



CORPORATE NEWS

FINANCIAL RESULTS

PAION AG REPORTS NINE-MONTHS RESULTS 2008

Aachen (Germany), Cambridge (United Kingdom), 5 November 2008 – The biopharmaceutical company PAION AG (ISIN DE000A0B65S3; Frankfurt Stock Exchange, Prime Standard: PA8; London AIM: PAI) today reported its financial results according to International Financial Reporting Standards (IFRS) for the nine months ended 30 September 2008.

At the end of the reporting period, cash and cash equivalents amounted to EUR 38.8 million and were significantly strengthened by the upfront payment of EUR 8 million paid by Lundbeck in the beginning of 2008. Research and development expenses amounted to EUR 6.1 million and were EUR 0.7 million lower than in the first nine months of 2007.

The loss for the period amounted to EUR 9.3 million, compared to EUR 6.7 million in the corresponding prior year's period including one-off transaction costs and expenses for restructuring measures in connection with the acquisition of the CeNeS group (in the following: PAION UK group) which was completed in June 2008.

Operational highlights since the beginning of 2008:

- At the end of January, the extended licensing agreement with H. Lundbeck A/S for the stroke drug Desmoteplase came into effect and PAION received a non-refundable upfront payment of EUR 8 million
- In June 2008, the acquisition of CeNeS Pharmaceuticals was completed and its drug candidates were integrated into PAION's development pipeline
- In September 2008, PAION reported that the Phase I study with its short-acting sedative/anaesthetic CNS 7056 has progressed to dose levels that induced pronounced sedation in healthy volunteers
- In addition, PAION also reported that within the CNS 7056 Phase I study, the first group including a comparison with midazolam, the current gold standard for procedural sedation, had been completed
- At the beginning of November, PAION reported the re-launch of the partnering activities for its pain drug M6G, following positive results from a meta-analysis of clinical data

Dr. Wolfgang Söhngen, PAION's CEO commented: *“Following the acquisition-driven strategic extension of our development pipeline to a total of six product candidates in clinical development we now concentrate on value-generating development steps. We have already demonstrated this with CNS 7056, our promising short-acting sedative. Our business model continues to focus on the partnering of our development projects, which should make us less vulnerable to capital markets' sentiment. We believe that our development expertise gives us a sustainable basis to achieve this goal and our cash position of EUR 39 million will provide us with the necessary flexibility. We have been*

able to attract strong partners in the past and we are confident that we will be able to do so in the future, driven by value generation in our pipeline.”

Consolidated financial results for the first nine months 2008:

Revenues for the nine months to 30 September 2008 amounted to EUR 2.7 million (Q1-Q3 2007: EUR 4.4 million) and primarily include the refund of development expenses by Lundbeck and the systematic release of deferred income in connection with the license agreement concluded with Lundbeck. As part of the outlicensing agreement between PAION and Lundbeck, Lundbeck made a non-refundable upfront payment of EUR 8 million, which was recognized as a deferred income item and is being released over the anticipated development period for Desmoteplase. The revenues in 2007 included refunds from Forest in the amount of EUR 1.1 million as well as the release of an upfront payment of EUR 1.7 million. The gross result amounted to EUR 2.0 million and was similar to the corresponding prior year's period (EUR 1.8 million).

Research and development expenses in the period decreased by EUR 0.7 million to EUR 6.1 million compared to the corresponding period in the prior year. The decrease is primarily attributable to the new license agreement with Lundbeck, according to which Lundbeck will bear all development expenses for Desmoteplase. Furthermore, significantly lower expenses arose for Enecadin, the development of which was terminated in April 2008. These cost savings were compensated by the take-over of the PAION UK compounds in connection with the acquisition of the PAION UK group for which research and development expenses have been incurred since the acquisition date, 20 June 2008.

Compared to the prior year's period, the general and administrative expenses increased significantly because of transaction and consulting fees in connection with the acquisition of the PAION UK group in June as well as one-off expenses for restructuring measures and amounted to EUR 6.2 million (prior year's period: EUR 3.2 million). In addition, the general and administrative expenses include severance payments as well as one-off expenses which relate to the technical settlement of the exchange of the shares and from the admission of all PAION shares on AIM.

Net loss for the nine months to 30 September 2008 was EUR 9.3 million, an increase of EUR 2.6 million over the prior period. This increase was mainly due to the significantly higher general and administrative expenses.

At the end of the reporting period, 30 September 2008, cash and cash equivalents amounted to EUR 38.8 million. These were significantly strengthened by the non-refundable upfront payment of EUR 8 million paid by Lundbeck in the beginning of 2008.

The balance sheet as of 30 September 2008 contains the assets and liabilities acquired within the business combination of the PAION UK group. Compared to 31 December 2007, the balance sheet total increased by EUR 14.5 million to EUR 60.0 million which was primarily due to the capitalization of the development projects (EUR 18.6 million) within the first-time consolidation of the PAION UK group and to the non-refundable upfront payment by Lundbeck of EUR 8 million.

As of 30 June 2008, the equity ratio fell to 61.4 % compared to 78.3 % on 31 December 2007. Accounting for the subordinated loan and the release of the deferred upfront payment of Lundbeck as economic equity would increase the equity ratio by 23 percentage points to 84.4 %.

In total, PAION employed 35 employees as of 30 September 2008, of which 9 are from the PAION UK group. In comparison to this, the headcount as of 31 December 2007 amounted to 53 employees (solely the German PAION group).

Pipeline update:

Through the acquisition of the PAION UK-group, PAION was able to significantly broaden its portfolio which now comprises six product candidates in clinical development. The pipeline includes CeNeS' morphine-6-glucuronide (M6G), CNS 5161 and CNS 7056 programs. Together with Flovagatran, which was purchased by PAION in April 2008, these substances add to PAION's core development portfolio which previously consisted of Desmoteplase and Solulin.

In July 2008, PAION started a clinical Phase I study with **CNS 7056**, a new short-acting sedative and anesthetic for intravenous administration. Among other indications, such compounds are used in endoscopic procedures such as colonoscopies. In pre-clinical studies, a fast on/fast off action was shown with respect to sedation. Therefore, PAION believes that the substance has a high potential for controllable sedation, especially in the field of outpatient procedures. PAION expects that the current study will yield proof-of-concept for the target profile. To achieve this, the study includes the comparatively large number of up to 91 healthy volunteers. A comparison group with midazolam is included. Midazolam is the current therapeutic standard for procedural sedation in minor but painful procedures, e.g. endoscopies. The volunteers have been divided in cohorts receiving ascending doses. At the end of September, PAION announced that the study has progressed to dose levels that induced pronounced sedation. So far, no safety concerns have been raised by the Drug Safety Monitoring Board. In addition, the first group including a comparison with midazolam has been completed. In Japan, CNS 7056 is partnered with Ono Pharmaceuticals.

For the anticoagulant **Solulin**, proof-of-concept has already been obtained within the scope of a Phase I study with healthy volunteers. The study focused on safety, tolerability, pharmacokinetics, and as far as can be concluded from laboratory results, also on the pharmacological effects following single and multiple dosing of the substance. The study revealed that in blood samples taken from the study participants, Solulin was able to exert its anticoagulant effect with only a very low impact on hemostasis. Following the completion of the Phase I study, PAION has now initiated the partnering process for the further development of Solulin.

CNS 5161 is an NMDA receptor antagonist 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. Currently, an open-label dose escalation clinical Phase IIa study is being conducted which will enroll up to 36 cancer patients. The study primarily focuses on assessing multiple-dose safety of the compound. In addition, efficacy signs will be monitored. Results from this study are expected to be

available in the fourth quarter of 2008. Based on the data available at that time, PAION will then decide on the further development of CNS 5161.

In April 2008 PAION purchased all rights to the anticoagulant **Flovagatran** for a one-off payment amounting to EUR 0.3 million plus a further milestone payment which will only be due in the event of receiving market authorization, out-licensing or re-sale. This substance is characterized 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's fast onset but longer lasting effect. Thus, 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, although in other indications. Therefore, PAION plans to conduct additional preclinical studies in preparation for clinical assessment in this new target indication.

Morphine-6-glucuronide (**M6G**) is the most advanced project in the PAION UK portfolio. In clinical Phase II and Phase III studies this morphine metabolite demonstrated an analgesic effect comparable to morphine, the "gold standard" for severe, post-operative pain, while the common side effects of morphine administration such as nausea and vomiting were markedly reduced. In total, more than 1,000 patients have been treated with M6G. However, in the last Phase III study, M6G narrowly failed to demonstrate statistical significance with respect to the reduction of nausea (p -value of 0.052 against a target of <0.050). Under the assumption that the positioning and partnering potential of M6G for post-operative pain can be optimized, PAION has started a more in-depth analysis of available clinical data. A combined data analysis based on 769 patients from two Phase II studies and two Phase III studies has now been completed. The results confirm the analgesic effect of M6G and also reveal significant reductions in both vomiting and nausea. In parallel, modelling analyses were conducted to simulate dose-response relationships and pharmacodynamic effects. The results support the product profile of M6G, both in terms of analgesic properties and side-effect profile, and in addition reproduce the previously observed longer duration of action of M6G compared to morphine. Based on this model, PAION believes that even at increased doses, M6G will be better tolerated than equi-analgesic doses of morphine. In summary, these new analyses support PAION's view that M6G has a wider therapeutic margin than morphine, with lower incidence of post-operative nausea and vomiting at equi-analgesic levels. PAION believes that the findings will facilitate a data-driven design of a future Phase III program and will thus increase the probability of success. Based on these results, PAION will now re-start the partnering process which was originally initiated by CeNeS.

A thorough analysis was also the basis to secure the future development of **Desmoteplase** after the Phase III study DIAS-2 missed its endpoint back in 2007. The substance is now exclusively outlicensed to H. Lundbeck A/S of Denmark which anticipates to start a new Phase III study towards the end of 2008. The licensing contract was signed in late 2007 and PAION received an upfront payment of EUR 8 million when the contract came into effect in early 2008. In the future, PAION will be eligible for up to EUR 63 million of milestone payments as well as significant royalties following the successful completion of the development. In addition, PAION was able to secure options to co-promote Desmoteplase in Germany, Austria and Switzerland, together with Lundbeck. Desmoteplase is targeted towards the treatment of acute ischemic stroke, where its role consists of dissolving blood clots which block

brain arteries. Results from earlier Phase II studies suggested that the treatment window may be widened from currently three to up to nine hours after the first stroke symptoms.

Outlook:

In the upcoming months, PAION expects to achieve further progress in several clinical programs. The acquisition of CeNeS Pharmaceuticals plc (now PAION Holdings UK Limited) marks the expansion of PAION's pipeline beyond its former focus on thrombotic diseases towards drugs for the treatment of central nervous system (CNS) disorders. As a result of the out-licensing of global rights for Desmoteplase to Lundbeck within the scope of an expanded contract, PAION still retains a financially strong partner for conducting and financing the future development and marketing of Desmoteplase.

Once value-generating steps such as proof of concept have been achieved as a result of Phase I or Phase II studies, PAION intends to consistently pursue out-licensing for their other projects, too. The cash and cash equivalents amounting to EUR 39 million provide PAION with the necessary flexibility to achieve such value-generating steps while securing a sufficient cash-reach until the end of 2010. This does not account for future upfront and milestone payments which would expand the cash reach but may also be used fully or in part for financing additional development activities.

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About PAION

PAION is a biopharmaceutical company headquartered in Aachen, Germany. Since the acquisition of CeNeS Pharmaceuticals, which was completed in June 2008, the company has a second site in Cambridge, UK. The company is specializing in developing and commercializing innovative drugs for the hospital-based treatment of central nervous system (CNS) disorders and thrombotic/cardiovascular diseases, indications for which there is a substantial unmet medical need. PAION intends to further expand its portfolio of drugs by exploiting its core expertise in identifying high-potential compounds, licensing or otherwise acquiring them and advancing 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 phase, PAION seeks to collaborate with experienced partners.

Key financial figures (IFRS)

	Q3 2008 (unaudited)	Q3 2007 (unaudited)	Q1-Q3 2008 (unaudited)	Q1-Q3 2007 (unaudited)
(all figures in EURk unless otherwise noted)				
Revenues	483	2,145	2,697	4,430
Research and development expenses	-1,670	2,865	-6,064	-6,767
General and administrative expenses	-1,407	-765	-6,161	-3,217
Selling and marketing expenses	-18	-21	-84	-487
Net result for the period	-2,284	4,240	-9,320	-6,692
Earnings per share in EUR for the period (basic)	-0.07	0.25	-0.49	-0.40
Earnings per share in EUR for the period (diluted)	-0.07	0.25	-0.49	-0.40
			Q1-Q3 2008 (unaudited)	Q1-Q3 2007 (unaudited)
Net cash from operating activities			-2,144	-10,638
Net cash from investing activities			-467	-155
Net cash from financing activities			-1,471	-477
Average number of group employees			50	82
			09-30-2008 (unaudited)	12-31-2007 (audited)
Intangible assets			18,454	462
Cash and cash equivalents			38,820	42,901
Equity			36,866	35,664
Non-current liabilities			18,694	6,746
Balance sheet total			60,033	45,542
Equity ratio			61.4%	78.3%

The full report on the third quarter and the first nine months 2008 can be obtained from our corporate website at: www.paion.de/reports

Earnings call and webcast

On Wednesday, 5 November 2008 at 2 p.m. CET (1 p.m. GMT, 8 a.m. EST) the Management Board of PAION will host a public conference call (conducted in English) to present the financial results of the first nine months 2008 and provide further details on the company's latest developments. Participants from Germany may dial +49-69-25499351, from the UK +44-20-30432461 and from the US +1-866-8958561 (other countries: please choose from D/UK/US numbers). By dialing the number you will directly be transferred to the conference call. No participant passcode is necessary. To allow for smooth processing we suggest that you dial in 10 minutes before the beginning of the call. The conference call will be supplemented by a webcast presentation which can be accessed during the call under the following link: <http://www.anywhereconference.com>. In the field "Web Login" please enter 107218161 and in the field "Pin Code" 256799. After entering your name in the specified field please click on "Go". The dial-in details for the conference call and the replay as well as the webcast link will also be published on our website <http://www.paion.de/investors>.

Contact

Dr. Peer Nils Schröder
Director Corporate Communications & Investor Relations
PAION AG
Martinstrasse 10-12
52062 Aachen - Germany
Phone +49 241 4453-152
E-mail pn.schroeder@paion.com
www.paion.com

or

Teathers
Nomad and broker (AIM)
Shaun Dobson/Claes Spång
Phone +44 20 7426 9000