



PRESS RELEASE

For Immediate Release

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Synairgen plc Preliminary Results for the year ended 30 June 2006

Synairgen plc ('Synairgen' or the 'Company'), the drug discovery company focused on identifying and out-licensing new pharmaceutical products which address the underlying causes of asthma and chronic obstructive pulmonary disease ('COPD'), today announces its Preliminary Results for the year ended 30 June 2006.

Financial highlights

- Turnover for the year: £82k (2005: £202k)
- Research and development expenditure for the year: £1,069k (2005: £557k)
- Retained loss for the year: £1,042k (2005: loss of £610k)
- Cash at 30 June 2006 of £7.5 million (2005: £8.7 million)

Operational highlights

- Commencement of Phase I clinical trial in lead proprietary programme in inhaled interferon beta ('IFN β ')
- Second indication for IFN β in COPD identified
- Proteomics research programme commenced
- Collaboration extended with undisclosed North American biotechnology company (post period-end)
- In-licensing of interferon lambda intellectual property (post period-end)

Commenting on the results Simon Shaw, Chairman of Synairgen, said:
"The last year has seen Synairgen add significantly to its intellectual property portfolio. The opportunities we have created so far have significant potential value over the coming years and the progress of our focused research programmes is promising."

-Ends-

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CHAIRMAN'S STATEMENT

Overview

In a year in which we have seen the pharmaceutical industry continuing to boost its pipelines through selective licensing and acquisition of promising early stage programmes, Synairgen has continued to make strong progress in its field of respiratory drug discovery.

During the year we have made good progress. Our lead proprietary programme for inhaled interferon beta has progressed well into its Phase I clinical trial. We have signalled a second indication for our interferon programme in the treatment of COPD, the fourth leading cause of death worldwide. Post period-end, we have further strengthened our interferon programme by in-licensing related intellectual property regarding a related interferon from Imperial Innovations. We have established discussions with potentially interested partners for this important programme.

Our research into the failure of the lung's self defence mechanism ("barrier function") and the associated proteomics research has continued to yield promising opportunities which will be pursued in subsequent periods, some by Synairgen alone and others in collaboration with research partners. To this end, we are delighted to have extended our initial programme with one significant unnamed collaboration partner with whom we have been working for some two years and uncovered potentially significant avenues for further research.

Board

In April 2006 David Norwood resigned as a non-executive director in order to devote more time to IP Group plc and the Board appointed Dr Bruce Campbell as his replacement. On behalf of the Board I would like to thank David for his help and the enthusiastic support he has shown for Synairgen since its formation in late 2003. Bruce is non-executive Chairman of Proximagen Neuroscience plc and Chief Scientific Officer of IP Group plc. He has significant international experience in pharmaceutical drug development.

Outlook

The last year has seen Synairgen add significantly to its intellectual property portfolio. The opportunities we have created so far have significant potential value over the coming years and the progress of our focused research programmes is promising.

Simon Shaw

Chairman

MANAGING DIRECTOR'S REPORT

This has been a year of good progress for Synairgen in our mission to generate out-licensable drug discoveries in the fields of asthma and COPD. Synairgen's business model is to research these areas, add value to our discoveries by utilising our *in vitro* testing platform of human disease, or by conducting early stage clinical trials, and ultimately out-license them to pharmaceutical or biotechnology companies.

During the year we progressed our inhaled interferon beta ('IFN β ') programme into the clinic and produced preliminary data suggesting there is a place for inhaled IFN β for the treatment of COPD. We have continued to evaluate two candidate growth factors capable of improving the lung's "barrier function" in asthma and in December 2005 we commenced our proteomics programme.

After the year-end, in July 2006, we in-licensed intellectual property relating to interferon lambda ('IFN λ ') from Imperial Innovations, further enhancing our interferon programme. Following successful completion of the first phase of our joint discovery collaboration with the undisclosed North American biotechnology company, we have extended this programme.

Proprietary Programmes

Inhaled IFN β

- Asthma

Synairgen is developing inhaled IFN β as a therapy to prevent or treat exacerbations of asthma caused by the common cold, principally the rhinovirus ('RV').

RVs cause up to 80% of asthma exacerbations. Severe asthma exacerbations will often lead to unscheduled use of healthcare resources. In the United States, there are 1.9 million emergency department visits due to asthma per year and \$4.1 billion is spent every year on unplanned physician visits and hospitalisations. Current treatments depend on the use of steroids and β -agonist bronchodilators with actions on the symptoms of worsening asthma as opposed to the underlying causes. These treatments are inadequate, particularly in the severe asthmatic population and there is a large unmet and costly clinical need for an effective therapy.

Using human *in vitro* models, IFN β has been shown to return to normal the asthmatic epithelium's protective response against RVs, by significantly lowering the amount of virus replication and ensuing tissue damage, thereby helping to fight infection in the lungs. Synairgen is developing an inhaled formulation for use in asthma. Synairgen intends to progress this opportunity in the clinic towards a proof of concept Phase IIa clinical trial. We commenced a Phase I study in November designed to establish safety in allergic individuals without asthma and this study has now been extended to optimise aerosol delivery. Injectable IFN β is already a well-established multiple sclerosis therapy marketed by Biogen Idec, Schering AG and Serono/Pfizer.

- COPD

In our view, the common cold could potentially pose a greater risk to COPD patients than influenza, and is reported to be a major factor behind the worsening of COPD symptoms and resultant hospitalisations. At the American Thoracic Society meeting in May, we presented preliminary data showing that RV is 100 times more toxic to epithelial cells from smokers than non-smokers, which may help explain the occupancy of hospital beds by COPD patients during the common cold season. Our studies showed that COPD cells were able to eliminate RV when IFN β was applied to the cultures in vitro.

In August 2006 Prof. Johnston of Imperial College, and consultant to Synairgen, published a paper in Nature Medicine describing a deficiency of interferon lambda when cells from asthmatics were exposed to RV. Synairgen has licensed intellectual property relating to IFN λ from Imperial Innovations, adding to our IP coverage in this area.

Synairgen is seeking to out-license its IFN β programmes for both COPD and asthma any time up to or around completion of the Phase IIa proof of concept study and we have begun actively to engage with a number of potentially interested parties.

Barrier Function

The epithelial cellular barrier in the lungs of asthma sufferers has been likened to a chronic wound and is known to be 'leaky'. This failure in barrier function may allow allergens, pollutants and viruses to penetrate through the epithelium into the underlying tissue. Synairgen scientists have been testing various growth factors to see if they can restore this protective barrier function. Two lead compounds have been identified; one is manufactured as a medicinal product and the other is a proprietary product for Synairgen.

Proteomics

Proteomics is a technology being applied by Synairgen to identify individual protein differences between non-asthmatic and asthmatic cell populations. The proteomics programme commenced in December 2005 and although this is a new research programme, it has already identified several asthma-related candidate proteins. Over the next year Synairgen will identify and validate which of these individual proteins may constitute 'drugable', patentable targets for development and out-licensing.

Staff

In order to meet the needs of our proprietary and collaborative programmes we have increased our number of research and clinical staff from 10 to 16 during the year.

Post year-end

As announced in August 2006, we have in-licensed intellectual property relating to interferon lambda. In addition, the drug discovery collaboration with our unidentified biotechnology partner has been extended to enhance the power of the first round of experiments. We continue to develop new opportunities through our links to the research capability of the Company's Founders and have identified and assisted the University of Southampton with some early research into new discoveries in our field. Some of these appear very promising at this early stage.

Financial Review

The financial information comprises the consolidated results of the Company and Synairgen Research Limited (together the 'Group'), prepared in accordance with UK Generally Accepted Accounting Principles ('GAAP').

Profit and loss account

Revenue for the year ended 30 June 2006 was £82k (year ended 30 June 2005: £202k). The reduction in revenue from the prior year follows the Group's decision to cease undertaking pure fee for service activity which does not offer intellectual property upside and concentrate its resources on proprietary projects. The operating loss for the year was £1,673k (2005: loss of £908k), in line with our expectations. Research and development expenditure increased from £557k to £1,069k as the Group commenced its Phase I clinical trial on the IFN β project and broadened its investment into the barrier function and proteomic programmes. The increase in other administrative costs from £418k to £671k reflects the full-year effect of both the additional senior management personnel recruited at the time of the IPO in October 2004 and the ongoing costs of being an AIM-quoted company. Interest receivable increased from £298k to £376k on account of the IPO funds raised. In July 2006, post year-end, the Group received a payment of £89k in full settlement of its research and development tax credit claim in respect of the year ended 30 June 2005. This amount and an amount of £166k in respect of the year ended 30 June 2006 have been recognised in this year's profit and loss account. The retained loss for the year was £1,042k (2005: loss of £610k) and the loss per share was 4.80p (2005: loss of 3.26p).

Balance sheet and cash flow

At 30 June 2006, net assets amounted to £7.8 million (30 June 2005: £8.8 million) including cash and deposit balances of £7.5 million (2005: £8.7 million).

The principal elements of the £1.2 million decrease (2005: £8.3 million increase) in cash and deposit balances were:

- operating cash outflow of £1,530k (2005: £840k outflow);
- capital expenditure of £52k (2005: £60k);
- interest received of £397k (2005: £196k) and
- share issues (net of expenses) £nil (2005: £8,980k)

Capital expenditure comprised investment of £35k in laboratory and IT equipment and £17k on patent and licence costs.

Adoption of International Financial Reporting Standards ('IFRS')

IFRS adoption becomes mandatory for AIM-quoted companies for periods beginning on or after 1 January 2007. The Company has reviewed as to when it should adopt IFRS and has decided to defer adoption until 1 July 2007 when accounting practice under certain standards has become clearer and custom and practice amongst smaller quoted companies in respect of the adoption of IFRS has emerged.

Outlook

Over the next six to twelve months, we look forward to updating the market as to our progress in our IFN β clinical programme as well as developments in respect of potential partners. We anticipate that our growth factor compound will be validated in vitro and prepared for pre-clinical development. We will also continue to liaise with potential out-licensing partners for all of our programmes.

Richard Marsden

Managing Director

**Consolidated Profit and Loss Account
for the year ended 30 June 2006**

	Year ended 30 June 2006 £000	Proforma Year ended 30 June 2005 £000
	Notes	
Turnover	82	202
Cost of sales	<u>(15)</u>	<u>(135)</u>
Gross profit	67	67
Administrative expenses		
Research and development expenditure	<u>(1,069)</u>	<u>(557)</u>
Other	<u>(671)</u>	<u>(418)</u>
Total	<u>(1,740)</u>	<u>(975)</u>
Operating loss	(1,673)	(908)
Bank interest receivable	<u>376</u>	<u>298</u>
Loss on ordinary activities before taxation	(1,297)	(610)
Tax on loss on ordinary activities	2 <u>255</u>	<u>-</u>
Loss on ordinary activities after taxation and retained loss for the year	(1,042)	(610)
Loss per ordinary share		
Basic and diluted loss per share (pence)	3 <u>(4.80)p</u>	<u>(3.26)p</u>

There are no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

All amounts relate to continuing activities.

**Consolidated Balance Sheet
as at 30 June 2006**

	30 June 2006 £000	30 June 2005 £000
Notes		
Fixed assets		
Intangible assets	36	21
Tangible assets	157	154
	<u>193</u>	<u>175</u>
Current assets		
Stocks	68	55
Debtors	423	325
Investments: short-term deposits	7,464	8,605
Cash at bank and in hand	33	78
	<u>7,988</u>	<u>9,063</u>
Creditors: amounts falling due within one year	<u>(334)</u>	<u>(398)</u>
Net current assets	<u>7,654</u>	<u>8,665</u>
Total assets less current liabilities	7,847	8,840
Creditors: amounts falling due within one year	(10)	-
Net assets	<u><u>7,837</u></u>	<u><u>8,840</u></u>
Capital and reserves		
Called up share capital	217	217
Share premium account	8,903	8,903
Merger reserve	483	483
Profit and loss account	(1,766)	(763)
Equity shareholders' funds	4 <u><u>7,837</u></u>	<u><u>8,840</u></u>

**Consolidated Cash Flow Statement
for the year ended 30 June 2006**

		Year ended 30 June 2006 £000	Proforma Year ended 30 June 2005 £000
Net cash outflow from operating activities	5	(1,530)	(840)
Returns on investments and servicing of finance			
Interest received		397	196
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(17)	(18)
Purchase of tangible fixed assets		(35)	(42)
Net cash outflow from capital expenditure		(52)	(60)
Net cash outflow before management of liquid resources and financing		(1,185)	(704)
Management of liquid resources			
Decrease/(Increase) in short-term deposits		1,141	(8,255)
Financing			
Repayment of capital element of finance leases and hire purchase contracts		(1)	-
Issues of ordinary share capital		-	77
Share premium received on share issues		-	9,923
Share issue costs		-	(1,020)
Cash (outflow)/inflow from financing		(1)	8,980
(Decrease)/Increase in cash		(45)	21

Notes

1. Basis of preparation

The financial information on the Group set out above does not constitute “statutory accounts” within the meaning of section 240 of the Companies Act 1985. The financial information for the year ended 30 June 2006 has been extracted from the Group’s audited consolidated statutory accounts, which will be delivered to the Registrar of Companies for England and Wales in due course. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The annual report will be posted to shareholders in October 2006 and will be laid before shareholders at the Annual General Meeting on 15 November 2006.

The accounts have been prepared in accordance with UK generally accepted accounting principles. Comparative figures are for the year ended 30 June 2005 on the basis set out in the following paragraph.

Synairgen plc was incorporated on 16 September 2004 and 2 ordinary shares of 1p each were issued. On 11 October 2004 Synairgen plc acquired the entire issued share capital of Synairgen Research Limited by issuing 13,999,998 ordinary shares of 1p each on the basis of issuing 100 shares for each ordinary share of 1p each held in Synairgen Research Limited. The directors have accounted for this group reconstruction using the merger accounting principles as set out in Financial Reporting Standard 6. Accordingly proforma financial information has been prepared to show the position as if Synairgen plc had been in existence and the parent of Synairgen Research Limited throughout the prior period. The proforma information has been compiled by taking the results of Synairgen Research Limited before the restructuring and adjusting for the capital structure of the new group.

2. Tax on loss on ordinary activities

The tax credit of £255,000 (2005: £nil) relates to research and development tax credits in respect of the years ended 30 June 2005 and 2006.

3. Loss per ordinary share

	Year ended 30 June 2006	Proforma Year ended 30 June 2005
Loss on ordinary activities after taxation (£000)	(1,042)	(610)
Weighted average number of ordinary shares in issue	21,692,308	18,730,993

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of Financial Reporting Standard 22. At 30 June 2006 there were 1,946,594 options outstanding (30 June 2005: 1,813,500 options outstanding). The comparative figures are proforma based on the number of shares that would have been in issue had the capital structure of the new parent company always been in place.

4. Reconciliation of movements in reserves and shareholders' funds

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Shareholders' funds £000
At 1 July 2004	113	-	510	(153)	470
Issue of ordinary shares	104	9,923	(27)	-	10,000
Share issue costs	-	(1,020)	-	-	(1,020)
Loss for the year	-	-	-	(610)	(610)
At 30 June 2005	217	8,903	483	(763)	8,840
Loss for the year	-	-	-	(1,042)	(1,042)
Reversal of UITF 17 charge	-	-	-	39	39
At 30 June 2006	217	8,903	483	(1,766)	7,837

5. Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 30 June 2006 £000	Year ended 30 June 2005 £000
Operating loss	(1,673)	(908)
Depreciation & amortisation	48	34
UITF 17 charge	39	-
Increase in stocks	(13)	(55)
Decrease/(Increase) in debtors	136	(146)
(Decrease)/Increase in creditors	(67)	235
Net cash outflow from operating activities	(1,530)	(840)

6. Reconciliation of net cash flow to movement in net funds

	Year ended 30 June 2006 £000	Year ended 30 June 2005 £000
(Decrease)/Increase in cash in year	(45)	21
(Decrease)/Increase in short-term deposits	(1,141)	8,255
Cash used to repay capital element of finance leases and hire purchase contracts	1	-
Change in net funds resulting from cash flows and movement in net funds	(1,185)	8,276
New finance leases and hire purchase contracts	(14)	-
Movement in net funds	(1,199)	8,276
Net funds at start of year	8,683	407
Net funds at end of year	7,484	8,683