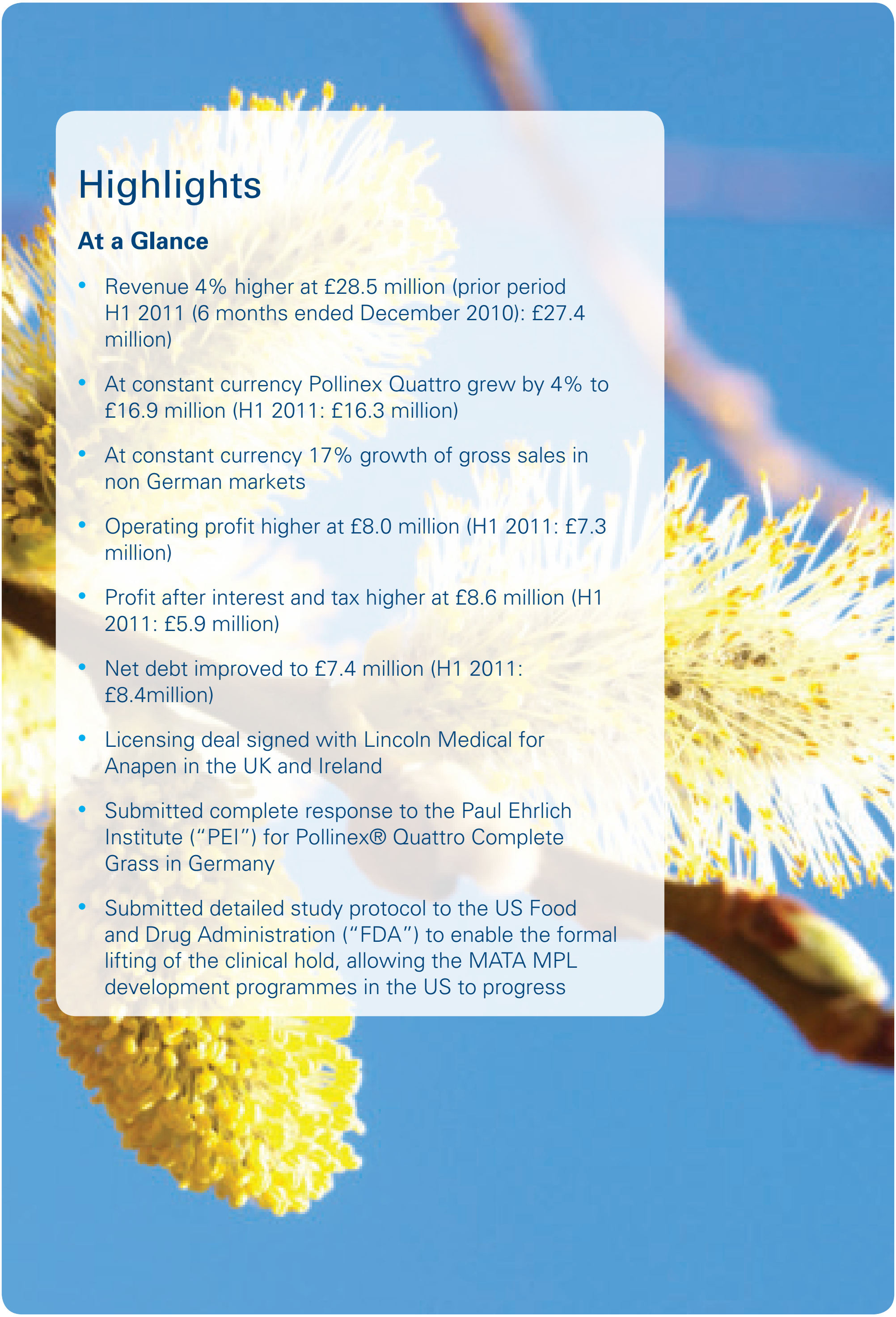
Allergy Therapeutics plc

Interim Report for the six months ended 31 December 2011

www.allergytherapeutics.com www.pollinex.com

Allergy Therapeutics®
Transforming Allergy Treatment



Highlights

At a Glance

- Revenue 4% higher at £28.5 million (prior period H1 2011 (6 months ended December 2010): £27.4 million)
- At constant currency Pollinex Quattro grew by 4% to £16.9 million (H1 2011: £16.3 million)
- At constant currency 17% growth of gross sales in non German markets
- Operating profit higher at £8.0 million (H1 2011: £7.3 million)
- Profit after interest and tax higher at £8.6 million (H1 2011: £5.9 million)
- Net debt improved to £7.4 million (H1 2011: £8.4million)
- Licensing deal signed with Lincoln Medical for Anapen in the UK and Ireland
- Submitted complete response to the Paul Ehrlich Institute ("PEI") for Pollinex® Quattro Complete Grass in Germany
- Submitted detailed study protocol to the US Food and Drug Administration ("FDA") to enable the formal lifting of the clinical hold, allowing the MATA MPL development programmes in the US to progress

Joint Statement from the Chairman and Chief Executive Officer

Operating Review

Overview

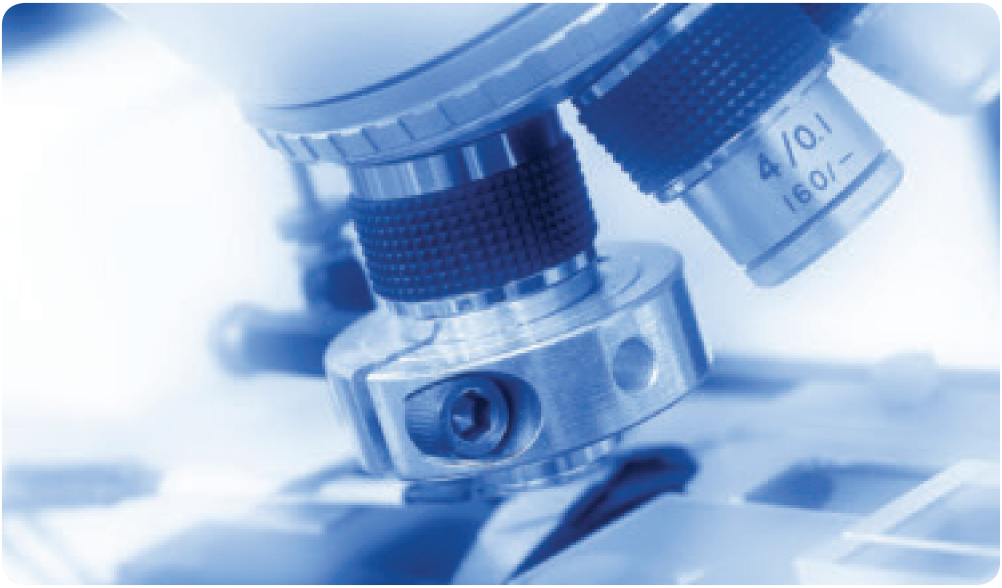
We are pleased to report that we have achieved sales growth of 4% (1% at constant currency), with revenue of £28.5 million (prior period H1 2011 (6 months ended December 2010): £27.4 million) and an improvement in operating profit to £8.0 million (H1 2011: £7.3 million). This was achieved despite continuing difficult market conditions in Germany, highlighting the strength of our performance in the rest of Europe. Going forward expansion into Emerging Markets will also be a key focus area following initial supplies into Latin America during the period.

Trading in Germany has been difficult over the past 6 months, although there are signs that the market is stabilising. Gross sales in Germany for the period fell by 4% due mainly to streamlining of a number of product presentations, as a result of the Therapeutic Allergen Regulations (TAV). However in other markets outside Germany the Group performed well, growing by 17% against the previous period. Double digit growth was reported in Austria, the Netherlands and the UK whilst sales were strong in the new Irish market. In Italy, despite the market shrinking, 8% sales growth was achieved. Consequently, the Group's dependence on Germany to support its revenue has fallen from 72% to 69%.

In order to accelerate European Sales, the Group has been actively seeking new products from in-licensing opportunities to complement the portfolio offered to its prescribers. The investments required to develop these projects are marginal, given that often the same prescribers are addressed with the additional products. During the period, the Group acquired the distribution rights to Anapen (the Epinephrine Auto injector to protect patients from anaphylactic shocks) in the UK and Ireland, where the product is already registered. With these two additional markets, the Group now has the exclusive rights to Anapen in eleven countries. Registrations and sales are expected in Spain and Italy in the coming months. These are very interesting new markets and the Group expects to have a significant contribution to its revenue in the coming years from this product (forecast to be £1.0m in H2 2012). In addition the Group aims to diversify its product portfolio through pursuing acquisition opportunities in the speciality field.

The Group continues to work towards increasing the revenue base outside Europe. In Latin America the first supplies to the market were shipped to Colombia in August 2011, shortly followed by shipments to Chile and Argentina. All Emerging Markets are expected to generate an increasing contribution to revenues over the next five years.

In November a complete response was submitted by the Group, addressing all the questions raised by the PEI in Germany concerning the Marketing Authorisation Application (MAA) for the Pollinex®



Quattro Complete formulation. Despite the Group addressing all the questions in their report the final approval as per normal practice, is a matter of regulatory review and consequently difficult to predict. The Group expects a final decision on this new presentation of Pollinex® Quattro in 2012. The new presentation differs from the existing marketed version of Pollinex® Quattro due to its lower injection volume of only 0.5ml compared to a 1.0ml injection for the existing Pollinex® Quattro product. If the Group receives approval for Pollinex® Quattro Complete in 2012 it will pursue further registrations through the mutual recognition procedure (MRP) in other European countries.

The PEI has given the Group timelines ending in 2017 for a transition period for approval of ten of its key products in Germany in accordance with the TAV, submitted in November 2010. The Group plans to meet these targets, which are likely to result in an annual R & D spend of up to £5 million.

The Group continues to work to commercialise Pollinex® Quattro in the US. As announced on 26 April 2011 a meeting was held with the FDA (on 17 March 2011), where they accepted that the issues pertaining to the clinical hold had been addressed and stated their intention to lift the hold, pending the agreement of protocols with which to progress the development of Pollinex® Quattro Complete. The Group is currently in conversations with the FDA to agree on the protocols that will allow the Group to resume its clinical activity. Burrill & Co (San Francisco) has been appointed to identify a suitable partner to help develop and commercialise Pollinex® Quattro in the US.

Ignace Goethals has announced his retirement and therefore has resigned as a Non-Executive Director. He will leave the Board at the end of June 2012. Ignace has been involved with the Group since 1999, steering the Group through the launching of Pollinex® in Germany in the same year and the AIM listing of the Group in 2004. His expertise has been critical to the Group's growth. He handed over the position of Chairman to Peter Jensen in January 2011.

Virinder Nohria, a UK and US trained physician

and global drug developer has resigned as a Non-Executive Director and will also leave the Board at the end of June 2012. Over the six years he has been a Director he has given invaluable guidance on R & D and human safety activities. He is leaving in order to pursue his many other business interests but will still be available to provide valuable advice in the future.

On behalf of their fellow Directors and the board we wish them well and would like to thank them for the support and direction they have both given the Group over many years.

The Board is actively seeking a Non-Executive Director with R&D skills and European regulatory experience.

On the 30 March 2012, the Group issued a circular regarding a proposed Placing and Subscription of New Ordinary Shares, issue of Convertible Loan Notes and an Offer to Qualifying Participants of New Ordinary Shares, and Notice of General Meeting announced through the Regulatory Information Service. The proceeds of the fundraising are intended to repay existing debt facilities and deleverage further the Company's balance sheet, allowing greater flexibility and speed in executing the Group's strategy.

Financial Review

Revenues for the period increased by 4% to £28.5m (H1 2011: £27.4m). The growth was helped by a strengthening Euro which added £0.8m to revenue against the prior year. Gross sales at a constant currency (at prior period exchange rates) grew by 1%. This growth was driven by increased Pollinex Quattro sales and sales of new in-licensed products.

Gross profit increased slightly to £21.1m (H1 2011: £20.8m) which represents a gross margin of 74% (H1 2011: 76%). The lower margin percentage reflects the reduced margins of the in-licensed products.

As in previous years, owing to the seasonality of the pollen allergy market, some 60% to 70% of Allergy Therapeutics' revenues are generated in the first half of the financial year and, as a consequence, the Group records profits in the first half of the year and losses in the second half.

Distribution costs have increased to £9.0m (H1 2011: £8.5m) with the increase mainly coming in selling and marketing expenses as investment is made in the new South American markets in

which the Group is now trading. Administration expenses of £3.2m (H1 2011: £4.4m) were down by 27%. Of this decrease, £0.8m related to lower compliance costs caused by a reduction in the activity around the German TAV, and a further £0.6m was due to favourable foreign exchange movements.

Research and development expenditure increased by 11% to £0.9m (H1 2011: £0.8m), due to an increased spend on projects although the overall spend remains low compared to earlier years.

There is net finance income this period of £0.2m (H1 2011: net finance cost of £1.4m). This is due to a revaluation gain this period of £1.0m (H1 2011: loss of £0.8m) on the Euro denominated loan as a result of a weaker Euro balance sheet

rate. An R&D tax credit was recognised during the period offsetting the smaller overseas tax charges accrued, resulting in a net tax credit in the period of £0.4m (H1 2011: charge £0.1m)

With the capital investment programme now complete and only a maintenance level of spend now required, property, plant and equipment has fallen from £9.0m to £8.1m as the depreciation charge for the period is higher than new equipment purchases. Goodwill remains broadly even at £2.5m, whilst other intangible assets have risen by £0.4m due to the capitalisation of in-licence product registration fees.

Total current assets excluding cash have decreased by £0.5m to £15.8m (H1 2011: £16.3m) primarily due to a lower stock figure offsetting higher trade and other receivables which included a debtor in the current period of £0.7m for the R&D tax credit which was received in March 2012. Total current liabilities excluding debt financing have increased marginally by £0.3m to £8.6m (H1 2011: £8.3m).

The net debt position has improved by £1.0m with cash standing at £2.0m (H1 2011: £2.3m) whilst gross debt has fallen to £9.4m (H1 2011: £10.7m)

Net cash generated by operating activities was an inflow of £7.6m (H1 2011: £1.8m), significantly higher than the previous period by £5.8m due principally to a combination of £2.2m higher cash generated by operations, and working capital increasing in the prior year.

Financing

At the balance sheet date the Group financing facilities were principally a term loan facility of €6.5m and a revolving credit facility of €15.5m. At the balance sheet date €11.6m was drawn on these facilities.

The proceeds from the fundraising announced on 30 March will be used to repay the existing bank facilities and a new Sterling fluctuating overdraft facility has been agreed reflecting the Group's seasonal working capital movements with a maximum limit of £7m.

The Directors believe that the Group will have access to adequate facilities for the foreseeable future and accordingly have applied the going concern principle in drawing up the financial statements.

Movements in the currency markets between the respective values of the Euro and Sterling have an effect on the Group's operations. The Group manages its cash exposure in this respect by foreign currency hedges. Over 90% of our gross sales are denominated in Euros whereas c.50% of costs are incurred in the United Kingdom and denominated in Sterling.

Outlook

The Group initiated a review of its cost base in 2010 resulting in a number of cost saving initiatives. Given the economic environment in Europe and the awaited outcome over the exemption from the increase in rebates in Germany, management continues to focus on increasing efficiencies with the aim of protecting net margins.

Generally the growth outlook across the Group's European markets is likely to be modest at up to 5% per annum due to austerity measures put in place in most of the Group's key markets. However, the deleveraging of the balance sheet and the benefits of the new flexible overdraft facility will allow greater flexibility to execute the Group's strategy. The Group expects that with a stronger balance sheet, corporate transactions including the US partnering opportunity for Pollinex Quattro and product in-licensing opportunities can be accelerated.

Peter Jensen
Chairman

Manuel Llobet
Chief Executive Officer

29 March 2012

Consolidated income statement

	Note	**6 months to 31 Dec 2011 £'000 unaudited**	6 months to 31 Dec 2010 £'000 unaudited	12 months to 30 June 2011 £'000 audited
Revenue		**28,526**	**27,407**	41,552
Cost of sales		**(7,455)**	**(6,586)**	(13,221)
Gross profit		**21,071**	**20,821**	28,331
Distribution costs		**(9,021)**	**(8,542)**	(17,524)
Administration expenses – other		***(3,178)***	***(4,361)***	*(9,232)*
Research and development costs		***(867)***	***(784)***	*(1,670)*
Administration expenses		**(4,045)**	**(5,145)**	(10,902)
Other income		-	**210**	210
Operating profit		**8,005**	**7,344**	115
Finance income		**1**	**1**	2
Retranslation gain/(loss) on Euro denominated borrowing facilities		**966**	**(754)**	(1,345)
Finance expense		**(782)**	**(625)**	(1,085)
Profit/(loss) before tax		**8,190**	**5,966**	(2,313)
Income tax		**372**	**(90)**	(349)
Profit/(loss) for the period		**8,562**	**5,876**	(2,662)
Earnings/(loss) per share	3			
Basic (pence per share)		**2.76p**	**1.89p**	(0.86p)
Diluted (pence per share)		**2.66p**	**1.82p**	(0.86p)

Consolidated statement of comprehensive income

	6 months to 31 Dec 2011 £'000 unaudited	6 months to 31 Dec 2010 £'000 unaudited	12 months to 30 June 2011 £'000 audited
Profit/(loss) for the period	**8,562**	**5,876**	(2,662)
Actuarial gain on defined benefit pension scheme	**104**	**82**	235
Exchange differences on translation of foreign operations	**(432)**	**303**	586
Revaluation gains/(losses)	**31**	**23**	(54)
Total comprehensive income	**8,265**	**6,284**	(1,895)

Consolidated balance sheet

	31 Dec 2011 £'000 unaudited	31 Dec 2010 £'000 unaudited	30 June 2011 £'000 audited
Assets			
Non-current assets			
Property, plant and equipment	**8,147**	8,971	8,809
Intangible assets - Goodwill	**2,536**	2,564	2,624
Intangible assets - Other	**2,175**	1,773	1,781
Investment - Retirement benefit asset	**2,473**	2,307	2,493
Total non-current assets	**15,331**	15,615	15,707
Current assets			
Trade and other receivables	**8,663**	8,940	6,779
Derivative financial instruments	**278**	-	-
Inventory	**6,845**	7,337	7,087
Cash and cash equivalents	**1,960**	2,285	1,048
Total current assets	**17,746**	18,562	14,914
Total assets	**33,077**	34,177	30,621
Liabilities			
Current liabilities			
Trade and other payables	**(8,589)**	(7,982)	(7,549)
Current borrowings	**(3,153)**	(2,116)	(2,793)
Derivative financial instruments	**-**	(309)	(805)
Total current liabilities	**(11,742)**	(10,407)	(11,147)
Net current assets	**6,004**	8,155	3,767
Non current liabilities			
Retirement benefit obligation	**(3,907)**	(3,892)	(4,114)
Non current borrowings	**(6,223)**	(8,532)	(12,361)
Derivative financial instruments	**(276)**	(608)	(376)
Deferred taxation	**(176)**	(197)	(201)
Non current provisions	**(287)**	(282)	(283)
Total non current liabilities	**(10,869)**	(13,511)	(17,335)
Total liabilities	**(22,611)**	(23,918)	(28,482)
Net assets	**10,466**	10,259	2,139
Equity			
Capital and reserves			
Issued capital	**321**	321	321
Share premium	**58,705**	58,704	58,705
Merger reserve – shares issued by subsidiary	**40,128**	40,128	40,128
Reserve – shares held by EBT	**67**	67	67
Reserve – share based payments	**1,459**	1,396	1,398
Revaluation reserve	**1,297**	1,384	1,287
Foreign exchange reserve	**92**	241	524
Retained earnings	**(91,603)**	(91,982)	(100,291)
Total equity	**10,466**	10,259	2,139

Consolidated statement of changes in equity

	Issued capital £'000	Share premium £'000	Merger reserve shares issued by subsidiary £'000	Reserve shares held in EBT £'000	Reserve share based payments £'000	Revaluation reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 December 2010	**321**	**58,704**	**40,128**	**67**	**1,396**	**1,384**	**241**	**(91,982)**	**10,259**
Exchange differences on translation of foreign operations							283		283
Actuarial gains								153	153
Valuation losses taken to equity						(77)			(77)
Net income recognised directly in equity	-	-	-	-	-	(77)	283	153	359
Loss for the period after tax								(8,538)	(8,538)
Total recognised income and expense	-	-	-	-	-	(77)	283	(8,385)	(8,179)
Share based payments					58				58
Shares issued		1							1
Transfer of depreciation on revalued property						(20)		20	-
Transfer of lapsed options to retained reserves					(56)			56	-
At 30 June 2011	**321**	**58,705**	**40,128**	**67**	**1,398**	**1,287**	**524**	**(100,291)**	**2,139**
Exchange differences on translation of foreign operations							(432)		(432)
Actuarial gains								104	104
Valuation gains taken to equity						31			31
Net income recognised directly in equity	-	-	-	-	-	31	(432)	104	(297)
Profit for the period after tax								8,562	8,562
Total recognised income and expense	-	-	-	-	-	31	(432)	8,666	8,265
Share based payments					62				62
Transfer of depreciation on revalued property						(21)		21	-
Transfer of lapsed options to retained reserves					(1)			1	-
At 31 December 2011	**321**	**58,705**	**40,128**	**67**	**1,459**	**1,297**	**92**	**(91,603)**	**10,466**

Condensed consolidated cash flow statement

	6 months to 31 Dec 2011 £'000 unaudited	6 months to 31 Dec 2010 £'000 unaudited	12 months to 30 June 2011 £'000 audited
Cash flows from operating activities			
Profit / (loss) before tax	**8,190**	**5,966**	(2,313)
Adjustments for			
Finance income	**(1)**	**(2)**	(2)
Finance expense	**782**	**626**	1,085
Revaluation (gain)/loss on loan	**(966)**	**754**	1,345
Non cash movements on defined benefit pension plan	**69**	**96**	181
Depreciation and amortisation	**948**	**719**	1,698
Gain on bargain purchase	**-**	**(184)**	(186)
Charge for share based payments	**62**	**89**	147
Financial derivative instruments	**(1,083)**	**309**	805
Disposal of property, plant and equipment	**-**	**-**	8
(Increase) in trade and other receivables	**(1,616)**	**(5,129)**	(2,728)
Decrease/(increase) in inventories	**97**	**(248)**	73
Increase/(decrease) in trade and other payables	**1,273**	**(1,147)**	(1,788)
Net cash generated by/(used in) operations	**7,755**	**1,849**	**(1,675)**
Interest paid	**-**	**(1)**	(3)
Income tax paid	**(189)**	**(90)**	(349)
Net cash generated by/(used in) operating activities	**7,566**	**1,758**	**(2,027)**
Cash flows from investing activities			
Interest received	**1**	**2**	3
Investments	**(124)**	**(166)**	(313)
Acquisitions	**-**	**(740)**	(740)
Payments for intangible assets	**(663)**	**(64)**	(87)
Payments for property plant and equipment	**(218)**	**(514)**	(1,150)
Net cash used in investing activities	**(1,004)**	**(1,482)**	**(2,287)**
Cash flows from financing activities			
Proceeds from issue of equity shares	**-**	**-**	1
Repayment of borrowings	**(9,362)**	**(6,339)**	(7,016)
Proceeds from borrowings	**4,366**	**4,367**	9,024
Bank loan fees and interest paid	**(592)**	**(589)**	(1,245)
Net cash (used in) / generated by financing activities	**(5,588)**	**(2,561)**	**764**
Net increase/(decrease) in cash and cash equivalents	**974**	**(2,285)**	(3,550)
Effects of exchange rates on cash and cash equivalents	**(62)**	**50**	78
Cash and cash equivalents at the start of the period	**1,048**	**4,520**	4,520
Cash and cash equivalents at the end of the period	**1,960**	**2,285**	**1,048**

1. Interim financial information

The unaudited consolidated interim financial information is for the six month period ended 31 December 2011. The financial information does not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2011, which were prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The interim financial information has not been audited nor has it been reviewed under ISRE 2410 of the Auditing Practices Board. The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 30 June 2011 prepared under IFRS have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498(2) of the Companies Act 2006.

2. Basis of preparation

The interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention except for land and buildings and derivative financial instruments which have been measured at fair value. The accounting policies adopted in this report are consistent with those of the annual financial statements for the year to 30 June 2011 as described in those financial statements.

Going Concern

The Group has been profit making in the six months to 31 December 2011, as it was in the corresponding period ending 31 December 2010 and has made operating profits in the years ending 30 June 2010 and 2011.

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 June 2012 and 30 June 2013. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing debt facilities. After making appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the foreseeable future and the effects of sales and other sensitivities on the Group's funding plans, the Directors continue to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly have applied the going concern principle in drawing up these financial statements. In reaching this view, the Directors have considered and prioritised the actions that could be taken to offset the impact of any shortfall in operating performance.

On 30 March 2012 the Group issued a circular regarding a proposed Placing and Subscription of New Ordinary Shares, issue of Convertible Loan Notes and an Offer to Qualifying Participants of New Ordinary Shares, and Notice of General Meeting announced through the Regulatory Information Service. The proceeds from the fundraising will be used to repay the existing bank facilities and a new overdraft has been agreed to manage the Group's seasonal working capital movements with a maximum overdraft allowed of £7m.

3. Earnings per share

	6 months to 31 Dec 2011 £'000 unaudited	6 months to 31 Dec 2010 £'000 unaudited	12 months to 30 June 2011 £'000 audited
Profit/(loss) after tax attributable to equity shareholders	**8,562**	5,876	(2,662)
	Shares '000	Shares '000	Shares '000
Issued ordinary shares at start of the period	**310,772**	310,757	310,757
Ordinary shares issued in the period	**-**	-	15
Issued ordinary shares at end of the period	**310,772**	310,757	310,772
Weighted average number of shares in issue for the period	**310,772**	310,757	310,759
Weighted average number of shares for diluted earnings per share	**321,360**	322,481	323,354
Basic earnings/(loss) per share (pence)	**2.76p**	1.89p	(0.86p)
Diluted earnings/(loss) per share (pence)	**2.66p**	1.82p	(0.86p)

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