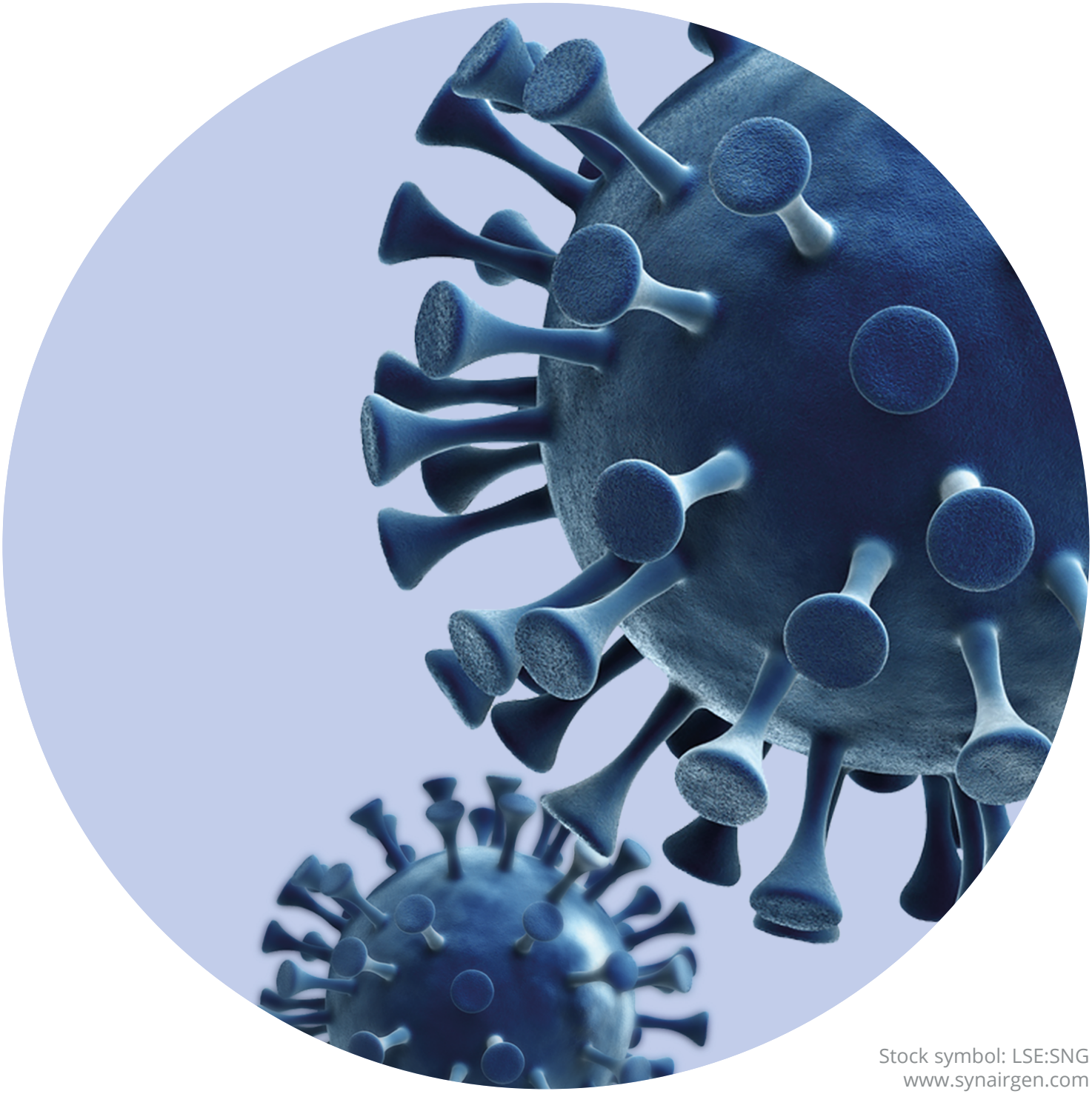
Annual Report
and Accounts
2019

a deeper
understanding
of respiratory
biology

synairgen plc



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www.synairgen.com

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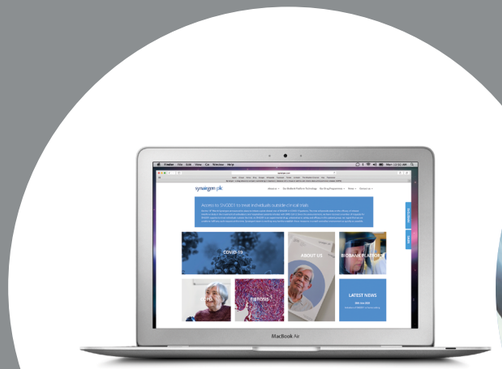


Highlights

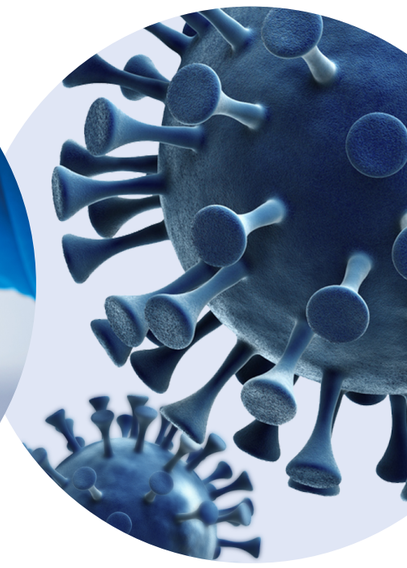
(including post period-end)

Operational highlights

- Synairgen has paused the SG015 trial of SNG001 (inhaled interferon-beta 1a) in COPD patients due to the prevalence of COVID-19 in the community, with 109 out of 120 patients recruited. The Company has received approval from the Medicines and Healthcare products Regulatory Agency (MHRA) to conduct an unplanned interim analysis on the grounds that data from the 109 COPD patients with confirmed viral infection generates useful safety, biomarker and potentially efficacy data to support ongoing trials of SNG001 in COVID-19 patients. The results of this interim analysis are expected this Summer.
- In March 2020, Synairgen announced it had received expedited approvals from the MHRA and Health Research Authority (HRA) to conduct a trial of SNG001 in COVID-19 patients (SG016).
- The SG016 study has progressed well, with 98 patients out of the target of 100 now dosed in the hospital setting. Results from this part of the study are expected in July 2020.
- Synairgen is extending the SG016 study to patients in the home environment with confirmed COVID-19, to initiate dosing with SNG001 (or placebo) earlier in the course of the illness and before severe lower respiratory tract symptoms develop. Dosing in the home environment is expected to commence in May 2020.

Financial highlights

- In March 2020, Synairgen raised £14.0 million in a heavily oversubscribed equity issue to fund its COVID-19 related activities and strengthen its balance sheet.
- Research and development expenditure for the year amounted to £3.46 million (2018: £3.23 million) and the majority of this expenditure was focussed on running the IFN-beta Phase II clinical trial in COPD.
- The loss from operations for the year ended 31 December 2019 was £4.82 million (2018: loss £4.13 million).
- Cash and bank deposits of £2.45 million at 31 December 2019 (31 December 2018: £5.33 million).



Strategic Report

The directors present their Strategic Report for the year ended 31 December 2019.

Principal activities and strategy

Synairgen plc (the 'Company') is the holding company for Synairgen Research Limited, a respiratory drug discovery and development company.

Synairgen leverages its deep understanding of respiratory biology to discover and develop novel therapies in areas of high unmet respiratory medical need, including severe asthma, chronic obstructive pulmonary disease (COPD), idiopathic pulmonary fibrosis (IPF) and respiratory viruses such as COVID-19. Using our BioBank platform (consisting of human tissue models of respiratory disease), and our clinical trial capabilities, Synairgen's strategy is to identify novel drug targets, progress them through early stage clinical trials and license them to partners to advance through to commercialisation. A glossary on pages 50 to 52 provides additional explanation of some of the more detailed scientific and clinical terminology.

Operating Review

Summary

In 2019 we recruited steadily into our SG015 Phase II trial of SNG001 in patients with COPD. Due to the emergence of the SARS-CoV-2 virus, which causes COVID-19, recruitment into this trial was paused from March 2020. Post period-end, addressing whether SNG001 has potential utility as a therapeutic for COVID-19 has been a key priority for the business. Synairgen has commenced a placebo-controlled trial of SNG001 in hospitalised patients with COVID-19 and is aiming to commence dosing in home-based 'at risk' patients imminently. We are also investing in the supply chain to minimise the impact of long lead times in the event that there is demand for SNG001 to treat COVID-19 patients. Separately, Synairgen's partner in the LOXL2 programme, Pharmaxis, has continued its licensing discussions during the period, which in time could potentially yield financial benefit to Synairgen.

Progress with SGN001 programme

SNG001 is a formulation of IFN-beta 1a (IFN-beta) for inhalation via a nebuliser. Compared to injected formulations of IFN-beta, which have been used extensively as a treatment for patients with multiple sclerosis, SNG001 is pH neutral and is free of excipients which may be pharmacologically active in the airways such as mannitol and human serum albumin.

The relevance of interferons in virus defence

The Type I interferons, such as interferon alpha (IFN-alpha) and interferon beta (IFN-beta), are key mediators involved in responses to viral infection. Although these antiviral proteins bind to the same receptor, they differ in their antiviral and immunomodulatory effects. Cells produce interferons as an innate immune response to combat a viral infection. It is this innate immune response that provides a first line of defence against viruses until the adaptive immune system generates antibodies, which clear the virus infection and can provide long term immunity. IFN-alpha is produced in large quantities by specialised white blood cells called plasmacytoid dendritic cells and is approved for use in some systemic infections such as hepatitis. IFN-beta is made by many cell types, including epithelial cells and fibroblasts where it is produced as an immediate local response to viral infection and triggers an antiviral programme preparing the tissue to fight off the infection.

Various groups have shown that upon infection with a respiratory virus IFN-beta production is deficient in lung epithelial cells of patient groups such as those with asthma, COPD, cystic fibrosis, and also the elderly, who can become severely ill due to common respiratory viruses (e.g. influenza, RSV, rhinovirus) each winter.[1] The reasons for this are being explored, however treatment with exogenous IFN-beta *in vitro* has been shown to be protective irrespective of background co-morbidity risk factors and whether cells are treated with IFN-beta pre- or post-infection.

SNG001 programme in asthma and COPD

SNG001 has been progressed through three clinical trials in asthma. A Phase I safety and proof-of- delivery trial showed a dose-dependent upregulation of antiviral responses measured in lung (sputum) samples. In two Phase II trials, SNG001 accelerated a recovery in lung function from the losses caused by a range of common respiratory viruses. With the development of an immediate point-of-care testing system to validate viral infection in patients (bioMérieux BioFire FilmArray technology) in 2018, the SNG001 programme switched from asthma to COPD, a condition where the impact of viral infections can be very severe.

COPD patients are approximately five times more likely to become severely ill due to respiratory viruses than asthmatic patients,[2] and have always been recognised as a larger potential market for a broad spectrum antiviral product which could prevent exacerbations or accelerate recovery from exacerbation. However, half of infectious COPD exacerbations are caused by bacteria, with no virus present. This meant use of SNG001 in the context of COPD would be very challenging without a point-of-care test for viral infections. The bioMérieux BioFire FilmArray and other technologies which have subsequently become available, ensure the selection and treatment of solely those patients where the presence of a virus is confirmed.

In 2018 Synairgen commenced a two-part COPD trial (SG015) to assess initially, the safety and lung antiviral biomarker responses to SNG001 in the absence of viral infection. In the first part of the trial SNG001 was well tolerated in patients with moderate to severe COPD. We also observed a strong antiviral biomarker signal, which was comparable to the response previously observed in asthma. This paved the way to proceed into the second part of the trial, which was designed to dose 120 patients with confirmed naturally-occurring respiratory virus infections. Recruitment into the trial commenced in earnest in January 2019 and was progressing well until the emergence of SARS-CoV-2 which made it difficult to test for virus and dose patients without potentially exposing them and research staff to SARS-CoV-2 virus. Hence in March 2020 the trial was paused, with 109 out of the targeted 120 patients recruited. We have received approval from the Medicines and Healthcare products Regulatory Agency (MHRA) to run an unplanned interim analysis on the grounds that data from 109 COPD patients with confirmed viral infection generates useful safety, biomarker and potentially efficacy data to support ongoing trials of SNG001 in COVID-19 patients. We expect to have data from this interim analysis in the Summer 2020. In due course we will consider options as to how to progress SNG001 in COPD.

Rationale for using SNG001 in COVID-19 patients

The high-risk groups for severe COVID-19 illness are the elderly and those with chronic co-morbidities. These groups overlap with the observed innate immune deficiency in the elderly and in patients with COPD, many of whom will have other co-morbidities. Further to this compromised immunity, some viruses, including coronaviruses, have evolved to suppress IFN-beta production to enable them to evade the "first response" immune system. This therefore provides two reasons to warrant assessment of SNG001 in COVID-19 patients. In the laboratory, IFN-beta has been shown to protect cells from infection by SARS-CoV-2, the virus which causes COVID-19.[3]

Clinical trial (SG016) in COVID-19 patients

Patients initiated in hospital

In late March 2020, Synairgen dosed the first COVID-19 patients in a randomised placebo-controlled trial. This trial has received 'National Priority' status from the National Institute of Health Research, thereby enabling 9 top UK respiratory Translational Research Centre sites to participate. The trial has now recruited 98 COVID-19 patients who are hospitalised but breathing unaided; the trial does not include severe patients requiring ventilatory support. There has been a notable slowdown in recruitment during the last three weeks as the incidence of COVID-19 has reduced, but we would hope to reach our recruitment target of 100 shortly. A planned review of the data will inform onward clinical trial activity, which will be agreed with regulatory agencies. Conducting high quality clinical trials in the current environment is very challenging. It is the efforts and support of the participating centres and key contributing partners, suppliers and the regulatory bodies which have enabled this trial to happen quickly. We anticipate producing initial trial data in July 2020.

Patients initiated at home

The SG016 protocol also allows the dosing of patients in the home environment; the objective being to initiate treatment earlier than the hospital study to prevent development of significant lower respiratory tract illness and subsequent hospitalisation. In order to minimise risks to patients and healthcare workers in this setting, all visits will be conducted by video link. Dosing is set to commence in May 2020.

Patients will interact with the trial team using Skype/Teams/Zoom or their preferred choice of video conferencing as soon as COVID-19 symptoms develop. Patients will be informed about the trial and provide online consent. Patients will self-swab under video supervision. Within a few hours of the swab having been taken, the virus test results will be known. If positive for SARS-CoV-2, the drug (placebo or SNG001), aerosol delivery device, and other trial equipment will be despatched to the patient. Each dose will be taken under video supervision. Endpoints will also be assessed during the video calls.

This is the first trial of its type to be conducted "remotely" in this way and if successful, may point towards a potential domiciliary care protocol for this and future viral outbreaks.

Supply chain in the event of success

In the event that the current trials prove successful, Synairgen has made good progress with suppliers to scale up production of SNG001 rapidly with the aim of being able to supply meaningful quantities by the end of this year.

LOXL2 inhibitor programme

Pharmaxis, the Company's Australian-based partner for the antifibrotic LOXL2 inhibitor programme, has updated the market (on 30 April 2020) stating that it is currently pursuing a number of different partnering options with international pharma companies to enable this drug to enter the clinic in phase 2 trials and will provide more information when the process concludes. Synairgen is entitled to receive circa 17% of Pharmaxis' licence receipts/royalties, net of allowable expenses.

Board changes

In April 2019, Paul Clegg announced his intention to retire from the Board as a non-executive director after the 2019 AGM in June. The Board thanks Paul for his significant contribution and advice to Synairgen over the last 10 years and for his Chairmanship of the Remuneration and Nomination Committee. Iain Buchanan became the new Chairman of the Remuneration and Nomination Committee.

Key performance indicators (KPIs)

The Board considers that the most important KPIs are non-financial and relate to the progress of the scientific programmes which are discussed in the preceding section of this report.

The most important financial KPIs are the planned R&D expenditure on the COPD trial and the cash position of the Group. The actual expenditure on the COPD trial was below budget and the closing cash position was ahead of budget. These are further described in the financial review below.

Financial Review

The Financial Review should be read in conjunction with the consolidated financial statements of the Company and Synairgen Research Limited (together the 'Group') and the notes thereto on pages 29 to 45. The consolidated financial statements are presented under International Financial Reporting Standards as adopted by the European Union.

The adoption of IFRS 16 'Leases' has only had a limited impact on the Consolidated Statement of Financial Position as at 31 December 2019 with the recognition of right-of-use assets (£0.26 million) and lease liability payables (£0.33 million). There was no impact on the 2018 primary statements presented.

The financial statements of the Company, set out on pages 46 to 49, are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*.

Statement of Comprehensive Income

The loss from operations for the year ended 31 December 2019 was £4.82 million (2018: loss £4.13 million). There were no revenues for the year (2018: £0.11 million). The 2018 revenue comprised fee for service work in relation to the LOXL2 programme, through our partnership with Pharmaxis Ltd.

Research and development expenditure for the year amounted to £3.46 million (2018: £3.23 million) and the majority of this expenditure was on running the IFN-beta Phase II clinical trial in COPD.

Other administrative costs for the year were £1.36 million (2018: £1.01 million), with the increase attributable to higher staff costs during the period. The tax credit for 2019 amounted to £0.91 million (2018: £0.80 million) and included £0.04 million in respect of prior periods. The loss after tax for 2019 was £3.89 million (2018: loss of £3.30 million) and the basic loss per share amounted to 3.55p (2018: basic loss per share of 3.47p).

Statement of Financial Position and cash flows

At 31 December 2019, net assets amounted to £2.25 million (2018: £6.03 million), including cash and bank deposits of £2.45 million (2018: £5.33 million).

The principal elements of the £2.88 million decrease over the year ended 31 December 2019 (2018: £1.51 million decrease) in cash and bank deposits were:

- Cash used in operations: £3.73 million (2018: £3.89 million);
- Research and development tax credits received: £0.84 million (2018: £0.07 million);
- Capital expenditure on property, plant and equipment: £0.01 million (2018: £0.39 million); and
- Share issue proceeds (net of costs): £nil (2018: £2.67 million).

The other significant changes in the statement of financial position were:

- Net book value of property, plant and equipment reduced from £0.37 million to £0.30 million as we depreciated the bioMérieux multiplex PCR virus detection machines purchased in 2018 for use in the SG015 clinical trial;
- Following the adoption of IFRS 16 (as discussed above) we recognised right-of-use assets in 2019 and at 31 December 2019 the balance net of depreciation charged amounted to £0.26 million (2018: £nil). We also recognised the corresponding lease liabilities and at 31 December 2019 the non-current liability element amounted to £0.13 million (2018: £nil) and the current liability element £0.20 million (2018: £nil); and
- Trade and other payables increased from £0.78 million to £1.49 million, on account of higher accruals for clinical trial related activities and staff performance bonuses.

Post year-end fundraising

£14 million (before expenses) was raised in March 2020 by the issue of 40 million ordinary shares at a price of 35p per share to fund the following activities:

- COVID-19 clinical trial activity (£7 million);
- Manufacture of SNG001 drug product and other supply chain considerations (£4 million); and
- Strengthened balance sheet for potential partnering discussions, working capital and fees (£3 million).

Section 172 statement

For years beginning on or after 1 January 2019 companies quoted on AIM now have to include a Section 172(1) statement in the Strategic Report explaining how directors have had regard to the matters set out in Section 172(1).

Under Section 172(1) of the Companies Act 2006, a director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a) the likely consequences of any decision in the long-term;

b) the interests of the Company's employees;

c) the need to foster the Company's business relationships with suppliers, customers and others;

d) the impact of the Company's operations on the community and the environment;

e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

f) the need to act fairly between members of the Company.

The directors acknowledge their duty under Section 172 of the Companies Act 2006 and consider that they have, both individually and together, acted in the way that, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

The following table, in combination with the Corporate Governance Statement set out on pages 13 to 16 and the Company's website (www.synairgen.com), sets out the framework of our engagement with key stakeholder groups.

Our stakeholders	Material topics	How we engage
Investors The Group continues to consume cash resources and remains dependent upon securing funding through share issues. It is therefore critical that we have shareholders who will continue to invest in the company over the longer term.	• Business strategy • Operational performance • Financial performance and cash requirements • Corporate Governance	• RNS announcements • Website updates • Meetings after preliminary statement release and interims for institutional investors • AGM • Proactive investor interview
Employees Synairgen has 14 employees (including executive directors) who are multi-skilled and most of them have worked for the Group for many years. They all play a key role in the business and it is vital that they all understand and support the key decisions taken in the running of the business.	• Operational targets and progress • Opportunities to share ideas • Financial resources of the Group • Share price • Working time flexibility	• Regular full company meetings and a policy of open disclosure • Team meetings • Open door policy to executive directors • Structured appraisal process • Use of share-based incentives for employees
University of Southampton Synairgen is a spin-out company from the University and still maintains many links with it, which benefit both parties. The University is Synairgen's landlord and certain intellectual property is licensed from it.	• Operating facilities • Intellectual property • Joint projects • Published papers	• Meetings with Founders • Interaction on projects with scientists and clinicians
Suppliers We have a number of key long-term suppliers who play an important part in our development programmes and it is important that we under-stand their product/service development plans and they understand our needs.	• Supplier product development plans • Our clinical trial and longer-term development needs	• Regular project meetings

Our stakeholders	Material topics	How we engage
Collaboration partners Following our earlier collaboration with Pharmaxis, we maintain a 17% stake in the LOXL2 programme.	• Operational milestones • Business development support and activities	• Quarterly updates
Customers (licensees) Our customers are the large pharmaceutical and biotech companies who have the resources and infrastructure to take our products to market. It is therefore critical that we interact with these companies at an early stage to make sure we are developing a product which they may wish to license.	• Programme development plans, including clinical trial designs • Clinical trial read-outs • In-house and external competing products	• Regular meetings at key respiratory conferences (ATS, ERS)
Community We aim to develop therapeutics which pharmaceutical companies can sell to the community and it is therefore critical that there is an identified market need in the community.	• New therapeutics development • Involvement in clinical trials	• Interactions with clinicians • Patient data from clinical trials
Regulators We work in a highly regulated sector and it is critical that we maintain full compliance with all appropriate regulations.	• Clinical trial approvals • Regulatory compliance	• Use of external consultants to make sure we are complying with regulations • Interactions with MHRA and Ethics Committees

Principal decisions in 2019

We have considered the decisions taken by the Board which will have an impact on the longer-term performance and prospects for the Company. The Board believes that two decisions taken during the year fall into this category and were made with full consideration of both internal and external stakeholders.

- The decision to initiate more clinical trial sites and enlarge the patient pool for the Group's phase II trial of interferon beta in COPD.
- The decision to commit resources to explore the potential for interferon beta in immuno-compromised patients.

In addition, the Board keeps the Company's finances under close scrutiny, seeking to ensure that it has sufficient capital resources to execute its business plan. During the year, the Board continually assessed whether additional funding would be required to complete the COPD trial (SG015).

Principal risks and uncertainties

The Board considers that the principal risks and uncertainties facing the Group may be summarised as follows:

- *Interferon beta Phase II trials fail to generate encouraging data*

  There can be no guarantee that the trials being conducted in COPD patients, hospitalised COVID-19 patients and home-based COVID-19 patients will generate data which merits further development expenditure in the programmes either by Synairgen or a licensee.

- *Impact of COVID-19 on the wider economy*

  Whilst the emergence of the COVID-19 pandemic has presented a very significant potential opportunity for the Group to develop a new indication for its interferon beta programme and the Group's employees have been able to function effectively working from home or where required in the clinical and laboratory facilities, it remains unclear at this stage what the medium and long term impact will be on the wider economy and how this will affect the Group.

- *Interferon beta Phase II trial in COVID-19 patients at home overruns or is unable to randomise 120 patients*

  The Group is commencing a Phase II trial in COVID-19 patients at home, which is seeking to randomise 120 patients. The conclusion of the trial is dependent upon the rate at which such patients can be recruited into the trial, which will be determined by the success in being able to find such patients and the prevalence of COVID-19 in the coming months. Overrunning of the trial would result in extra costs to complete the trial, as a number of the monthly costs are fixed in nature. Inability to recruit the full patient target will reduce the chance of finding statistically significant outcomes.

  At the date of this report recruitment activity is about to commence. The Group is continually monitoring the best recruitment options available and will also consider the benefits of opening additional sites. In the event that the COVID-19 infection rates reduce very substantially, the Group would consider whether it is best to finish the trial before the target 120 patients have been randomised.

- *Ability to scale up interferon beta production*

  In the event of a positive read-out from the COVID-19 trials, there will potentially be a need to significantly increase production to maximise the commercial opportunity. The Group is currently exploring routes whereby the drug and delivery devices can be manufactured at scale.

- *Commercial risk*

  There can be no guarantee that the Group, or Pharmaxis, in the case of its LOXL2 programme in which the Group has a 17% share, will succeed in securing and maintaining the necessary contractual relationships with licensing partners for its programmes under development. Even if the programmes are successfully out-licensed and pharmaceutical products are brought to market by a partner, there is no guarantee that such products will succeed in the marketplace.

  The Group seeks to reduce this risk by structuring its development programmes to meet the needs and requirements of its potential partners and by engaging with partners who have the appropriate experience, resource and interest to bring such pharmaceutical products to the global marketplace.

- *Intellectual property risk*

  The commercial success of the Group depends on its ability to obtain patent protection for its pharmaceutical discoveries in the US, Europe and other countries and to preserve the confidentiality of its know-how. There is no guarantee that patent applications will succeed or be broad enough to provide protection for the Group's intellectual property rights and exclude competitors with similar pharmaceutical products. The success of the Group is also dependent on non-infringement of patents, or other intellectual property rights, held by third parties. Competitors and third parties may hold intellectual property rights which the Group may not be able to license upon favourable terms, potentially inhibiting the Group's ability to develop and exploit its own business. Litigation may be necessary to protect the Group's intellectual property, which may result in substantial costs.

  The Group seeks to reduce this risk by seeking patent attorney advice that patent protection will be available prior to investing in a project, by seeking patent protection where appropriate, and by minimising disclosure to third parties.

- *Competition risk*

  The Group's current and potential competitors include pharmaceutical and biotechnology companies and academic institutions, many of whom have significantly greater financial resources than the Group. There can be no assurance that competitors will not succeed in developing products that are more effective or economic than any developed by the Group, or which would render the Group's products non-competitive or obsolete.

- *Funding risk*

  The Group continues to consume cash resources. Until the Group generates positive net cash inflows from successful out-licensing transactions and commercialisation of its products, it remains dependent upon securing funding through the injection of capital from share issues. The Group may not be able to generate positive net cash flows in the future or attract such additional funding required at all, or on suitable terms. In such circumstances, the Group's discovery and development programmes may be delayed or cancelled and the business operations curtailed.

  The Group seeks to reduce this risk through tight financial control, prioritising programmes which will generate the best returns, and keeping shareholders informed on progress. Post period-end, the Group raised £14 million (before expenses) to fund its COVID-19 activities and strengthen its balance sheet.

- *Dependence on Founders, senior management and key staff*

  The Founders and certain members of staff are highly skilled scientists and clinicians. The Group has deliberately pursued a lean headcount policy to conserve financial resources. Failure to continue to attract and retain such individuals could adversely affect operational results. The setting up and running of two COVID-19 clinical trials whilst in a "lockdown" environment has placed a significant additional burden on the existing headcount.

  The Group seeks to reduce this risk by recruiting additional staff/contractors and additionally appropriate incentivisation of staff through participation in long term equity incentive schemes.

- *Brexit*

  The UK left the European Union in January 2020 and is now in a transition period until the end of 2020.

  It remains unclear what the final outcome of the transition process will be. In the short term our key focus is upon completing the Phase II clinical trials during 2020 and we have secured adequate stocks of drug and consumable items to complete them at our trial sites which are all located in the UK.

- *Cyber attack or IT systems failure*

  The Group is at risk of cyber attack or IT systems failure, which would cause operational harm, including potential theft or loss of data.

  The Group seeks to minimise this risk by retaining the services of external IT advisers and pursuing suitable back-up and security policies.

Summary and Outlook

During the calendar year 2019 we made good progress in the trial of our wholly-owned asset SNG001 in COPD. The emergence of SARS-CoV-2 has caused us to pause the COPD trial and to divert our expertise and investment to addressing the more pressing COVID-19 pandemic. Knowing that a broad spectrum antiviral agent delivered directly to the lungs may prevent the development of lower respiratory tract illness or accelerate the recovery of patients already hospitalised, we have raised additional funding of £14 million, which has enabled us to successfully initiate a trial of approximately 220 patients with COVID-19, some 100 of whom are in the hospital environment with severe respiratory symptoms, with a further 120 patients who will be dosed in the home environment upon early signs of COVID-19. Our staff and our key suppliers in both the UK and overseas have been able to continue working through lockdown. Data from the hospital trial will read out during the summer, and, if positive, the Company will work closely with regulators to determine an expeditious route to securing approval for SNG001, a treatment we believe could play an important role in addressing the current COVID-19 crisis and similar viruses in the future. In parallel the Company is now working with manufacturers to scale up for potential demand for SNG001. The outlook for the business is positive and we look forward to updating the market on further progress in due course.

By order of the Board

John Ward
Company Secretary

25 May 2020

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1. (i) Wark PA, *et al.* Asthmatic bronchial epithelial cells have a deficient innate immune response to infection with rhinovirus. *J Exp Med.* 2005;201(6):937-947 (ii) García-Valero J, *et al.* Deficient pulmonary IFN-β expression in COPD patients. PLoS One. 2019;14(6):e0217803 (iii) Chattoraj SS, *et al.* Pseudomonas aeruginosa suppresses interferon response to rhinovirus infection in cystic fibrosis but not in normal bronchial epithelial cells. *Infect Immun.* 2011;79(10):4131-4145. (iv) Prakash S, *et al.* Impaired secretion of interferons by dendritic cells from aged subjects to influenza: role of histone modifications. Age *(Dordr).* 2013;35(5):1785-1797.
2. The risk that that a COPD patient will exacerbate due to a cold infection is approximately 50% (Johnston NW. *et al.* Colds as predictors at the onset and severity of COPD exacerbations *International Journal of COPD* 2017:12: 839-848) compared to asthma where it is less than 10% ((i) Aviragen Therapeutics presentation Directing Next Generation Direct-Acting Antivirals May 2017 (ii) Synairgen analysis of INEXAS trial results, dated 27 September 2017)
3. Mantlo E, *et al.* Antiviral activities of type I interferons to SARS-CoV-2 infection. *Antiviral Res.* 2020 Apr 29;179:104811

Synairgen's Founders

Prof. Stephen Holgate CBE is MRC Clinical Professor of Immunopharmacology at the University of Southampton

Prof. Donna Davies is Professor of Respiratory Cell and Molecular Biology at the University of Southampton

Prof. Ratko Djukanovic is Professor of Medicine at the University of Southampton

Directors

Simon Shaw
Non-executive Chairman

Simon Shaw joined Synairgen as executive Chairman on its inception in June 2003 and became non-executive Chairman in October of that year. He is Group Chief Financial Officer of Savills plc. He was Chief Financial Officer of Gyrus Group PLC from 2003 until its sale to Olympus Corporation in 2008, having previously been Chief Operating Officer of Profile Therapeutics plc between 1998 and 2003. Between 1991 and 1997 he was a corporate financier, latterly at Hambros Bank Limited. He is a chartered accountant.

Dr Phillip Monk
Chief Scientific Officer

Phillip Monk joined Synairgen in October 2006 as Head of Bioscience Development and was appointed to the Board as Chief Scientific Officer in September 2009. Phillip was previously Director of the Respiratory and Inflammation Biology group at Cambridge Antibody Technology ('CAT'). Prior to joining CAT, he worked at Bayer AG within the respiratory disease therapeutic area, focusing on the development of novel therapies for asthma, COPD and cystic fibrosis.

Iain Buchanan
Non-executive Director

Iain Buchanan was appointed as a non-executive director in June 2010 and brings to the Company over 40 years of management experience in the pharmaceutical and biotech industries. Most recently he was CEO of NOXXON Pharma AG based in Berlin and previously he was CEO of Novexel S.A. based in Paris. He joined Novexel from Vertex Pharmaceuticals where he established the European affiliate. Prior to Vertex, Iain managed the international licensee business of Cilag AG - a subsidiary of Johnson and Johnson - based in Switzerland. Iain serves as a non-executive director for Allecra Therapeutics GmbH and for Aurealis Pharma AG.

Prof. Stephen Holgate CBE
Non-executive Director

Stephen Holgate is a co-founder of Synairgen and was appointed a non-executive director in June 2003. After qualifying in Medicine at Charing Cross Hospital Medical School, London he has pursued an academic career leading to his appointment in 1987 to his current position as Medical Research Council Clinical Professor of Immunopharmacology at the University of Southampton. His research interests have been largely focused on the cellular and molecular mechanisms of asthma that has involved use of both epidemiological and genetic approaches. He has published over 1,300 papers in peer-reviewed literature. He is Member of the Horizon 2020 Science Panel for Health; Board Chair of the National Centre for the Replacement, Refinement and Reduction of Animals in Research (NC3Rs); Trustee and Chair of the Research Strategy Committee of Cancer Research UK; Trustee and Chair of the Grants Panel of the Great Ormond Street Hospital Children's Charity; Trustee and Chair of The Kennedy Trust for Rheumatology Research; Member of the Governing Body of the Nuffield Council for Bioethics; and Member of the Natural Environment Research Council. He serves on a number of Advisory Committees in industry, including scientific board member or advisor to a number of companies involved in developing new treatments for airways diseases.

Richard Marsden
Chief Executive Officer

Richard Marsden joined Synairgen in a consulting role as General Manager in November 2003, was appointed to the Board as Managing Director in June 2004, and was appointed Chief Executive Officer in September 2009. Between 1998 and 2003 he worked as Projects Manager and Cystic Fibrosis Business Development Manager at Profile Therapeutics plc, where he managed the Cystic Fibrosis business and played a major role in the development of its proprietary pharmaceutical unit, Profile Pharma Limited. Prior to this, he worked for Zimmer Limited, Genentech (UK) Limited and Roche Products Limited.

John Ward
Finance Director

John Ward joined Synairgen in October 2004 as Finance Director. From December 1999 to July 2004 he was Chief Financial Officer and Company Secretary of Profile Therapeutics plc and was appointed to the Profile Therapeutics board in March 2003. From 1996 to 1999 he was Finance Director of Rapid Deployment Group Limited, the UK holding company for the healthcare operations of Ventiv Health, Inc. Prior to joining Rapid Deployment he was a Director of Corporate Finance at Price Waterhouse. He is a chartered accountant.

Dr Bruce Campbell
Non-executive Director

Bruce Campbell joined Synairgen as a non-executive director in April 2006. He has 50 years of drug development experience and has developed many drugs in a wide range of indications which are now on the market. He currently acts as a consultant to various companies including BenevolentAI and Syncona. Formerly he was Senior VP of International Development at Neurocrine Biosciences, Inc. ('Neurocrine'). Prior to joining Neurocrine he worked for 27 years at Servier (United Kingdom), latterly as Scientific Director. In addition, he has also been a director and European Chairman of the Drug Information Association, a member of the European ICH Safety Working Party and a scientific advisor to IP Group plc.

Simon Shaw

Richard Marsden

Dr Phillip Monk

John Ward

Iain Buchanan

Dr Bruce Campbell

Prof. Stephen Holgate CBE

Corporate Governance Statement

The Board is accountable to the Company's shareholders for good corporate governance and it is the objective of the Board to attain a high standard of corporate governance. As Chairman, it is my primary responsibility to lead the Board effectively and to oversee the adoption, delivery and communication of the Company's corporate governance model.

In September 2018 the Board adopted the Quoted Companies Alliance Corporate Governance Code (QCA Code). On our website (www.synairgen.com/investors/corporate-governance-statement/) we set out how we comply with the 10 principles of the QCA Code. The following sections of the Corporate Governance Statement explain how the QCA Code is applied by the Company. During 2019 we undertook another formal Board performance review, which identified two areas for improvement during 2020.

Board of Directors

On 31 December 2019 the Board of directors (the 'Board') consisted of a non-executive Chairman (Simon Shaw), three executive directors (Richard Marsden, Dr Phillip Monk and John Ward), and three non-executive directors (Iain Buchanan, Dr Bruce Campbell and Prof. Stephen Holgate). Paul Clegg retired from the Board as a non-executive director after 10 years of service on 3 June 2019.

The responsibilities of the non-executive Chairman and the Chief Executive Officer are clearly divided. The non-executive directors bring relevant experience from different backgrounds and receive a fixed fee for their services and reimbursement of reasonable expenses incurred in attending meetings.

Brief *curriculum vitae* details about the directors are given on page 11. The key experience, skills, qualities and capabilities that each director brings to the Board are summarised below:

Simon Shaw
Simon is an experienced public company director, having fulfilled both the roles of Chief Financial Officer and Chief Operating Officer for listed companies. He has life science company experience and in addition to his skills as a Chairman contributes strong financial and corporate finance skills. As an executive director of a FTSE 250 company he keeps his skill set in these areas up to date.

Richard Marsden
Richard has worked in a number of roles within the life sciences sector and has experience of sales and marketing, clinical trials, project management, business development and general management. He is actively involved in the design and management of clinical trials and leads the Company's business development activities. He maintains and develops his skill sets in these areas by regular interaction with the Company's expert advisers and key opinion leaders (KoLs).

Dr Phillip Monk
Phillip is a leading scientist in respiratory biology, with experience of managing teams of scientists and taking drugs through pre-clinical and early clinical trials. His particular contribution to the Board is championing the identification and management of new opportunities up to the clinical stage, and maximising value from early stage clinical trials, particularly with reference to biomarker and statistical analysis. Phill regularly interacts with expert advisers/KoLs and attends key relevant medical conferences.

John Ward
John is a Chartered Accountant who has worked for 23 years as Finance Director and Company Secretary in the life sciences sector, with experience gained in private and quoted companies. From his time at Price Waterhouse he also has corporate finance experience. He keeps his skill set up to date by attending appropriate courses run by accountancy firms, the ICAEW and ICSA.

Iain Buchanan
Iain has 40 years' management experience in the pharmaceutical and biotech sector. Iain keeps his skill set up to date through his involvement with a number of other life sciences boards.

Dr Bruce Campbell
Bruce has 50 years' drug development experience. He has particular expertise in pre-clinical development. Bruce keeps his skill set up to date through his involvement with a number of other life sciences companies either as a director or consultant.

Prof. Stephen Holgate
Stephen is a leading academic in respiratory medicine, combining an outstanding knowledge of base and clinical science. He has experience of working with many pharmaceutical companies and guides the Board on developments in the respiratory sector. Stephen keeps up to date through his ongoing involvement with many industry and government-related organisations as an advisor.

All seven members of the Board bring relevant sector experience in life sciences. Four members of the Board have public markets experience from other companies. The Board has expertise in the following key areas: public markets; discovery and pre-clinical respiratory projects, clinical development, business development/licensing and finance. The Board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. The Board is still composed solely of males and recognises this gender imbalance. In due course, the Board will look to amend its composition appropriately.

John Ward fulfils the roles of Finance Director and Company Secretary. The Board considers that at this stage of the Company's development this is an appropriate and cost-effective *modus operandi*. It will continue to monitor when it will be necessary and appropriate to separate the roles. The Company Secretary reports directly to the Chairman on governance matters.

Non-executive directors are required to attend 6 scheduled bi-monthly Board meetings (Scheduled Board meetings) and committee or Scientific Advisory Board meetings. Non-executive directors are required to be available at other times as required for face-to-face and telephone meetings with the executive team. All members of the executive team work for the Company on a full-time basis and have no non-executive directorships with other companies.

The Board notes that its directors have been in post for more than nine years but considers that they remain functionally independent, in that they remain fully committed to promoting the success of the Company for the benefit of shareholders as a whole.

The Board also notes that one of its non-executive directors was granted options in 2010, which will expire in 2020. The practice of granting non-executive directors options has now ceased and the Board considers that the holding of these options (which represents less than 0.3% of the issued share capital at 31 December 2019) does not compromise the independence of the director concerned.

With effect from the 2019 AGM and on an on-going basis, the Board puts all directors up for re-election on an annual basis to enable shareholders to confirm their support that the directors remain independent.

The Company does not have a Senior Independent Director and we believe that this is appropriate at this stage of the Company's development.

The Board retains full and effective control of the Group. This includes responsibility for determining the Group's strategy and for approving budgets and business plans to fulfil this strategy. There are a number of Scheduled Board meetings and the Board also meets on any other occasions it considers necessary. During the year ended 31 December 2019, the Board met six times for Scheduled Board meetings, with each member attending as follows:

Director	Number of meetings held whilst a Board member	Number of meetings attended
Simon Shaw	6	6
Richard Marsden	6	6
Dr Phillip Monk	6	6
John Ward	6	6
Iain Buchanan	6	6
Dr Bruce Campbell	6	5
Paul Clegg	3	3
Prof. Stephen Holgate	6	5

In addition there was one other meeting, to which Board members were invited, during the year.

It is the duty of the Chairman to ensure that all directors are properly briefed on issues arising at Board meetings. Prior to each Board meeting, directors are sent an agenda and Board papers for each agenda item to be discussed. Additional information is provided when requested by the Board or individual directors.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the applicable rules and regulations are complied with. All directors have access to the advice and services of the Company Secretary, and independent professional advice, if required, at the Company's expense. Removal of the Company Secretary would be a matter for the Board.

Board performance

A Board evaluation process led by the Chairman took place in December 2019. All of the directors completed a questionnaire about the effectiveness of the Board and the results were compiled on an anonymous basis by the Company Secretary. The Board reviewed the outcome of the questionnaire and noted that some of the areas identified, such as succession planning, were not feasible at this stage of the Company's evolution. However a number of refinements in working practices were identified as a result of this exercise with regards to improvement of Board meeting efficiency and risk management systems and have been scheduled for implementation in 2020.

Corporate Governance Statement
(continued)

Also during December 2019, a review of the Chairman's performance over the last year was carried out by the completion of a questionnaire by other Board members. It is intended that this internal review will be carried out on an annual basis.

Board committees

As appropriate, the Board has delegated certain responsibilities to Board committees.

Audit Committee

The Audit Committee currently comprises Simon Shaw (Chairman), Iain Buchanan and Dr Bruce Campbell. Whilst it is not normal in larger companies for the chairman of the Company to chair the Audit Committee, the Company considers it appropriate for Simon Shaw to be Chairman as he is considered to have the most significant, recent and relevant financial experience of the non-executive directors.

The committee has primary responsibility for ensuring that the financial performance of the Group is properly measured and reported on and it reviews the interim financial information and annual financial statements before they are submitted to the Board. The committee reviews accounting policies and material accounting judgements. The committee also reviews, and reports on, reports from the Group's auditors relating to the Group's accounting controls. It makes recommendations to the Board on the appointment of auditors and the audit fee. The committee monitors the scope, results and cost-effectiveness of the audit. It has unrestricted access to the Group's auditors. In certain circumstances it is permitted by the Board for the auditors to supply non-audit services (in the provision of tax advice, or on specific projects where they can add value).

During 2019, the committee met four times. Simon Shaw and Iain Buchanan attended all four meetings and Dr Bruce Campbell attended three meetings. The Audit Committee Report is detailed on page 22.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Iain Buchanan (Chairman), Dr Bruce Campbell and Simon Shaw. Iain Buchanan became Chairman of the committee on 3 June 2019 when Paul Clegg retired from the Company as a non-executive director. The committee is responsible for making recommendations to the Board on remuneration policy for executive directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including any share options and other awards, is based on their own performance and that of the Group generally. The committee administers the Long-Term Incentive Plan, the staff share option scheme and the Qualifying Non-Employee Option Scheme and approves grants under all three schemes. It also advises on the remuneration policy for the Group's employees. The committee is responsible for all senior appointments that are made within the Group.

During 2019, the committee met three times with all members attending. The Directors' Remuneration Report is detailed on pages 17 to 21.

Scientific Advisory Board

The Company established a Scientific Advisory Board ('SAB') in 2016. The purpose of the SAB is to provide strategic advice and input on scientific aspects of Synairgen's research and development projects.

The SAB currently comprises Dr Phillip Monk (Chairman), Iain Buchanan, Dr Bruce Campbell, and Synairgen's three academic founders (Professors Stephen Holgate, Donna Davies and Ratko Djukanovic). Other external experts and Synairgen employees attend meetings as required. Dr Bruce Campbell is responsible for feeding back the outputs from the SAB to the Company's Board.

Business model and strategy

As detailed in the Strategic Report on page 3, Synairgen's strategy is to identify novel drug targets, progress them through early stage clinical trials and license them to partners to advance through to commercialisation. The key challenges in execution are set out in the section of the Strategic Report entitled Principal risks and uncertainties.

Corporate culture

Synairgen is a biotechnology company focussed on developing new respiratory therapies which will make a difference to people's lives. Our core values to achieve this are:

- **Passion** – to demonstrate a passion for delivering high quality service
- **Professionalism** – to demonstrate courtesy, honesty and responsibility when dealing with individuals or others in the business environment
- **Collaboration** – to work effectively and inclusively with individuals, institutions, or other companies in the business environment
- **Experience** – to demonstrate knowledge and skills in the business environment
- **Approachability** – to be accommodating, friendly and transparent when working with others

These matters are reviewed annually during staff appraisals.

Investor relations

The directors seek to build a mutual understanding of objectives between the Company and its shareholders by meetings with major institutional investors and analysts after the Company's preliminary announcement of its year-end results and its interim results. The Company also maintains investor relations pages on its website (www.synairgen.com) to increase the amount of information available to investors.

There is an opportunity at the Annual General Meeting for individual shareholders to question the Chairman, the Chairmen of the Audit and Remuneration and Nomination committees, and the executive directors. Notice of the meeting is sent to shareholders at least 21 clear days before the meeting. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and indicates the level of proxies lodged on each resolution, after it has been dealt with by a show of hands. Details of the proxies lodged are also published on the Company's website. Details of the resolutions and explanations thereto are included with the notice, including any special arrangements necessitated by COVID-19.

Internal control and risk management

The directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. The system of internal control is designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The main features of the internal control system are as follows:

- a control environment exists through the close management of the business by the executive directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by personnel with the necessary qualifications and experience;
- a list of matters reserved for board approval;
- monthly management reporting and analysis of variances;
- regular financial reforecasts;
- financial risks for each major transaction are identified and evaluated by the Board; and
- standard financial controls operate to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.

The Company maintains a summary risk register which is reviewed by the Board on an annual basis. The principal risks and uncertainties facing the Group, with mitigation strategies, are set out in the Strategic Report on pages 7 to 9. Project risk management is continually evaluated by weekly project meetings and other management tools. IT risk is covered at bi-annual meetings with external IT advisers. An annual Health and Safety report is prepared for the Board.

Simon Shaw
Chairman
25 May 2020

Directors' Remuneration Report

In September 2018 the Company adopted the QCA Corporate Governance Code which includes the requirement to prepare a remuneration committee report. This report includes and complies with the disclosure obligations of the AIM Rules.

Remuneration Committee

The Company's remuneration policy is the responsibility of the Remuneration and Nomination Committee (the 'Committee'), which was established in October 2004. The terms of reference of the Committee are outlined in the Corporate Governance Statement on page 15. The members of the Committee are Iain Buchanan (Chairman), Dr Bruce Campbell and Simon Shaw. Paul Clegg was Chairman of the Committee until his retirement from the Board on 3 June 2019, after which Iain Buchanan joined the Committee as Chairman.

The Committee, which is required to meet at least twice a year, met three times during the year ended 31 December 2019 and considered the pay of the executive directors and ensured it understood pay arrangements more broadly across the Group. The Chief Executive Officer and certain executives may be invited to attend meetings of the Committee to assist it with its deliberations, but no executive is present when his or her own remuneration is discussed.

During the year, the Committee has been advised on director remuneration by its retained independent remuneration adviser, FIT Remuneration Consultants LLP. No other advice has been provided to the Group by this firm during the year.

Remuneration policy

(i) Executive remuneration

The Committee has a duty to establish a remuneration policy which will enable it to attract and retain individuals of the highest calibre to run the Group. Its policy is to ensure that the executive remuneration packages of executive directors and the fee of the Chairman are appropriate given performance, scale of responsibility, experience, and consideration of the remuneration packages for similar executive positions in companies it considers to be comparable. Packages are structured to motivate executives to achieve the highest level of performance in line with the best interests of shareholders. A significant element of the total remuneration package, in the form of bonus and Long Term Incentive Plan ('LTIP') awards, is performance driven.

Executive remuneration currently comprises a base salary, an annual performance-related bonus, LTIP participation, a pension contribution to the executive director's individual money purchase scheme or, where it is not permitted under HMRC rules, as a salary supplement after deducting an amount to reflect employer's NICs to ensure that the overall cost to the employer is not increased (at 9% of base salary) and typical benefits including family private health cover, permanent health and life assurance.

The previous salary and benefit review took effect from 1 January 2019, at which point the executive directors' salaries were increased by 2% (in line with or below the level awarded to staff generally).

Salaries and benefits have been reviewed with effect from 1 January 2020, taking into account Group and individual performance, external benchmark information and internal relativities. As a consequence of the 2020 review, executive director salaries were, again, increased by 2%, which was below the level awarded to staff generally.

	1 January 2019 to 31 December 2019			From 1 January 2020		
	Salary per annum (£000)	Employer pension contribution as a % of salary	Maximum bonus as a % of salary	Salary per annum (£000)	Employer pension contribution as a % of salary	Maximum bonus as a % of salary
Richard Marsden	190	9%	100%	194	9%	100%
Dr Phillip Monk	137	9%	100%	140	9%	100%
John Ward	148	9%	100%	151	9%	100%

Executive directors are also rewarded for improvements in the performance of the Group sustained over a period of years in the form of Long Term Incentive Plan share awards granted on a discretionary basis by the Committee.

Directors' remuneration for the year ended 31 December 2019 is set out on page 20 and 21 of this document.

(ii) Chairman and non-executive director remuneration

During the year ended 31 December 2019, the Chairman and the non-executive directors received a fixed fee of £25,000 per annum. The fixed fee covers preparation for and attendance at meetings of the full Board and committees thereof. A fee of £5,000 per annum was also paid for chairing each of the audit and remuneration committees. The Chairman and the executive directors are responsible for setting the level of non-executive director remuneration. The non-executive directors are also reimbursed for all reasonable expenses incurred in attending meetings.

The remuneration paid to the Chairman and the non-executive directors has remained unchanged since 2009 and 2014 respectively. In April 2020, a benchmarking of the remuneration of the Chairman and the non-executive directors was undertaken. As a result of this, the fee payable to the Chairman was increased to £45,000 per annum with effect from 1 January 2020. The fixed fee for the non-executive directors remains unchanged at £25,000 and a fee of £5,000 will continue to be paid to non-executive directors who chair either the audit or remuneration committees. The Chairman has waived his entitlement to the fee for chairing the audit committee.

(iii) Annual bonus plan

The Company operates a discretionary bonus scheme for executive directors for delivery of exceptional performance against pre-set relevant corporate objectives, which are subject to malus and clawback provisions. As reported last year in respect of 2018, the scheme for 2018 involved a range of operational milestone targets linked to the interferon beta programme, the LOXL2 programme and potential new opportunities. Again, as reported last year in respect of 2018, the Committee noted that, while significant progress had, again, been made against these milestones in 2018, as the Company had not received any revenues from these achievements, the executive directors requested that the Committee defer a final decision regarding such bonuses until such a commercial benefit is delivered.

Following the significant progress made since then, the Committee determined that the 2018 bonus targets should now be assessed rather than held over again. It determined that the scorecard was achieved as to 55%. This was wholly based on achievement in 2018. The Committee also assessed performance against the scorecard for 2019. This included supporting the LOXL2 programme, recruitment targets for the interferon beta COPD trial, commencing another study of interferon beta, announcement of a new programme and investor relations targets. The Committee determined that this was met as to 42% noting, in particular, full achievement of the stretch target of entering 286 patients into the pool by the end of September 2019 (which had been given a 40% weighting).

Bonuses in respect of 2018 and 2019 will be paid in Q2 2020.

(iv) Equity-based incentive schemes

The Committee strongly believes that long term equity-based incentive schemes increase the focus of employees in improving Group performance, whilst at the same time providing a strong incentive for retaining and attracting individuals of a high calibre.

Long Term Incentive Plan (LTIP)

The Synairgen Long Term Incentive Plan, comprising conditional (performance-related) share awards (technically structured as nominal cost options pursuant to which participants must pay 1p per share on the exercise of their awards) is the sole on-going long-term incentive vehicle for executive directors.

Senior executives and other employees may be granted an award, which will normally vest if demanding performance conditions are achieved over a three-year period and if the grantee remains an employee of the Group.

Grants under the LTIP in any financial year are capped at a maximum of 100% of base salary.

As indicated in last year's report, an LTIP award was made in April 2019 during the six week period following the preliminary announcement of the results for the year ended 31 December 2018, with each of Richard Marsden, Phillip Monk and John Ward being granted awards over shares worth approximately 51% of salary (the Committee approved an award over shares worth 65% of salary but determined that this should be assessed on a higher than actual share price (the 16p price at which funds were raised in October 2018) so 51% represents the actual grant multiple), with performance conditions as set out below.

The Committee intends to make an LTIP award (the 2020 award) during the six week period following the preliminary announcement of the results for the year ended 31 December 2019, with each of Richard Marsden, Phillip Monk and John Ward being granted awards over shares worth up to 100% of salary with performance conditions similar to the 2019 LTIP award. The Committee's long-term policy has been to grant executive directors an award over shares worth one times salary at grant. However, that has not been feasible in recent years due a combination of close period constraints and management of the dilution limits. The Committee noted that the current share price is approximately 3 times the share price used for the 2019 grant and that it was, therefore, now feasible and appropriate to award shares in line with the shareholder approved policy level of 100% of salary.

Executive directors are expected to retain no fewer than 50% of shares acquired upon vesting of awards under the LTIP, net of shares sold to pay taxes, until such time as, in combination with any other shares the executives may have acquired, they hold shares with a value equivalent to 100% of base salary.

All awards will lapse at the end of the applicable performance period to the extent that the applicable performance criteria conditions have not been satisfied with no opportunity for retesting. In the event of a good leaver event or a change of control of the Company, the LTIP awards may vest early, but only to the extent that, in the opinion of the Committee, the performance conditions have been satisfied at that time. The awards will generally also be subject to a time pro-rated reduction to reflect the reduced period of time between the grant of the awards and the time of vesting although this reduction may not be applied in certain cases.

Performance conditions for the 2018 and 2019 LTIP awards

The performance conditions for both awards were the same. The awards are subject to two conditions. Firstly, awards will only vest to the extent that the percentage increase in the total shareholder return ('TSR', being the return earned by a

shareholder over the performance period in terms of change in the share price and assuming re-investment of any dividends in more shares at the prevailing price on the relevant ex-dividend date) of the Company over the three year performance period is equal or greater than the percentage increase in the techMARK mediscience™ index over the same period as follows:

TSR growth over the performance period less percentage increase in the techMARK mediscience™ index over the same period	Vesting percentage of total number of shares subject to award
Less than 10%	0%
10%	25%
20%	50%
30%	100%
Performance between the steps	Pro-rata on a straight-line basis

Secondly, no award will vest unless the average annual growth in the TSR of the Company over the performance period is equal to or greater than RPI plus 2% or, for more than 75% of an award to vest, annual average TSR must exceed RPI by at least 5% rather than 2%.

(v) Service contracts and letters of appointment

The executive directors have entered into service agreements which can be terminated on six months' notice by either party.

During the year ended 31 December 2019, the executive directors did not hold any non-executive directorships with other companies.

The Chairman and non-executive directors have entered into letters of appointment for an initial fixed period of twelve months, which renew automatically for a further twelve month period on the anniversary of commencement. The appointment can be terminated on three months' notice by either party.

Directors' interests in share options

The interests of directors in share options over ordinary shares during the year were as follows:

Synairgen Long Term Incentive Plan

Date of grant	At 1 January 2019	Granted during the year	At 31 December 2019	Exercise price	Earliest exercise date	Expiry date
Richard Marsden						
7 September 2009	605,000	–	605,000	1p	7 Sept 2012	31 Dec 2020[1]
8 September 2010	246,889	–	246,889	1p	8 Sept 2013	7 Sept 2020
21 September 2011	538,063	–	538,063	1p	21 Sept 2014	20 Sept 2021
5 April 2018	880,903	–	880,903	1p	5 April 2021	4 April 2028
4 April 2019	–	772,167	772,167	1p	4 April 2022	3 April 2029
Dr Phillip Monk						
21 September 2011	400,212	–	400,212	1p	21 Sept 2014	20 Sept 2021
5 April 2018	636,208	–	636,208	1p	5 April 2021	4 April 2028
4 April 2019	–	557,679	557,679	1p	4 April 2022	3 April 2029
John Ward						
7 September 2009	100,000	–	100,000	1p	7 Sept 2012	31 Dec 2020[1]
8 September 2010	224,445	–	224,445	1p	8 Sept 2013	7 Sept 2020
21 September 2011	489,148	–	489,148	1p	21 Sept 2014	20 Sept 2021
5 April 2018	685,147	–	685,147	1p	5 April 2021	4 April 2028
4 April 2019	–	600,575	600,575	1p	4 April 2022	3 April 2029

Note 1. Awards normally lapse on the tenth anniversary of grant. Due to close period constraints, it was not feasible for the executives to exercise their 2009 awards and the Committee agreed to extend the exercise window until the end of 2020.

Note 2. The Company issued 40,000,000 new shares pursuant to a placing on 30 March 2020 and 15 April 2020. While this would have permitted the Committee to adjust the shares subject to awards using the HMRC established TERPS formulae (which would have increased the shares subject to awards by approximately a further one-third), the Committee felt that this was not appropriate as the placing was offered on a non-pre-emptive basis.

No options were exercised by directors during the year.

Synairgen Qualifying Non-Employee Option Scheme

Date of grant	At 1 January 2019	Lapsed during the year	At 31 December 2019	Exercise price	Earliest exercise date	Expiry date
Iain Buchanan						
28 June 2010	212,765	–	212,765	23.5p	28 June 2013	27 June 2020
Paul Clegg						
7 September 2009	250,000	(250,000)	–	20p	7 Sept 2012	6 Sept 2019

These awards were granted under a legacy plan. The exercise of the options awarded in June 2010 (which vested in 2013) is subject to the rules of the scheme. The option granted to Mr Clegg lapsed without being exercised on its 10th anniversary.

There were no other options granted to directors or which were exercised or lapsed during the year.

The mid-market price of the Company's shares at 31 December 2019 was 5.875p. During the year then ended, the mid-market price ranged from 5.875p to 18.00p. On 22 May 2020 the closing price was 51p.

Audited information

The following section (Directors' remuneration) contains the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, forms part of the financial statements for the year ended 31 December 2019 and has been audited by the Company's auditor, BDO LLP.

Directors' remuneration

The remuneration received by directors who served during the years ended 31 December 2019 and 2018 was as follows:

		Year ended 31 December 2019						Year ended 31 December 2018		
£000	Note	Salary/ fee	Bonus	Benefits	Total (excl. pension)	Pension	Total (incl. pension)	Total (excl. pension)	Pension	Total (incl. pension)
Executive Directors										
Richard Marsden	(i)	190	80	2	272	17	289	290	17	307
Dr Phillip Monk		137	58	1	196	12	208	210	12	222
John Ward		148	62	3	213	13	226	229	13	242
Non-executive Directors										
Simon Shaw		30	–	–	30	–	30	30	–	30
Iain Buchanan		28	–	–	28	–	28	25	–	25
Dr Bruce Campbell		25	–	1	26	–	26	25	–	25
Paul Clegg	(ii)	13	–	–	13	–	13	30	–	30
Prof. Stephen Holgate		25	–	–	25	–	25	25	–	25
Total		596	200	7	803	42	845	864	42	906

Directors' Remuneration Report
(continued)

(i) Richard Marsden was the highest paid director during the years ended 31 December 2019 and 2018. He did not exercise any options during either year.

(ii) Paul Clegg retired as a non-executive director on 3 June 2019. He received no payments for loss of office.

(iii) The Company permits employees, including executive directors, to change their pension provision through an election under a flexible benefits arrangement. The reported numbers are before any personal elections.

(iv) As explained on page 18, the executive directors were also awarded past due bonuses in respect of 2018; in 2019, the Committee had deferred a decision on such bonuses so no bonus was included in the 2018 report. The 2018 bonuses were £102,000, £74,000 and £80,000 in respect of Richard Marsden, Phillip Monk and John Ward.

In respect of key management personnel, for the year ended 31 December 2019, the total share-based payment amounted to £85,000 (2018: £78,000) and total social security costs were £126,000 (2018: £62,000).

By order of the Board

Iain Buchanan

Chairman of the Remuneration and Nomination Committee

25 May 2020

Report of the Audit Committee
for the year ended 31 December 2019

Constitution and membership

The Audit Committee (the 'Committee') has primary responsibility for ensuring that the financial performance of the Group is properly measured and reported on. It was established in October 2004 and its terms of reference are outlined in the Corporate Governance Statement on page 15.

The members of the Committee during the year under review and at the date of this report are Simon Shaw (Chairman), Iain Buchanan and Dr Bruce Campbell. Whilst it is not normal in larger companies for the chairman of the Company to chair the Audit Committee, the Company considers it appropriate for Simon Shaw to be Chairman as he is considered to have the most significant, recent and relevant financial experience of the non-executive directors.

Matters covered by the Committee

The Committee, which is required to meet at least twice a year, met four times during the year ended 31 December 2019, with Simon Shaw and Iain Buchanan attending all meetings and Bruce Campbell attending three meetings, and covered the following matters:

- February 2019: audit completion meeting for the 2018 year-end audit, including review of the valuation model to support Synairgen plc's investment in Synairgen Research Limited, review of the financial forecast to support the Group's ability to account on a going concern basis, review of the auditor's report on the audit, and review of the annual report.
- July 2019: planning meeting for the 2019 interim review, including agreement of scope, materiality, areas of focus and fees. The Committee also reviewed the impact of adoption of IFRS 16 Leases.
- September 2019: interim report completion meeting for 2019, including review of report from the Company's auditors.
- December 2019: planning meeting for the 2019 year-end audit, including agreement of audit scope, materiality, areas of audit focus, audit fees and auditor independence.

The Committee also met in May 2020 for the audit completion meeting for the 2019 year-end audit including reviews of: the valuation model to support Synairgen plc's investment in Synairgen Research Limited; the financial forecast to support the Group's ability to account on a going concern basis, including the potential impact of COVID-19; the implementation of IFRS 16 accounting; the auditor's report on the audit; and the annual report.

BDO, the Company's auditors, were present at all meetings. John Ward, the Company's Finance Director, was present at all meetings except for when his performance was being discussed by the Committee.

Auditor independence

As set out in the Corporate Governance Statement on page 15, in certain circumstances it is permitted by the Board for the auditors to supply non-audit services (in the provision of tax advice, or on specific projects where they can add value). The Committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence. The overall fees paid to the auditors for tax advice during the year (as detailed in note 4 to the Financial Statements) amounted to £7,000 and in relation to a Group audit fee of £35,000 are not deemed to be of such significance to them as to impair their independence.

Internal audit function

The Group does not have an internal audit function, but the Committee considers that this is appropriate, given the size and relative lack of complexity of the Group at this stage in its development. The Committee keeps this matter under review annually.

Simon Shaw

Chairman of the Audit Committee

25 May 2020

Directors' Report

The directors present their report and the audited financial statements for Synairgen plc (the 'Company') and its subsidiary (together the 'Group') for the year ended 31 December 2019.

The review of future developments is covered in the Outlook section of the Strategic Report. Details of directors' remuneration and share options are given in the Directors' Remuneration Report.

Research and development

During the year ended 31 December 2019, the Group has invested £3,460,000 (2018: £3,232,000) in research and development activities and a review of this expenditure is included in the Strategic Report.

Post balance sheet event

Post year-end, COVID-19 developed into a global pandemic. As described in the Strategic Report, the Group is now evaluating SNG001 in clinical trials of COVID-19 patients. As set out in note 21 to the consolidated financial statements on page 45, post year-end, the Company raised £14 million (before expenses) to fund its COVID-19 related activities and strengthen its balance sheet.

Going concern

The directors have prepared financial forecasts to estimate the likely cash requirements of the Group over the next twelve months, given its stage of development and lack of recurring revenues. In preparing these financial forecasts, the directors have made certain assumptions with regards to the timing and amount of future expenditure over which they have control. The directors have attempted to take a prudent view in preparing these forecasts, recognising the inherent variability in costs of the ongoing clinical trials of SNG001 in COVID-19 patients.

COVID-19 impacted the Group in a number of ways. The Phase II study in COPD was paused in March 2020 with 109 of the planned 120 patients randomised. An unplanned interim analysis is now being undertaken. The potential therapeutic benefits of interferon beta for patients with COVID-19 is now being explored in two clinical trials. The impact of lockdown and the challenge of commencing two new trials in a very short timescale has placed a significant burden on staff, whose response has been outstanding. With the exception of clinical staff who are working on the COVID-19 clinical trials and a small number of laboratory staff, all other staff have worked from home and communications have been facilitated by conference calls and videoconferencing. Key suppliers have also continued working during lockdown and this has not materially impeded on our ability to commence the trials in COVID-19 patients. Our clinical staff who are working in the hospital facility are issued with appropriate PPE, in accordance with NHS guidelines.

After due consideration of these forecasts and current cash resources, the directors consider that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least twelve months from the date of this report), and for this reason, the financial statements have been prepared on a going concern basis.

Treasury policy and financial risk management

The Group's treasury policy and financial risk management is set out in note 17 to the financial statements on page 42.

Dividends

The directors do not propose the payment of a dividend.

Substantial shareholdings

As at 25 May 2020, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital:

Name of shareholder	Number of ordinary shares	% of share capital
Link Fund Solutions Limited	21,341,293	14.3%
Lansdowne Partners International Limited	17,468,735	11.7%
Leonard Licht	9,720,000	6.5%

Directors

The directors of the Company during the year ended 31 December 2019 were:

Executive directors:

Richard Marsden (Chief Executive Officer)
Dr Phillip Monk (Chief Scientific Officer)
John Ward (Finance Director)

Non-executive directors:

Simon Shaw (Chairman)
Iain Buchanan
Dr Bruce Campbell
Paul Clegg – retired 3 June 2019
Prof. Stephen Holgate CBE

Directors' interests in ordinary shares

The directors, who held office at 31 December 2019, had the following interests in the ordinary shares of the Company:

	At 1 January and 31 December 2019 Number of shares
Richard Marsden (i)	310,682
Dr Phillip Monk	230,314
John Ward	339,006
Simon Shaw (ii)	1,474,096
Iain Buchanan	112,741
Dr Bruce Campbell (iii)	294,259
Prof. Stephen Holgate (iv)	858,360

(i) Richard Marsden's shareholding includes 156,250 shares held in his pension plan.
(ii) Simon Shaw's shareholding includes 105,516 shares held in his pension plan.
(iii) Dr Bruce Campbell's shareholding includes 40,299 shares owned by his wife, Susan Campbell.
(iv) Prof. Stephen Holgate's shareholding includes 1,923 shares owned by his wife, Elizabeth Holgate.

On 15 April 2020 the directors detailed below subscribed for shares in the Company's fundraising:

Richard Marsden (i)	57,143
Dr Phillip Monk	14,286
John Ward	28,571
Simon Shaw	57,143
Dr Bruce Campbell	28,571
Prof. Stephen Holgate	28,571

(i) Richard Marsden's subscription included 28,571 shares held in his pension plan.

Directors' and officers' liability insurance

Qualifying indemnity insurance cover has been arranged in respect of the personal liabilities which may be incurred by directors and officers of the Group during the course of their service with the Group. This insurance has been in place during the year and to the date of this report.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

By order of the Board

John Ward
Company Secretary
25 May 2020

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

John Ward

Company Secretary

25 May 2020

Independent Auditor's Report to the members of Synairgen plc

Opinion

We have audited the financial statements of Synairgen plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Parent Company Balance Sheet, Parent Company Statement of Changes in Equity and notes to the Consolidated and Parent Company financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters impacting the Group financial statements

In respect of our audit of the Group financial statements we have determined that there are no key audit matters to communicate in our report.

Key audit matters impacting the Parent Company financial statements only

Investment in subsidiary: impairment review

As at 31 December 2019, the Parent Company held an investment of £26.9m in its subsidiary, Synairgen Research Limited (as set out in note 4 of the Parent Company financial statements). At each reporting date, management carries out an impairment review in accordance with accounting standards that involves assessing the recoverable amount of the investment by estimating future cash flows and discounting to present value. There is inherent uncertainty in estimating the timing and extent of future cash flows of a drug development company.

The degree of estimation and complexity involved in the impairment review, for example in determining the appropriate discount rate and clinical success probabilities to be applied to the cash flows, causes us to consider this to be a significant audit risk.

Independent Auditor's Report to the members of Synairgen plc
(continued)

How We Addressed the Key Audit Matter in the Audit

We challenged the impairment review prepared by management through assessing the appropriateness of the key assumptions including:

- The discount rate – through use of specialists and carrying out sensitivity analysis, using our internal valuations experts in order to assist with assessing the appropriateness of the discount rate;
- The scale of the market opportunities used to develop future revenue forecasts – with reference to third party sources such as medical journals and publicly available information in respect of the structure and quantum of transactions involving similar assets;
- Future development costs forecasts, by reference to supplier quotations and previous clinical trials and related development costs experience; and
- The risk-weighting of estimated future cash flows - ensuring, through third party sources, that these weightings are in line with industry valuation practice.

We have assessed the methodology used in the preparation of the model with reference to the requirements of accounting standards.

We have also performed sensitivity analysis to test whether a reasonably possible change could result in an impairment. We also considered the adequacy of the disclosures in the financial statements relating to the directors' assessment.

Based on the procedures we performed, we consider the estimates and judgements made by management to assess the carrying value of the investment in subsidiary to be reasonable. We reviewed the disclosures in note 2 and are satisfied that they are appropriate.

Our application of materiality

Group materiality: £200,000 (2018: £170,000).
Parent Company materiality: £180,000 (2018: £140,000).

Our Group materiality was based upon 4% of the loss before tax for the year (2018: 5% of the loss before tax for the year). We consider losses before tax to be one of the principal considerations for the users of the financial statements in assessing the financial performance of the Group.

The audit of Synairgen Research Limited, the only subsidiary in the Group was performed to a materiality of £150,000, calculated on the same basis as that of the Group, while materiality for Synairgen plc, as the holding company, was capped at a level which is 90% (2018: 70%) of the Group materiality.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality was set at 75 per cent of the above materiality levels, being £150,000 (2018: £150,000) for the Group and £135,000 (2018: £105,000) for Synairgen plc. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements based on past experience and other factors.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £4,000 (2018: £4,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The Group's operations are based solely in Southampton, United Kingdom.

The scope of our Group audit was established by obtaining an understanding of the Group, including its control environment, and assessing the risks of material misstatement.

Both components, Synairgen plc and Synairgen Research Limited, are considered significant components and were subject to full-scope audits by BDO LLP.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the 2019 annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website : www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Oliver (Senior Statutory Auditor)

For and on behalf of

BDO LLP, Statutory Auditor

Reading, United Kingdom

25 May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Revenue		**–**	105
Research and development expenditure		**(3,460)**	(3,232)
Other administrative expenses		**(1,357)**	(1,005)
Total administrative expenses		**(4,817)**	(4,237)
Loss from operations	4	**(4,817)**	(4,132)
Finance income	6	**30**	36
Finance expense	6	**(6)**	–
Loss before tax		**(4,793)**	(4,096)
Tax	7	**908**	795
Loss and total comprehensive loss for the period attributable to equity holders of the parent		**(3,885)**	(3,301)
Loss per ordinary share			
Basic and diluted loss per share (pence)	8	**(3.55)p**	(3.47)p

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £000	Share premium £000	Merger reserve £000	Retained deficit £000	Total £000
Note	19a	19b	19c	19d	
At 1 January 2018	914	25,771	483	(20,609)	6,559
Issue of ordinary shares	180	2,700	–	–	2,880
Transaction costs in respect of share issue	–	(209)	–	–	(209)
Recognition of share-based payments	–	–	–	98	98
Loss and total comprehensive loss for the year	–	–	–	(3,301)	(3,301)
At 31 December 2018	1,094	28,262	483	(23,812)	6,027
Recognition of share-based payments	–	–	–	111	111
Loss and total comprehensive loss for the year	–	–	–	(3,885)	(3,885)
At 31 December 2019	**1,094**	**28,262**	**483**	**(27,586)**	**2,253**

Consolidated Statement of Financial Position

as at 31 December 2019

	Notes	31 December 2019 £000	31 December 2018 £000
Assets			
Non-current assets			
Intangible assets	9	**16**	29
Property, plant and equipment	10	**301**	374
Right-of-use assets	11	**255**	–
		572	403
Current assets			
Inventories	12	**41**	56
Current tax receivable		**865**	795
Trade and other receivables	13	**139**	216
Other financial assets – bank deposits	14	**–**	50
Cash and cash equivalents	15	**2,454**	5,284
		3,499	6,401
Total assets		**4,071**	6,804
Liabilities			
Non-current liabilities			
Lease liabilities	11	**(127)**	–
Current liabilities			
Trade and other payables	16	**(1,490)**	(777)
Lease Liabilities	11	**(201)**	–
		(1,691)	(777)
Total liabilities		**(1,818)**	(777)
Total net assets		**2,253**	6,027
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	18	**1,094**	1,094
Share premium	18	**28,262**	28,262
Merger reserve	19	**483**	483
Retained deficit	19	**(27,586)**	(23,812)
Total equity		**2,253**	6,027

The financial statements on pages 29 to 45 were approved and authorised for issue by the Board of directors on 25 May 2020 and signed on its behalf by:

Richard Marsden
Chief Executive Officer

John Ward
Finance Director

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cash flows from operating activities			
Loss before tax		**(4,793)**	(4,096)
Adjustments for:			
Finance income		**(30)**	(36)
Finance expense		**6**	–
Depreciation of property, plant and equipment		**83**	24
Depreciation of right-of-use assets		**67**	–
Amortisation of intangible fixed assets		**13**	16
Share-based payment charge		**111**	98
Cash flows from operations before changes in working capital		**(4,543)**	(3,994)
Decrease in inventories		**15**	–
Decrease in trade and other receivables		**81**	426
Increase/(Decrease) in trade and other payables		**713**	(326)
Cash used in operations		**(3,734)**	(3,894)
Tax credit received		**838**	71
Net cash used in operating activities		**(2,896)**	(3,823)
Cash flows from investing activities			
Interest received		**26**	27
Purchase of property, plant and equipment		**(10)**	(386)
Decrease in other financial assets		**50**	1,950
Net cash generated from investing activities		**66**	1,591
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**–**	2,880
Transaction costs in respect of share issue		**–**	(209)
Net cash generated from financing activities		**–**	2,671
(Decrease)/Increase in cash and cash equivalents		**(2,830)**	439
Cash and cash equivalents at beginning of the year		**5,284**	4,845
Cash and cash equivalents at end of the year	15	**2,454**	5,284

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

1. Accounting policies

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively 'IFRSs') as adopted by the European Union ('Adopted IFRSs') and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements under IFRSs.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 16.

Adoption of new standards

IFRS 16 Leases

The Group has adopted IFRS 16 Leases with effect from 1 January 2019 and the accounting policy is detailed in note 11. This has resulted in the Group's lease with the University of Southampton being brought onto the statement of financial position, as both a right-of-use asset and a lease liability. The right-of-use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated and the liability increased for the accretion of interest and reduced by lease payments.

Other new standards

Other new amended standards and interpretations issued by the International Accounting Standards Board (IASB) that apply to the financial statements do not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

There are a number of standards and amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these (which are all effective for the period beginning 1 January 2020) are (i) Amendments to References to the Conceptual Framework in IFRS Standards; and (ii) Amendments to IAS 1 and IAS 8 – Definition of Material. The Group is currently assessing the impact of these new standards and amendments. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

The Group financial statements are presented in Sterling.

Going concern

The directors have prepared financial forecasts to estimate the likely cash requirements of the Group over the next twelve months, given its stage of development and lack of recurring revenues. In preparing these financial forecasts, the directors have made certain assumptions with regards to the timing and amount of future expenditure over which they have control. The directors have attempted to take a prudent view in preparing these forecasts, recognising the inherent variability in costs of the ongoing clinical trials of SNG001 in COVID-19 patients.

After due consideration of these forecasts and current cash resources, the directors consider that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least twelve months from the date of this report) and, for this reason, the financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (as detailed in note 4 to the Parent Company Financial Statements on page 49) made up to the reporting date. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The formation of the Group arose from merger accounting and as the business combination took place prior to 1 July 2006, the date of transition to IFRS, the transaction has not been restated as permitted by IFRS 1 "First-time Adoption of International Financial Reporting".

Revenue

Revenue is stated net of value added tax.

The Group's licensing and collaboration agreement with Pharmaxis in respect of the jointly developed LOXL2 inhibitors was renegotiated in December 2017. As no substantive performance obligations remained at 1 January 2019, it was treated as a completed contract on transition to IFRS 15 and the Group elected to account for the income related to it in the 2017 financial year, together with any future income resulting from the Group's share of its partner's future income from the collaboration, under IAS 18. Only the up-front receipt was recognised as revenue in 2017, as a reliable estimate of the other amounts which might be received could not be made at that time. Revenue from other amounts which may be received in future under this agreement, will be recognised when a reliable estimate can be made, which is likely to be when the partner's income has been earned and the Group's share is contractually due.

Revenue from the provision of services (which is not considered to be material in the current or prior year) is recognised over time, based on the estimated stage of completion of the contracted work.

1. Accounting policies (continued)

Research and development
All ongoing research expenditure is currently expensed in the period in which it is incurred. Due to the regulatory and other uncertainties inherent in the development of the Group's products, the criteria for development costs to be recognised as an asset, as set out in IAS 38 "Intangible Assets", are not met until a product has been submitted for regulatory approval and it is probable that future economic benefit will flow to the Group. The Group currently has no such qualifying expenditure.

Employee benefits
All employee benefit costs, notably salaries, holiday pay, bonuses and contributions to personal defined contribution pension schemes are charged to the consolidated statement of comprehensive income on an accruals basis.

Share-based payments
Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Intangible assets
Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses. Patent costs are amortised over ten years on a straight-line basis and the amortisation cost is charged to research and development expenditure in the consolidated statement of comprehensive income.

Property, plant and equipment
Property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost of property, plant and equipment less their estimated residual value over their expected useful lives, which are as follows:

Computer equipment:	3 years
Laboratory and clinical equipment:	5 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Inventories
Inventories are stated at the lower of cost and net realisable value.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets
The Group classifies its financial assets as financial assets held at amortised cost.

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group's financial assets measured at amortised cost comprise trade and other receivables, other financial assets and cash and cash equivalents in the consolidated statement of financial position. Other financial assets comprise short-term deposits not meeting the IAS 7 definition of a cash equivalent. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019 (continued)

Financial liabilities
The Group classifies its financial liabilities as financial liabilities held at amortised cost. Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Leases
All leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets and leases with a duration of twelve months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see note 11. The following policies apply subsequent to the date of initial application, 1 January 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes: amounts expected to be payable under any residual value guarantee; the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to exercise that option; and any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for: lease payments made at or before commencement of the lease; initial direct costs incurred; and the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount; and
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

1. Accounting policies (continued)

Taxation

Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Research and development tax credits are included as an income tax credit under current assets.

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the reporting date except for differences arising on:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference could not reverse in the foreseeable future; and
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Recognition of deferred tax assets is restricted to those instances where it is probable that a taxable profit will be available against which the temporary difference can be utilised. Deferred tax balances are not discounted.

2. Critical accounting estimates and judgements

Critical accounting estimates, assumptions and judgements are continually evaluated by management based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

There are no critical accounting estimates and judgements.

3. Segmental analysis

The Group operates in one area of activity, namely drug discovery and development. All assets of the Group are located within the United Kingdom and all losses were generated in that territory. The revenue generated in 2018 was generated from one customer.

4. Loss from operations

The loss from operations has been arrived at after charging:

	2019 £000	2018 £000
Depreciation of property, plant and equipment	**83**	24
Depreciation of right-of-use assets	**67**	–
Amortisation of intangible assets	**13**	16
Operating lease rentals payable:		
Land and buildings	**42**	72
Other operating lease rentals	**54**	93

The fees of the Group's auditor, BDO LLP, for services provided are analysed below:	2019 £000	2018 £000
Fees payable to the Company's auditor for the audit of the Group and Company financial statements	**21**	18
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiary, pursuant to legislation	**14**	14
Audit-related assurance services	**6**	5
Tax compliance services	**7**	8
Tax advisory services	**–**	8
Total fees	**48**	53

5. Employee benefit expense

The average monthly number of employees (including executive directors) was:

	2019	2018
Research	**11**	9
Administration	**3**	3
	14	12

Their aggregate remuneration comprised:	2019 £000	2018 £000
Wages and salaries	**1,293**	729
Social security costs	**164**	84
Pension costs – defined contribution plans	**105**	94
Total cash-settled remuneration	**1,562**	907
Accrued holiday pay	**(6)**	(8)
Share-based payment	**111**	98
Total remuneration	**1,667**	997

For the purpose of presentation in the consolidated statement of comprehensive income, remuneration costs of £788,000 (2018: £507,000) are included in research and development expenditure and £879,000 (2018: £490,000) are included in other administrative expenses.

Key management compensation

The directors represent the key management personnel and details of their remuneration are given in the Directors' Remuneration Report.

In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Directors' Remuneration Report on pages 20 and 21, which are ascribed as forming part of these financial statements.

6. Finance income and expense

Finance income for the years ended 31 December 2019 and 2018 represents bank interest receivable.

Finance expense for the year ended 31 December 2019 represents interest expense on lease liabilities.

7. Taxation

Current tax

	2019 £000	2018 £000
UK corporation tax credit on loss for the year	**(865)**	(795)
Adjustment in respect of prior years	**(43)**	**–**
Total income tax credit	**(908)**	(795)

7. Taxation (continued)

The tax assessed on the loss on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £000	2018 £000
Loss on ordinary activities before tax	**(4,793)**	(4,096)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK	**(911)**	(778)
Effects of:		
Tax relief on share option exercises	**–**	(2)
Expenses not deductible for tax purposes	**21**	19
Enhanced research & development relief	**(674)**	(620)
Variable rates on tax losses surrendered for research & development tax credit	**269**	247
Movement in unrecognised losses and temporary differences	**430**	339
Adjustment in respect of previous years	**(43)**	–
Total tax credit for the current year	**(908)**	(795)

Deferred taxation

Changes in tax rates and factors affecting the future tax charge

Finance Act 2015 included provision for the main rate of corporation tax to reduce from 20% to 19% on 1 April 2017. Finance Act 2016 included provision for the rate to reduce further to 17% on 1 April 2020. This will reduce the Company's future tax charge accordingly. The 17% tax rate was substantively enacted on 15 September 2016. Accordingly, deferred tax balances have been recognised at 17%, being as at 31 December 2019 the rate of corporation tax expected to be in force at the time that these timing differences are expected to reverse. Post year-end, a change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. However as this is classified as a non-adjusting post balance sheet event the deferred tax balances remain recognised at 17%. The impact of this change to the unrecognised deferred tax asset is shown below.

Recognised deferred taxation

	2019 £000	2018 £000
Accelerated capital allowances	**(12)**	62
Other temporary differences	**(2)**	(2)
Trading losses	**14**	(60)
Charge for the year	**–**	–

Unrecognised deferred taxation

At 31 December 2019 the Group has trading losses carried forward which are available for offset against future profits of the Group amounting to £16,653,000 (2018: £14,964,000) and non-trading losses of £2,444,000 (2018: £2,222,000). At 31 December 2019 the Group has an unrecognised deferred tax asset in respect of these losses of £3,247,000 (2018: £2,922,000). The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

In addition to the deferred tax asset on losses, the Group has a potential future tax deduction on share options of £248,000 (2018: £429,000) and a deferred tax asset of £42,000 (2018: £73,000) thereon. The additional tax deduction will crystallise at the point the options are exercised. As the utilisation of this additional deduction against taxable profits in the Group is uncertain, no deferred tax asset has been recognised in respect of the future tax deduction on share options.

The movement on the unrecognised deferred tax asset comprises the following:

	2019 £000	2018 £000
Unrecognised deferred tax asset at the start of the year	**(2,995)**	(2,612)
Movement in the year	**(294)**	(383)
Unrecognised deferred tax asset at the year-end	**(3,289)**	(2,995)

As noted above the unrecognised deferred tax asset at 31 December 2019 is calculated at a rate of 17%. If this amount had been calculated at 19% the unrecognised deferred tax asset would increase to £3,676,000.

8. Loss per ordinary share

	2019 £000	2018 £000
Loss attributable to ordinary equity holders of the parent company (£000)	**(3,885)**	(3,301)
Weighted average number of ordinary shares in issue (000)	**109,433**	95,263
Basic and diluted loss per share (pence)	**(3.55)**	(3.47)

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares in issue during the year.

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 loss per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore antidilutive under the terms of IAS 33.

9. Intangible assets

	Patent costs £000
Cost	
At 1 January 2018, 31 December 2018 and 2019	**212**
Amortisation	
At 1 January 2018	167
Charge for the year	16
At 31 December 2018	183
Charge for the year	13
At 31 December 2019	**196**
Net book amount	
At 31 December 2019	**16**
At 31 December 2018	29
At 1 January 2018	45

At 31 December 2019 £16,000 (31 December 2018: £29,000) of the net book amount relates to interferon beta patent costs.

10. Property, plant and equipment

	Computer equipment £000	Laboratory and clinical equipment £000	Total £000
Cost			
At 1 January 2018	40	138	178
Additions	4	382	386
At 31 December 2018	44	520	564
Additions	7	3	10
At 31 December 2019	**51**	**523**	**574**
Depreciation			
At 1 January 2018	37	129	166
Charge for the year	2	22	24
At 31 December 2018	39	151	190
Charge for the year	3	80	83
At 31 December 2019	**42**	**231**	**273**
Net book value			
At 31 December 2019	**9**	**292**	**301**
At 31 December 2018	5	369	374
At 1 January 2018	3	9	12

11. Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

The Group has one lease with its landlord, the University of Southampton, which provides the Group with office space and access to laboratory equipment. At 1 January 2019 the existing lease (the 'Existing Lease') had 7 months to run and therefore was covered by one of the exclusions noted above. A new two year lease (the 'New Lease') was entered into with effect from 1 August 2019.

IFRS 16 was adopted on 1 January 2019 using the modified retrospective method without restatement of comparative figures. The New Lease has been accounted for by recognising a right-of-use asset and a lease liability.

The lease liability has been measured at the present value of the contractual payments due to the lessor over the lease term using a discount rate of 5%, which is an estimate of the discount rate applicable to a property lease.

The right-of-use asset has been initially measured at the amount of the lease liability. Subsequent to initial measurement the lease liability increases as a result of interest charged at a constant rate on the balance outstanding and is reduced for any lease payments made. Right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease.

	Land and buildings £000	Plant and machinery £000	Total £000
Right-of-use assets			
At 1 January 2019	–	–	–
Additions	161	161	322
Depreciation	(34)	(33)	(67)
At 31 December 2019	**127**	**128**	**255**

	Land and buildings £000	Plant and machinery £000	Total £000
Lease liabilities			
At 1 January 2019	–	–	–
Additions	161	161	322
Interest expense related to lease liabilities	3	3	6
At 31 December 2019	**164**	**164**	**328**

	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 yearsl £000
At 31 December 2019			
Lease liabilities	**81**	**120**	**127**

	2019 £000
Analysis of lease expense	
Depreciation of right-of-use assets	
Land and buildings	**34**
Plant and machinery	**33**
Short term lease expense	**96**
Charge to operating loss	**163**
Interest expense related to lease liabilities	**6**
Charge to loss before taxation for leases	**169**

12. Inventories

	2019 £000	2018 £000
Raw materials	**41**	56

Raw materials comprises the Group's BioBank.

13. Trade and other receivables

Amounts receivable within one year:	2019 £000	2018 £000
Other tax and social security	**43**	81
Prepayments and accrued income	**96**	135
	139	216

14. Other financial assets – bank deposits

Amounts receivable within one year:	2019 £000	2018 £000
Sterling floating rate deposit of greater than three months' maturity at inception	**–**	50

15. Cash and cash equivalents

	2019 £000	2018 £000
Cash available on demand	**2,454**	5,284

At 31 December 2019, £750,000 (2018: £2,250,000) was on 32 days' notice.

16. Trade and other payables

	2019 £000	2018 £000
Trade payables	**161**	305
Social security and other taxes	**114**	44
Accrued expenses and deferred income	**1,215**	428
	1,490	777

17. Financial instruments

	Notes	2019 Book and fair value £000	2018 Book and fair value £000
Financial assets			
Amortised cost			
Trade and other receivables	(i)	**44**	56
Other financial assets (less than one year)		**–**	50
Cash and cash equivalents (less than one year)		**2,454**	5,284
Total		**2,498**	5,390

	Notes	2019 Book and fair value £000	2018 Book and fair value £000
Financial liabilities			
Other financial liabilities			
Trade and other payables (less than one year)	(ii)	**1,376**	733
Lease liabilities (less than one year)		**201**	–
Lease liabilities (greater than one year)		**127**	–
Total		**1,704**	733

(i) Trade and other receivables shown above excludes prepayments and other taxes, which are not a contractual right to receive cash, amounting to £95,000 (2018: £160,000).

(ii) Trade and other payables shown above excludes amounts due in respect of social security and other taxes, which are not a contractual obligation to pay cash, amounting to £114,000 (2018: £44,000).

The objective of holding financial instruments is to have access to finance for the Group's operations and to manage related risks. The main risks arising from holding these instruments are interest rate risk, liquidity risk, credit risk and currency risk.

Interest rate risk

The Group's deposit balances are subject to the risk of fluctuating base rates.
Interest rate risk profile of financial assets, excluding short-term debtors:

	2019 Floating rate financial assets £000	2018 Floating rate financial assets £000
Euro	**5**	8
Sterling	**2,449**	5,326
	2,454	5,334

Short-term deposits are placed with banks for periods of up to twelve months and are categorised as floating rate financial assets. Contracts in place at 31 December 2018 had a weighted average period to maturity of 53 days and a weighted average annualised rate of interest of 0.85%.

Sensitivity analysis

It is estimated that an increase of quarter of one percentage point in interest rates would have decreased the Group's loss before taxation by approximately £9,000 (2018: £14,000).

Liquidity risk

The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. All Group payable balances as at 31 December 2019 and 31 December 2018 fall due for payment within one year. Cash balances are placed on deposit for varying periods with reputable banking institutions to ensure there is limited risk of capital loss. The Group does not maintain an overdraft facility.

Credit risk

The Group's credit risk is attributable to its banking deposits. The Group follows a risk-averse policy of treasury management. Sterling deposits are held with one or more approved UK-based financial institutions (HSBC UK Bank plc, Bank of Scotland plc and National Westminster Bank Plc, which at 31 December 2019 had good short term credit ratings, being at least F1 for Fitch, P-1 for Moody's and A-1 for Standard and Poor's) and in the Institutional Cash Series plc Institutional Sterling Liquidity Fund managed by BlackRock Investment Management (UK) Limited (rated at 31 December 2019 as AAAmmf by Fitch, Aaa-mf by Moody's and AAAm by Standard and Poor's). The Group's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing prevailing market rates. The Group seeks to lessen risk by placing its cash deposits with at least three of the above institutions.

Currency risk

During the year under review, the Group was exposed to Euro currency movement as some of the pharmaceutical development costs for the interferon beta trial were denominated in Euros. To hedge against currency movement, the Group purchased Euros before the payment was due.

17. Financial instruments (continued)

Capital structure and funding

The Group is funded by equity capital, reflecting the early stage nature of its discovery and development programmes.

The Group considers its capital to be its total equity, which at 31 December 2019 amounted to £2.25 million (2018: £6.03 million). The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders of the Company and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages this objective through tight control of its cash resources and, upon reaching significant drug development programme milestones (to decrease investment risk), by raising additional equity from shareholders to meet its forecast future cash requirements.

Net funds held by the Group at 31 December 2019 amounted to £2.45 million and comprised short-term deposits (with original maturities of greater than three months and less than one year) and cash and cash equivalents as shown below:

	2019 £m	2018 £m	2017 £m	2016 £m	31 Dec 2015 £m
Short-term deposits	–	0.05	2.00	1.66	3.72
Cash and cash equivalents	2.45	5.28	4.85	3.11	3.99
Net funds	**2.45**	**5.33**	**6.85**	**4.77**	**7.71**

The Group did not have any bank borrowings as at 31 December 2019 (2018: £nil).

There have been eight significant issues of shares raising a total (net of costs) of £29.72 million, with the most recent raising £2.67 million in October 2018. The other major sources of funding received by the Group from the formation of the business until 31 December 2019 have been: revenues from licensing transactions of £9.25 million, research and development tax credits of £4.58 million, bank interest of £1.78 million, and revenues from collaborative work of £0.79 million.

18. Share capital, share premium and share-based payment

	Notes	Number of shares	Ordinary shares of 1p each £000	Share premium £000	Total £000
At 1 January 2018		91,362,612	914	25,771	26,685
Issue of ordinary shares	(i) - (ii)	18,070,830	180	2,700	2,880
Costs of issue of shares		–	–	(209)	(209)
At 31 December 2018 and 2019		**109,433,442**	**1,094**	**28,262**	**29,356**

(i) 70,205 ordinary shares of 1p were issued on 29 March 2018 at par following the exercise of share options under the Company's long term incentive plan (LTIP).

(ii) 18,000,625 ordinary shares of 1p each were issued on 15 October 2018 at a premium of 15p to fund an increase in the size of the Phase II clinical trial in COPD, to enable investment in new opportunities and to provide working capital.

At the Company's 2015 Annual General Meeting held on 22 June 2015 shareholders passed a special resolution removing the restriction on the Company's share capital and amending the articles of association of the Company so that the number of shares the Company can allot and issue became unlimited.

All issued shares are fully paid.

Options

At 31 December 2019 there were options outstanding over 8,487,515 un-issued ordinary shares, equivalent to 7.8% of the issued share capital, as follows:

Date of grant	Note	Number of shares	Exercise price	Earliest exercise date	Latest exercise date
7 September 2009 (LTIP)	(i)	705,000	1p	7 September 2012	31 December 2020
28 June 2010 (QNEOS)	(i)	212,765	23.5p	28 June 2013	27 June 2020
8 September 2010 (LTIP)	(i)	471,334	1p	8 September 2013	7 September 2020
21 September 2011 (LTIP)	(i)	1,626,404	1p	21 September 2014	20 September 2021
5 April 2018 (LTIP)	(ii)	2,822,316	1p	5 April 2021	4 April 2028
4 April 2019 (LTIP)	(ii)	2,649,696	1p	4 April 2022	3 April 2029
		8,487,515			

Notes

(i) These options are vested in full.
(ii) The vesting performance conditions for these options are detailed in the Directors' Remuneration Report on pages 18 and 19.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.
The movement in the number of share options is set out below:

	2019 Number	2019 Weighted average exercise price	2018 Number	2018 Weighted average exercise price
Outstanding at start of the year	**6,087,819**	**2.6p**	4,529,237	3.1p
Granted during the year	**2,649,696**	**1.0p**	2,822,316	1.0p
Exercised during the year	**–**	**1.0p**	(70,205)	1.0p
Lapsed during the year	**(250,000)**	**20.0p**	(1,193,529)	1.0p
Number of outstanding options at year-end	**8,487,515**	**1.6p**	6,087,819	2.6p

At 31 December 2019, 3,015,503 share options were capable of being exercised, with exercise prices ranging from 1p to 23.5p (2018: 3,265,503, with exercise prices ranging from 1p to 23.5p). The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 6.1 years (2018: 5.3 years). Vesting conditions are disclosed in the Directors' Remuneration Report.

The Group uses a number of share-based incentive schemes as detailed above and in the Directors' Remuneration Report on pages 18 and 19. The fair value per award granted and the assumptions are as follows:

Date of Grant	Type of award	Number of shares	Exercise price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life (years)	Risk free rate	Expected volatility rate	Performance conditions
7 Sept 2009	LTIP	705,000	1p	18.5p	7.1p	3	2.09%	30%	Market
28 Jun 2010	QNEOS	212,765	23.5p	23.5p	5.6p	5	2.09%	30%	Market
8 Sept 2010	LTIP	471,334	1p	24.25p	12.1p	3	0.92%	40%	Market
21 Sept 2011	LTIP	1,626,404	1p	22.5p	13.4p	3	0.79%	56%	Market
5 Apr 2018	LTIP	2,822,316	1p	13.0p	7.5p	3	0.90%	56%	Market
4 Apr 2019	LTIP	2,649,696	1p	12.5p	6.2p	3	0.70%	59%	Market
		8,487,515							

The Company has applied IFRS 2 to all the above share-based payments and the following comments apply to these options:

(i) Stochastic valuation methodology was used for all awards.
(ii) Expected dividend yield is nil, consistent with the directors' view that the Group's model is to generate value through capital growth rather than payment of dividends.
(iii) The risk free rate is equal to the prevailing UK Gilts rate at grant date that most closely matches the expected term of the grant.
(iv) The fair value charge is spread evenly over the expected vesting period.
(v) Volatility for the grants made in 2018 and 2019 was calculated by reviewing share price movement over the period of three years prior to grant, excluding any large share price movements (as these were not considered to be representative of future expectations of volatility).
(vi) The charge for the year ended 31 December 2019 for share-based payment amounted to £111,000 (2018: £98,000).

19. Capital and reserves

19a Share capital
Share capital represents the nominal value of shares issued.

19b Share premium
Share premium represents amounts subscribed for share capital in excess of nominal value less the related costs of share issues.

19c Merger reserve
The merger reserve represents the reserve arising on the acquisition of Synairgen Research Limited on 11 October 2004 via a share for share exchange accounted for as a Group reconstruction using merger accounting under UK GAAP.

19d Retained deficit
The retained deficit represents cumulative net gains and losses recognised in the consolidated statement of comprehensive income, adjusted for cumulative recognised share-based payments.

20. Related party transactions and balances

Details of key management personnel and their compensation are given in note 5 and on pages 20 and 21 of the Directors' Remuneration Report.

21. Post balance sheet event

Post year-end, COVID-19 developed into a global pandemic. As described in the Strategic Report, the Group is now evaluating SNG001 in clinical trials of COVID-19 patients. The Group also paused its SG015 trial in March 2020, having dosed 109 of the targeted 120 patients, and will now conduct an unplanned interim analysis of the results. The potential therapeutic benefits of interferon beta for patients with COVID-19 is now being explored in two clinical trials. The impact of lockdown and the challenge of commencing two new trials in a very short timescale has placed a significant burden on staff, whose response has been outstanding. With the exception of clinical staff who are working on the COVID-19 clinical trials and a small number of laboratory staff, all other staff have worked from home and communications have been facilitated by conference calls and videoconferencing. Key suppliers have also continued working during lockdown and this has not materially impeded on our ability to commence the trials in COVID-19 patients.

On 26 March 2020, the Company announced that it had conditionally raised £14.0 million (before expenses) by a fundraising of 40,000,000 ordinary shares at a price of 35 pence per share. The fundraising comprised a placing of 10,943,295 ordinary shares admitted on 30 March 2020 (made pursuant to existing authorities to allot shares for cash and disapply pre-emption rights) and a placing and subscription of 29,056,705 ordinary shares admitted on 15 April 2020 (approved by shareholders in a general meeting on 14 April 2020). Total expenses of the fundraising were approximately £0.8 million.

The fundraising was for the following purposes:

- COVID-19 clinical trial activity (£7 million);
- Manufacture of SNG001 drug product and other supply chain considerations (£4 million); and
- Strengthened balance sheet for potential partnering discussions, working capital and fees (£3 million).

At this time it is unclear what the medium and long term impact of COVID-19 will be on the wider economy and how this will affect the Group. The COVID-19 pandemic wasn't a condition in existence at the year-end date and therefore it is being treated as a non-adjusting subsequent event.

Parent Company Balance Sheet
as at 31 December 2019

Company number: 5233429

	Notes	31 December 2019 £000	31 December 2018 £000
Fixed assets			
Investments	4	**26,893**	24,262
Current assets			
Debtors	5	**109**	118
Investments: short-term deposits		**–**	50
Cash at bank and in hand		**2,445**	5,125
		2,554	5,293
Creditors: amounts falling due within one year	6	**(44)**	(42)
Net current assets		**2,510**	5,251
Total assets less current liabilities		**29,403**	29,513
Capital and reserves			
Called up share capital		**1,094**	1,094
Share premium account		**28,262**	28,262
Retained earnings		**47**	157
Shareholders' funds		**29,403**	29,513

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year ended 31 December 2019 was £221,000 (2018: loss of £206,000).

The financial statements on pages 46 to 49 were approved and authorised for issue by the Board of directors on 25 May 2020 and signed on its behalf by:

Richard Marsden
Chief Executive Officer

John Ward
Finance Director

Parent Company Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital £000	Share premium account £000	Retained earnings £000	Shareholders' funds £000
At 1 January 2018	914	25,771	265	26,950
Loss for the year and total comprehensive loss	–	–	(206)	(206)
Issue of ordinary shares	180	2,700	–	2,880
Transaction costs in respect of share issue	–	(209)	–	(209)
Share-based payment credit	–	–	98	98
At 31 December 2018	1,094	28,262	157	29,513
Loss for the year and total comprehensive loss	–	–	(221)	(221)
Share-based payment credit	–	–	111	111
At 31 December 2019	**1,094**	**28,262**	**47**	**29,403**

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU-endorsed IFRS;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosures of related party transactions with other wholly-owned members of Synairgen plc group of companies.

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the Company's consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- share-based payments; or
- financial instruments.

Going Concern

The directors have prepared financial forecasts for the next twelve months to estimate the likely cash requirements of the Company and its subsidiary Synairgen Research Ltd, to which the Company has confirmed its intention to provide financial support for a period of not less than one year from the date that its financial statements for the year ended 31 December 2019 are signed, given its stage of development and lack of recurring revenues. In preparing these financial forecasts, the directors have made certain assumptions with regards to the timing and amount of future expenditure over which they have control. The directors have attempted to take a prudent view in preparing these forecasts, recognising the inherent variability in costs of the ongoing clinical trials of SNG001 in COVID-19 patients being conducted by Synairgen Research Ltd.

After due consideration of these forecasts and current cash resources, the directors consider that the Company has adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least twelve months from the date of this report), and for this reason, the financial statements have been prepared on a going concern basis.

Principal accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented.

Investments in subsidiary undertakings

Investments in subsidiary undertakings where the Company has control are stated at cost less any provision for impairment.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

The Company classifies its financial assets as financial assets held at amortised cost.

These assets incorporate types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company's financial assets measured at amortised cost comprise debtors, investments: short-term deposits and cash and cash equivalents in the balance sheet. Investments: short-term deposits comprise short-term deposits not meeting the definition of a cash equivalent. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

Financial liabilities

The Company classifies its financial liabilities as financial liabilities held at amortised cost. Trade creditors are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Notes to the Parent Company Financial Statements
for the year ended 31 December 2019 (continued)

Share-based payments

When the Company grants options over equity instruments directly to the employees of a subsidiary undertaking, the effect of the share-based payment is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

Taxation

The charge for taxation is based on the loss for the period and takes into account taxation deferred.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Share capital

The Group's ordinary shares are classified as equity instruments. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

2. Critical accounting estimates and judgements

Critical accounting estimates, assumptions and judgements are continually evaluated by management based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

The Company holds a significant investment in its subsidiary, Synairgen Research Limited, of £26.9 million (2018: £24.3 million). In assessing the carrying value of this asset for impairment, the directors have exercised judgement in estimating its recoverable amount, including the value of the inferferon beta programmes and the share of the LOXL2 collaboration with Pharmaxis. The value of the interferon beta programmes for 2019 is based on the COPD and immuno-compromised patient indications (2018 – COPD alone). The potential value of interferon beta in COVID-19 patients has been excluded from the impairment review at 31 December 2019, as the pandemic and related treatment opportunity is considered a non-adjusting post balance sheet event. The determination of the valuation for these assets is based on the discounted value of the estimated probability-adjusted future cash flows generated from out-licensing transactions. The valuation is derived from a financial model that evaluates a range of potential outcomes from what are considered the key variables, including the probability of the success of clinical trials, the expected licensing terms that will be negotiated and the anticipated peak sales values for the resultant drugs.

The most significant judgement in arriving at the valuation is the quantity and timing of forecast cash flows from future out-licensing. Given the level of headroom indicated by the impairment review, based on the discount rate assumption of 12%, which is applied to a series of probability-adjusted cash flows, the recoverable amount of the investment is not considered to be sufficiently sensitive to a reasonably possible increase in the discount rate, to impact the conclusion of the review. At this stage of the product development, the key sensitivity is the probability of successful completion of clinical trials in the interferon beta programmes. A failure in the development of either of these assets might result in an impairment of the investment in the subsidiary.

3. Profit and loss account

The only employees of the Company during 2019 and 2018 were the three executive directors. Their aggregate remuneration, which is borne by the Company's subsidiary undertaking, comprised:

	2019 £000	2018 £000
Wages and salaries	**921**	456
Social security costs	**126**	60
Pension costs – defined contribution plans	**54**	53
Total cash-settled remuneration	**1,101**	569
Accrued holiday pay	**(5)**	(9)
Share-based payment	**85**	78
Total remuneration	**1,181**	638

In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Directors' Remuneration Report on pages 20 and 21, which are ascribed as forming part of these financial statements.

Auditor's remuneration is disclosed in note 4 to the Group accounts on page 35.

Notes to the Parent Company Financial Statements

for the year ended 31 December 2019 (continued)

4. Investments

	Investment in subsidiary undertaking £000	Capital contribution £000	Total £000
At 1 January 2019	140	24,122	24,262
Capital contribution for the year	–	2,520	2,520
Subsidiary share-based payment	–	111	111
At 31 December 2019	**140**	**26,753**	**26,893**

At 31 December 2019, the Company has an investment in the following subsidiary undertaking:

Name of company	Registered address	Proportion of voting rights and ordinary share capital held	Nature of business
Synairgen Research Limited	Mailpoint 810, Southampton General Hospital, Tremona Road, Southampton SO16 6YD	100%	Drug discovery and development

5. Debtors

	2019 £000	2018 £000
Other tax and social security	**3**	3
Prepayments and accrued income	**103**	115
Amounts due from subsidiary undertaking	**3**	–
	109	118

All amounts fall due for payment within one year.

6. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	**3**	5
Accruals and deferred income	**41**	37
	44	42

7. Share capital and share premium

Details of the Company's share capital, share premium, share option schemes and LTIP can be found in note 18 to the Group accounts on pages 43 and 44.

8. Post balance sheet event note

Details of the fundraising post year-end and impact of COVID-19 are given in note 21 to the Group accounts on page 45.

Corporate Directory

Company number
5233429

Directors
Executive: Richard Marsden, Dr Phillip Monk, John Ward

Non-executive: Simon Shaw (Chairman), Iain Buchanan, Dr Bruce Campbell, Prof. Stephen Holgate CBE

Secretary
John Ward

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Link Asset Services
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Solicitors
Fladgate LLP
16 Great Queen Street, London WC2B 5DG

Glossary

Acute
An acute disease is a disease with a rapid onset and/or a short course

Airways (or bronchial tubes)
The tubes that carry air in and out of the lungs

Allergen
A usually harmless substance capable of triggering a response that starts in the immune system and results in an allergic reaction

Antibiotic
A drug that inhibits bacterial growth or kills bacteria

Antiviral
Any substance that can either destroy viruses or suppress their growth

Apoptosis
A naturally-occurring form of programmed cell death

Assay
A laboratory test to determine parameters such as the strength of a solution, the proportion of a compound in a mixture, the potency of a drug or the purity of a preparation

Asthma
A disorder in which the airways become episodically narrowed, leading to wheeze, shortness of breath, cough and chest tightness

AZD-9412
Inhaled Interferon Beta-1a formulation (aka SNG001) used for the AstraZeneca INEXAS study. See INEXAS

Bacteria
Single-cell organisms that are found everywhere and are the cause of many diseases

BCSS
The breathlessness, cough and sputum scale (BCSS) is a three-item questionnaire, rating breathlessness, cough and sputum on a 5-point scale from 0 (no symptoms) to 4 (severe symptoms)

BioBank
A collection of samples from clinically-characterised volunteers, comprising blood, induced sputum, bronchial biopsies and epithelial cells. These samples are used to develop the complex *in vitro* human disease models

Biomarker
A biochemical feature or facet that can be used to measure the progress of disease or the effects of treatment

British Thoracic Society (BTS) Step classification system
A stepwise treatment regime (from steps 1 to 5, with 5 being the most severe) for treating asthma in Britain aiming to achieve optimum control without excessive medication

Broad spectrum antibiotic
An antibiotic that acts against a wide range of disease-causing bacteria

Bronchodilators
Medicines which relax the muscles around the airways, helping the airways to open up, so making it easier to breathe. There are several types of bronchodilators, of which short-acting beta-agonist drugs are the most commonly used

Bronchospasm
A sudden contraction of airway smooth muscle resulting in a narrowing of the airways

Candidate
A candidate drug is a compound (e.g. small molecule, antibody, etc.) with strong therapeutic potential and whose activity and specificity have been optimised

CAT
The COPD Assessment Test (CAT) is a patient-completed questionnaire, which assists patients and their physicians in quantifying the impact of COPD on the patient's health and quality of life

CellScale MicroSquisher
A machine for measuring the stiffness of tissue

Chronic bronchitis
An inflammation of the airways accompanied by coughing and production of phlegm. The symptoms are present for at least three months in each of two consecutive years. See COPD

Chronic disease
A persistent or long-lasting condition

Clinical Trial Authorisation or CTA
An authorisation from the MHRA (see below) to conduct a clinical trial

Glossary (continued)

Collagen
The main structural protein found in skin and other connective tissues

COPD
Chronic Obstructive Pulmonary Disease covers two conditions: chronic bronchitis and emphysema. COPD usually results from long-term exposure of irritants to the lungs, of which the most prevalent is tobacco smoke. Unlike asthma, where airflow obstruction varies, in COPD airflow obstruction is usually irreversible

Coronavirus
A virus that can cause respiratory disease such as the common cold or SARS (depending on the type of coronavirus) and gastroenteritis

COVID-19
Coronavirus disease 2019 is a respiratory illness caused by SARS-CoV-2

Cross-link
A chemical bond that acts like a glue, holding collagen fibres together. Lysyl oxidase (LOX) enzymes catalyse this process

DNA
Nucleic acid that carries genetic information in the cell

Double-blind
A double-blind study is one in which neither the patients nor the clinical staff know who is receiving a particular treatment

DSMC
A Data Safety Monitoring Committee (DSMC) reviews and assesses safety information from a clinical trial

Emphysema
A destructive process involving the air spaces (alveoli) of the lungs, which leads to over-inflation of the lung and, when sufficiently advanced, causes breathlessness and lack of oxygenation of blood. See COPD

Eosinophil
A type of white blood cell that has a role in allergy and asthma

Epithelium
In the lung, the epithelium is a thin layer of cells which lines airway tubes in order to protect and regulate the tissue underneath

Exacerbation
A rapid deterioration of a chronic disease that makes the symptoms worse

FEV_1
Forced Expiratory Volume in the first second. The volume of air that can be forced out in one second after taking a deep breath, an important measure of pulmonary function

Fibroblast
A fibroblast is a type of cell that synthesizes the extracellular matrix and collagen, the structural framework for animal tissues, and plays a critical role in wound healing

Fibroblastic focus
A hallmark of IPF lung tissue characterised by dense collections of fibroblasts (the cells that secrete scar tissue)

Fibroblastic focus model
A laboratory model which uses cells from IPF patients that replicates the fibrotic lung

Fibrosis
The thickening and scarring of connective tissue, usually as a result of injury

BIOFIRE® FILMARRAY®
A system which enables rapid simultaneous testing for a panel of viruses and bacteria in patient samples and is used by Synairgen in SG015

Gene
A hereditary unit consisting of a sequence of DNA that determines a particular characteristic of a living organism

Idiopathic Pulmonary Fibrosis (IPF)
A disease in which tissue deep in the lungs becomes thick and stiff, or scarred, over time by unknown cause. The formation of scar tissue is called fibrosis. It usually affects middle-aged and older people

I-neb
A nebuliser manufactured by Philips that delivers inhaled drugs to the airway

INEXAS
AstraZeneca's Phase IIa study entitled 'A Study in Asthma Patients to Evaluate Efficacy, Safety and Tolerability of 14 Days Once Daily Inhaled Interferon Beta-1a After the Onset of Symptoms of an Upper Respiratory Tract Infection'

Interferon beta (IFN-β)
Interferon beta is a natural protein found in the body which helps to regulate the immune system and fight off viruses. IFN-β is currently marketed by a number of companies as an injectable therapy for the treatment of multiple sclerosis

Influenza
A contagious viral infection of the respiratory tract, leading to fever, headaches, sore throat, congestion of the nose and body aches

In vitro
Carried out in the laboratory, e.g. in a test tube or culture plate

***In vitro* model (complex)**
A research model which contains more than one cell type and allows the study of interactions between different cell types and 'test' agents relevant to the disease or a therapy

Long acting beta agonist
An asthma drug that acts to relax (open) the airways for 12 or more hours

Lower airway
The airway tubes in the lung running from the throat down, ending in the air spaces (alveoli) where gas exchange occurs

Lysyl oxidase (LOX)
An enzyme responsible for the maintenance of collagen and elastin in tissues

Lysyl oxidase-like protein 2 (LOXL2), 3 (LOXL3), 4 (LOXL4)
Each is a member of a family of enzymes which catalyses cross-linking of collagen and elastin

Macrophages
Phagocytic (i.e. cells that can engulf other cells and cell components) white blood cells involved in cellular clearance and inflammation

MHRA
The Medicines and Healthcare products Regulatory Agency; a UK government body tasked with ensuring that medicines and medical devices work and are safe

Morbidity
Incidence or prevalence of a disease

Mucus
A gelatinous substance normally produced by the airway cells to protect and hydrate the airway surface from harmful agents

Multiple sclerosis (MS)
A disease affecting nerves in the brain and spinal cord, causing problems with muscle movement, balance and vision

Non-alcoholic steatohepatitis (NASH)
A form of chronic liver disease in adults and children

Pandemic influenza
An influenza pandemic occurs when a new influenza virus appears against which the human population has no immunity, resulting in epidemics worldwide with enormous number of deaths and illness

Parainfluenza
A virus that can cause the common cold. Parainfluenza is also responsible for 75% of croup cases in children

Patent Cooperation Treaty or PCT
A system by which a patent application can be filed in many different countries at once. A single international application is filed initially at a receiving office. After a search and publication, the application may be converted to a series of national applications in different countries

Pathway
A signalling pathway is a group of molecules that work together in a cell to control one or more cell functions

Peak expiratory flow
A lung function test that measures a person's ability to breathe out air

Pharmaxis or Pharmaxis Limited
An established pharmaceutical research company based in Australia with whom Synairgen collaborated on the LOXL2 programme. Pharmaxis is quoted on the Australian Securities Exchange (ASX) under the code PXS. Its website address is www.pharmaxis.com.au

Phase I Clinical Trial
A study conducted in volunteers to determine the biological effects of a drug, especially safety and tolerability

Phase II Clinical Trial
A study in patients with the aim of making a preliminary determination of the efficacy of a drug to provide proof of concept and/or to study drug dose ranges

Phase IIa Clinical Trial
Used to describe a Phase II clinical trial evaluating efficacy, adverse effects and safety risks

Phase IIb Clinical Trial
Used to describe a subsequent Phase II clinical trial that also evaluates dosage tolerance and optimal dosage frequency in a larger number of patients than enrolled in a Phase IIa trial

Phase III Clinical Trial
A full scale clinical trial to determine drug efficacy and safety prior to seeking marketing approval

Phlegm
See Sputum

Placebo
An inactive substance or preparation used as a control/comparator (in a clinical trial for example) to determine the effectiveness of a medicinal drug

Pre-candidate
A chemical compound that has pharmacological or biological activity likely to be therapeutically useful but which has not yet met all the criteria that are required to be a candidate drug

Pre-clinical
A stage of drug development preceding human clinical trials

Primary endpoint
The most important measure (endpoint) assessed in a clinical trial

Prognostic biomarker
A biomarker that can predict the future course of a disease or response to a therapy

Prophylaxis
A measure taken for the prevention of a disease or condition

Protein
Large molecules made of smaller biological units known as 'amino acids'. Proteins are responsible for the majority of the function and much of the structure of living things, including humans

Pulmonary
Relating to, functioning like, or associated with the lungs

Randomisation
The random assignment of patients in a clinical trial to different treatment groups (e.g. active drug or placebo)

Rhinovirus
Rhinoviruses are the most common viral infective agents in humans. The most well-known disease caused by rhinoviruses is the common cold

RNA
Nucleic acid that is involved in protein synthesis and transmission of genetic information

Safety study
See Phase I Clinical Trial

SARS-CoV-2
Severe Acute Respiratory Syndrome-Coronavirus 2 is the virus strain that causes COVID-19

Seasonal Influenza
Seasonal influenza is a yearly outbreak of influenza infection, caused by influenza virus. The seasonal influenza is somewhat different every year, as influenza viruses are always changing

Secondary/exploratory endpoint
The second most important (or additional) measure (or endpoint) assessed in a clinical trial

Second harmonic generation imaging
A microscopic technique for generating images of collagen, the major constituent of scar tissue

Severe asthma
Asthma which requires treatment with high dose inhaled corticosteroids plus a second controller (and/or oral corticosteroids) to prevent it from becoming 'uncontrolled' or which remains 'uncontrolled' despite this therapy

SG005
A randomised, double-blind, placebo-controlled phase II study, comparing the efficacy and safety of inhaled IFN-β to placebo administered to asthmatic subjects after the onset of a respiratory viral infection for the prevention or attenuation of asthma symptoms caused by respiratory viruses

SG015
A randomised, double-blind, placebo-controlled phase II study in COPD patients without (Part 1) and with (Part 2) a confirmed respiratory virus infection, assessing antiviral biomarker responses and clinical effects of inhaled SNG001 compared to placebo

SG016
A randomised, double-blind, placebo-controlled trial to determine the safety and efficacy of inhaled SNG001 (IFN-β1a for nebulisation) for the treatment of patients with confirmed SARS-CoV-2 infection

SNG001
A formulation of Interferon Beta-1a delivered to the lung using a nebuliser, used in SG005, the INEXAS study, SG015 and SG016

Sputum
The thick mucus which is coughed up by a person. Sputum contains cells and soluble substances secreted into the airways (bronchi), some of which can mediate disease if present in amounts different to normal. Sputum is also commonly called phlegm

Steroids
A group of chemicals that is produced naturally in the body by the adrenal gland. In asthma, steroids are given by inhalation or by mouth to reduce the inflammation of the airways

Systemic absorption
The fraction of drug that reaches the systemic circulation

Toxicology
The study of the nature and mechanisms of deleterious effects of chemicals on humans, animals and other biological systems

Translational medicine
The process of converting a scientific discovery into something that aims to improve the health of individuals and the community

Type I IFNs
A classification of interferon that includes IFN-β

Upper airway
The tubes in the nose and neck which conduct air into the lung

Virus
A virus is a non-living small particle that infects cells in biological organisms. Viruses can reproduce only by invading and controlling other cells as they lack the cellular machinery for self-reproduction

Wheeze
A whistling sound made by a person who has airflow obstruction when breathing

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