

PAION Q1#2008

Consolidated Financial Interim Report for the First Quarter of 2008

Contents

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PAION AG

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(Figures in EUR k, unless noted otherwise)	Q1 2008 (unaudited)	Q1 2007 (unaudited)
Revenues	1,651	1,294
Research and development expenses	-1,637	-3,352
General and administrative expenses	-1,035	-1,013
Selling and marketing expenses	-15	-208
Net loss for the period	-1,178	-4,166
Earnings per share (in EUR), basic	-0.07	-0.25
Earnings per share (in EUR), diluted	-0.07	-0.25

	Q1 2008 (unaudited)	Q1 2007 (unaudited)
Cash flows from operating activities	5,545	-2,333
Cash flows from investing activities	289	-100
Cash flows from financing activities	-158	-158
Average number of group employees (no.)	51	84

	31 Mar. 2008 (unaudited)	31 Dec. 2007 (audited)
Intangible assets	119	462
Cash and cash equivalents	48,578	42,901
Equity	34,572	35,664
Non-current liabilities	12,916	6,746
Balance sheet total	51,626	45,542
Equity ratio	67.0%	78.3%

Interim Group Management Report for the Three-Month Period to 31 March 2008

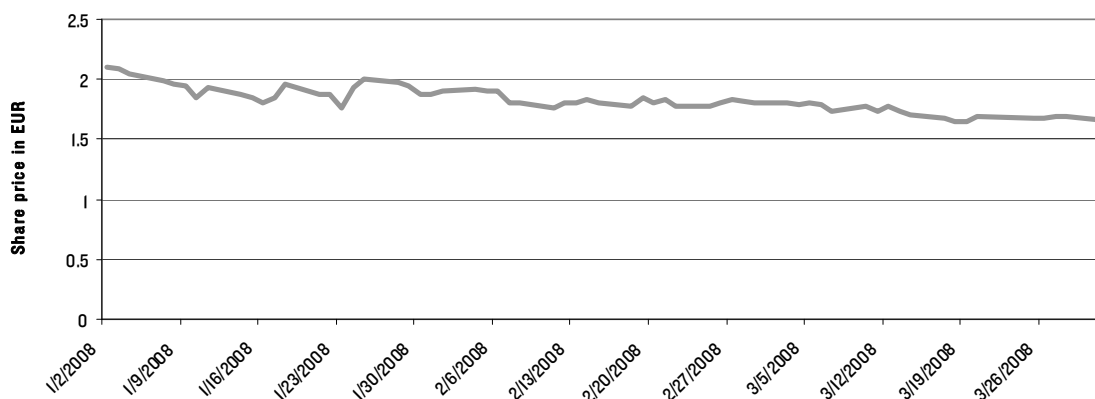
Overview

In the first quarter of 2008, revenues increased year on year to EUR 1,651k (prior year: EUR 1,294k). Because of lower cost of revenues and lower research and development expenses, the loss for the period in the first three months of 2008 of EUR 1,178k was EUR 2,988k lower than in the corresponding prior-year period (EUR 4,166k). Cash and cash equivalents increased by EUR 5,676k since 31 December 2007 to EUR 48,578k at the end of the first quarter of 2008. This was primarily due to the non-refundable upfront payment of EUR 8m under the license agreement signed on 21 December 2007 between PAION and Lundbeck for the issue of exclusive global rights to develop and market Desmoteplase. Thus the liquidity situation remains solid.

Share Performance

On 29 January 2008, PAION announced that the extended license agreement concluded with H. Lundbeck A/S at the end of December 2007 had come into effect without restrictions. Although this triggered an upfront payment of EUR 8m, this information, which was extremely positive for PAION, was not reflected in the share performance as we had expected. The market environment for technology stocks was weak overall, and the PAION stock failed to recover in the first quarter of 2008, closing at EUR 1.66 (Xetra) on 31 March 2008, the last trading day of the quarter. The average daily trading volume (Xetra and Frankfurt floor) in the first three months of 2008 was 36,386 shares.

Development of the PAION Share Price in the Three-Month Period to 31 March 2008



Overview of Research and Development Activities

Until the end of the first quarter, PAION's development portfolio covered the three substances Desmoteplase, Enecadin and Solulin. On 10 April 2008, PAION announced the discontinuation of the development of Enecadin, at the same time as announcing its intention to take over CeNeS Pharmaceuticals plc.

Desmoteplase is an intravenous therapeutic that may primarily serve for causal treatment of acute ischemic stroke. Desmoteplase belongs to the so-called plasminogen activators, a group of blood clot-dissolving substances. Between the spring of 2005 and February 2007, PAION and its former cooperation partner, Forest, conducted a Phase III clinical trial with Desmoteplase on a total of 186 patients. The first results of the trial were published at the end of May 2007. Neither dose investigated showed a statistically significant difference in clinical improvement compared to the placebo group, which showed an unusually high response rate of 46.0%. The primary efficacy endpoint of the trial was thus not achieved. However, Desmoteplase met the safety profile expectations.

In June 2007, PAION and its cooperation partners began analyzing the results of the trial. Their findings were published in October 2007. According to these findings, in contrast to

previous Phase II clinical trials, more than half of the DIAS-2 patients did not have an occlusion of major cerebral arteries at the start of treatment. This is the main reason for the high response rate in the placebo group. In patient subgroups in which visible occlusion could be detected, a lower response rate was found in the placebo group and a more positive effect registered in those patients who received Desmoteplase than those who received the placebo. Due to the lower number of patients in the subgroup, this positive effect was not statistically significant. However, the combined evaluation of the data from the Phase II and Phase III clinical trials (DIAS/DEDAS/DIAS-2) showed Desmoteplase to have a statistically significant effect when patients without visible occlusion in major cerebral arteries were excluded. Furthermore, the analysis indicated that patients with no visible artery occlusion but with a large penumbra may also benefit from treatment with Desmoteplase.

These results provide a solid scientific rationale for the further development of Desmoteplase, which is now ensured based on the continuation of the cooperation with Lundbeck. On 29 January 2008, PAION announced that the extended license agreement had come into effect without restrictions. Lundbeck announced its intention to begin a second Phase III clinical trial in the second half of 2008.

Enecadin is a neuroprotectant which may increase the survival time of damaged nerve cells and thus treat neuronal damage during acute ischemic stroke. PAION conducted a Phase IIa clinical trial called TEST (Tolerability of Enecadin in acute ischemic Stroke Trial), which began in the first quarter of 2006. TEST was designed as a multicentric, double-blind, randomised, placebo-controlled, dose-finding study. Its aim was to examine the safety and tolerability of the substance as well as obtain first indications of its efficacy in patients with acute ischemic stroke in a timeframe of up to nine hours after the onset of symptoms. Patient enrolment in the first dose stage of this trial was completed in the second quarter of 2007. The subsequent safety review of the trial held by the independent Data Monitoring Committee (DMC) did not give rise to any reservations regarding the safety of the drug. Since Enecadin was originally intended to be used in combination with Desmoteplase, PAION opted mid-2007 to discontinue recruitment for the TEST trial until a decision had been made regarding the strategic realignment of the development pipeline. In view of the planned takeover of CeNeS Pharmaceuticals plc and all of the scientific data on neuroprotectants which have called into question the viability of this substance class, PAION announced on 10 April its decision to discontinue the development of Enecadin and to return the rights to the compound to the Japanese licensor Nippon Shinyaku Co., Ltd.

Solulin is an improved variant of the human protein thrombomodulin, an important endogenous regulating factor in blood coagulation. Thrombomodulin downregulates the formation of thrombin, which, when produced in excess, can lead to blood clots. Unlike thrombomodulin, which is an integral protein of vascular cell membranes, Solulin can reach the potential site of action through the bloodstream. It has been shown using animal models that Solulin effectively inhibits the formation of venous and arterial thromboses.

In mid-2007, PAION initiated a Phase I clinical trial with Solulin. It is being conducted as a single-centre, randomised, single-blind, placebo-controlled Phase I clinical trial. This first study with healthy volunteers focused on safety, tolerability, pharmacokinetics and, as far as deducible from laboratory results, the pharmacological effects of Solulin. As the treatment of thrombotic diseases interferes with the blood coagulation cascade it is vital that the risk of bleeding associated with such procedures is minimised. Consequently, in addition to general safety parameters, it was also investigated as to whether Solulin in the tested doses has a negative impact on the blood coagulation system. The first part of this trial, the individual application of increasing doses to verify tolerability of the substance, has already been completed. Solulin proved to be safe and was tolerated well. In the selected dose range, Solulin inhibited in a dose-dependent manner the formation of thrombin by up to 98 percent. Even the lowest dose level had an effect. In line with the results of preclinical trials, no changes in blood coagulation parameters were observed that would indicate an increased bleeding propensity. Another finding was a long retention time in the blood. This may allow for longer treatment intervals in a future therapeutic application and would be regarded helpful by patients as well as by the physician in charge.

Following completion of the single-dose tests, multiple-dose schedules were tested on healthy volunteers. The results are expected in the first half of 2008.

Net Assets, Financial Position, and Results of Operations

Results of Operations

The loss for the first quarter of 2008 improved by EUR 2,988k year on year to EUR 1,178k (prior-year period: EUR 4,166k) on the back of lower cost of revenues and lower research and development expenses in the first quarter of 2008.

	Q1 2008 EUR k	Q1 2007 EUR k
Revenues	1,651	1,294
Cost of revenues	-453	-1,248
Gross profit	1,198	46
Research and development expenses	-1,637	-3,352
General and administrative expenses	-1,035	-1,013
Selling expenses	-15	-208
Other income (expenses)	-21	20
Operating expenses	-2,708	-4,553
Operating result	-1,510	-4,507
Financial result	332	341
Income taxes	0	0
Result for the period	-1,178	-4,166

Revenues of EUR 1,651k in the first three months of 2008 include the refund of development expenses by Lundbeck (EUR 1,278k), the systematic release of deferred income in connection with the license agreement concluded with Lundbeck (EUR 363k) and other revenues. As part of the outlicensing agreement between PAION and Lundbeck, Lundbeck reimbursed substantial former production development costs and made a non-refundable upfront payment of EUR 8m, which is disclosed as a deferred income item and is being released over the anticipated development period for Desmoteplase.

The **cost of revenues** of EUR 453k incurred in the first quarter of 2008 related to the development expenses incurred in this period, which were refunded by Lundbeck. In the prior year, this item also related exclusively to development expenses reimbursed by Forest and Lundbeck.

Research and development expenses of EUR 1,637k in the first three months of 2008 dropped substantially by EUR 1,715k compared with the corresponding prior-year period. The decrease is primarily attributable to lower development expenses in connection with production of the substances Desmoteplase and Enecadin.

General and administrative expenses remained at the prior-year period level in the first quarter of 2008, amounting to EUR 1,035k (prior-year period: EUR 1,013k).

The **financial result** for the first three months of 2008 decreased only slightly year on year to EUR 332k. Despite the reduction in cash and cash equivalents compared to the prior-year period, the finance income generated remained at almost the same level thanks to higher money market interest rates.

Net Assets and Financial Position

At EUR 51,626k, the balance sheet total as of 31 March 2008 was up EUR 6,084k from 31 December 2007, chiefly due to the upfront payment by Lundbeck of EUR 8m under the outlicensing agreement on the exclusive right to develop and market Desmoteplase. As of 31 March 2008, the equity ratio fell to 67.0% from 78.3% on 31 December 2007. Accounting for the subordinated loan as economic equity increases the equity ratio by 12.9 percentage points to 79.9%.

	31 Mar. 2008	31 Dec. 2007	Change
	EUR k	EUR k	EUR k
Non-current assets	992	1,365	-373
Current assets	50,634	44,177	6,457
Total assets	51,626	45,542	6,084
Equity	34,572	35,664	-1,092
Non-current liabilities	12,916	6,746	6,170
Current liabilities	4,138	3,132	1,006
Total equity and liabilities	51,626	45,542	6,084

The decrease in **non-current assets** is principally due to the disposal of license rights to develop Desmoteplase in connection with the license agreement concluded with Lundbeck on the exclusive right to develop and market Desmoteplase.

The EUR 6,457k increase in **current assets** is mainly attributable to the increase in cash and cash equivalents (EUR 5,676k) and the increase in prepaid expenses and other assets (EUR 853k). The rise in prepaid expenses and other assets relates in particular to prepayments of consulting fees of EUR 699k in connection with the planned company acquisition. In this connection, please refer to our comments under “Significant Events After the Balance Sheet Date” and “Outlook”. The change in cash and cash equivalents stems from the following areas:

	Q1 2008	Q1 2007
	EUR k	EUR k
Cash flows from operating activities	5,545	-2,333
Cash flows from investing activities	289	-100
Cash flows from financing activities	-158	-158
Change in cash and cash equivalents	5,676	-2,591

The positive cash flows from operating activities of EUR 5,545k were mainly due to the non-refundable upfront payment of EUR 8m under the license agreement between PAION and Lundbeck signed on 21 December 2007 for granting Lundbeck global exclusive rights to develop and market Desmoteplase.

The negative cash flows from financing activities in the first three months of 2008 and the prior-year period resulted from interest payments for the subordinated loan raised in April 2006.

The increase of EUR 7,176k in **non-current and current liabilities** is attributable to the recognition of the non-refundable upfront payment of EUR 8m as deferred income in connection with the license agreement concluded with Lundbeck.

Personnel Development

The number of employees was reduced slightly in the first quarter of 2008. On average, PAION employed 51 employees in the first three months of 2008 (fiscal year 2007: 75 employees). Of these 51 employees, 35 worked in research and development and 16 in administration and sales.

The headcount will be reduced by approximately 20 employees during the rest of 2008. Please see our comments under “Outlook”.

Risks and Opportunities

Material risks and opportunities relating to future development are presented in detail in the group management report for fiscal year 2007 and have not changed significantly in the first quarter of 2008.

Significant Events Occurring After the Balance Sheet Date

On 10 April 2008, PAION AG announced its intention to takeover CeNeS Pharmaceuticals plc, which is based in Cambridge, UK. CeNeS Pharmaceuticals plc is a bio-pharmaceutical company listed on the Alternative Investment Market (AIM) of the London Stock Exchange. It specialises in drug development for diseases of the central nervous system (CNS). At the same time, PAION announced that it is discontinuing the clinical development of Enecadin and reducing its workforce by approximately 20 employees. The planned takeover is to be implemented through a “Scheme of Arrangement” (a court-approved arrangement provided by the United Kingdom Companies Act 2006) and is unanimously recommended by CeNeS’ directors.

Under the takeover procedure, the CeNeS shareholders are to be offered around 7.85 million new PAION shares, which is approximately 32% of PAION’s issued share capital after the increase from the takeover. PAION AG’s management board resolved, with the consent of the supervisory board, to increase the Company’s capital in return for a contribution in kind, based on the authorization by the shareholder meeting on 10 May 2006. Subscription rights are precluded. The capital increase will not be made until the takeover procedure is complete and PAION’s acquisition of CeNeS’s entire share capital is secure.

All of PAION's shares, including the new shares, will be listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard segment) and are to be admitted for trade to the Alternative Investment Market (AIM) of the London Stock Exchange.

PAION and CeNeS have agreed that, on completion of the acquisition, Gavin Kilpatrick (currently Chief Scientific Officer of CeNeS) will be appointed to the Management Board of PAION. It is also intended that, following completion of the acquisition, Alan Goodman (current chairman of CeNeS) will become a member of the Supervisory Board of PAION.

In addition to further conditions, the takeover procedure requires the approval of CeNeS' shareholders and sanction from the competent court. PAION expects the takeover to be completed by the end of June 2008.

Furthermore, on 23 April 2008, PAION announced the acquisition of the substance Flovagatran for EUR 0.3m. Flovagatran is an anticoagulant that has already been tested in two small-scale Phase IIa clinical trials for use in dialysis and coronary balloon dilatation.

Outlook

The aim of the planned takeover of CeNeS Pharmaceuticals plc is to establish a new international biopharmaceutical company with the vision of developing, establishing partnerships for, and potentially marketing innovative substances for the clinical treatment of thrombotic and CNS diseases in hospitals.

The expanded group will have two projects in Phase III (Desmoteplase for acute ischemic stroke, and M6G for post-operative pain), two projects in Phase II (CNS 5161 for neuropathic and cancer-related pain, Flovagatran for thrombotic diseases), and one project in Phase I (Solulin for stroke and cardiovascular disorders). Another drug (CNS 7056, a short-acting sedative) will enter Phase I in the near future.

The enlarged group will support Lundbeck in obtaining regulatory approval of Desmoteplase and marketing the drug as an innovative therapeutic for the causal treatment of acute ischemic stroke. In addition, the enlarged group will seek to outlicense M6G on economically attractive terms. Similarly, outlicensing of Solulin is envisaged after completion of Phase I clinical trials, in which the enlarged group expects to demonstrate this drug candidate's mechanism of action in humans, and having reached proof-of-concept. A decision will be made regarding the further clinical development of CNS 5161 on the basis of the results of the currently ongoing Phase II clinical trial. As a next step for Flovagatran, it is intended to carry out preclinical trials, which will form the basis for the formulation of the further development strategy. In preclinical trials, CNS 7056, an innovative sedative, has shown a superior onset to action and clearance profile than other sedatives currently on the market. The expanded Group plans to conduct a Phase I clinical trial with CNS 7056 in 2008.

At the same time as the intended takeover, PAION has also decided to reduce the workforce by approx. 20 employees. The total reduction in headcount for the enlarged group is expected to be approximately 24 employees over the course of 2008. This decision reflects management's expectation that the acquisition will allow the enlarged group to benefit from CeNeS' technical expertise as well as the fact that the drug pipeline of the enlarged group will require a significantly less complex organisational structure than the individual companies had historically. Management believes that the new structure and broadened pipeline will place the

expanded Group in a position to achieve significant pre-clinical, clinical and commercial milestones and to have sufficient funding until 2010.

As of 31 March 2008, PAION and CeNeS collectively had cash and cash equivalents of EUR 51m.

Aachen, 28 April 2008

PAION AG
The Management Board

Consolidated Balance Sheet

ASSETS	31 March 2008 EUR	31 Dec, 2007 EUR
Non-current assets		
Intangible assets	118,824.82	462,349.84
Equipment	873,250.54	902,786.33
	992,075.36	1,365,136.17
Current assets		
Trade receivables	704,472.23	776,806.33
Prepaid expenses and other assets	1,352,150.05	498,934.20
Cash and cash equivalents	48,577,689.49	42,901,123.18
	50,634,311.77	44,176,863.71
Total assets	51,626,387.13	45,541,999.88

EQUITY AND LIABILITIES	31 March 2008 EUR	31 Dec, 2007 EUR
Equity		
Share capital	16,755,552.00	16,755,552.00
Capital reserve	85,823,015.23	85,737,273.03
Loss carryforward	-66,828,608.63	-56,316,554.35
Loss for the period	-1,177,829.10	-10,512,054.28
	34,572,129.50	35,664,216.40
Non-current liabilities		
Financial liabilities	6,669,917.77	6,657,137.24
Finance lease liabilities	43,439.00	61,761.00
Deferred income	6,202,831.17	27,121.27
	12,916,187.94	6,746,019.51
Current liabilities		
Trade payables	1,969,369.09	2,294,817.61
Provisions	289,051.58	421,417.51
Current portion of finance lease liabilities	72,247.00	71,559.00
Other current liabilities	328,423.38	319,536.65
Current portion of deferred income	1,478,978.64	24,433.20
	4,138,069.69	3,131,763.97
Total equity and liabilities	51,626,387.13	45,541,999.88

Consolidated Income Statement

EUR	1 January – 31 March 2008	1 January – 31 March 2007
Revenues	1,651,216.28	1,294,195.33
Cost of revenues	-452,626.55	-1,248,526.95
Gross profit	1,198,589.73	45,668.38
Research and development expenses	-1,637,296.69	-3,351,609.15
General and administrative expenses	-1,034,840.51	-1,012,987.56
Selling and marketing expenses	-15,794.29	-207,760.80
Other income (expenses), net	-20,821.28	19,961.78
Operating expenses	-2,708,752.77	-4,552,395.73
Operating result	-1,510,163.04	-4,506,727.35
Financial income	484,405.35	496,853.12
Financial expenses	-152,071.41	-155,703.10
Financial result	332,333.94	341,150.02
Loss for the period before taxes	-1,177,829.10	-4,165,577.33
Income taxes	0.00	0.00
Loss for the period	-1,177,829.10	-4,165,577.33
Earnings per share (basic)	-0.07	-0.25
Earnings per share (diluted)	-0.07	-0.25

Consolidated Cash Flow Statement

EUR	1 January – 31 March 2008	1 January – 31 March 2007
Cash flows from operating activities:		
Net result for the period	-1,177,829.10	-4,165,577.33
Reconciliation of net profit (loss) for the period to cash flows from operating activities:		
Amortization/depreciation	82,423.37	102,050.18
Loss/Profits from the disposal of non-current assets	1,346.44	3,407.50
Interest expenses and interest income	-332,333.94	-341,150.02
Release of investment grants	-6,108.30	-6,108.30
Expenses from stock option plans	85,742.20	235,630.91
Change in assets and liabilities which are not attributable to investing or financing activities:		
Long-term refund claims resulting from the assumption of development costs	0.00	-1,042,145.93
Trade receivables	72,334.10	1,438,509.97
Prepaid expenses and other assets	-804,830.29	107,194.93
Trade payables	-325,448.52	-505,369.48
Provisions	-132,365.93	1,338,012.71
Other current liabilities	9,574.73	118,423.98
Deferred income	7,636,375.64	0.00
	5,108,880.40	-2,717,120.88
Interest received	436,019.79	384,311.64
Net cash used in operating activities	5,544,900.19	-2,332,809.24
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-31,250.05	-100,313.04
Cash received from the sale of intangible assets and equipment	320,529.05	0.00
Net cash used in investing activities	289,279.00	-100,313.04
Cash flows from financing activities:		
Interest paid	-139,290.88	-136,925.75
Payment of finance lease liabilities	-18,322.00	-20,884.00
Net cash used in financing activities	-157,612.88	-157,809.75
Change in cash and cash equivalents	5,676,566.31	-2,590,932.03
Cash and cash equivalents at beginning of the period	42,901,123.18	57,188,779.78
Cash and cash equivalents at end of the period	48,577,689.49	54,597,847.75
Composition of cash and cash equivalents at the end of the period:		
Cash	48,577,689.49	39,478,934.89
Marketable securities	0.00	15,118,912.86
	48,577,689.49	54,597,847.75

Consolidated Statement of Changes in Equity

	Share capital EUR	Capital reserve EUR	Loss carryforward EUR	Equity EUR
31 December 2006	16,755,552.00	85,032,116.76	-56,316,554.35	45,471,114.41
Issue of shares	0.00	0.00	0.00	0.00
Contribution to the capital reserve	0.00	0.00	0.00	0.00
Cost of raising capital	0.00	0.00	0.00	0.00
Additional contribution to the capital reserve				
due to the issue of options	0.00	235,630.91	0.00	235,630.91
Loss for the period	0.00	0.00	-4,165,577.33	-4,165,577.33
31 March 2007	16,755,552.00	85,267,747.67	-60,482,131.68	41,541,167.99
Issue of shares	0.00	0.00	0.00	0.00
Contribution to the capital reserve	0.00	0.00	0.00	0.00
Cost of raising capital	0.00	0.00	0.00	0.00
Additional contribution to the capital reserve				
due to the issue of options	0.00	469,525.36	0.00	469,525.36
Loss for the period	0.00	0.00	-6,346,476.95	-6,346,476.95
31 December 2007	16,755,552.00	85,737,273.03	-66,828,608.63	35,664,216.40
Issue of shares	0.00	0.00	0.00	0.00
Contribution to the capital reserve	0.00	0.00	0.00	0.00
Cost of raising capital	0.00	0.00	0.00	0.00
Additional contribution to the capital reserve				
due to the issue of options	0.00	85,742.20	0.00	85,742.20
Loss for the period	0.00	0.00	-1,177,829.10	-1,177,829.10
31 March 2008	16,755,552.00	85,823,015.23	-68,006,437.73	34,572,129.50

Selected Explanatory Notes to the Consolidated Interim Financial Statements as of 31 March 2008

General

The quarterly report of PAION AG includes interim consolidated financial statements and an interim group management report in accordance with the provisions of Secs. 37x (3) and 37w (2) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] in conjunction with Sec. 37y WpHG. 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 subsidiary PAION Deutschland GmbH, Aachen, Germany, which is fully consolidated.

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 31 March 2008 and applied by PAION, were adopted by the European Commission for application in the EU. The following standards adopted by the European Commission came into effect during the reporting period for the interim consolidated financial statements:

- IFRIC 11: In November 2006, the IFRIC published IFRIC 11, “**IFRS 2 – Group and Treasury Share Transactions**”. IFRIC 11 answers the question as to how IFRS 2, “**Share-Based Payment**”, applies to share-based payment arrangements involving an entity granting rights to its own equity instruments or equity instruments of another group entity. IFRIC 11 is effective for reporting periods beginning on or after 1 March 2007.

Application of these new interpretations may in some cases lead to additional disclosures in the next set of consolidated financial statements. Application of these standards and interpretations is not expected to have any effects on the Group’s net assets, financial position and results of operations.

The provisions of IAS 34, “**Interim Financial Reporting**”, have been applied. The interim financial statements as of 31 March 2008 should be read in conjunction with the consolidated financial statements as of 31 December 2007.

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 reportable business or geographical segments could be identified.

Consolidation Principles

The consolidation principles used in the interim consolidated financial statements as of 31 March 2008 were the same as those used in the consolidated financial statements as of 31 December 2007.

Accounting Policies

The accounting policies used in the interim consolidated financial statements as of 31 March 2008 were the same as those used in the consolidated financial statements as of 31 December 2007.

Licence Agreement Between PAION and Lundbeck

Pursuant to a new licence agreement concluded on 21 December 2007 between PAION and Lundbeck, Lundbeck has been granted the exclusive global rights for the development and marketing of Desmoteplase. The agreement was contingent on the successful completion of a patent review in progress at the time of conclusion. On 29 January 2008, Lundbeck announced that the patent review was completed and that the new licence agreement was in effect without condition as of that day.

Under the agreement, Lundbeck has agreed to make the following payments:

- Payment of a non-refundable amount of EUR 8m in advance, on the date the agreement takes effect
- Assumption of all future costs, especially for clinical development, production development, and approval

The payment of the non-refundable sum of EUR 8m was made on 31 January 2008. The non-refundable sum of EUR 8m in connection with the global outlicensing agreement is disclosed as a deferred income item and is being released over the anticipated development period for Desmoteplase.

Discontinuation of Enecadin

PAION decided to discontinue the clinical development of Enecadin, which is a neuroprotectant that was originally intended to be used in connection with Desmoteplase. PAION took this decision in light of scientific data that has called into question the viability of this substance class.

There are no significant effects on the net assets, financial position and results of operations expected in the second quarter of 2008 in connection with the discontinuation of Enecadin.

Related Parties

The relationships with related parties have not changed in comparison to those applied in the consolidated financial statements as of 31 December 2007.

Significant Events Occurring After the Balance Sheet Date

On 10 April 2008, PAION AG announced its intention to takeover CeNeS Pharmaceuticals plc, which is based in Cambridge, UK. CeNeS Pharmaceuticals plc is a bio-pharmaceutical company listed on the Alternative Investment Market (AIM) of the London Stock Exchange. It specialises in drug development for diseases of the central nervous system (CNS). At the same time, PAION announced that it is discontinuing the clinical development of Enecadin and reducing its workforce by approximately 20 employees. The planned takeover is to be implemented through a "Scheme of Arrangement" (a court-approved arrangement provided by the United Kingdom Companies Act 2006) and is unanimously recommended by CeNeS' directors.

Under the takeover procedure, the CeNeS shareholders are to be offered around 7.85 million new PAION shares, which is approximately 32% of PAION's issued share capital after the increase from the takeover. PAION AG's management board resolved, with the consent of the supervisory board, to increase the Company's capital in return for a contribution in kind, based on the authorization by the shareholder meeting on 10 May 2006. Subscription rights are precluded. The capital increase will not be made until the takeover procedure is complete and PAION's acquisition of CeNeS's entire share capital is secure.

All of PAION's shares, including the new shares, will be listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard segment) and are to be admitted for trade to the Alternative Investment Market (AIM) of the London Stock Exchange.

PAION and CeNeS have agreed that, on completion of the acquisition, Gavin Kilpatrick (currently Chief Scientific Officer of CeNeS) will be appointed to the Management Board of PAION. It is also intended that, following completion of the acquisition, Alan Goodman (current chairman of CeNeS) will become a member of the Supervisory Board of PAION.

In addition to further conditions, the takeover procedure requires the approval of CeNeS' shareholders and sanction from the competent court. PAION expects the takeover to be completed by the end of June 2008.

Furthermore, on 23 April 2008, PAION announced the acquisition of the substance Flovagatran for EUR 0.3m. Flovagatran is an anticoagulant that has already been tested in two small-scale Phase IIa clinical trials for use in dialysis and coronary balloon dilatation.

Aachen, 28 April 2008

PAION AG

The Management Board

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 March 31, 2008 which are components of the interim financial report pursuant to § (Article) 37x Abs. (paragraph) 3 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, 28 April 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(s) Gockel	(s) Schlöder
Wirtschaftsprüfer	Wirtschaftsprüfer
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