect will occur in mid-March 2005.

In accordance with our investment strategy, we plan to make further milestone payments under our licensing agreements with respect to the rights to Desmoteplase, Enecadin and Solulin upon the occurrence of certain

triggering events. In addition, we plan to invest in our business and office equipment in the ordinary course of business.

Insurance

We are required to obtain insurance for each patient who we enroll in a clinical trial. We believe we have adequate insurance for our current clinical trials. We plan to supplement this patent insurance by product liability insurance once we have obtained regulatory approval for Desmoteplase or one of our other drug candidates. For information on the risks we face in view of potential product liability claims, see "Risk Factors — Risks Related to the Industry in Which We Operate — We may become exposed to costly and damaging product liability actions and may not be able to maintain sufficient product liability insurance to cover claims against us. Even in the absence of product liability lawsuits, unforeseen side effects could harm sales of our products".

In addition, we have obtained directors and officers insurance, which covers expenses, capped at a certain amount, that we or our management and/or supervisory board members may incur in connection with their conduct as directors or officers of our company. For more information on the risks related to the loss of insurance coverage or insufficient insurance coverage under the D&O insurance, see "Risk Factors — Risks Related to Our Business — We may have difficulty maintaining directors and officers insurance in sufficient amounts at commercially viable rates, which may impair our ability to recruit and retain qualified directors and officers and have an adverse impact on our results of operations and financial condition".

We believe that all facilities owned or leased by us are adequately insured.

Legal Proceedings

As is the case with other companies in the biopharmaceutical industry, we have, are and may from time to time become party to claims and lawsuits incidental to the ordinary course of our business. Neither we nor our subsidiary are a party to any legal or administrative proceedings that in our opinion could have a significant effect on our financial situation or that have had such effect in the last two fiscal years. To our knowledge, no such proceedings are threatened.

Regulation

Regulation by governmental authorities in the United States and other countries is a significant factor in the development, manufacture and marketing of pharmaceutical products and in ongoing research and development activities. All of our products will require regulatory approval by governmental agencies prior to commercialization. In particular, pharmaceuticals are subject to rigorous preclinical testing and clinical trials and other pre-marketing approval requirements by the FDA and regulatory authorities in other countries. For more information on risks associated with the regulatory framework in which we operate, see "Risk Factors — Risks Related to the Industry in Which we Operate — Because our business is subject to extensive governmental regulation, including price controls, our ability to market drugs is subject to administrative constraints over which we have only limited control".

We are working within the framework of the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use, or ICH, guidelines. The ICH is a collaborative effort among regulators in Europe, Japan and the United States and experts from the pharmaceutical industry in the three regions with the goal of streamlining the development and regulatory approval of medicinal products by harmonizing the applicable procedures. Our compliance with the ICH guidelines assists us in obtaining regulatory approval for our drug candidates in as many jurisdictions as possible.

Regulation in the United States

In the United States, drugs are subject to rigorous regulation by the FDA. The Federal Food, Drug, and Cosmetic Act, or FDCA, and other federal and state statutes and regulations govern, among other things, the research, development, testing, safety, effectiveness, manufacture, quality control, storage, record keeping, labeling, promotion, marketing and distribution of pharmaceutical products. The failure to comply with the applicable regulatory requirements may subject a company to a variety of administrative or judicially imposed sanctions and/or the inability to obtain or maintain required approvals or to market approved drug products.

In addition, the lengthy process of seeking required approvals and the continuing need for compliance with applicable statutes and regulations require the expenditure of substantial resources. Regulatory approval, when and if obtained for any of our products, may be limited in scope, which may significantly limit the indicated uses for which our products may be marketed. Furthermore, both approved and unapproved drugs and manufacturers are subject to ongoing review and discovery of previously unknown problems that may result in restrictions on their manufacture, sale or use or in their withdrawal from the market.

The steps ordinarily required before a new drug product may be marketed in the United States include preclinical laboratory tests, animal tests and formulation studies, the submission to the FDA of a notice of claimed exemption for an investigational new drug, or IND, which must become effective before clinical testing may commence, and adequate and well-controlled clinical trials to establish the safety and efficacy of the drug for each indication for which FDA approval is sought. The following paragraphs provide a general overview of the approval process for a new drug.

Preclinical testing

Preclinical tests include laboratory evaluation of product chemistry, formulation and stability, as well as studies to evaluate toxicity and efficacy in animals. The results of preclinical tests, together with manufacturing information and analytical data, are submitted as part of an IND application to the FDA.

Investigational New Drug Application

If a company wants to test a new drug in human patients, an IND must be prepared and filed with the FDA to request FDA authorization to begin human testing of the drug. The IND application automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about adequacy of the preclinical studies, the preclinical product characterization and/or the proposed conduct of the clinical trial, including concerns that human research subjects will be exposed to unreasonable health risks. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. The submission of an IND may not result in FDA authorization to commence a clinical trial. An amendment must be made for each successive clinical trial conducted during product development, and the FDA must review each amendment before the relevant clinical trial can begin. Furthermore, an independent institutional review board, or IRB, for each medical center proposing to conduct

the clinical trial must review and approve the plan for any clinical trial before it commences at that center, and the IRB must monitor the study until completed. The FDA, the IRB, or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Clinical testing also must satisfy extensive Good Clinical Practice, or GCP, regulations and regulations for obtaining informed consent from the study subjects.

Clinical trials

Clinical trials to support New Drug Applications, or NDAs, for marketing approval are typically conducted in three sequential phases, Phases I, II and III, with Phase IV studies conducted after marketing approval. Phase IV trials are generally required for products that receive accelerated approval. These phases may be compressed, may overlap or may be omitted in some circumstances.

- *Phase I clinical trials.* After an IND becomes effective, Phase I human clinical trials can begin. These studies are initially conducted in a limited population to evaluate a drug candidate's safety profile, and the range of safe dosages that can be administered to the patient, including the maximum tolerated dose that can be given to a patient with the target disease. Phase I studies also determine how a drug candidate is absorbed, distributed, metabolized and excreted by the body, and its duration of action. In some cases, a sponsor may decide to conduct what is referred to as a "Phase Ib" evaluation, which is a second safety-focused Phase I clinical trial and which is designed to, for example, evaluate the impact of the drug candidate in combination with currently approved drugs or other questions. In the case of products for life-threatening diseases such as stroke, the initial human testing is often conducted in patients with the target disease rather than in healthy volunteers. These studies may provide initial evidence of efficacy traditionally obtained in Phase II clinical trials, and so these trials are frequently referred to as Phase I/II trials.

- *Phase II clinical trials.* These clinical trials are generally conducted in a limited patient population to identify possible adverse effects and safety risks, to determine the efficacy of the drug candidate for specific targeted indications and to determine dose tolerance and optimal dosage. Phase II clinical trials typically are designed to further ascertain the safety of the drug at the dosage given in a larger patient population. Multiple Phase II clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase III clinical trials. In some cases, a sponsor may decide to conduct what is referred to as a "Phase IIb" trial, which is a second, advanced Phase II clinical trial.

- *Phase III clinical trials.* These are commonly referred to as registrational or pivotal studies, and are undertaken when Phase II clinical trials suggest that the drug candidate is effective and has an acceptable safety profile and an effective dosage has been identified. In Phase III clinical trials, the drug is usually tested in a blinded controlled randomized trial comparing the investigational new drug to an approved form of therapy in an expanded and well defined patient population and at a number of hospitals and medical practices. When no alternative accepted treatment alternative is available, investigational drugs are tested against placebo. The goal of these studies is to obtain definitive statistical evidence of safety and efficacy of the investigational new drug as compared to an approved standard treatment or placebo, as the case may be, in defined patient populations with a given disease and stage of illness.

In addition, a company typically has the option of holding an "End-of-Phase II Meeting" with the FDA to discuss the further development plan and particularly the design of Phase III based on the data collected in Phase II. For Phase III trial protocols, the company is eligible for a Special Protocol Assessment, or SPA, by the FDA, a process by which the FDA must evaluate within 45 days protocols and issues relating to the protocols. In the SPA, the FDA provides guidance from the FDA's perspective as to which factors must be considered in the trial protocol in order for the trial later to satisfy the criteria for regulatory approval.

Success in early stage clinical trials does not necessarily assure success in later stage clinical trials. Data obtained from clinical activities is not always conclusive and may be subject to alternative interpretations that could delay, limit or even prevent regulatory approval.

New Drug Application

After successful completion of the required clinical testing of a drug candidate, an NDA is prepared and submitted to the FDA for the drug candidate. In the case of drug candidates based on biological substances, such as Desmoteplase, a Biologics License Application, or BLA, is prepared instead of an NDA. The regulatory approval process is similar in both cases.

FDA approval of the NDA is required before marketing of a product may begin in the United States. The NDA must include the results of extensive clinical and other testing and a compilation of data relating to the product's pharmacology, chemistry, manufacture, and controls. The cost of preparing and submitting an NDA is substantial. Under Federal law, the submission of NDAs are additionally subject to substantial application user fees, currently exceeding U.S.$500,000, and the manufacturer and/or sponsor under an approved NDA are also subject to annual product and establishment user fees, currently exceeding U.S.$30,000 per product and U.S.$200,000 per establishment. These fees are typically increased annually.

The FDA has 60 days from its receipt of an NDA to determine whether the application will be accepted for filing based on whether the agency determines that the NDA is sufficiently complete to permit substantive review. Once the submission is accepted for filing, the FDA begins an in-depth review of the NDA. Under the Prescription Drug User Fee Act, or PDUFA, the FDA has agreed to specific performance goals in the review of NDAs. Most such applications for non-priority drug products are reviewed within ten months. The review process can be extended by FDA requests for additional information or clarification regarding information already provided in the submission. The FDA may also refer applications for novel drug products or drug products which present special questions of safety or efficacy to an advisory committee, typically a panel that includes clinicians and other experts, for review, evaluation and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee.

If FDA evaluations of the NDA and the manufacturing facilities are favorable, the FDA may issue an approval letter, or, in some cases, an approvable letter followed by an approval letter. An approvable letter generally contains a statement of specific conditions that must be met in order to secure final approval of the NDA. If and when those conditions have been met to the FDA's satisfaction, the FDA will typically issue an approval letter. An approval letter authorizes commercial marketing of the drug with specific prescribing information for specific indications. As a condition of NDA approval, the FDA may require post-approval testing and surveillance to monitor the drug's safety or efficacy and may impose other conditions, including labeling restrictions which can materially impact the potential market and profitability of the drug. Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

If the FDA's evaluation of the NDA submission or manufacturing facilities is not favorable, the FDA may refuse to approve the NDA or issue a not approvable letter. A "not approvable" letter outlines the deficiencies in the submission and often requires additional testing or information in order for the FDA to reconsider the application. Even with submission of this additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval. With limited exceptions, FDA may withhold approval of an NDA regardless of prior advice it may have provided or commitments it may have made to the sponsor.

Fast-track designation

FDA's fast-track program is intended to facilitate the development of drugs that are intended for the treatment of a serious or life-threatening condition for which there is no effective treatment and which demonstrate the potential to address unmet medical needs for the condition. Under the fast-track program, the sponsor of a new drug candidate may request the FDA to designate the drug candidate for a specific indication as a fast-track drug concurrent with or after the filing of the IND for the drug candidate. The FDA must determine whether the drug candidate qualifies for fast-track designation within 60 days of receipt of the sponsor's request.

If fast-track designation is obtained, the FDA may initiate review of sections of an NDA before the application is complete. This rolling review is available if the applicant provides and the FDA approves a schedule for the submission of the remaining information and the applicant pays applicable user fees. However, the time period specified in the PDUFA, which governs the time period goals the FDA has committed to reviewing an application, does not begin until the complete application is submitted. Additionally, the fast-track designation may be withdrawn by the FDA if the FDA believes that the designation is no longer supported by data emerging in the clinical trial process.

In some cases, a fast-track designated drug candidate may also qualify for one or more of the following programs:

- *Priority review.* Under FDA policies, a drug candidate is eligible for priority review, or review within a six-month timeframe from the time a complete NDA is received by the FDA, if the drug candidate provides

a significant improvement compared to marketed drugs in the treatment, diagnosis or prevention of a disease. A fast-track designated drug candidate would ordinarily meet the FDA's criteria for priority review. However, there can be no assurance that any of our drug candidates will receive a priority review designation, or if a priority designation is received, that review or approval will be faster than conventional FDA procedures, or that the FDA will ultimately grant drug approval.

- *Accelerated approval.* Under the FDA's accelerated approval regulations, the FDA is authorized to approve drug candidates that have been studied for their safety and efficacy in treating serious or life-threatening illnesses and that provide meaningful therapeutic benefit to patients over existing treatments based upon either a surrogate endpoint that is reasonably likely to predict clinical benefit or on the basis of a clinical endpoint other than patient survival. In clinical trials, surrogate endpoints are alternative measurements of the symptoms of a disease or condition that are substituted for measurements of observable clinical symptoms. Surrogate endpoints are used if, for example, the question whether the primary endpoints of a clinical trial have been achieved, would require measurements with long observation periods or elaborate measuring methods. A drug candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase IV or post-approval clinical trials to validate the surrogate endpoint or confirm the effect on the clinical endpoint. Failure to conduct required post-approval studies, or to validate a surrogate endpoint or confirm a clinical benefit during post-marketing studies, will allow the FDA to withdraw the drug from the market on an expedited basis. All promotional materials for drug candidates approved under accelerated regulations are subject to prior review by the FDA.

Although we have obtained a fast-track designation from the FDA for our development of Desmoteplase, there can be no assurance of a faster development process, review process or approval compared to conventional FDA procedures or that the FDA ultimately will grant regulatory approval. Our strategy and timing for seeking regulatory approval of this drug may change depending on the results of our studies.

Orphan drug designation

Although we do not expect that Desmoteplase will qualify as an orphan drug, we may in the future identify compounds or develop drug candidates that qualify for orphan drug designation. Orphan drug designation is designed to encourage manufacturers to develop drugs intended for a rare disease or condition. A rare disease or condition is statutorily defined as one affecting less than 200,000 individuals in the United States, or one that affects more than 200,000 individuals in the United States and for which there is no reasonable expectation that the cost of developing and making available the drug for the disease or condition will be recovered from sales of the drug in the United States. Orphan drug designation qualifies a company for tax credits and marketing exclusivity for seven years following the date of the drug's marketing approval if granted by the FDA. An application for designation as an orphan product can be made any time prior to the filing of an application for approval to market the product. A drug becomes an ''orphan'' when it receives orphan designation from the Office of Orphan Products Development, or OOPD, at the FDA based on acceptable confidential requests made under the regulatory provisions. The drug must then go through the new drug approval process like any other drug. Orphan drug designations are decided solely by the OOPD staff, but the Office occasionally will request opinions from the Center for Drug Evaluation and Research, especially when dealing with issues such as the appropriateness of the requested indication or the scientific rationale described by the sponsor.

A sponsor may request orphan drug designation of a previously unapproved drug, or of a new orphan indication for an already marketed drug. In addition, a sponsor of a drug that is otherwise the same drug as an already approved orphan drug may seek and obtain orphan drug designation for the subsequent drug for the same rare disease or condition if it can present a plausible hypothesis that its drug may be clinically superior to the first drug. More than one sponsor may receive orphan drug designation for the same drug for the same rare disease or condition, but each sponsor seeking orphan drug designation must file a complete request for designation.

The period of exclusivity begins on the date that the marketing application is approved by the FDA and applies only to the indication for which the drug has been designated. The FDA could approve a second application for the same drug for a different use or a second application for a clinically superior version of the drug for the same use. The FDA cannot, however, approve the same drug made by another manufacturer for the same indication during the marketing exclusivity period unless it has the consent of the sponsor or the sponsor is unable to provide sufficient quantities.

Drug Price Competition and Patent Term Restoration Act of 1984

The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, established a regulatory framework designed to balance the incentives for innovative drug research with the opportunities for market entry of generic manufacturers. In order to achieve this balance, the Hatch-Waxman Act provided for an extension of patent terms by the regulatory review period of a drug product, and data exclusivity periods following the FDA approval of an NDA, while allowing for the submission of simplified drug applications by generic manufacturers. The simplified drug applications created by the Hatch-Waxman Act include two kinds of applications: an abbreviated new drug application, or ANDA, which can rely on FDA's previous finding of safety and efficacy for the referenced innovator drug product, and a new drug application for which the sponsor must submit full reports of clinical studies, some of which the sponsor does not own or have a legal right of reference (also known as a Section 505(b)(2) application after its authorizing statutory provision). The patent and exclusivity status of the innovator drug product has implications for the review and approval of both ANDAs and Section 505(b)(2) applications.

A key element of the Hatch-Waxman Act is the extension of the life of a patent to compensate the innovator drug company for marketing time lost while developing the product and awaiting regulatory approval. The Act added Section 156 to the Patent Act permitting patent term extensions for patents on products (or processes for making or using the same) including, but not limited to, drug products used to treat humans. The Hatch-Waxman Act allows only partial recovery of the patent term lost to regulatory approval requirements. In addition, the statute imposes caps on term extension. The term of the patent eligible for extension equals one half of the IND testing phase and the full NDA review phase of testing required under the FDCA. The IND testing phase is measured as the time between the effective date of an IND and the date the FDA receives the NDA; the NDA review phase is the time between the FDA receives the NDA and approval of the NDA. However, any testing conducted prior to patent issuance is not considered for patent extension. The maximum total patent term remaining after term extension is capped at fourteen years. Similarly, absolute caps limit the duration of term extension to five years. Furthermore, a patent is only eligible for one term extension. This patent term extension is only available for the first commercial marketing of a given active ingredient. In addition, the product must have been subject to regulatory review before its commercial marketing or use, and the resulting permission for commercial marketing or use must be the first granted. As a practical consequence generally, only one patent may be extended per approved product. Also, the original patent must still be in force when the application for term extension is filed, and the application must be filed by the patent owner of record or its agent. The application for patent term extension is subject to approval by the U.S. Patent and Trademark Office, or USPTO. The FDA, however, determines the length of the product's regulatory review period at the request of the USPTO. In some instances, the term of the patent for which a patent term extension is being requested may expire before such an extension is granted.

The Hatch-Waxman Act also provides for data exclusivity for the data demonstrating safety and efficacy of a drug product as submitted in an NDA: five-year new chemical entity, or NCE, exclusivity and three-year new clinical study exclusivity. Five-year NCE exclusivity is granted to those drugs for which the active ingredient is an active moiety (that is, the molecule or ion responsible for physiological or pharmacological action, excluding appended portions that would cause the drug to be an ester, salt, or other noncovalent derivative of the molecule) not previously approved by the FDA. Five-year NCE exclusivity prohibits the FDA from accepting an ANDA or Section 505(b)(2) application for a drug product containing the same active moiety for a five-year period beginning from the date of approval of the NDA. The only exception to this prohibition on the FDA's acceptance of an ANDA or Section 505(b)(2) application is if a generic competitor challenges patents listed in the Orange Book for the drug product at the end of four years. The Orange Book is a publication maintained by the FDA which contains listings of drugs and their bioequivalency status. The five-year exclusivity provision, however, does not prohibit the FDA from accepting another full NDA, for example from a competitor, if the sponsor of the second application has done all the work itself. The FDA can accept the second application, review it, and approve it; NCE exclusivity only prohibits the agency from accepting a 505(b)(2) application or an ANDA.

Three-year clinical study exclusivity is granted for certain changes in a drug product, for which the NDA or supplement contains reports of new clinical studies in humans conducted by the sponsor that are essential to approval. This exclusivity covers only the change in the product supported by the new clinical studies. If there are other indications not covered by any patent or exclusivity, and available for competition, generic drugs can be approved for those indications. A grant of three years of exclusivity to a drug product means FDA cannot approve a Section 505(b)(2) application or an ANDA for the same product for three years. Unlike the

five-year exclusivity, the agency can accept an application and review it during this time period. Like NCE exclusivity, this exclusivity will not bar approval of a full NDA where the applicant has done the work to support the same change for the drug product. Exclusivities are published in the Orange Book.

Post-marketing studies

As a condition of NDA approval, the FDA may require post-marketing ''Phase IV'' clinical trials to confirm that the drug is safe and effective for its intended uses. Where drugs are approved under accelerated approval regulations or the FDA otherwise requests, additional studies will likely be required to document a clinical benefit and monitor the long-term effects of the therapy. We expect that for any product for which a single pivotal clinical trial is authorized for approval, we will be required to conduct extended Phase IV clinical trials to monitor the long-term effects of the therapy.

Other regulatory requirements

Any products we manufacture or distribute under FDA approvals are subject to pervasive and continuing regulation by the FDA, including record-keeping requirements and reporting of side effects with the products. Drug manufacturers and their subcontractors are required to register with the FDA and, where appropriate, state agencies, and are subject to periodic unannounced inspections by the FDA and state agencies for current Good Manufacturing Practices, or cGMPs, which impose procedural and documentation requirements upon us and any third-party manufacturers we utilize. Failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory action, such as warning letters, suspension of manufacturing, seizure of product, injunctive action or possible civil penalties. We cannot be certain that we or our present or future third-party manufacturers or suppliers will be able to comply with the cGMP regulations or other ongoing FDA regulatory requirements. If our present or future third-party manufacturers, co-promotion partners or suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, require us to recall a drug from distribution, or withdraw approval of the NDA for that drug.

FDA regulation of post-approval marketing and promotion

The FDA closely regulates the post-approval marketing and promotion of drugs, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the internet. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising and potential civil and criminal penalties. Physicians may prescribe legally available drugs for uses that are not described in the drug's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behavior of physicians in their choice of treatments. The FDA does, however, impose stringent restrictions on manufacturers' communications regarding off-label uses.

From time to time, including presently, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the approval, manufacturing and commercialization of drug products. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted, or FDA regulations, guidance or interpretations changed, or what the impact of such changes, if any, may be.

Regulation in the European Union

Clinical trials and the regulatory approval process in Europe proceed in much the same manner as they do in the United States, requiring Phase I, II and III trials, as well as Phase IV trials that take place after market approval in order to gather additional safety data on an approved product. Therefore, many of the concepts discussed above under ''— Regulation in the United States'' apply similarly in the context of the European Union. The discussion below provides a brief summary of the special regulatory situation in Europe.

Pursuant to the recent Clinical Trials Directive, a new system has recently been implemented for the approval of clinical trials in the European Union. The Clinical Trials Directive had to be enacted through national legislation of the Member States of the EU by the beginning of May 2004, and these rules amended or replaced existing national procedures. Similar to the IND system in the United States, under this new system, approval must be obtained from the national regulatory agency of an EU Member State in which the study is planned to be conducted. For this clinical trial application, an Investigational Medicinal Product Dossier must be submitted. While the Clinical Trial Directive permits a maximum review period of 60 days, this period is

shorter in some Member States. In Germany for example, for most drugs, the national agency has 30 days to raise questions about the application or to approve or reject the application. Approval is deemed to be given if notice of objection is not given within the relevant time limit, but for certain products, including biotechnology compounds such as monoclonal antibodies written approval may be required under the national rules, and for other types of products, such as gene and cell therapy, written approval is always needed. In addition, approval must also be obtained from the responsible ethics committees (equivalent to the IRB in the United States).

Drug approval in the Member States of the European Union generally proceeds under one of two approval procedures: a centralized approval procedure and a decentralized procedure, also known as the Mutual Recognition Procedure. The centralized approval procedure is mandatory for biotechnology products, including Desmoteplase, and is becoming mandatory for certain other high-technology products and, effective as of November 20, 2005, for certain therapeutics. The London-based European Medicines Agency, or EMEA, and the European Commission in Brussels govern the centralized drug approval process. Under this centralized procedure, an approval of a new drug application by the European Commission allows a company to market its drug product in all Member States of the European Union, without having to obtain separate approvals from each Member State. However, marketing remains subject to national pricing and reimbursement rules that often delay commercialization and can sometimes effectively prevent it.

In contrast, where the centralized procedure is not mandatory, a company may pursue a decentralized procedure to obtain mutual recognition of a new drug by the Member States. Under the decentralized procedure, an applicant can go directly to a national marketing authority to obtain permission to market its product in the Member State and then seek to have other Member States accept the marketing approval of the first Member State. National pricing and reimbursement rules will also apply to companies following the decentralized procedure and may delay, or effectively prevent, commercialization.

Under the centralized approval procedure, the EMEA's Committee for Medicinal Products for Human Use, or CHMP, which is composed of experts nominated by each Member State's national drug authority, serves as the scientific committee that renders opinions about the safety, efficacy, and quality of human drug products. Each Member State of the European Union has one member on the committee.

Once an application is submitted to the EMEA, the agency initially ensures that the application is complete. Two members of the CHMP from different Member States, known as rapporteurs, are pre-selected to perform independent scientific evaluations of the safety, efficacy, and quality of the drug product candidate. The rapporteurs can draw on two sources of European Union-wide scientific expertise in forming their review teams — experts from the national marketing authorities of Member States and any of over 1,000 outside experts located at universities and institutions throughout Europe. Once the rapporteurs have completed their respective evaluations, they present the case to the CHMP, which then must render an opinion within 210 active review days after the application was submitted (subject to certain administrative delays). The active review period is suspended in certain cases, including for any period during which the applicant responds to questions raised by the CHMP or prepares for a hearing before the CHMP. In addition, under new legislation, the 210-day deadline may be extended at the CHMP's request. If the CHMP renders a favorable opinion, a copy is sent to the applicant, all Member States, and the European Commission. The European Commission uses the CHMP's opinion as the basis for a draft decision. This draft decision is then finalized in cooperation with the Standing Committee (composed of representatives of the Member States), which generally agrees to the draft.

Products approved via the centralized procedure, which is mandatory for Desmoteplase, receive a data protection period of 10 years or, effective November 20, 2005, a period of 8 plus 2 years. Under the new rules, no third party may reference the preclinical and clinical data of the originator during the first 8 years, but can only market a generic version after 10 years have lapsed. For products approved via the decentralized procedure, data exclusivity ranges from 6 to 10 years (or 6 years but limited to patent life) in individual Member States, but this will have to be replaced by a similar 8 plus 2-year protection period on or before October 30, 2005. The protection period under both procedures can under the new rules be extended by another year in case of a new therapeutic indication that is of significant benefit.

A drug may also qualify for an orphan medicinal product, or OMP, designation in the European Union. As explained above, we do not expect that Desmoteplase will qualify as an OMP. However, we may in the future identify compounds or develop drug candidates that qualify for orphan drug designation. An application for

designation as OMP must be submitted prior to submission of an application for marketing approval. OMP designation qualifies a drug for ten years of market exclusivity once the drug is approved. OMP designations are issued by the European Commission, acting on the advice of an expert committee, with representatives of the Member States, patient organizations, and other interests. OMP designation will be granted if the product meets either of two criteria: one based on prevalence criteria (the disease or condition must affect no more than five per ten thousand persons in the European Union); and the other based on a determination that it would be infeasible economically to develop the product without orphan drug incentives. In addition, it must be shown that there is no satisfactory authorized method for diagnosis, prevention or treatment of the respective disease in the European Union. However, if a medicinal product is deemed orphan and if there is a satisfactory alternative already approved in a European Member State, then the product is eligible for an OMP designation if it is of significant benefit to patients. During the development and regulatory review phase, the orphan drug status can be lost if the designation criteria are not met anymore, for instance because a new treatment for the disease in question is approved.

Although orphan drug exclusivity in the EU is granted for ten years, at the end of the fifth year, any member state can initiate proceedings to restrict that period to six years if it believes that the criteria for orphan designation no longer apply (for example, because the prevalence of the disease has increased or the manufacturer is earning a sufficient profit not to maintain the exclusivity). In addition, competitive products can be approved during the marketing exclusivity period, for example, if they are not "similar" to the original product or are safer, more effective, or otherwise clinically superior to it.

Supplementary Protection Certificates

In 1992, the European Union introduced Regulation 1768/92 creating a Supplementary Protection Certificate, or SPC, for authorized drugs. While an SPC does not constitute an extension to the patent from which a drug derives, it does confer certain rights of a similar nature in respect of a drug protected under a patent after the patent has expired. The period during which the SPC is effective depends on the date on which the patent application was filed and the grant of the first marketing authorization for the drug but may not extend beyond five years.

Regulation in Other Countries

Approval of a product by comparable regulatory authorities may be necessary in foreign countries prior to the commencement of marketing of the product in those countries, whether or not U.S. or European approval has been obtained. The approval procedure varies among countries and can involve requirements for additional testing. The time required may differ from that required for approval in the United States or Europe. In general, each country has its own procedures and requirements, many of which are time consuming and expensive. Thus, there can be substantial delays in obtaining required approvals from foreign regulatory authorities after the relevant applications are filed. Several years ago, representatives of the regulators in the United States, the European Union and Japan launched the ICH, a collaborative effort with the goal of streamlining the development of medicinal products by harmonizing the applicable procedures in the three regions. The ICH's standardization efforts to date have resulted in, among others, the adoption of technical guidelines, guidelines for good clinical practice and for the conduct of preclinical and clinical trials and a core global dossier for marketing applications known as the Common Technical Document, or CTD. The guidelines, which have been adopted by the FDA, the EMEA and similar regulatory authorities in other countries, set forth requirements for facilities, equipment, supplies and personnel engaged in the conduct of studies. They also require that written standard operating procedures are followed during the conduct of studies and for the recording, reporting and retention of study data and records. The CTD provides a common format for the submission of applications for regulatory approval to regulatory authorities in the three ICH regions. The CTD became the required submission format in the European Union and Japan in July 2003. While the FDA has not mandated that submissions be made in CTD format, it has indicated its preference for this submission format. Non-ICH regions such as Eastern and Central Europe, Latin America and China have also indicated that CTD will be an acceptable submission format. However, the CTD does not address the content of submissions. Therefore, the content of dossiers submitted to regulatory authorities may still vary in accordance with different regional requirements and, accordingly, we must seek separate approval in each region. However, we design our development programs, particularly the program for the development of Desmoteplase, such that the results of the preclinical and clinical trials should be useable worldwide, particular in the ICH territory.

Our governing bodies are our management board (*Vorstand*), our supervisory board (*Aufsichtsrat*) and our general shareholders' meeting (*Hauptversammlung*). The powers vested in these bodies are governed by the German Stock Corporation Act (*Aktiengesetz*), our articles of association (*Satzung*) and the respective rules of procedure (*Geschäftsordnung*) of our management board and supervisory board.

Our management board conducts our business in accordance with the relevant statutes, our articles of association and our management board's rules of procedure. It represents our company in dealing with third parties.

Our management board is responsible for ensuring that appropriate risk management and risk control systems are implemented within our group, so that any developments that could jeopardize our continuing existence are recognized at an early stage. Our management board is further obliged to submit periodic reports, at least on a quarterly basis, to our supervisory board on the status of our business, particularly on developments in our revenues and the situation of our company and our subsidiaries. In the last supervisory board meeting of each fiscal year, our management board must report on the intended business policy and other key issues relating to enterprise planning, present a budget for the following fiscal year and present a medium-term budget. Our management board is also required to report to our supervisory board in a timely fashion on any transactions that may be significant with respect to our profitability or liquidity in order to give our supervisory board the opportunity to express its opinion on such transactions prior to their execution. Our management board must report any important matters to the chairman of our supervisory board. Important matters may include matters involving affiliates if such matters could have a material effect on us. Simultaneous membership on the management board and supervisory board of a German stock corporation is not permitted. However, a simultaneous membership that results from a member of the supervisory board taking a seat on the management board for a period of maximum one year is possible in exceptional cases. During this period, the delegated member may not perform any duties for our supervisory board.

Our supervisory board appoints the members of our management board and is entitled to remove them for cause. Our supervisory board advises our management board on managing our company and oversees its management activities. Pursuant to the German Stock Corporation Act (*Aktiengesetz*), our supervisory board is not authorized to manage our company.

The members of our management board and our supervisory board owe duties of care and loyalty to our company. In this regard, members of these governing bodies must take into consideration a broad spectrum of interests, in particular, those of our company, our shareholders, our employees and our creditors. Our management board must also take into consideration the shareholders' rights to equal treatment and to receive information on an equal basis. In the event that the members of our management board or supervisory board breach their duties, they are jointly and severally liable to us for damages. The members of our management board and supervisory board are currently covered by directors and officers insurance. For more information on the risk related to the loss of insurance coverage or insufficient insurance coverage under the D&O insurance, see "Risk Factors — Risks Related to Our Business. We may have difficulty maintaining directors and officers insurance in sufficient amounts at commercially viable rates, which may impair our ability to recruit and retain qualified directors and officers and have an adverse impact on our results of operations and financial condition.

Under currently applicable German law, a shareholder has no right to commence a direct legal action against members of our management board or supervisory board for breach of their fiduciary duties. Only we are entitled to claim damages from members of our management board or supervisory board. We may not waive or settle any claim until three years after the claim arises and only if our general shareholders' meeting so resolves by simple majority, provided that no minority of shareholders holding an aggregate of 10% or more of our registered share capital raises a written objection.

Under German law, individual shareholders (like any other person) are prohibited from exercising their influence over our company in order to cause a member of our management board or supervisory board to act in a manner that would harm us. Shareholders who have a controlling influence may not use this influence to cause us to act against our interest, unless they compensate us for the resulting damage. Any person who uses

his or her influence to cause a member of our management board or supervisory board, an authorized representative (*Prokurist*) or any person holding a commercial power of attorney to act in a manner that harms us or our shareholders, will be obliged to compensate us and our shareholders for the resulting damage. In addition, the members of our management board and supervisory board are jointly and severally liable for breach of their duties.

Management Board

Our management board currently consists of four members. Our supervisory board determines the size of our management board. According to our articles of association, our management board must consist of at least two members. Our supervisory board may appoint a member of our management board as chairman and may appoint replacement management board members.

Members of our management board are appointed by our supervisory board for a maximum term of five years. Members may be re-appointed and their term may be extended for successive five-year periods. Our supervisory board may revoke the appointment of a management board member prior to the expiration of his or her term of office for cause, such as a gross breach of duty or if our general shareholders' meeting passes a vote of no confidence in relation to the relevant management board member. Revocations of appointments to our management board are effective immediately until such time as a court issues a binding ruling that there was no just cause for such revocation.

Pursuant to our articles of association, our company is represented both judicially and extra-judicially jointly by two management board members or by one management board member jointly with an authorized representative (*Prokurist*). Moreover, our supervisory board may grant sole power of representation to individual or all members of our management board and exempt them from the obligations pursuant to Section 181 alternative 2 of the German Civil Code (*Bürgerliches Gesetzbuch, BGB*).

According to our articles of association, our supervisory board may adopt rules of procedure for our management board, which may define, among other matters, those transactions which require the consent of our supervisory board. Such rules of procedure were adopted by our supervisory board by way of a resolution dated September 6, 2004. According to these rules of procedure, our management board must obtain the consent of our supervisory board for certain transactions, generally prior to conducting the relevant transaction or taking the relevant measure. This applies to, among other things, the approval of the financial plan for the current fiscal year, changes to the organization or structure of our company, measures that have a material impact on the development of our company, sales or transfers of all or a substantial portion of our assets, the creation of companies or the acquisition of stakes and the conclusion of inter-company agreements, to the extent that such measures have not already been provided for in the annual financial plan approved by our supervisory board. The same applies to the acquisition, encumbrance or sale of real property or property-like rights, investments that exceed the approved financial plan by € 50,000, expenditures that exceed certain items of the approved financial plan by more than 5% or more than € 200,000 and certain measures concerning the acquisition, licensing or sale of intellectual property rights. Our supervisory board must also approve measures regarding subsidiaries, such as the approval of our annual financial statements, the adoption of resolutions concerning the appropriation of profits, the appointment or revocation of appointments of management board members or other members of our governing bodies and other measures that require a resolution by our shareholders or by the general shareholders' meeting of the subsidiary pursuant to its articles of association or statutory requirements.

Resolutions of our management board are passed by a simple majority of its members, unless other majorities are stipulated by statute, our articles of association or the rules of procedure.

The following table shows the members of our management board and their relevant areas of responsibility:

Name	Age	Appointed from	Appointed until	Area(s) of responsibility
Dr. Wolfgang Söhngen	51	June 15, 2004	August 31, 2007	Chairman of the management board, Chief Executive Officer
Alexander Vos	42	Sept. 1, 2004	August 31, 2007	Marketing, sales, business development and partnering Chief Operating Officer
Dr. Mariola Söhngen	43	June 15, 2004	August 31, 2007	Drug development, Chief Medical Officer
Bernhard Hofer	43	Sept. 1, 2004	August 31, 2007	Finance and IP, Chief Financial Officer

Dr. Wolfgang Söhngen. Dr. Wolfgang Söhngen, Chief Executive Officer, is chairman of the management board and co-founder of both PAION AG and PAION Deutschland GmbH. Mr. Söhngen initially worked as pharmaceutical representative for Pfizer Pharma GmbH. Following his medical degree (1984), Dr. Söhngen acquired a Ph.D. (1988), followed by post-doctoral studies in cardiovascular pharmacology (1986-1987), and obtained a Master of Business Communication (1999). Prior to founding Paion GmbH (operating under the name PAION Deutschland GmbH since October 28, 2004), he was employed by Grünenthal GmbH, a globally operating pharmaceuticals company based in Aachen, where his tasks included clinical development, project management, corporate development and strategic planning. 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 specialized in healthcare, and since 2004 in his position as chairman of the management board of PAION AG and since 2000 as managing director of PAION Deutschland GmbH. Dr. Wolfgang Söhngen is married to Dr. Mariola Söhngen, who is also a member of our management board.

Alexander Vos. Alexander Vos, Chief Operating Officer, is responsible for marketing, sales, business development and partner relations. Following his studies of pharmacy and pharmacology in Amsterdam and at the Mayo Clinic in the United States, he obtained an MBA from Stanford University in the United States (1989). After completing his studies, Mr. Vos spent five years in strategy consulting working for the international pharmaceutical practice of McKinsey & Co. He subsequently worked at Genzyme Therapeutics Europe, holding the positions of European marketing director and director of business development, before assuming global responsibility for the joint venture between Genzyme Corporation and Pharming NV, which pursued the goal of developing an innovative therapy for a genetic muscular disease. Before joining our 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.

Dr. Mariola Söhngen. Dr. Mariola Söhngen is a co-founder of both PAION AG and PAION Deutschland GmbH. As a member of our management board and Chief Medical Officer, she is responsible for drug development. Following her medical degree (1987), Dr. Söhngen obtained both a PhD in medicine (1988) and Master of Business Communication (1999). Before assuming directorial responsibility for our drug development, she worked for globally operating pharmaceutical companies (Grünenthal GmbH and Trommsdorf GmbH & Co. KG Arzneimittel, a subsidiary of Ferrer Internacional S.A.), where she was responsible for project coordination, licensing, strategic project evaluation and interfacing with marketing, in addition to the clinical development of numerous products. In 1998 she founded her own company, Bootcamp, that prepared entrants in the job market for professions in the health care industry. Dr. Mariola Söhngen is married to Dr. Wolfgang Söhngen.

Bernhard Hofer. Bernhard Hofer is our Chief Financial Officer. Following completion of his vocational bank training (1982), Mr. Hofer passed the bank officer's exam (*Bankfachwirt*) (1986). 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, including risk assessment and management, investment and corporate planning, monitoring of critical and non-performing loans, as well as special and project financing, such as the refinancing of venture capital funds. 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 Deutschland GmbH as Head of Finance. He has been a member of our management board since September 2004.

The members of our management board may be reached at our business address. Within the past five years, no sanctions have been imposed on the members of our management board for violations of any domestic or international criminal or securities law provisions.

At present, the members of our management board do not hold any seats on supervisory boards or other governing bodies outside our group.

None of the companies in our group has granted loans to the members of our management board or assumed guarantees or warranties in respect of them. During the current and previous fiscal year, the members of our management board were not and are not involved in any of our transactions outside our normal business operations, nor in any other unusual transactions (with regard to form or content) of our group. The members of our management board are also not involved in any other such unusual transactions that date back to earlier fiscal years but have not yet been completed.

It takes two members of our management board or one member of our management board acting jointly with an authorized representative (*Prokurist*) to represent us judicially or extra-judicially. Moreover, Dr. Wolfgang and Dr. Mariola Söhngen, Mr. Vos and Mr. Hofer are authorized to execute legal transactions on behalf of us with themselves as representatives of a third party. At December 31, 2004, Dr. Wolfgang Söhngen and Dr. Mariola Söhngen jointly held 1,341,689 of our shares (see "— Shareholdings of the Members of Our Management Board"), corresponding to 13.41% of our registered share capital prior to completion of the IPO Capital Increase (see "General Information on PAION and PAION AG — Shareholder Structure (prior to and following completion of the Offering)").

All members of our management board are also managing directors of PAION Deutschland GmbH. PAION Deutschland GmbH is represented by two managing directors or one managing director acting jointly with an authorized representative (*Prokurist*). This also applies to Dr. Wolfgang and Dr. Mariola Söhngen who are therefore authorized to legally represent both PAION AG and PAION Deutschland GmbH. All managing directors of PAION Deutschland GmbH are authorized to execute legal transactions with themselves for their own account or as representatives of a third party.

Apart from the family relationship between Dr. Wolfgang and Dr. Mariola Söhngen, none of the members of our management board or supervisory board is a member of the same family as any other member of our management board or supervisory board. None of the members of our management board or supervisory board has been appointed or employed elsewhere based on a contract or other such agreement between the relevant member of our management board or supervisory board and a third party.

Compensation of Management Board Members

In fiscal year 2004, the total compensation of Mr. Hofer, Dr. Wolfgang Söhngen, Dr. Mariola Söhngen and Mr. Vos amounted to € 715,812. This compensation consisted of emoluments in the amount of € 240,686 granted by PAION AG to the members of its management board, and remuneration in the amount of € 475,126 granted to the current members of our management board by PAION Deutschland GmbH.

Since September 1, 2004, employment contracts exist only between PAION AG and the members of its management board. We do not have a company pension scheme.

We have entered into employment contracts with all current members of our management board. Pursuant to these contracts, the total compensation of the members of our management board consists of a fixed basic salary and a variable annual bonus. For a description of the participation plan in which members of our management board may participate on the same terms and conditions as other employees, including an exercise price of 100% of the Offer Price for stock options to be issued immediately after listing, see "— Employee Participation Plans — Management and Employee Participation Plan 2005 of PAION AG". In addition to the contractually agreed fixed and variable components of this compensation, we have also obtained specific insurance coverage for the members of our management board. In addition, we reimburse their reasonable expenses and pay up to 50% of the costs of their health and nursing care insurance. All members of our management board have been provided with a company car. In addition, the members of our management board are insured up to a certain amount under our current directors and officers insurance

against claims arising in connection with their conduct as members of the management board. The premiums of this insurance are borne by us.

If a change of control occurs and Mr. Hofer's or Mr. Vos's employment with the company terminates within a certain period of time after the occurrence of such change of control, Mr. Hofer or Mr. Vos, as the case may be, is entitled to a contractually agreed severance payment in an amount equal to his capitalized and discounted total fixed emoluments over the original residual term of his employment, subject to a minimum entitlement of 150% of his annual fixed base salary. A change of control entitling Mr. Vos and Mr. Hofer to terminate their respective employment contracts occurs (i) if we are notified pursuant to Section 21 German Securities Trading Act (*Wertpapierhandelsgesetz*) that 50% of the voting rights in our company have been acquired or that this threshold has otherwise been reached or exceeded, (ii) if a proportion in the voting rights of our company is obtained that would correspond or have corresponded to at least one half of the voting share capital of our company being represented at the current or last general shareholders' meeting, taking into account third-party voting rights pursuant to Section 22 German Securities Trading Act, (iii) if we enter into a contract that subjects us to the control of a third party, (iv) if our company is integrated into another company, and (v) if our company merges with another legal entity, provided that specified key figures do not fall below certain levels. However, an entitlement to severance payments in connection with a change of control arises only if, in addition to the change of control, our strategy changes materially, the relevant board member's area of responsibility changes materially, or his place of employment is relocated by at least 300 kilometers.

Both Dr. Wolfgang Söhngen and Dr. Mariola Söhngen are subject to a two-year post-contractual non-compete clause. During this time, Dr. Wolfgang Söhngen and Dr. Mariola Söhngen are entitled to compensation in the amount of 75% of their average fixed salary over the twelve months preceding their departure from our company. We may waive the post-contractual non-compete clause prior to terminating the employment contract. In this case, we are released from our obligation to pay compensation after six months following the termination of the employment contract.

The following table summarizes the compensation paid to our management board in fiscal year 2004:

Name	Annual salary (€)[1]	Bonus 2004 (€)	Other annual compensation (€)[1][2]	Total compensation from PAION AG (actually received) (€)[2]	Total compensation from PAION Deutschland GmbH (actually received) (€)[2]
Dr. Wolfgang Söhngen	180,000	50,000	22,383	66,623	193,303
Alexander Vos	200,000	20,000	6,256	69,920	19,272
Dr. Mariola Söhngen	170,000	50,000	16,024	61,159	181,914
Bernhard Hofer	120,000	10,000	5,448	42,984	80,637
Total	670,000	130,000	50,111	240,686	475,126

(1) The compensation of the members of our management board was renegotiated on September 1, 2004 at the time of their appointment. The figures show the compensation in effect as from September 1, 2004, extrapolated over all of 2004.

(2) Includes, among other things, our contributions to accident and health insurance schemes. Payments made by us in connection with the recently purchased directors and officers insurance have not been taken into account. Moreover, the management board members are provided with leased company cars. The total compensation of Mr. Hofer disclosed above does not include a cash payment of € 91,446 under the employee participation plan 2001-2004.

Shareholdings of the Members of Our Management Board

The following table shows the number of shares and stock options held by each member of our management board as of February 9, 2005, based on a total of 10,005,552 shares issued.

Name	Shares	% of total shares issued	Stock options
Dr. Wolfgang Söhngen	672,245[(1)(2)]	6.72	0
Alexander Vos	0	0	0
Dr. Mariola Söhngen	675,046[(1)(2)]	6.75	0
Bernhard Hofer	0	0	0
Total	1,341,689[(3)]	13.41[(3)]	0

(1) Includes 5,602 shares (for each of Dr. Wolfgang Söhngen and Dr. Mariola Söhngen) held by Dres. Söhngen Beteiligungs GmbH & Co. KG, in which Dr. Wolfgang Söhngen and Dr. Mariola Söhngen each hold 50% as limited partners and through Dres. Söhngen Beteiligungs GmbH as general partner.

(2) The shares will be held by Westend Treuhandgesellschaft mbH as a trustee until the shares are admitted to trading on the Official Market Segment of the Frankfurt Stock Exchange.

(3) Does not include the 5,602 shares held by Dres. Söhngen Beteiligungs GmbH & Co. KG.

In addition, Mr. Hofer received 34,292 subscription rights from PAION Deutschland GmbH, which entitle him to subscribe for shares of PAION Deutschland GmbH. The subscription rights were granted to Mr. Hofer before he became a member of our management board. Following a reorganization of our employee participation plan 2001-2004, the subscription rights now relate to phantom shares of PAION AG and have been and will be partially settled against a cash payment. For information on the reorganization and terms and conditions of the plan, see "— Employee Participation Plans — Employee Participation Plan 2001-2004 of PAION Deutschland GmbH".

Supervisory Board

Pursuant to our articles of association, our supervisory board consists of three members elected by our general shareholders' meeting in accordance with the statutory requirements of the German Stock Corporation Act (*Aktiengesetz*). The members of our supervisory board are appointed for a term of office that ends at the conclusion of the general shareholders' meeting passing a resolution discharging our supervisory board for the fourth fiscal year following the commencement of the relevant member's term of office. The fiscal year in which the term commences is not included in calculating this period. Our general shareholders' meeting can provide for a shorter term. A successor to any supervisory board member resigning prior to the expiration of his or her term is appointed for the remainder of the term of the departing supervisory board member, unless our general shareholders' meeting provides otherwise. A substitute member may be appointed together with a member of our supervisory board. The substitute member replaces the supervisory board member in the event of his or her premature resignation. The term of office of the substitute member ends upon expiration of the resigning supervisory board member's scheduled term of office. Pursuant to our articles of association, any member or substitute member of our supervisory board may resign, without providing a reason, by giving one month's notice. Such notice must be addressed to the chairman of our supervisory board and our management board. Any member of our supervisory board can resign with immediate effect for cause.

Following completion of the Offering, we will consider expanding our supervisory board to six members. Our management board is currently considering submitting to the 2005 general shareholders' meeting an appropriate proposal to amend our articles of association to provide for an enlarged supervisory board.

Our supervisory board elects a chairman and deputy chairman from among its members. Should the chairman or the deputy chairman leave office prior to the expiration of his or her scheduled term of office, our supervisory board must elect a new chairman or deputy chairman for the departing chairman's or deputy chairman's remaining term of office.

Our supervisory board must meet twice in each half of the calendar year. Resolutions of our supervisory board are generally passed in meetings. Pursuant to our articles of association, resolutions may be passed without a meeting by written, telegraphic, telephone, fax or electronic vote, provided that the chairman of our supervisory board so determines in an individual case. Our articles of association provide that our supervisory

board is quorate if at least one half of the total number of its members participate in a vote on a resolution. However, this applies only if at least three members of our supervisory board attend the meeting. Since our supervisory board currently comprises only three members, all members must attend a meeting for it to be quorate. Our supervisory board adopts resolutions by a simple majority of the votes cast, unless a different majority is required by law or our articles of association.

Our supervisory board adopted rules of procedure by way of a resolution dated September 6, 2004. These rules govern, in particular, the rights and obligations of committees that our supervisory board can appoint from among its members and to whom the board can delegate responsibilities.

The following table shows the members of our supervisory board:

Name	Age	Appointed from	Appointed until[1]	Area(s) of responsibility
Dr. Walter Wenninger	66	June 2, 2004	2005	Chairman
Dr. Franz A. Wirtz	72	June 2, 2004	2005	Deputy Chairman
Prof. Dr. Erich Schlick	52	June 2, 2004	2005	Member

(1) The term of office ends following conclusion of our general shareholders' meeting in the year indicated.

Dr. Walter Wenninger. Dr. Walter Wenninger is the chairman of our supervisory board. He has been associated with us since July 2003 as a member of the advisory board of PAION Deutschland GmbH. Dr. Wenninger 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. In addition to serving as chairman of our supervisory board, Dr. Wenninger is also deputy chairman of the supervisory board of EPIDAUROS AG, Benried, and of Verlags- und Medien Aktiengesellschaft Köln (VEMAG) and a member of the board of directors of Arrow Therapeutics Ltd., London. 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.

Dr. Franz A. Wirtz. Dr. Franz A. Wirtz is the deputy chairman of our supervisory board and a co-founder of PAION Deutschland GmbH. Since the foundation of PAION Deutschland GmbH, he has been chairman of its advisory board. Dr. Wirtz spent many years working in the pharmaceuticals industry before becoming involved with our company. 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. In addition to serving as the deputy chairman of our supervisory board, Dr. Wirtz is also a member of the supervisory boards of QIAGEN N.V. and DASGIP AG. He 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, Lüttich, Maastricht) to companies in the field of life sciences.

Prof. Dr. Erich Schlick. Prof. Dr. Erich Schlick is a member of our supervisory board and 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, 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, Maryland, United States, 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 a director and the head of the healthcare sector for Germany. In addition to serving on our supervisory board, Prof. Dr. Schlick is also a member of the supervisory board of 4SC AG, a member of the advisory boards of ProCorde GmbH and Immatics GmbH and a member of the administrative board of the Zentralinstitut für Seelische Gesundheit Mannheim, which is affiliated with the University of Heidelberg.

Compensation of Supervisory Board Members

The compensation of supervisory board members may generally be either set forth in the articles of association or approved by the general shareholders' meeting. However, under applicable stock corporation law, for the 2004 fiscal year and the period leading up to our general shareholders' meeting that will resolve on the ratification of the actions of our supervisory board members for 2004, only our general shareholders' meeting may determine the compensation of our supervisory board members. Therefore, a resolution to that effect may only be adopted by our general shareholders' meeting 2005.

Starting with our general shareholders' meeting in 2005, and in accordance with our articles of association, our supervisory board members will receive an annual payment of € 11,000 plus € 1,000 for each board meeting in which they participate personally. The chairman will receive twice this amount, the deputy chairman will receive 1.5 times this amount. A member who only serves on our supervisory board for part of a fiscal year will receive this compensation on a pro rata basis.

In addition, members of our supervisory board are reimbursed for any value-added tax levied on reimbursements of their expenses or their supervisory board compensation, provided that they are entitled to charge the value-added tax to the company separately and provided they exercise this right.

The members of our supervisory board are insured up to a certain amount under our current directors and officers insurance against claims arising in connection with their conduct as members of the supervisory board. The premiums of this insurance are borne by us.

Shareholdings of Supervisory Board Members

The following table shows the number of shares and stock options held by each member of our supervisory board as of February 9, 2005, based on a total of 10,005,552 shares issued.

Name	Shares	% of total shares issued	Stock options
Dr. Walter Wenninger	0	0	0
Dr. Franz A. Wirtz	182,073[(1)]	1.82	0
Prof. Dr. Erich Schlick	0	0	0
Total	182,073	1.82	0

(1) The shares will be held in trust by Westend Treuhandgesellschaft mbH until our shares have been admitted to trading on the Official Market Segment of the Frankfurt Stock Exchange. Subsequently the shares will be held by Dr. Franz Wirtz GmbH, which is wholly owned by Dr. Wirtz. In addition to these shares, Dr. Wirtz's wife holds 28,011 of our shares, which will be held through Westend Treuhandgesellschaft mbH until our shares have been admitted to trading on the Official Market Segment of the Frankfurt Stock Exchange. Moreover, Dr. Wirtz holds 10% of the shares of Dr. Franz Wirtz Vermögensverwaltungsgesellschaft GbR, which owns a further 140,056 of our shares, which will be held through Westend Treuhandgesellschaft mbH until our shares have been admitted to trading on the Official Market Segment.

In addition, Mr. Wenninger received 16,806 subscription rights from PAION Deutschland GmbH, which entitle him to subscribe for shares of PAION Deutschland GmbH. The subscription rights were granted to Dr. Wenninger following his appointment to our supervisory board for his advisory work for PAION Deutschland GmbH prior to joining our supervisory board. The subscription rights entitle him to purchase shares in PAION Deutschland GmbH. Following a reorganization of the employee participation plan 2001-2004, the subscription rights now relate to phantom shares of PAION AG and have been partially settled against a cash payment. For information on the reorganization and terms and conditions of the employee participation plan, see "— Employee Participation Plans — Employee Participation Plan 2001-2004 of PAION Deutschland GmbH".

None of the companies in our group has granted loans to the members of our supervisory board or assumed guarantees or warranties in respect of them. During the current and previous fiscal year, the members of our supervisory board were not and are not involved in any of our transactions outside our normal business operations, nor in any other unusual transactions (with regard to form or content) of our group. The members of our supervisory board are also not involved in any other such unusual transactions that date back to earlier fiscal years but have not yet been completed.

The members of our supervisory board may be contacted at our business address.

General Shareholders' Meeting

Our general shareholders' meeting is a meeting of our shareholders, held at our registered office, at a German city having a stock exchange or in a German city with more 100,000 residents. The meeting is generally called by our management board. Each no par value share carries one vote at our general shareholders' meeting.

Our general shareholders' meeting adopts resolutions regarding, in particular:

- the appointment of members to our supervisory board;
- the appropriation of our balance sheet profit (*Bilanzgewinn*);
- the formal approval of acts of the members of our management or supervisory boards;
- the appointment of our auditors;
- capital procurement and capital reduction measures; and
- amendments to our articles of association.

Unless otherwise stipulated by mandatory statutory provisions or provisions of our articles of association, resolutions of our general shareholders' meeting may be adopted by a simple majority of the votes cast, and, if statutory provisions require a capital majority, by a simple majority of the share capital represented at the adoption of the resolution. Pursuant to our articles of association, this also applies to resolutions amending our articles of association and to capital increases and capital reductions, unless a different majority is required by law. Stock corporation law requires that resolutions of key importance must be passed by a majority of at least three quarters of the share capital represented at the adoption of the resolution. In such cases, therefore, the stipulated majority exceeds the majority prescribed by our articles of association. Resolutions of key importance include in particular:

- capital increases which exclude subscription rights;
- capital reductions (except for share redemptions, subject to satisfaction of certain conditions);
- the creation of authorized or conditional capital;
- the carve-out, spin-off or transfer of all of our assets;
- our entering into inter-company agreements (in particular domination agreements and profit and loss transfer agreements);
- any change of corporate legal form; and
- the dissolution of our company.

Our general shareholders' meeting may be called by our management board, our supervisory board or by shareholders holding an aggregate of 5% of our share capital. Our supervisory board must call a general shareholders' meeting if our best interests so require. Our annual general shareholders' meeting is held within the first eight months of each fiscal year. Pursuant to our articles of association, shareholders who deposit their shares during normal business hours with an agent (to be designated in the invitation convening the general shareholders' meeting) or with us at least seven business days prior to the date of the general shareholders' meeting, and leave such shares there until the end of our general shareholders' meeting may attend the general shareholders' meeting and exercise their voting rights. The voting right may be exercised by proxy.

Neither German law nor our articles of association restrict the rights of foreign shareholders or shareholders who are not domiciled in Germany to hold our shares or to exercise the voting rights attached to them.

Employees

The following table shows our average employee headcount for 2001, 2002, 2003 and 2004.

	Average			
	2001	2002	2003	2004
PAION employees	32	56	52	48

In the course of 2003, our employee headcount declined from an average of 56 in 2002 to an average of 52 (2001: average of 32), due primarily to our focus on Desmoteplase. Approximately 35 employees worked in development in 2003 (2002: approximately 40; 2001: approximately 24) and approximately 17 in administration (2002: approximately 16; 2001: approximately 8).

As of December 31, 2003, the regional distribution of our employees (by headcount) was as follows: 43 in Aachen and 4 in Berlin. However, research activities in Berlin, Germany were significantly reduced in 2004 (see "Business Description — Drug Development").

As of December 31, 2004, the absolute number of our employees was 50, the average number of our employees in 2004 was 48, of which an average of approximately 32 worked in development and an average of approximately 16 worked in administration (together with some trainees, students and temporary employees).

As of September 30, 2004, our employees (excluding members of our management board) held 357,865 subscription rights for phantom shares granted under the employee participation plan 2001-2004 (see "— Employee Participation Plans — Employee Participation Plan 2001-2004 of PAION Deutschland GmbH"). To the best of our knowledge, none of our employees (with the exception of members of our management and supervisory boards) hold shares in our company as of the date of this Offering Circular.

None of our employees are subject to collective wage agreements or similar contracts; we do not have a works council.

Employee Participation Plans

Employee Participation Plan 2001-2004 of PAION Deutschland GmbH

PAION Deutschland GmbH launched an employee participation plan ("the Plan"), in 2001/2002, which was extended in 2003 and 2004. Pursuant to this Plan, PAION Deutschland GmbH was authorized to grant to its employees and some of its external advisors subscription rights to shares to be created by means of a capital increase in a nominal amount of € 10,000 in total. Total subscription rights to shares in a nominal amount of € 8,000 were reserved for the issuance to employees of PAION Deutschland GmbH (excluding its management). The remaining 2,000 subscription rights were reserved for allotment to external advisors. Through the Plan, our employees were granted subscription rights in a nominal amount of € 7,000 and external advisors were granted subscription rights in a nominal amount of € 1,700.

The subscription rights granted participating employees and advisors a contractual claim against PAION Deutschland GmbH to acquire new shares of PAION Deutschland GmbH in connection with capital increases against payment of the nominal amount. In certain exceptional circumstances (for example, upon termination of the relevant employment or advisory contract or a trade sale of PAION Deutschland GmbH), the entitlement of participating employees and advisors could be settled in cash by PAION Deutschland GmbH. The subscription rights were non-assignable.

In connection with the preparation of the initial public offering, PAION Deutschland GmbH and participants in the plan agreed to a contractual amendment to settle the entitlements that participants had acquired against a cash payment in three installments, each of which was to settle one-third of the subscription rights. In order to calculate the settlement, the eligible claims were converted to (phantom) shares of PAION AG.

The first installment, or Part A, was already settled prior to the Offering by means of a cash payment in the aggregate amount of € 1.3 million (€ 8 per phantom share, including the subscription rights of Mr. Hofer), based on an estimated valuation of PAION Deutschland GmbH of € 90 million.

The second installment, or Part B, will be paid from the proceeds of the Offering approximately one month after our shares have been admitted to trading (see "Use of Proceeds"). The payment to be made from the proceeds will amount to approximately € 0.8 million in total based on the Offer Price of € 8.00 per Offered Share. The (phantom) shares will be settled at 75% of the Offer Price, less € 1.00 per (phantom) share to account for the fact that no capital contribution is required.

The third installment, or Part C, will be settled approximately one year after our shares have been admitted to trading at a ratio based on a reference share price to be calculated at that point in time. The reference share price will reflect the average, non-weighted, closing prices of our shares in Xetra trading during the ten trading days immediately preceding the end of the year following the admission of our shares to trading. However, the maximum amount payable to our employees for each (phantom) share is capped at 130% of the Offer Price less € 1.00 per share. PAION Deutschland GmbH is entitled to settle the compensation payment for Part C either wholly or in part by delivering our shares, whereby the valuation of the shares to be delivered will be based on the reference share price.

Management and Employee Participation Plan 2005 of PAION AG

A further participation model has been launched to ensure the participation of our management board members and employees in our continued success following execution of the Offering.

In connection with a new stock option plan that we just launched, we aim to grant the members of our management board and approximately one half of our current employees rights to purchase shares in our company (the "Stock Options"). The exercise price for Stock Options issued within one month after admission of our shares to trading will be 100% of the Offer Price. The exercise price for Stock Options issued at a later date will correspond to the price of our shares at the time of first issuance of Stock Options by our supervisory board in the relevant year. Each option entitles its holder to purchase one share of our company from the conditional capital created for this purpose against payment of the exercise price. The maximum amount of Stock Options that may be issued under this stock option plan equals 7% of the number of our shares outstanding after the IPO Capital Increase. Our supervisory board is responsible for determining the issuance of Stock Options to management board members and the further details of the issuance; with respect to employees, these decisions are the responsibility of our management board. Stock Options may only be exercised on a staggered basis after a holding period of two years. Moreover, exercise is contingent upon the price of our shares having risen by 1/240 per calendar month relative to price of our shares at the time the Stock Option was issued. Furthermore, the participating management board member or employee may only exercise up to 50% of his or her Stock Options during the first year following expiration of the holding period. Subsequently, up to a further 25% of the Stock Options may be exercised each year. In the event of a change of control involving our company, the holding period for the issued Stock Options terminates upon expiration of two years from the issue date. The shares needed for the plan will be derived from the conditional capital in the amount of € 1,000,000 approved by our general shareholders' meeting. An exercise of Stock Options beyond this amount may also be satisfied through a cash payment equal to the difference between the exercise price and the share price on the date of exercise. 45% of the amount is reserved for the four members of our management board and 55% for other participating employees.

Corporate Governance

We intend to substantially adhere to the recommendations of the German Corporate Governance Code as currently in effect and adopted on May 21, 2003, and will issue and publish the requisite declaration pursuant to Section 161 German Stock Corporation Act (*Aktiengesetz*) during the course of the current fiscal year.

Business Transactions and Legal Relationships with Related Parties

Two loan agreements were entered into between PAION AG and our subsidiary PAION Deutschland GmbH in September and October 2004, in which PAION Deutschland GmbH approved a loan facility for PAION AG of up to € 2,050,000 at an interest rate of 5.50% p.a. The agreements run for an indefinite term and can be terminated by either party giving 14 days' notice. Any outstanding balance will become due for repayment 6 weeks after effectiveness of the termination. As of December 31, 2004 and January 31, 2005, the amounts drawn down by PAION AG under the loan facility were € 780,000 and € 890,000, respectively.

As of December 31, 2004, Dr. Mariola Söhngen and Dr. Wolfgang Söhngen together held 1,341,689 of our shares (of which 5,602 shares were held by Dres. Söhngen Beteiligungs GmbH & Co. KG) (see "Directors and Employees — Management Board — Shareholdings of the Members of Our Management Board"). In addition, each of them has an employment contract with PAION AG and has been appointed a member of our management board and a managing director of PAION Deutschland GmbH (see "Directors and Employees — Management Board" for information on the resulting powers of representation).

In their capacity as shareholders of PAION Deutschland GmbH, our Existing Shareholders entered into a shareholders' agreement with PAION Deutschland GmbH prior to the Offering, which governs various rights and obligations relating to their position as shareholders. This shareholders' agreement was initially concluded to govern the shares of PAION Deutschland GmbH and has been extended several times. The existing shareholders' framework agreement was replaced in September 2004 by a new shareholders' agreement. This new agreement relates to rights and obligations associated with the shares of PAION AG, but otherwise grants the relevant parties substantially the same rights.

The content of both shareholders' agreements is in line with the obligations typically relating to private equity transactions. A voting trust arrangement has not been agreed. Once our shares have been admitted to trading, the currently valid shareholders' agreement will cease to be valid and lose its effect.

History

We were initially founded as Paion GmbH (which has been operating under the name PAION Deutschland GmbH since October 28, 2004) in July 2000 by the married couple Dr. Wolfgang Söhngen and Dr. Mariola Söhngen. Shortly thereafter, Prof. Dr. Wolf-Dieter Schleuning, Dr. Frank Wirtz and Dr. André Lamotte also became shareholders of Paion GmbH. The license for developing, manufacturing and marketing Desmoteplase was in-licensed from Schering AG at the beginning of 2001. The first Phase II clinical investigations on patients were conducted as part of the DIAS trial in the course of 2001, prior to our completing the acquisition of the Solulin patents in the same year. Following positive clinical trials of Desmoteplase in 2003, we agreed on a partnership with Forest in June 2004. Also in June 2004, PAION AG was founded as the holding company of our group (see below "— Foundation, Company Name, Registered Office, Fiscal Year and Duration").

As is typically the case with development stage companies operating in this field of business, we underwent several rounds of financing over the course our development; the disbursement of these financing rounds is typically contingent upon the achievement of contractually agreed targets (so-called *milestones*). The first financing round in 2000 in an amount of € 28.6 million was followed by further capital contributions of € 3.9 million in 2001, € 8.4 million in 2003, and € 9.8 million in 2004. The last financing round in May 2004 was based on a valuation of our company of approximately € 79.8 million.

Foundation, Company Name, Registered Office, Fiscal Year and Duration

We were initially founded as PAION PHARMA AG on June 2, 2004 with a share capital of € 50,000.00. Each of our founding shareholders, Dr. Wolfgang Söhngen and Dr. Mariola Söhngen, subscribed for an amount of our share capital equal to € 25,000.00. We were registered in the commercial register of Aachen on June 30, 2004. On October 28, 2004, we changed our name to PAION AG.

On September 8, 2004, our shareholders' meeting resolved to raise our share capital by € 9,955,552.00 from € 50,000.00 to € 10,005,552.00, while excluding subscription rights. The capital increase was subscribed for by the shareholders of PAION Deutschland GmbH in amounts corresponding to their ownership interests in Paion Deutschland GmbH, and entered in the commercial register on September 27, 2004. For further information, see "Information on the Share Capital of PAION AG and Applicable Regulations — Registered Share Capital, Authorized and Conditional Capital — Development of the Registered Share Capital".

Our headquarters and registered office are at Martinstrasse 10-12, 56062 Aachen. We are registered in the commercial register of the district court (*Amtsgericht*) of Aachen under the number HRB 12528.

Our fiscal year is the calendar year.

The duration of our company is unlimited.

Purpose

The purpose of the business of PAION AG is research, development, production, distribution and marketing regarding pharmaceutical and medical products.

We are entitled to engage in all measures and business transactions which we deem necessary and useful for the achievement and realization of our purpose. To this end, we may, in particular, establish branches in Germany and abroad; found or acquire companies of the same or a similar type or acquire a stake in such companies; carve out parts of our business to subsidiaries, including joint ventures with third parties, dispose of stakes in other companies, conclude enterprise agreements or limit ourselves to the management of shareholdings.

Group Structure

PAION AG is the controlling company of our group and acts primarily as a holding company. PAION Deutschland GmbH is the sole subsidiary of PAION AG.

Shareholder Structure (prior to and following completion of the Offering)

The following table shows the names of our shareholders and their respective interests in our registered share capital, both prior to the Offering and excluding capital increases, and following completion of the Offering, that is, following completion of the IPO Capital Increase (including and not including full exercise of the Greenshoe Capital Increase resolved on February 9, 2005), provided that none of the Existing Shareholders will buy or sell additional shares before completion of the Offering or the Greenshoe Capital Increase (for information on the lock-up arrangement of the shareholders see "Underwriting — Lock-up"):

Shareholder's name (direct or indirect interest)[2]	Share ownership prior to the Offering		Share ownership following completion of the Offering			
			Assuming Greenshoe Capital Increase in full		Without Greenshoe Capital Increase	
	Shares	(%)[1]	Shares	(%)[1]	Shares	(%)[1]
3i Group[3]	1,946,779	19.46	1,946,779	12.36	1,946,779	12.97
Varuma AG	1,476,191	14.75	1,476,191	9.37	1,476,191	9.84
Dr. Wolfgang and Dr. Mariola Söhngen[4]	1,341,689	13.41	1,341,689	8.52	1,341,689	8.94
V-Sciences Investments Pte Ltd.	680,673	6.80	680,673	4.32	680,673	4.54
INNOVEN Group[5]	633,053	6.33	633,053	4.02	633,053	4.22
3i Bioscience Investment Trust plc[6]	557,422	5.57	557,422	3.54	557,422	3.71
Other Existing Shareholders[7]	3,369,745	33.68	3,369,745	21.39	3,369,745	22.46
Freefloat	0	0	5,750,000	36.50	5,000,000	33.32
Total	10,005,552	100.00	15,755,552	100.00	15,005,552	100.00

(1) Columns may not add due to rounding.

(2) A shareholders' agreement has been concluded among the Existing Shareholders, which will, however, terminate automatically upon listing our shares. Some of our shares will be held by Westend Treuhandgesellschaft mbH as trustee until our shares have been admitted to trading.

(3) Interests prior to and following completion of the Offering: 3i Group Investment LP (756,303 shares), Nordrhein-Westfalen Fonds GmbH (633,053 shares) and Strategic European Technologies N.V. (557,423 shares). We received notice that the contract between 3i Group and Strategic European Technologies N.V. will terminate on March 31, 2005. As from this date, voting rights attached to the shares held by Strategic European Technologies will be exercised by Strategic European Technologies N.V. itself.

(4) Interests prior to and following completion of the Offering: Dr. Wolfgang Söhngen (666,643 shares), Dr. Mariola Söhngen (669,444 shares) and Dres. Söhngen Beteiligungs GmbH & Co. KG (5,602 shares).

(5) Interests prior to and following completion of the Offering: INNOVEN 2000 FCPI n°4 (70,028 shares), INNOVEN 2001 FCPI n°5 (47,619 shares), INNOVEN 2002 FCPI n°6 (5,602 shares), INNOVEN 2003 FCPI n°7 (5,602 shares), FCPI POSTE INNOVATION (145,658 shares), FCPI POSTE INNOVATION2 (103,642 shares), FCPI POSTE INNOVATION3 (151,261 shares) and FCPI POSTE INNOVATION5 (103,641 shares).

(6) The fund formerly managed by the 3i Asset Management Ltd. is now managed by Schroders Investment Investment Ltd.

(7) Prior to and following completion of the Offering, none of the other Existing Shareholders has an interest of more than 5% in our company.

The above shareholder structure takes into account the sale by Dr. Wolfgang Söhngen and Dr. Mariola Söhngen of some of their shares in PAION Deutschland GmbH to other Existing Shareholders to settle personal debts, as agreed in the Share Purchase and Assignment Agreement dated August 19, 2004, that is, prior to the contribution of the shares in our company in September 2004; see also "Information on the Share Capital of PAION AG and Applicable Regulations — Registered Share Capital, Authorized and Conditional Capital — Development of the Registered Share Capital". The purchase price was based on a valuation of PAION Deutschland GmbH of € 90 million.

Auditors

Our auditors are Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Ludwigstr. 8, 50667 Cologne, Germany.

Our auditors have audited the annual financial statements of Paion GmbH (operating under the name PAION Deutschland GmbH since October 28, 2004) for the years ended December 31, 2001, December 31, 2002 and December 31, 2003, on the basis of International Financial Reporting Standards (IFRS), and the annual financial statements for the years ended December 31, 2002 and December 31, 2003 in accordance with German law (German Commercial Code, *HGB*) and issued an unqualified auditor's opinion with respect to

each. The annual financial statements of PAION Deutschland GmbH in accordance with German law (German Commercial Code, *HGB*) for the year ended December 31, 2001 were audited by Arthur Andersen Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft mbH and issued an unqualified auditor's opinion.

Notices, Paying and Depositary Agent

Announcements published by us in our designated journals are issued in the electronic Federal Gazette (*Bundesanzeiger*). Announcements pertaining to the shares will also be published in the electronic Federal Gazette (*Bundesanzeiger*) and in at least one national newspaper accredited by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). Announcements required by stock exchange regulations will be published in a national newspaper accredited by the Frankfurt Stock Exchange and, where required by the Stock Exchange Admission Regulations (*Börsenzulassungsverordnung*), in the printed version of the Federal Gazette.

Landesbank Baden-Württemberg, Stuttgart, Germany, has been designated as our paying agent and depositary.

Registered Share Capital, Authorized and Conditional Capital

Registered Share Capital and Shares

Our registered share capital before the IPO Capital Increase amounted to € 10,005,552.00 and was comprised of 10,005,552 ordinary bearer shares with no par value (no par value shares), each with a notional value of € 1. The share capital in the amount of € 10,005,552.00 was fully paid-in by means of a cash contribution of € 50,000.00 and a contribution in kind of € 9,955,552.00.

Upon entry of the completion of the IPO Capital Increase resolved by our extraordinary general shareholders' meeting on January 21, 2005 in the commercial register on February 9, 2005, our registered share capital amounts to € 15,005,552.00, comprised of 15,005,552 shares, each with a notional value of € 1. With respect to the Over-Allotment Option granted to UBS Limited for the account of the Underwriters to purchase up to 750,000 further shares (see "The Offering — Stabilization Measures/Over-Allotment Option"), we will, once the execution of the Greenshoe Capital Increase has been registered, have a registered share capital of up to € 15,755,552.00, comprised of up to 15,755,552 shares, each with a notional value of € 1.

Development of the Registered Share Capital

At the time we were founded on June 2, 2004, our registered share capital was € 50,000.00.

On September 8, 2004, our shareholders' meeting resolved to raise our share capital by € 9,955,552.00 from € 50,000.00 to € 10,005,552.00. This capital increase was made by means of a contribution in kind, with all shares of PAION Deutschland GmbH being contributed into shares of our company. In this transaction, PAION Deutschland GmbH's shareholders received PAION AG shares in ratio to their former shareholdings in PAION Deutschland GmbH pursuant to a so-called Contribution and Post-Formation Acquisition Agreement dated August 9, 2004.

In executing this capital increase against contributions in kind, given the proximity in time to the founding of our company, we complied with the stock corporation law provisions governing post-formation acquisitions. The formation by contribution in kind was audited by Wirtschaftsprüfungs- und Steuerberatungsgesellschaft Ebner Stolz & Partner, Stuttgart, Germany, and a corresponding report on the audit of the post-formation acquisition and contributions in kind was issued on September 7, 2004. The report was issued with the following opinion: "In accordance with the results of our diligent inquiry in accordance with Section 52 para. 4, 34, 183 para. 3 of the German Stock Corporation Act, we are, on the basis of the certificates, company's books and records that were submitted to us as well as the information and supporting documents received, of the opinion that the statements in the post-formation acquisition report by the supervisory board are true and complete. The value of the contribution in kind amounts to the lowest subscription price of the shares to be issued."

The share capital increase resulting from the capital increase against contributions in kind was entered in the commercial register on September 27, 2004.

Authorized Capital

By virtue of a resolution adopted by our general shareholders' meeting on December 30, 2004, our management board was authorized to increase the share capital of our company on or prior to December 30, 2009, subject to the consent of our supervisory board, in one or more transactions by up to an aggregate of € 5,000,000.00 by issuing up to 5,000,000 new shares against cash contributions or contributions in kind. In each case, only ordinary shares and/or non-voting preferred shares may be issued.

Our shareholders must be granted subscription rights. Our management board is, however, authorized to exclude fractional amounts from our shareholders' subscription rights, subject to the consent of our supervisory board. Shareholders' subscription rights may also be excluded by our management board, subject to the consent of our supervisory board, if the shares were issued in order to acquire companies, or interests in, or parts of, companies, or if, in connection with the Offering, new shares are issued to the Underwriters or the Global Coordinator to fulfill the Over-Allotment Option or if the arithmetical value of the shares does not exceed 10% of our current registered share capital, and the shares are issued at a price that is not substantially

lower than the stock exchange price. Furthermore, our management board, subject to the consent of our supervisory board, may exclude subscription rights to the extent necessary to grant the holders of convertible bonds, convertible warrants or options subscription rights to the extent that they would be entitled to such rights as shareholders following exercise of their conversion or option rights.

The details of the scope of the rights associated with our shares and their terms of issuance are decided upon by our management board, subject to the consent of our supervisory board.

The authorized capital was entered in the commercial register on January 5, 2005.

Conditional Capital

On December 30, 2004, our general shareholders' meeting adopted a resolution to conditionally increase our registered share capital by up to € 4,000,000.00 through the issuance of up to 4,000,000 shares with no par value (Conditional Capital 2004 I). The conditional capital increase will only be executed to the extent that holders or creditors of conversion rights or options linked to convertible or option bonds issued on or prior to December 30, 2009 by us or other companies under our direct or indirect majority control pursuant to the authorization resolutions adopted by our general shareholders' meeting on December 30, 2004 exercise their conversion or option rights, or holders or creditors of convertible bonds to be issued on or before December 30, 2009 by us or other companies under our direct or indirect majority control pursuant to the authorization resolutions adopted by our general shareholders' meeting on December 30, 2004 who are obligated to exercise their conversion rights do so. The new shares will participate in our balance sheet profit from the start of the fiscal year in which they are issued as a result of the exercise of conversion or option rights or the performance of conversion obligations; however, our management board may, subject to the consent of our supervisory board, determine that the new shares participate in our balance sheet profit from the start of the fiscal year for which a resolution by our general shareholders' meeting pertaining to the appropriation of balance sheet profits had not yet been adopted at the time the conversion or option rights were exercised or the conversion obligation was fulfilled.

In addition, pursuant to a resolution adopted by our general shareholders' meeting on December 30, 2004, our registered share capital was conditionally increased by an aggregate amount of up to € 1,000,000.00 through the issuance of an aggregate of up to 1,000,000 new ordinary bearer shares with no par value (Conditional Capital 2004 II). The conditional capital increase will be executed only to the extent that the holders of option rights granted by us in connection with the Management and Employee Participation Plan 2005 exercise their option rights (see "Directors and Employees — Employee Participation Plans — Management and Employee Participation Plan 2005 of PAION AG"). The new shares will participate in our balance sheet profit from the start of the fiscal year in which they were created as a result of the exercise of the subscription right.

In each case, our general shareholders' meeting has authorized our management board to determine the additional rights attached to the shares and the further terms and conditions of a conditional capital increase, subject to the consent of our supervisory board. The Conditional Capital 2004 I and Conditional Capital 2004 II were entered in the commercial register on January 5, 2005.

Participations

The following table shows the sole subsidiary of PAION AG

Name, registered office	PAION Deutschland GmbH, Aachen[1]
Managing Directors	Dr. Wolfgang Söhngen, Alexander Vos, Dr. Mariola Söhngen, Bernhard Hofer
Field of business	Development of pharmaceutical and medical products
Share capital	€ 178,500
Shareholding of PAION AG	100%
Book value of the shares pursuant to the German Commercial Code (HGB)[2]	€ 54,544,941.10
Reserves pursuant to the German Commercial Code (HGB)[2]	€ 50,931,731.34
Payables by PAION AG to PAION Deutschland GmbH[2]	€ 122,105.20
Annual net loss for fiscal year 2003 pursuant to the German Commercial Code (HGB)	(€ 9,769,463.72)

(1) Formerly operating under the name of Paion GmbH.

(2) All figures as of September 30, 2004 pursuant to the German Commercial Code (*HGB*).

Provisions in the Articles of Association and other Applicable Regulations

General

Each share carries one vote at our general shareholders' meeting. There are no voting restrictions.

The shares are represented by one or more global certificates without dividend coupons and are deposited with Clearstream Banking AG, Frankfurt am Main, as securities clearing and depositary bank. Pursuant to Section 6 (2) of our articles of association, shareholders are not entitled to receive physical share certificates, unless otherwise stipulated by the regulations of a stock exchange on which our shares are listed or by other statutory provisions.

Subscription Rights

Pursuant to the German Stock Corporation Act (*Aktiengesetz*) each shareholder is entitled to subscription rights with respect to any shares to be newly issued by way of a capital increase (including convertible bonds, option bonds, profit participation rights and participating certificates). Subscription rights are freely assignable, and subscription rights may be traded on German stock exchanges during a pre-determined period prior to the expiration of the subscription period. Our general shareholders' meeting may exclude subscription rights by adopting a resolution with a majority of at least three quarters of our registered share capital represented at the meeting at which the resolution to exclude subscription rights is adopted. In addition, an exclusion of subscription rights requires a report by our management board justifying the exclusion of subscription rights by explaining why the interest of our company in excluding subscription rights outweighs the interests of our shareholders in being granted subscription rights. Subscription rights pertaining to the issuance of new shares may be excluded without such a justification if

- we increase our capital against cash contributions;
- the amount of the capital increase does not exceed 10% of our existing registered share capital; and
- the issue price of the new shares is not substantially lower than the stock exchange price.

Increase of the Registered Share Capital

To increase our registered share capital, a resolution must be adopted by our general shareholders' meeting with at least a simple majority of the registered share capital represented at the meeting. Non-voting preferred shares may only be issued if authorized by a resolution adopted by our general shareholders' meeting with a majority of at least three quarters of the registered share capital represented at the meeting. Moreover, our

general shareholders' meeting may resolve to authorize our management board to increase our registered share capital by a specified total amount within five years, subject to the consent of our supervisory board, by issuing new shares (authorized capital). Finally, our shareholders may approve the creation of conditional capital in order to prepare for a merger with another corporation or to grant subscription rights to our employees and directors or to those of an affiliated company by means of an approval and authorization resolution. The aforementioned resolutions by our general shareholders' meeting to create an authorized or conditional capital must be adopted by a majority of three quarters of our registered share capital represented at the meeting. The aggregate nominal amount of our authorized capital created by our shareholders may not exceed one half of the amount of our registered share capital at the time our authorized capital is entered in the commercial register. The aggregate nominal amount of our conditional capital created by the shareholders may not exceed one half of the amount of our registered share capital at the time of adoption of the resolution on the conditional capital increase by our general shareholders' meeting. The total aggregate amount of our conditional capital for granting subscription rights to our employees and management or to those of an affiliated company may not exceed 10% of our registered share capital at the time the resolution regarding the conditional capital increase is adopted by our general shareholders' meeting.

A resolution to lower the registered share capital of our company must be adopted by a majority of at least three-quarters of the registered share capital represented at the meeting.

Shareholding Disclosure Obligations

Once our shares will have been admitted for trading on the Official Market Segment of the Frankfurt Stock Exchange both we and our shares will become subject to the German Securities Trading Act (*Wertpapierhandelsgesetz*). The German Securities Trading Act requires every shareholder whose voting interest in a listed company reaches, exceeds or falls below thresholds of 5%, 10%, 25%, 50% or 75% of the voting rights in such a company to notify such company and the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, BaFin) promptly, but no later than within seven calendar days, and in writing (i) that its shareholding has reached, exceeded or fallen below these thresholds, and (ii) the aggregate number of its voting rights. We are required to publish such information promptly, but no later than nine days after receiving such notification, in a national newspaper accredited by the relevant stock exchange. In connection with this requirement, the German Securities Trading Act sets forth various rules to ensure that share ownership is attributed to the person who actually controls the voting rights pertaining to such shares. For example, the shares held by a subsidiary are attributed to the parent company. The same applies to shares held by third parties on behalf of our company. A shareholder who fails to file a notification will be precluded from exercising any rights pertaining to these shares (including voting and dividend rights) until such time as the notification is filed. In addition, a fine may be imposed for failure to comply with the notification requirements.

In addition, pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), anyone whose voting interest in our company reaches or exceeds 30% of our voting share capital is required to publish this fact, along with the actual percentage of his or her voting rights, within seven days in at least one national newspaper accredited by the relevant stock exchange or via electronic media, and to subsequently make a mandatory public tender offer to all holders of ordinary shares in our company, unless an exemption has been granted. In this case, the calculation of the thresholds is again based not on the number of directly held voting rights, but on the number of voting rights under the relevant shareholder's effective control.

Authorization to Acquire Treasury Shares

In a resolution adopted on December 30, 2004, our general shareholders' meeting authorized us to purchase treasury shares in an aggregate nominal amount of up to € 1,000,555 between December 30, 2004 and June 30, 2006 (inclusive). The authorization may be exercised in whole or in part, once or several times.

Shares may be acquired on a stock exchange or by means of a public buy-back offer. In the event shares are acquired on a stock exchange, the per share consideration (not including ancillary costs) must not exceed or fall below the opening share price during Xetra trading (or a comparable successor system) by more than 10% on the same trading day on the Frankfurt Stock Exchange. If the shares are acquired by way of a public buy-back offer to all of our shareholders, the offer price or the limits of the offered price range per share (not including ancillary fees) may not exceed or fall below the average final auction price during Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange by more than 20% from the 4th through the 10th trading day prior to publication of the offer. The size of the offer may be limited. If the aggregate

subscription relating to the offer exceeds this volume, acceptances will be considered on a *pro rata* basis. Acceptances may be provided on a preferential basis for small lots of up to 100 shares per shareholder.

The shares acquired on the basis of this authorization may be redeemed, resulting in a corresponding reduction of our registered share capital, without the need for a further resolution by our general shareholders' meeting authorizing such redemption, or may be sold on the stock exchange. Our management board, subject to the consent of our supervisory board, is also authorized to exclude subscription rights for existing shareholders and to sell such shares to third parties as consideration in connection with a merger or an acquisition of a company or of an interest in or parts of a company, or to issue such shares to satisfy employee claims arising from participation plans or to sell them to third parties. In the latter case, the price (not including ancillary costs) at which our shares are sold to third parties may not be more than 5% lower than the average final auction price during Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the three trading days prior to the day on which a binding agreement is reached with the third party.

Dividends

Under German law, dividends may only be paid from our balance sheet profits as determined by our annual financial statements approved by our management and supervisory boards. Unlike our consolidated annual financial statements, which are prepared on the basis of International Financial Reporting Standards (IFRS), the unconsolidated annual financial statements of PAION AG are prepared on the basis of the accounting principles of the German Commercial Code (HGB). Our balance sheet profit as calculated on the basis of these accounting principles may differ substantially from the consolidated group profit reported on the basis of IFRS. When calculating the balance sheet profit, our management board is entitled to allocate up to 50% of the annual net income remaining after deduction of accruals to statutory reserves and losses carried forward to profit reserves. Moreover, when preparing the annual financial statements, our management board is entitled to increase the balance sheet profit by releasing profit reserves.

The resolution by our general shareholders' meeting on the appropriation of profits may provide for our balance sheet profit to be carried forward in whole or in part, or for further amounts to be accrued to profit reserves. Profits carried forward are automatically reported as balance sheet profits in subsequent fiscal years. Amounts allocated to profit reserves may only be paid out if our management board has released the profit reserves when preparing the annual financial statements and, in doing so, increased the balance sheet profit.

Dividends for the preceding fiscal year are resolved by our shareholders at our general shareholders' meeting, which must take place within eight months from the close of the relevant fiscal year. To the extent Existing Shareholders — depending on their representation at our general shareholders' meeting — constitute a *de facto* majority at our general shareholders' meeting, they can pass a resolution concerning dividend distributions by voting their shares. See "Risk Factors — Risks Related to the Offering — The members of our management and supervisory boards as well as a majority of our investment partners own a significant percentage of our shares and as a result will be able to exercise significant control over our company. These shareholders may take decisions that may be adverse to your interests". Dividends resolved by our general shareholders' meeting are payable immediately following our general shareholders' meeting, unless our general shareholders' meeting resolves otherwise. Since all our shares are issued as global bearer shares and deposited with Clearstream Banking AG, dividends will be transferred via Clearstream Banking AG to the custodian banks of the shareholders.

Dividend payments are subject to German withholding tax. See "Taxation in the Federal Republic of Germany — Taxation of Shareholders — Taxation of Dividends".

Apart from dissolution in bankruptcy proceedings, our company may only be dissolved by a resolution adopted by our general shareholders' meeting with a majority of three quarters of our registered share capital represented at the meeting. In such a case, the remaining assets following the satisfaction of all our liabilities will be distributed among the shareholders relative to their ownership interests share in our registered share capital in accordance with the provisions of the German Stock Corporation Act.

Taxation in the Federal Republic of Germany

The following section "Taxation in the Federal Republic of Germany" is a summary of the material German tax considerations that are or may become relevant to the acquisition, holding or transfer of shares. This section is not meant to be a comprehensive or complete representation of all German tax considerations that could be relevant. This summary is based on German tax law applicable as of the date of this Offering Circular and on the provisions of double taxation treaties entered into between Germany and other countries. It should be noted that the law may change and such changes may have retroactive effect.

Potential purchasers of shares are urged to consult their tax advisors about the tax consequences of the purchase, holding, disposal, gratuitous transfer and bequest of shares and the rules for obtaining a possible refund of German withholding tax paid (*Kapitalertragsteuer*). The specific tax situation of each shareholder can only be adequately addressed by individual tax advice.

Taxation of our Company

German corporations are generally subject to German corporate income tax at a rate of 25% plus a 5.5% solidarity surcharge (*Solidaritätszuschlag*) thereon (total: 26.375%).

95% of dividends and other profit participations received from other companies domiciled in Germany or abroad are generally exempt from corporate income tax. The remaining 5% of this income is treated as non-deductible business expense for tax purposes and, as such, is subject to corporate income tax plus solidarity surcharge. The same applies to profits generated from the sale of shares in companies domiciled in Germany or abroad.

Corporations are also subject to trade tax (*Gewerbesteuer*). The trade tax rate depends on the municipalities in which the corporation maintains permanent establishments. Generally, the average trade tax rate is at present approximately 18% based on an average local multiplier (*Hebesatz*) of 450%. The trade tax is deductible as a business expense for corporate income tax and trade tax purposes.

For trade tax purposes, dividend income and other profit participations from companies domiciled in Germany or abroad, and capital gains from the sale of shares in these companies, are treated in the same way as for corporate income tax purposes; however, 95% of this income is exempt from trade tax only if we hold at least 10% of the registered share capital of the company at the beginning of the assessment period. Further restrictions apply to income from companies domiciled abroad.

As of January 1, 2004, loss carryforwards exceeding the amount of € 1 million can be used to offset up to only 60% of the annual taxable income for corporate income and trade tax purposes. Unused loss carryforwards can be carried forward indefinitely, and, subject to the 60% limitation referred to in the preceding sentence, may be used to offset future taxable income.

Taxation of Shareholders

Shareholders are taxed in connection with the holding of shares (taxation of dividends), the sale of shares (taxation of capital gains) and the gratuitous transfer of shares (inheritance and gift tax).

Taxation of Dividends

Withholding Tax

Generally, we must withhold taxes on the full amount of our dividend distributions at a rate of 20% plus solidarity surcharge on such withholding tax at a rate of 5.5% (total: 21.1%).

Dividend distributions out of a special capital account for tax purposes (*steuerliches Einlagekonto*) are not subject to withholding tax.

Such withholding tax is levied irrespective of whether and to what extent the dividend distribution is taxable at the level of the shareholder and whether the shareholder resides inside or outside Germany. Certain exceptions may be available to corporate investors resident in another EU member state that are eligible for the participation exemption under the EU Parent-Subsidiary Directive.

For individual or corporate investors resident in Germany (that is, persons whose residence, habitual abode, statutory seat or place of management and control is located in Germany) as well as investors residing outside Germany holding their shares through a fixed base or permanent establishment (*Betriebsstätte*) (a "Permanent Establishment") in Germany or a business asset (*Betriebsvermögen*) (a "Business Asset") for which a permanent representative has been appointed in Germany, the tax withheld (including solidarity surcharge) is credited against the shareholder's individual income tax or corporate income tax liability or, if in excess of such liability, is refunded.

For dividend distributions to investors residing outside Germany, the withholding tax rate may be reduced (in general, 15%) if Germany and the country in which the shareholder resides have entered into a double taxation treaty and if the shareholder does not hold shares through a Permanent Establishment in Germany or a Business Asset for which a permanent representative has been appointed in Germany. The reduction is granted by way of a refund of the excess of the amount of tax withheld (including the solidarity surcharge) over the applicable treaty rate (in general, 15%). To receive this refund, an investor must apply to the Federal Office of Finance (*Bundesamt für Finanzen*, Friedhofstrasse 1, 53225 Bonn, Germany). Refund forms can be obtained from the German Federal Office of Finance as well as at German embassies and consulates.

Taxation of Dividend Income of Investors Resident in Germany who hold their Shares as Private Assets

Individual investors holding their shares as private assets are taxed on only half of the amount of any dividends (*Halbeinkünfteverfahren*). This amount is subject to the applicable (progressive) personal income tax rate of the individual investor (plus the solidarity surcharge thereon). Correspondingly, only half of the expenses (*Werbungskosten*) related to the dividends are deductible for tax purposes.

Dividend distributions from a special capital account (*steuerliches Einlagekonto*), which are paid to investors who hold their shares as private assets, are only subject to income tax if (i) the investor (or the legal predecessor if share ownership is transferred gratuitously) held, directly or indirectly, at least 1% of our registered share capital at any time over the five years preceding the dividend payment and (ii) the dividend payments exceed the costs of purchasing the shares.

Individual investors holding shares as private assets are entitled to an annual tax-exempt allowance for investment income (*Sparerfreibetrag*) in the amount of € 1,370 (for individual filers) or € 2,740 (for married couples filing jointly). In addition, an investor is entitled to a lump-sum deduction for expenses related to investment income (*Werbungskostenpauschale*) in the amount of € 51 (for individual filers) or € 102 (for married couples filing jointly), unless a higher amount of expenses can be established. The aggregate amount of the taxable portion of dividends received by the individual investor and of all other investment income, reduced by (in the case of dividends, one half of) the actual expenses related to investment income or the lump-sum deduction, exceeding the tax-exempt allowance are therefore subject to tax.

Taxation of Dividend Income of Investors Resident in Germany who hold their Shares as Business Assets

If shares are held as business assets of an investor, the taxation depends on whether the shareholder is a corporation, sole proprietor or partnership:

Corporate investors. Dividend income of corporate investors is generally exempt from corporate income tax. However, 5% of such dividends are deemed to be non-deductible business expenses for tax purposes and therefore are subject to corporate income and trade tax. In return, the deductibility of business expenses incurred in connection with the shareholding is not affected by the circumstance that the expenses are related to tax-exempt dividend income. 95% of the tax-exempt dividend income is to be added for purposes of trade tax assessment, unless the corporation held at least 10% of our registered share capital at the beginning of the relevant assessment period.

Sole Proprietors (Einzelunternehmer). For sole proprietors, only half of the dividends are considered taxable income. Correspondingly, only half (subject to additional deduction restrictions) of the business expenses related to the dividends are deductible for tax purposes. In addition, 100% of the dividends are subject to trade tax, if the investor is liable to trade tax, and unless the taxpayer has held at least 10% of our share capital at the beginning of the relevant assessment period. However, depending on the applicable trade tax rate and the individual circumstances, the trade tax is partly or entirely credited against the personal income tax liability of the investor.

Partnerships. If the investor is a partnership, personal income tax or, as the case may be, corporate income tax is only levied at the level of the partners. The taxation depends on whether the partner of the partnership is subject to personal income tax or corporate income tax: If the partner is subject to corporate income tax, the dividends are, at the level of the partner, generally tax-exempt (see above under corporate investors). If the partner is subject to personal income tax, only half of the dividends are taken into account as taxable income (see above under "Sole Proprietors"). As to deductions for business expenses, refer to the section on corporate investors above for companies that are subject to corporate income tax, and to the section on sole proprietors above for partners who are subject to personal income tax. At the level of a partnership subject to trade tax, half of the dividend payments are subject to trade tax, to the extent the partners include individual investors, or 5%, to the extent the partners include corporate investors, provided the partnership held at least 10% of our registered share capital at the beginning of the relevant assessment period. In all other cases, the full amount of dividend payments are subject to trade tax. However, if a partner is an individual, depending on the applicable trade tax rate and the individual circumstances, the trade tax attributable at the partnership level is partly or entirely credited against the personal income tax liability of the partner.

Dividend payments from a special capital account (*steuerliches Einlagekonto*) are considered to be disposals if the shares are held as business assets; the taxation of the amount exceeding the book value of the shares is described under "— Taxation of Capital Gains".

Special rules for banks, financial services institutions, financial enterprises, life insurance and health insurance companies and pension funds are described below.

Taxation of Dividend Income of Investors Resident Outside Germany

For individual or corporate investors that do not hold their shares through a Permanent Establishment in Germany or a Business Asset for which a permanent representative has been appointed in Germany, the withholding tax (possibly reduced under a double taxation treaty) is final. An individual or corporate investor holding shares through a Permanent Establishment in Germany or a Business Asset for which a permanent representative has been appointed in Germany is subject to the same rules as a investor resident in Germany.

Insofar as the dividends are deemed to be paid from a special capital account (*steuerliches Einlagekonto*) and (i) the foreign investor or, in the case of a gratuitous transfer, the legal predecessor held, directly or indirectly, at least 1% of our registered share capital at any time during the five years prior to the disposal or (ii) the shares are held through a Permanent Establishment in Germany or a Business Asset for which a permanent representative has been appointed in Germany, the transaction is deemed to be a disposal. The taxation of the portion of the dividend exceeding, in the case of (i), the acquisition costs or, in the case of (ii) the book value, is described under "— Taxation of Capital Gains".

Taxation of Capital Gains

Taxation of Capital Gains of Investors Resident in Germany who hold their Shares as Private Assets

Half of the capital gains realized on the disposal of shares held as private assets of an individual investor are subject to personal income tax plus the solidarity surcharge at a rate of 5.5% thereon if the disposal takes place within one year after the acquisition of shares. In the case of shares which have been entrusted to a depositary for collective deposit pursuant to Section 5 of the German Securities Deposit Act (*Depotgesetz*), the law presumes that the shares which have been acquired first are also the first to be disposed of. If an investor's aggregate capital gains from private transactions for the year is less than € 512, such capital gains are not subject to tax. A capital loss may be set-off only against capital gains from private transactions during the same calendar year or, if this is not possible due to a lack of profits, subject to certain conditions, positive income from private disposal transactions of the previous year or subsequent years.

After the one-year period, half of the capital gains realized on the disposal of shares held as private assets of an individual investor are subject to personal income tax plus the solidarity surcharge only if the individual shareholder or, in case of a gratuitous transfer, the legal predecessor has held at any time during the five years preceding the disposal, directly or indirectly, at least 1% of our registered share capital.

Taxation of Capital Gains of Investors Resident in Germany who hold their Shares as Business Assets

If an investor holds shares as business assets, the taxation of capital gains realized on the disposal of shares depends on whether the investor is a corporation, sole proprietor or partnership:

Corporate investors. Capital gains realized by a corporate investor on disposal of shares are exempt from corporate income tax. Capital gain is the amount by which the sale proceeds or the corresponding value, after deduction of sale expenses, exceeds the book value at the time of the disposal. However, 5% of the capital gains are deemed to be non-deductible business expenses for tax purposes and therefore are subject to corporate income and trade tax. In return, the deductibility of business expenses incurred in connection with the shareholding is not affected by the circumstance that the expenses are related to tax-exempt income. Losses incurred from such disposal of shares are not deductible for tax purposes.

Sole proprietors (Einzelunternehmer). If shares are held by a sole proprietor, only half of the capital gains from the disposal of shares are taken into account as taxable income. Correspondingly, only half of the business expenses related to such gains and half of the losses incurred from such disposal of shares are deductible for tax purposes. In addition, half of the capital gains are subject to trade tax, if the sole proprietor is liable to trade tax. However, depending on the applicable trade tax rate and the individual circumstances, the trade tax is partly or entirely credited against the personal income tax liability of the investor.

Partnerships. If the investor is a partnership, taxation depends on whether the partner of the partnership is subject to personal income tax or corporate income tax. If the partner is subject to corporate income tax, any capital gains are, at the level of the partner, generally tax-exempt (see above under corporate investors). If the partner is subject to personal income tax, only half of the capital gains are taken into account as taxable income (see above under Sole proprietors). As to deductions for business expenses related to a sale and realized losses, refer to the section on corporate investors above for partners that are subject to corporate income tax, and to the section on sole proprietors above for partners who are subject to income tax. In addition, capital gains at the level of a partnership subject to trade tax are subject to trade tax in the amount of 50%, to the extent the partners include individuals, or 5%, to the extent the partners include corporate investors. However, if a partner is an individual, depending on the applicable trade tax rate and the individual circumstances, the trade tax attributable at the partnership level is partly or entirely credited against the personal income tax liability of the partner.

Special rules for banks, financial services institutions, financial enterprises, life insurance and health insurance companies and pension funds are described below.

Taxation of Capital Gains of Investors Resident Outside Germany

Capital gains realized on the disposal of shares by an investor resident outside Germany are subject to German income taxation only if the investor or, in case of a gratuitous transfer, the legal predecessor, has held, directly or indirectly, at any time during the five years preceding the disposal at least 1% of our registered share capital. In this case:

- 5% of the capital gains, if any, are subject to corporate income tax plus the solidarity surcharge, if the investor is a corporate shareholder; and
- in all other cases, half of the capital gains are subject to tax.

Most double taxation treaties, however, provide for complete exemption from German taxation in this respect and assign the right to levy tax to the country of residence.

With respect to capital gains realized on the disposal of shares held through a Permanent Establishment in Germany or a Business Asset for which a permanent representative has been appointed in Germany, the same rules as described above with regard to investors resident in Germany apply.

Special Rules for Banks, Financial Services Institutions, Financial Enterprises, Life Insurance and Health Insurance Companies and Pension Funds

To the extent banks and financial service institutions hold shares that are, pursuant to Section 1(12) of the German Banking Act (*Kreditwesengesetz*), attributable to the trading book (*Handelsbuch*), neither the so-called half-income system (*Halbeinkünfteverfahren*) nor the tax exemption usually effective for corporations applies to dividends received or to capital gains or losses realized on the disposal of shares; that is, dividend income and capital gains are fully subject to corporate income tax and, if applicable, trade tax. The same

applies to shares that were acquired by financial enterprises (within the meaning of the German Banking Act) in order to realize short-term trading gains (*kurzfristige Eigenhandelserfolge*). This also applies to banks, financial services institutions and financial enterprises with their seat in another member State of the European Community or another member State of the European Economic Area Treaty. In the same way, to the extent life and health insurance companies or pension funds hold shares that are attributable to their capital investments (*Kapitalanlagen*), neither the so-called half-income system (*Halbeinkünfteverfahren*) nor the tax exemption applies to dividends received or to capital gains realized on the disposal of shares meaning that such dividends or gains are fully taxable for the insurance company or pension fund. Certain exceptions may apply to corporate shareholders incorporated in another EU member state if the EU Parent-Subsidiary Directive is applicable to them.

Current Development

The Federal Constitutional Court held in its decision of March 9, 2004 that Section 23 (1) Sentence 1 No. 1b Income Tax Act (*Einkommensteuergesetz*) as amended on April 16, 1997, which is applicable to the assessment periods of 1997 and 1998, is unconstitutional and is therefore invalid insofar as it concerns the disposal of securities. Since the decision expressly concerns only the assessment periods 1997 and 1998, it is uncertain whether the taxation of capital gains realized on the disposal of securities may also be held unconstitutional for assessment periods after 1998 or if recent changes in law remedied unconstitutional unequal treatment.

Inheritance and Gift Tax

The transfer of shares by way of succession or gift is subject to German inheritance and gift tax only if one of the following circumstances applies:

(i) the testator, donor, heir, donee or any other beneficiary has his or her residence or habitual abode in Germany at the time of the transfer;

(ii) independent of these personal circumstances, the testator's or donor's shares belong to a business asset attributable to a Permanent Establishment or Business Asset for which a permanent representative has been appointed in Germany; or

(iii) the testator or donor, either alone or together with another related party, held, directly or indirectly, at least 10% of our share capital at the time of the inheritance or bestowal.

The few currently applicable inheritance and gift taxation treaties to which Germany is a party generally provide that German inheritance or gift tax is only levied in case (i) and, with certain restrictions, in case (ii). Special regulations apply to certain German expatriates and former German citizens.

Other Taxes

No German stock exchange transfer tax, value added tax, stamp duty or other tax will be levied on the acquisition, the sale or other disposal of shares. Under certain circumstances it is possible that an entrepreneur may opt to have value added tax levied on a transaction involving the disposal of shares, when such transaction is executed for the enterprise of another entrepreneur. Net wealth tax (*Vermögensteuer*) is, at present, not levied in Germany.

U.S. Federal Income Taxation

This section describes the material United States federal income tax consequences of owning shares. It applies to you only if you acquire your shares in this offering and you hold your shares as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds shares as part of a straddle or a hedging or conversion transaction, or
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, and all as currently in effect, as well as on the Convention Between the United States of America and Germany, or the Treaty. These laws are subject to change, possibly on a retroactive basis.

You are a U.S. holder if you are a beneficial owner of shares and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A "non-U.S. holder" is a beneficial owner of shares that is not a United States person for United States federal income tax purposes.

You should consult your own tax advisor regarding the United States federal, state and local and the German and other tax consequences of owning and disposing of shares in your particular circumstances.

This discussion addresses only United States federal income taxation and capital taxation.

Taxation of Dividends

U.S. Holders. Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2009 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the shares generally will be qualified dividend income to the extent that we are not a PFIC in the year of the distribution or the prior year.

You must include any German tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United

States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Euro payments made, determined at the spot Euro/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares and thereafter as capital gain.

Subject to certain limitations, the German tax withheld in accordance with the Treaty and paid over to Germany will be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to you under German law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. See ''Taxation in the Federal Republic of Germany — Taxation of Dividends — Withholding Tax'', above, for the procedures for obtaining a tax refund.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be ''passive'' or ''financial services'' income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be ''passive'' or ''general'' income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Distributions of additional shares to you with respect to shares that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax.

Non-U.S. Holders. If you are a non-U.S. holder, dividends paid to you in respect of shares will not be subject to United States federal income tax unless the dividends are ''effectively connected'' with your conduct of a trade or business within the United States, and the dividends are attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis. In such cases you generally will be taxed in the same manner as a U.S. holder. If you are a corporate non-U.S. holder, ''effectively connected'' dividends may, under certain circumstances, be subject to an additional ''branch profits tax'' at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Taxation of Capital Gains

U.S. Holders. Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares. Capital gain of a noncorporate U.S. holder that is recognized before January 1, 2009 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Non-U.S. Holders. If you are a non-U.S. holder, you will not be subject to United States federal income tax on gain recognized on the sale or other disposition of your shares unless:

- the gain is ''effectively connected'' with your conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis, or
- you are an individual, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist.

If you are a corporate non-U.S. holder, "effectively connected" gains that you recognize may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Additional United States Federal Income Tax Considerations

There can be no assurance that we will not be a PFIC for the taxable year 2005 and/or later taxable years, as PFIC status is retested each year and depends on the actual facts in such year. Among the factors that will be taken into account in determining if we are a PFIC is the value of our outstanding stock and our use of the proceeds of the initial public offering of our shares and of the other cash that we will hold throughout the taxable year 2005 and other taxable years. We could be a PFIC, for example, if we do not spend sufficient amounts of the proceeds of the initial public offering of our shares, if our market capitalization (*i.e.*, our stock price) at any time in the future is lower than projected, or if our business and assets evolve in ways that are different from what we currently anticipate.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our shares:

- at least 75% of our gross income for the taxable year is passive income or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC in any year during which you own shares and you are a U.S. holder that did not make a mark-to-market election, as described below, then, regardless of whether we continue to be a PFIC you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your shares and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares during the three preceding taxable years or, if shorter, your holding period for the shares).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the shares,
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own shares in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares at the end of the taxable year over your adjusted basis in your shares. Any gain realized on a disposal of the shares will be ordinary income. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-

to-market election). Your adjusted tax basis in the shares will be adjusted annually to reflect any such income or loss amounts included or deducted with respect to the mark-to-market election. You can elect to mark our shares to market only if our shares are marketable stock as defined in U.S. Treasury Regulations. Our shares will be marketable stock for any year in which the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is a qualified exchange and our shares are traded in other than *de minimis* quantities on such exchange. We believe the Frankfurt Stock Exchange is a qualified exchange and that trading in our shares will be sufficient for the shares to be considered marketable stock, but there can be no assurance that the Frankfurt Stock Exchange is or will continue to be a qualified exchange or that trading in our shares will be sufficient active to qualify our shares as marketable stock. You should consult your own tax advisor whether a mark-to-market election is available or desirable. A valid mark-to-market election cannot be revoked without the consent of the U.S. Internal Revenue Service unless the shares cease to be marketable.

In addition, notwithstanding any election you make with regard to the shares, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your shares will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares, you will be treated as having a new holding period in your shares beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own shares during any year that we are a PFIC with respect to you, you must file Internal Revenue Service Form 8621.

Backup Withholding and Information Reporting

If you are a noncorporate U.S. holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- dividend payments or other taxable distributions made to you within the United States, and
- the payment of proceeds to you from the sale of shares effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you are a noncorporate U.S. holder that:

- fails to provide an accurate taxpayer identification number,
- is notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns, or
- in certain circumstances, fails to comply with applicable certification requirements.

If you are a non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to:

- dividend payments made to you outside the United States by us or another non-United States payor and
- other dividend payments and the payment of the proceeds from the sale of shares effected at a United States office of a broker, as long as the income associated with such payments is otherwise exempt from United States federal income tax, and:
  - the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished the payor or broker:
    - an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person, or
    - other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations, or
  - you otherwise establish an exemption.

Payment of the proceeds from the sale of shares effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of shares that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States,
- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address, or
- the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of shares effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a United States person,
- a controlled foreign corporation for United States tax purposes,
- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or
- a foreign partnership, if at any time during its tax year:
  - one or more of its partners are "U.S. persons", as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
  - such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

Underwriting

The Offering consisted of a public offering in the Federal Republic of Germany and Switzerland and an international offering. The international offering consisted of private placements to certain institutional investors outside the Federal Republic of Germany and Switzerland as well as outside the United States in reliance on Regulation S under the Securities Act and an offering to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act.

UBS Limited has agreed, as part of the underwriting agreement dated January 21, 2005 (''the Underwriting Agreement''), to subscribe for and to purchase the New Shares at their notional value in its own name, but for the account of the Underwriters. The exact capital amount of the IPO Capital Increase was set by the management board at the end of the offering period. The New Shares will be sold to investors by the Underwriters in connection with the Offering and the difference between the Offer Price (less the agreed commissions) and the notional value will be paid to us by the Underwriters upon delivery of the New Shares.

UBS Limited is acting as Global Coordinator and Bookrunner and as representative of the other Underwriters named below. Subject to the terms and conditions described in the Underwriting Agreement, we have agreed to issue to the Underwriters, and the Underwriters have severally agreed to purchase, the New Shares. The following table sets forth the number of New Shares purchased by each Underwriter in the Offering (excluding the Over-Allotment Option):

Underwriter	Number of Ordinary Bearer Shares
UBS Limited	3,250,000
Dresdner Bank Aktiengesellschaft	1,125,000
Landesbank Baden-Württemberg	625,000
Total	5,000,000

Pursuant to the Underwriting Agreement, the Underwriters offered the New Shares and the Greenshoe Shares, if any, during the bookbuilding period on their own behalf and for their own account in conformity with the provisions of the Underwriting Agreement and any applicable laws and regulations. In addition, Sparkasse Aachen is acting as selling agent for Landesbank Baden-Württemberg. The Offer Price of € 8.00 was determined by us and the Underwriters in accordance with the pricing agreement after completion of the bookbuilding.

Selling contracts with individual investors will be concluded upon each Underwriter's allotment of the New Shares and the Greenshoe Shares, if any, to an investor. The New Shares and the Greenshoe Shares, if any, will be allotted to retail investors in compliance with the Principles for the Allotment of Share Issues to Retail Investors (*Grundsätzen für die Zuteilung von Aktienemissionen an Privatanleger*) issued by the Exchange Expert Commission (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*).

The Underwriting Agreement provides that the obligations of the Underwriters to assume the New Shares and the Greenshoe Shares, if any, are subject to certain conditions. If an Underwriter defaults, the Underwriting Agreement provides that, under certain circumstances, the underwriting commitments of the non-defaulting Underwriters may be increased or the Underwriting Agreement may be terminated. The Underwriting Agreement further provides that the obligations of the Underwriters to purchase the New Shares and the Greenshoe Shares, if any, may be terminated under certain circumstances. These include material adverse changes to our business or financial position, our results of operations or our shareholders' equity as well as the occurrence of certain force majeure events, such as a change in, or development of, domestic or international financial markets or a change in national or international political, financial or economic conditions. In this case, the Offering may be terminated until February 11, 2005. The Underwriters may withdraw from selling contracts with investors. In this case, any allotments made to investors will be ineffective. If any short sales have been done prior to such rescission the seller of such shares bears the risk of non-performance of the obligation to deliver such shares.

Over-Allotment/Over-Allotment Option

For the purpose of fulfilling additional demand for shares in the Offering exceeding the aggregate number of New Shares, the Global Coordinator, acting for the account of the Underwriters, has the right, exercisable by, and in the sole discretion of, the Global Coordinator, to over-allot additional shares up to a number equal to the number of Greenshoe Shares. This over-allotment may be exercised by the Global Coordinator for the account of the Underwriters, together with the allotment of the New Shares, at the Offer Price.

For the purpose of enabling settlement of the over-allotment, two of the Existing Shareholders, Dr. Wolfgang Söhngen and Dr. Mariola Söhngen, have, in the Underwriting Agreement, entered into a securities lending agreement with the Global Coordinator, acting for the account of the Underwriters. Pursuant to this securities lending agreement, these two shareholders have agreed to lend to the Global Coordinator, and the Global Coordinator has agreed to borrow from these two shareholders, up to an aggregate of 750,000 additional shares of our company by way of a securities loan (''the Securities Loan''). The Securities Loan will terminate on the earlier of (i) 30 calendar days after the first day of trading of the shares on the Frankfurt Stock Exchange, or (ii) the date of the exercise of the Over-Allotment Option.

For the purpose of covering possible over-allotments, we have granted to the Global Coordinator the right, exercisable by the Global Coordinator for the account of the Underwriters, to subscribe for up to 750,000 Greenshoe Shares. This option may be exercised by the Global Coordinator from the date that our shares commence trading on the Official Market Segment of the Frankfurt Stock Exchange until the date 30 calendar days thereafter (both dates inclusive). Insofar as this option is exercised, we are obligated, pursuant to the Underwriting Agreement, to issue the Greenshoe Shares to the Global Coordinator, acting for the account of the Underwriters. In return, the Underwriters are obligated to assume the respective number of Greenshoe Shares against payment of the Offer Price (less the agreed commissions).

Commissions

The Underwriters will deliver the Offered Shares actually sold against payment of the Offer Price of 8.00 per Offered Share. We will pay the Underwriters a commission of 4.75% of the total volume of the Offering, amounting to the number of Offered Shares actually sold multiplied by the Offer Price, including the Over-Allotment Option, if exercised. In addition, we may, at our discretion, pay the Underwriters an incentive fee of up to 1.00% of the proceeds of the Offering (including the Greenshoe Shares).

Lock-up of PAION

In connection with the Offering, we have agreed vis-à-vis the Underwriters to restrictions (so-called ''lock-up'' restrictions) on our ability to issue and sell shares and related securities of our company for a 12 month period following the admission of our shares to the Official Market Segment of the Frankfurt Stock Exchange, subject to limited exceptions. Our management board and our supervisory board are not authorized, without the prior written consent of the Global Coordinator, which consent shall not be unreasonably withheld, (a) to exercise an authorization pursuant to our articles of association to increase the share capital or (b) to submit a proposal for a share capital increase to any shareholders' meeting for resolution. Furthermore, we have agreed not to, directly or indirectly, (i) offer, allot, issue, lend, pledge, sell, conclude any option or contract to sell, or otherwise transfer or dispose of or post as collateral, any of our shares (including securities that represent rights to subscribe for our shares) or any security which is convertible into or exchangeable for, or otherwise represents the right to acquire or sell, our shares, or enter into any transaction (including a derivatives transaction) having an economic effect similar to a transaction described above, or (ii) enter into any swap or similar agreement that transfers to another, in whole or in part, any elements of ownership of our shares, whether any such transaction described in clauses (i) or (ii) above is to be settled by delivery of our shares, or in cash, or (iii) announce an intention to engage in any transaction described in clauses (i) or (ii). After expiry of the lock-up period we may issue new shares and carry out any of the above-mentioned transactions.

The above restrictions shall not apply to the Offered Shares, to the offer, sale or transfer by us of shares in relation to the management and employee participation plan 2005 or to shares issued against contribution in cash or in kind directly to third parties in connection with a joint-venture, acquisition, collaboration, licensing or other strategic transactions if the relevant party has agreed to comply with the restrictions set forth in clause (b) in the above paragraph and the restrictions applicable to us.

Lock-up of the Shareholders

In connection with the Offering, each of the Existing Shareholders has agreed vis-à-vis the Underwriters to restrictions (so-called ''lock-up'' restrictions) on its ability to dispose of shares and related securities of our company for a certain period. In the case of Dr. Wolfgang Söhngen and Dr. Mariola Söhngen, this period is 12 months, and in the case of the other Existing Shareholders, 6 months, in each case following the admission of our shares to the Official Market Segment of the Frankfurt Stock Exchange. An aggregate of 10,005,552 shares of our company held by Existing Shareholders will be subject to lock-up restrictions, as well as such shares of our company as Dr. Wolfgang Söhngen or Dr. Mariola Söhngen may purchase during their lock-up period.

In connection with the lock-up agreement, the Existing Shareholders agreed with the Underwriters not to, without the prior written consent of the Underwriters, directly or indirectly (i) offer, lend, pledge, sell, conclude any option or contract to sell, or otherwise transfer or dispose of or post as collateral, any of our shares (including securities that represent rights to subscribe for our shares) or any security which is convertible into or exchangeable for, or otherwise represents the right to acquire or sell, our shares, or enter into any transaction (including a derivatives transaction) having an economic effect similar to a transaction described above, or (ii) enter into any swap or similar agreement that transfers to another, in whole or in part, any elements of ownership of our shares, whether any such transaction described in clauses (i) or (ii) above is to be settled by delivery of shares, or in cash, or (iii) announce an intention to engage in any transaction described in clauses (i) or (ii).

The above restrictions shall not apply (i) to shares made available to the Global Coordinator by Dr. Wolfgang Söhngen and Dr. Mariola Söhngen or other Existing Shareholders pursuant to the Securities Loan for the implementation of the over-allotment as long as such shares are subject to the Securities Loan, (ii) to Offered Shares and other securities which may be purchased by the Existing Shareholders (with the exception of Dr. Wolfgang and Dr. Mariola Söhngen), (iii) to shares of our company (or shares of entities that hold our shares) that are transferred by Dr. Wolfgang Söhngen or Dr. Mariola Söhngen to their children, provided that the relevant child assumes the lock-up restrictions or (iv) to certain transactions of Existing Shareholders with consolidated or associated companies, or companies, to which a consulting or trust relationship exists, if the final outcome of the imputation of share ownership in accordance with Section 22 of the Securities Trading Act (*Wertpapierhandelsgesetz*) is not affected, or the transfer is effected by certain legal successions.

No further agreements have been entered into and no further measures have been taken to secure such lock-up restrictions. After expiry of the lock-up periods, the Existing Shareholders are not restricted in selling their shares in our company and carrying out any of the transactions mentioned above.

Indemnification

Under the terms of the Underwriting Agreement, we and the Underwriters are required to indemnify and hold harmless each other against certain liabilities in connection with the Offering.

Price Stabilization

In connection with the Offering, UBS Limited is acting as stabilization manager for the account of the Underwriters and may, either itself or through affiliates, take measures to stabilize the stock exchange or market price of our shares in order to counterbalance any existing sales pressure. Stabilization measures may be taken starting on the date on which our shares are first listed and must be completed no later than 30 calendar days after such date.

Within one week after the end of the stabilization period, information will be published in a reasonable manner, in particular through publication in the *Frankfurter Allgemeine Zeitung* and by means of a press release and an announcement posted on our website, announcing whether stabilization measures were implemented, on what date stabilization measures commenced, the date of the last stabilization transaction and the price range within which stabilization transactions occurred.

Stabilization measures may result in a higher stock exchange or market price of our shares than would have been the case in the absence of such measures. In addition, such measures may result in a stock exchange or market price at a level that is not sustainable. However, the stabilization manager is under no obligation to

take any stabilization measures and, to the extent such measures are taken, they may be terminated at any time. In no event will measures be taken to stabilize the stock exchange or market price of our shares above the issue price, that is, the Offer Price of € 8.00.

In view of possible stabilization measures, and in addition to the 5,000,000 New Shares, additional shares totaling up to 15% of the number of the New Shares may be allotted, as described above, in the Offering to investors through the over-allotment. By way of a securities loan, the shares required to implement the Over-Allotment Option will be initially placed by Dr. Wolfgang Söhngen and Dr. Mariola Söhngen at the disposal of UBS Limited, for the account of the Underwriters.

In this regard, we have granted UBS Limited, in its capacity as stabilization manager and on behalf of the Underwriters, the option to acquire up to 750,000 Greenshoe Shares, that is, up to 15% of the New Shares, at the Offer Price of € 8.00, within the 30-day period following the listing of our shares on the Frankfurt Stock Exchange. The Over-Allotment Option may be exercised to the extent that shares are placed by way of over-allotment.

Pursuant to EC Regulation 2273/2003, the relevant details of any over-allotments and the exercise of the Over-Allotment Option will be published promptly, in particular, by means of a press release.

Neither we nor any of the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our shares. In addition, neither we nor the Underwriters make any representation that UBS Limited, for the account of the Underwriters, will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time.

Listing

All of our ordinary bearer shares were admitted to trading on the Official Market Segment of the Frankfurt Stock Exchange and to the sub-segment of the Official Market Segment with additional post-admission obligations (Prime Standard) on February 9, 2005. It is expected that trading in our shares will commence on or about February 11, 2005.

Other Relationships

Some of the Underwriters and their affiliates may, from time to time, engage in transactions and perform services in the ordinary course of business with us.

Selling Restrictions

Under the terms of the Underwriting Agreement, each Underwriter has represented and agreed that, except in connection with offers and sales in the Federal Republic of Germany and Switzerland, neither such Underwriter nor any of its affiliates will take actions in any other jurisdiction that would constitute a public offering of the Offered Shares under the applicable laws of such jurisdiction.

United States

The Offered Shares have not been and will not be registered under the Securities Act, or with any securities authority of any state of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Underwriters, either directly or through their duly qualified U.S. affiliates, propose to resell the shares within the United States to persons they reasonably believe to be qualified institutional buyers in reliance on Rule 144A under the Securities Act and outside the United States in reliance on Regulation S under the Securities Act. Transfer of the Offered Shares will be restricted and each purchaser will be deemed to have made acknowledgements, representations and agreements as described under "Notice to Investors and Transfer Restrictions" included in the inside front cover of this Offering Circular.

In addition, the offer or sale of the Offered Shares within the United States prior to the expiration of 40 days from the date our shares are first listed or the date the Offered Shares are first issued, whichever comes later, by a dealer not participating in the offering may violate the registration requirements of the Securities Act, if

such offer or sale is not made in compliance with Rule 144A under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act.

United Kingdom

Each Underwriter has severally represented and agreed that:

1. it has not offered or sold and, prior to the date six months after the closing date of the Offering or the closing date of the Greenshoe Capital Increase (if any), will not offer or sell any Offered Shares to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

2. it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or the FSMA) received by it in connection with the issuance, subscription or sale of any Offered Shares in circumstances in which Section 21(1) of the FSMA does not apply to us; and

3. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offered Shares in, from or otherwise involving the United Kingdom.

Financial Statements

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THREE-YEAR OVERVIEWS OF PAION GMBH (IFRS) FOR 2003, 2002 AND 2001

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Additional Information on the Three-Year Overviews of Paion GmbH (IFRS) for 2003, 2002 and 2001

The following financial information presented on pages F-6 to F-57 represents extracts of the financial statements of Paion GmbH prepared on the basis of International Financial Reporting Standards (IFRS) for the fiscal years ending December 31, 2003, 2002 and 2001. Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Ludwigstraße 8, 50667 Cologne, has audited these financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) (Institute of Public Auditors) as well as in accordance with the International Standards on Auditing (ISA) and has issued an unqualified auditor's opinion thereon. The complete financial statements prepared on the basis of IFRS with the respective auditor's opinion for the fiscal years ending December 31, 2003 and 2002 are presented on pages F-11 to F-54 and the auditor's opinion on the financial statements on the basis of IFRS for the fiscal year ending December 31, 2001 is presented on page F-55.

Balance sheets as of December 31, 2003, 2002 and 2001

Assets

	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001
		in EUR	
Non-current assets			
Intangible assets	731,600.50	133,745.50	120,255.27
Equipment	563,706.83	1,315,220.00	1,148,289.00
	1,295,307.33	1,448,965.50	1,268,544.27
Deferred tax assets	0.00	0.00	0.00
Current assets			
Trade receivables	0.00	67,744.00	18,497.19
Prepaid expenses and other assets	253,994.68	225,502.69	253,306.36
Cash and cash equivalents	8,453,517.89	5,574,893.93	2,719,120.63
	8,707,512.57	5,868,140.62	2,990,924.18
Total assets	10,002,819.90	7,317,106.12	4,259,468.45

Liabilities and Shareholders' Equity

	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001
		in EUR	
Shareholders' Equity			
Subscribed capital	155,350.00	113,950.00	105,850.00
Additional paid-in capital	41,774,355.23	27,266,137.17	14,163,840.88
Accumulated deficit carried forward	(23,486,061.09)	(12,620,237.71)	(2,792,212.52)
Net loss for the year	(10,864,393.22)	(10,865,823.38)	(9,828,025.19)
	7,579,250.92	3,894,026.08	1,649,453.17
Non-current liabilities			
Long-term debt, net of current portion	0.00	0.00	283,699.25
Long-term obligations under capital lease, net of current portion	19,993.00	26,725.00	6,860.00
Deferred subsidies	0.00	154,546.60	0.00
	19,993.00	181,271.60	290,559.25
Current liabilities			
Current portion of long-term debt	0.00	0.00	30,687.74
Current portion of capital lease	6,732.00	13,211.00	6,381.00
Trade payables	1,139,800.11	2,182,723.64	1,669,270.26
Provisions	854,403.15	443,434.37	67,500.00
Accrued liabilities	103,627.85	71,420.00	49,000.00
Other current liabilities	299,012.87	531,019.43	496,617.03
	2,403,575.98	3,241,808.44	2,319,456.03
Total liabilities	10,002,819.90	7,317,106.12	4,259,468.45

Income statements for the fiscal years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
		in EUR	
Revenues	708,715.27	444,562.50	15,998.03
Cost of revenues	(425,758.29)	(216,545.37)	(8,052.34)
Gross profit	282,956.98	228,017.13	7,945.69
Operating expenses:			
Research and development	(8,811,814.02)	(8,850,590.13)	(9,061,836.58)
General and administrative	(2,432,244.10)	(2,326,262.72)	(929,548.37)
Selling and marketing	(49,036.90)	0.00	0.00
	(11,293,095.02)	(11,176,852.85)	(9,991,384.95)
Loss from operating activities	(11,010,138.04)	(10,948,835.72)	(9,983,439.26)
Other income (expense):			
Financial results	61,527.14	19,309.37	67,791.41
Other income (expense), net	84,217.68	63,702.97	87,622.66
	145,744.82	83,012.34	155,414.07
Net loss before income taxes	(10,864,393.22)	(10,865,823.38)	(9,828,025.19)
Income taxes	0.00	0.00	0.00
Net loss	(10,864,393.22)	(10,865,823.38)	(9,828,025.19)
Earnings per Share (diluted and undiluted)	(77.55)	(96.17)	(95.20)

Statements of cash flows for the fiscal years ended December 31, 2003, 2002 and 2001

	2003 EUR	2002 EUR	2001 EUR
Cash flows from operating activities:			
Net loss	(10,864,393.22)	(10,865,823.38)	(9,828,025.19)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	882,330.92	520,506.50	290,828.68
Losses on sale of assets	0.00	6,558.73	0.00
Expenses recognized due to the stock option plan	1,360,000.00	60,000.00	0.00
Changes in operating assets and liabilities:			
Accounts receivable, trade	67,744.00	(49,246.81)	(18,497.19)
Prepaid expenses and other assets	(28,491.99)	27,803.67	(127,835.80)
Accounts payable, trade	(1,042,923.53)	513,453.38	819,006.61
Provisions	410,968.78	375,934.37	(279,778.44)
Other current liabilities	(213,009.71)	26,134.66	15,254.80
Bank overdraft	0.00	0.00	(123,490.88)
Net cash used in operating activities	(9,427,774.75)	(9,384,678.88)	(9,252,537.41)
Cash flows from investing activities:			
Purchase of intangible assets, property and equipment	(728,672.75)	(680,791.46)	(1,343,912.93)
Net cash used in investing activities	(728,672.75)	(680,791.46)	(1,343,912.93)
Cash flows from financing activities:			
Increase of additional paid-in capital	13,148,218.06	13,042,296.29	12,924,223.12
Capital increase	41,400.00	8,100.00	5,850.00
Payment of unpaid capital	0.00	0.00	2,500.00
Decrease of long-term debt	0.00	(283,699.25)	(30,683.90)
Increase (Decrease) of deferred subsidies	(154,546.60)	154,546.60	0.00
Net cash provided by financing activities	13,035,071.46	12,921,243.64	12,901,889.22
Net increase in cash and cash equivalents	2,878,623.96	2,855,773.30	2,305,438.88
Cash and cash equivalents — beginning of period	5,574,893.93	2,719,120.63	413,681.75
Cash and cash equivalents — end of period	8,453,517.89	5,574,893.93	2,719,120.63

Statements of shareholders' equity for the fiscal years ended December 31, 2003, 2002 and 2001

	Subscribed capital EUR	Additional paid-in capital EUR	Accumulated deficit carried forward EUR	Total Shareholders' Equity EUR
BALANCE JANUARY 1, 2001	97,500.00	1,239,617.76	(2,792,212.52)	(1,455,094.76)
Issuance of shares	5,850.00	12,924,223.12	0.00	12,930,073.12
Payment of unpaid capital	2,500.00	0.00	0.00	2,500.00
Net loss	0.00	0.00	(9,828,025.19)	(9,828,025.19)
BALANCE DECEMBER 31, 2001	105,850.00	14,163,840.88	(12,620,237.71)	1,649,453.17
Issuance of shares	8,100.00	0.00	0.00	8,100.00
Payment of additional paid-in capital	0.00	13,042,296.29	0.00	13,042,296.29
Addition capital reserve due to recognition of stock option transaction	0.00	60,000.00	0.00	60,000.00
Net loss	0.00	0.00	(10,865,823.38)	(10,865,823.38)
BALANCE DECEMBER 31, 2002	113,950.00	27,266,137.17	(23,486,061.09)	3,894,026.08
Issuance of shares	41,400.00	0.00	0.00	41,400.00
Payment of additional paid-in capital	0.00	13,352,540.56	0.00	13,352,540.56
Recognition of external expenses for acquisition of new investors	0.00	(204,322.50)	0.00	(204,322.50)
Addition capital reserve due to recognition of stock option transaction	0.00	1,360,000.00	0.00	1,360,000.00
Net loss	0.00	0.00	(10,864,393.22)	(10,864,393.22)
BALANCE DECEMBER 31, 2003	155,350.00	41,774,355.23	(34,350,454.31)	7,579,250.92

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FINANCIAL STATEMENTS OF PAION GMBH (IFRS)
AS OF DECEMBER 31, 2003
(INCLUDING AUDITOR'S OPINION)

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PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Balance Sheets as of December 31, 2003 and 2002

Assets

	Notes	Dec. 31, 2003	Dec. 31, 2002
		in EUR	
Non-current assets			
Intangible assets	(3)	731,600.50	133,745.50
Equipment	(4)	563,706.83	1,315,220.00
		1,295,307.33	1,448,965.50
Deferred tax assets	(8)	0.00	0.00
Current assets			
Trade receivables	(5)	0.00	67,744.00
Prepaid expenses and other assets	(6)	253,994.68	225,502.69
Cash and cash equivalents	(7)	8,453,517.89	5,574,893.93
		8,707,512.57	5,868,140.62
Total assets		10,002,819.90	7,317,106.12

Liabilities and Shareholders' Equity

	Notes	Dec. 31, 2003	Dec. 31, 2002
		in EUR	
Shareholders' Equity	(9)		
Subscribed capital		155,350.00	113,950.00
Additional paid-in capital		41,774,355.23	27,266,137.17
Accumulated deficit carried forward		(23,486,061.09)	(12,620,237.71)
Net loss for the year		(10,864,393.22)	(10,865,823.38)
		7,579,250.92	3,894,026.08
Non-current liabilities			
Long-term obligations under capital lease, net of current portion	(10)	19,993.00	26,725.00
Deferred subsidies	(11)	0.00	154,546.60
		19,993.00	181,271.60
Current liabilities			
Current portion of capital lease	(10)	6,732.00	13,211.00
Trade payables	(12)	1,139,800.11	2,182,723.64
Provisions	(13)	854,403.15	443,434.37
Accrued liabilities	(14)	103,627.85	71,420.00
Other current liabilities	(15)	299,012.87	531,019.43
		2,403,575.98	3,241,808.44
Total liabilities		10,002,819.90	7,317,106.12

PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Income statement for the years ended December 31, 2003 and 2002

	Notes	2003	2002
		in EUR	
Revenues	(16)	708,715.27	444,562.50
Cost of revenues	(17)	(425,758.29)	(216,545.37)
Gross profit		282,956.98	228,017.13
Operating expenses:			
Research and development	(18)	(8,811,814.02)	(8,850,590.13)
General and administrative	(19)	(2,432,244.10)	(2,326,262.72)
Selling and marketing		(49,036.90)	0.00
		(11,293,095.02)	(11,176,852.85)
Loss from operating activities		(11,010,138.04)	(10,948,835.72)
Other income (expense):			
Financial results	(20)	61,527.14	19,309.37
Other income (expense), net	(21)	84,217.68	63,702.97
		145,744.82	83,012.34
Net loss before income taxes		(10,864,393.22)	(10,865,823.38)
Income taxes	(8)	0.00	0.00
Net loss		(10,864,393.22)	(10,865,823.38)
Earnings per Share (diluted and undiluted)	(23)	(77.55)	(96.17)

PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Statements of Cash Flows for the years ended December 31, 2003 and 2002

	2003 EUR	2002 EUR
Cash flows from operating activities:		
Net loss	(10,864,393.22)	(10,865,823.38)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	882,330.92	520,506.50
Losses on sale of assets	0.00	6,558.73
Expenses recognized due to the stock option plan	1,360,000.00	60,000.00
Changes in operating assets and liabilities:		
Accounts receivable, trade	67,744.00	(49,246.81)
Prepaid expenses and other assets	(28,491.99)	27,803.67
Accounts payable, trade	(1,042,923.53)	513,453.38
Provisions	410,968.78	375,934.37
Other current liabilities	(213,009.71)	26,134.66
Net cash used in operating activities	(9,427,774.75)	(9,384,678.88)
Cash flows from investing activities:		
Purchase of intangible assets, property and equipment	(728,672.75)	(680,791.46)
Net cash used in investing activities	(728,672.75)	(680,791.46)
Cash flows from financing activities:		
Increase of additional paid-in capital	13,148,218.06	13,042,296.29
Capital increase	41,400.00	8,100.00
Decrease of long-term debt	0.00	(283,699.25)
Increase (Decrease) of deferred subsidies	(154,546.60)	154,546.60
Net cash provided by financing activities	13,035,071.46	12,921,243.64
Net increase in cash and cash equivalents	2,878,623.96	2,855,773.30
Cash and cash equivalents — beginning of period	5,574,893.93	2,719,120.63
Cash and cash equivalents — end of period	8,453,517.89	5,574,893.93

PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Statements of Shareholders' Equity for the years ended December 31, 2003 and 2002

	Subscribed capital EUR	Additional paid-in capital EUR	Accumulated deficit carried forward EUR	Total Shareholders' Equity EUR
Balance July 20, 2000 (inception date)	0.00	0.00	0.00	0.00
Issuance of shares	97,200.00	1,239,617.76	0.00	1,336,817.76
Change in equity due to acquisitions under common control	300.00	0.00	(220,752.39)	(220,452.39)
Net loss	0.00	0.00	(2,571,460.13)	(2,571,460.13)
Balance December 31, 2000	97,500.00	1,239,617.76	(2,792,212.52)	(1,455,094.76)
Issuance of shares	5,850.00	12,924,223.12	0.00	12,930,073.12
Payment of unpaid capital	2,500.00	0.00	0.00	2,500.00
Net loss	0.00	0.00	(9,828,025.19)	(9,828,025.19)
Balance December 31, 2001	105,850.00	14,163,840.88	(12,620,237.71)	1,649,453.17
Issuance of shares	8,100.00	0.00	0.00	8,100.00
Payment of additional paid-in capital	0.00	13,042,296.29	0.00	13,042,296.29
Addition capital reserve due to recognition of stock option transaction	0.00	60,000.00	0.00	60,000.00
Net loss	0.00	0.00	(10,865,823.38)	(10,865,823.38)
Balance December 31, 2002	113,950.00	27,266,137.17	(23,486,061.09)	3,894,026.08
Issuance of shares	41,400.00	0.00	0.00	41,400.00
Payment of additional paid-in capital	0.00	13,352,540.56	0.00	13,352,540.56
Recognition of external expenses for acquisition of new investors	0.00	(204,322.50)	0.00	(204,322.50)
Addition capital reserve due to recognition of stock option transaction	0.00	1,360,000.00	0.00	1,360,000.00
Net loss	0.00	0.00	(10,864,393.22)	(10,864,393.22)
Balance December 31, 2003	155,350.00	41,774,355.23	(34,350,454.31)	7,579,250.92

PAION GmbH, Aachen (formerly: Stolberg)

Notes to Financial Statements as of December 31, 2003 and 2002

The Company (1)

PAION GmbH (hereafter also referred to as "PAION" or the "Company") is a privately held company with its registered office at Martinstraße 10-12, 52062 Aachen, Germany. It was founded on July 20, 2000.

PAION is a bio-pharmaceutical company, which specializes in the development and discovery of innovative drugs with a focus on the indication of a stroke and other thrombotic diseases. PAION's lead product Desmoteplase (DSPA) is the genetically manufactured equivalent of a blood clot-dissolving protein found in the saliva of the vampire bat *Desmodus rotundus*. In 2003, the phase II clinical trial of DIAS (Desmoteplase In Acute ischaemic Stroke) in Europe, Australia and Singapore (DIAS) has been concluded successfully.

In 2002, PAION's Investigational New Drug Application (IND) for the DEDAS (Dose Escalation study of Desmoteplase in Acute ischaemic Stroke) phase I/II trial in the United States went effective. The study design is identical to the DIAS trial. In 2004, the phase II clinical trial of DEDAS has been concluded successfully.

Risks of further Development

The Company does not have marketable products yet. Because of the lengthy drug development processes, the Company expects that additional losses will be incurred in the coming years and additional equity will need to be contributed to cover development costs. The Company may not be able to find investors to sufficiently fund these processes in one or more rounds of financing until break-even is reached.

As a result of the current loss situation in the start-up phase and the uncertainty regarding future business development, the continuation of the Company's operations as a going concern is dependent on the injection of additional liquidity by the shareholders or other investors.

See note (27) regarding going concern.

Summary of Significant Accounting Policies (2)

Basis of Presentation

PAION prepared its financial statements for the year ending 2003 in accordance with endorsed International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Accordingly, these financial statements explicitly and unreservedly comply with all requirements of IFRS.

The international standard setter, the International Accounting Standards Board (IASB), has undertaken an extensive exercise to develop new standards and improve existing ones. The work on those standards that are applicable is now substantially complete. We decided to adopt those standards endorsed until the date of the preparation of the financial statements as of December 31, 2003 and 2002 (e.g. IFRS 2 "Share based payments" and IFRS 3 "Business Combinations").

Since the Company is in an expansion phase characterized by extensive research and development (R&D), period-on-period comparisons are only comparable to a limited extent.

All amounts in the financial statements are shown in Euro.

PAION presents current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet according to IAS 1.51. The income statement is presented by applying the cost of sales method.

Due to the specific importance of the research and development costs, these costs are presented as separate classifications on the face of the income statement.

Due to the development stage of the Company, not more than one business segment has been identified.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Changes in Accounting Estimates

Due to the forthcoming closure of the Berlin, Germany research and development facility in fiscal year 2004 and the resulting discontinuation of the conditions for the grants, the investment grants made are to be repaid

and are therefore disclosed under provisions as of December 31, 2003 together with the partial amount previously recognized as income (KEUR 219 in total). The effect of this change of an accounting estimate according to IAS 20.32 and IAS 10.30 amounts to KEUR 64 for this period and amounts to KEUR 155 for future periods.

Discontinued Operations

As the requirements of IFRS 5.7 (immediate availability for sale) of the assets of the Berlin, Germany research and development facility have not been met as of the balance sheet date, no assets held for sale are presented on the face of the balance sheet. The assets to be sold in the future comprise office furniture as well as technological equipment for the identification of proteins.

Translation of Foreign Currencies

Assets and liabilities that are denominated in foreign currencies are translated into Euro at the prevailing exchange rate at the balance sheet date. The exchange gains (KEUR 25) and losses (KEUR 18) are recognized in the income statement.

Related Party Transactions

With respect to transactions with shareholders, especially related to capital increases, reference is made to the statements under ''Shareholders' Equity (9)''.

With respect to the issuance of options to employees and external consultants, which entitle the bearer to subscribe for capital stock of the Company, reference is made to the statements under ''Employee Stock Compensation Plan'' and ''Stock Option Plan for External Consultants'' under ''Shareholders' Equity (9)''.

The shareholder Medical Science Partners International received remunerations amounting to KEUR 204 in connection with fundraising activities in fiscal year 2003. The expenses have been offset against capital reserves.

With respect to remuneration of the members of the managing board reference is made to the statements under ''Members of the Managing Board (30)''.

With respect to remuneration of the members of the advisory board reference is made to the statements under ''Members of the Advisory Board (31)''.

Revenue Recognition

In accordance with IAS 18, the Company recognizes revenue when the earning process is complete and the risks and rewards of ownership have been transferred to the customer. Up to now, no substantial sales were generated.

Research and Development Costs/Subsidies

Research and Development costs are accounted for according to IAS 38 ''Intangible Assets''. Research costs are to be expensed as incurred. Development expenses are to be capitalized under certain conditions depending on the possible outcome of development activities.

Assessing this possible outcome requires significant management judgment. However, in the opinion of management, due to the regulatory approval process and other uncertainties inherent in the development of PAION's new products, the criteria for development costs to be recognized as an asset, as prescribed by IAS 38.57 ''Intangible Assets'', are not met until the product has received regulatory approval and when it is probable that future economic benefits will flow to the Company.

Until today, none of the Company's research and development projects have obtained regulatory approval and, accordingly, research and development costs are expensed as incurred.

The research and development costs include research undertaken in the Berlin, Germany research and development facility, pre-clinical and clinical development of drugs and production development. The Company has received subsidies from the Federal Ministry of Education and Research in Germany. Subsidies that directly relate to expenses incurred in connection with research and development activities are recorded in the income statement as a reduction of the research and development costs.

Income Taxes

Income taxes are recognized according to IAS 12. They are accounted for using the liability method. Deferred taxes are recognized by applying enacted statutory tax rates applicable to future years to temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. In addition, deferred tax assets are recognized for tax loss carry-forwards. The effect of a change in the enacted

tax rates on deferred taxes is recorded in income in the period in which the change is enacted. No deferred tax assets are recognized, if it is probable that some portion or all of the deferred tax assets will not be realized.

Derivatives
The Company held no derivative instruments during the years ended December 31, 2003 and 2002.

Notes to the Balance Sheet

Intangible Assets (3)
Intangible assets principally consist of software as well as development and marketing rights for DSPA. They are stated at cost less accumulated amortization. Only intangible assets acquired from third parties have been capitalized as the requirements for capitalizing internally generated intangible assets were not met.

Amortization of intangible assets is calculated by applying the straight-line method over the estimated useful life of the assets. The useful life of software is determined to be three years.

The development of intangible assets in fiscal year 2003 including accumulated amortization is shown in the fixed asset movement below. The increase in intangible assets relates to payments totaling KEUR 700 which were made in fiscal year 2003 for obtaining global development and marketing rights for DSPA.

Development costs are expensed as incurred. The requirements for the capitalization of development costs are not completely fulfilled as no development project has received regulatory approval and, therefore, according to management's assessments it is not yet probable that future economic benefits will flow to the Company.

Equipment (4)
Operating and office equipment are stated at cost less accumulated depreciation according to IAS 16.

Depreciation on operating and office equipment 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 expensed in the year of acquisition.

The Company reviews assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of 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 recognized is measured by the amount by which the carrying amount of the assets exceeds the higher of fair value less cost to sell and value in use of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

As a result of the decision to close the Berlin, Germany research and development facility in fiscal year 2004 and the resulting necessity to sell the laboratory equipment, write-downs of KEUR 522 were recorded to reduce the value of these items to their net realizable value. There were no significant new investments in fiscal year 2003.

Leased equipment meeting certain criteria as specified in IAS 17 is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed according to the straight-line method over the term of the lease.

		Acquisition and Production Cost					Accumulated Depreciation					Net Book Values	
		01/01/2003 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	12/31/2003 EUR	01/01/2003 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	12/31/2003 EUR	12/31/2003 EUR	12/31/2002 EUR
I.	INTANGIBLE ASSETS												
1.	Software and licenses	228,472.22	709,171.17	0.00	0.00	937,643.39	94,726.72	111,316.17	0.00	0.00	206,042.89	731,600.50	133,745.50
II.	EQUIPMENT												
1.	Technical equipment and machines	71,928.34	11,105.62	0.00	191,079.72	274,113.68	52,193.84	67,330.62	0.00	79,211.22	198,735.68	75,378.00	19,734.50
2.	Other equipment, factory and office equipment	1,822,613.25	8,395.96	171,296.35	(191,079.72)	1,468,633.14	527,127.75	703,684.13	171,296.35	(79,211.22)	980,304.31	488,328.83	1,295,485.50
		1,894,541.59	19,501.58	171,296.35	0.00	1,742,746.82	579,321.59	771,014.75	171,296.35	0.00	1,179,039.99	563,706.83	1,315,220.00
		2,123,013.81	728,672.75	171,296.35	0.00	2,680,390.21	674,048.31	882,330.92	171,296.35	0.00	1,385,082.88	1,295,307.33	1,448,965.50

Trade Receivables (5)

Trade receivables are stated at nominal value. Receivables denominated in foreign currencies are translated into Euro at the prevailing exchange rate at the balance sheet date and exchange effects are recognized in the income statement.

All trade receivables are expected to be settled within twelve months from the balance sheet date.

Prepaid Expenses and Other Assets (6)

Prepaid expenses and other assets mainly consist of prepaid value added tax (KEUR 121 as of December 31, 2003, KEUR 139 as of December 31, 2002) and prepaid corporate income tax (KEUR 23 as of December 31, 2003, KEUR 31 as of December 31, 2002). Furthermore, prepaid expenses, such as expenses for insurances and rental payments, are included.

Cash and Cash Equivalents (7)

Cash and cash equivalents include cash and bank deposits with a maturity of less than three months at the date of purchase. The carrying amounts of cash and cash equivalents approximate fair value due to the short maturity of these investments.

Deferred Tax Assets — Income Taxes (8)

The Company has significant accumulated tax loss carryforwards as of December 31, 2003 and December 31, 2002. Applying the corporate income tax (Körperschaftsteuer) and the reunification surcharge (Solidaritätszuschlag) at a combined rate of 21.80% (taking into account the deductibility of the trade tax) as well as the trade tax (Gewerbeertragsteuer) at local rates of 17.36%, deferred tax assets amount to the following:

	December 31, 2002		December 31, 2003	
	Loss carry-forward KEUR	Deferred tax asset KEUR	Loss carry-forward KEUR	Deferred tax asset KEUR
Corporate Income Tax, including reunification surcharge	22,837	4,979	32,390	7,060
Trade Tax	22,780	3,955	32,333	5,612
Total		8,934		12,672

Management does not expect the Company to be profitable before fiscal year 2008. Based on this expectation, management believes that it is not yet probable that the deferred tax assets can be realized. In accordance with IAS 12.34, no deferred tax assets were recognized.

Another possible deferred tax asset of KEUR 213 as of December 31, 2003 (KEUR 152 as of December 31, 2002) related to an accrual for contingent losses has also not been recognized.

Consequently the income taxes as disclosed in the income statement are derived as follows:

	2003 KEUR	2002 KEUR
Net loss before income taxes	10,864	10,866
Expected income tax profit (combined applicable tax rate: 39.16%)	4,254	4,255
Effects of expenses or income that are not deductible in determining taxable profit	(4)	8
Unrealized deferred tax assets	(4,250)	(4,263)
Income taxes	0	0

Except for the deferred taxes mentioned above no material deferred taxes have been identified.

Shareholders' Equity (9)

The capital stock as of December 31, 2003, amounts to EUR 155,350.00 and consists of 47 shares of different par values. Some shareholders hold multiple shares. As of the balance sheet date, the capital stock had been fully paid in. The total share-value held by each shareholder is as follows:

	Jan. 1, 2003 EUR	Change EUR	Dec. 31, 2003 EUR	%
Varuma AG	0.00	22,650.00	22,650.00	14.58
3i Group Investments LP	10,800.00	2,700.00	13,500.00	8.69
Dr. Wolfgang Heinrich Söhngen,	12,650.00	0.00	12,650.00	8.14
Dr. Mariola Söhngen	12,650.00	0.00	12,650.00	8.14
Nordrhein-Westfalen Fonds GmbH	9,050.00	2,250.00	11,300.00	7.27
Strategic European Technologies NV	9,000.00	0.00	9,000.00	5.79
3i Bioscience Investment Trust plc	7,200.00	1,800.00	9,000.00	5.79
NeoMed Innovation III LP	4,450.00	2,500.00	6,950.00	4.47
Gutrafin Ltd.	0.00	6,850.00	6,850.00	4.41
Vertex Technology Fund (III) Ltd.	4,850.00	1,250.00	6,100.00	3.93
Vertex Life Science Inc.	4,800.00	1,250.00	6,050.00	3.90
Genevest Consulting Group S.A.	4,600.00	1,200.00	5,800.00	3.73
Dr. André Lamotte	5,000.00	0.00	5,000.00	3.22
Prof. Dr. Wolf-Dieter Schleuning	5,000.00	0.00	5,000.00	3.22
China Development Industrial Bank Inc.	3,600.00	0.00	3,600.00	2.32
Dr. Franz Wirtz GmbH, Stolberg	2,500.00	500.00	3,000.00	1.93
S-VC Risikokapital-Fonds für die Region Aachen, Krefeld und Mönchengladbach GmbH	2,350.00	550.00	2,900.00	1.87
Dr. Franz Wirtz Vermögensverwaltungsgesellschaft GbR	2,500.00	0.00	2,500.00	1.61
IBT Industrial Bank of Taiwan	1,800.00	0.00	1,800.00	1.16
Hans W. Schoepflin	0.00	1,750.00	1,750.00	1.13
Dr. Jürg F. Geigy	0.00	1,250.00	1,250.00	0.81
Peter C. Hoffmann	0.00	1,250.00	1,250.00	0.81
Medical Science Partners International	0.00	1,050.00	1,050.00	0.68
Alimentaria International Inc	0.00	1,000.00	1,000.00	0.64
IBT Venture Co.	900.00	0.00	900.00	0.58
Hannemarie Wirtz	0.00	500.00	500.00	0.32
Tenesco Ltd.	0.00	500.00	500.00	0.32
Westend Treuhandgesellschaft mbH	0.00	500.00	500.00	0.32
A. Daniel Meiland	0.00	250.00	250.00	0.16
Söhngen Beteiligungs GmbH & Co. KG	0.00	100.00	100.00	0.06
BWLB-Beteiligungsgesellschaft der WestLB mbH	10,250.00	(10,250.00)	0.00	0.00
	113,950.00	41,400.00	155,350.00	100.00

The following table sets forth the development of the subscribed capital and additional paid-in capital:

	Subscribed Capital EUR	Additional Paid-in Capital EUR
Balance — December 31, 2001	105,850.00	14,163,840.88
Capital contribution dated February 14, 2002	8,100.00	0.00
Payment of remaining 50% of third installment of capital increase November 16, 2000 (premium)	0.00	3,330,926.10
Payment of 50% of fourth installment of capital increase November 16, 2000 (premium) — without WestLB	0.00	6,474,233.45
Payment of 25% of fourth installment of capital increase November 16, 2000 (premium) — without WestLB	0.00	3,237,136.74
Additional capital reserve due to recognition of stock option transaction	0.00	60,000.00
Balance — December 31, 2002	113,950.00	27,266,137.17
Capital contribution dated April 25, 2003	20,000.00	4,016,000.00
Capital contribution dated May 30, 2003	21,400.00	4,297,120.00
Payment of fourth installment of capital increase November 16, 2000 (premium) — without WestLB	0.00	5,039,420.56
Recognition of external expenses for acquisition of new investors	0.00	(204,322.50)
Additional capital reserve due to recognition of stock option transaction	0.00	1,360,000.00
Balance — December 31, 2003	155,350.00	41,774,355.23

The shareholders of PAION are classified in the following groups according to the date they obtained their shares in the Company:

- Founders/Holders of subscription rights
- A-round investors (those investors participating in the capital increase of November 16, 2000)
- B-round investors (those investors participating in the capital increase of July 12, 2001)
- C-round investors (those investors participating in the capital increase of April 25/May 30, 2003)

These groups of investors have different liquidation preferences. Accordingly, if all shares issued by PAION are sold in a single transaction (trade sale or merger) or a series of related transactions, the proceeds of the sale shall be distributed as follows:

a) firstly, to the C-round investors, up to an aggregate amount allowing each C-round investor to receive an amount equal to the contribution made for each share;

b) secondly, to the A-round and B-round investors, up to an aggregate amount allowing each A-round and B-round investor to receive an amount equal to the contribution made for each share plus an annual internal rate of return of 20%, beginning at the date of payment of the respective contribution;

c) thirdly, allocation of any remaining amount among all shares of all financing rounds on a pro-rata basis.

The above-mentioned distribution shall also apply in the event of any liquidation, dissolution or winding-up of PAION and in the event of the disposal of all or substantially all (at least 75%, calculated at their market value) of PAION's assets.

In the event of share swaps, contributions in kind or transformations within the meaning of para. 1 of the German Law on Transformations of Companies (Umwandlungsgesetz) other than a conversion (formwechselnde Umwandlung), any consideration shall be distributed as outlined above provided that following such a transaction the shareholders hold 50% or less in the receiving or surviving legal entity. If the shareholders hold more than 50% of the shares of the receiving or surviving legal entity following such a transaction and the rights of the shareholders in PAION apply without any changes or amendments, the above-mentioned distribution shall not apply.

If and to the extent that the consideration comprises listed shares, the share price fixed on the stock exchange (or the average of share prices, if such shares are listed on several stock exchanges) at the time the transfer of the consideration takes effect, shall be decisive. In all other cases the value of the shares shall be determined

with binding effect for all shareholders by PAION's auditor for the purpose of the appropriate application of the above-mentioned distribution.

In the event of an initial public offering (IPO) the proceeds will be allocated towards the shareholders based upon their share in the Company at the date of the IPO and not in accordance with the above-mentioned distribution.

In accordance with the shareholders' resolution dated November 16, 2000, related to the adoption of venture capitalists, a basic agreement was signed (notary deed 1426/2000 M, dated November 16, 2000) which sets forth that the venture capitalists' cash consideration for the shares in the Company totals EUR 28,556,667.48. The payment of the consideration has to be carried out in several installments and is contingent on the Company's ability to achieve certain goals which are specified in the basic agreement.

The total consideration of EUR 28,556,667.48, which was agreed upon in the basic agreement, comprised of the following installments:

	EUR	Planned year of payment
1st installment	894,178.92	2000
2nd installment	5,723,273.50	2001
3rd installment	6,677,152.41	2001/2002
4th installment	15,262,062.65	2002
	28,556,667.48	

According to the initial agreement with the financial investors the third installment (EUR 6,677,152.41) was due after 40 patients have been treated with DSPA in phase II with a positive result. However, as the goal was not achieved as quickly as expected, the criteria were changed. Thus, the first half of the third Milestone in an amount of EUR 3,338,576.26 was paid to PAION in autumn 2001 before reaching the number of patients originally stipulated (40 patients). Excess payments of EUR 448.64 were repaid to the investors. The second half of the third installment (EUR 3,330,926.10) was called in February 2002 and has also been paid by the financial investors. As compensation for not reaching the agreed upon number of patients the financial investors have received additional shares in a nominal amount of EUR 8,100 in accordance with the shareholders' decision dated February 14, 2002. Accordingly, subscribed capital was increased by EUR 8,100.00 and additional paid-in capital was increased by EUR 3,330,926.10.

The fourth installment (EUR 15,262,062.65) was originally planned to be paid after the successful completion of phase II of the DSPA project. However, as further liquid funds were needed, this criterion was also changed. Again the installment was split into three parts. All investors except BWLB-Beteiligungsgesellschaft der WestLB (''WestLB'') gave written consent to these changes. The payments due in connection with the fourth installment were paid by all A-round investors except WestLB. The first portion of the fourth installment (EUR 6,474,233.45 without WestLB's payment) was received in May/June 2002 and the next portion (EUR 3,237,136.74) was received in November/December 2002.

In August 2003, VARUMA AG as one of the new shareholders of the C-round bought the WestLB shares including the obligation to pay the fourth milestone (EUR 2.3 million). In November 2003, the prerequisites for payment of the still outstanding amount (KEUR 5,551) of the fourth installment were fulfilled. The payments related to the outstanding amount of this installment were received in December 2003 (EUR 5,039,421) and January 2004 (EUR 511,292).

In connection with the capital increase of April 25 and May 30, 2003 PAION paid a success fee of KEUR 204 to a consultant for fundraising activities. The respective amount was debited against capital reserves.

By shareholders' decision dated May 18, 2004, the subscribed capital of PAION was increased by EUR 23,150.00. In connection with this capital increase, the shareholders obliged themselves to make payments into the additional paid-in capital amounting to EUR 9,777,272.86.

Employee Stock Compensation Plan

PAION has introduced a plan for employees which grants ''phantom shares'' in the Company. These phantom shares grant a legal entitlement to compensation from PAION for an increase in the Company's value. This compensation does not consist of cash but in allowing those entitled employees to subscribe to capital stock in the Company within the scope of a capital increase in return for cash contributions. For this

purpose, a commitment of the shareholders to increase the subscribed capital in a nominal amount of EUR 8,000 was resolved in 2001. Phantom shares in a volume of EUR 6,500 have been allocated to employees in fiscal year 2003 upon completion of the assignment period on June 30, 2003. The remaining EUR 1,500 are available for an additional allocation in connection with the phantom share program.

The phantom shares grant the employees the right to subscribe to capital stock against payment of the nominal amount. Employees may exercise their subscription rights at latest within a two weeks period before an Initial Public Offering (IPO) or trade sale. A trade sale in this connection means a sale of more than 75% of the shares of the Company or a contribution or merger or asset deal in which more than 75% of the Company's assets are sold.

Since June 30, 2003, there is an additional condition for the employees to exercise their subscription rights: The employees shall only be entitled to assume the respective share capital in PAION, if they provide proof to PAION by means of suitable documents that they are able to pay their income taxes in connection with the purchase of the share capital in PAION without having to sell their share in PAION.

Because the stock option program was granted to employees in 2003, no amounts were recognized in fiscal years 2001 and 2002.

The fair value of the stock options amounts to KEUR 1,300 and was computed based on the "Black/Scholes" option pricing model 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 bio-pharmaceutical company. The exercise price amounts to EUR 1.00.

An assumption was made that the expected early exercise equals two years. Due to the fact that the shares are not tradable on a stock exchange, the Company has fixed the weighted average share price as the 200.8 multiple of the nominal amount according to the capital contribution as of March 17, 2003.

This fair value in the amount of KEUR 1,300 has been recognized as expenses and as an increase of equity.

In fiscal year 2004, the shareholders committed themselves to undertake another capital increase in connection with the granting of further subscribed capital to employees under another Employee Stock Compensation Plan.

Stock Option Plan for External Consultants

Phantom shares were also granted to external consultants of the Company under the stock option plan. The conditions of this plan correspond largely to those of the employee stock compensation plan.

In this connection, a commitment of the shareholders to increase the subscribed capital in a nominal amount of EUR 2,000 was resolved in 2001. Phantom shares in a volume of EUR 300 have been allocated to external consultants in fiscal year 2003 based on separate agreements.

The fair value of the stock options amounts to KEUR 60 and was computed also based on the "Black/Scholes" option pricing model because the fair value of the services rendered by the external consultants cannot be reliably determined. For the description of the assumptions see the notes above under "Employee Stock Compensation Plan".

The fair value in the amount of KEUR 60 has been recognized as expenses and as a change of equity.

Obligations under Capital Lease (10)

Liabilities due to leasing contracts are recognized, when the respective asset is capitalized (finance lease). They are recorded at their present value. In the following years, leasing payments in the amount of KEUR 29.7 (prior year KEUR 44.9) will have to be paid to the lessor, the portion of the included interest costs amount to KEUR 2.9.

The liabilities resulting from finance leases are presented according to their maturity as follows:

	Leasing payments KEUR	Included portion of interest rates KEUR	Leasing liability KEUR
2004	8.1	1.3	6.8
2005	8.1	1.0	7.1
2006	8.1	0.5	7.6
2007	5.4	0.1	5.3
	29.7	2.9	26.8

Deferred Subsidies (11)

The Company has received subsidies from the Federal Ministry of Education and Research in Germany and the State of North Rhine-Westphalia. While subsidies that directly relate to expenses incurred in connection with research and development activities are recorded in the income statement as a reduction of the research and development costs, subsidies that are granted in connection with the acquisition of assets are capitalized as deferred subsidies in accordance with IAS 20.24. The deferred subsidies are reversed in correlation with the depreciation of the assigned assets. The reversal is recorded as reduction of research and development costs.

Due to the forthcoming closure of the Berlin, Germany research and development facility in fiscal year 2004 and the resulting discontinuation of the conditions for the grants, the investment grants received are to be repaid and are therefore disclosed under provisions as of December 31, 2003 together with the partial amount previously recognized as income (KEUR 219 in total).

Trade Payables (12)

The liabilities are carried at their redemption amount. Foreign currency liabilities are carried at their redemption amount. Exchange rate effects have been recognized in the income statement.

Provisions (13)

	December 31, 2002 KEUR	Usage KEUR	Reversal KEUR	Addition KEUR	December 31, 2003 KEUR
Contingent losses	389	58	0	216	547
Repayment government grants	0	0	0	219	219
Financial statement closing and audit fees	33	26	0	39	46
Workmen's compensation board	15	15	0	22	22
Consulting fees	7	3	4	21	21
	444	102	4	517	855

The provisions are recorded in accordance with IAS 37. Provisions are only recognized 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. Due to the fact that there are no non-current provisions with a maturity longer than one year, no present values have been recognized.

The provision for contingent losses relates to the fact that the leased administration facility of PAION in Stolberg is not being used since the Company moved to Aachen. The provision reflects the rental expenses over the remaining term of the rental agreement until August 2009. In addition, a provision of KEUR 216 was set up for the anticipated vacant premises in Berlin, Germany from September 1, 2004 until the end of the rental agreement at May 31, 2005.

The provision for the repayment of government grants was set up for investments grants received in prior years. Due to the planned closing of the research and development facility in Berlin, Germany these grants will have to be repaid.

Accrued Liabilities (14)

This position relates to accrued vacation entitlements of employees.

Other Current Liabilities (15)

	December 31, 2003 KEUR	December 31, 2002 KEUR
Wage taxes	133	52
Social security	84	60
Advance payment Teijin Ltd., Japan	0	352
Subsidies	0	61
Other	82	6
	299	531

The advance payment by Teijin Ltd. in connection with an agreement regarding the awarding of a sub-license for DSPA was recognized as revenue in fiscal year 2003 due to the termination of the underlying agreement.

Notes to the Income Statement

Revenues (16)

Sales result in particular from research activities for Schering AG on the basis of a frame agreement (KEUR 300). The termination of negotiations related to a cooperation agreement with Teijin Ltd., Japan, also resulted in an advance payment of KEUR 352 which was disclosed under other liabilities in the prior year being recognized as revenue in fiscal year 2003.

Cost of Revenues (17)

The cost of revenues result from purchased services in connection with the research work provided for Schering AG in the area of phytoestrogens.

Research and Development Costs (18)

The Company's results of operations are characterized by high expenses for research and development. During the period under report, these were particularly incurred in connection with the clinical test phase II for the development of DSPA. These expenses include internal and external research and development expenses.

Subsidies that relate directly to expenses incurred in connection with research and development activities are recorded in the income statement as a reduction of the research and development costs in accordance with IAS 20.

In fiscal year 2003, subsidies amounting to KEUR 649 were recorded as a reduction of research and development costs (KEUR 2,252 in 2002). They were primarily received under the development scheme of the State of North Rhine-Westphalia (TIP — Technology and Innovation Program).

General and Administrative Costs (19)

This item includes mainly legal and consultancy fees as well as personnel expenses, rent expenses and depreciation that have neither been assigned to the research and development costs nor to cost of sales.

Financial Results (20)

	2003 EUR	2002 EUR
Interest income	67,703.98	100,256.00
Interest expenses	(6,176.84)	(80,946.63)
Financial results	61,527.14	19,309.37

Interest expenses are not recognized in purchase costs.

Other Income (Expense), net (21)

This position comprises several minor effects which could not be allocated to specified functional areas. In particular, it relates to cost transfers, income from the private use of company vehicles and income from the operation of the staff cafeteria.

Additional Notes to the Planned Closure of the Berlin, Germany Research and Development Facility (22)

Expenses of KEUR 957 relate to the planned closure of the Berlin, Germany research and development facility. These comprise extraordinary write-downs on fixed assets at this site (KEUR 522), the recognition of an accrual for potential losses resulting from the anticipated vacancy of the leased premises (KEUR 216), and expenses for the repayment of government grants (KEUR 219).

Earnings per Share (23)

The earnings per share are computed according to IAS 33 based on the net loss of PAION and the weighted average number of shares outstanding during fiscal years 2003 and 2002, respectively.

	2003	2002
Issued shares (weighted average)	140,100	112,983
Net loss of the year in KEUR	(10,864)	(10,866)
Earnings per share in EUR	(77.55)	(96.17)

The stock options granted to employees and external consultants in 2002 and 2003 were not eligible for inclusion in the calculation of the diluted earnings per share as they would have decreased the loss per share. Therefore, diluted earnings per share corresponded to undiluted earnings per share.

Further Information to the Income Statement

Depreciation (24)

	2003 EUR	2002 EUR
Amortization / depreciation on intangible assets and equipment	(882,330.92)	(520,506.50)

Personnel Expenses (25)

	2003 EUR	2002 EUR
Wages and salaries	(4,549,933.67)	(3,027,163.62)
Social security	(447,652.60)	(387,259.41)
	(4,997,586.27)	(3,414,423.03)

Employees (26)

The Company employed 52 individuals (without trainees and students) on average in the fiscal year 2003.

Other Information

Risks regarding the Company's Ability to continue as a Going Concern (27)

The financial statements have been prepared based on the assumption that the Company's activities will be carried on (going concern). Thus, the financial statements do not include any adjustments that might have to be made in the case the Company should be unable to continue as a going concern.

PAION is mainly financed through venture capital. By shareholders' decision dated May 18, 2004, the subscribed capital of PAION was increased by EUR 23,150.00. In connection with this capital increase the shareholders obliged themselves to make payments into the additional paid-in capital amounting to EUR 9,777,272.86.

Based upon the latest budget of the Company, the liquid funds currently available for the Company taking into account the payments resulting from the obligation of the shareholders to make payments into the additional paid-in capital secure liquidity into the second half of 2005.

The Company does not have marketable products yet. Because of the lengthy drug development processes, the Company expects that additional losses will be incurred in the coming years and additional equity will need to be contributed to cover development costs. The Company may not be able to find investors to sufficiently fund these processes in one or more rounds of financing until break-even is reached.

As a result of the current loss situation in the start-up phase and the uncertainty regarding future business development, the continuation of the Company's operations as a going concern is dependent on the injection of additional liquidity by the shareholders or other investors.

Commitments and Contingencies

Operating Leases (28)

The Company leases administration and research facilities as well as certain vehicles under operating leases. The future minimum lease commitments required under fixed term leases are as follows:

	KEUR
2004	426
2005	408
2006	325
2007	271
2008	270
Thereafter	600
Total	2,300

Lease and rental expenses amounted to KEUR 388 and KEUR 659 in fiscal years 2003 and 2002, respectively.

The lease contracts are classified as operating lease when mainly all risks and opportunities with respect to the ownership remain primarily with the lessor. The leasing payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

Notes to the Cash Flow Statement (29)

The cash flow statement is presented in accordance with IAS 7. The net loss is adjusted for the effect of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Members of the Managing Board (30)

In fiscal year 2003 as well as in 2002, Dr. Wolfgang Heinrich Söhngen and Dr. Mariola Söhngen were members of the managing board. The Company is represented by each of them individually.

Dr. Wolfgang Heinrich Söhngen has received remuneration of KEUR 167 in 2003 (KEUR 153 in 2002). Dr. Mariola Söhngen has received remuneration of KEUR 153 in 2003 (KEUR 141 in 2002).

Members of the Advisory Board (31)

Pursuant to Article 11 of the articles of incorporation, the Company's Advisory Board can have up to five members.

Members of the advisory board in 2003 and 2002 were:

Dr. Franz Wirtz	Chairman
Dr. André Lamotte	Deputy Chairman (until June 30, 2003)
Dr. Martin Bell	(until December 31, 2003)
Dr. Walter Wenninger	Deputy Chairman (since July 1, 2003)
Dr. Erich Schlick	(since October 1, 2003)

Dr. André Lamotte received remuneration of KEUR 4 in 2003. Dr. Walter Wenninger received remuneration of KEUR 12 in 2003.

Subsequent Events (32)

With respect to capital increases subsequent to the balance sheet date see Note (27) ''Risks regarding the Company's ability to continue as a going concern''.

Aachen, June 2004

(s) Dr. Wolfgang Heinrich Söhngen

(s) Dr. Mariola Söhngen

AUDITOR'S OPINION FOR FISCAL YEAR 2003 (IFRS)

To PAION GmbH, Aachen:

We have audited the accompanying financial statements of PAION GmbH, Aachen (formerly: PAION GmbH, Stolberg), comprising the balance sheet, the income statement, the statements of cash flows, the statements of changes in shareholders' equity and the notes to the financial statements for the business year from January 1, 2003 to December 31, 2003. The preparation and the content of the financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion whether the financial statements are in accordance with International Financial Reporting Standards (IFRS) based on our audit.

We conducted our audit of the financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the 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 financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

Without qualifying this opinion, we draw attention to the comments in the notes to the financial statements. Section (27) "Risks regarding the Company's ability to continue as a going concern" states that the Company's ability to continue as a going concern beyond the second half of 2005 is dependent on the success of the efforts to obtain additional funds from shareholders or other investors.

Cologne, June 28, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Gockel
Wirtschaftsprüfer

Rohkämper
Wirtschaftsprüfer

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FINANCIAL STATEMENTS OF PAION GMBH (IFRS)
AS OF DECEMBER 31, 2002
(INCLUDING AUDITOR'S OPINION)

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PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Balance Sheets as of December 31, 2002 and 2001

Assets

	Notes	Dec. 31, 2002	Dec. 31, 2001
		in EUR	
Non-current assets			
Intangible assets	(3)	133,745.50	120,255.27
Equipment	(4)	1,315,220.00	1,148,289.00
		1,448,965.50	1,268,544.27
Deferred tax assets	(8)	0.00	0.00
Current assets			
Trade receivables	(5)	67,744.00	18,497.19
Prepaid expenses and other assets	(6)	225,502.69	253,306.36
Cash and cash equivalents	(7)	5,574,893.93	2,719,120.63
		5,868,140.62	2,990,924.18
Total assets		7,317,106.12	4,259,468.45

Liabilities and Shareholders' Equity

	Notes	Dec. 31, 2002	Dec. 31, 2001
		in EUR	
Shareholders' Equity	(9)		
Subscribed capital		113,950.00	105,850.00
Additional paid-in capital		27,266,137.17	14,163,840.88
Accumulated deficit carried forward		(12,620,237.71)	(2,792,212.52)
Net loss for the year		(10,865,823.38)	(9,828,025.19)
		3,894,026.08	1,649,453.17
Non-current liabilities			
Long-term debt, net of current portion	(10)	0.00	283,699.25
Long-term obligations under capital lease, net of current portion	(11)	26,725.00	6,860.00
Deferred subsidies	(12)	154,546.60	0.00
		181,271.60	290,559.25
Current liabilities			
Current portion of long-term debt	(13)	0.00	30,687.74
Current portion of capital lease	(11)	13,211.00	6,381.00
Trade payables	(14)	2,182,723.64	1,669,270.26
Provisions	(15)	443,434.37	67,500.00
Accrued liabilities	(16)	71,420.00	49,000.00
Other current liabilities	(17)	531,019.43	496,617.03
		3,241,808.44	2,319,456.03
Total liabilities		7,317,106.12	4,259,468.45

PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Income Statement for the years ended December 31, 2002 and 2001

	Notes	2002	2001
		in EUR	
Revenues	(18)	444,562.50	15,998.03
Cost of revenues	(19)	(216,545.37)	(8,052.34)
Gross profit		228,017.13	7,945.69
Operating expenses:			
Research and development	(20)	(8,850,590.13)	(9,061,836.58)
General and administrative	(21)	(2,326,262.72)	(929,548.37)
		(11,176,852.85)	(9,991,384.95)
Loss from operating activities		(10,948,835.72)	(9,983,439.26)
Other income (expense):			
Financial results	(22)	19,309.37	67,791.41
Other income (expense), net	(23)	63,702.97	87,622.66
		83,012.34	155,414.07
Net loss before income taxes		(10,865,823.38)	(9,828,025.19)
Income taxes	(8)	0.00	0.00
Net loss		(10,865,823.38)	(9,828,025.19)
Earnings per Share (diluted and undiluted)	(24)	(96.17)	(95.20)

PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Statements of Cash Flows for the years ended December 31, 2002 and 2001

	2002 EUR	2001 EUR
Cash flows from operating activities:		
Net loss	(10,865,823.38)	(9,828,025.19)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	520,506.50	290,828.68
Losses on sale of assets	6,558.73	0.00
Expenses recognized due to the stock option plan	60,000.00	0.00
Changes in operating assets and liabilities:		
Accounts receivable, trade	(49,246.81)	(18,497.19)
Prepaid expenses and other assets	27,803.67	(127,835.80)
Accounts payable, trade	513,453.38	819,006.61
Provisions	375,934.37	(279,778.44)
Other current liabilities	26,134.66	15,254.80
Bank overdraft	0.00	(123,490.88)
Net cash used in operating activities	(9,384,678.88)	(9,252,537.41)
Cash flows from investing activities:		
Purchase of intangible assets, property and equipment	(680,791.46)	(1,343,912.93)
Net cash used in investing activities	(680,791.46)	(1,343,912.93)
Cash flows from financing activities:		
Increase of additional paid-in capital	13,042,296.29	12,924,223.12
Capital increase	8,100.00	5,850.00
Decrease of long-term debt	(283,699.25)	(30,683.90)
Increase of deferred subsidies	154,546.60	0.00
Payment of unpaid capital	0.00	2,500.00
Net cash provided by financing activities	12,921,243.64	12,901,889.22
Net increase in cash and cash equivalents	2,855,773.30	2,305,438.88
Cash and cash equivalents — beginning of period	2,719,120.63	413,681.75
Cash and cash equivalents — end of period	5,574,893.93	2,719,120.63

PAION GMBH, AACHEN (FORMERLY: PAION GMBH, STOLBERG)
Statements of Shareholders' Equity for the years ended December 31, 2002 and 2001

	Subscribed capital EUR	Additional paid-in capital EUR	Accumulated deficit carried forward EUR	Total Shareholders' Equity EUR
Balance July 20, 2000 (inception date)	0.00	0.00	0.00	0.00
Issuance of shares	97,200.00	1,239,617.76	0.00	1,336,817.76
Change in equity due to acquisitions under common control	300.00	0.00	(220,752.39)	(220,452.39)
Net loss	0.00	0.00	(2,571,460.13)	(2,571,460.13)
Balance December 31, 2000	97,500.00	1,239,617.76	(2,792,212.52)	(1,455,094.76)
Issuance of shares	5,850.00	12,924,223.12	0.00	12,930,073.12
Payment of unpaid capital	2,500.00	0.00	0.00	2,500.00
Net loss	0.00	0.00	(9,828,025.19)	(9,828,025.19)
Balance December 31, 2001	105,850.00	14,163,840.88	(12,620,237.71)	1,649,453.17
Issuance of shares	8,100.00	0.00	0.00	8,100.00
Payment of additional paid-in capital	0.00	13,042,296.29	0.00	13,042,296.29
Addition capital reserve due to recognition of stock option transaction	0.00	60,000.00	0.00	60,000.00
Net loss	0.00	0.00	(10,865,823.38)	(10,865,823.38)
Balance December 31, 2002	113,950.00	27,266,137.17	(23,486,061.09)	3,894,026.08

PAION GmbH, Aachen (formerly: PAION GmbH, Stolberg)

Notes to Financial Statements as of December 31, 2002 and 2001

The Company (1)

PAION GmbH (hereafter also referred to as "PAION" or the "Company") is a privately held company with its registered office at Martinstraße 10-12, 52062 Aachen, Germany. It was founded on July 20, 2000.

PAION is a bio-pharmaceutical company, which specializes in the development and discovery of innovative drugs with a focus on the indication of a stroke and other thrombotic diseases. PAION's lead product Desmoteplase (DSPA) is the genetically manufactured equivalent of a blood clot-dissolving protein found in the saliva of the vampire bat *Desmodus rotundus*. In 2003, the phase II clinical trial of DIAS (Desmoteplase In Acute ischaemic Stroke) in Europe, Australia and Singapore has been concluded successfully.

In 2002, PAION's Investigational New Drug Application (IND) for the DEDAS (Dose Escalation study of Desmoteplase in Acute ischaemic Stroke) phase I/II trial in the United States went effective. The study design is identical to the DIAS trial. In 2004, the phase II clinical trial of DEDAS has been concluded successfully.

Risks of further Development

The Company does not have marketable products yet. Because of the lengthy drug development processes, the Company expects that additional losses will be incurred in the coming years and additional equity will need to be contributed to cover development costs. The Company may not be able to find investors to sufficiently fund these processes in one or more rounds of financing until break-even is reached.

As a result of the current loss situation in the start-up phase and the uncertainty regarding future business development, the continuation of the Company's operations as a going concern is dependent on the injection of additional liquidity by the shareholders or other investors.

See note (28) regarding going concern.

Summary of Significant Accounting Policies (2)

Basis of Presentation

PAION prepared its financial statements for the year ending 2002 in accordance with endorsed International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Accordingly, these financial statements explicitly and unreservedly comply with all requirements of IFRS.

The international standard setter, the International Accounting Standards Board (IASB), has undertaken an extensive exercise to develop new standards and improve existing ones. The work on those standards that are applicable is now substantially complete. We decided to adopt those standards endorsed until the date of the preparation of the financial statements as of December 31, 2002 and 2001 (e.g. IFRS 2 "Share based payments" and IFRS 3 "Business Combinations").

Since the Company is in an expansion phase characterized by extensive research and development (R&D), period-on-period comparisons are only comparable to a limited extent.

All amounts in the financial statements are shown in Euro.

PAION presents current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet according to IAS 1.51. The income statement is presented by applying the cost of sales method.

Due to the specific importance of the research and development costs, these costs are presented as separate classifications on the face of the income statement.

Due to the development stage of the Company, not more than one business segment has been identified.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Translation of Foreign Currencies
Assets and liabilities that are denominated in foreign currencies are translated into Euro at the prevailing exchange rate at the balance sheet date. The exchange gains (KEUR 168) and losses (KEUR 108) are recognized in the income statement.

Related Party Transactions
With respect to transactions with shareholders, especially related to capital increases, reference is made to the statements under ''Shareholders' Equity (9)''.

During fiscal years 2001 and 2002, several bank loans were secured by the transfer of life insurance policy proceeds of the members of the managing board, Dr. Wolfgang Heinrich Söhngen and Dr. Mariola Söhngen. Reference is made to ''Long-Term Debt (10)''.

With respect to remuneration of the members of the managing board reference is made to the statements under ''Members of the Managing Board (31)''.

With respect to remuneration of the members of the advisory board reference is made to the statements under ''Members of the Advisory Board (32)''.

Revenue Recognition
In accordance with IAS 18, the company recognizes revenue when the earning process is complete and the risks and rewards of ownership have been transferred to the customer. Up to now, no substantial sales were generated.

Research and Development Costs/Subsidies
Research and Development costs are accounted for according to IAS 38 ''Intangible Assets''. Research costs are to be expensed as incurred. Development expenses are to be capitalized under certain conditions depending on the possible outcome of development activities.

Assessing this possible outcome requires significant management judgment. However, in the opinion of management, due to the regulatory approval process and other uncertainties inherent in the development of PAION's new products, the criteria for development costs to be recognized as an asset, as prescribed by IAS 38.57 ''Intangible Assets'', are not met until the product has received regulatory approval and when it is probable that future economic benefits will flow to the Company.

Until today, none of the Company's research and development projects have obtained regulatory approval and, accordingly, research and development costs are expensed as incurred.

The research and development costs include research undertaken in the Berlin, Germany research and development facility, pre-clinical and clinical development of drugs and production development. The Company has received subsidies from the Federal Ministry of Education and Research in Germany. Subsidies that directly relate to expenses incurred in connection with research and development activities are recorded in the income statement as a reduction of the research and development costs.

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

Derivatives
The Company held no derivative instruments during the years ended December 31, 2002 and 2001.

Notes to the Balance Sheet

Intangible Assets (3)
Intangible assets principally consist of software as well as development and marketing rights for DSPA. They are stated at cost less accumulated amortization. Only intangible assets acquired from third parties have been capitalized as the requirements for capitalizing internally generated intangible assets were not met.

Amortization of intangible assets is calculated by applying the straight-line method over the estimated useful life of the assets. The useful life of software is determined to be three years.

The development of intangible assets in fiscal year 2002 including accumulated amortization is shown in the fixed asset movement below. The additions to intangible assets amounting to KEUR 192 (gross) in 2002 mainly relate to a payment in connection with a development and license agreement the Company entered into with Millennium Pharmaceuticals Inc. (KEUR 102), which relates to an option granted to PAION to expand the commercialization territory of certain licensed products, and the purchase of software (KEUR 82). Due to the fact that the decision to cancel the development and license agreement with Millennium Pharmaceuticals Inc. was made at the end of fiscal year 2002 and the respective agreement was finally canceled in the beginning of fiscal year 2003, the residual book value of the intangible asset was disposed and fully amortized in December 2002.

Development costs are expensed as incurred. The requirements for the capitalization of development costs are not completely fulfilled as no development project has received regulatory approval and, therefore, according to management's assessments it is not yet probable that future economic benefits will flow to the Company.

Equipment (4)

Operating and office equipment are stated at cost less accumulated depreciation according to IAS 16.

Depreciation on operating and office equipment 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 expensed in the year of acquisition.

The Company reviews assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of 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 recognized is measured by the amount by which the carrying amount of the assets exceeds the higher of fair value less cost to sell and value in use of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

Leased equipment meeting certain criteria as specified in IAS 17 is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed according to the straight-line method over the term of the lease.

The additions to equipment amounting to KEUR 516 (gross) in 2002 mainly relate to the fact that the headquarters of the Company was transferred from Stolberg to Aachen in fiscal year 2003 and, accordingly, the new facilities had to be equipped with furnishings.

		Acquisition and Production Cost				Accumulated Depreciation				Net Book Values	
		01/01/2002 EUR	Additions EUR	Disposals EUR	12/31/2002 EUR	01/01/2002 EUR	Additions EUR	Disposals EUR	12/31/2002 EUR	12/31/2002 EUR	12/31/2001 EUR
I.	INTANGIBLE ASSETS										
	1. Software and licenses	145,091.83	191,881.42	108,501.03	228,472.22	24,836.56	172,683.19	102,793.03	94,726.72	133,745.50	120,255.27
II.	EQUIPMENT										
	1. Technical equipment and machines	71,928.34	0.00	0.00	71,928.34	31,625.34	20,568.50	0.00	52,193.84	19,734.50	40,303.00
	2. Other equipment, factory and office equipment	1,411,837.64	515,605.04	104,829.43	1,822,613.25	303,851.64	327,254.81	103,978.70	527,127.75	1,295,485.50	1,107,986.00
		1,483,765.98	515,605.04	104,829.43	1,894,541.59	335,476.98	347,823.31	103,978.70	579,321.59	1,315,220.00	1,148,289.00
		1,628,857.81	707,486.46	213,330.46	2,123,013.81	360,313.54	520,506.50	206,771.73	674,048.31	1,448,965.50	1,268,544.27

Trade receivables (5)

Trade receivables are stated at nominal value. Receivables denominated in foreign currencies are translated into Euro at the prevailing exchange rate at the balance sheet date and exchange effects are recognized in the income statement.

All trade receivables are expected to be settled within twelve months from the balance sheet date.

Prepaid Expenses and Other Assets (6)

Prepaid expenses and other assets mainly consist of prepaid value added tax (KEUR 139 as of December 31, 2002; KEUR 168 as of December 31, 2001) and prepaid corporate income tax (KEUR 31 as of December 31, 2002; KEUR 26 as of December 31, 2001). As of December 31, 2001, this position also included prepaid travel expenses amounting to KEUR 32 (KEUR 1 as of December 31, 2002).

Cash and Cash Equivalents (7)

Cash and cash equivalents include cash and bank deposits with a maturity of less than three months at the date of purchase. The carrying amounts of cash and cash equivalents approximate fair value due to the short maturity of these investments.

Deferred Tax Assets — Income Taxes (8)

The Company has significant accumulated tax loss carryforwards as of December 31, 2002, and December 31, 2001. Applying the corporate income tax (Körperschaftsteuer) and the reunification surcharge (Solidaritätszuschlag) at a combined rate of 21.80% (taking into account the deductibility of the trade tax) as well as the trade tax (Gewerbeertragsteuer) at local rates of 17.36%, deferred tax assets amount to the following:

	December 31, 2001		December 31, 2002	
	Loss carry-forward KEUR	Deferred tax asset KEUR	Loss carry-forward KEUR	Deferred tax asset KEUR
Corporate Income Tax, including reunification surcharge	12,382	2,699	22,837	4,979
Trade Tax	12,363	2,146	22,780	3,955
Total		4,845		8,934

Management does not expect the Company to be profitable before fiscal year 2008. Based on this expectation, management believes that it is not yet probable that the deferred tax assets can be realized. In accordance with IAS 12.34, no deferred tax assets were recognized.

Another possible deferred tax asset of KEUR 152 related to an accrual for contingent losses has also not been recognized.

Consequently the income taxes as disclosed in the income statement are derived as follows:

	2002 KEUR	2001 KEUR
Net loss before income taxes	10,866	9,828
Expected income tax profit (average tax rate: 39.16%)	4,255	3,848
Effects of expenses or income that are not considered in determining taxable profit:	8	(11)
Unrecognized deferred tax assets	(4,263)	(3,837)
Income taxes	0	0

Except for the deferred taxes mentioned above no material deferred taxes have been identified.

Shareholders' Equity (9)

The capital stock as of December 31, 2002, amounts to EUR 113,950.00 and consists of 34 shares of different par values. Some shareholders hold multiple shares. As of the balance sheet date, the capital stock had been fully paid in. The total share-value held be each shareholder is as follows:

	Jan. 1, 2002 EUR	Change EUR	Dec. 31, 2002 EUR	%
Dr. Wolfgang Heinrich Söhngen	12,650.00	0.00	12,650.00	11.10
Dr. Mariola Söhngen	12,650.00	0.00	12,650.00	11.10
3i Group Investments LP	9,600.00	1,200.00	10,800.00	9.48
BWLB-Beteiligungsgesellschaft der WestLB mbH	9,050.00	1,200.00	10,250.00	9.00
Vertex Technology Fund (III) Ltd.	8,550.00	–3,700.00	4,850.00	4.26
Vertex Life Science Inc.	0.00	4,800.00	4,800.00	4.21
Nordrhein-Westfalen Fonds GmbH	8,000.00	1,050.00	9,050.00	7.94
Strategic European Technologies NV	8,000.00	1,000.00	9,000.00	7.90
3i Bioscience Investment Trust plc	6,400.00	800.00	7,200.00	6.32
Dr. André Lamotte	5,000.00	0.00	5,000.00	4.39
Prof. Dr. Wolf-Dieter Schleuning	5,000.00	0.00	5,000.00	4.39
Genevest Consulting Group S.A.	4,050.00	550.00	4,600.00	4.04
NeoMed Innovation III LP	3,950.00	500.00	4,450.00	3.90
China Development Industrial Bank Inc.	3,350.00	250.00	3,600.00	3.16
Dr. Franz Wirtz GmbH	2,500.00	0.00	2,500.00	2.19
Dr. Franz Wirtz Vermögensverwaltungsgesellschaft GbR	2,500.00	0.00	2,500.00	2.19
S-VC Risikokapital-Fonds für die Region Aachen, Krefeld und Mönchengladbach GmbH	2,100.00	250.00	2,350.00	2.06
IBT Industrial Bank of Taiwan	1,650.00	150.00	1,800.00	1.58
IBT Ventures Co.	850.00	50.00	900.00	0.79
	105,850.00	8,100.00	113,950.00	100.00

The following table sets forth the development of the subscribed capital and additional paid-in capital:

	Subscribed Capital EUR	Additional Paid-in Capital EUR
Balance — December 31, 2000	97,500.00	1,239,617.76
Payment of outstanding subscribed capital related to capital increase of September 1, 2000	2,500.00	0.00
Payment of second installment of capital increase November 16, 2000 (premium)	0.00	5,723,263.50
Capital contribution of July 12, 2001	5,850.00	3,862,832.00
Payment of 50% of third installment of capital increase November 16, 2000 (premium)	0.00	3,338,576.26
Repayment of excess payments received	0.00	(448.64)
Balance — December 31, 2001	105,850.00	14,163,840.88
Capital contribution of February 14, 2002	8,100.00	0.00
Payment of remaining 50% of third installment of capital increase November 16, 2000 (premium)	0.00	3,330,926.10
Payment of 50% of fourth installment of capital increase November 16, 2000 (premium) — without WestLB	0.00	6,474,233.45
Payment of 25% of fourth installment of capital increase November 16, 2000 (premium) — without WestLB	0.00	3,237,136.74
Additional capital reserve due to recognition of stock option transaction	0.00	60,000.00
Balance — December 31, 2002	113,950.00	27,266,137.17

The shareholders of PAION are classified in the following groups according to the date they obtained their shares in the Company:

- Founders
- A-round investors (those investors participating in the capital increase of November 16, 2000)
- B-round investors (those investors participating in the capital increase of July 12, 2001)
- C-round investors (those investors participating in the capital increase of April 25/May 30, 2003)

These groups of investors have different liquidation preferences. Accordingly, if all shares issued by PAION are sold in a single transaction (trade sale or merger) or a series of related transactions, the proceeds of the sale shall be distributed as follows:

a) firstly, to the C-round investors, up to an aggregate amount allowing each C-round investor to receive an amount equal to the contribution made for each share;

b) secondly, to the A-round and B-round investors, up to an aggregate amount allowing each A-round and B-round investor to receive an amount equal to the contribution made for each share plus an annual internal rate of return of 20%, beginning at the date of payment of the respective contribution;

c) thirdly, allocation of any remaining amount among all shares of all financing rounds on a pro-rata basis.

The above-mentioned distribution shall also apply in the event of any liquidation, dissolution or winding-up of PAION and in the event of the disposal of all or substantially all (at least 75%, calculated at their market value) of PAION's assets.

In the event of share swaps, contributions in kind or transformations within the meaning of para. 1 of the German Law on Transformations of Companies (Umwandlungsgesetz) other than a conversion (formwechselnde Umwandlung), any consideration shall be distributed as outlined above provided that following such a transaction the shareholders hold 50% or less in the receiving or surviving legal entity. If the shareholders hold more than 50% of the shares of the receiving or surviving legal entity following such a transaction and the rights of the shareholders in PAION apply without any changes or amendments, the above-mentioned distribution shall not apply.

If and to the extent that the consideration comprises listed shares, the share price fixed on the stock exchange (or the average of share prices, if such shares are listed on several stock exchanges) at the time the transfer of the consideration takes effect, shall be decisive. In all other cases the value of the shares shall be determined with binding effect for all shareholders by PAION's auditor for the purpose of the appropriate application of the above-mentioned distribution.

In the event of an initial public offering (IPO) the proceeds will be allocated towards the shareholders based upon their share in the Company at the date of the IPO and not in accordance with the above-mentioned distribution.

The payment of outstanding share capital amounting to EUR 2,500 in fiscal year 2001 relates to the capital increase, which was authorized by the shareholders on September 1, 2000.

In accordance with the shareholders' resolution dated July 12, 2001, the share capital was increased by the amount of EUR 5,850.00. Paid-in capital to be integrated was issued with a premium totaling EUR 3,862,832.00.

In accordance with the shareholders' resolution dated November 16, 2000, related to the adoption of venture capitalists, a basic agreement was signed (notary deed 1426/2000 M, dated November 16, 2000) which sets forth that the venture capitalists' cash consideration for the shares in the Company totals EUR 28,556,667.48. The payment of the consideration has to be carried out in several installments and is contingent on the Company's ability to achieve certain goals which are specified in the basic agreement.

The total consideration of EUR 28,556,667.48, which was agreed upon in the basic agreement, comprised of the following installments:

	EUR	Planned year of payment
1st installment	894,178.92	2000
2nd installment	5,723,273.50	2001
3rd installment	6,677,152.41	2001/2002
4th installment	15,262,062.65	2002
	28,556,667.48	

According to the initial agreement with the financial investors the third installment (EUR 6,677,152.41) was due after 40 patients have been treated with DSPA in phase II with a positive result. However, as the goal was not achieved as quickly as expected, the criteria were changed. Thus, the first half of the third Milestone in an amount of EUR 3,338,576.26 was paid to PAION in autumn 2001 before reaching the number of patients originally stipulated (40 patients). Excess payments of EUR 448.64 were repaid to the investors. The second half of the third installment (EUR 3,330,926.10) was called in February 2002 and has also been paid by the financial investors. As compensation for not reaching the agreed upon number of patients the financial investors have received additional shares in a nominal amount of EUR 8,100 in accordance with the shareholders' decision dated February 14, 2002. Accordingly, subscribed capital was increased by EUR 8,100.00 and additional paid-in capital was increased by EUR 3,330,926.10.

The fourth installment (EUR 15,262,062.65) was originally planned to be paid after the successful completion of phase II of the DSPA project. However, as further liquid funds were needed, this criterion was also changed. Again the installment was split into three parts. All investors except BWLB-Beteiligungsgesellschaft der WestLB (''WestLB'') gave written consent to these changes. The payments due in connection with the fourth installment were paid by all A-round investors except WestLB. The first portion of the fourth installment (EUR 6,474,233.45 without WestLB's payment) was received in May/June 2002 and the next portion (EUR 3,237,136.74) was received in November/December 2002.

Employee Stock Compensation Plan

PAION has introduced a plan for employees which grants ''phantom shares'' in the Company. These phantom shares grant a legal entitlement to compensation from PAION for an increase in the Company's value. This compensation does not consist of cash but in allowing those entitled employees to subscribe to capital stock in the Company within the scope of a capital increase in return for cash contributions. For this purpose, a commitment of the shareholders to increase the subscribed capital in a nominal amount of EUR 8,000 was resolved in 2001. Phantom shares in a volume of EUR 6,500 have been allocated to employees in fiscal year 2003 upon completion of the assignment period on June 30, 2003. The remaining EUR 1,500 are available for an additional allocation in connection with the phantom share program.

The phantom shares grant the employees the right to subscribe to capital stock against payment of the nominal amount. Employees may exercise their subscription rights at latest within a two weeks period before an Initial Public Offering (IPO) or trade sale. A trade sale in this connection means a sale of more than 75% of the shares of the Company or a contribution or merger or asset deal in which more than 75% of the Company's assets are sold.

Since June 30, 2003, there is an additional condition for the employees to exercise their subscription rights: The employees shall only be entitled to assume the respective share capital in PAION, if they provide proof to PAION by means of suitable documents that they are able to pay their income taxes in connection with the purchase of the share capital in PAION without having to sell their share in PAION.

Because the stock option program was granted to the employees in 2003, no amounts were recognized in fiscal years 2001 and 2002.

The fair value of the stock options in fiscal year 2003 amounts to KEUR 1,300 and was computed based on the ''Black/Scholes'' option pricing model.

In fiscal year 2004, the shareholders committed themselves to undertake another capital increase in connection with the granting of further subscribed capital to employees under another Employee Stock Compensation Plan.

Stock Option Plan for External Consultants

Phantom shares were also granted to external consultants of the Company under the stock option plan. The conditions of this plan correspond largely to those of the employee stock compensation plan.

In this connection, a commitment of the shareholders to increase the subscribed capital in a nominal amount of EUR 2,000 was resolved in 2001. Phantom shares in a volume of EUR 300 have been allocated to external consultants in fiscal year 2002, based on separate agreements. Accordingly, no amounts were recognized in fiscal year 2001.

The fair value of the stock options in fiscal year 2002 amounts to KEUR 60 and was computed based on the "Black/Scholes" option pricing model because the fair value of the services rendered by the external consultants cannot be reliably determined. The calculation was made assuming a risk-free interest rate of 2.43% and a volatility of 22.7%. The volatility has been computed based on the development of share prices of a comparable bio-pharmaceutical company. The exercise price amounts to EUR 1.00.

The fair value in the amount of KEUR 60 has been recognized as expenses and as a change of equity.

Long-Term Debt (10)

The Company had entered into several loan agreements with a bank. While the loans originally had expiration dates between fiscal years 2004 and 2010, PAION repaid the loans in fiscal year 2002 at face value. The loans were secured by the transfer of life insurance policy proceeds of Mr. and Mrs. Söhngen, guarantees of Mr. and Mrs. Söhngen as well as a chattel mortgage of several assets. The specific terms of these agreements are shown in the tables below:

	Interest rate (fixed)	Original expiration date	December 31, 2002 KEUR	December 31, 2001 KEUR
Credit 1607994249	6.00%	03-30-2010	0	102
Credit 1607994230	7.75%	09-30-2005	0	62
Credit 1607994214	6.75%	09-30-2004	0	76
Credit 1607994222	4.50%	03-30-2009	0	60
Credit 1607994257	5.25%	03-30-2010	0	15
			0	315
Less, current portion			0	(31)
			0	284

	Interest payable	Original repayment term	Original periodic repayment amount KEUR	Original first repayment
Credit 1607994249	Quarterly	Half-yearly	6.4	09-30-2002
Credit 1607994230	Quarterly	Half-yearly	7.7	2001
Credit 1607994214	Quarterly	09-30-2004	76.0	N/A
Credit 1607994222	Quarterly	Half-yearly	5.0	2001
Credit 1607994257	Quarterly	Half-yearly	1.0	09-30-2002

As of December 31, 2001, the difference between the fair value of the instruments compared to the carrying value was not material.

There are no long-term interest-free liabilities.

Obligations under Capital Lease (11)

Liabilities due to leasing contracts are recognized when the respective asset is capitalized (finance lease). They are recorded at their present value. In the following years; leasing payments in the amount of KEUR 44.9 (prior year KEUR 14.2) will have to be paid to the lessor, the portion of the included interest costs amount to KEUR 4.7.

The liabilities resulting from finance leases are presented according to their maturity as follows:

	Leasing Payments KEUR	Included portion of interest rates KEUR	Leasing liability KEUR
2003	15.2	1.8	13.4
2004	8.1	1.3	6.8
2005	8.1	1.0	7.1
2006	8.1	0.5	7.6
2007	5.4	0.1	5.3
	44.9	4.7	40.2

Deferred Subsidies (12)

The Company has received subsidies from the Federal Ministry of Education and Research in Germany and the State of North Rhine-Westphalia. While subsidies that directly relate to expenses incurred in connection with research and development activities are recorded in the income statement as a reduction of the research and development costs, subsidies that are granted in connection with the acquisition of assets are capitalized as deferred subsidies in accordance with IAS 20.24. The deferred subsidies are reversed in correlation with the depreciation of the assigned assets. The reversal is recorded as reduction of research and development costs.

The reversal of deferred subsidies led to income of KEUR 38 in fiscal year 2002 (2001: KEUR 0).

During fiscal year 2003 the Company decided to end the drug discovery activities at the Berlin, Germany research and development facility in 2004. The total amount of investment grants received in 2001 and 2002 for the Berlin, Germany research and development facility, which are to be repaid due to the planned closure, amounts to KEUR 219.

Current Portion of Long-Term Debt and Trade Payables (13, 14)

The liabilities are carried at their redemption amount. Foreign currency liabilities are carried at the redemption amount. Exchange rate effects have been recognized in the income statement.

Provisions (15)

	December 31, 2001 KEUR	Usage KEUR	Reversal KEUR	Addition KEUR	December 31, 2002 KEUR
Contingent losses	0	0	0	389	389
Financial statement closing and audit fees	35	35	0	33	33
Workmen's compensation board	8	8	0	15	15
Consulting fees	0	0	0	7	7
Advisory board's remuneration	25	25	0	0	0
	68	68	0	444	444

The provisions are recorded in accordance with IAS 37. Provisions are only recognized 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. Due to the fact that there are no non-current provisions with a maturity longer than one year, no present values have been recognized.

The provision for contingent losses relates to the fact that the leased administration facility of PAION in Stolberg is not being used since the Company moved to Aachen. The provision reflects the rental expenses over the remaining term of the rental agreement until August 2009.

Accrued Liabilities (16)

This position relates to accrued vacation entitlements of employees.

Other Current Liabilities (17)

	December 31, 2002 KEUR	December 31, 2001 KEUR
Advance payment Teijin Limited	352	352
Subsidies	61	0
Social security	60	42
Wage taxes	52	100
Other	6	3
	531	497

Other liabilities mainly consist of an advance payment by Teijin Limited in connection with an agreement regarding the awarding of a sub-license for DSPA.

Notes to the Income Statement

Revenues (18)

In fiscal year 2002, PAION generated revenues of KEUR 445. All revenues were generated from a single customer.

Revenues amounting to KEUR 300 were generated in connection with a research and development agreement related to the development of inventions in the area of extraction processes from hop, hop parts and residues remaining after industrial hop use. The customer supports the research and development program with a total payment of KEUR 600 over a period of two years. In consideration for the payments PAION grants a license to the customer to use any invention made under the research and development agreement for research purposes and a license to use any invention other than a product invention for non-research purposes. Furthermore, PAION grants an option to the customer to obtain a license related to inventions for non-research purposes.

Revenues amounting to KEUR 145 were generated in connection with a study service agreement related to the performance of specified studies by PAION for the customer. All data and information as well as inventions derived by PAION as a result of the studies have become the property of the customer.

Cost of Revenues (19)

This item includes only those costs which are an integral part of the revenue transaction and originated during the service (e.g. sub-contractor services).

Research and Development Costs (20)

The Company's results of operations are characterized by high expenses for research and development. During the period under report, these were particularly incurred in connection with the clinical test phase II for the development of DSPA. These expenses include internal and external research and development expenses.

Subsidies that directly relate to expenses incurred in connection with research and development activities are recorded in the income statement as a reduction of the research and development costs in accordance with IAS 20.

In fiscal year 2002, subsidies amounting to KEUR 2,252 were recorded as a reduction of research and development costs (KEUR 52 in 2001). The Federal Ministry of Education and Research and the state of North Rhine-Westphalia granted subsidies to PAION up to an amount of EUR 5.3 million. Due to the fact that the "Molecular Farming" project (production of proteins in tobacco plants) was canceled, the amount was reduced from EUR 7.7 million to EUR 5.3 million subsequent to the original granting of the subsidies. These subsidies will be paid to PAION depending on the occurrence of the research and development expenses being subsidized. It is expected that the subsidized projects will be finalized in 2005. At December 31, 2002, EUR 2.9 million of the subsidies remained outstanding.

General and Administrative Costs (21)

This item includes mainly legal and consultancy fees as well as personnel expenses, rent expenses and depreciation that have neither been assigned to the research and development costs nor to cost of sales.

Financial Results (22)

	2002 EUR	2001 EUR
Interest income	100,256.00	90,759.68
Interest expenses	(80,946.63)	(22,968.27)
Financial results	19,309.37	67,791.41

Interest expenses are not recognized in purchase costs.

Other Income (Expense), net (23)

This position comprises several minor effects which could not be allocated to specified functional areas. In particular, it relates to cost transfers, income from the private use of company vehicles and income from the operation of the staff cafeteria.

Earnings per Share (24)

The earnings per share are computed according to IAS 33 based on the net loss of PAION and the weighted average number of shares outstanding during fiscal years 2002 and 2001, respectively.

	2002	2001
Issued shares (weighted average)	112,983	103,234
Net loss of the year in KEUR	(10,866)	(9,828)
Earnings per share in EUR (diluted and undiluted)	(96.17)	(95.20)

The stock options granted to external consultants in 2002 (EUR 300) were not eligible for inclusion in the calculation of the diluted earnings per share in 2002 as they would have decreased the loss per share. In 2001, there was no exercisable stock option program. Therefore, diluted earnings per share corresponded to undiluted earnings per share.

As of December 2001 no stock option program existed in which stock options could have been exercised. Therefore, diluted earnings per share correspond to undiluted earnings per share.

Further Information to the Income Statement

Depreciation (25)

	2002 EUR	2001 EUR
Amortization / depreciation on intangible assets and equipment	(520,506.50)	(290,828.68)

Personnel Expenses (26)

	2002 EUR	2001 EUR
Wages and salaries	(3,027,163.62)	(1,884,853.63)
Social security	(387,259.41)	(208,806.71)
	(3,414,423.03)	(2,093,660.34)

Employees (27)

The Company employed 56 individuals (without trainees and students) on average in fiscal year 2002.

Other Information

Risks regarding the Company's Ability to continue as a Going Concern (28)

The financial statements have been prepared based on the assumption that the Company's activities will be carried on (going concern). Thus, the financial statements do not include any adjustments that might have to be made in the case the Company should be unable to continue as a going concern.

PAION is mainly financed through venture capital. Throughout 2002, the Company's liquidity was ensured. The second half of the third installment of the premium (EUR 3,339,026.10) in accordance with the capital increase dated November 16, 2000 was received in February/April 2002. As a compensation for not reaching the agreed number of patients, the financial investors have received additional shares in a nominal amount of EUR 8,100.00 upon payment.

The fourth installment of the premium (EUR 15,262,062.65) was originally planned to be paid after a successful completion of phase II of the DSPA project. However, as further liquid funds were needed, this criterion was changed. Instead, the installment was split into three parts. All investors except WestLB have given written consent to these changes. The payments due in connection with the fourth installment were paid from all A-round investors except WestLB. The first half of the fourth installment (EUR 6,474,233.45 without WestLB portion) was received in May/June 2002 and the next quarter (EUR 3,237,136.74) was received in November/December 2002. As of December 31, 2002, EUR 5,550,692.46 still need to be paid or called from the funds of the first round of financing (outstanding part of the 4th installment).

In April/May 2003, PAION closed a third round of financing (C-round) with a nominal amount of EUR 41,400.00 and planned payments of EUR 8,313,120.00 into the capital reserves.

In August 2003 VARUMA AG as one of the new shareholders of the C-round bought the WestLB shares including the obligation related to the payment of WestLB's portion of the fourth milestone (EUR 2.3 million). In November 2003 the prerequisites for payment of the still outstanding amount (EUR 5,550,692.46) of the fourth installment were fulfilled. The payments related to the outstanding amount of this installment were received in December 2003 and January 2004.

By shareholders' decision dated May 18, 2004, the subscribed capital of PAION was increased by EUR 23,150.00. In connection with this capital increase the shareholders obliged themselves to make payments into the additional paid-in capital amounting to EUR 9,777,272.86.

In 2002, PAION has received subsidies of EUR 2.4 million. Until November 2003, additional subsidies of EUR 0.8 million were received or called. Until 2005, the Company was granted further subsidies amounting to EUR 2.2 million, which can be called according to the supported development projects. The Company decided to end the drug discovery activities at the Berlin, Germany research and development facility in 2004. The total amount of investment grants received in 2001 and 2002 for the Berlin, Germany research and development facility, which are to be repaid due to the planned closure in 2004, amounts to KEUR 219.

Based upon the latest budget of the Company, the liquid funds currently available for the Company taking into account the payments resulting from the obligation of the shareholders to make payments into the additional paid-in capital secure liquidity into the second half of 2005.

The Company does not have marketable products yet. Because of the lengthy drug development processes, the Company expects that additional losses will be incurred in the coming years and additional equity will need to be contributed to cover development cost. The Company may not be able to find investors to sufficiently fund these processes in one or more rounds of financing until break-even is reached.

As a result of the current loss situation in the start-up phase and the uncertainty regarding future business development, the continuation of the Company's operations as a going concern is dependent on the injection of additional liquidity by the shareholders or other investors.

Commitments and Contingencies

Operating Leases (29)

The Company leases the administration and research facilities as well as certain vehicles under operating leases. The future minimum lease commitments required under fixed term leases are as follows:

	KEUR
2003	388
2004	375
2005	354
2006	295
2007	255
Thereafter	1,161
Total	2,828

Lease and rental expenses amounted to KEUR 659 and KEUR 160 in fiscal years 2002 and 2001, respectively. The increase of the lease and rental expenses mainly relates to the fact that during fiscal year 2002 the Company has rented new facilities for its headquarters in Aachen. In this connection an accrual for contingent losses amounting to KEUR 389 has been set up in connection with the rental agreement in Stolberg which has a term until August 18, 2009.

The lease contracts are classified as operating lease when mainly all risks and opportunities with respect to the ownership remain primarily with the lessor. The leasing payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

Notes to the Cash Flow Statement (30)

The cash flow statement is presented in accordance with IAS 7. The net loss is adjusted for the effect of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Members of the Managing Board (31)

In fiscal year 2002 as well as in 2001, Dr. Wolfgang Heinrich Söhngen and Dr. Mariola Söhngen were members of the managing board. The Company is represented by each of them individually.

Dr. Wolfgang Heinrich Söhngen has received remuneration of KEUR 153 in 2002 (KEUR 153 in 2001). Dr. Mariola Söhngen has received remuneration of KEUR 141 in 2002 (KEUR 141 in 2001).

Members of the Advisory Board (32)

Pursuant to Article 11 of the articles of incorporation, the Company's Advisory Board can have up to five members.

Members of the advisory board in 2001 and 2002 were:

Dr. Franz Wirtz	Chairman
Dr. André Lamotte	Deputy Chairman
Dr. Martin Bell	

Dr. Franz Wirtz received remuneration of KEUR 10 in 2002. Dr. André Lamotte received remuneration of KEUR 8 in 2002. Dr. Martin Bell received remuneration of KEUR 8 in 2002.

Subsequent Events (33)

In February 2003, Schering AG and PAION amended the license agreement concerning the development of DSPA. Schering AG waived its options of the primary contract. With effect from the date of the amendment (February 7, 2003), Schering AG has granted to PAION an exclusive license under Schering AG's patents and Schering AG's know-how to develop, manufacture, market and sell any product in the field of cerebral stoke, arterial and venous thrombosis and any other diseases or conditions for which PAION elects to develop and commercialize in the defined territory (worldwide excluding Japan, but intention to include Japan). The license for the Japanese market was at first exclusively granted to Teijin Limited. In September 2003, Teijin Limited and PAION agreed on a cancellation of the Teijin license agreement with Schering AG, which means that the territory granted to PAION now also includes the Japanese market.

The Company terminated its license agreement with Millennium Pharmaceuticals Inc. in March 2003.

During fiscal year 2003, the Company decided to end the drug discovery activities at the Berlin, Germany research and development facility in 2004.

With respect to capital increases subsequently to the balance sheet date see Note (28) "Risks regarding the Company's ability to continue as a going concern".

Aachen, June 2004

(s) Dr. Wolfgang Heinrich Söhngen

(s) Dr. Mariola Söhngen

AUDITOR'S OPINION FOR FISCAL YEAR 2002 (IFRS)

To PAION GmbH, Aachen:

We have audited the accompanying financial statements of PAION GmbH, Aachen (formerly: PAION GmbH, Stolberg), comprising the balance sheet, the income statement, the statements of cash flows, the statements of changes in shareholders' equity and the notes to the financial statements for the business year from January 1, 2002 to December 31, 2002. The preparation and the content of the financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion whether the financial statements are in accordance with International Financial Reporting Standards (IFRS) based on our audit.

We conducted our audit of the financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the 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 financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

Without qualifying this opinion, we draw attention to the comments in the notes to the financial statements. Section (28) "Risks regarding the Company's ability to continue as a going concern" states that the Company's ability to continue as a going concern beyond the second half of 2005 is dependent on the success of the efforts to obtain additional funds from shareholders or other investors.

Cologne, June 28, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Gockel
Wirtschaftsprüfer

Rohkämper
Wirtschaftsprüfer

AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS OF PAION GMBH (IFRS) AS OF DECEMBER 31, 2001

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AUDITOR'S OPINION FOR FISCAL YEAR 2001 (IFRS)

The financial statements of Paion GmbH prepared on the basis of International Financial Reporting Standards (IFRS), consisting of balance sheet, statement of income, statement of cash flows, statement of shareholders' equity and notes, for the fiscal year ending December 31, 2001 have been issued with the following unqualified auditor's opinion in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) (Institute of Public Auditors) as well as in accordance with the International Standards on Auditing (ISA). The following auditor's opinion refers to the financial statements of Paion GmbH prepared on the basis of IFRS for the fiscal year ending December 31, 2001 as a whole, which are available at the business address of Paion GmbH and are not included in this offering circular.

To PAION GmbH, Aachen:

We have audited the accompanying financial statements of PAION GmbH, Aachen (formerly: PAION GmbH, Stolberg), comprising the balance sheet, the income statement, the statements of cash flows, the statements of changes in shareholders' equity and the notes to the financial statements for the business year from January 1, 2001 to December 31, 2001. The preparation and the content of the financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion whether the financial statements are in accordance with International Financial Reporting Standards (IFRS) based on our audit.

We conducted our audit of the financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the 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 financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

Without qualifying this opinion, we draw attention to the comments in the notes to the financial statements. Section (28) "Risks regarding the Company's ability to continue as a going concern" states that the Company's ability to continue as a going concern beyond the second half of 2005 is dependent on the success of the efforts to obtain additional funds from shareholders or other investors.

Cologne, June 28, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Gockel
Wirtschaftsprüfer

Rohkämper
Wirtschaftsprüfer

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THREE-YEAR OVERVIEWS OF PAION GMBH (HGB) FOR 2003, 2002 AND 2001

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Additional Information on the Three-Year Overviews of Paion GmbH (HGB) for 2003, 2002 and 2001

The following financial information presented on pages F-62 to F-85 represents extracts of the financial statements of Paion GmbH prepared on the basis of accounting principles generally accepted in Germany (German GAAP) for the fiscal years ending December 31, 2003, 2002 and 2001. Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH has audited the financial statements and the management report for the fiscal year ending December 31, 2001, Ernst & Young AG Wirtschaftsprüfungsgesellschaft has audited the financial statements and the respective management reports for the fiscal years ending December 31, 2002 and 2003 in accordance with Sec. 317 German Commercial Code (Handelsgesetzbuch) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) (Institute of Public Auditors) and has issued an unqualified auditor's opinion thereon. The complete financial statements prepared on the basis of German GAAP and the management report with the respective auditor's opinion for the fiscal year ending December 31, 2003 are presented on pages F-65 to F-78 and the auditor's opinion on the financial statements on the basis of German GAAP for the fiscal year ending December 31, 2002 and 2001 are presented on pages F-79 to F-85.

PAION GMBH, AACHEN
Balance sheets as of December 31, 2003, 2002 und 2001

ASSETS

		December 31, 2003 EUR	December 31, 2002 EUR	December 31, 2001 EUR
A.	**OUTSTANDING CONTRIBUTIONS**	511,291.88	0.00	0.00
B.	**FIXED ASSETS**			
I.	**Intangible assets**			
1.	Franchise, industrial and similar rights and assets and licenses in such rights and assets	731,600.50	133,745.50	120,255.27
2.	Goodwill	96,663.00	157,707.00	218,755.00
		828,263.50	291,452.50	339,010.27
II.	**Property, plant and equipment**			
1.	Technical equipment and machines	75,378.00	19,734.50	40,303.00
2.	Other equipment, furniture and fixtures	462,579.83	1,256,229.50	1,095,013.00
		537,957.83	1,275,964.00	1,135,316.00
		1,366,221.33	1,567,416.50	1,474,326.27
C.	**CURRENT ASSETS**			
I.	**Receivables and other assets**			
1.	Trade receivables	0.00	67,744.00	18,497.19
2.	Other assets	162,747.18	182,574.53	248,384.65
		162,747.18	250,318.53	266,881.84
II.	**Cash on hand and bank balances**	8,453,517.89	5,574,893.93	2,719,120.63
		8,616,265.07	5,825,212.46	2,986,002.47
D.	**PREPAID EXPENSES**	91,247.50	42,928.16	4,921.71
		10,585,025.78	7,435,557.12	4,465,250.45

EQUITY AND LIABILITY

		December 31, 2003 EUR	December 31, 2002 EUR	December 31, 2001 EUR
A.	**EQUITY**			
I.	**Subscribed capital**	155,350.00	113,950.00	105,850.00
II.	**Capital reserve**	41,154,458.48	27,290,626.04	14,248,329.75
III.	**Accumulated loss**	(33,121,626.68)	(23,352,162.96)	(12,485,703.58)
		8,188,181.80	4,052,413.08	1,868,476.17
B.	**SPECIAL RESERVE WITH AN EQUITY PORTION**	0.00	154,546.60	0.00
C.	**ACCRUALS**			
	Other accruals	1,646,201.31	1,381,297.11	1,037,736.27
D.	**LIABILITIES**			
1.	Liabilities to banks	0.00	0.00	314,386.99
2.	Trade payables	451,629.80	1,316,280.90	741,173.99
3.	Other liabilities	299,012.87	531,019.43	503,477.03
		750,642.67	1,847,300.33	1,559,038.01
		10,585,025.78	7,435,557.12	4,465,250.45

PAION GMBH, AACHEN
Income statements for the fiscal years ended December 31, 2003, 2002 und 2001

		2003 EUR	2002 EUR	2001 EUR
1.	Sales	708,715.27	444,562.50	15,998.03
2.	Other operating income	1,158,833.15	2,618,595.40	139,580.88
3.	Cost of materials			
	Cost of purchased services	(342,363.00)	(34,932.89)	0.00
4.	Personnel expenses			
	a) Wages and salaries	(3,249,933.67)	(3,027,163.62)	(1,884,853.63)
	b) Social security	(447,652.60)	(387,259.41)	(208,806.71)
		(3,697,586.27)	(3,414,423.03)	(2,093,660.34)
5.	Depreciation of intangible assets, property plant and equipment	(929,867.92)	(477,058.50)	(348,098.15)
6.	Other operating expenses	(6,734,374.23)	(10,025,593.74)	(7,634,270.64)
7.	Other interest and similar income	75,836.34	100,256.00	90,759.68
8.	Interest and similar expenses	(6,094.36)	(79,362.63)	(22,319.27)
9.	Result from ordinary activities	(9,766,901.02)	(10,867,956.89)	(9,852,009.81)
10.	Income taxes	0.00	3,374.16	0.00
11.	Other taxes	(2,562.70)	(1,876.65)	(36,796.84)
12.	Net loss for the year	(9,769,463.72)	(10,866,459.38)	(9,888,806.65)
13.	Loss carryforward	(23,352,162.96)	(12,485,703.58)	(2,596,896.93)
14.	Accumulated loss	(33,121,626.68)	(23,352,162.96)	(12,485,703.58)

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FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF PAION GMBH (HGB) AS OF DECEMBER 31, 2003 (INCLUDING AUDITOR'S OPINION)

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PAION GMBH, AACHEN (FORMERLY: STOLBERG)
Balance Sheet as of December 31, 2003

ASSETS

		December 31, 2003 EUR	December 31, 2002 EUR
A.	**OUTSTANDING CONTRIBUTIONS**		
	Capital reserve not paid in thereof called up: EUR 511,291.88 (prior year: EUR 0.00)	511,291.88	0.00
B.	**FIXED ASSETS**		
I.	**Intangible assets**		
1.	Franchises, industrial and similar rights and assets and licenses in such rights and assets	731,600.50	133,745.50
2.	Goodwill	96,663.00	157,707.00
		828,263.50	291,452.50
II.	**Property, plant and equipment**		
1.	Technical equipment and machines	75,378.00	19,734.50
2.	Other equipment, furniture and fixtures	462,579.83	1,256,229.50
		537,957.83	1,275,964.00
		1,366,221.33	1,567,416.50
C.	**CURRENT ASSETS**		
I.	**Receivables and other assets**		
1.	Trade receivables	0.00	67,744.00
2.	Other assets	162,747.18	182,574.53
		162,747.18	250,318.53
II.	**Cash on hand and bank balances**	8,453,517.89	5,574,893.93
		8,616,265.07	5,825,212.46
D.	**PREPAID EXPENSES**	91,247.50	42,928.16
		10,585,025.78	7,435,557.12

EQUITY AND LIABILITY

		December 31, 2003 EUR	December 31, 2002 EUR
A.	**EQUITY**		
I.	**Subscribed capital**	155,350.00	113,950.00
II.	**Capital reserve**	41,154,458.48	27,290,626.04
III.	**Accumulated loss**	(33,121,626.68)	(23,352,162.96)
		8,188,181.80	4,052,413.08
B.	**SPECIAL RESERVE WITH AN EQUITY PORTION**	0.00	154,546.60
C.	**ACCRUALS**		
	Other accruals	1,646,201.31	1,381,297.11
D.	**LIABILITIES**		
1.	Trade payables thereof due within one year: EUR 451,629.80 (prior year: EUR 1,316,280.90)	451,629.80	1,316,280.90
2.	Other liabilities thereof due within one year: EUR 299,012.87 (prior year: EUR 179,401.99) thereof taxes: EUR 132,568.40 (prior year: EUR 51,606.74) thereof social security EUR 84,885.82 (prior year: EUR 60,222.16)	299,012.87	531,019.43
		750,642.67	1,847,300.33
		10,585,025.78	7,435,557.12

PAION GMBH, AACHEN (FORMERLY: STOLBERG)
Income statement for the fiscal year 2003

		2003 EUR	2002 EUR
1.	Sales	708,715.27	444,562.50
2.	Other operating income thereof income from the reversal of the special reserve with an equity portion: EUR 0.00 (prior year: EUR 38,199.70)	1,158,833.15	2,618,595.40
3.	Cost of materials		
	Cost of purchased services	(342,363.00)	(34,932.89)
4.	Personnel expenses		
	a) Wages and salaries	(3,249,933.67)	(3,027,163.62)
	b) Social security	(447,652.60)	(387,259.41)
		(3,697,586.27)	(3,414,423.03)
5.	Depreciation on intangible assets, property, plant and equipment	(929,867.92)	(477,058.50)
6.	Other operating expenses	(6,734,374.23)	(10,025,593.74)
7.	Other interest and similar income	75,836.34	100,256.00
8.	Interest and similar expenses	(6,094.36)	(79,362.63)
9.	Result from ordinary activities	(9,766,901.02)	(10,867,956.89)
10.	Income taxes	0.00	3,374.16
11.	Other taxes	(2,562.70)	(1,876.65)
12.	Net loss for the year	(9,769,463.72)	(10,866,459.38)
13.	Loss carryforward	(23,352,162.96)	(12,485,703.58)
14.	Accumulated loss	(33,121,626.68)	(23,352,162.96)

PAION GmbH, Stolberg

Notes to the Financial Statements for Fiscal Year 2003

(1) Preliminary Remarks

The financial statements for the fiscal year from January 1, 2003 to December 31, 2003 were prepared in accordance with the applicable provisions of the HGB ["Handelsgesetzbuch": German Commercial Code]. The notes to the financial statements were prepared in accordance with the requirements of Secs. 284 to 288 HGB.

The Company is classified as a medium-sized company as defined by Sec. 267 (2) HGB.

Use is made of the protective clause under Sec. 286 (4) HGB not to disclose management remuneration.

(2) Accounting and Valuation Methods

1. In line with the unpaid contributions to subscribed capital, a gross disclosure of the required contributions to premiums is made in accordance with Sec. 272 Sentence 2 HGB.

2. Fixed assets are stated at acquisition cost and are subject to systematic amortization and depreciation. Amortization/depreciation is charged on a straight-line basis. Low-value assets are fully expensed in the year of acquisition. For movable assets, the simplification rule as defined in R 44 (2) EStR ["Einkommensteuerrichtlinie": German Income Tax Regulations] is used. Goodwill is amortized using the straight-line method over an anticipated useful life of 5 years. Extraordinary write-downs to the lower realizable value are made as necessary.

3. Receivables are valued at nominal value. Receivables denominated in a foreign currency are valued at the lower exchange rate on the balance sheet date.

4. Expenses recorded before the balance sheet date which relate to a certain period after this date are posted as prepaid expenses.

5. Accruals are recognized at the amount required according to prudent business judgment and are necessary and adequately valued.

6. Liabilities (incl. liabilities denominated in a foreign currency) are stated at their amount repayable.

7. The income statement has been prepared using the cost-summary method in accordance with Sec. 275 (2) HGB.

(3) Explanations to the Items of the Balance Sheet and Income Statement

1. Unpaid Contributions to Premiums

During the course of fiscal year 2003, all criteria for the payment of the remaining milestone payments agreed on in the frame agreement dated November 16, 2000 were met. With the exception of the payment by one shareholder, the required amounts were received during fiscal year 2003. Payments of outstanding contributions were received in January 2004.

2. Property, Plant and Equipment

The composition and development of fixed assets are shown in the analysis of fixed assets (Exhibit A).

The goodwill is amortized using the straight-line method over an anticipated useful life of 5 years.

3. Receivables and Other Assets

There were no receivables due from shareholders as of December 31, 2003.

4. Equity

As part of two capital increases with a nominal amount of EUR 41,400.00 carried out in 2003, payments of EUR 8,313,120.00 were made to the capital reserve. The shareholders also made payments of EUR 5,550,712.44 to the capital reserve in accordance with the frame agreement dated November 16, 2000; EUR 511,291.88 thereof had not yet been paid as of the balance sheet date (see assets).

	EUR	EUR
Capital stock as of Jan. 1, 2003	113,950.00	
Capital increase in 2003	41,400.00	
Capital stock as of Dec. 31, 2003	155,350.00	155,350.00
Capital reserve as of Jan. 1, 2003	27,290,626.04	
Allocation to capital reserve in 2003	13,863,832.44	
Capital reserve as of Dec. 31, 2003	41,154,458.48	41,154,458.48
Loss carryforward as of Dec. 31, 2003		23,352,162.96
Net loss for 2003		9,769,463.72
Equity as of Dec. 31, 2003		8,188,181.80

5. Special Item With an Equity Portion

The special item with an equity portion, which was recognized in prior years for investment grants in accordance with Sec. 2 InvZulG ["Investitionszulagengesetz": German Investment Grant Act], was allocated in full to the accruals in fiscal year 2003 since the holding period for the subsidized assets was not met due to the closure of the Berlin, Germany facility and the investments therefore have to be repaid. In addition, the investment grants previously recognized as income have been allocated to the accrual.

6. Accruals

The accruals break down as follows:

		EUR
a)	Outstanding invoices	688,170.31
b)	Potential losses	546,342.92
c)	Investment grants Berlin	218,715.17
d)	Outstanding vacation	103,627.85
e)	Financial statements and audit	46,500.00
f)	Employer's liability insurance	21,845.06
g)	Legal fees	21,000.00
		1,646,201.31

7. Liabilities

There were no liabilities to shareholders as of December 31, 2003.

		Thereof due in up to		
Type of liability	Total EUR	1 year EUR	1-5 years EUR	> 5 years EUR
Trade payables	451,629.80	451,629.80	0.00	0.00
Other Liabilities	299,012.87	299,012.87	0.00	0.00
— thereof for taxes: EUR 132,568.40				
— thereof for social security: EUR 84,885.82				
	750,642.67	750,642.67	0.00	0.00

Rent guarantees of EUR 50.7k exist for rental obligations in Berlin, Germany and Stolberg (EUR 35.8k and EUR 14.9k, respectively).

8. Amortization/Depreciation

Amortization/depreciation includes extraordinary depreciation of EUR 522,247.66 charged on the laboratory in Berlin.

9. Income and Expenses Not Relating to the Period

Income not relating to the period relates to the reversal of accruals (EUR 353k; prior year: EUR 142k).

(4) Other Compulsory Disclosures

1. Employee Stock Compensation Plan and Stock Option Plan for External Consultants

In fiscal year 2003, PAION GmbH granted subscription rights to employees, which grant the right to receive subscribed capital amounting to EUR 6,500 of the Company, that must be created by a capital increase. The subscription rights have not yet been exercised.

PAION GmbH is obliged to offer the exercise of the subscription rights to the employees within a two week period before an IPO or trade sale. A trade sale in this connection is a sale of more than 75% of the shares of the Company, a contribution or merger or an asset deal in which more than 75% of the assets are sold.

In fiscal year 2003, PAION GmbH granted subscription rights to external consultants, which grant the right to receive subscribed capital amounting to EUR 600 of the Company, that must be created by a capital increase. External consultants may exercise their subscription rights within a two week period before an IPO.

The subscription rights held by the employees and external consultants entitles them to subscribe to capital stock, the value of which is EUR 3.0m based on internal calculations.

2. Seat of the Company

At the shareholders' meeting on October 30, 2003, it was resolved to relocate the Company's seat from Stolberg to Aachen and amend the articles of incorporation and bylaws accordingly. The entry in the commercial register was made on March 4, 2004.

3. Other Financial Obligations

As of the balance sheet date, there were other financial obligations of EUR 2,330k. EUR 2,250k of these relate to rental obligations for the next eight years and EUR 80k of these to lease obligations for the next four years.

4. Average Number of Employees

The annual average number of employees — excluding trainees — was:

	2003	2002
Executive employees	10	6
Salaried employees	47	55
Total	57	61

5. Members of Management:

The Company's general managers are:

—Dr. Wolfgang Söhngen, MD

—Dr. Mariola Söhngen, MD

The general managers exercised their functions on a full-time basis.

Aachen, May 2004

PAION GmbH

signed Dr. Wolfgang Söhngen

signed Dr. Mariola Söhngen

PAION GmbH, Aachen (formerly: Stolberg)
Analysis of Fixed Assets for Fiscal Year 2003

Exhibit A

		Acquisition and production cost					Accumulated amortization/depreciation					Net book values	
		Jan. 1, 2003 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	Dec. 31, 2003 EUR	Jan. 1, 2003 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	Dec. 31, 2003 EUR	Dec. 31, 2003 EUR	Dec. 31, 2002 EUR
I.	Intangible assets												
1.	Franchises, industrial and similar rights and assets and licenses in such rights and assets	228,472.22	709,171.17	0.00	0.00	937,643.39	94,726.72	111,316.17	0.00	0.00	206,042.89	731,600.50	133,745.50
2.	Goodwill	305,241.25	0.00	0.00	0.00	305,241.25	147,534.25	61,044.00	0.00	0.00	208,578.25	96,663.00	157,707.00
		533,713.47	709,171.17	0.00	0.00	1,242,844.64	242,260.97	172,360.17	0.00	0.00	414,621.14	828,263.50	291,452.50
II.	Property, plant and equipment												
1.	Technical equipment and machines	71,928.34	11,105.62	0.00	191,079.72	274,113.68	52,193.84	67,330.62	0.00	79,211.22	198,735.68	75,378.00	19,734.50
2.	Other equipment, furniture and fixtures	1,770,748.24	8,395.96	171,296.35	(191,079.72)	1,416,768.13	514,518.74	690,177.13	171,296.35	(79,211.22)	954,188.30	462,579.83	1,256,229.50
		1,842,676.58	19,501.58	171,296.35	0.00	1,690,881.81	566,712.58	757,507.75	171,296.35	0.00	1,152,923.98	537,957.83	1,275,964.00
		2,376,390.05	728,672.75	171,296.35	0.00	2,933,766.45	808,973.55	929,867.92	171,296.35	0.00	1,567,545.12	1,366,221.33	1,567,416.50

PAION GmbH, Aachen (formerly: Stolberg)

Management Report for Fiscal Year 2003

BUSINESS DEVELOPMENT

1. Development of the Industry

In 2003, the biotechnology industry continued the consolidation that had begun in prior years. The reason for this was the decrease in new orders for contract research, supplies, and services, the investment reticence in the pharmaceutical industry, and the reluctance of the investors to provide financing.

Over the course of 2003, the share prices of some listed companies recovered significantly in comparison with the prior year. The listed biotech companies were also part of this trend. However, in the same period, the number of new issues in Europe once again fell compared with the same period of the prior year. At around EUR 6.8b, the total volume of issues was 40% less than the volume of the previous year. This financing method was almost completely cut off to the biotech sector due to risk aversity. Venture capital was therefore currently almost the only source of financing for biotech companies. But even the venture capital companies have made very cautious and conservative investments. Due to their portfolio constraints, many funds were also not in a position to invest in unlisted companies. Noticeable restrictions on research and development activities accompanied by effective cost reductions were necessary for biotech companies which had not yet reached the earnings or cash breakeven point to preserve liquidity.

The willingness of investors to invest and to take risks had increased noticeably by the end of the year. The first biotech company IPOs in the United States were registered at the end of 2003. Also in Europe, there were reports of preparations for IPOs and initial listings of biotech companies at the beginning of 2004.

2. Development of Sales and Order Volumes at PAION

Sales from ordinary activities increased in 2003 to EUR 0.7m (prior year: EUR 0.4m). EUR 300,000 of this relates to contract research conducted by the research department in Berlin. A further EUR 352,000 relate to the downpayment from Teijin Ltd., Japan, which has been received within the scope of a term sheet for the development of the lead product, Desmoteplase, in the stroke indication for Japan in 2001. Negotiations on joint development ended by mutual agreement in 2003. As a result, the basis for the originally anticipated release of the downpayment within the scope of the planned development project no longer applied and the entire amount was recognized as income in 2003. Other sales related mainly to the performance of clinical services for various clients.

3. Research and Development at PAION

The core competencies of PAION are the conduct of clinical studies, production process development and basic research to identify and develop therapeutic proteins.

a. Desmoteplase (DSPA, PN-01)

PAION's main product Desmoteplase (DSPA) is the genetically manufactured equivalent of a protein which dissolves blood clots and which is naturally found in the saliva of the vampire bat *Desmodus rotundus*.

Clinical Phase II Studies for Stroke Indication (DIAS, DEDAS)

Clinical phase II of the study program for the stroke indication in Europe commenced in 2001. The phase II study (DIAS study) was continued as of August 2002 with a revised design as a worldwide study (excluding the United States). In December 2002, the first, low dose level, in March 2003, the second, medium dose level, and in August 2003, the third, high dose level were successfully completed. The analysis of the data indicated that there was a high degree of effectiveness with few side effects with medium and high doses. Due to the results achieved, the Drug Safety Committee recommended not carrying out any further dosage increases in this study. As a result, a major requirement to begin the phase III study has been met.

At the end of 2002, PAION received approval from the US Food and Drug Administration (FDA) to conduct the clinical phase II study in the United States. This is being conducted under the name "DEDAS"; the design of the study is identical to the DIAS study. The DIAS and DEDAS studies are being supervised by the same drug safety committee. The first patients in the DEDAS study were treated in spring 2003. The FDA had approved the beginning of this study at the initial (medium) dose proven to be effective in the DIAS study. Repetition of the (low) dose from the DIAS study that was proven to be ineffective was therefore no longer necessary. The first effect dose level was completed in December 2003. Currently 50% of the patients for the highest and final dose level are included.

Clinical Phase II Study for Pulmonary Embolism Indication (DEPTH)

A clinical phase II study for Desmoteplase (DSPA) for the pulmonary embolism indication was launched at the end of 2002 under the name "DEPTH". Patient recruiting for the first dosage began in 2003 and was discontinued in November 2003 due to insufficient effectiveness of the DSPA dosage that had been tested up to that point. The design of the study was adjusted and continued in March 2004 with a higher dose. The first patients in this dose level have already been recruited and are showing improved results.

Production Development (DSPA)

The main activity in the area of production development was identifying a suitable manufacturer for the market product DSPA. The previously selected manufacturer, SynCo Bio, Amsterdam, is no longer available due to capacity being used elsewhere. Bayer HealthCare AG has been identified as a potential future manufacturer. In the last quarter of 2003, a technology transfer to Bayer HealthCare was made and initial trial production in the stirrer tank began. The switch from the wave reactor to the stirrer tank is expected to reduce production costs in the future production of the market materials. The test materials produced by Bayer are being analyzed for comparability with the SynCo product. Expenses in production development in 2003 were significantly lower than those in the prior year.

b. Solulin (PN-02)

Solulin is a soluble thrombomoduline which has a modulating effect on blood coagulation. Based on its profile, it is anticipated that it will be especially suitable for preventing repeat strokes. The product is in the pre-clinical development phase. In 2003, only the pre-clinical studies that had begun in the prior year were completed. The only reason for this was the necessity to focus all (financial) resources on PAION's main product.

c. MLN519 (PN-05)

The development agreement with Millennium Pharmaceuticals Inc. was terminated as of March 26/28, 2003 by mutual agreement. Both parties confirmed that payment or other financial obligations no longer exist.

d. Drug Discovery

The research department in Berlin, Germany is attempting to adopt mechanisms and optimized proteins created in the evolution for use in human medicine. In addition, development activities performed exclusively by third parties within the scope of a contract research agreement with Schering AG were coordinated. This research contract expired on December 31, 2003 and was not extended. The original research activities of the facility were significantly limited due to budgeting constraints. As head of the department, Dr. Schleuning had been instructed by the shareholders to obtain own financing that was largely independent of PAION. Preparations for the outsourcing of this division required for this purpose into an independent company have been partially made. However, in the end, the necessary funds for an independent continuation of the division could not be obtained. Against this background, in the third quarter of 2003 the management, in agreement with the advisory board and the shareholders, resolved to close the facility. The laboratory is currently only being used for analyses of DSPA. These services are being performed by two remaining employees in the division.

It is anticipated that the facility will finally discontinue its operating activities in the third quarter of 2004. Based on this, the necessary pending valuation adjustments and separate postings required by German commercial law are already disclosed in the financial statements for 2003. An accrual for potential losses of EUR 0.2m was recognized for all rental payments due after August 31, 2004. It is currently not yet foreseeable whether it will be possible to sublet or prematurely terminate the rental agreement and thus reduce the accrual for potential losses. There was also an adjustment made to the net book value for the laboratory and office equipment as of December 31, 2003 based on a firm purchase offer and market research. Additional special depreciation of EUR 0.5m was charged on the net book value based on scheduled amortization. A final closure of the branch will also lead to repayment obligations of investment grants received amounting to EUR 0.2m, since the conditions for grants will be no longer existing.

PAION assumes that the aforementioned measures will be an adequate to cover the anticipated reductions in value and obligations.

4. Investments

In fiscal year 2003, the development licensing agreement with Schering AG was significantly amended and supplemented for the DSPA product. Schering AG waived its option to repurchase the product. PAION therefore has the right to develop and market DSPA without restrictions (initially excluding Japan). PAION has a total of EUR 10.6m in resulting payment obligations to Schering until the product is approved. In 2003,

EUR 0.6m thereof was paid and the acquired licensing rights were capitalized. Amortization is charged over the term of the patent.

The licensing agreement between Schering AG and PAION excludes Japan, which was granted to Teijin Ltd., Japan. Teijin Ltd. transferred these licensing rights back to Schering AG, which in turn transferred them to PAION. Teijin Ltd. received EUR 0.1m from PAION in 2003 for this reassignment of the licensing rights. The license payment to Teijin Ltd. was also capitalized in line with the payments to Schering AG and is written off over the term of the patent. In the event of sublicensing in Japan, an additional payment of EUR 0.9m will be due to Teijin.

In 2003, there was also only limited investment in office equipment, IT hardware and software, and replacements.

5. Equity Financing

At the beginning of fiscal year 2003, paid-in equity amounted to EUR 27.4m and unpaid/uncalled equity to EUR 5.6m. Equity totaling EUR 14m was called in and paid during the course of the year. This breaks down into EUR 5.6m for milestone payments and EUR 8.4m for contributions from a two-phased capital increase.

In April and May 2003, within the scope of two subscriptions, nominal capital was increased by EUR 41,400 and EUR 8.3m in premiums was paid into the capital reserves.

In December 2003, the final milestone from financing round ''A'' from 2000 was reached and the outstanding amount of EUR 5.6m was called in. Except for EUR 0.5m, the payment was made in fiscal year 2003. The called in, but not yet paid EUR 0.5m is disclosed accordingly. The payment was made in 2004. With this payment, PAION had a total of EUR 41.3m in equity available as of December 31, 2003 (less accumulated loss of EUR 33.1m), EUR 0.5m of which had not yet been paid in.

With respect to another capital increase in May 2004 reference is made to 10. 'Risks to Future Development'.

6. Loans and Credit Lines

There are no credit lines available to PAION. PAION has guarantee facilities which are used for rent guarantees.

7. Public Subsidies

Subsidies of EUR 0.6m were posted to income in 2003. This amount results from the recognition of research grants and the allocation of investments already received to the accrual for the Berlin, Germany facility (see also 3d).

The research subsidies from the TIP program were granted for the research and development activities in the pre-clinical, analytical, and production areas. Funds were provisionally called based on an estimate at the end of the year. The funds included therein, which were not used for the corresponding expenses in 2003, were disclosed as other liabilities. At the beginning of 2004, a review of the project sponsors for 2000 and 2001 was carried out, which led to a slight reduction in the recognized funds. Those are also disclosed under other liabilities.

The planned closure of the branch in Berlin, Germany and resulting effects are reported under 3d, ''Research and Development.'' A closure will result in the subsidization conditions for the investment grants received no longer being applicable. All of the investment grants received that had been recognized as of December 31, 2003 were disclosed as an accrual. All of the investment grants received but not yet posted to income have also been reclassified under this accrual.

8. Personnel

The number of employees once again fell in comparison with the prior year; the natural fluctuation was initially used in this regard. Terminations for operational reasons were only made at the Berlin, Germany facility. The number of employees fell from 59 to 51 as of year-end.

9. Results of Operations

Fiscal year 2003 has been marked by high levels of expenditure on research and development, with a focus on clinical research, product development and research into new potential drugs. With a view to the continued difficult capital market situation, PAION is focusing its activities mainly on the further development of the DSPA product in the stroke indication. The budgets approved during the course of 2003 have only partially been used up due to the cost reduction measures introduced and postponements. In addition, extensive provisions for potential losses were recognized in fiscal year 2003. Special depreciation of EUR 0.5m was charged on the fixed assets in Berlin, which corresponds to 40% of acquisition and production costs, in order

to reduce potential losses from sales after the closure. An accrual for potential losses of EUR 0.2m was recognized for all rental payments due after the final closure in the third quarter of this year. The repayable grants were disclosed as an accrual. A provision of EUR 0.8m in total was set up for the planned closure of the facility in Berlin. The remaining accrual for potential losses of EUR 0.3m from the prior year for the office building in Stolberg was maintained. No subletting has been arranged to date.

10. Risks to Future Development

The positive results of the phase II study (DIAS) completed at the end of fiscal year 2003 noticeably improved the risk profile of PAION. The various measures introduced in advance to secure liquidity and reduce costs, and thus focus on the development of the DSPA product for strokes, can therefore be considered to be successful. There is currently insufficient financing for the generally desirable expansion of the portfolio to include additional product candidates. Therefore, for PAION, a lot still depends on the further results of the studies for the product DSPA in the stroke indication. In the completed study, there has been compelling evidence of the effectiveness over a longer therapeutic timeframe without notable side effects (hemorrhage). In further studies, however, there could be a higher frequency of side effects. Moreover, developments by the competition are conceivable which would have an impact on the future value of the product.

Liquidity is required from new capital (venture capital and/or IPO), the issue of licensing rights, and the generation of income to finance the high development costs. PAION is attempting to make cumulative use of the various options.

On May 18, 2004, the shareholders resolved to increase the capital stock by EUR 23,150 to EUR 178,500. Both existing shareholders and new shareholders are allowed to make the new capital contributions. The frame agreement between the shareholders and PAION was also redrafted on May 18, 2004. Under this agreement, the investors allowed to make capital contributions agree to pay EUR 9.8m into the Company's capital reserve as part of the capital increase. Taking into account this capital increase, management assumes that the Company's business activities will be financed into the second half of 2005.

The ability of PAION to continue as a going concern beyond the second half of 2005 is primarily dependent on the successful realization of capital increases. PAION's management is also looking to obtain further funding from partnerships with pharmaceutical and biotech companies by out-licensing DSPA regionally (partnering process).

By acquiring the global marketing rights to DSPA from Schering AG and based on the positive phase-II clinical data, there have been negotiations with various pharmaceutical companies on the issue of licensing rights since the end of 2003. For support, PAION enlisted a company which provides professional support in the conclusion of pharmaceutical and biotech deals. Current negotiations with potential partners indicate sustained interest in development and sales rights to complement their own product portfolio. However, it is not yet evident whether and how much liquidity can be generated as a result. Successful marketing of licensing rights in at least one sales territory (Europe or United States) appears to be very significant for the future financing of development plans. It is anticipated that an IPO can only be carried out successfully on the basis of such a cooperation agreement.

The further trend of the capital markets, particularly the stock market segment for young technology companies, also has an impact on the financing of PAION's planned activities. IPOs in the United States during the last few months of 2003 and IPOs announced in Europe by technology companies indicate the emergence of these financing options. In addition to the efforts to sell the licensing rights for marketing DSPA, PAION is preparing for these financing options.

11. 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 the Company, 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 set forth 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 controlling. Monthly internal reporting is performed on a cost center and cost unit basis. The basis for 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 the Excel planning tool that was adjusted again in 2003 to

corporate requirements. Adjustments to the budget during the year were made using this tool, and various scenarios and sensibility analyses were used as a basis for strategic decision-making.

PAION informs the advisory board and the shareholders about corporate development in monthly reports, providing prompt additional information as and when required. At four advisory board meetings and nine shareholder meetings, in-depth information is provided and all important and strategic decisions made. The advisory board and the shareholders were also provided with information by telephone and in writing.

12. Anticipated Development

Statements regarding anticipated development are only vague due to the high level of planning uncertainty (e.g. the timeframe for realizing projects, actual costs and results can only be assessed to a limited extent). It is therefore quite conceivable that, for example, anticipated payments will be delayed or not received at all due to negotiations failing or due to postponements. This could result in increased capital requirements or even jeopardize the Company's ability to continue as a going concern.

The shareholders have been informed of the planning assumptions and the effects. At the shareholders' meeting on December 11, 2003, the proposed budget for 2004 was approved.

According to the current budget, PAION has sufficient financing available to continue business activities into the second half of 2005. Liquidity is required from new capital (venture capital and/or IPO), the issue of licensing rights, and the generation of income to finance the high development costs.

Aachen, May 2004

PAION GmbH

signed Dr. Wolfgang Söhngen

signed Dr. Mariola Söhngen

AUDITOR'S OPINION FOR FISCAL YEAR 2003 (HGB)

We have audited the annual financial statements, together with the bookkeeping system, and the management report of PAION GmbH, Stolberg, for the fiscal year from January 1, 2003 to December 31, 2003. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB (''Handelsgesetzbuch'': German Commercial Code) and the generally accepted standards for the audit of annual financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily 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 annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with principles of proper accounting. On the whole, the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Without qualifying this opinion, we draw attention to the comments in the management report. In the sections ''Risks to Future Development'' and ''Anticipated Development'', it is stated that the Company's ability to continue as a going concern beyond the second half of 2005 is heavily dependent on the success of the efforts to obtain additional funds from shareholders and income from the realization of projects.

Cologne, June 1, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Gockel
Wirtschaftsprüfer

Rohkämper
Wirtschaftsprüfer

AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF PAION GMBH (HGB) AS OF DECEMBER 31, 2002

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AUDITOR'S OPINION FOR FISCAL YEAR 2002 (HGB)

The financial statements of Paion GmbH prepared on the basis of accounting principles generally accepted in Germany (German GAAP), consisting of balance sheet, statement of income and notes, and the management report for the fiscal year ending December 31, 2002 have been issued with the following unqualified auditor's opinion in accordance with Sec. 322 German Comercial Code (Handelsgesetzbuch). The following auditor's opinion refers to the financial statements and to the management report of Paion GmbH prepared on the basis of accounting principles generally accepted in Germany (German GAAP) for the fiscal year ending December 31, 2002 as a whole, which have been filed with the Commercial Register of Aachen district court and are not included in this offering circular.

To PAION GmbH:

We have audited the annual financial statements, together with the bookkeeping system and the management report of PAION GmbH, Stolberg, for the business year from January 1, 2002 to December 31, 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB (''Handelsgesetzbuch'': German Commercial Code) and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily 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 annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with principles of proper accounting. On the whole, the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Without qualifying this opinion, we draw attention to the explanations in the management report. In the sections ''Risks to Future Development'' and ''Anticipated Development'', it is stated that, the Company's ability to continue as a going concern beyond 2003 is heavily dependent on the injection of additional liquidity by the shareholders and on income resulting from the finalization of projects.

Cologne, May 10, 2003

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Gockel
Wirtschaftsprüfer

Rohkämper
Wirtschaftsprüfer

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AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF PAION GMBH (HGB) AS OF DECEMBER 31, 2001

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AUDITOR'S OPINION FOR FISCAL YEAR 2001 (HGB)

The financial statements of Paion GmbH prepared on the basis of accounting principles generally accepted in Germany (German GAAP), consisting of balance sheet, statement of income and notes, and the management report for the fiscal year ending December 31, 2001 have been issued with the following unqualified auditor's opinion in accordance with to Sec. 322 German Comercial Code (Handelsgesetzbuch). The following auditor's opinion refers to the financial statements and to the management report of Paion GmbH prepared on the basis of accounting principles generally accepted in Germany (German GAAP) for the fiscal year ending December 31, 2001 as a whole, which have been filed with the Commercial Register of Aachen district court and are not included in this offering circular.

We have audited the financial statements, including the accounting system, and the management report of Paion GmbH for the fiscal year from January 1, 2001 to December 31, 2001. The legal representatives of the Company are responsible for the accounting system and preparation of the financial statements and management report in compliance with German commercial law. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting system, and on the management report.

We conducted our audit of the financial statements pursuant to Sec. 317 of the German Commercial Code (HGB) and in compliance with the generally accepted standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the net worth, financial position and results of operations as conveyed by the financial statements, in compliance with generally accepted accounting principles, and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal controls was assessed, and the disclosures made in the books and records, financial statements and management report were verified, mainly on a test basis. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion, the financial statements present a true and fair view of the Company's net worth, financial position and results of operations in accordance with generally accepted accounting principles. In all material respects, the management report accurately presents the situation of the Company and the risks to its future development.

Without qualifying this opinion, we point out that the continuation of the Company's operations as a going concern is heavily dependent on the injection of additional liquidity by the shareholders or other investors as a result of the existing loss situation in the start-up phase and of uncertainty regarding future business development. We refer to the comments in the management report where it is stated that subsequent financing has yet to be fully secured.

Arthur Andersen
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Gockel
Wirtschaftsprüfer

Erdle
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Cologne, March 31, 2002

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UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF PAION AG (IFRS) AS OF SEPTEMBER 30, 2004

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PAION AG, AACHEN
Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003*
(unaudited)

Assets

	Notes	September 30, 2004	December 31, 2003*
		in EUR	
Non-current assets	(8)		
Intangible assets		1,380,896.54	731,600.50
Equipment		1,036,898.01	563,706.83
		2,417,794.55	1,295,307.33
Deferred tax assets	(9)	391,600.00	0.00
Current assets	(10)		
Trade receivables		527,102.56	0.00
Prepaid expenses and other assets		435,224.11	253,994.68
Cash and cash equivalents		25,270,205.74	8,453,517.89
		26,232,532.41	8,707,512.57
Total assets		29,041,926.96	10,002,819.90

Liabilities and Shareholders' Equity

	Notes	September 30, 2004	December 31, 2003*
		in EUR	
Shareholders' Equity	(11)		
Share capital		10,005,552.00	155,350.00
Additional paid-in capital		42,812,840.12	41,774,355.23
Accumulated deficit carried forward		(34,350,454.31)	(23,486,061.09)
Net income / net loss for the reporting period		5,285,312.89	(10,864,393.22)
		23,753,250.70	7,579,250.92
Non-current liabilities	(12)		
Long-term obligations under capital lease, net of current portion		299,332.00	19,993.00
Provisions		276,979.28	0.00
Deferred subsidies		130,962.37	0.00
Deferred income		1,758,458.18	0.00
		2,465,731.83	19,993.00
Current liabilities	(12)		
Current portion of capital lease		71,296.00	6,732.00
Trade payables		1,052,449.25	1,139,800.11
Provisions		1,305,426.75	854,403.15
Accrued liabilities		81,158.74	103,627.85
Other current liabilities		312,613.69	299,012.87
		2,822,944.43	2,403,575.98
Total liabilities		29,041,926.96	10,002,819.90

* The comparative figures as of December 31, 2003 represent the figures of PAION GmbH.

PAION AG, AACHEN
Consolidated Income statement for the nine months' periods ended September 30, 2004 and September 30, 2003* (unaudited)

	Notes	January 1 to September 30, 2004	January 1 to September 30, 2003*
		in EUR	
	(13)		
Revenues		16,598,611.98	633,715.27
Cost of revenues		(1,536,397.86)	(258,126.74)
Gross profit		15,062,214.12	375,588.53
Operating expenses:			
Research and development		(5,063,893.62)	(7,191,303.89)
General and administrative		(4,625,349.26)	(1,769,142.55)
Selling and marketing		(416,470.58)	(13,174.24)
		(10,105,713.46)	(8,973,620.68)
Income / loss from operating activities		4,956,500.66	(8,598,032.15)
Other income (expense):			
Financial results		146,346.04	44,403.21
Other income (expense), net		(209,133.81)	(836.08)
		(62,787.77)	43,567.13
Net income / net loss before income taxes		4,893,712.89	(8,554,465.02)
Income taxes		391,600.00	0.00
Net income / net loss		5,285,312.89	(8,554,465.02)
Earnings per Share (undiluted)	(14)	0.57	(1.13)
Earnings per Share (diluted)		0.57	(1.13)

* The comparative figures for the nine months' period from January 1 to September 30, 2003 represent the figures of PAION GmbH.

PAION AG, AACHEN
Consolidated Statements of Cash Flows for the nine months' period ended September 30, 2004 and September 30, 2003* (unaudited)

	January 1-September 30 2004 EUR	January 1-September 30 2003* EUR
Cash flows from operating activities:		
Net income/net loss	5,285,312.89	(8,554,465.02)
Adjustments to reconcile net income/net loss to net cash used in operating activities:		
Depreciation and amortization	236,144.73	782,981.95
Write-up	(198,201.36)	0.00
Effect of business combination between PAION AG and PAION GmbH	48,972.15	0.00
Deferred tax asset	(391,600.00)	0.00
Other non-cash expenses/income	273,131.14	0.00
Expenses recognized due to the stock option plan	803,000.00	1,360,000.00
Changes in operating assets and liabilities:		
Accounts receivable, trade	(527,102.56)	62,744.00
Prepaid expenses and other assets	(181,229.43)	(121,332.06)
Accounts payable, trade	(87,350.86)	(999,874.73)
Capital lease obligations	(14,232.00)	(9,826.00)
Provisions and accrued liabilities	705,533.77	382,308.90
Other current liabilities	13,600.82	(315,700.47)
Deferred income	1,758,458.18	75,000.00
Net cash from (used in) operating activities	7,724,437.47	(7,338,163.43)
Cash flows from investing activities:		
Purchase of intangible assets, property and equipment	(1,075,426.73)	(722,593.28)
Net cash used in investing activities	(1,075,426.73)	(722,593.28)
Cash flows from financing activities:		
Increase of additional paid-in capital	10,013,564.74	8,108,797.50
Capital increase	23,150.00	41,400.00
Increase (Decrease) of deferred subsidies	130,962.37	(154,546.60)
Net cash provided by financing activities	10,167,677.11	7,995,650.90
Net increase in cash and cash equivalents	16,816,687.85	(65,105.81)
Cash and cash equivalents — beginning of period	8,453,517.89	5,574,893.93
Cash and cash equivalents — end of period	25,270,205.74	5,509,788.12

* The comparative figures for the nine months' period from January 1 to September 30, 2003 represent the figures of PAION GmbH.

PAION AG, AACHEN
Consolidated Statements of Shareholders' Equity for the nine months' periods ended September 30, 2004 and September 30, 2003* (unaudited)

	Share Capital EUR	Additional paid-in capital EUR	Accumulated deficit carried forward EUR	Total Shareholders' Equity EUR
Balance December 31, 2002*	113,950.00	27,266,137.17	(23,486,061.09)	3,894,026.08
Issuance of shares	41,400.00	0.00	0.00	41,400.00
Payment of additional paid-in capital	0.00	8,313,120.00	0.00	8,313,120.00
Recognition of external expenses for acquisition of new investors	0.00	(204,322.50)	0.00	(204,322.50)
Addition capital reserve due to recognition of stock option transaction	0.00	1,360,000.00	0.00	1,360,000.00
Net loss	0.00	0.00	(8,554,465.02)	(8,554,465.02)
Balance September 30, 2003*	155,350.00	36,734,934.67	(32,040,526.11)	4,849,758.56
Balance December 31, 2003*	155,350.00	41,774,355.23	(34,350,454.31)	7,579,250.92
Capital increase	23,150.00	0.00	0.00	23,150.00
Effect from business combination of PAION AG and PAION GmbH	9,827,052.00	(9,778,079.85)	0.00	48,972.15
Payment of additional paid-in capital	0.00	10,288,564.74	0.00	10,288,564.74
Recognition of external expenses for acquisition of new investors	0.00	(275,000.00)	0.00	(275,000.00)
Addition capital reserve due to recognition of stock option transaction	0.00	803,000.00	0.00	803,000.00
Net profit	0.00	0.00	5,285,312.89	5,285,312.89
Balance September 30, 2004	10,005,552.00**	42,812,840.12	(29,065,141.42)	23,753,250.70

* The comparative figures as of December 31, 2002, September 30, 2003 and December 31, 2003 represent the figures of PAION GmbH.

** The share capital as of September 30, 2004 reflects 10,005,552 shares issued by PAION AG.

PAION AG, Aachen

Selected Explanatory Notes to the Interim Consolidated Financial Statements as of September 30, 2004 (unaudited)

Accounting Principles (1)

The accompanying condensed unaudited interim consolidated financial statements as of September 30, 2004 of PAION AG (hereafter also referred to as the ''Company'') have been prepared in accordance with International Accounting Standard (IAS) 34 ''Interim Financial Reporting''.

Due to the foundation of PAION AG as of June 2, 2004, and the contribution in-kind of the shares of PAION GmbH into PAION AG by the shareholders of PAION GmbH, the interim consolidated financial statements as of September 30, 2004 represent the first consolidated financial statements of the Company. These interim consolidated financial statements represent a continuation of the financial statements of PAION GmbH, which has prepared financial statements in accordance with endorsed International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) for fiscal years ended December 31, 2001, December 31, 2002, and December 31, 2003. Accordingly, the comparative information for the prior year, which is presented in the interim consolidated financial statements, is that of PAION GmbH in accordance with the business combination of PAION AG and PAION GmbH, which qualifies as a reverse acquisition under IFRS 3.21 ''Business Combinations'' (reference is made to ''Business Combination of PAION AG and PAION GmbH (3)'').

The accounting policies used in the preparation of the interim consolidated financial statements of PAION AG are consistent with those used by PAION GmbH in its annual financial statements for the year ended December 31, 2003. These interim consolidated financial statements should be read in conjunction with the annual financial statements of PAION GmbH in accordance with IFRS for the year ended December 31, 2003.

Adoption of new International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) (2)

During the nine months between January 1, 2004 and September 30, 2004, no new standards have been adopted by the International Accounting Standards Board which affect the interim consolidated financial statements of PAION AG in comparison to the financial statements of PAION GmbH in accordance with IFRS for the year ended December 31, 2003.

Business Combination of PAION AG and PAION GmbH (3)

On June 2, 2004, PAION AG was founded with a share capital of EUR 50,000. On September 8, 2004, the shareholders' meeting of PAION AG resolved to increase the share capital of the Company by EUR 9,955,552 to EUR 10,005,552 by the issuance of 9,955,552 new shares. As consideration in-kind for the issuance of the shares in PAION AG the shareholders of PAION GmbH, which was founded on July 20, 2000, transferred their shares in PAION GmbH to PAION AG.

The transaction was accounted for by applying IFRS 3 ''Business Combinations'' and qualified as a reverse acquisition (IFRS 3.21), because, in accordance with the issuance of the shares as consideration for the contribution in-kind, the shareholders of PAION GmbH have gained the power to govern the financial and operating policies of PAION AG. In accordance with IFRS 3 ''Business Combinations'', the consolidated financial statements following the reverse acquisition are to be issued under the name of the legal parent (PAION AG), but must be described in the notes as a continuation of the financial statements of the legal subsidiary (PAION GmbH). Because the consolidated financial statements represent a continuation of the financial statements of PAION GmbH:

- the assets and liabilities of PAION GmbH were recognized and measured in the consolidated financial statements at their pre-combination carrying amounts;
- the retained earnings and other equity balances recognized in the consolidated financial statements are the retained earnings and other equity balances of the legal subsidiary (PAION GmbH) immediately before the business combination;
- the amount recognized as equity in the consolidated financial statements was determined by adding to the equity of PAION GmbH immediately before the business combination the cost of the 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 equity instruments issued by PAION AG to effect the combination;

- comparative information presented in the consolidated financial statements is that of PAION GmbH.

Due to the fact that no published 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 (KEUR 49) before the business combination was used as the basis for the determination of the cost of the combination, as its fair value is more clearly evident than the fair value of the equity instruments of PAION GmbH. This amount was added to the issued equity of PAION GmbH (KEUR 179) and allocated to the identifiable assets of PAION AG (cash: KEUR 11; other receivables: KEUR 38). As a result, no goodwill was recorded in connection with the business combination. Also, in order to reflect the equity structure of PAION AG, including the equity instruments issued by PAION AG to effect the combination, in the interim consolidated financial statements subsequent to the business combination, share capital was credited by KEUR 9,778 and additional paid-in capital was reduced accordingly. Thus, the share capital as of September 30, 2004, amounting to EUR 10,005,552 represents 10,005,552 shares, which have been issued by PAION AG.

Included in the interim consolidated financial statements of PAION AG as of September 30, 2004 are PAION AG and PAION GmbH. Since the business combination, PAION AG on a stand-alone basis has generated losses of KEUR 974. If the business combination had occurred as of January 1, 2004, the revenues of the combined entity would remain unchanged at KEUR 16,599, while the profit of the combined entity would have amounted to KEUR 5,284.

Related Party Transactions (4)

With respect to transactions with shareholders, reference is made to the statements under ''Business Combination of PAION AG and PAION GmbH (3)'' and ''Shareholders' Equity (11)''.

Dr. Wolfgang Heinrich Söhngen and Dr. Mariola Söhngen founded PAION AG on June 2, 2004. As consideration for their payments of KEUR 50 into the share capital of PAION AG, their share in PAION AG after the contribution in-kind of the shares of PAION GmbH into PAION AG increased slightly in comparison to their share in PAION GmbH before the business combination, while the shares of all other shareholders in PAION AG have decreased against their shares in PAION GmbH accordingly.

With respect to the issuance of options to employees and external consultants, which entitle the bearer to subscribe to capital stock of the Company, reference is made to the statements under ''Employee Stock Compensation Plan and Stock Option Plan for External Consultants'' under ''Shareholders' Equity (11)''.

The shareholder ''Medical Science Partners International'' received remuneration amounting to KEUR 275 in connection with fundraising activities during the first nine months of fiscal year 2004.

License Agreement with Forest Laboratories Ireland Limited, Clonshaugh, Ireland (''Forest'') (5)

On June 30, 2004, PAION GmbH entered into an agreement with Forest Laboratories Ireland Limited, Clonshaugh, Ireland (''Forest''), a subsidiary of Forest Laboratories, Inc., New York City, New York, USA. The agreement grants Forest an exclusive license with respect to Desmoteplase (DSPA) 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 worldwide market for Desmoteplase. Forest has agreed to make upfront payments and milestone payments in the aggregate amount of USD 69.5 million to us, USD 22 million of which we already received in 2004, and to initially reimburse us for substantially most of our future development costs in connection with DSPA in the indication stroke. Consistent with the assumption with regard to the split of the worldwide market for Desmoteplase, we have agreed that, if we obtain regulatory approval for DSPA in Europe or Japan, we will repay up to 50% of the costs borne directly or indirectly by Forest plus a premium of 20% and interest on the costs to be repaid. However, the interest will only become due from the regulatory approval onwards if PAION GmbH chooses to offset the amounts owed to Forest against future royalty payments from Forest to us. If the U.S. Food and Drug Administration grants regulatory approval for the marketing of DSPA, Forest will be required to use commercially reasonable efforts to market the drug in the United States and Canada and to pay PAION GmbH royalties based on its DSPA net sales in the US and Canadian markets.

In accordance with IAS 18 ''Revenue'' we recognize revenue at the fair value of the consideration received, if the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred for the transaction can be measured reliably.

Accordingly, milestone payments related to the license agreement with Forest are recorded as revenue when the requirements for the respective milestones are achieved. Furthermore, royalties on future net sales resulting from the license agreement with Forest will be recorded as revenue when the respective sales are generated. The non-refundable upfront payment received under this agreement is recorded as deferred income and recognized as revenue in proportion to the future milestone payments to be received. The reimbursement of future development costs will also be recorded as revenue while the corresponding development costs will be accounted for as cost of revenues.

Because the agreement with Forest requires us to repay up to 50% of the reimbursed cost once we have received regulatory approval for DSPA in Europe and/or Japan, we set up a provision for this potential repayment obligation by reducing revenues by the net present value of 50% of the reimbursements which we expect to repay to Forest based on the assumption that the payment will become due in 2008. Accordingly, our revenues in any given period effectively include only approximately 50% of the DSPA related development costs we bill to Forest.

Consistent with our obligation to repay up to 50% of any cost reimbursements received from Forest once we have received regulatory approval for DSPA in Europe and/or Japan, the agreement with Forest also requires us to reimburse Forest for up to 50% of any DSPA related development costs incurred by Forest directly. To account for this potential repayment obligation, we include 50% of these costs in the provision discussed above. We do so by increasing research and development expenses by the net present value of the amount which we expect to repay to Forest based on the assumption that the payment will become due in 2008.

To account for the 20% premium on amounts that we may have to repay to Forest, we set up a provision in a corresponding amount through a charge to research and development expenses. To account for any interest we may have to pay in the event we choose to offset the amounts owed to Forest against future royalty payments from Forest to us, we will set up a provision in a corresponding amount through a charge to financial results. However, the interest will only become due from the regulatory approval onwards if we choose to offset the amounts owed to Forest against future royalty payments from Forest to us.

With respect to the impact of the license agreement with Forest on the interim consolidated financial statements of PAION AG we refer to the disclosures under the respective balance sheet captions and income statement captions.

Changes in Accounting Estimates (6)

As a result of the planned closure of the Berlin, Germany research and development facility, extraordinary write-downs as well as provisions for contingent losses and for the repayment of subsidies received were recorded in the annual financial statements of PAION GmbH as of December 31, 2003, in accordance with IFRS. However, in August 2004 it was decided that the facility shall remain active on a reduced scale. Accordingly, these effects were reversed as further described under ''Non-current Assets (8)'' and ''Non-current and Current Liabilities (12)''.

Segment Reporting (7)

Due to the development stage of the Company, not more than one business segment has been identified.

Notes to the Balance Sheet

Non-current Assets (8)

The increase in intangible assets mainly relates to payments of KEUR 1,000 which were made for obtaining global development and marketing rights for DSPA for the territory of Europe and Japan. This effect is partly offset by disposals amounting to KEUR 273, which were capitalized in the prior year and related to the acquisition of licenses from Schering AG for the territory of the United States and Canada, which in fiscal year 2004 were outlicensed to Forest.

As a result of the planned closure of the Berlin, Germany research and development facility and the resulting need to sell the laboratory equipment, write-downs of KEUR 522 were recorded in fiscal year 2003 in order to reduce the value of these items to their net realizable value. However, in August 2004 it was decided that the facility shall remain active on a reduced scale. Accordingly, a write-up of the equipment amounting to KEUR 198 has been recorded in the interim consolidated financial statements as of September 30, 2004. Furthermore, the increase of equipment relates to the fact that a major new capital lease agreement was concluded in fiscal year 2004, which led to additions to equipment amounting to KEUR 358.

Deferred Taxes (9)

The consolidated companies have significant accumulated tax loss carryforwards as of September 30, 2004, and the management does not expect the consolidated companies to be persistently profitable before fiscal year 2008. Based on the current tax planning, the management expects that PAION GmbH, which is currently a separate entity for German corporate income tax purposes, will have taxable net income of approximately KEUR 1,000 in 2004. This net income will arise primarily from revenues resulting from one-time payments received from Forest. The management expects that PAION GmbH will be able to offset this income against its existing tax loss carry-forwards. Accordingly, a deferred tax asset of KEUR 392 is recorded in the interim consolidated financial statements for the nine months ended September 30, 2004, corresponding to the expected amount of tax savings of PAION GmbH. The calculation of the deferred tax asset is based on a corporate income tax rate of 21.8% (including the reunification surcharge and taking into account the deductibility of trade tax) and a trade tax rate of 17.36%. Subject to this one-time event, and unless the Company were to enter agreements with additional collaboration partners and were to receive further upfront and milestone payments under such agreements the management does not expect to generate taxable profits for at least the next several years. Therefore, the Company is unlikely to be able to record deferred tax assets in connection with the remaining tax loss carry-forwards over the next several years. Moreover, even if the Company were profitable, the Company may be unable to use all of its tax loss carry-forwards as its ultimate tax treatment is uncertain and will depend on the facts and circumstances. Accordingly, the management does not expect to show a deferred tax asset in the consolidated financial statements for future periods.

For fiscal years beginning after December 31, 2003, the minimum taxation concept applies, which restricts the utilization of tax loss carry-forwards. However, based upon the current tax planning, no income taxes were recorded in the interim consolidated financial statements as of September 30, 2004, as the projected taxable results of PAION GmbH do not exceed the tax exemption limit.

Current Assets (10)

Trade receivables relate to reimbursements for development costs for Desmoteplase in connection with the license agreement with Forest.

Prepaid expenses and other assets mainly include prepaid expenses, such as expenses for insurances and rental payments (KEUR 157 as of September 30, 2004, KEUR 91 as of December 31, 2003), and prepaid value added tax (KEUR 128 as of September 30, 2004, KEUR 121 as of December 31, 2003).

The development of cash and cash equivalents is described in the statement of cash flows (exhibit 3). The increase of cash and cash equivalents primarily relates to payments which were received in connection with the license agreement with Forest as well as to capital increases of PAION GmbH.

Shareholders' Equity (11)

The development of shareholders' equity is set forth in the statement of shareholders' equity (exhibit 4). The development of this position can be described as follows:

In January 2004 PAION GmbH received the outstanding portion (KEUR 511) of a contribution to capital reserves from 2003.

By shareholders' resolution dated May 18, 2004, the subscribed capital of PAION GmbH was increased by EUR 23,150. In connection with this capital increase, the shareholders obligated themselves to make payments into capital reserves amounting to KEUR 9,777.

In connection with the capital increase as of May 18, 2004, PAION GmbH was obligated to pay KEUR 275 to a consultant for fundraising activities. The respective amount was debited against capital reserves.

With respect to the business combination of PAION AG and PAION GmbH and the determination of the costs of the combination, reference is made to the section "Business Combination of PAION AG and PAION GmbH (3)".

Furthermore, in the first nine months of fiscal year 2004, PAION GmbH granted additional stock options to employees and external consultants. These stock options have been valued at their fair value on the granting date, leading to additional expenses of KEUR 803 which have been credited to capital reserves.

Employee Stock Compensation Plan and Stock Option Plan for External Consultants

PAION GmbH in prior years has introduced stock option plans for employees as well as for external consultants which grant "phantom shares" in the company. In the first nine months of fiscal year 2004, additional phantom shares in the amount of EUR 658 and EUR 1,250 were allocated to employees and external consultants, respectively.

The fair value of the 1,908 stock options issued in the period from January 1, 2004 to September 30, 2004, amounts to KEUR 803 and was computed according to the Black/Scholes' option pricing model.

The computation 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 bio-pharmaceutical company. The exercise price amounts to EUR 1.00.

An assumption was made that the expected early exercise equals two years. Due to the fact that the shares are not tradable on a stock exchange, the Company has fixed the weighted average share price as the 422.34 multiple of the nominal amount according to the capital contribution as of May 18, 2004.

Currently, the management is considering to terminate the stock option plans and to settle all outstanding subscription rights by cash payments. If this action is realized, the cash settlement of the outstanding subscription rights will be accounted for as a repurchase of an equity interest, i.e., as a reduction of the capital reserves, except to the extent that the payment exceeds the fair value of the subscription rights measured at the repurchase date. Any such excess will be recorded as an expense in the income statement.

Non-current and Current Liabilities (12)

The increase of obligations under capital leases relates to a major new capital lease agreement which was concluded in fiscal year 2004.

PAION GmbH has received investment grants from the Federal Ministry of Education and Research in Germany. The deferred investment grants are reversed in correlation with the depreciation on the assigned assets. The reversal is recorded as a reduction of the research and development costs. Due to the planned closure of the Berlin, Germany research and development facility and the resulting discontinuation of the conditions for the grants, the investment grants received were recorded under provisions in the financial statements in accordance with IFRS of PAION GmbH as of December 31, 2003, together with the partial amount previously recognized as income. However, in August 2004 it was decided that the facility shall remain active on a reduced scale. Accordingly, a reclassification to deferred subsidies has been captured in the interim consolidated financial statements as of September 30, 2004.

Deferred income results from the signing fee, which became due upon signature of the licensing agreement with Forest. The signing fee is recognized as revenue upon achieving the respective milestones. As of September 30, 2004, a portion has been recorded as revenues. Due to the fact that the respective milestones will not be achieved within the next 12 months, the position is recorded under non-current liabilities.

With respect to the potential repayment of 50% of the costs directly or indirectly borne by Forest and the 20% premium thereon, provisions have been recorded as long-term liabilities. The amounts of the provisions were determined by discounting to present value based upon the assumption that PAION GmbH will be required to reimburse such costs and pay the premium in mid 2008.

The increase of provisions recorded under short-term liabilities primarily relates to provisions for consulting services in connection with the planned IPO. These costs are expensed instead of debiting them against equity, because it is not yet certain that the IPO will take place. This increase of provisions is partly offset by the decrease of the provisions related to the planned closure of the research and development facility in Berlin. Due to the fact that in August 2004 it was decided that the facility shall remain active on a reduced scale, the respective provisions were reversed (provision for contingent losses; provision related to the repayment of government grants) as well as reclassified to deferred subsidies in the interim consolidated financial statements as of September 30, 2004.

Notes to the Income Statement (13)

Revenues result from the outlicensing of DSPA to Forest. They relate to the know-how transfer to Forest, the realization of the signing fee on a pro-rata basis in accordance with the accomplishment of the respective milestones and the reimbursements of development costs from Forest.

By concluding the license agreement with Forest, the DSPA-licenses related to the territory of the United States and Canada, which have been granted to PAION GmbH by Schering AG, have been outlicensed to Forest. Based upon market evaluations, the share of market potential for the United States and Canada accounts for 50% of the worldwide market of DSPA. Therefore, 50% of the payments that have been made to Schering AG in the prior year in connection with the granting of the DSPA-licenses, which were capitalized under intangible assets, and 50% of the further fees that were due to Schering AG upon signature of the Forest agreement have been recorded as cost of revenues. Also, the research expenses related to the United States and Canada have been recorded under cost of revenues. This treatment is due to the fact that the outlicensing of

the licenses to Forest as well as the research and development for the United States and Canada are directly related to the generation of revenues.

The decrease of research and development costs mainly relates to the fact that development costs related to DSPA for the United States and Canada have been reimbursed by Forest since the conclusion of the license agreement. Until today, none of PAION GmbH's development projects has obtained regulatory approval and, therefore, in accordance with IAS 38, development costs are expensed as incurred.

The increase of general and administrative costs mainly relates to legal and consultancy fees in connection with the planned IPO. Furthermore, the increase results from remuneration paid to an external agent, which became due in connection with the conclusion of the license agreement with Forest (MEUR 1.7).

Selling and marketing expenses primarily relate to personnel expenses and external consulting fees.

The increase of financial results relates to interest income from short-term investments resulting from the increased liquid funds.

Other income (expense) primarily relates to losses from fluctuations in foreign exchange rates.

Earnings per Share (14)

The earnings per share as of September 30, 2004, are computed according to IAS 33 based on the consolidated net profit of PAION AG and the weighted average number of shares outstanding. In accordance with the business combination of PAION AG and PAION 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 (September 8, 2004), based on the number of shares outstanding, which are deemed to be the number of shares issued by PAION AG to the shareholders of PAION GmbH;
- for the period from the acquisition date to September 30, 2004, based on the actual number of shares outstanding.

The comparative figures as of September 30, 2003 have been calculated based on the net loss of PAION GmbH and the number of shares issued by PAION AG to the shareholders of PAION GmbH.

The calculation was adjusted to take into account the effect of changes in PAION GmbH's subscribed capital during the period from January 1, 2004 to the date of the business combination (September 8, 2004) and during the comparative period.

	Sept. 30, 2004 Undiluted	Sept. 30, 2004 Diluted	Sept. 30, 2003 Diluted and Undiluted
Issued shares (weighted average)	9,337,580	9,345,503	7,559,806
Consolidated net profit/net loss for the period (in KEUR)	5,285	5,285	(8,554)
Earnings per share in EUR	0.57	0.57	(1.13)

The increase in the weighted average number of shares used for the computation primarily relates to the issuance of 10,005,552 shares by PAION AG in 2004, which have been taken into account in the calculation as stated above.

The stock options granted to employees and external consultants have been taken into account when calculating the diluted earnings per share as of September 30, 2004. Apart from these stock options, there are no financial instruments which could be exchanged or converted into shares. When calculating the diluted earnings per share as of September 30, 2003, the stock options which had been granted until that date were not eligible for inclusion in the calculation as they would have decreased the loss per share. Therefore, diluted earnings per share corresponded to undiluted earnings per share at that date.

Risks regarding the Company's Ability to continue as a Going Concern (15)

The management believes the existing cash balances and future payments the Company expects to receive from Forest and other potential collaboration partners as well as the net proceeds of the intended IPO will be sufficient to meet the projected cash requirements for the foreseeable future. However, it is possible that the

Company may not able to find another collaboration partner or that the intended IPO may not take place. In these cases, the management will adjust the projections and reduce research and development expenses by delaying, reducing or discontinuing our funding of the clinical development of one or more of our drug candidates. The future cash requirements of the Company mainly depend on such factors as: the number of potential new drug candidates the Company identifies and decides to develop; the progress, timing and completion of preclinical testing and clinical trials for any of the current or future drug candidates, including Desmoteplase; the time and costs involved in obtaining regulatory approval for the drug candidates, and any delays the Company may encounter as a result of changing regulatory requirements or adverse results with respect to any of these drug candidates.

Members of the Managing Board (16)

Members of the managing board of PAION AG are:

Dr. Wolfgang Heinrich Söhngen	since June 2, 2004
Dr. Mariola Söhngen	since June 2, 2004
Bernhard Hofer	since September 1, 2004
Alexander Vos	since September 1, 2004

All members of the managing board of PAION AG are also members of the managing board of PAION GmbH.

Members of the Advisory Board (17)

Members of the supervisory board of PAION AG are:

Dr. Walter Wenninger	Deputy Chairman from June 2, 2004, to October 5, 2004 Chairman since October 6, 2004
Dr. Franz Wirtz	Chairman from June 2, 2004, to October 5, 2004 Deputy Chairman since October 6, 2004
Prof. Dr. Erich Schlick	since June 2, 2004

Subsequent Events (18)

Pursuant to a shareholders' resolution of PAION GmbH dated October 19, 2004, the company was renamed "PAION Deutschland GmbH" and Mr. Bernhard Hofer and Mr. Alexander Vos were appointed as managing directors of PAION Deutschland GmbH.

Aachen, November 7, 2004

(s) Dr. Wolfgang Heinrich Söhngen	(s) Dr. Mariola Söhngen
(s) Bernhard Hofer	(s) Alexander Vos

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UNAUDITED INTERIM FINANCIAL STATEMENTS OF PAION AG (HGB) AS OF SEPTEMBER 30, 2004

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PAION AG, Aachen
Balance Sheet as of September 30, 2004 (unaudited)

ASSETS

		September 30, 2004 EUR
A.	**FIXED ASSETS**	
	Financial Assets	
	Shares in affiliated companies	54,544,941.10
B.	**CURRENT ASSETS**	
I.	**Receivables and other assets**	
	Other assets	21,172.74
II.	**Cash on hand and bank balances**	53,651.12
		74,823.86
		54,619,764.96

EQUITY AND LIABILITIES

		September 30, 2004 EUR
A.	**SHAREHOLDERS' EQUITY**	
I.	**Capital subscribed**	10,005,552.00
II.	**Capital surplus**	44,589,389.10
III.	**Accumulated loss**	(974,673.34)
		53,620,267.76
B.	**ACCRUALS**	
	Other accruals	760,700.00
C.	**LIABILITIES**	
1.	Trade payables	91,143.41
	thereof due within one year: EUR 91,143.41	
2.	Accounts due to affiliated companies	122,105.20
	thereof due within one year: EUR 122,105.20	
3.	Other liabilities	25,548.59
	thereof due within one year: EUR 25,548.59	
	thereof for taxes: EUR 25,004.55	
	thereof for social security: EUR 544.04	
		238,797.20
		54,619,764.96

PAION AG, Aachen
Income Statement for the period from June 2, 2004 to September 30, 2004 (unaudited)

		June 2, 2004 - September 30, 2004 EUR
1.	Other operating income	52,398.18
2.	Personnel expenses	
	a) Wages and salaries	(70,453.37)
	b) Social security	(992.52)
		(71,445.89)
3.	Other operating expenses	(955,410.45)
4.	Other interest and similar expenses thereof due to affiliates: EUR 76.39	(76.39)
5.	Result from ordinary activities	(974,534.55)
6.	Other taxes	(138.79)
7.	Net loss for the year	(974,673.34)
8.	Retained Earnings/Accumulated deficit	0.00
9.	Accumulated loss	(974,673.34)

PAION AG, Aachen

Notes for the Period from June 2, 2004 to September 30, 2004 (unaudited)

(1) Preliminary Remarks

The interim financial statements for the period from June 2, 2004 to September 30, 2004 were prepared in accordance with the applicable provisions of the German Commercial Code (HGB) and the German Stock Corporation Law (AktG), both as amended. The Balance Sheet and Income Statement comply with the requirements for the classification of accounts of Secs. 266 and 275 HGB. The notes were prepared in accordance with Secs. 284 through 288 HGB.

These Interim Financial Statements as of September 30, 2004 are prepared for the purpose of admission of PAION AG's shares for trading on an organized market. As of the date of submission of the application for registration, PAION AG is treated as a large corporation in accordance with Sec. 267 (3) sentence 2 HGB. PAION AG is complying the regulations applicable to large corporations on a voluntary basis, although the application has not yet been submitted.

(2) Accounting and Valuation Methods

1. Financial assets are recorded at acquisition costs or at a lower value to be attributed.

2. In principle, receivables are valued at nominal value. Receivables denominated in a foreign currency, if applicable, are valued at the lower exchange rate on the balance sheet date.

3. Accruals are recognized at the amount required according to prudent business judgment and are valued as necessary and sufficient.

4. Liabilities (incl. liabilities denominated in a foreign currency) are stated at their amount repayable. Liabilities denominated in a foreign currency are recorded at the exchange rate of the date of the business transaction or at the higher exchange rate on the balance sheet date.

5. The Income Statement has been prepared using the cost-summary method in accordance with Sec. 275 (2) HGB.

(3) Explanations to the Items of the Balance Sheet and Income Statement

1. Financial Assets

The shares in affiliates as of September 30, 2004 in the amount of EUR 54,544,941.10 relate exclusively to PAION GmbH, Aachen (in the meantime renamed PAION Deutschland GmbH). We also refer to our explanations under 3. 'Shareholders' Equity'.

2. Other Assets

Other assets as of September 30, 2004 exclusively relate to value added tax refunds.

3. Shareholders' Equity

PAION AG (the ''Company'') was founded with a capital stock of EUR 50,000.00 by Dr. Mariola Söhngen and Dr. Wolfgang Söhngen on June 2, 2004. The capital stock was paid fully in cash. The registration in the commercial register was effected on June 30, 2004. By notarial deed dated September 8, 2004, the capital stock was increased nominally by EUR 9,955,552.00 to EUR 10,005,552.00. The capital increase was effected by a contribution in kind of all shares of PAION Deutschland GmbH. As consideration the former shareholders of PAION Deutschland GmbH received 9,955,552 shares. The excess amount of the contribution in kind was transferred into the capital surplus on the basis of the above-mentioned notarial deed. Accordingly, the capital surplus amounts to EUR 44,589,389.10.

Capital stock as of June 2, 2004	€ 50,000.00	
Capital increase 2004	€ 9,955,552.00	
Capital stock as of Sept. 30, 2004	€10,005,552.00	€10,005,552.00
Capital surplus as of June 2, 2004	€ 0.00	
Transfer to capital surplus 2004	€44,589,389.10	
Capital surplus as of Sept. 30, 2004	€44,589,389.10	€44,589,389.10
Net loss until Sept. 30, 2004		€ (974,673.34)
Shareholders' equity as of Sept. 30, 2004		€53,620,267.76

4. Accruals

The accruals are subdivided as follows:

	EUR
Legal advice	728,200.00
Financial statements closing and audit	22,500.00
Bonus	10,000.00
	760,700.00

The accrual with respect to the legal advice results primarily from services received in connection with the preparation of the initial public offering that have not yet been invoiced.

5. Liabilities

		Thereof with a remaining term of		
Type of liability	Total amount EUR	<1 year EUR	1-5 years EUR	>5 years EUR
Trade payables	91,143.41	91,143.41	0.00	0.00
Liabilities due to affiliates	122,105.20	122,105.20	0.00	0.00
Other liabilities	25,548.59	25,548.59	0.00	0.00
— Thereof taxes: EUR 25,004.55				
— Thereof social security: EUR 544.04				
	238,797.20	238,797.20	0.00	0.00

(4) Other Compulsory Disclosure

1. Average number of employees

During the period of the interim financial statement, the Company did not have any employees.

2. Managing Board and Supervisory Board

Members of the Managing Board of the Company are:

- Dr. Wolfgang Söhngen, CEO, Chairman
- Dr. Mariola Söhngen, CMO
- Bernhard Hofer, CFO (since September 1, 2004)
- Alexander Vos, COO (since September 1, 2004)

The members of the Managing Board exercised their functions on a full-time basis. The remuneration of the Managing Board amounted to KEUR 71 until September 30, 2004. The members of the Managing Board of the Company are also members of the Managing Board of PAION Deutschland GmbH.

Members of the Supervisory Board are:

- Dr. Walter Wenninger, Leverkusen, doctor and businessman, Chairman; other supervisory board memberships: Pulsion Med. Syst. AG, Epidauros AG, VEMAG AG and Arrow Therapeutics Ltd.
- Dr. Franz Wirtz, Stolberg, Deputy Chairman; other supervisory board memberships: DASGIP AG and QIAGEN N.V.
- Prof. Dr. Erich Schlick, Otterstadt, Head Healthcare at 3i; other supervisory board memberships: 4SC AG, ProCorde GmbH, Immatics GmbH and Verwaltungsrat des Zentralinstituts für seelische Gesundheit, University of Heidelberg

The members of the Supervisory Board did not receive any remuneration.

3. Investments

The Company holds all shares of PAION Deutschland GmbH, which has its office in Aachen. As of December 31, 2003, the shareholders' equity of PAION Deutschland GmbH amounted to EUR 8,188,181.80. The net loss for the fiscal year 2003 of PAION Deutschland GmbH amounted to EUR 9,769,463.72.

Aachen, November 2004

(s) Dr. Wolfgang Söhngen

(s) Dr. Mariola Söhngen

(s) Bernhard Hofer

(s) Alexander Vos

PAION AG, Aachen

Management Report for the Period from June 2, 2004 to September 30, 2004 (unaudited)

PRELIMINARY REMARKS

PAION AG was founded with a capital stock of EUR 50,000.00 on June 2, 2004. On September 8, 2004, the capital stock was increased nominally by EUR 9,955,552.00 to EUR 10,005,552.00 by the way of a contribution in kind. The capital increase was effected by a contribution in kind of all shares of PAION Deutschland GmbH, Aachen (formerly: PAION GmbH). As consideration the former shareholders of PAION Deutschland GmbH (hereafter also "PAION GmbH" and, together with PAION AG, "PAION") received 9,955,552 shares.

PAION AG does not hold interests in any further companies and primarily performs functions as of a holding company.

The business activities as well as the business development of PAION AG are therefore primarily affected by the business activities and business development of PAION Deutschland GmbH. PAION Deutschland GmbH is a biopharmaceutical company which was founded in July 2000. At the beginning of 2001, PAION Deutschland GmbH acquired a license from Schering AG to develop, produce and market Desmoteplase. In the past years, Desmoteplase has been the focus of PAION GmbH's research and development.

Due to the high relevance of PAION GmbH for PAION AG, the following remarks relate primarily to PAION GmbH.

DESCRIPTION OF BUSINESS DEVELOPMENT

1. Industry Developments

The first three quarters of 2004 in the biotechnology industry were characterized by continuing consolidation that had already begun in 2001. Order entries for contract research, supplies and services as well as the pharmaceutical industry's willingness to invest remained at a low level. Furthermore, the opportunities for equity financings are still limited.

From the beginning of 2003 until March 2004 in Europe and May 2004 in the US, the value of listed biotechnology companies appreciated noticeably. However, since then until September 30, 2004, values have decreased again.

At the end of 2003 and in the first three quarters of 2004, various initial public offerings of biotechnology companies took place in the United States. In Europe in 2004, initial listings took place in Germany, Switzerland and England. Overall, the expectations of the issuers as well as of the investors were not satisfied. The issuing volume and the valuations targeted by the issuers were not achieved in most cases. However, the development of the respective stock prices after the initial listings also did not satisfy investors' expectations. As of September 30, 2004, most of the companies were listed noticeably below the issuing price. During this period, the willingness of venture capital companies to invest also remained at a low level, although compared to the prior year period, investments increased moderately. For many biotechnology companies, access to funds was still difficult, leading to restrictions of research and development activities and cost reductions to prevent illiquidity.

2. Development of Revenues and Order Volume at PAION GmbH

Revenues from ordinary activities increased to EUR 16.6 million (prior year comparison: EUR 0.6 million) during the first nine months of 2004. Total revenues result primarily from the out-licensing of the right to develop and commercialize Desmoteplase (DSPA) for the indications stroke and pulmonary embolism in the United States and Canada to Forest Laboratories Ireland Limited, Clonshaugh, Ireland ('Forest'). This item includes cash received for the transfer of clinical data, a proportional signing fee and revenues from the reimbursement of the expenses which relate to the development of DSPA for the indication stroke.

PAION GmbH has received a signing fee from Forest for the development cooperation. The income statement-related entry is recorded in the context of the agreed milestone payments. With each future milestone payment the signing fee will be recorded as income on a pro-rata basis.

3. Research and Development at PAION GmbH

The core competencies of PAION GmbH are the conduct of international clinical studies until regulatory approval and the development of production processes.

Desmoteplase (DSPA, PN01)
PAION's main product Desmoteplase (DSPA) is the genetically manufactured equivalent of a protein, naturally found in the saliva of the vampire bat Desmodus rotundus, which dissolves blood clots.

Clinical Phase II Studies for the Indication Stroke (DIAS, DEDAS)
In 2003, the clinical phase II study for the indication stroke under the name DIAS (Desmoteplase In Acute ischaemic Stroke) in Europe, Australia and Singapore was concluded successfully. Based on the results achieved, the Drug Safety Committee recommended not to further increase the dose in this study. Such a recommendation is an essential condition to start with a phase III study.

In 2004, a further clinical phase II study for the indication stroke under the name DEDAS (Dose Escalation study of Desmoteplase in Acute ischaemic Stroke) in the United States was concluded successfully. The design of this study is identical to the DIAS study. Both the DIAS and DEDAS studies are monitored by the same Drug Safety Committee.

Clinical phase IIb and phase III studies
With respect to the approval procedures in the United States, an additional clinical phase IIb study was agreed with the FDA (U.S. Food and Drug Administration). PAION's application for fast-track was approved by the FDA. This will accelerate the approval process for DSPA as all data relevant for approval may be submitted continuously to the FDA. The clinical phase IIb study is scheduled to start in the United States and in Europe. The start is expected for the first quarter of 2005 at the latest. The start of the phase III in Europe will probably take place in mid-2005.

Clinical phase II study for the Indication Pulmonary Embolism (DEPTH)
A clinical phase II study for Desmoteplase (DSPA) for the indication pulmonary embolism was launched at the end of 2002 under the name DEPTH (DEsmoteplase in Pulmonary THromboembolism). Patient recruiting for the first dosage began in 2003 and was discontinued in November 2003 due to insufficient effectiveness of the dosage that had been tested until then. The design of the study was adjusted and the study was continued in March 2004 with a higher dosage. The first patients in this dosage level have already been recruited.

Production Development (DSPA)
The main activity in the area of production development was identifying a suitable manufacturer for the market product DSPA. The contractual relationship with the previously selected manufacturer, SynCo Bio, Amsterdam, Netherlands, was terminated in 2004. At the moment, we are conducting negotiations with a new manufacturer.

4. Investments
In the first nine months of 2004, there were only limited investments in office equipment, EDP hardware and EDP software as well as investments in replacements. For the production of DSPA, a bioprocess system was acquired under a lease agreement.

Upon the out-licensing of the right to develop and commercialize Desmoteplase within the United States and Canada to Forest, which took place on June 30, 2004, the next milestone payment in connection with the DSPA product license agreement with Schering AG in the amount of EUR 2 million became due.

According to the projections of the worldwide market shares, the United States and Canada account for 50% of the future revenues. Therefore, 50% (EUR 1 million) of the milestone payment (EUR 2 million) resulting from signing of the Forest agreement and paid to Schering AG as well as 50% of the milestone payments already paid to Schering AG in the past and capitalized as acquired license (net book value: KEUR 273) were recorded as cost of revenues as the resale of the licenses are directly related to the realization of the revenues.

5. Equity Financing
In 2004, PAION GmbH was able to raise new equity of EUR 9.8 million in the context of a financing round "D". The nominal capital of PAION GmbH currently amounts to KEUR 179 and the capital surplus amounts to KEUR 50,932.

The nominal capital of PAION AG in the amount of KEUR 10,006 as well as the capital surplus in the amount of KEUR 44,589 result primarily from the contribution in kind of all shares of PAION GmbH.

6. Loans and Credit Lines
PAION has guarantee facilities which are used for rent guarantees.

At the moment, PAION AG is financed by loans from PAION GmbH.

7. Public Subsidies

In the first nine months of 2004, additional subsidies from a program of the Federal Ministry of Education and Research (BMBF) in the amount of KEUR 44 were granted to PAION GmbH after submission of the required certificates.

8. Development of Personnel

As of September 30, 2004, the headcount of PAION GmbH amounted to 51 employees (excluding trainees and students).

9. Results of Operations

The first nine months of 2004 were again characterized by the continuation of the development activities for the product DSPA in the indications stroke and pulmonary embolism. As of June 30, 2004, licenses for the commercialization in the United States and Canada could be granted. The revenues resulting from this transaction lead to a positive result in the amount of KEUR 6,313 for the period from January 1, 2004 to September 30, 2004.

10. Risks of Future Development

The positive results of the phase II study (DIAS) completed at the end of fiscal year 2003 as well as the positive results of the phase II study (DEDAS) completed in 2004 improved the risk profile of PAION noticeably. The various measures introduced in advance to secure liquidity and reduce costs, and thus focus on the development of the DSPA product for the indication stroke, can therefore be considered to have been successful. There is currently insufficient financing for the generally desirable expansion of the portfolio to include additional product candidates. Therefore, PAION still depends heavily on the further results of the studies for the product DSPA in the indication stroke. In the completed studies, there has been compelling evidence of the effectiveness over a longer therapeutic timeframe without notable side effects. In further studies, however, there could be a higher frequency of side effects. Moreover, unforeseen developments from competitors are conceivable, which could have an impact on the future value of the product.

The current liquidity as well as the expected future funds received as milestones on the basis of the license granted to Forest and the extensive absorption of the research and development expenses secure the financing of the development of DSPA in the indication stroke until approval to a large extent. However, it is still planned to continue with the development of Enecadin, which was in-licensed from Nippon Shinyaku Co., Limited, Japan, in fiscal year 2004, and Solulin. To finance the development costs related to these products, further liquid funds are necessary. These funds could be derived from new capital (Venture Capital/Initial Public Offering) or the issuing of further licenses. PAION is attempting to make cumulative use of the various options.

If PAION fails to complete the development of Desmoteplase, it could be difficult, or even impossible, for PAION to obtain new funding, whereby PAION's ability to continue as a going concern would be jeopardized.

As a result of future variances of the exchange rate ratio of the euro and the US dollar, the future equivalent euro amount of the milestone payments from Forest, which will be paid in US-dollars, can not be determined reliably. In the case of a declining US-dollar, the results of operations as well as the financial position of PAION would be strained accordingly in the future.

The further trend of the capital markets, particularly the stock market segment for young technology companies, also has an impact on the financing of PAION's planned activities. Initial public offerings in the past months indicate the emergence of this type of financing alternative. In parallel to its efforts to sell further commercialization licenses, PAION will prepare for this financing alternative. For this purpose, a corresponding budget was approved by the shareholders.

11. Risk Management

The systematic risk management process created and expanded in previous years was continued. First and second-level management met on a monthly basis and as additionally necessary to discuss the development of PAION, individual projects, critical situations or potential risks, and to make and prepare decisions. For any additional exchange of information on the development of projects, informational and decision-making meetings were held regularly with first and second-level management and the individual departments. The project coordinators monitor and control processes and project progress, which is set forth in regular reports on a timely basis. The financial accounting and cost accounting software Navision which was implemented in the fall of 2001 and a corporate planning tool tailored to PAION form the basis for financial controlling. Monthly internal reporting is performed on a cost center and cost unit basis. The basis for 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 the Excel 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 and the advisory board of PAION GmbH, respectively, and the shareholders about corporate development in monthly written reports, providing prompt additional information as and when required. At supervisory board / advisory board meetings and in shareholder meetings, in-depth information is provided and all important and strategic decisions are made. Furthermore, the supervisory board / advisory board and the shareholders were also provided with information by telephone and in writing.

12. Anticipated Development

Only vague statements regarding anticipated development are possible due to the high level of planning uncertainty (e.g., the timeframe for realizing projects, actual costs and results can only be assessed to a limited extent). It is therefore conceivable that, for example, anticipated payments will be delayed or not received at all due to negotiations failing or due to postponements. This could result in increased capital requirements or even jeopardize PAION's ability to continue as a going-concern.

On the basis of the current liquidity, PAION will continue to focus on the development of the lead product DSPA and, depending on the availability of further liquid funds resulting from the planned initial public offering or the further grant of licenses, continue with the development of Solulin and Enecadin.

Aachen, November 2004

PAION AG

(s) Dr. Wolfgang Söhngen

(s) Dr. Mariola Söhngen

(s) Bernhard Hofer

(s) Alexander Vos

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UNAUDITED OPENING BALANCE SHEET OF PAION PHARMA AG (HGB) AS OF JUNE 2, 2004

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PAION Pharma AG, Aachen
Opening Balance Sheet as of June 2, 2004 (unaudited)

Assets

		June 2, 2004 EUR	EUR
A.	Issued but not paid up Share Capital thereof called up: EUR 12,500.00		50,000.00
B.	Fixed Assets		0.00
C.	Current Assets		0.00
D.	Prepaid Expenses		0.00
			50,000.00

Liabilities and Shareholders' Equity

		June 2, 2004 EUR	EUR
A.	**Shareholders' Equity**		
I.	Capital Subscribed	50,000.00	
II.	Capital Surplus	0.00	
III.	Earnings Reserves	0.00	
IV.	Retained Earnings/Accumulated Deficit, Brought Forward	0.00	
V.	Net Income/Net Loss	0.00	
			50,000.00
B.	Provisions and Accrued Liabilities		0.00
C.	Liabilities		0.00
			50,000.00

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Recent Business Developments and Outlook

This section contains forward-looking statements, which are subject to certain risks, uncertainties and assumptions. Many factors, including those described under "Risk Factors" and in other parts of this Offering Circular, could cause our actual results to differ from those predicted by these forward-looking statements.

In 2004, we made significant progress in the development of our drug candidates, especially Desmoteplase. In November 2004, we completed the Phase II clinical trials for Desmoteplase in the United States. Final results for this trial are expected to be published in detail at a conference held by the American Stroke Association in early February 2005. We also entered into several new agreements with collaboration partners. The most important such agreement is our agreement with Forest Laboratories Ireland Limited, or Forest, which we entered into in June 2004. The agreement grants Forest an exclusive license with respect to the commercialization of Desmoteplase in the United States and Canada. In return, Forest agreed to make upfront and milestone payments in the aggregate amount of up to U.S.$69.5 million to us, U.S.$22 million of which we already received in 2004, and to bear a substantial portion of the future development costs of Desmoteplase. See "Business Description — Drug Pipeline" for more information on Desmoteplase and our other drug candidates and "Business Description — Strategic Alliances and Other Collaborations — Forest Laboratories Ireland Limited" for more information on our collaboration with Forest and our other agreements with collaboration partners.

For 2005, we plan to further advance the clinical development of Desmoteplase and our other drug candidates. With respect to Desmoteplase, we plan to commence a Phase IIb/III clinical trial in the United States, Australasia and Europe in the first quarter of 2005. This clinical trial will be our first pivotal clinical trial for Desmoteplase. In addition, we are considering conducting one or more clinical trials in parallel to the planned Phase IIb/III clinical trial to investigate Desmoteplase in selected patient subgroups with a view to expanding the patient population and to broadening the data on Desmoteplase we have obtained to date. If the planned clinical trials confirm the results of the Phase II clinical trials we have 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, we and Forest may decide to apply for regulatory approval of Desmoteplase without conducting any further Phase III clinical trials. However, for regulatory reasons, we will in any event conduct a safety trial using the final formulation of Desmoteplase. In addition, we are currently considering one or more additional collaborations with respect to the development and commercialization of Desmoteplase in the European Union, Japan and other parts of the world. With respect to Enecadin, we plan 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. We expect Solulin to undergo a Phase I clinical trial in the second half of 2005.

In the nine months ended September 30, 2004, we had revenues of €16.6 million, primarily reflecting €15.6 million from a know-how transfer payment received from Forest. Although this payment enabled us to generate net income of €5.3 million in the nine-month period ended September 30, 2004, we expect to incur net losses for the foreseeable future. In the fourth quarter of 2004, we did not receive any milestone or similar payments from Forest. Our revenues for that period consisted primarily of limited cost reimbursements for Desmoteplase from Forest. Based on our preliminary numbers that are subject to change, we believe that our revenues for fiscal year 2004 will amount to €17 million. We currently expect to incur a small net loss for the full year 2004. Our annual financial statements for 2004 have not been prepared to date. Currently, we anticipate publishing our final results for 2004 mid-March 2005. The bulk of our Desmoteplase development expenses will be incurred in connection with the upcoming Phase IIb/III clinical trial and the additional clinical trials to expand the patient population. We plan to fund our operations in 2005 and over the next several years, including the upcoming Desmoteplase trials, primarily from the net proceeds of this Offering, our existing cash balances and cost reimbursements relating to the development of Desmoteplase and milestone payments under our agreement with Forest as well as similar payments under other collaboration agreements we may enter into in the future. For more information on our results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Glossary

Abciximab	An antiplatelet produced by Centocor, Inc. that is being investigated for the treatment of acute ischemic stroke.
Accelerated Approval	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.
Alteplase	A plasminogen activator produced by Genentech, Inc. that has been approved for the causal treatment of ischemic stroke.
ANDA	Abbreviated New Drug Application.
Anticoagulant	A substance that prevents the clotting of blood.
Antiplatelet	A substance that prevents blood platelets from clotting, thereby preventing blood clots.
Arterial Thrombosis	Arterial thrombosis occurs when a blood clot forms locally in an artery.
Beta Amyloid	A protein deposit that builds up in the brains of elderly people and patients suffering from Alzheimer's disease.
BI	Barthel Index, a stroke assessment scale designed to evaluate neurological deficits in stroke patients.
Bioequivalency	Two medications are bioequivalent when they contain identical active ingredients and produce the same effect regardless of dosage method or brand name.
Brain Edema	An increase in brain volume resulting from increased sodium and water content.
Cardiovascular	Of or referring to the heart and blood vessels, or to the system and mechanism through which blood is transported through living organisms.
Cerebral Embolism	Cerebral embolism occurs when a blood clot, or embolus, initially forms somewhere in the human body, usually in the heart or in the arteries of the upper chest and neck, then breaks loose, enters the bloodstream and travels to the brain until it reaches a vessel through which it cannot pass.
Cerebral Thrombosis	Cerebral thrombosis occurs when a blood clot, or thrombus, develops inside a blood vessel of the brain.
Cerovive	A neuroprotectant produced by Renovis, Inc. that is under investigation for the treatment of ischemic stroke.
Clinical Trial	A rigorously controlled test of a drug candidate or a new invasive medical device on humans.
CMO	Contract Manufacturing Organization.
Core (lesion) of the infarct	The cluster of cells, immediately surrounding a blood clot that has caused an ischemic stroke, which are cut off from the blood system and die if blood flow is not restored.
CT	Computerized tomography, a diagnostic technology that creates images of internal body tissues.

CTD	Common Technical Document, a global dossier for marketing applications.
Deep Vein Thrombosis	Deep vein thrombosis occurs when a blood clot forms locally in the deep veins of the legs.
Desmoteplase	Our most advanced drug candidate, an intravenous plasminogen activator that is being investigated for the possible causal treatment of acute ischemic stroke and acute pulmonary embolism.
Embolism	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.
Embolus	A blood clot that breaks loose after forming at a particular site in the human body.
EMEA	European Medicines Agency, a London-based agency responsible for the centralized drug approval process in Europe.
Enecadin	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 ischemic stroke.
Fast-track status	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.
FDA	U.S. Food and Drug Administration, a Rockville, Maryland based agency responsible for the drug approval process in the United States.
Fibrin	A protein that keeps blood clots together.
Fibrin Specificity	The degree to which a substance selectively binds to fibrin.
Final Formulation	Composition of a drug in the form in which it receives regulatory approval.
Formulation	Composition of a drug.
Free Radicals	Free radicals are highly unstable and reactive atoms that have at least one unpaired electron. Free radicals can damage human tissue.
Hemorrhagic Stroke	A stroke caused by a ruptured blood vessel.
Hemorrhage	Bleeding.
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standard.
ICH	International Conference on Harmonization, an organization for the harmonization of technical requirements for the development and regulatory approval of pharmaceuticals for human use.
IFRS	International Financial Reporting Standards.
IND	Investigational New Drug Application.
Interaction Study	Clinical study to investigate the interaction of a drug candidate with other drugs.

IRB	Institutional Review Board, a commission which examines and approves compliance with ethical and scientific standards of clinical trials at the relevant trial site (for example, a hospital).
Ischemic Cascade	A chain reaction of complex chemical and electrical processes set in motion by an ischemic stroke that lead to the death of brain cells.
Ischemic Stroke	A stroke caused by an obstruction of the inflow of arterial blood into the brain.
Mechanism Based Comparative Genomics Discovery Platform	PAION's proprietary platform for the study of an organism's hereditary information.
Merci Retrieval System	Mechanical Embolus Removal in Cerebral Ischemia Retrieval System, a catheter-based medical device approved for the treatment of ischemic stroke.
MRI	Magnetic Resonance Imaging, a noninvasive diagnostic technique that creates computerized images of internal body tissues and is based on nuclear magnetic resonance of atoms within the body induced by the application of radio waves.
MRS	Modified Rankin Scale, a stroke assessment scale designed to evaluate neurological deficits in stroke patients.
NDA	New Drug Application.
Neuroprotectants	A class of therapeutics for the treatment of ischemic stroke that target the secondary effects of stroke.
Neurotoxicity	The property of a substance of causing damage to nerve cells.
NIHSS	National Institutes of Health Stroke Scale, a stroke assessment scale designed to evaluate neurological deficits in stroke patients.
Off-Label Usage	The use of a drug for a purpose that is not indicated on the drug's packaging or accompanying written material.
OMP	Orphan Medicinal Product.
OOPD	Office of Orphan Products Development.
Orange Book	A publication maintained by the U.S. Food and Drug Administration which contains listings of drugs and their bioequivalency status.
Orphan Drug Designation	Special status afforded certain drug candidates with the potential to treat a rare disease or condition.
Pathophysiologic	Relating to the functional changes in the body that accompany a particular disease.
PDUFA	Prescription Drug User Fee Act.
Penumbra	An area of cells in the brain surrounding the core of the infarct caused by an ischemic stroke, which is at risk of being destroyed by reduced blood flow and other effects of stroke.
Perfusion CT	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.
Peripheral Arterial Occlusive Disease	A condition associated with poor blood circulation in the legs that can lead to amputation or death.

Pivotal Clinical Trial	Clinical trial which may serve as the basis for an application for regulatory approval of the drug candidate being examined in the trial.
Placebo	A medically inert substance given in connection with a controlled, double-blinded clinical study.
Placebo-controlled Clinical Trial	A clinical trial in which the compound being tested is compared to a placebo and not to a drug that has already received regulatory approval.
Plasmin	A fibrin-digesting substance.
Plasminogen	An inactive enzyme circulating in the blood which may be used to create plasmin.
Plasminogen Activator	An enzyme that converts plasminogen into plasmin.
Pre-Clinical Trial	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 trial.
Priority Review	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.
Pulmonary Embolism	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.
Reperfusion	Restoration of blood flow.
Solulin	An anticoagulant under investigation by PAION for the secondary treatment of ischemic stroke in the acute time window.
SPA	Special Protocol Assessment, a process by which the U. S. Food and Drug Administration evaluates protocols to assess whether they are adequate to meet scientific and regulatory requirements.
SPC	Supplementary Protection Certificate, a certificate granted by the European Union which protects certain data relating to a drug following expiration of patent protection for that drug so that no other company may rely on, or use, these data as part of the regulatory approval process.
Stroke	A stroke occurs when an artery carrying oxygen and nutrients to the brain is either blocked by a blood clot or bursts.
t-PA	Tissue Plasminogen Activator, an enzyme that exists in the human body and plays a role in the dissolution of blood clots.
Thromboembolism	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.
Thrombolytic	A pharmaceutical that can break up blood clots blocking the flow of blood to specific tissues.
Thrombosis	The formation of a blood clot locally within a blood vessel.
Thrombotic Disease	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.
Thrombus	A blood clot.

U.S. GAAP	U.S. Generally Accepted Accounting Principles.
USPTO	United States Patent and Trademark Office.
Venous Thrombosis	Venous thrombosis occurs when a blood clot develops inside a vein.

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