PAION Q2#2011

Consolidated Financial Interim Report for the First Half-Year 2011

PAION AG

01.01.
30.06.
2011

Contents

PAION

Key Figures

(all figures in KEUR unless otherwise noted)	Q2 2011	Q2 2010	H1 2011	H1 2010
Revenues	2,455	1,494	2,824	2,235
Research and development expenses	-1,643	-1,870	-3,033	-4,353
General administrative and selling expenses	-1,109	-1,127	-2,550	-2,230
Net result for the period	-364	-1,456	-2,892	-4,327
Earnings per share in EUR for the period (basic)	-0.01	-0.06	-0.11	-0.18
Earnings per share in EUR for the period (diluted)	-0.01	-0.06	-0.11	-0.18

	H1 2011	H1 2010
Cash flows from operating activities	-3,100	-4,755
Cash flows from investing activities	-36	-14
Cash flows from financing activities	328	-293
Change in cash and cash equivalents	-2,833	-5,020
Average number of group employees	26	29

	30 June 2011	31 Dec. 2010
Intangible assets	9,723	10,571
Cash and cash equivalents	12,049	14,882
Equity	9,436	11,968
Non-current liabilities	9,577	10,483
Balance sheet total	22,933	26,836
Equity ratio	41.1%	44.6%

Interim Group Management Report for the First Half-Year 2011

Overview

- Ongoing partnering discussions with potential licensees for out-licensing of Remimazolam and M6G
- PAION receives USD 3 million milestone payment from Ono Pharmaceutical for start of Japanese Phase II with Remimazolam in the indication anaesthesia
- Positioning of Solulin in the indications haemophilia and radiation injury

In the first half-year of 2011 the partnering process for Remimazolam and M6G was continued on an intensive basis. Based on the excellent results of the Phase IIb trial with Remimazolam in colonoscopy, PAION is currently in discussion with a selected number of interested parties. Findings from a marketing study conducted early 2011 confirm the market potential of Remimazolam and the current significant need for anesthetics/sedatives with a high safety profile and a fast onset of action. Among the interested companies are both globally operating pharmaceutical companies as well as companies having an interest in either the US or EU market. PAION expects to close a deal before year end 2011. After partnering, preparations for the further clinical development will continue in collaboration with the partner. To that end, PAION is already preparing the production of the necessary clinical trial material for Phase III.

For the Japanese market Remimazolam is currently being developed in anaesthesia by PAION's partner Ono Pharmaceutical. In May 2011 Ono initiated the first Phase II trial of Remimazolam in Japan, which triggered a milestone payment of USD 3 million.

Regarding the substance M6G for the treatment of peri-operative pain there are also discussions ongoing on continuing the development together with several partners in regional deal structures.

Following the announcement of positive preclinical data in the indication haemophilia in December 2010, PAION has selected haemophilia as the new lead indication for Solulin. According to the WHO about 400,000 people worldwide are currently affected by the hereditary disease haemophilia, including 10,000 in Germany. Therefore, the definition of an "orphan disease" is fulfilled. Solulin has the potential to significantly improve the existing treatment modalities for the patients. In the first half year of 2011 a number of activities were undertaken to substantiate the safety and efficacy profile of Solulin in preclinical and ex vivo studies. Apart from the positioning in this indication, the possible use of Solulin for the treatment of radiation injury is being further evaluated.

In May 2011 the Annual General Meeting took place, during which Dr Harald F. Stock was elected as successor of Dr Walter Wenninger to the Company's Supervisory Board. The Company thanks Dr Wenninger for his many years of commitment and support as well as his enormous contribution to the success and growth of the company. In addition, the resolutions proposed by the Management Board and Supervisory Board were accepted by the Annual General Meeting with large majorities.

Revenues increased by KEUR 589 compared to the prior-year period. Research and development expenses decreased considerably compared to the prior-year period. The decrease is mainly due to the Phase IIb study conducted with Remimazolam in the previous

year. The main research and development focus in the first half-year 2011 was on Remimazolam and Solulin. General administrative and selling expenses increased compared to the prior-year period because of higher selling expenses in connection with partnering activities. The loss for the first six months of 2011 of KEUR -2,892 was KEUR 1,435 lower than in the corresponding prior-year period (KEUR -4,327).

Cash and cash equivalents decreased by KEUR 2,833 in the first six months 2011. As of 30 June 2011 PAION's cash and cash equivalents amounted to EUR 12.0 million. The cash and cash equivalents secure a cash reach until the middle of 2012. This does not account for further cash inflows from existing and future partners. Furthermore PAION has access to a remaining equity facility of EUR 13.2 million.

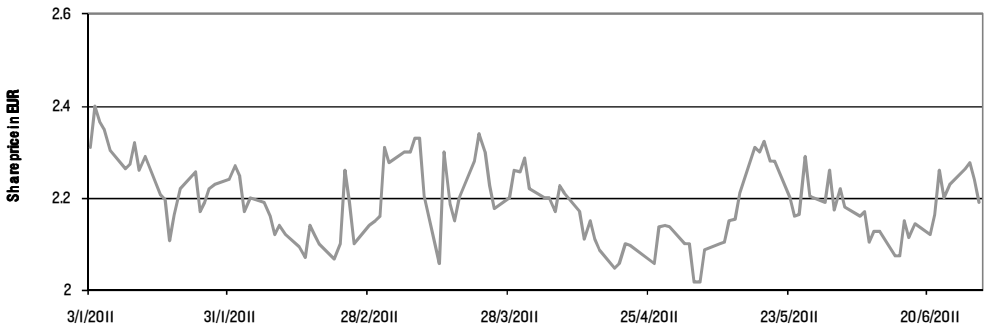
Capital Market Environment and PAION Share Performance

Far-reaching global events influenced the behaviour of the financial markets during the first half year of 2011. Besides the natural and nuclear disaster in Japan, the capital markets were impacted by the political unrest in the Arab countries and the Euro crisis. Whilst the broad market tended to move sideways in this difficult environment, the German benchmark index DAXsubsector Biotechnology lost more than 7% in value during the first half-year.

The PAION share started the year 2011 at a price of EUR 2.31 (Xetra), marking a peak price in the first half year of 2011 on 4 January 2011 with a closing price of EUR 2.40 (Xetra) and marking a low price on 4 May 2011 with EUR 2.02 (Xetra). The closing price on 30 June 2011 was EUR 2.19 (Xetra). This corresponds to a decrease of 2,2 % compared to the closing price of 2010 (EUR 2.24; Xetra).

The average daily trading volume (Xetra and Frankfurt Stock Exchange) amounted to 51,064 shares during the first six months of 2011 (in the year 2010: 73,620 shares). Thereby 6.5 million shares (26% of total shares) were traded during the first six months of 2011 (in the year 2010: 18.8 million shares and 76% of total shares, respectively).

Development of the PAION Share Price (Xetra) in the First Half-Year 2011



Overview of Research and Development Activities

Remimazolam

Remimazolam is an innovative short-acting general anaesthetic/sedative that is being developed by PAION initially for use in minor medical interventions (procedural sedation). Sedatives are used, for example, in endoscopic procedures such as colonoscopies. After intravenous administration to over 300 human volunteers/patients in the course of the clinical trials performed, Remimazolam has clearly shown a controllable sedative effect with rapid onset and offset. This means that the patient can be selectively sedated for the duration of the intervention and rapidly regains full consciousness after the procedure. The rapid offset of the effect of the substance is due to its metabolism by tissue esterase enzymes that are widely distributed throughout the body.

Remimazolam is currently being developed by PAION as a sedative agent for day case procedures. It has additional potential in anaesthesia, which is the initial indication being developed by PAION's partner Ono Pharmaceutical Co., Ltd. (Ono) for the Japanese market. Furthermore, Remimazolam could also be used as a sedative during artificial respiration in the Intensive Care Unit (ICU).

Clinical Development

The clinical studies performed with Remimazolam comprise two Phase I and two Phase II studies with single or multiple dose without an intervention or during endoscopy of the upper gastrointestinal tract or the colon.

The generated data indicate a good tolerability of Remimazolam. The effect of Remimazolam can be reversed by the benzodiazepine antagonist Flumazenil. A rapid onset and offset of the sedative effect was observed during the procedures. It was also shown that it is possible to achieve the same (safety) or better (efficacy) results with a single dose of Remimazolam as compared to a single dose of the gold standard Midazolam Furthermore, an adequate sedation level can be maintained for 30 minutes with a multiple dose regimen. This time period is usually required to perform a colonoscopy if an additional intervention is required (e.g. removal of one or more polyps). A routine, purely diagnostic colonoscopy takes approximately 10–15 minutes.

Based on the results of the Phase IIb study, the optimal dose regimens for Phase III studies can now be defined.

Cooperation Agreements

In 2007 Ono was granted the rights to develop and market Remimazolam for the Japanese market in return for development milestone payments and royalties. Ono is developing Remimazolam for the indication anaesthesia, whereas PAION initially concentrates on indications requiring single or repeated bolus dosing to sedate patients for short procedures. In this co-operation, data and information are continually shared so that each party benefits from the development progress of the other party.

With the additional data the progress that has been made will help to support and accelerate the development of Remimazolam for the indication anaesthesia in the PAION territories.

PAION is exploring partnering opportunities outside Japan to advance the development of Remimazolam, preferably for multiple indications, as quickly as possible as well as to prepare for subsequent commercialisation.

Morphine-6-glucuronide

Morphine-6-glucuronide (M6G), a highly potent opioid, demonstrated a strong analgesic effect in clinical Phase II and Phase III studies in the treatment of moderate to severe peri-operative pain. At the same time common opioid side effects, such as nausea and vomiting, were signifycantly reduced with M6G as compared to morphine.

Clinical Development

PAION has performed various in-depth analyses of the available clinical data. The results support PAION's view that M6G has a wider therapeutic window than morphine at equi-analgesic dosages with a lower incidence of post-operative nausea and vomiting. Based on these findings a development plan has been agreed with the FDA for this New Chemical Entity, i.e. a novel, distinct substance. This improves the potential profitability for potential pharma partners as it provides the prospect for longer market exclusivity. The aim of the remaining Phase III programme is to prove that M6G causes significantly less post-operative nausea and vomiting compared to equi-analgesic doses of morphine.

Cooperation Agreements

The intellectual property rights for M6G are based on PAION's own development activities as well as rights acquired from third parties. In connection with this third party intellectual property, PAION has success-related obligations in the form of milestones and royalties.

Despite the positive results of the in-depth re-analysis and the encouraging FDA consultation PAION has so far not been able to conclude a global partnership for M6G. Currently PAION is in discussions on continuing the development together with several partners in regional deal structures.

Desmoteplase

Desmoteplase is a recombinant protein (a so-called plasminogen activator) derived from the saliva of the vampire bat, Desmodus rotundus, which is intravenously administered to dissolve blood clots. It is currently being developed for the treatment of acute ischaemic stroke. The treatment is being carried out in a timeframe of three to nine hours post onset of stroke symptoms – a time window for which there currently is no approved drug treatment.

Clinical Development

So far Desmoteplase has been tested in two Phase II studies and one Phase III study for the treatment of acute ischaemic stroke. In 2008 PAION's licence partner H. Lundbeck A/S (Lundbeck) took on the further development of Desmoteplase. In 2008 Lundbeck initiated a further Phase III development programme consisting of two comparable studies (DIAS-3 and DIAS-4). Furthermore, in 2010 Lundbeck initiated a Phase II study in Japan (DIAS-J).

On 10 August 2011 Lundbeck reported that the Phase III studies, DIAS-3 and DIAS-4, have now seen improved patient recruitment following several initiatives to speed up recruitment. However, the programme has as previously reported not developed at the expected pace and Desmoteplase will therefore be unable to deliver a filing as anticipated in the second half of 2012, but more likely in first half of 2014.

Cooperation Agreements

PAION in-licensed Desmoteplase from Bayer HealthCare (formerly Schering AG) in 2001 in return for milestone payments and royalties. Today Lundbeck holds the exclusive global rights for research, development, production and marketing of Desmoteplase. The licence agreement came into effect in 2008 and was extended in 2010, to include potential follow-on compounds. Under these agreements, Lundbeck agreed to undertake the following payments:

- Payment of a non-refundable amount of EUR 8 million upfront payment, on the date the agreement took effect (January 2008; disclosed as deferred income and being released proportionally over the probable development period),
- Payment of a non-refundable purchase price of EUR 1.5 million, on the date the extended agreement took effect (October 2010),
- Milestone payments for Desmoteplase of up to EUR 68 million, of which up to EUR 40 million relate to milestones due before and including market approvals (regional splitting) and in total EUR 28 million are due upon commencement of marketing activities and the achievement of specific revenue targets,
- Milestone payments for the second generation molecules (follow-on compounds) of up to EUR 25 million for development and commercialisation,
- Assumption of all costs, especially for clinical development, production development, patent costs and marketing approval,
- Payment of licence fees (dependent on revenues) which amount to a low double-digit percentage following the deduction of the licence fees PAION has to pay to the original licensor, Bayer HealthCare.

PAION has reserved the option to co-promote Desmoteplase in Germany, Austria and Switzerland. If PAION decides to exercise this option it will receive a direct share of earnings rather than licence fees based on revenues.

Solulin

Solulin is an improved variant of the human protein thrombomodulin, an important natural regulator of the clotting system. One of the functions of thrombomodulin is to stabilize the initial fibrin clot to stop bleeding. Other than native thrombomodulin which is anchored in the wall of blood vessels, Solulin can enter the blood stream to reach its potential site of action. In low concentrations Solulin is able to stabilise blood clots and to support coagulation.

Clinical Development

Solulin already has been successfully tested in a Phase I study which confirmed the excellent safety profile of the substance. Following the announcement of positive preclinical data in the indication haemophilia in December 2010, PAION has selected haemophilia as the new lead indication for Solulin. In the first half-year of 2011 a number of activities were undertaken to substantiate the safety and efficacy profile of Solulin in preclinical and ex vivo studies. Apart from the positioning in this indication, the possible use of Solulin for the treatment of radiation injury is being further evaluated.

GGF2

GGF2 (Glial Growth Factor 2) is known to stimulate the growth and differentiation of a variety of cells including glial cells, the support cells of the nervous system. These glial cells form the myelin sheath that insulates nerve cells and is essential for their survival and proper functioning. In demyelinating diseases such as multiple sclerosis, the myelin sheath is damaged, leading to the degeneration of nerve cells.

In preclinical studies PAION's licence partner Acorda Therapeutics, Inc. (Acorda) demonstrated that GGF2 can stimulate the cell growth necessary to protect and regenerate a damaged myelin sheath. GGF2 is the lead neuregulin in Acorda's portfolio. Neuregulins have also shown the ability to restore cardiac function in preclinical models of heart failure caused by myocardial infarction, rapid pacing, viral and chemically induced cardiomyopathies.

In December 2010 Acorda announced the start of the first Phase I study. The early phase clinical research on GGF2 is funded by a USD 1 million Cardiac Translational Research Implementation Program (C-TRIP) grant awarded by the US National Heart, Lung and Blood Institute (NHLBI).

Cooperation Agreements

The rights relating to the recombinant GGF2, rh GGF2, were licensed to Acorda in 2002 by PAION UK. In total, further milestone payments of USD 2.5 million prior to market approval and an additional milestone payment of USD 5 million are due upon market authorisation; after that PAION will receive revenue dependent royalties.

Net Assets, Financial Position, and Results of Operations

Results of Operations

Revenues in the first half-year 2011 amounted to KEUR 2,824 and increased by KEUR 589 (26.4%) compared to the prior-year period. The increase is due to the milestone payment received from Ono in the second quarter 2011.

Research and development expenses amounted to KEUR 3,033 in the first half-year 2011. This means a decrease of KEUR 1,320 (30.3%) compared to the prior-year period.

General administrative and selling expenses amounted to KEUR 2,550 in the first half-year 2011. This means an increase of KEUR 320 (14.3%) compared to the prior-year period.

The loss for the first half-year of 2011 amounted to KEUR -2,892 meaning a decrease of KEUR 1,435 (33.2%) compared to the prior-year period.

	Q2 2011 KEUR	Q2 2010 KEUR	H1 2011 KEUR	H1 2010 KEUR
Revenues	2,455	1,494	2,824	2,235
Cost of revenues	-2	-6	-2	-13
Gross profit	2,453	1,488	2,822	2,222
Research and development	-1,643	-1,870	-3,033	-4,353
General administrative and selling	-1,109	-1,127	-2,550	-2,230
Other income (expenses)	19	83	17	99
Operating expenses	-2,733	-2,914	-5,566	-6,484
Operating result	-280	-1,426	-2,744	-4,262
Financial result	-173	-140	-316	-275
Income taxes	89	110	168	210
Net result for the period	-364	-1,456	-2,892	-4,327

Revenues in the first six months of 2011 relate in the amount of KEUR 2,083 (USD 3 million) to a milestone payment from Ono for the start of the Phase II study with Remimazolam in Japan. Furthermore the revenues relate, as well as in the prior-year period, in the amount of KEUR 727 to the systematic release of deferred income in connection with the licence agreement concluded with Lundbeck.

Research and development expenses of KEUR 3,033 in the first six months of 2011 decreased by KEUR 1,320 compared to the prior-year period. The decrease is mainly caused by the Phase IIb study conducted with Remimazolam in the previous year. The main research and development focus in the first half-year 2011 was on Remimazolam and Solulin.

General administrative and selling expenses increased in the first six months of 2011 by KEUR 320 and amounted to KEUR 2,550. The increase results from higher selling expenses in connection with partnering activities.

The **financial result** for the first six months of 2011 amounted to KEUR -316; a decrease of KEUR 41 compared to the prior-year period.

The **income taxes** are attributable to tax claims for reimbursement of parts of the research and development costs from the British tax authorities.

Net Assets and Financial Position

The balance sheet total as of 30 June 2011 decreased by KEUR 3,903 compared to 31 December 2010 and amounted to KEUR 22,933. The decrease was mainly due to a lower equity through the loss of the period and lower cash and cash equivalents. As of 30 June 2011 the equity ratio is 41.1%, which means a decline compared to 31 December 2010 (44.6%). If the subordinate loan and the deferred non-refundable upfront payment from Lundbeck were recognised as economic equity, the equity ratio would increase to 84.0%.

	30 June 2011 KEUR	31 Dec. 2010 KEUR	Change KEUR
Non-current assets	9,926	10,768	-842
Current assets	13,007	16,068	-3,061
Total Assets	22,933	26,836	-3,903
Equity	9,436	11,968	-2,532
Non-current liabilities	9,577	10,483	-906
Current liabilities	3,920	4,385	-465
Total Equity and liabilities	22,933	26,836	-3,903

The **non-current assets** mainly comprise the development projects M6G (KEUR 5,883) and Remimazolam (KEUR 3,787).

The KEUR 3,061 decrease in **current assets** is mainly attributable to the decrease in cash and cash equivalents (KEUR 2,833). The change in cash and cash equivalents stems from the following areas:

	H1 2011 KEUR	H1 2010 KEUR
Cash flows from operating activities	-3,100	-4,755
Cash flows from investing activities	-36	-14
Cash flows from financing activities	328	-293
Effects of exchange rate changes	-25	42
Change in cash and cash equivalents	-2,833	-5,020

The cash flows from operating activities of KEUR -3,100 were mainly due to the loss of the period in the amount of KEUR -2,892.

The cash flows from financing activities in the first half-year of 2011 results mainly from a capital increase of KEUR 600 in return for the issue of 287,092 new shares as well as from interest payments for the subordinated loan (KEUR -293).

The decrease of KEUR 906 in **non-current liabilities** is attributable to the proportionate release of the deferred income in connection with the licence agreement concluded with Lundbeck.

The decrease of KEUR 465 in **current liabilities** is mainly attributable to the decrease of trade payables as well as the decrease of other liabilities.

Personnel Development

On average, PAION employed 26 employees in the first six months of 2011 (fiscal year 2010: 28 employees).

Risks and Opportunities

Material risks and opportunities relating to future development are presented in detail in the group management report for fiscal year 2010 and have not changed significantly in the first half-year of 2011.

Significant Events Occurring After the Balance Sheet Date

On 10 August 2011 Lundbeck reported, that the clinical phase III studies with Desmoteplase in ischaemic stroke, DIAS-3 and DIAS-4, have now seen improved patient recruitment following several initiatives to speed up recruitment. However, the programme has as previously reported not developed at the expected pace and Desmoteplase will therefore be unable to deliver a filing as anticipated in the second half of 2012, but more likely in first half of 2014.

Outlook

PAION's major goals for 2011 are the out-licensing of Remimazolam, the production of Remimazolam study medication in preparation of a Phase III study programme, the out-licensing of M6G as well as further development of Solulin. Furthermore, PAION expects in 2011 extensive development activities by the cooperation partners Lundbeck (Desmoteplase), Ono (Remimazolam) and Acorda (GGF2).

Based on the results of the Phase IIb study PAION intends to out-license the development and marketing rights for Remimazolam (outside Japan) in 2011. From this PAION expects to receive a substantial upfront payment, development milestone payments, a partial or complete assumption of future development costs until market approval and royalties from market approval onwards. Cooperation partner Ono started a Phase II study with Remimazolam in Japan in 2011. PAION benefits from the progress of development in the form of additional development data and benefits financially in the form of milestone payments and royalties from launch onwards.

Cooperation partner Lundbeck is currently conducting two Phase III studies with Desmoteplase in stroke and expects to file marketing applications in the first half of 2014. Lundbeck bears all development costs and pays to PAION milestones of up to EUR 68 million, thereof up to EUR 40 million are due before and including market approvals, and from market entry a double-digit percentage revenue share. If the further development is successful, based on Lundbeck's development plan, further milestone payments can be expected from 2013 onwards.

Acorda started a clinical Phase I study with GGF2 at the end of 2010. Milestone payments of up to USD 7.5 million before and including approval, and thereafter revenue-dependent licence fees are payable to PAION.

Revenues in 2011 will include the milestone payment of EUR 2.1 million received from Ono in the first half-year 2011 for the development progress with Remimazolam and the systematic release of deferred income in the amount of EUR 1.1 million (this results from the non-refundable milestone payment of EUR 8 million received in 2008 from Lundbeck; the monthly release will be reduced from August 2011 onwards). The previous outlook of EUR 1.5 million has to be reduced due to the new Lundbeck guidance (communicated on 10 August 2011) shifting the expected filing for Desmoteplase from end 2012 to the first half-year 2014. Furthermore, PAION expects revenues in 2011 from the intended out-licensing, in a substantial amount for Remimazolam and in a small amount from M6G.

Research and development expenses are expected to be lower than the previous year but could increase if out-licensing is successful, either in connection with the out-licensing or by investing in other programmes. The out-licensing activities will lead to increased selling expenses compared to previous years, especially in connection with consulting services and success fees.

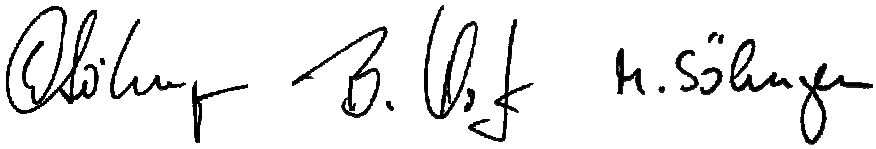
The budgeted expenses will lead to a significant net loss in 2011. A successful out-licensing of Remimazolam and M6G could lead to a sustainable improvement of the results.

From the existing cooperations with Lundbeck (milestone payments for Desmoteplase of up to EUR 68 million), Ono (development of Remimazolam in Japan) and Acorda (a total of up to USD 7.5 million for the development of GGF2) PAION expects significant cash inflows from 2012 onwards. Part of these expected milestone payments may be realised from

2012 onwards. Some of the milestone payments, which are expected in the future, are linked to milestone obligations for PAION, which would accordingly reduce the result.

As of 30 June 2011 PAION's cash and cash equivalents amounted to EUR 12 million and the remaining equity facility amounted to EUR 13 million. The cash and cash equivalents alone secure a cash reach until the middle of 2012. This does not account for further cash inflows from existing and future partners or from the equity facility. Further upfront payments, milestone payments and cost reimbursements or a use of the equity facility could expand the cash reach, but may also be used fully or in part for funding of additional development activeties within the existing portfolio or new strategic investments, e.g. the acquisition of new substances.

Aachen, Germany, 10 August 2011
PAION AG



Dr Wolfgang Söhngen | Bernhard Hofer | Dr Mariola Söhngen

Condensed Consolidated Interim Financial Statements

Consolidated Balance Sheet

ASSETS	30 June 2011 EUR	31 Dec. 2010 EUR
Non-current assets		
Intangible assets	9,723,223.12	10,571,204.23
Equipment	202,668.06	196,223.77
Other assets	13.91	2.32
	9,925,905.09	10,767,430.32
Current assets		
Trade receivables	6,449.27	11,129.16
Prepaid expenses and other assets	951,620.96	1,175,118.30
Cash and cash equivalents	12,049,430.62	14,881,933.89
	13,007,500.85	16,068,181.35
Total assets	**22,933,405.94**	**26,835,611.67**

EQUITY AND LIABILITIES	30 June 2011 EUR	31 Dec. 2010 EUR
Equity		
Share capital	25,379,906.00	25,073,684.00
Capital reserve	90,225,992.57	89,737,457.61
Translation reserve	-1,578,314.22	-1,142,438.22
Loss carryforward	-101,700,303.98	-92,446,174.58
Loss for the period	-2,891,587.64	-9,254,129.40
	9,435,692.73	11,968,399.41
Non-current liabilities		
Provisions	1,155,378.49	1,346,019.96
Financial liabilities	6,912,350.56	6,893,418.03
Deferred income	1,510,101.04	2,242,929.32
	9,577,830.09	10,482,367.31
Current liabilities		
Trade payables	1,561,048.85	1,835,290.75
Provisions	648,387.34	676,707.55
Other current liabilities	232,403.87	407,190.09
Current portion of deferred income	1,478,043.06	1,465,656.56
	3,919,883.12	4,384,844.95
Total equity and liabilities	**22,933,405.94**	**26,835,611.67**

Consolidated Statement of Comprehensive Income

EUR	1 April – 30 June 2011	1 April – 30 June 2010	1 January – 30 June 2011	1 January – 30 June 2010
Revenues	2,454,745.67	1,493,529.42	2,823,509.45	2,235,409.34
Cost of revenues	-1,292.42	-5,882.83	-1,292.42	-13,038.19
Gross profit	2,453,453.25	1,487,646.59	2,822,217.03	2,222,371.15
Research and development expenses	-1,643,036.34	-1,870,116.12	-3,033,263.99	-4,352,815.43
General administrative and selling expenses	-1,108,831.41	-1,127,506.60	-2,549,762.96	-2,230,590.84
Other income (expenses), net	18,603.66	83,157.80	16,959.80	98,539.44
Operating expenses	-2,733,264.09	-2,914,464.92	-5,566,067.15	-6,484,866.83
Operating result	-279,810.84	-1,426,818.33	-2,743,850.12	-4,262,495.68
Financial income	24,969.23	16,872.51	50,549.51	38,434.57
Financial expenses	-197,697.70	-156,530.38	-366,371.17	-313,149.78
Financial result	-172,728.47	-139,657.87	-315,821.66	-274,715.21
Loss for the period before taxes	-452,539.31	-1,566,476.20	-3,059,671.78	-4,537,210.89
Income taxes	88,932.23	110,286.92	168,084.14	210,164.58
Loss for the period	-363,607.08	-1,456,189.28	-2,891,587.64	-4,327,046.31
of which attributable to other shareholders	0.00	0.00	0.00	0.00
of which attributable to shareholders of PAION	-363,607.08	-1,456,189.28	-2,891,587.64	-4,327,046.31
Foreign currency translation of subsidiaries	-209,395.17	833,262.00	-435,876.00	815,100.04
Other comprehensive income	-209,395.17	833,262.00	-435,876.00	815,100.04
Total comprehensive income	-573,002.25	-622,927.28	-3,327,463.64	-3,511,946.27
of which attributable to other shareholders	0.00	0.00	0.00	0.00
of which attributable to shareholders of PAION	-573,002.25	-622,927.28	-3,327,463.64	-3,511,946.27
Earnings per share (basic)	-0.01	-0.06	-0.11	-0.18
Earnings per share (diluted)	-0.01	-0.06	-0.11	-0.18

Consolidated Cash Flow Statement

EUR	1 January – 30 June 2011	1 January – 30 June 2010
Cash flows from operating activities:		
Net result for the period	-2,891,587.64	-4,327,046.31
Reconciliation of net result for the period to cash flows from operating activities:		
Amortization/depreciation and non-cash exchange rate changes of fixed assets	881,140.36	-386,416.17
Loss/Profits from the disposal of non-current assets	-3,547.50	58,677.21
Interest expenses and interest income	315,821.68	274,715.21
Release of deferred income	-757,258.08	-745,531.23
Expenses from stock option plans	190,030.75	181,560.37
Change in assets and liabilities which are not attributable to investing or financing activities:		
Trade receivables	4,679.89	76,352.63
Prepaid expenses and other assets	-223,497.88	-552,700.38
Trade payables	-274,241.91	-142,855.43
Provisions	-273,795.55	106,455.74
Other current liabilities	-174,786.23	-104,770.55
Deferred income	36,816.30	0.00
Non-cash exchange losses/gains	-411,032.78	772,547.64
	-3,581,258.59	-4,789,011.27
Interest received	54,054.26	34,017.36
Tax payments received	427,767.94	0.00
Cash flows from operating activities	-3,099,436.39	-4,754,993.91
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-39,605.93	-14,237.51
Cash received from the sale of intangible assets and equipment	3,550.00	0.00
Cash paid for investments	-11.70	0.00
Cash flows from investing activities	-36,067.63	-14,237.51
Cash flows from financing activities:		
Capital increase	306,222.00	0.00
Contributions to the capital reserve	315,012.30	0.00
Payments in connection with the raising of capital	-612.91	0.00
Interest paid	-292,777.49	-293,031.22
Cash flows from financing activities	327,843.90	-293,031.22
Change in cash and cash equivalents	-2,807,660.12	-5,062,262.64
Effect of exchange rate changes on cash	-24,843.15	42,561.08
Cash and cash equivalents at beginning of the period	14,881,933.89	22,871,407.20
Cash and cash equivalents at end of the period	12,049,430.62	17,851,705.64
Composition of cash and cash equivalents at the end of the period:		
Cash and cash equivalents	12,049,430.62	17,851,705.64

Consolidated Statement of Changes in Equity

EUR	Share capital	Capital reserve	Translation reserve	Loss carryforward	Equity
31 December 2009	24,602,919.00	88,639,947.78	-1,492,295.41	-92,446,174.58	19,304,396.79
Total comprehensive income	0.00	0.00	815,100.04	-4,327,046.31	-3,511,946.27
Additional contribution to the capital reserve due to the issue of options	0.00	181,560.37	0.00	0.00	181,560.37
30 June 2010	24,602,919.00	88,821,508.15	-677,195.37	-96,773,220.89	15,974,010.89
Total comprehensive income	0.00	0.00	-465,242.85	-4,927,083.09	-5,392,325.94
Issue of shares	470,765.00	0.00	0.00	0.00	470,765.00
Contribution to the capital reserve	0.00	687,845.00	0.00	0.00	687,845.00
Cost of raising capital	0.00	-30,693.87	0.00	0.00	-30,693.87
Additional contribution to the capital reserve due to the issue of options	0.00	258,798.33	0.00	0.00	258,798.33
31 December 2010	25,073,684.00	89,737,457.61	-1,142,438.22	-101,700,303.98	11,968,399.41
Total comprehensive income	0.00	0.00	-435,876.00	-2,891,587.64	-3,327,463.64
Issue of shares	306,222.00	0.00	0.00	0.00	306,222.00
Contribution to the capital reserve	0.00	315,012.30	0.00	0.00	315,012.30
Cost of raising capital	0.00	-16,508.09	0.00	0.00	-16,508.09
Additional contribution to the capital reserve due to the issue of options	0.00	190,030.75	0.00	0.00	190,030.75
30 June 2011	25,379,906.00	90,225,992.57	-1,578,314.22	-104,591,891.62	9,435,692.73

Selected Explanatory Notes to the Consolidated Interim Financial Statements as of 30 June 2011

General

The half-year financial report of PAION AG includes interim consolidated financial statements and an interim group management report in accordance with the provisions of Secs. 37w (2) and 37y WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] as well as a statement of the management board according to Secs. 264 (2) sentence 3 and 289 (1) sentence 5 HGB ["Handelsgesetzbuch": German Commercial Code]. The consolidated financial statements were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRSs) for interim financial reporting. The interim group management report was prepared in accordance with the relevant provisions of the German Securities Trading Act.

The interim consolidated financial statements comprise PAION AG as the parent company, registered at Martinstrasse 10-12, 52062 Aachen, Germany, and the wholly-owned subsidiaries, which are fully consolidated:

- PAION Deutschland GmbH, Aachen/Germany
- PAION Holdings UK Ltd, Cambridge/UK
- PAION UK Ltd, Cambridge/UK
- CeNeS Drug Delivery Ltd, Cambridge/UK
- TheraSci Limited, Cambridge/UK
- CeNeS Pharmaceuticals Inc., Norwood/USA

Basis of Accounting

The interim consolidated financial statements have been prepared in accordance with Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] and IFRSs, as adopted by the EU, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All IFRSs issued by the International Accounting Standards Board (IASB), London, UK, which were effective as of the balance sheet date of 30 June 2011 and applied by PAION, were adopted by the European Commission for application in the EU.

The following new announcements were published by the IASB during the reporting period and will be applied as soon as they come into effect if at that point an adoption by the European Commission has taken place.

- IFRS 10: In May 2011 the IASB has published IFRS 10 „Consolidated Financial Statements". IFRS 10 provides a consistent definition of control and therefore provides a consistent basis for the existence of control and the determination of the entities that should be included in the consolidated financial statements of the parent company. The new standard replaces the guidance in IAS 27 and SIC-12 that was applicable in this respect as yet. The standard is effective for fiscal years beginning on or after 1 January 2013.
- IFRS 11: In May 2011 the IASB has published IFRS 11 „Joint Arrangements". IFRS 11 provides guidance on the accounting of joint ventures and joint operations. The new standard replaces the guidance in IAS 31 and SIC-13 that was applicable in this respect as yet. The standard is effective for fiscal years beginning on or after 1 January 2013.
- IFRS 12: In Mai 2011 the IASB has published IFRS 12 „Disclosure of Interests in Other Entities". IFRS 12 provides guidance on disclosure requirements for all forms of interests in other entities in consolidated financial statements. The standard is effective for fiscal years beginning on or after 1 January 2013.
- IFRS 13: In May 2011 the IASB has published IFRS 13 „Fair Value Measurement". IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard is effective for fiscal years beginning on or after 1 January 2013.

The provisions of IAS 34, "Interim Financial Reporting", have been applied. The interim financial statements as of 30 June 2011 should be read in conjunction with the consolidated financial statements as of 31 December 2010.

The preparation of interim consolidated financial statements in accordance with IFRSs requires management to make estimates and assumptions which have an effect on the amount of recognised assets and liabilities,

income and expenses and contingent liabilities. Actual amounts may differ from these estimates.

The interim consolidated financial statements do not contain any segment information as no material reportable segments could be identified.

Consolidation Principles

The consolidation principles used in the interim consolidated financial statements as of 30 June 2011 were the same as those used in the consolidated financial statements as of 31 December 2010.

Foreign Currency Translation

The consolidated financial statements are shown in Euro, which is the functional currency of PAION AG and the reporting currency of the Group. Each company within the Group defines its own functional currency. This is the Euro in the case of the German companies, whereas the UK-based companies use Pound Sterling as their functional currency. All items on the respective financial statements of each company are initially converted to the functional currency at the exchange rate applicable on the transaction date. Monetary assets and liabilities denominated in a foreign currency are converted to the functional currency on the reporting date at the exchange rate applicable on that date. All ensuing currency differences are recognised in profit or loss with the exception of exchange rate gains and losses from intra-Group loans classified in accordance with IAS 21 as net investments in foreign business operations; these are recognised in equity.

The assets and liabilities of the foreign companies are converted to Euro on the balance sheet reporting date at the exchange rate applicable on that date. These include all goodwill in connection with the acquisition of a foreign company and all fair value adjustments to the book values of the foreign company's assets and liabilities. Equity components are converted to Euro at historical rates at the time of initial consolidation. Expenses and income are converted to Euro at average monthly exchange rates. The resulting currency differences are accounted for separately within equity.

Accounting Policies

The accounting policies used in the interim consolidated financial statements as of 30 June 2011 were the same as those used in the consolidated financial statements as of 31 December 2010.

Tax Effects on Other Comprehensive Income

Because of the negative results of the PAION Group and the existing tax losses carried forward no income taxes are being paid at the moment. In the reporting period the Other Comprehensive Income (foreign currency translation of foreign subsidiaries) does not have any tax effects.

Related Parties

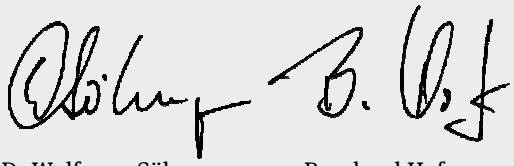
On 8 February 2011 PAION concluded a know-how and licence agreement relating to the COMT programme with Mofo Thirty-Eight Limited. Under this programme, which PAION took into its portfolio in connection with the CeNeS acquisition in 2008, potential COMT inhibitors for Parkinson's disease were explored. Since the programme was not part of PAION's strategy, it was not further developed after the CeNeS acquisition as no lead structure was available. Alan Goodman, member of the Supervisory Board of PAION AG, holds 90% of Mofo Thirty-Eight Limited and PAION AG holds 10% of Mofo Thirty-Eight Limited. The spin-off is expected to facilitate funding for further development independently of PAION. PAION participates in future income via a revenue share.

Beyond that the relationships with related parties have not changed in comparison to those applied in the consolidated financial statements as of 31 December 2010.

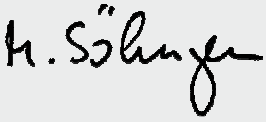
Declaration of the Management Board pursuant Secs. 264 para. 2 sentence 3 and 289 para.I sentence 5 HGB [German Commercial Code]

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

Aachen, Germany, 10 August 2011
PAION AG



Dr Wolfgang Söhngen Bernhard Hofer



Dr Mariola Söhngen

Review Report

To PAION AG, Aachen:

We have reviewed the condensed consolidated interim financial statements – comprising the balance sheet, income statement, cash flow statement, statement of changes in equity and selected explanatory notes – together with the interim group management report of PAION AG, Aachen, for the period from January 1 to June 30, 2011 which are components of the semi-annual financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

Cologne, Germany, 10 August 2011
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(s) Ueberschär	(s) Galden
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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