



Allergy Therapeutics plc

Interim Report for
the six months
ended

31 December 2014

www.allergytherapeutics.com

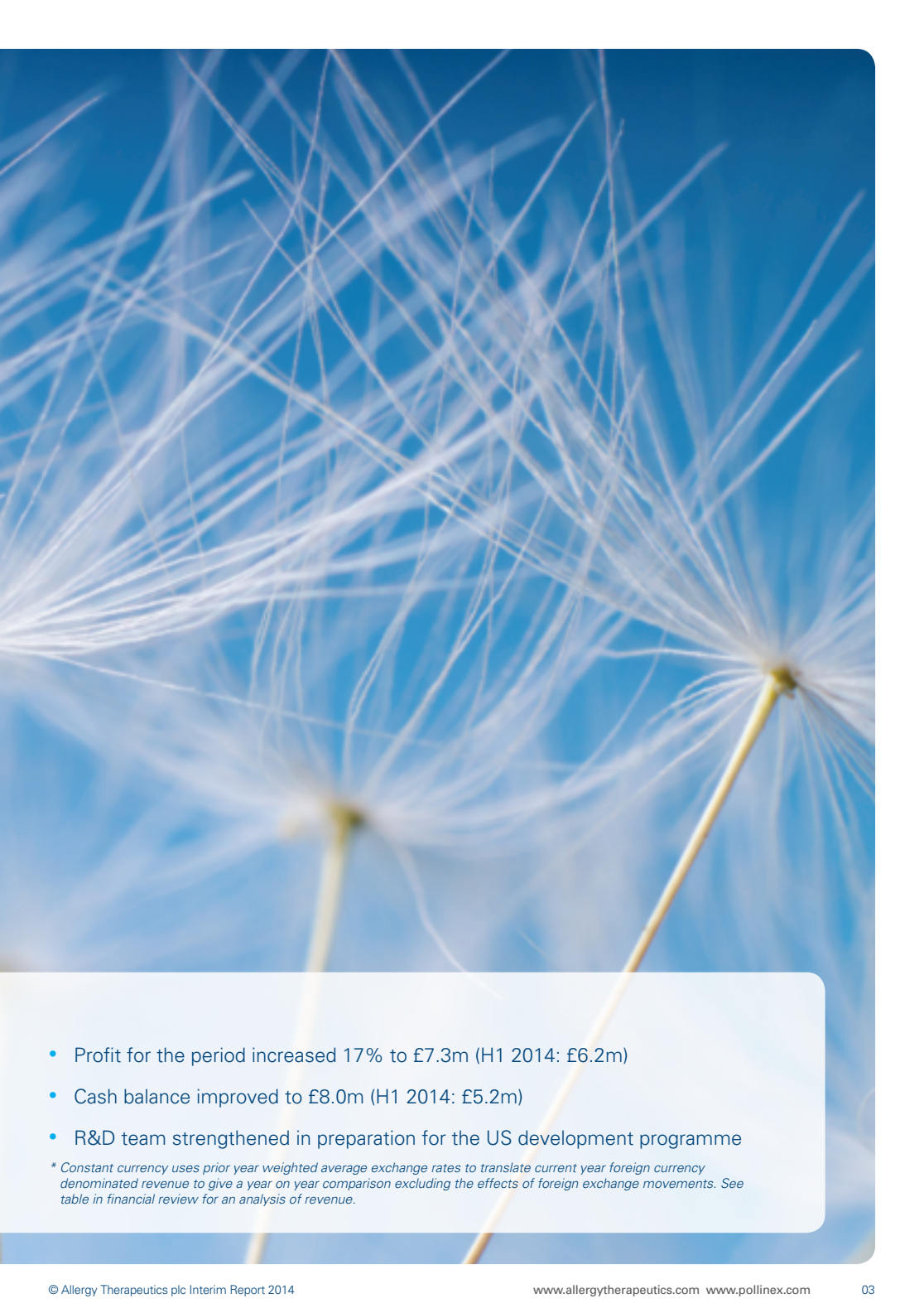
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 **Allergy
Therapeutics®**
Transforming Allergy Treatment

A close-up photograph of several dandelion seed heads against a clear blue sky. The seeds are white and wispy, creating a soft, ethereal effect. The stems are thin and green.

Highlights

- Increase in revenue of 11% at constant currency to £30.2m (H1 2014: £27.2m)*
- 4% increase in reported revenue
- Market share increases in all main markets
- Operating profit increased 13% to £7.5m (H1 2014: £6.7m)



- Profit for the period increased 17% to £7.3m (H1 2014: £6.2m)
- Cash balance improved to £8.0m (H1 2014: £5.2m)
- R&D team strengthened in preparation for the US development programme

** Constant currency uses prior year weighted average exchange rates to translate current year foreign currency denominated revenue to give a year on year comparison excluding the effects of foreign exchange movements. See table in financial review for an analysis of revenue.*



Operating Review

Our portfolio of short and ultrashort course aluminium free allergy vaccines is increasingly the treatment of choice with prescribers. The convenience of our short course treatments, supported by the excellent work of our commercial teams, has led the Company to be one of the best performers in the European immunotherapy field.

As a consequence, we are increasing our European market share and in the six months to 31 December 2014 we outperformed the market trend in all our main markets, namely, Germany, Italy, Spain, Austria and the Netherlands. This increased market penetration has resulted in an 11% growth in revenue in the first six months of the financial year, when measured in constant currencies, to £30.2 million (H1 2014: £27.2m). Reported revenue for the period was £28.2 million (H1 2014: £27.2m), showing growth of 4% after taking into account the negative impact of the weakening Euro. This improvement has occurred despite relatively flat markets and has allowed the Company to improve its reported operating profit margin by 13% and its profit for the period by 17% compared to the same period last year.

One of the cornerstones of our business plan has been to build a strong, sound and profitable European base as a platform for our global expansion. Over the last three years, we have

continued to execute this strategy through the improvement in our competitive position in Europe.

During the first half of our financial year we have maintained an ongoing dialogue with the US Food and Drug Agency ("FDA") and we are very excited about the prospects of resuming our clinical activities in the US and repeating our European success in the US. The Company has a good chance to be first to market a registered product in the subcutaneous segment of the US seasonal specific immunotherapy market with Pollinex Quattro. The US is predominantly a subcutaneous market, and the prospects for Pollinex Quattro in this market could be significant and transformational for our Company.

The recently strengthened R&D and Regulatory Departments have enabled the Company to focus on US FDA interactions and the progression of the German Therapeutic Allergen Regulations ("TAV"). Having reviewed the results of the completed study and received encouraging feedback from Paul-Ehrlich-Institut ("PEI"), the Company is planning the next stage for the Pollinex Quattro Birch programme in Europe.

Acarovac, the recently developed allergoid aluminium free vaccine for House Dust Mite, has been positively received and has subsequently been made available in the Baltic market, following its launch in Spain.



Latin America continues to have potential but has proven to be a challenging market to run a named patient business model. The Company will, therefore, direct its efforts on registering products in this market, whilst holding back on the commercial operations for the time being.

The symbiotic portfolio of allergy immunomodulators is growing well and the Company will continue to develop the portfolio, therefore leveraging the value of the commercial sales network.

The Company continues to make good progress in implementing its strategy to become a leading provider of allergy related solutions. We thank all employees of Allergy Therapeutics for their hard work, commitment and determination in helping the Company achieve the results reported today.





Financial Review

Despite relatively flat markets in Europe, reported revenues for the first half of the financial year are £28.2m (H1 2014: £27.2m), representing growth of 4% after taking into account currency movements; the negative impact on revenues from the weakening Euro being £2.0m. At constant currency, revenue growth is 11% for

the period, with first half revenues of £30.2m (H1 2014: £27.2m). This double digit sales growth has been driven primarily by the Company's improving trading performance as it continues to increase its market share in all of its main markets.

A reconciliation between reported revenues and revenues in constant currency is provided in the table below:

	6 months to 31-Dec-14 £m	6 months to 31-Dec-13 £m	Increase £m	Increase %
Revenue	28.2	27.2	1.0	4%
Adjustment to retranslate to prior year foreign exchange rate	2.0	-		
Revenue at constant currency	30.2	27.2	3.0	11%
Add rebates at constant currency	2.2	2.8		
Gross revenue at constant currency	32.4	30.0	2.4	8%



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 Company typically records profits in the first half of the year and losses in the second half.

Cost of goods sold increased marginally in the period to £6.8m (H1 2014: £6.4m), due mainly to inflationary increases. Gross profit improved to £21.4m (H1 2014: £20.7m), which represents a gross margin of 76% (H1 2014: 76%), a good result given the foreign exchange impact on sales.

Distribution costs at £8.9m (H1 2014: £9.3m) were broadly similar to the previous period after taking into account foreign exchange impacts on overseas costs. Administration expenses of £3.9m (H1 2014: £3.7m) were also comparable.

Research and development expenditure remained constant at £1.1m (H1 2014: £1.1m).

The finance expense reflects the interest on the overdraft and German pension fund finance cost. The overdraft was fully repaid at 31 December 2014.

The tax charge in the period of £0.1m relates mainly to the Italian subsidiary.

The Company only has a maintenance level of spend on property, plant and equipment resulting

in the carrying value falling from £7.1m to £6.8m as the depreciation charge for the period is higher than new equipment purchases. The carrying value of goodwill remains broadly even at £2.5m, whilst other intangible assets have decreased by £0.2m due to amortisation charges.

Total current assets excluding cash have decreased slightly to £13.7m (H1 2014: £14.5m), primarily due to lower German rebate debtors. Total current liabilities, excluding debt financing, are broadly constant at £6.2m (H1 2014: £6.3m). The cash position continues to increase, and has improved by £2.8m with cash standing at £8.0m (H1 2014: £5.2m).

Net cash generated by operating activities was an inflow of £6.4m (H1 2014: £4.7m), the increase being principally due to higher profitability.

Financing

During the period, the Company's financing facilities consisted of a variable overdraft (maximum available at December 2014 £1.0m), and was undrawn at the balance sheet date. The Company expects to renew its banking facilities when they are due for review in May 2015.

The Directors believe that the Company 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 Company's operations. The Company manages its cash exposure in this respect by foreign currency hedges. Over 90% of our gross sales are denominated in Euros whereas approximately 50% of costs are incurred in the United Kingdom and denominated in Sterling.

Post Balance Sheet Event

As disclosed in Note 3 (Contingent liabilities), on 23 February 2015, the Company received notification that The Federal Office for Economics and Export ("BAFA") had made a decision to reverse their preliminary exemption to the increased manufacturers rebate in Germany for the period July to December 2012. The Company was granted a preliminary exemption to the increased rebate for this period by BAFA in 2013. The Company recognised revenue of €1.4m (£1.1m) against this exemption in the year ended 30 June 2013. All other preliminary exemptions (granted for periods up to 30 June 2012) have previously been ratified as final by BAFA. After taking legal advice, the Company has lodged an appeal against this decision and is confident that the exemption will be re-instated. Therefore, as at 31 December 2014, no provision has been recognised for the repayment of the rebate refund. This position will be kept under review.

Outlook

The Company remains excited about the prospects for its future. Having strengthened the R&D and Regulatory teams, the Company has focussed on dialogue with the US FDA and the prospects of further clinical activities in the US. In the next six months, the Company is expecting to resume clinical trials to progress the major opportunity in the US into the next stage of the Company's continued growth.

Whilst markets in Europe are expected to remain flat in the near future, the Company will continue to drive further market penetration with a portfolio of short and ultrashort course aluminium free allergy vaccines, which are increasingly becoming the treatment of choice with prescribers. This should also allow us to improve margins through leveraging the improved manufacturing facilities we have put in place.

Peter Jensen

Chairman

Manuel Llobet

Chief Executive Officer

27 February 2015



Consolidated income statement

	Note	6 months to 31 Dec 2014 £'000 unaudited	6 months to 31 Dec 2013 £'000 unaudited	12 months to 30 June 2014 £'000 audited
Revenue		28,183	27,166	41,955
Cost of sales		(6,796)	(6,437)	(11,951)
Gross profit		21,387	20,729	30,004
Distribution costs		(8,874)	(9,267)	(17,922)
<i>Administration expenses – other</i>		(3,926)	(3,721)	(7,986)
<i>Research and development costs</i>		(1,065)	(1,090)	(2,963)
Administration expenses		(4,991)	(4,811)	(10,949)
Other income		–	–	76
Operating profit		7,522	6,651	1,209
Finance income		1	1	170
Finance expense		(110)	(129)	(295)
Profit before tax		7,413	6,523	1,084
Income tax		(108)	(297)	(343)
Profit for the period		7,305	6,226	741
Earnings per share	4			
Basic (pence per share)		1.62p	1.38p	0.16p
Diluted (pence per share)		1.54p	1.34p	0.16p

Consolidated statement of comprehensive income

	6 months to 31 Dec 2014 £'000 unaudited	6 months to 31 Dec 2013 £'000 unaudited	12 months to 30 June 2014 £'000 audited
Profit for the period	7,305	6,226	741
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of net defined benefit liability	(1,137)	353	(271)
Remeasurement of investments-retirement benefit assets	44	34	(10)
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations	(35)	(49)	(191)
Total comprehensive income	6,177	6,564	269

Consolidated balance sheet

	31 Dec 2014 £'000 unaudited	31 Dec 2013 £'000 unaudited	30 June 2014 £'000 audited
Assets			
Non-current assets			
Property, plant and equipment	6,785	7,147	7,030
Intangible assets - Goodwill	2,454	2,531	2,480
Intangible assets - Other	1,192	1,404	1,291
Investments - Retirement benefit asset	3,348	3,170	3,212
Deferred taxation asset	174	200	174
Total non-current assets	13,953	14,452	14,187
Current assets			
Trade and other receivables	7,236	8,270	5,368
Inventory	6,318	6,155	6,469
Cash and cash equivalents	7,985	5,214	2,029
Derivative financial instruments	163	68	345
Total current assets	21,702	19,707	14,211
Total assets	35,655	34,159	28,398
Liabilities			
Current liabilities			
Trade and other payables	(6,227)	(6,341)	(6,425)
Current borrowings	(49)	(95)	(49)
Total current liabilities	(6,276)	(6,436)	(6,474)
Net current assets	15,426	13,271	7,737
Non-current liabilities			
Retirement benefit obligation	(7,546)	(5,930)	(6,418)
Deferred taxation	(128)	(149)	(136)
Non-current provisions	(217)	(324)	(222)
Other non-current liabilities	-	-	(73)
Total non-current liabilities	(7,891)	(6,403)	(6,849)
Total liabilities	(14,167)	(12,839)	(13,323)
Net assets	21,488	21,320	15,075
Equity			
Capital and reserves			
Issued capital	420	420	420
Share premium	67,750	67,716	67,716
Merger reserve – shares issued by subsidiary	40,128	40,128	40,128
Reserve – shares held by EBT	67	67	67
Reserve – share based payments	667	764	465
Reserve – convertible loan notes	3,652	3,652	3,652
Revaluation reserve	1,222	1,331	1,178
Foreign exchange reserve	(56)	121	(21)
Retained earnings	(92,362)	(92,879)	(98,530)
Total equity	21,488	21,320	15,075

Consolidated statement of changes in equity

	Issued capital	Share premium	Merger reserve shares issued by subsidiary	Reserve shares held in EBT	Reserve share based payments	Reserve convertible Loan Note	Revaluation reserve	Foreign exchange reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2013	420	67,716	40,128	67	764	3,652	1,331	121	(92,879)	21,320
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(142)	-	(142)
Remeasurement of net defined benefit liability	-	-	-	-	-	-	-	-	(515)	(515)
Remeasurement of investments- Retirement benefit assets	-	-	-	-	-	-	(153)	-	-	(153)
Net income recognised directly in equity	-	-	-	-	-	-	(153)	(142)	(515)	(810)
Loss for the period after tax	-	-	-	-	-	-	-	-	(5,485)	(5,485)
Total recognised income and expense	-	-	-	-	-	-	(153)	(142)	(6,000)	(6,295)
Transactions with owners										
Distribution to shareholder -Convertible loan note	-	-	-	-	-	-	-	-	(49)	(49)
Share based payments	-	-	-	-	99	-	-	-	-	99
Transfer of lapsed options to retained reserves	-	-	-	-	(398)	-	-	-	398	-
At 30 June 2014	420	67,716	40,128	67	465	3,652	1,178	(21)	(98,530)	15,075
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(35)	-	(35)
Remeasurement of net defined benefit liability	-	-	-	-	-	-	-	-	(1,137)	(1,137)
Remeasurement of investments - Retirement benefit assets	-	-	-	-	-	-	44	-	-	44
Net income recognised directly in equity	-	-	-	-	-	-	44	(35)	(1,137)	(1,128)
Profit for the period after tax	-	-	-	-	-	-	-	-	7,305	7,305
Total recognised income and expense	-	-	-	-	-	-	44	(35)	6,168	6,177
Share based payments	-	-	-	-	202	-	-	-	-	202
Shares issued	-	34	-	-	-	-	-	-	-	34
At 31 December 2014	420	67,750	40,128	67	667	3,652	1,222	(56)	(92,362)	21,488

Condensed consolidated cash flow statement

	6 months to 31 Dec 2014 £'000 unaudited	6 months to 31 Dec 2013 £'000 unaudited	12 months to 30 June 2014 £'000 audited
Cash flows from operating activities			
Profit before tax	7,413	6,523	1,084
Adjustments for:			
Finance income	(1)	(1)	(170)
Finance expense	110	129	295
Non cash movements on defined benefit pension plan	143	214	160
Depreciation and amortisation	644	612	1,287
Charge for share based payments	202	85	184
Derivative financial instruments	183	(393)	(669)
Disposal of property, plant and equipment	-	5	1
(Increase)/decrease in trade and other receivables	(1,922)	(1,160)	1,689
Decrease/(increase) in inventories	90	(211)	(625)
(Decrease) in trade and other payables	(358)	(900)	(911)
Net cash generated by operations	6,504	4,903	2,325
Interest paid	(111)	(127)	(102)
Income tax paid	-	(39)	(50)
Net cash generated by operating activities	6,393	4,737	2,173
Cash flows from investing activities			
Interest received	1	1	71
Investments	(166)	(153)	(281)
Payments for intangible assets	(48)	-	(22)
Payments for property plant and equipment	(221)	(390)	(898)
Net cash used in investing activities	(434)	(542)	(1,130)
Cash flows from financing activities			
Proceeds from issue of equity shares	34	-	-
Net cash generated by financing activities	34	-	-
Net increase in cash and cash equivalents	5,993	4,195	1,043
Effects of exchange rates on cash and cash equivalents	(37)	(45)	(78)
Cash and cash equivalents at the start of the period	2,029	1,064	1,064
Cash and cash equivalents at the end of the period	7,985	5,214	2,029
Cash at bank and in hand	7,985	5,214	2,029
Bank overdraft	-	-	-
Cash and cash equivalents at the end of the period	7,985	5,214	2,029

1. Interim financial information

The unaudited consolidated interim financial information is for the six month period ended 31 December 2014. 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 Company for the year ended 30 June 2014, 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 Company's statutory financial statements for the year ended 30 June 2014 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 2014 as described in those financial statements. There are a number of accounting standards that have become effective in the current period. However, there is no material impact upon the financial statements.

Going Concern

The Group has been profit making in the six months to 31 December 2014, as it was in the corresponding period ending 31 December 2013 and has made operating profits in the years ending 30 June 2010 onwards.

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 June 2015 and 30 June 2016. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing bank facilities. The Company expects to renew its banking facilities when they are due for renewal in May 2015. 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 Company's funding plans, the Directors continue to believe that the Company 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.

3. Contingent liabilities

The European Commission has an ongoing investigation into whether the exemption of pharmaceutical manufacturers from the increase in rebates in Germany constitutes state aid. If it is eventually concluded that the exemptions constitute state aid, then all unlawful aid may have to be repaid. On the balance of probabilities, the Group does not consider that it will have to repay any rebate exemptions. However, should a repayment be required, then the maximum amount to be repaid would be approximately £5m. Included in other receivables as at 31 December 2014 is an amount of £69,000 (2013: £1.2m) in respect of exempted rebates which the Group continues to collect.

On 16 May 2013, the Company was granted a preliminary exemption to the increased manufacturers rebate in Germany by The Federal Office for Economics and Export ("BAFA") for the period 1 July to 31 December 2012. The Company recognised revenue of €1.4m (£1.1m) against this exemption in the year ended 30 June 2013 (included within the £5m referred to above). All other preliminary exemptions (granted for periods up to 30 June 2012) have previously been ratified as final by BAFA.

On 23 February 2015, the Company received notification that BAFA had made a decision to reverse their preliminary exemption to the increased rebate for the period July to December 2012. After taking legal advice, the Company has lodged an appeal against this decision and is confident that the exemption will be re-instated. Therefore, as at 31 December 2014, no provision has been recognised for the repayment of the rebate refund. This position will be kept under review.

4. Earnings per share

	6 months to 31 Dec 2014	6 months to 31 Dec 2013	12 months to 30 June 2014
	£'000	£'000	£'000
	unaudited	unaudited	audited
Profit after tax attributable to equity shareholders	7,305	6,226	741
	Shares	Shares	Shares
	'000	As restated '000	'000
Issued ordinary shares at start of the period	409,867	409,867	409,867
Ordinary shares to be issued on conversion of loan note	41,675	41,675	41,675
Ordinary shares issued in the period	189	-	-
Issued ordinary shares used in EPS calculation	451,731	451,542	451,542
Weighted average number of shares in issue for the period	451,636	451,542	451,542
Weighted average number of shares for diluted earnings per share	475,191	465,649	471,507
Basic earnings per share (pence)	1.62p	1.38p	0.16p
Diluted earnings per share (pence)	1.54p	1.34p	0.16p

Earnings per share for 2013 is re-stated so as to include ordinary shares to be issued on conversion of the convertible loan note.



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