

PAION Q2#2009

Consolidated Financial Interim Report for the first half-year of 2009

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2009

PAION AG



Key Figures

(all figures in EUR k unless otherwise noted)	Q2 2009	Q2 2008	H1 2009	H1 2008
Revenues	383	562	788	2,214
Research and development expenses	-2,876	-2,757	-5,492	-4,394
General and administrative expenses	-1,115	-3,719	-2,267	-4,754
Selling and marketing expenses	0	-49	0	-65
Net result for the period	-3,564	-5,858	-6,891	-7,036
Earnings per share in EUR for the period (basic)	-0.14	-0.35	-0.28	-0.42
Earnings per share in EUR for the period (diluted)	-0.14	-0.35	-0.28	-0.42

	H1 2009	H1 2008
Net cash from operating activities	-6,764	4,590
Net cash from investing activities	-43	-453
Net cash from financing activities	-331	-1,305
Average number of group employees	30	56

	30 June 2009	31 Dec. 2008
Intangible assets	12,280	11,336
Cash and cash equivalents	29,042	36,072
Equity	25,946	31,528
Non-current liabilities	12,754	13,426
Balance sheet total	43,126	49,313
Equity ratio	60.2 %	63.9 %

Interim Group Management Report for the Six-Month Period to 30 June 2009

Overview

The first half year was dominated by the rapid progress of CNS 7056. Starting last year, the substance has been advanced from pre-IND to phase II clinical development in less than nine months.

In the second quarter two further studies with the sedative CNS 7056 have been started: a Phase IIa study (single dose) with patients undergoing endoscopy of the upper gastrointestinal tract and a Phase Ib study (multiple dose) with volunteers undergoing a colonoscopy. The start of the studies, both being conducted in the US, was reported in April. Already in May the positive results of the first part of the Phase Ib trial were reported. The effect of CNS 7056 can be reversed by an established antagonist, flumazenil and no re-sedation of the volunteers was observed. These data strengthen the safety profile of CNS 7056.

During the first half year PAION also announced data from the open-label Phase IIa study with the NMDA receptor antagonist CNS 5161 which was completed in December 2008. The data confirm that the substance is safe and well tolerated within the applied administration scheme.

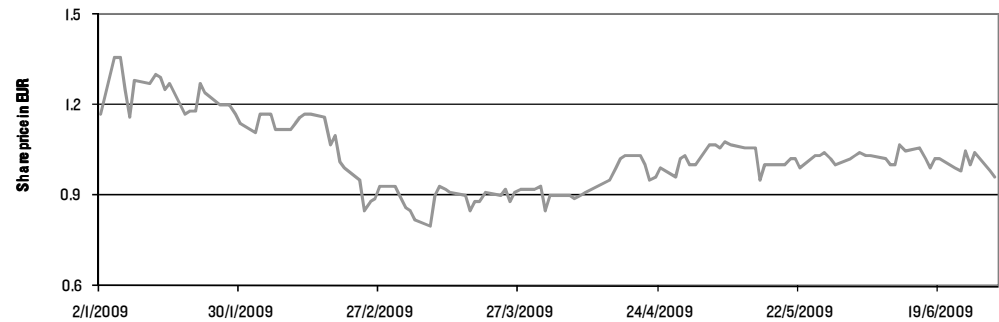
The loss for the period of the first six months 2009 of EUR -6,891k was EUR 145k lower than in the corresponding prior-year period (EUR -7,036k). General and administrative expenses amounted to EUR 2,267k meaning a decrease by EUR 2,486k compared to the prior-year period. The revenues and the financial result decreased compared to the prior-year period and research and development expenses increased. Cash and cash equivalents decreased by EUR 7,030k in the first half-year 2009 and amounted to EUR 29,042k compared to EUR 36,072k as of 31 December 2008. The liquidity situation remains solid and secure with a sufficient cash reach at least until mid 2011.

Share Performance

At the beginning of the second quarter the closing price of the PAION share on Xetra was EUR 0.85 and marked the bottom level in the second quarter. Supported by positive results on CNS 7056 the shares later recaptured the level of 1 Euro and leveled off. On 7 May 2009 the share price peaked at EUR 1.08. The closing price on 30 June 2009 was EUR 0.96. There was an overall decrease in the share price of 35.6 % in the first half-year. However the second quarter has seen a rise of 4.3 % against the first quarter. The ongoing high volatility in the financial markets indicates the persisting insecurity of the market participants caused by the financial crisis.

The overall average daily trading volume (Xetra, Frankfurt Stock Exchange resp. all German Stock Exchanges) in the first six months 2009 amounted to 25,288 shares. Within the second quarter a rise in trading volume was observed.

Development of the PAION Share Price (Xetra) in the Six-Month Period to 30 June 2009



Overview of Research and Development Activities

a. CNS 7056

CNS 7056 is an innovative short-acting general anaesthetic/sedative that is initially being developed for use in minor medical interventions (procedural sedation). Sedatives are used, for example, in endoscopic procedures such as colonoscopies. After intravenous administration to human volunteers CNS 7056 rapidly induces the desired sedation. Importantly, this sedative effect quickly disappears. This rapid offset of the effect of the substance is due to its metabolism by tissue esterase enzymes that are widely distributed throughout the body. CNS 7056 is being developed as a sedative agent for day case procedures and for the induction and maintenance of anaesthesia. It could also be used as a sedative during artificial respiration in the Intensive Care Unit (ICU).

Clinical Development

In November 2008 PAION reported the successful completion of the first Phase I study with CNS 7056 and published related data on 9 January 2009. In the course of this proof of concept study intravenously administered CNS 7056 was compared to placebo and a standard dose of Midazolam, which is currently the sedative of choice for procedural sedation. The study confirmed the anticipated positive profile of the substance, with no safety problems occurring. The study comprised of several increasing dosage groups of the substance. As expected, volunteers were successfully sedated in the higher dose cohorts and rapidly recovered to full consciousness. During the first quarter of 2009, two further studies were set up: a Phase IIa study (single dose) with patients undergoing endoscopy of the upper gastrointestinal tract and a Phase Ib study (multiple dose) with volunteers undergoing a colonoscopy. In April 2009 these studies were initiated. They are being conducted in the USA and are accordingly billed in US-Dollar. On 11 May 2009 the positive results of the first part of the Phase Ib trial were reported: the sedating effect of CNS 7056 can be reversed by an established antagonist, flumazenil and no re-sedation of the volunteers was observed. These data strengthen the safety profile of CNS 7056.

Cooperation Agreements

In 2007 Ono Pharmaceuticals Co., Ltd. was granted the rights to develop and market CNS 7056 for the Japanese market.

PAION has started to explore partnering for the territories outside Japan in order to be able to initiate the development of other indications as early as possible.

b. Morphine-6-glucuronide

Morphine-6-glucuronide (M6G), a highly potent opioid demonstrated in clinical Phase II and Phase III studies an analgesic effect comparable to morphine, the current “gold standard” for the treatment of severe, postoperative pain. At the same time, the common side effects of morphine administration, such as nausea and vomiting, were significantly reduced with.

Cooperation Agreements

Since the acquisition of the project, over the last year PAION has performed various deep analyses of the available clinical data. The results support PAION's view that M6G has a wider therapeutic margin than morphine at equi-analgesic dosages with a lower incidence of post-operative nausea and vomiting. PAION believes that these findings facilitate a data-driven design of a future Phase III programme, thus increasing the probability of success of the clinical development programme and, as such, of out-licensing. Based on these results PAION has restarted the search for a development partner for M6G.

c. Desmoteplase

Desmoteplase is an intravenously administered substance for dissolving blood clots that is currently being developed for the treatment of acute ischemic stroke.

Clinical Development

So far Desmoteplase has been tested in two Phase II studies and one Phase III study for the treatment of ischemic stroke. PAION's partner, H. Lundbeck A/S, has taken on the further development of Desmoteplase and is supported by PAION in this work. In December 2008 Lundbeck announced the initiation of the first of two Phase III studies. In April 2009 the second Phase III study was started.

Cooperation Agreements

Under the extended license agreement, which came into effect in January 2008 and now includes the North American markets, Lundbeck has exclusive global rights to develop and market Desmoteplase. Under this agreement, Lundbeck has agreed to undertake the following:

- Payment of a non-refundable amount of EUR 8 million in advance, on the date the agreement takes effect (payment received in January 2008),
- Assumption of all future costs, especially for clinical development, production development and marketing approval,
- Milestone payments of up to EUR 63 million, of which up to EUR 38 million relate to milestones due until market approvals (regional splitting) and in total EUR 25 million are due upon commencement of marketing activities and the achievement of specific revenue targets, and
- Payment of licence fees (dependent on revenues) which amount to a double-digit percentage, following the deduction of the licence fees PAION has to pay to the original licensor, Bayer Schering Pharma AG.

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 in earnings rather than licence fees based on revenues.

d. CNS 5161

CNS 5161 is an antagonist of the **NMDA** receptor which may prove beneficial for the treatment of neuropathic pain, i.e. pain caused by irritation or damage of the nervous system. A second potential indication is the treatment of cancer pain.

Clinical Development

PAION completed an open label clinical Phase IIa study using CNS 5161 in December 2008. The study encompassed a total of 24 patients suffering from opioid-resistant cancer pain who were split into six groups receiving ascending higher dosages of CNS 5161 administered six times in total over a period of 24 hours. The primary objective of the study was to define the maximum tolerable dose and to assess the relationship between the plasma concentration of CNS 5161 and changes in pain level. PAION reported the full results on 9 April 2009. Efficacy signals were observed in all but the lowest dose cohort. On the 10-grade numerical pain rating scale (NPRS), mean values dropped by 3.0 points from 6.2 to 3.2 at 32 hours, excluding the first (lowest dose) cohort. This represents approximately a 50% reduction of pain in these patients. EMEA guidelines for neuropathic pain indicate that a 30-50% reduction in pain can be considered a response. The further development of this substance will depend on securing third-party financing.

Cooperation Agreements

In July 2006 CeNeS entered into a development partnership focusing on CNS 5161 with ERGOMED Clinical Research Limited, Frankfurt. This agreement governs the joint development at shared costs and income according to a predefined allocation.

e. Solulin

Solulin is an improved variant of the human protein thrombomodulin, an important natural regulator of blood coagulation. Thrombomodulin is capable of inhibiting the activity and formation of thrombin, an endogenous substance which, when produced in excess, can lead to blood clots. In contrast to natural thrombomodulin, which is an integral protein of vascular membranes, Solulin can travel through the blood stream to reach its potential site of action. Animal models demonstrated that Solulin effectively inhibits the formation of blood clots in veins and arteries.

In 2008 PAION published the results of a clinical Phase I study which involved single and multiple administrations of Solulin. The study confirmed the substance's good safety profile as well as its anticoagulant mode of action offering good potential to inhibit the activity and formation of thrombin.

PAION has initiated a partnering process for the further development of Solulin.

f. Flovagatran

Flovagatran is a substance characterised by a very fast onset of anticoagulation but also very rapid deactivation once intravenous administration is stopped. This is a complementary mode of action to Solulin with an equally fast onset but longer lasting effect. Flovagatran could prove useful as an acute anticoagulant during major surgery such as coronary artery bypass grafting. The substance was previously tested by its originator in two smaller Phase II studies, however in other indications. Therefore PAION is conducting additional preclinical studies in preparation of the clinical assessment of Flovagatran for the reduction of blood loss during bypass surgery. These studies were started in the first half of 2009. Toxicological studies are ongoing, which will be complemented by safety and efficacy studies. Corresponding study results combined with a decision about the next steps will follow at the beginning of 2010.

Net Assets, Financial Position, and Results of Operations

Results of Operations

The loss for the first half year of 2009 decreased by EUR 145k year on year to EUR -6,891k. Especially the decrease of general and administrative expenses by EUR 2,486k compared to the prior-year period had an increasing effect on the result of the period. This decrease is mainly due to transaction and restructuring costs incurred in the prior-year period. On the other hand a decline of EUR 1,426k in revenues, an increase of research and development expenses by EUR 1,098k as well as EUR 677k lower financial result reduced the result of the period. The revenues of the corresponding prior-year period include a material amount of current cost reimbursements as well as a one-off reimbursement of prior production costs by Lundbeck. The increase of research and development expenses compared to the prior-year period reflects the broader product pipeline of the PAION group, especially the costs for the development of CNS 7056. The development costs for Desmoteplase were completely borne by Lundbeck. The financial result decreased compared to the previous year on the back of lower money market interest rates as well as lower cash and cash equivalents.

	Q2 2009 EUR k	Q2 2008 EUR k	H1 2009 EUR k	H1 2008 EUR k
Revenues	383	562	788	2,214
Cost of revenues	-12	-171	-40	-624
Gross profit	371	391	748	1,590
Research and development	-2,876	-2,757	-5,492	-4,394
General and administrative	-1,115	-3,719	-2,267	-4,754
Selling and marketing	0	-49	0	-65
Other income (expenses)	80	69	88	48
Operating expenses	-3,911	-6,456	-7,671	-9,165
Operating result	-3,540	-6,065	-6,923	-7,575
Financial result	-113	207	-138	539
Taxes on income	89	0	170	0
Net result for the period	-3,564	-5,858	-6,891	-7,036

Revenues of EUR 788k in the first half-year of 2009 mainly include the monthly release of deferred income in connection with the license agreement concluded with Lundbeck (EUR 727k) as well as to a minor degree the refund of development expenses by Lundbeck. The

revenues in the prior-year period furthermore included reimbursements of prior production development costs by Lundbeck according to the licence agreement with Lundbeck.

The cost of revenues incurred in the first half-year of 2009 related as well as in the first half year 2008 to the development expenses incurred in this period, which were refunded by Lundbeck.

Research and development expenses of EUR 5,492k in the first half-year of 2009 increased by EUR 1,098k compared with the corresponding prior-year period. The increase is primarily attributable to the broader product pipeline compared to the prior year. The main research and development focus was on CNS 7056. Furthermore research and development expenses were incurred for M6G, Solulin, Flovagatran and CNS 5161.

General and administrative expenses in the first half-year of 2009 declined by EUR 2,486k down to EUR 2,267k which is mainly due to one-off transaction and restructuring costs incurred in the prior-year period.

The financial result for the first half-year of 2009 decreased year on year by EUR 677k down to EUR -138k. The main reasons for the decrease are significantly lower money market interest rates as well as the reduction in cash and cash equivalents 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 total assets as of 30 June 2009 decreased by EUR 6,187k compared to 31 December 2008 and amounted to EUR 43,126k. 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 2009 the equity ratio is 60.2 %, which means a slight decline compared to 31 December 2008 (63.9 %). If the subordinate loan borrowed in 2006 and the deferred non-refundable upfront payment from Lundbeck were recognised as economic equity, the equity ratio would increase to 89.5 %.

	30 June 2009 EUR k	31 Dec. 2008 EUR k	Change EUR k
Non-current assets	12,619	11,746	873
Current assets	30,507	37,567	-7,060
Assets	43,126	49,313	-6,187
Equity	25,946	31,528	-5,582
Non-current liabilities	12,754	13,426	-672
Current liabilities	4,426	4,359	67
Equity and liabilities	43,126	49,313	-6,187

The non-current assets mainly comprise the capitalised development projects of **PAION UK Ltd (EUR 11,976k)**.

The **EUR 7,060k** decrease in current assets is attributable to the decrease in cash and cash equivalents (**EUR 7,030k**). The change in cash and cash equivalents stems from the following areas:

	H1 2009 EUR k	H1 2008 EUR k
Cash flows from operating activities	-6,764	4,590
Cash flows from investing activities	-43	-453
Cash flow from financing activities	-331	-1,305
Effects of exchange rate changes	108	-1
Change in cash and cash equivalents	-7,030	2,831

The negative cash flows from operating activities of **EUR 6,764k** were mainly due to the loss of the period in the amount of **EUR 6,891k** as well as partly countervailing non-cash effects from amortization, exchange rate changes and the release of deferred income.

The negative cash flows from financing activities in the first half-year of 2009 and the prior-year period resulted from interest payments for the subordinated loan raised in April 2006. In the prior-year period the cash flows from financing activities included **EUR 983k** payments in connection with the issuing of new shares.

The decrease of **EUR 672k** in non-current liabilities is mainly attributable to the monthly release of the deferred income in connection with the license agreement concluded with Lundbeck (**EUR 727k**).

The current liabilities amount to **EUR 4,426k** and are nearly unchanged compared to 31 December 2008 (**EUR 4,359k**).

Personnel Development

On average, **PAION** employed 30 employees in the first half-year of 2009.

Risks and Opportunities

Material risks and opportunities relating to future development are presented in detail in the group management report for fiscal year 2008 and have not changed significantly in the first half-year of 2009.

Significant Events Occurring After the Balance Sheet Date

No significant events occurred in the time period between the balance sheet date, 30 June 2009, and the finalisation date of this report.

Outlook

In 2009 PAION's focus lies on performing clinical trials with its compound CNS 7056 as well as closing of one or several partnering/license agreements. The major part of the research and development expenses is allotted to the Phase Ib and Phase IIa studies with CNS 7056 which were initiated in April 2009. The recruitment of the volunteers and the patients, respectively, is to be completed before the end of the year. Preclinical studies with Flovogatran are also being conducted. These data will be the basis for a decision on the further development of this compound, which will be made in the beginning of 2010. In the current period only minor costs will be incurred beyond that for the other projects for production development and the production of study medication for future studies.

Since the beginning of 2009 several cost reduction measures were carried out which will lead to sustainable cost savings in the current and future fiscal years. This does not have any impact on the progress of the current projects. In 2009 revenues will result mainly from the monthly release of the deferred income in connection with the milestone payment received from Lundbeck in 2008. Additional revenues are expected from the closing of new cooperation agreements. In total, a negative financial result is expected for the fiscal year.

As of 30 June 2009 PAION's cash and cash equivalents amount to EUR 29 million. These provide the necessary flexibility to implement value-generating steps and – based on further optimised cost structures – secure a sufficient cash reach at least until mid 2011. This does not account for further cost reductions, upfront payments, milestone payments and cost reimbursements from existing and future cooperation partners, which could expand the cash reach but may also be used fully or in part for funding of additional development activities. The cooperation with Lundbeck alone provides for future milestone payments of up to EUR 63 million, of which up to EUR 38 million will become due prior to market approvals.

Aachen, Germany, 5 August 2009

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Consolidated Interim Financial Statements

PAION AG

Consolidated Balance Sheet

ASSETS	30 June 2009 EUR	31 Dec. 2008 EUR	30 June 2008 EUR
Non-current assets			
Intangible assets	12,280,209.24	11,336,347.69	18,863,247.53
Equipment	338,860.35	409,471.11	513,157.65
Other assets	2.35	2.09	2.53
	12,619,071.94	11,745,820.89	19,376,407.71
Current assets			
Trade receivables	23,469.42	100,449.52	567,889.12
Prepaid expenses and other assets	1,440,756.17	1,395,034.81	2,337,195.69
Cash and cash equivalents	29,042,366.88	36,071,890.73	45,731,904.09
	30,506,592.47	37,567,375.06	48,636,988.90
Total assets	43,125,664.41	49,313,195.95	68,013,396.61

EQUITY AND LIABILITIES	30 June 2009 EUR	31 Dec. 2008 EUR	30 June 2008 EUR
Equity			
Share capital	24,602,919.00	24,602,919.00	24,602,919.00
Capital reserve	88,597,564.32	88,511,062.55	88,426,331.19
Translation reserve	-954,368.25	-2,177,128.79	-19,653.88
Loss carryforward	-79,409,073.92	-66,828,608.63	-66,828,608.63
Loss for the period	-6,891,240.75	-12,580,465.29	-7,035,639.01
	25,945,800.40	31,527,778.84	39,145,348.67
Non-current liabilities			
Financial liabilities	6,840,802.12	6,824,995.87	6,808,795.95
Deferred taxes	0.00	0.00	5,194,184.89
Provisions	1,471,588.83	1,426,929.28	1,303,194.31
Finance lease liabilities	0.00	0.00	24,940.00
Deferred income	4,441,414.16	5,174,242.44	5,833,086.51
	12,753,805.11	13,426,167.59	19,164,201.66
Current liabilities			
Trade payables	1,775,090.00	1,591,854.98	6,140,481.59
Provisions	807,845.72	867,153.17	1,604,017.64
Other current financial liabilities	51,566.77	0.00	0.00
Current portion of finance lease liabilities	24,939.00	61,760.00	72,943.00
Other current liabilities	278,773.53	372,824.81	407,425.41
Current portion of deferred income	1,487,843.88	1,465,656.56	1,478,978.64
	4,426,058.90	4,359,249.52	9,703,846.28
Total equity and liabilities	43,125,664.41	49,313,195.95	68,013,396.61

Consolidated Statement of Comprehensive Income

EUR	1 April – 30 June 2009	1 April – 30 June 2008	1 January – 30 June 2009	1 January – 30 June 2008
Revenues	382,590.18	562,422.15	787,540.90	2,213,638.43
Cost of revenues	-11,705.41	-171,282.89	-39,738.40	-623,909.54
Gross profit	370,884.77	391,139.26	747,802.50	1,589,728.89
Research and development expenses	-2,875,987.65	-2,756,780.60	-5,492,177.46	-4,394,077.29
General and administrative expenses	-1,115,210.42	-3,718,729.01	-2,267,330.34	-4,753,569.52
Selling and marketing expenses	0.00	-49,426.91	0.00	-65,221.20
Other income (expenses), net	79,678.64	69,131.26	88,663.30	48,309.98
Operating expenses	-3,911,519.43	-6,455,805.26	-7,670,844.50	-9,164,558.03
Operating result	-3,540,634.66	-6,064,666.00	-6,923,042.00	-7,574,829.14
Financial income	81,515.65	493,175.92	252,602.79	977,581.27
Financial expenses	-194,259.20	-286,319.73	-391,032.80	-438,391.14
Financial result	-112,743.55	206,856.19	-138,430.01	539,190.13
Loss for the period before taxes	-3,653,378.21	-5,857,809.81	-7,061,472.01	-7,035,639.01
Income taxes	89,271.09	0.00	170,231.26	0.00
Loss for the period	-3,564,107.12	-5,857,809.81	-6,891,240.75	-7,035,639.01
of which attributable to other shareholders	0.00	0.00	0.00	0.00
of which attributable to shareholders of PAION AG	-3,564,107.12	-5,857,809.81	-6,891,240.75	-7,035,639.01
Foreign currency translation of subsidiaries	890,536.95	-19,653.88	1,222,760.54	-19,653.88
Other comprehensive income	890,536.95	-19,653.88	1,222,760.54	-19,653.88
Total comprehensive income	-2,673,570.17	-5,877,463.69	-5,668,480.21	-7,055,292.89
of which attributable to other shareholders	0.00	0.00	0.00	0.00
of which attributable to shareholders of PAION AG	-2,673,570.17	-5,877,463.69	-5,668,480.21	-7,055,292.89
Earnings per share (basic)	-0.14	-0.35	-0.28	-0.42
Earnings per share (diluted)	-0.14	-0.35	-0.28	-0.42

Consolidated Cash Flow Statement

EUR	1 January – 30 June 2009	1 January – 30 June 2008
Cash flows from operating activities:		
Net result for the period	-6,891,240.75	-7,035,639.01
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Amortization/depreciation and non-cash exchange rate changes of fixed assets	-844,995.98	555,707.91
Loss/Profits from the disposal of non-current assets	15,148.86	58,050.91
Interest expenses and interest income	138,430.01	-539,190.13
Release of deferred income	-747,457.26	-739,489.32
Expenses from stock option plans	86,501.77	140,456.01
Change in assets and liabilities which are not attributable to investing or financing activities:		
Trade receivables	76,980.10	208,917.21
Prepaid expenses and other assets	-14,811.72	18,612.93
Trade payables	183,235.29	2,052,287.86
Provisions	-44,586.87	985,414.57
Other current liabilities	-94,051.37	-40,610.50
Deferred income	36,816.30	8,000,000.00
Non-cash exchange losses/gains	1,114,199.23	0.00
Interest received	221,694.17	925,369.32
Net cash used in operating activities	-6,764,138.22	4,589,887.76
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-43,403.67	-297,764.98
Cash received from the sale of intangible assets and equipment	0.00	320,529.05
Net cash paid for/received from business combinations	0.00	-476,249.61
Net cash used in investing activities	-43,403.67	-453,485.54
Cash flows from financing activities:		
Payments in connection with the issuing of new shares	0.00	-982,713.00
Interest paid	-292,831.68	-284,457.43
Payment of finance lease liabilities	-37,711.00	-37,712.00
Net cash used in financing activities	-330,542.68	-1,304,882.43
Change in cash and cash equivalents	-7,138,084.57	2,831,519.79
Effect of exchange rate changes on cash	108,560.72	-738.88
Cash and cash equivalents at beginning of the period	36,071,890.73	42,901,123.18
Cash and cash equivalents at end of the period	29,042,366.88	45,731,904.09
Composition of cash and cash equivalents at the end of the period:		
Cash	29,042,366.88	45,731,904.09

Consolidated Statement of Changes in Equity

EUR	Share capital	Capital reserve	Translation reserve	Loss carryforward	Equity
31 December 2007	16,755,552.00	85,737,273.03	0.00	-66,828,608.63	35,664,216.40
Total comprehensive income	0.00	0.00	-19,653.88	-7,035,639.01	-7,055,292.89
Issue of shares	7,847,367.00	0.00	0.00	0.00	7,847,367.00
Contribution to the capital reserve	0.00	3,531,315.15	0.00	0.00	3,531,315.15
Cost of raising capital	0.00	-982,713.00	0.00	0.00	-982,713.00
Additional contribution to the capital reserve due to the issue of options	0.00	140,456.01	0.00	0.00	140,456.01
30 June 2008	24,602,919.00	88,426,331.19	-19,653.88	-73,864,247.64	39,145,348.67
Total comprehensive income	0.00	0.00	-2,157,474.91	-5,544,826.28	-7,702,301.19
Cost of raising capital	0.00	1,348.60	0.00	0.00	1,348.60
Additional contribution to the capital reserve due to the issue of options	0.00	83,382.76	0.00	0.00	83,382.76
31 December 2008	24,602,919.00	88,511,062.55	-2,177,128.79	-79,409,073.92	31,527,778.84
Total comprehensive income	0.00	0.00	1,222,760.54	-6,891,240.75	-5,668,480.21
Additional contribution to the capital reserve due to the issue of options	0.00	86,501.77	0.00	0.00	86,501.77
30 June 2009	24,602,919.00	88,597,564.32	-954,368.25	-86,300,314.67	25,945,800.40

Selected Explanatory Notes to the Consolidated Interim Financial Statements as of 30 June 2009

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
- **CeNeS (Bermuda) Ltd**, Bermuda

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 2009 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.

- **IFRIC 18**: The **IASB** published **IFRIC 18** Transfers of Assets from Customers in January 2009. **IFRIC 18** clarifies the accounting methods for agreements in which a company receives assets or cash from a customer that it must then use to either connect that customer to a network or provide that customer with ongoing access to goods or services (e.g. energy, gas, water). **IFRIC 18** must be applied to assets transferred on or after 1 July 2009. This will not have any effects on the Group’s net assets, financial position and results of operations or lead to further disclosures.
- Amendment to **IFRS 7** Financial Instruments: Disclosures: On 5 March 2009 the **IASB** published amendments to **IFRS** under the title “Improving Disclosures about Financial Instruments – Amendments to **IFRS 7**”. The amendments relate to disclosures about fair value measurements and liquidity risk. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy and that disclosures are extended. Furthermore the disclosures related about liquidity risks are clarified and extended. For this disclosures are required about maturity of financial liabilities, broken down by non-derivative and derivative financial instruments and the corresponding qualitative disclosures about the management of liquidity risk are changed. The amendments are effective for annual periods beginning on or after 1 January 2009; earlier application would be permitted. In the first year of application, comparative disclosures are not required. The application of these amendments could result in additional disclosure obligations in future consolidated financial statements. The amendments do not have any effects on the Group’s net assets, financial position and results of operations.
- Amendments to **IFRIC 9** and **IAS 39**: On 12 March 2009 the **IASB** published amendments to **IFRIC 9** Reassessment of Embedded Derivatives and **IAS 39**: Financial Instruments: Recognition and Measurement. The amendments clarify the accounting of embedded derivatives in entities that make use of the option to reclassify financial instruments which was published by the **IASB** in October 2008. The

amendments clarify that in case of a reclassification all embedded derivatives have to be measured and if necessary separated. The amendments apply retrospectively and are required to be applied for annual periods ending on or after 30 June 2009. Since PAION does not own any financial instruments affected by the amendments, the amendments do not have any effects on the Group's net assets, financial position and results of operations.

- On 16 April 2009 the IASB published the collective standard "Improvements to IFRSs", which implements minor changes to the existing IFRSs. The standard contains 15 amendments to 12 standards. The majority of the amendments must be applied to fiscal years commencing on or after 1 January 2010. This will not have any effects on the Group's net assets, financial position and results of operations or lead to further disclosures.
- Amendments to IFRS 2 Share-based Payment: On 18 June 2009 the IASB published amendments to IFRS 2 Share-based Payment. The amendments clarify the accounting treatment of share-based payments with cash-settlement in a group of companies. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions". As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendments are effective for annual periods ending on or after 1 January 2010; earlier application would be permitted. This will not have any effects on the Group's net assets, financial position and results of operations or lead to further disclosures.
- IFRS for Small and Medium-Sized Entities: On 9 July 2009 the IASB published an IFRS for Small and Medium-Sized Entities (SME). The IFRS for SME is a self-contained standard that fits the needs of small and medium-sized entities. Since PAION AG as a listed company does not meet the definition of small and medium-sized entities, this will not have any effects on the Group's net assets, financial position and results of operations or lead to further disclosures.
- Amendments to IFRS 1: On 23 July 2009 the IASB published amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards". The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost in the transition process. This will not have any effects on the Group's net assets, financial position and results of operations or lead to further disclosures.

The provisions of IAS 34, "Interim Financial Reporting", have been applied. The interim financial statements as of 30 June 2009 should be read in conjunction with the consolidated financial statements as of 31 December 2008.

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 2009 were the same as those used in the consolidated financial statements as of 31 December 2008.

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 any and all goodwill in connection with the acquisition of a foreign company and any 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 2009 were the same as those used in the consolidated financial statements as of 31 December 2008 except for the changes resulting from the revision of IAS 1.

Tax Effects on the 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

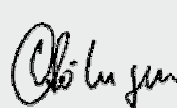
The relationships with related parties have not changed in comparison to those applied in the consolidated financial statements as of 31 December 2008.

Significant Events Occurring After the Balance Sheet Date

No significant events occurred in the time period between the balance sheet date, 30 June 2009, and the finalisation date of this report.

Aachen, Germany, 5 August 2009

PAION AG



Dr. Wolfgang Söhngen



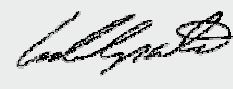
Alexander Vos



Bernhard Hofer



Dr. Mariola Söhngen



Dr. Gavin Kilpatrick

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

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

Aachen, Germany, 5 August 2009

PAION AG



Dr. Wolfgang Söhngen

Alexander Vos

Bernhard Hofer



Dr. Mariola Söhngen

Dr. Gavin Kilpatrick

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, 2009 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, 5. August 2009
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(s) Gockel	(s) Zwirner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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