



Press Release, October 8, 2012

Diamyd Medical divests U.S. gene therapy company

Diamyd Medical AB has entered into an agreement for the sale of the U.S. subsidiary, Diamyd, Inc., involved in drug development primarily relating to the NTDDS platform with applications in pain and neuropathy among others. The buyer, Periphagen Holdings, Inc., is owned by members of the management of Diamyd, Inc. The agreement is subject to approval of an Extraordinary General Meeting of Diamyd Medical. By reason of the divestment, Diamyd Medical will postpone its Year End Report to October 31, 2012.

Under the agreement, in addition to the shares in Diamyd, Inc., Periphagen Holdings, Inc. assumes the intellectual property rights to the patented Nerve Targeting Drug Delivery System (NTDDS) technology, and all costs and revenues related to the business from September 1, 2012. The divestment will improve Diamyd Medical's operating profit/loss by approximately SEK 18 million during fiscal year 2012/13 compared to if the Company would have continued financing the development of the NTDDS platform.

During the fiscal year 2011/12, due to the transaction, impairment of intangible assets related to the NTDDS platform will have an adverse effect of SEK 17 million on operating profit/loss. The cash flow is not affected. Other immediate accounting effects and transaction costs attributable to the divestment are estimated to have an adverse effect on profit/loss during 2012/13 by approximately SEK 3 million. The impact on cash flow is minor.

The purchase price amounts to one dollar and shares in the acquiring company, providing Diamyd Medical a holding of 10 percent in Periphagen Holdings, Inc. In addition, Diamyd Medical may receive up to USD 10 million, primarily in milestone payments, as well as 10 percent of upfront payments and other payments Periphagen Holdings, Inc. may receive from future partners, and royalties on future sales of NTDDS based drugs.

"The divestment immediately and significantly reduces Diamyd Medical's costs, whilst we retain the right to share in future successes of the NTDDS platform. The development projects will receive full focus from their dedicated new owners, which makes it a great solution for both parties as well as for the NTDDS platform," says Peter Zerhouni, President and CEO of Diamyd Medical.

"We remain passionate about the NTDDS technology and have been involved since the research on nerve targeted gene delivery was initiated at the University of Pittsburgh in the 90's. It is a dream come true to increase our focus and run the business as our own," says Darren Wolfe, President of Diamyd, Inc. and Periphagen Holdings, Inc.

The transaction is a management buyout, where the purchasing corporation is owned by members of the management of Diamyd, Inc. The audit and consultancy firm Grant Thornton has prepared a fairness opinion regarding the transaction, and judge that, from a financial perspective, the terms are fair to the shareholders of Diamyd Medical. The agreement is subject to approval from Diamyd Medical's shareholders at an Extraordinary General Meeting to be held on October 30, 2012.

The board of directors has decided to postpone Diamyd Medical's Year End Report for the 2011/12 fiscal year, until the Extraordinary General Meeting has considered the transaction, as the meeting's decision will have an impact on the information in the Year End Report. The original date for the report was October 16, 2012. The new date for the Year End Report is October 31, 2012.

For more information, please contact:

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About Diamyd Medical

Diamyd Medical was founded in 1996 and is active in the field of pharmaceutical development. Diamyd Medical is headquartered in Stockholm, Sweden. The Company's development project within the area of diabetes consists of the protein GAD65 for the treatment and prevention of autoimmune diabetes. A Swedish researcher-initiated Phase II study is ongoing to evaluate whether GAD65 can prevent type 1 diabetes in children who are at high risk of developing the disease. The Company's development projects for the treatment of chronic pain and neuropathy uses the patented NTDDS (Nerve Targeting Drug Delivery System) platform to administer therapeutic agents directly to the nervous system. The NTDDS platform is being divested.

Diamyd Medical also has holdings in the companies Protein Sciences Corporation (USA) and Mercodia AB (Sweden).

Diamyd shares are listed on Nasdaq OMX (segment Small Cap) in Stockholm (ticker: DIAM B) and on OTCQX in the US (ticker: DMYDY) administered by the Pink OTC Markets and the Bank of New York Mellon (PAL). Further information is available on the Company's website: www.diamyd.com.

This information is disclosed in accordance with the Swedish Securities Markets Act, the Swedish Financial Instruments Trading Act, or the requirements stated in the listing agreements.

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