Allergy Therapeutics®
Transforming Allergy Treatment

Allergy Therapeutics plc

Interim Report

For the six months ended 31 December

2006

A long established, fully integrated pharmaceutical company:

- Allergy Therapeutics plc is a fully integrated specialist pharmaceutical company with a profitable core business and a unique development pipeline with the potential to transform allergy treatment.
- The Company has its own European Sales and Marketing infrastructure, GMP Manufacturing, R&D facilities and over 300 employees.
- Year-on-year sales growth supports an extensive R&D programme developing unique, best in class, disease modifying, ultra-short-course allergy vaccines.
- Established in 1998, FTSE AIM listed in 2004 (AGY.L), with a heritage stretching back to 1934.

Contents

Financial Highlights

Gross sales increased by 19% to £17.5m (2005: £14.7m)

- Pollinex® Quattro named-patient sales increased by 23%
- Legacy products continue to perform strongly

Operating profit before R&D costs was £3m (2005: £4.7m), 36% lower due to continuing strategic investments

R&D expenditure increased 100% to £11m (2005: £5.5m)

Operational Highlights

Pollinex Quattro Grass Phase III study started dosing patients in January

- The world's first global Phase III allergy vaccine development programme

Successful end of Phase II meeting with FDA for Pollinex Quattro Ragweed, clearing path for pivotal Phase III trial in 2007

Promising interim data from Phase IIa study of an oral (sub-lingual) grass allergy vaccine

New UK manufacturing facility opened as part of an extensive manufacturing upgrade

Joint Statement from the Chairman and Chief Executive Officer

...the potential to transform allergy treatment by providing a safe, effective and highly convenient method of vaccination.

Introduction

Allergy Therapeutics is developing a new generation of allergy vaccines able to deliver fast, effective and long-lasting relief to allergy sufferers. Allergic rhinitis (hay fever) is a large and growing problem with 150 million people estimated to suffer worldwide. Prevalence estimates vary on a country-by-country basis but range from 14-29% of the total population.

Existing vaccine treatments typically require between 16 and 50 injections taken under specialist supervision over the course of many weeks prior to the start of the hay fever season. Allergy Therapeutics' new generation of allergy vaccines, Pollinex Quattro, uses MPL®, an innovative TLR4-agonist which boosts and accelerates the immune response. Pollinex Quattro is an ultra-short-course vaccine requiring only four shots over three weeks and therefore has the potential to transform allergy treatment by providing a safe, effective and highly convenient method of vaccination. Furthermore, Allergy Therapeutics has embarked upon the next possible step of developing an effective, rapid-onset, orally delivered allergy vaccine also using MPL.

The market opportunity is considerable with the American Academy of Allergy, Asthma and Immunology estimating that 33 million allergy injections a year are given in the United States alone. There is a substantial unmet medical need in a market currently worth an estimated US$12bn per annum.

Period overview

During the six months to the end of December 2006, Allergy Therapeutics achieved several significant milestones and continued on its journey to transform allergy treatment.

We have now started one Phase III trial (Grass) and have received regulatory approval to begin a second (Ragweed), for Pollinex Quattro, our ultra-short-course 4-shot vaccine. It is a significant achievement for a company of this size to be running the two largest allergy vaccine clinical trials ever undertaken.

Allergy Therapeutics is the only company with a global allergy vaccine development programme, with activity in Europe, the United States and Japan, and the only company in clinical development with adjuvant-containing oral vaccines, promising

We expect to launch the products in the world's major markets in 2009.

enhanced convenience through reduced treatment duration and increased efficacy.

During the 2007 calendar year it is our intention to complete the pivotal Phase III studies for our grass and ragweed vaccines, and complete the Phase II recruitment for our tree vaccine. We expect to launch the products in the world's major markets in 2009.

This also requires attention to the manufacturing infrastructure needed to support the supply of the new products to those markets and we are investing to increase our production capacity.

Allergy Therapeutics now has to look beyond the development of its products and increasingly focus on 'routes to market' with commercialisation being given greater attention and resources. We are aggressively pursuing opportunities on all these fronts.

Operating Review

Product Development

Two Pollinex Quattro subcutaneous vaccines will be in pivotal Phase III studies in 2007. Pollinex Quattro is an ultra-short-course vaccine requiring only four shots over three weeks and incorporates the TLR4-agonist adjuvant MPL. The Company's three programmes are for Grass, Tree and Ragweed pollens.

In the period under review, Allergy Therapeutics successfully satisfied the FDA on the Phase II package required by the agency for the Pollinex Quattro Grass vaccine. This enabled, in January 2007, patient treatment to commence in the biggest ever allergy vaccine study, G301. On the Ragweed project, the results of R203, a Phase II study, announced in October 2006, paved the way for this vaccine to proceed into Phase III. For Pollinex Quattro Tree, the further Phase II requirements were established with the agency and work commenced on study T204, designed to meet these. The changes to the studies following discussions with the FDA have led to an increase in the overall cost of the development programme; this is still being quantified, but the Company has plans to fund the increases without recourse to shareholders; discussions with financial partners are at an advanced stage and the directors are confident that sufficient funds will be secured.

Joint Statement from the Chairman and Chief Executive Officer continued

Over 87,000 patients have now been safely treated with Pollinex Quattro.

Sublingual (under the tongue) delivery of allergy vaccines has attained a high profile recently, and such products have had commercial success despite evidence suggesting that allergy vaccines delivered by this route have less efficacy than injected vaccines and despite the long periods of daily dosing required. However, in December, Allergy Therapeutics reported interim clinical data on an oral vaccine containing MPL and the initial results were encouraging. A further, 'high dose' study group was taken forward and the results from this group are expected shortly. This raises the potential of developing a truly innovative, patented, orally delivered allergy vaccine with a profile superior to current offerings in efficacy and speed of onset.

Existing Products

The Company's European sales and marketing efforts have resulted in another record half-year, with sales up 19%. Most growth came from the Pollinex Quattro Named Patient Products ('NPPs') which saw growth of 23% although they are currently only available in certain European countries.

Over 87,000 patients have now been safely treated with Pollinex Quattro on a named-patient basis, giving us further confidence that the current Phase III trials will be successful.

We expect to see the demand for our existing products, including Pollinex Quattro NPPs, to remain strong until the full launch of Pollinex Quattro in 2009.

Manufacturing

During 2006 we began to implement our plans for refurbishment of our United Kingdom based manufacturing facilities. A new sterile facility has been created near to the existing main facility. This investment is key to the delivery of our strategy to globalise the Pollinex Quattro brand. It will release capacity for the introduction of improved, higher volume manufacturing plant in the existing facility which will ensure the timely launch of Pollinex Quattro worldwide once registrations are achieved. Additional benefits of this investment are: the doubling of capacity for manufacturing NPPs; the creation of more warehousing capacity; improved compliance, and the uninterrupted supply of NPP vaccines.

Gross sales for the period were £17.5m (H1 2005: £14.7m) ...an increase of 19%.

Commercial and Business Development

Looking further ahead, routes to market generally fall into two classes: directly owned sales and marketing infrastructure, and partnering in its various forms. There is a multiplicity of variations and combinations on these basic themes. Allergy Therapeutics is in the fortunate position of having an existing infrastructure in the important markets of Europe, and a high level of expertise in the commercialisation of allergy vaccines.

Furthermore, the Company is able to continue its development projects as an independent company giving us greater flexibility in our options for commercialisation. In recognition of this, the Company has engaged the life sciences specialist merchant bank, Burrill and Company, to assist in the assessment of all the opportunities open to us.

Financial Review

The results for the six months to 31 December 2006 have been very encouraging and have continued the progress shown in previous years.

Gross sales (before the rebate in Germany) for the period were £17.5m (H1 2005: £14.7m). This represents an increase of 19% over the previous period, driven primarily by growth of 23% in named-patient sales of Pollinex Quattro, the Company's 4-shot allergy vaccine. At present, approximately 73% of sales are generated in Germany, so an increase in the compulsory rebate following price rises in November of on average 7% increased the rebate to £1m (H1 2005: £0.5m) in the period. After the rebate, Group net sales increased by 16% to £16.5m (H1 2005: £14.2m).

Gross profit reduced by 4% to £10.9m, representing a gross margin of 66% of sales, compared with £11.4m and 80% in the same period last year. This reduction in the short term gross margin was an expected trend resulting from the investment needed to prepare the Company for the expected sales of Pollinex Quattro to the global market – including: a 16% increase in manufacturing headcount, additional purchases of MPL and the introduction of a compliance improvement plan to ensure the Company continues to meet the Good Manufacturing Practice requirements – as well as higher manufacturing

Joint Statement from the Chairman and Chief Executive Officer continued

costs associated with increases in utilities and consumables, and the additional running costs of the recently opened Noon building.

Marketing expenses, the major component of distribution costs, have increased in line with our budgets as we have set up new markets in Poland, Austria, the UK and the Czech and Slovak Republics, and intensified the promotional spend on our higher margin products. Costs increased to £5.3m (H1 2005: £5.0m), an increase of 7% over the previous period. Administration costs of £2.6m (H1 2005: £1.8m) were higher by 43%, due mainly to lower foreign currency exchange gains (most of the Company's sales are booked in Euros), higher corporate costs linked to managing a growing business and the benefit in the previous period of a bad debt provision reversal.

Research and development expenditure increased during the period to £11.0m (H1 2005: £5.5m) as the development activity for the MPL-based vaccine range was progressed into Phase III.

Research and development expenditure increased during the period to £11m (H1 2005: £5.5m) as the development activity for the MPL-based vaccine range was progressed into Phase III.

The operating loss for the period was £8.0m (H1 2005: £0.8m). Before development costs, the operating profit was £3.0m (H1 2005: £4.7m), lower mainly due to the investments affecting the gross margin mentioned above.

Capital expenditure for the period was £1.5m (H1 2005: £0.6m) and mainly represents upgrades to the facilities in preparation for launching Pollinex Quattro into the United States. Net current assets excluding cash were broadly the same at £3.4m (H1 2005: £3.3m).

Net assets of £26m (H1 2005: £19.7m) show an increase of £6.3m against the previous period end, due primarily to the £18.3m proceeds raised from the placing of new shares in May 2006 less investments in R&D over the period.

Net cash outflow before financing for the period was £8.7m (H1 2005: £4.2m), higher than the previous period due principally to the accelerated investment in R&D and manufacturing preparedness in the period.

2007 promises to be a landmark year.

Outlook

Allergy Therapeutics continues to deliver on its plans and potential, and the future looks very promising. The level of activity across the Company, as the scale of the clinical trials steps up and the Company's operations are augmented and improved, is reaching new highs. The team is responding with energy to the resulting challenges. Trading in the first weeks of the current period continues in the positive trend of the six months just ended. The new manufacturing unit commences operations in March. In short, in the clinic and operationally, 2007 promises to be a landmark year.

Ignace Goethals
Chairman
27 February 2007

Keith Carter
Chief Executive Officer
27 February 2007

Consolidated profit and loss account

for the six month period ended 31 December 2006

	Note	6 months to 31 Dec 2006 £'000	6 months to 31 Dec 2005 (restated*) £'000	Year ended 30 June 2006 (restated*) £'000
Turnover		**16,460**	14,200	23,558
Cost of sales		**(5,526)**	(2,807)	(6,513)
Gross profit		**10,934**	11,393	17,045
Distribution costs		**(5,332)**	(4,974)	(9,833)
Administrative expenses – other		**(2,636)**	(1,839)	(4,626)
Research and development costs		**(11,009)**	(5,493)	(9,560)
Administrative expenses		**(13,645)**	(7,332)	(14,186)
Other operating income		**–**	133	260
Operating loss		**(8,043)**	(780)	(6,714)
Interest receivable and similar income		**434**	245	545
Interest payable on loans and overdrafts		**(2)**	–	(4)
Loss on ordinary activities before tax		**(7,611)**	(535)	(6,173)
Tax on loss on ordinary activities		**816**	–	–
Retained loss for the financial period		**(6,795)**	(535)	(6,173)
Basic loss per share	4	**(8.3p)**	(0.8p)	(9.3p)

All amounts relate to continuing activities

*Restated for adoption of FRS20

Consolidated balance sheet

at 31 December 2006

	Note	31 Dec 2006 £'000	31 Dec 2005 (restated*) £'000	30 June 2006 (restated*) £'000
Fixed assets				
Intangible assets				
Goodwill		**2,132**	2,484	2,326
Other intangible assets		**773**	893	829
		2,905	3,377	3,155
Tangible assets		**4,771**	2,414	3,637
		7,676	5,791	6,792
Current assets				
Stocks		**3,836**	3,242	3,651
Debtors: amounts falling due within one year		**4,852**	4,023	3,577
Cash at bank and in hand		**15,204**	10,912	23,860
		23,892	18,177	31,088
Creditors: amounts falling due within one year		**(5,329)**	(4,011)	(4,939)
Net current assets		**18,563**	14,166	26,149
Total assets less current liabilities		**26,239**	19,957	32,941
Creditors: amounts falling due after one year		**(193)**	(226)	(239)
Net assets	5	**26,046**	19,731	32,702
Capital and reserves				
Called up share capital		**92**	73	92
Share premium account		**33,173**	14,924	33,173
Other reserve – shares issued by subsidiary		**40,128**	40,128	40,128
Other reserve – shares held in EBT		**(60)**	(296)	(60)
Other reserve – share based payments		**494**	184	306
Profit and loss account		**(47,781)**	(35,282)	(40,937)
Shareholders' funds		**26,046**	19,731	32,702

*Restated for adoption of FRS20

Consolidated cash flow statement

for the six month period ended 31 December 2006

	Note	6 months to 31 Dec 2006 £'000	6 months to 31 Dec 2005 £'000	Year ended 30 June 2006 £'000
Cash outflow from operating activities	6	**(8,438)**	(3,857)	(8,099)
Returns on investment and servicing of finance				
Interest received		**434**	245	545
Interest paid		**(2)**	–	(4)
		432	245	541
Taxation		**816**	–	–
Capital expenditure and financial investment				
Purchase of fixed assets		**(1,466)**	(582)	(2,192)
		(1,466)	(582)	(2,192)
Cash outflow before financing		**(8,656)**	(4,194)	(9,750)
Financing				
Gross funds raised on issue of shares		**–**	–	19,000
Issue of shares from EBT		**–**	26	262
Expenses paid in connection with issue of shares		**–**	–	(732)
		–	26	18,530
(Decrease)/increase in cash in period		**(8,656)**	(4,168)	8,780

Reconciliation of net cash flow to movement in net funds

	6 months to 31 Dec 2006 £'000	6 months to 31 Dec 2005 £'000	Year ended 30 June 2006 £'000
(Decrease)/increase in cash in the period	**(8,656)**	(4,168)	8,780
Movement in net funds in the period	**(8,656)**	(4,168)	8,780
Net funds at the beginning of the period	**23,860**	15,080	15,080
Net funds at end of the period	**15,204**	10,912	23,860

Notes to the interim report

For the six month period ended 31 December 2006

1. Interim financial information

The financial information set out in this interim report is unaudited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

2. Basis of preparation

The interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The principal accounting policies of the Group have remained unchanged from those set out in the Group's June 2006 annual report and financial statements except for the adjustments resulting from the adoption of FRS20 in the period as described below.

3. FRS20 – Share Based Payments

The Group has adopted FRS20 with effect from 1 July 2006. FRS20 requires the recognition of a charge to the profit and loss account for all applicable share based payments, including share options, SAYE schemes and share based Long Term Incentive Plans.

The Group has equity-settled share based payments but no cash-settled share based payments. All share based payment awards granted after 7 November 2002 which had not vested prior to 1 July 2006 are recognised in the financial statements at their fair value at the date of grant.

If vesting periods or non-market based vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

If market based vesting conditions apply, the expense is allocated over the relevant period, usually the period over which performance is measured. Vesting assumptions and resulting expenses are fixed at the date of grant, regardless of whether market conditions are actually met. Any adjustment for options which lapse prior to vesting is recognised in the current period.

All equity-settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to 'other reserves'.

The adoption of FRS20 requires a prior period adjustment to be made for awards granted before 1 July 2006. This has created a reserve for share based payments at 31 December 2006 of £494,000. Of this amount £188,000 relates to the six months ended 31 December 2006; £232,000 relates to the year ended 30 June 2006 of which £110,000 relates to the six months ended 31 December 2005.

Notes to the interim report
continued

3. FRS20 – Share Based Payments continued

The share based payments reserve replaces the Long Term Incentive Plan reserve of £178,000 held at 30 June 2006 and recognised under UITF17. The profit and loss reserve account has been adjusted as follows:

	Previously reported £'000	Restated £'000
Profit and loss reserve at 1 July 2005	(34,719)	(34,793)
Profit and loss reserve at 31 December 2005	(35,098)	(35,282)
Profit and loss reserve at 30 June 2006	(40,809)	(40,937)

4 Loss per share

	6 months to 31 Dec 2006	6 months to 31 Dec 2005	Year ended 30 June 2006
Loss for the period (£'000)	**(6,795)**	(535)	(6,173)
Weighted number of shares in issue	**81,950,632**	62,950,632	66,117,299
Diluted weighted number of shares in issue	**n/a**	n/a	n/a
Basic loss per share (pence)	**(8.3)**	(0.8)	(9.3)

5 Reconciliation of movement in shareholders' funds

	6 months to 31 Dec 2006 £'000	6 months to 31 Dec 2005 £'000	Year ended 30 June 2006 £'000
Loss for the financial period	**(6,795)**	(535)	(6,173)
Other recognised gains and losses relating to the period (net)	**(49)**	46	29
Issue of shares	**–**	–	19,000
Issue of shares from EBT	**–**	26	262
Share based payments	**188**	110	232
Expenses paid in connection with share issue	**–**	–	(732)
Net (decrease)/increase in shareholders' funds	**(6,656)**	(353)	12,618
Opening shareholders' funds	**32,702**	20,084	20,084
Closing shareholders' funds	**26,046**	19,731	32,702

6 Reconciliation of operating loss to operating cash flow

	6 months to 31 Dec 2006 £'000	6 months to 31 Dec 2005 £'000	Year ended 30 June 2006 £'000
Operating loss	**(8,043)**	(780)	(6,714)
Depreciation	**308**	287	668
Amortisation of intangibles	**224**	225	450
Loss on disposal of fixed assets	**11**	5	10
Effect of foreign exchange rate changes	**(10)**	(1)	(20)
Charge for share based payments	**188**	110	232
Increase in stocks	**(185)**	(501)	(910)
Increase in debtors	**(1,275)**	(863)	(416)
Increase/(decrease) in creditors	**344**	(2,339)	(1,399)
Net cash outflow from operating activities	**(8,438)**	(3,857)	(8,099)

Designed and produced by **Emperor Design Consultants Ltd**
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