



ReNeuron

pioneering stem cell therapeutics

ReNeuron is a pioneer in stem cell research and development.

We have leading edge, adult stem cell technologies from which we are developing groundbreaking cell therapy products. Our focus is on cell therapy treatments designed to reverse the effects of major diseases such as stroke, diabetes and diseases of the retina.

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Cover illustrations show differentiated neural stem cells with **green neurons**, **red astrocytes** and **blue nuclei**.

“The filing of our first application to commence human clinical studies with ReN001 represents the most important milestone in ReNeuron’s history to date”

Professor Trevor Jones
Chairman

- Completion of late pre-clinical development of lead ReN001 stem cell therapy for stroke, leading to filing of application to commence initial clinical studies in US
- Principal Investigator appointed for ReN001 initial clinical study
- Participation in key US grant-funded stem cell research programme
- Worldwide market launch of *ReNcell™* neural cell lines for non-therapeutic applications and collaboration signed to develop *ReNcell™* liver cell products
- Interim fundraising of £0.7million completed, and outstanding warrants re-priced to provide further near term funding opportunity
- Net loss of £3.2 million (2005: £4.3 million after exceptional charges of £1.2 million); net cash outflow before cash management and financing items £3.1 million (2005: £2.3 million); cash and short term investments at 30 September 2006 of £2.8 million (2005: £7.4 million)

ReNeuron's application to commence initial clinical studies in the US is, we believe, the world's first concerning a neural stem cell treatment for a major neurological disorder.

REVIEW OF OPERATIONS

REN001 STEM CELL THERAPY FOR STROKE

The overriding focus of ReNeuron's activities in the six-month period to 30 September 2006, and subsequently, has been the ongoing late pre-clinical development of our ReN001 stem cell therapy for disabled stroke patients. These efforts have culminated in the filing with the US Food and Drug Administration (FDA) of our first Investigational New Drug (IND) application to commence initial clinical studies with ReN001 in the US.

This filing is a key milestone in ReNeuron's history and, we believe, the world's first such application concerning a neural stem cell treatment for a major neurological disorder. Stroke is the single largest cause of adult disability in the developed world. ReNeuron's ReN001 stem cell therapy seeks to treat those patients who have suffered a stroke and have been left disabled by it. These patients constitute approximately one third of the total stroke patient population. There are currently no approved treatments available to address the causes of their disability.

In the course of generating the data necessary for the IND package for ReN001, our knowledge of the pre-clinical safety and efficacy profile of this therapy has grown considerably. Importantly, we have

also scaled up the ReN001 product into a series of clinical-grade banks of cells, manufactured and tested to full Good Manufacturing Practice (GMP) standards. This manufacturing process forms an important part of the IND package for ReN001, and leaves ReNeuron well-placed as the therapy moves into the clinical phase. There should be no need to go back and re-derive new ReN001 cells from new tissue sources as clinical studies progress, providing a significant time and cost advantage over other approaches to generating a viable stem cell therapy.

ReNeuron's patented and highly efficient c-mycER^{TAM} stem cell expansion technology has enabled us to successfully pursue the above cell manufacturing approach. We believe our technology gives us a unique ability to generate a standardised, non-patient specific stem cell product, capable of treating large patient populations such as those left disabled after a stroke. We believe that this approach will enable ReN001, and our other stem cell therapies, to be readily commercialised if successful in the clinical phase, thereby making these therapies attractive to potential commercial development partners.

During the period, we were delighted to announce the appointment of Professor Douglas Kondziolka MD, MSc, FRCS, FACS as Principal Investigator for the initial clinical study with ReN001. Professor

ReNeuron's follow-on therapeutic programmes are being pursued with both academic and commercial technology collaborators.

Kondziolka is a leading expert in the delivery of cell therapy treatments to stroke patients and until his appointment as Principal Investigator, sat on ReNeuron's Clinical Advisory Board. Following approval of the IND, he and his clinical team will perform the initial ReN001 clinical study at the renowned University of Pittsburgh Medical Center.

The initial Phase I clinical study with ReN001 will involve a small number of disabled stroke patients. The primary objective of the study will be to monitor the safety profile of the treatment. Preliminary efficacy measures will also be recorded, however, to provide an indication of therapeutic potential ahead of further efficacy studies in a larger cohort of patients once the safety of the ReN001 therapy has been confirmed. The surgical technique that will be used in the study is well-established in neurosurgery and relatively straightforward, taking no longer than half an hour and performed under local anaesthetic. The patient would typically be expected to be discharged the morning after surgery.

OTHER THERAPEUTIC AND NON-THERAPEUTIC PROGRAMMES

Beyond our ReN001 therapy for stroke, we continue to progress the development of our follow-on therapeutic programmes. We are working with both academic and

commercial technology collaborators to drive these programmes. An example of this approach is the collaborative research agreement we announced in the period with the Schepens Eye Research Institute at Harvard Medical School. This agreement complements our existing relationship with the UCL Institute of Ophthalmology in London, and will enable ReNeuron to pursue early pre-clinical development of its ReN003 stem cells for disorders of the retina in conjunction with leading UK and US academics working in this field.

ReNeuron is also a participant in a new research project involving US and UK academic teams and funded under the US National Institutes of Health (NIH) Quantum Grant Programme. The project's major aim is to engineer regenerative, cell-based therapeutic "units" for implantation into stroke patients, thereby providing a source of neural and vascular cells for repair of stroke-induced tissue damage. ReNeuron is advising the grant consortium on the project and will be responsible for assisting in the development of these neuro-vascular units for clinical application in stroke patients. The NIH Quantum Programme has been developed to make a profound (or "quantum" level) advance in healthcare by funding research on targeted projects that will develop new technologies and modalities for the diagnosis, treatment or prevention of disease.

ReNeuron's *ReNcell*TM products for non-therapeutic applications will provide early commercial validation and a near term revenue stream.

We have made significant progress during the period with our *ReNcell*TM products for non-therapeutic applications in research and in the pharmaceutical industry. These products will provide early commercial validation of our technologies and bring ReNeuron a near term revenue stream. Our first generation *ReNcell*TM *CX* and *ReNcell*TM *VM* neural cell lines have now been officially launched onto the market by Chemicon International Inc., now part of the US-based Millipore Corporation, who are marketing the cell lines world-wide through their reagent catalogue. We are also continuing development of our second generation *ReNcell*TM *HEP* hepatocyte (liver) cell line, which has high potential utility as a drug toxicology testing and screening tool. We recently signed a collaboration with CellSeed Inc., a Japan-based tissue engineering company, to develop novel, liver cell culture systems using the *ReNcell*TM *HEP* cell line in conjunction with CellSeed's temperature-sensitive polymer technology.

SUMMARY OF RESULTS

In the six months to 30 September 2006, turnover was £42,000 (2005: nil), representing initial licensing income from Millipore Corporation in respect of the *ReNcell*TM *CX* and *ReNcell*TM *VM* cell lines.

Net operating expenses before exceptional items increased in the period, as expected, to £3.5 million (2005: £3.1 million). There were increases in both research and development expenditure and administrative costs in the period, due primarily to increased out-sourced resourcing in support of the ReN001 programme leading up to the IND filing, as well as increased levels of activity across the Company's other research and development programmes. Operating expenses include a charge of £50,000 (2005 re-stated: £6,000) in the period following the Group's adoption of Financial Reporting Standard 20, "Share based payments".

There were no exceptional charges in the period (2005: £1.2 million), and no interest payable (2005: £0.25 million). Other operating income and interest received in total were broadly equivalent in both periods at £0.2 million. The resulting net loss for the period decreased to £3.2 million (2005: £4.3 million).

Net cash outflow before management of liquid resources and financing increased in the period to £3.1 million (2005: £2.3 million), reflecting the increase in operating expenses, together with a reduced financing effect in the period compared to that in the prior period caused by an increase in creditor balances over that prior period.

The directors are confident of raising further funds in the near future through the exercise of ReNeuron's outstanding warrants.

As at 30 September 2006, the Group had cash and short term investments totalling £2.8 million (2005: £7.4 million). During the period, the Group raised £0.7 million in an interim share placing, and the exercise price and expiry date of the Company's outstanding warrants were adjusted to 10p and 12 December 2006 respectively.

The directors estimate that the Group's current cash resources are sufficient to meet expenditure requirements into the second quarter of 2007. The directors are confident of raising further funds in the near term through the exercise of the outstanding warrants, and are confident of raising further funds from equity issues and other sources in due course. Consequently, the going concern basis has been adopted in the preparation of these interim financial statements.

OUTLOOK

ReNeuron has made excellent progress during the period under review, and subsequently, in exploiting the full potential of our stem cell technologies. The announcement of our first application to commence human clinical studies with ReN001, our lead stem cell therapy, represents the most important milestone in ReNeuron's history to date. In addition to this, progress is continuing to be made with our other therapeutic programmes

and we are excited to have commercially launched our first range of *ReNcell™* stem cell products for non-therapeutic use. We look forward to building on this year's significant achievements with high confidence.

Professor Trevor Jones
Chairman

Michael Hunt
Chief Executive Officer

6 December 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the six months ended 30 September 2006

	Note	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Restated Unaudited £'000	Year ended 31 March 2006 Restated Audited £'000
TURNOVER		42	–	9
Cost of sales		–	–	–
GROSS PROFIT		42	–	9
Net operating expenses excluding exceptional items	2	(3,483)	(3,080)	(5,939)
Exceptional operating expenses	3	–	(1,167)	(1,167)
Net operating expenses including exceptional items		(3,483)	(4,247)	(7,106)
Other operating income		137	165	270
OPERATING LOSS		(3,304)	(4,082)	(6,827)
Interest receivable		87	50	197
Interest payable		–	(250)	(250)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,217)	(4,282)	(6,880)
Tax credit on loss on ordinary activities		–	–	513
LOSS FOR THE PERIOD	6.7	(3,217)	(4,282)	(6,367)
LOSS PER ORDINARY SHARE				
Basic and diluted	4	(3.3p)	(8.3p)	(8.8p)

All results arise from continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the six months ended 30 September 2006

	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Restated Unaudited £'000	Year ended 31 March 2006 Restated Audited £'000
Loss for the period	(3,217)	(4,282)	(6,367)
TOTAL RECOGNISED LOSSES FOR THE PERIOD	(3,217)	(4,282)	(6,367)
Prior Year Adjustment – Share-based payment	(54)		
TOTAL RECOGNISED LOSSES SINCE LAST ANNUAL REPORT	(3,271)		

CONSOLIDATED BALANCE SHEET
as at 30 September 2006

	Note	30 September 2006 Unaudited £'000	30 September 2005 Unaudited £'000	31 March 2006 Audited £'000
FIXED ASSETS				
Negative goodwill	5	(1,327)	(1,515)	(1,421)
Tangible assets		1,112	1,263	1,208
		(215)	(252)	(213)
CURRENT ASSETS				
Debtors		1,001	898	1,027
Cash at bank and in hand		2,791	7,406	5,134
		3,792	8,304	6,161
CREDITORS:				
Amounts falling due within one year		(1,345)	(1,380)	(1,320)
NET CURRENT ASSETS		2,447	6,924	4,841
TOTAL ASSETS LESS CURRENT LIABILITIES		2,232	6,672	4,628
CREDITORS:				
Amounts falling due after more than one year		–	(7)	–
NET ASSETS		2,232	6,665	4,628
CAPITAL AND RESERVES				
Called up share capital	6	997	9,355	9,355
Share premium account	6	5,637	5,472	5,472
Capital redemption reserve	6	8,964	–	–
Merger reserve	6	365	365	365
Warrant reserve	6	436	436	436
Profit and loss account	6.7	(14,167)	(8,963)	(11,000)
TOTAL EQUITY SHAREHOLDERS' FUNDS		2,232	6,665	4,628

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 September 2006

	Note	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Restated Unaudited £'000	Year ended 31 March 2006 Restated Audited £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	8	(3,127)	(2,348)	(4,995)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest		87	50	179
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		87	50	179
TAXATION				
UK corporation tax – research and development tax credits received		–	–	329
CAPITAL EXPENDITURE				
Purchase of tangible fixed assets		(18)	(9)	(92)
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(18)	(9)	(92)
NET CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(3,058)	(2,307)	(4,579)
MANAGEMENT OF LIQUID RESOURCES				
Increase in cash from short term investments in the period	9	–	361	361
FINANCING				
Issue of ordinary share capital		715	9,500	9,500
Increase in loans		–	1,000	1,000
Share issue costs		–	(1,218)	(1,218)
(DECREASE)/INCREASE IN CASH	9	(2,343)	7,336	5,064

1. ACCOUNTING POLICIES

1.1 Basis of preparation

These interim financial statements have been prepared on the basis of the accounting policies set out in the consolidated statutory accounts for ReNeuron Group plc for the year ended 31 March 2006, except as noted below.

The financial information contained in this interim report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Results for the six month periods ended 30 September 2005 and 30 September 2006 have not been audited. Statutory accounts of ReNeuron Group plc and its subsidiaries in respect of the year ended 31 March 2006 have been delivered to the Registrar of Companies, upon which the Company's auditors have given a report which was unqualified and did not contain a statement under Section 237(2) or 237(3) of that Act.

1.2 New accounting standards

In the period, the Group has adopted the accounting treatments necessary to comply with the Financial Reporting Standard 20, "Share based payments" (FRS20). This constitutes a change in accounting policy.

In accordance with this standard, the cost of share options awarded to employees under the Group's share option schemes is measured by reference to the fair value of the options granted at the date of grant. This cost is recognised over the vesting period based on the number of options, which, in the opinion of the directors, will ultimately vest.

A fair value charge of £50,000 has been taken to the profit and loss account in the period relating to share options issued by the Group. Comparable charges for the six months ended 30 September 2005 and the year ended 31 March 2006 were £6,000 and £54,000 respectively, and these are reflected in the restated profit and loss accounts.

Replacement share options issued at the time of the Company's flotation in August 2005 are not covered by FRS20 and were accounted for in the prior periods in accordance with Urgent Issues Task Force Abstract 17, "Employee share schemes" (UITF17).

1.3 Going concern

The Company is developing its technologies for the marketplace and as such absorbs cash until sufficient funds from either licensing or products sold are generated. The directors estimate that the cash held by the company will not support the current level of activities for the next twelve months. However, the directors are confident of raising further funds by the issue of equity or other financial instruments. Consequently, the directors have adopted the going concern basis in the preparation of the financial statements. If further funds were not to be raised, adjustments would have to be made to revise the balance sheet value of assets to their realisable amounts and to provide for further liabilities that may arise.

2. Total net operating expenses

	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Restated Unaudited £'000	Year ended 31 March 2006 Restated Audited £'000
Administrative expenses	1,007	785	1,607
Research and development expenditure	2,476	2,295	4,332
	3,483	3,080	5,939

Research and development expenses include sub-licence payments falling due on receipt of gross licence income.

3. Exceptional operating expenses

	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Unaudited £'000	Year ended 31 March 2006 Audited £'000
Provision against intangible assets acquired	–	894	894
Share option compensation charge	–	273	273
	–	1,167	1,167

The prior year provision against intangible assets acquired relates to a licence granted to the Company to certain intellectual property and patents owned by StemCells, Inc. Due to the early stage nature of the underlying technology, the directors carried out an impairment review of the intangible asset so created, and considered that it was appropriate to provide against the asset in full.

The prior period share option compensation charge refers to net charges made to the profit and loss account in respect of replacement share options issued at the time of the Company's flotation in August 2005. These share options were issued fully vested, therefore pre-dating the relevant effective date for applying FRS20. Hence the transitional rules of FRS20 do not apply to these options which remain accounted for under UITF17.

4. Loss per share

The basic and diluted loss per share is calculated by dividing the loss for the financial period of £3,217,000 (September 2005 (restated): £4,282,000, March 2006 (restated): £6,367,000) by 96,659,058 shares (September 2005: 51,632,417, March 2006: 72,532,756), being the weighted average number of ordinary 10p or 1p shares in issue during the period. Restatement of the loss for the year to March 2006 resulted in an increase in loss per share of 0.1p.

Potential ordinary shares are not treated as dilutive as their conversion to ordinary shares does not increase the net loss per share.

5. Negative goodwill

Negative goodwill arose during the period ended 31 March 2004 on the acquisition of ReNeuron (UK) Limited by ReNeuron Holdings Limited. There is remaining negative goodwill, equal to the fair values of non-monetary assets acquired, which is being amortised over a period of 10 years, being the period over which the non-monetary assets are expected to be recovered.

6. Share capital and reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Warrant reserve £'000	Profit and loss account £'000
AT 1 APRIL 2006	9,355	5,472	–	365	436	(11,000)
Issue of new ordinary shares	606	165	–	–	–	–
Share-based credit	–	–	–	–	–	50
Subdivision of ordinary shares	(8,964)	–	8,964	–	–	–
Loss for the period	–	–	–	–	–	(3,217)
AT 30 SEPTEMBER 2006	997	5,637	8,964	365	436	(14,167)

The Company raised £715,000 through a private placing of 5,500,000 ordinary shares of 10p in June 2006. In addition a further 556,767 shares were issued in accordance with the licence and subscription and share exchange agreements with StemCells, Inc.

6. Share capital and reserves continued

At the AGM of the Company on 21st September 2006, shareholders agreed to each of the Company's ordinary shares, previously of 10p in nominal value, being subdivided into one new ordinary share of 1p in nominal value and one deferred share of 9p in nominal value. All such deferred shares were thereafter repurchased by the Company for 1p in aggregate and have now been cancelled. The repurchase of the deferred shares was financed from the proceeds of the issue of one ordinary share at nominal value.

At the warrant holders meeting on 21st September 2006, the following changes were agreed to the Warrant Instrument. The period within which the warrants can be exercised was shortened by changing the final subscription date from 12 February 2007 to 12 December 2006. Further, the subscription price payable on exercise of the warrants was reduced from 30 pence per ordinary share to 10 pence per ordinary share.

7. Profit and loss account reconciliation

	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Unaudited £'000	Year ended 31 March 2006 Audited £'000
OPENING PROFIT AND LOSS ACCOUNT AS PREVIOUSLY STATED:	(11,000)	(4,960)	(4,960)
Retained loss for the period as restated	(3,217)	(4,282)	(6,367)
Share option compensation charge	–	273	273
Share-based credit to reserves	50	6	54
CLOSING PROFIT AND LOSS ACCOUNT	(14,167)	(8,963)	(11,000)

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

	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Restated Unaudited £'000	Year ended 31 March 2006 Restated Audited £'000
OPERATING LOSS	(3,304)	(4,082)	(6,827)
Depreciation of tangible fixed assets	114	129	265
Amortisation of negative goodwill	(94)	(94)	(188)
Provision against intangible fixed assets acquired	56	894	894
Share option compensation charge	–	273	273
Share-based payment charge	50	6	54
Decrease/(increase) in debtors	26	(274)	(199)
Increase in creditors	25	800	733
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(3,127)	(2,348)	(4,995)

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

	Six months ended 30 September 2006 Unaudited £'000	Six months ended 30 September 2005 Unaudited £'000	Year ended 31 March 2006 Audited £'000
(Decrease)/increase in cash in the period	(2,343)	7,336	5,064
Cash flow from decrease in short term investments	–	(361)	(361)
Cash inflow from increase in debt	–	(1,000)	(1,000)
Non cash movement	–	(250)	(250)
Conversion of debt to equity	–	2,500	2,500
Change in net funds from cash flows	(2,343)	8,225	5,953
Net funds/(debt) at the beginning of the period	5,134	(819)	(819)
NET FUNDS AT THE END OF THE PERIOD	2,791	7,406	5,134

DIRECTORS

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Non-executive Chairman

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Chief Executive Officer

Dr John Sinden
Chief Scientific Officer

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Non-executive Director

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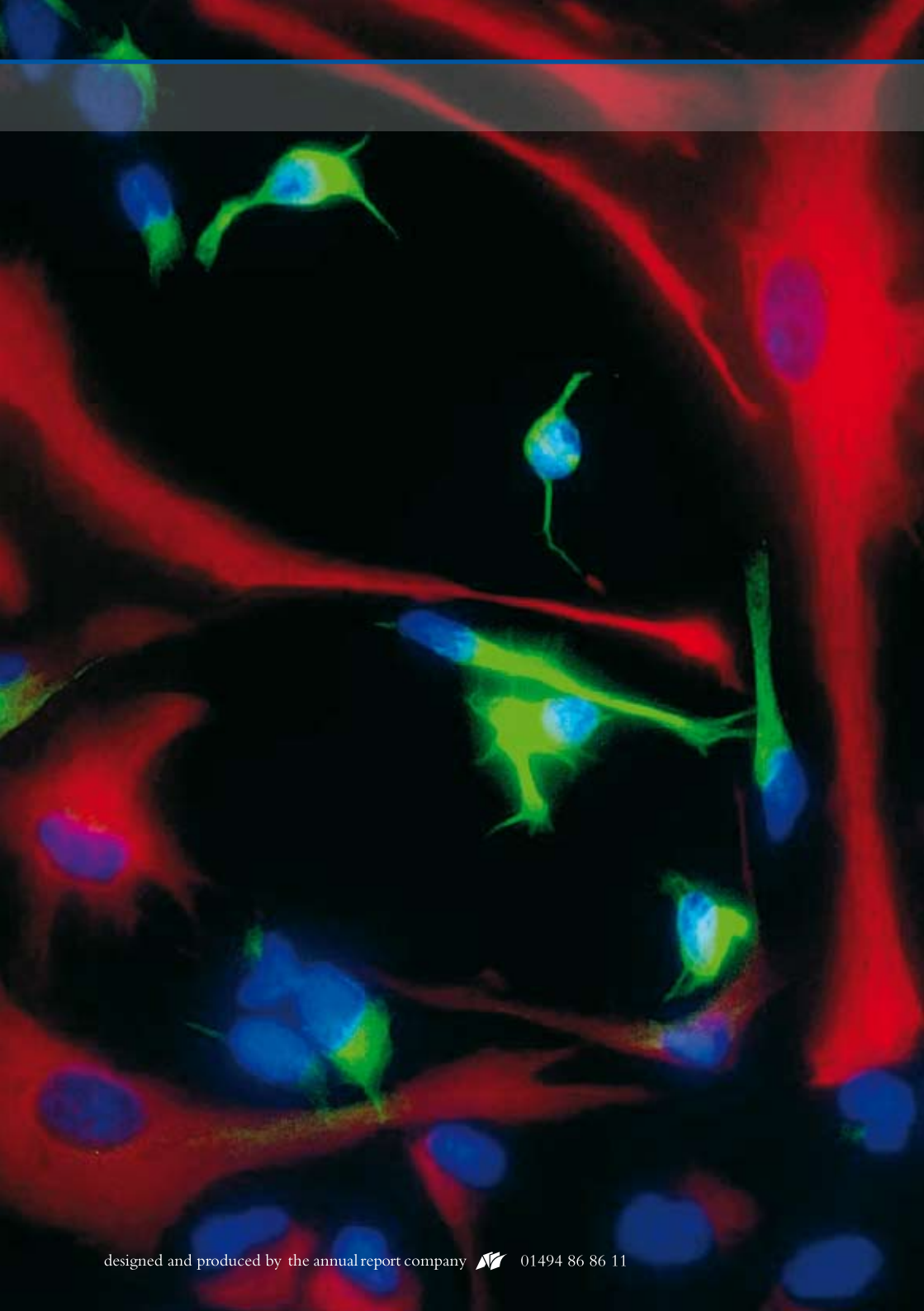
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