**CIRCASSIA PHARMACEUTICALS PLC**
**PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014**

**- Strong clinical progress; Cat-SPIRE phase III study fully recruited -**
**- Robust financial position; fully-funded to bring Cat-SPIRE to market -**
**- Commercialisation preparations underway; infrastructure build advancing -**

**Oxford, UK – 26 February 2015:** Circassia Pharmaceuticals plc ("Circassia" or "the Company") (LSE: CIR), a specialty biopharmaceutical company focused on allergy, today announces its preliminary results for the year ended 31 December 2014.

## OPERATIONAL HIGHLIGHTS

### Cat-SPIRE
- Completed recruitment for phase III registration study (CATALYST); on track to report results in H1 2016
- Initiated two-to-five year follow-on study (CP007A); 138 subjects from CATALYST enrolled to date
- On track to complete paediatric safety study (CP009) in H2 2015
- Paediatric study plan agreed with FDA

### HDM-SPIRE (House Dust Mite)
- Positive results from two-year follow-up phase IIb study (TH002A)
- Excellent safety profile demonstrated in controlled asthmatic study (TH004)
- Completed observational study (TH003) to inform field study design
- Initiated large phase IIb field study (TH005)

### Grass-SPIRE
- Highly encouraging results from third season follow-up phase IIb study (TG002B)
- Initiated phase II safety study in controlled asthmatics (TG004)
- Initiated observational study (TG003) to inform phase III design

### Ragweed-SPIRE
- Symptoms reduced in phase IIb chamber study (TR006); results suggest optimal dose not tested
- Supportive subsequent field data from TR006; reduction in symptoms and rescue medication use
- Follow-up study (TR006A) planned to assess effect of allergen exposure during further ragweed season
- Positive results from safety study (TR007) support inclusion of controlled asthmatics in future studies
- Additional phase IIb dose ranging study planned

### Commercialisation progress
- Appointed Chief Commercial Officer; US subsidiary established
- Building US and EU market access and medical affairs team to expand relationships with allergists
- Positive research with specialists, patients and payers in US and key EU markets
- US patent term extended for Cat-SPIRE, HDM-SPIRE and Grass-SPIRE; protection to at least 2030

## FINANCIAL HIGHLIGHTS

- Successful flotation on the London Stock Exchange raised £202.0 million (£192.4 million net)
- Increased investment in research and development to £38.6 million (2013: £21.1 million)
- Loss for the year £35.1 million (2013: £20.0 million)
- Strong balance sheet with £186.6 million cash and deposits at 31 December 2014 (31 December 2013: £30.6 million)

**Steve Harris, Circassia's Chief Executive, said:** *"2014 has been transformational for Circassia. In March, we raised over £200 million through a successful IPO, and now have the funds to accelerate our late-stage clinical portfolio and establish the infrastructure to independently commercialise our first next generation allergy treatment. During the year, we made good progress towards meeting these goals. We completed recruitment for our phase III Cat-SPIRE registration study, which remains on track to report in H1 2016, and completed five further clinical trials across our portfolio. We are committed to bringing our innovative allergy products to market, and during the year we began to build our commercial organisation. With the US allergy immunotherapy marketplace opening up to new treatment approaches, we are well positioned to exploit the growing interest in this poorly served field."*

**- Ends -**

An analyst meeting will take place today at 9.30am at Peel Hunt, Moor House, 120 London Wall, London, EC2Y 5ET. A webcast of the event will be available in the Media section of the Company's website at www.circassia.co.uk.

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**Forward-looking statements**

*This press release contains certain projections and other forward-looking statements with respect to the financial condition, results of operations, businesses and prospects of Circassia. The use of terms such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "intend", "continue", "target" or "believe" and similar expressions (or the negatives thereof) are generally intended to identify forward-looking statements. These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Any of the assumptions underlying these forward-looking statements could prove inaccurate or incorrect and therefore any results contemplated in the forward-looking statements may not actually be achieved. Nothing contained in this press release should be construed as a profit forecast or profit estimate. Investors or other recipients are cautioned not to place undue reliance on any forward-looking statements contained herein. Circassia undertakes no obligation to update or revise (publicly or otherwise) any forward-looking statement, whether as a result of new information, future events or other circumstances.*

**Notes to editors**

**Circassia**

Circassia is a specialty biopharmaceutical company focused on the development and commercialisation of a range of allergy immunotherapy product candidates. Established in 2006, the Company has used its proprietary ToleroMune® technology to develop a new class of therapies, Synthetic Peptide Immuno-Regulatory Epitopes (SPIREs), which have the potential to revolutionise allergy treatment.

The Company's portfolio of SPIREs is designed to treat a broad range of seasonal and perennial allergies. The most advanced, Cat-SPIRE, targets cat allergy and is currently in phase III development. Three other product candidates, targeting house dust mite, ragweed and grass allergies, have completed clinical proof-of-concept phase IIb studies.

Further information is available at: www.circassia.co.uk.

## CHAIRMAN'S STATEMENT

The last year has been a period of great transformation for Circassia. We successfully listed on the London Stock Exchange, raising over £200 million and completing the UK's largest ever biotech Initial Public Offering (IPO) fundraising. During 2014, we have been putting this investment to work, undertaking studies in all our late-stage clinical programmes and building the team to support our anticipated first product launch. As a result, we are increasingly well positioned to capitalise on the significant potential value offered by our innovative allergy treatments.

### IPO strategy

Our IPO in early 2014 represents a step-change in our ambitions to bring our products to market, and follows several years of strong progress as a private company. Since Circassia was established in 2006, we successfully completed a number of clinical studies and advanced our lead allergy treatment into phase III development, supported by £105 million of pre-IPO investment from highly supportive technology commercialisation and institutional investors.

In late 2013, with our phase III programme ongoing, we received encouraging clinical results that presented the opportunity to accelerate our strategy and seek the significant funding needed to develop our late-stage clinical products in parallel, and also make the preparations to independently commercialise our first product in the US and key EU markets. This strategy was strongly supported by investors, and Circassia came to the public market in March 2014.

### 2014: a year of progress

During the last year, we have continued to build the foundations required to bring our novel allergy treatments to the marketplace, and have made good progress towards our objective of creating a successful, self-sustaining specialty biopharmaceutical company. We completed a number of encouraging long-term follow-up studies, maintained the progress of our phase III study and gained important insights from our ragweed allergy programme that are informing our next steps. In addition, we have begun the commercial infrastructure build to support a successful product launch.

### Maintaining momentum

In the coming year, we plan to maintain the momentum established in 2014, both clinically and commercially. We anticipate advancing our grass allergy treatment towards phase III development and completing recruitment into our phase IIb field study in house dust mite allergy. We also plan to advance our commercial strategy, building our capabilities in key markets and exploring potential acquisitions that could accelerate our commercial ambitions. Overall, we are ensuring preparations are in place for 2016, when we anticipate results from the pivotal phase III study of our cat allergy treatment.

### Encouraging outlook

Looking to the longer-term, the outlook is highly encouraging, with the marketplace undergoing positive developments after a long period of inactivity. Indeed, for much of the pharmaceutical industry, the allergy field had been of little strategic interest for many years. Whole allergen immunotherapy, which remains the mainstay of disease-modifying treatment, was first used over 100 years ago, and with no major breakthroughs in the intervening decades, the allergy field was poorly served.

However, this situation is changing rapidly. During 2014, the Food and Drug Administration (FDA) approved three new sublingual whole allergen immunotherapies for grass and ragweed allergies, opening the market to new treatment approaches. With these products now promoted by significant industry players, the allergy market appears set to gather significant momentum. We believe this creates a major opportunity for Circassia, as our treatments have a number of significant potential benefits over existing products, including those launched recently. In the coming years, we intend to capitalise on these positive developments by bringing our own treatments to market and transforming Circassia into a successful specialty biopharmaceutical commercial business.

**Dr Francesco Granata**
Chairman

## OPERATING REVIEW

### Progressing our strategy

Circassia's overarching objective is to build a successful biopharmaceutical company with a strong pipeline of treatments in development and a broad, balanced portfolio of innovative marketed products that are commercialised independently in the US and key European markets and partnered in other regions.

During 2014, we made good progress towards this objective. We advanced our clinical programmes, progressed our earlier-stage pre-clinical candidates and continued to lay the foundations for the successful commercialisation of our next generation allergy treatments. Over the next three years, we intend to deliver against each element of our strategy to transform Circassia into a financially self-sustaining specialty biopharmaceutical business.

### Clinical progress

**Cat-SPIRE: phase III fully recruited; two-to-five year follow-up initiated; paediatric safety study progressing**

Cat-SPIRE is Circassia's lead product candidate. This innovative cat allergy treatment has achieved impressive clinical results to date, with a short-course of four doses given over 12 weeks reducing allergy symptoms over a two year period without further dosing. Cat-SPIRE is currently undergoing phase III testing in a single pivotal field trial, conducted under the name CATALYST, in subjects aged 12 – 65 years with moderate to severe allergy symptoms. By the end of 2014, we had completed recruitment into this double-blind, randomised, placebo-controlled, multi-centre study, enrolling 1,409 subjects, 19% above the minimum target. During the year, we extended CATALYST to include Russia, where we recruited 91 subjects to support a potential regulatory filing in this significant market. The phase III study is currently ongoing in centres across North America, Europe and Russia, where it is evaluating a single and two sequential short courses of Cat-SPIRE, each of four doses administered over 12 weeks. With the primary endpoint assessing the effect on symptom scores and rescue medication use one year after the start of treatment, CATALYST remains on track to report in H1 2016, and subject to the results, we plan to file for marketing approval in key markets later the same year.

In the first half of 2014, we initiated a long-term study (CP007A) to follow-up subjects from the CATALYST trial. This follow-on is designed to assess the ongoing efficacy of Cat-SPIRE without subjects receiving any further doses, and will record symptom scores and use of rescue medication annually for up to five years after the start of treatment in the initial phase III study. To date we have enrolled 138 subjects who have completed the CATALYST final one year assessment.

We have also made progress with our Cat-SPIRE paediatric development plan. In Europe, our paediatric safety study (CP009) will enrol at least 12 subjects in two groups, and the first, aged 9 – 12 years old (n=8), is now recruited, and we anticipate completing the study in H2 2015. In the US, the FDA has approved our initial paediatric study plan, which, in line with the usual regulatory process, will await product approval for finalisation.

**HDM-SPIRE: positive two-year follow-up and asthmatic safety results; large phase IIb study initiated**

HDM-SPIRE is Circassia's innovative treatment for house dust mite allergy. In an earlier proof-of-concept phase IIb trial (TH002), subjects who received a short course of four doses of HDM-SPIRE over 12 weeks had a significant improvement in their allergy symptoms compared with placebo a year after the start of treatment (p=0.02). In June 2014, we announced the completion of a two-year follow-up (TH002A) in 72 of these subjects, which assessed the ongoing effect of treatment without further doses of HDM-SPIRE. The results demonstrated persistent symptom reduction compared with placebo two years after the start of treatment, which was equivalent to that achieved after one year in the same subjects. The results also showed a greater effect in those with more severe symptoms, as has been seen in other SPIRE studies. This finding is important because research shows this group is more likely to seek treatment due to the impact of their allergy.

During 2014, we also successfully completed two studies to inform the design of a large HDM-SPIRE phase IIb field trial. The first, an observational field study (TH003), enrolled 109 subjects with house dust mite allergy and monitored them over six weeks to determine the most relevant symptoms for assessment, the optimal duration for recording symptoms and screening measures to identify appropriate subjects. The second study (TH004) was a phase II double-blind, placebo-controlled safety trial in 30 controlled asthmatics, which demonstrated an excellent safety profile for HDM-SPIRE.

These studies enabled the initiation of a large phase IIb field study (TH005) in Q3 2014, which includes enrolment of controlled asthmatic subjects. This randomised, double-blind, placebo-controlled study will enrol 660 subjects aged 18 – 65 years old in North America, Europe and South Africa, and will compare the optimal short course of treatment from the previous phase IIb trial, a double course and a short course of higher dose HDM-SPIRE. Currently, the study has enrolled 103 subjects.

**Grass-SPIRE: highly encouraging results from three-season follow-up; two support studies initiated**
Grass-SPIRE is Circassia's novel product candidate for the treatment of grass pollen allergy, which is a common cause of hay fever. Previously, in a phase IIb clinical proof-of-concept study (TG002) in 282 subjects, the optimal short course of Grass-SPIRE administered before the grass pollen season significantly reduced subjects' symptoms compared with placebo at the end of the season (p=0.035).

In November 2014, we announced positive results from a follow-up study (TG002B) that enrolled 85 subjects from the original proof-of-concept trial. In the phase IIb follow-up, subjects who received two different Grass-SPIRE regimens had a continued reduction in allergy symptoms three pollen seasons after receiving treatment. In those who returned for assessment after both the second and third seasons, their symptom improvement was statistically significant compared with placebo, despite the small sample size and no further dosing over the 30 month period.

During 2014, we initiated two clinical studies to support the design of our Grass-SPIRE phase III trial, which remains on track to begin in H1 2016. The first of these studies (TG004) is in controlled asthmatics, and will evaluate the safety and tolerability of two Grass-SPIRE regimens. The study is now fully recruited with 54 subjects enrolled. The results are anticipated in H1 2015, which if positive will allow the inclusion of subjects with controlled asthma into the phase III trial. The second study is also fully recruited, with 108 subjects enrolled, and we expect to receive the results in the first half of 2015. This observational study will inform the design of the phase III trial, and is monitoring the symptoms and rescue medication use of grass allergy sufferers during the pollen season.

**Ragweed-SPIRE: phase IIb study completed; successful controlled asthmatic safety study**
Circassia's novel product candidate Ragweed-SPIRE is designed to treat ragweed pollen allergy. In an earlier proof-of-concept phase IIb trial (TR002) conducted in 2011, subjects with more severe symptoms who received eight higher doses of Ragweed-SPIRE over 14 weeks had a significant improvement in their allergy symptoms compared with placebo (p=0.04).

In December 2014, we announced top-line results from a further phase IIb chamber study (TR006) that compared this higher-dose regimen with two lower-dose courses of Ragweed-SPIRE. In this study, a marked placebo effect, which was greater than that seen in the earlier trial, appeared to influence the outcome, and although the higher-dose regimen achieved a robust reduction in subjects' allergy symptoms this did not reach significance compared with placebo (p=0.149). The top-line results also indicated a dose response effect consistent with the treatment having a positive effect on symptoms, and suggesting that a higher dose than those tested to date may have greater efficacy.

Subsequently, we have received full results from the study, including data on symptom improvement and rescue medication use measured in the field during the ragweed pollen season. These field results show a treatment effect consistent with that observed in the chamber setting. Similarly, the higher-dose regimen performed better than the lower doses, and improved combined scores of symptoms and rescue medication use by 33% compared with placebo, which approached statistical significance (p=0.09). We have used these data and the results from the earlier phase IIb study to inform the next steps for Ragweed-SPIRE (see below).

At the end of 2014, we also completed a phase II safety study (TR007) of Ragweed-SPIRE in controlled asthmatics. The results demonstrated a positive safety and tolerability profile, and will support the inclusion of subjects with controlled asthma in future studies.

**Ragweed-SPIRE: next steps underway**
Our first phase IIb chamber study undertaken in 2011 indicated that higher doses of Ragweed-SPIRE produced a greater response. The data from our most recent phase IIb study continue to support this observation, and also suggest that the doses tested to date may not have achieved the peak response. As a result, we intend to conduct an additional phase II dose ranging trial designed to identify the optimal regimen of Ragweed-SPIRE to advance into phase III testing. In addition, we plan to conduct a follow-on

field study in TR006 subjects to determine the effect of exposure to naturally occurring ragweed pollen during a further season without additional treatment. We aim to incorporate the learnings from this follow-up into the design of the dose ranging study, and to discuss the details of our development plan with regulators. We anticipate the study may enrol approximately 500 subjects and could include the best performing dose of Ragweed-SPIRE tested to date and at least one regimen of higher dose Ragweed-SPIRE. We plan to initiate the study and complete recruitment and dosing prior to the 2017 pollen season, with results anticipated in H1 2018.

## Pipeline progress

**Birch-SPIRE: toxicology studies initiated; chemistry progressing**

Birch-SPIRE is Circassia's novel product candidate for the treatment of birch pollen allergy, and is currently in pre-clinical development. During 2014, we initiated Birch-SPIRE toxicology studies and progressed manufacturing chemistry of the product peptides in preparation for advancing into the clinic in H2 2015.

**Japanese cedar-SPIRE: pre-clinical studies initiated; regulatory discussions advancing**

Our novel product candidate designed for the treatment of Japanese cedar allergy is also in pre-clinical development. We have identified candidate epitopes for the product, and during 2014 initiated studies to confirm they do not cause histamine release in blood samples from allergy sufferers. We expect to select the lead candidate in H1 2015, and are currently discussing toxicology study requirements with the Japanese regulators.

**Alternaria-SPIRE: histamine release studies initiated**

Alternaria-SPIRE is Circassia's product candidate targeting allergy to the common mould Alternaria. Development is at a similar stage to Japanese cedar-SPIRE, with histamine release studies ongoing in blood from allergic subjects. We anticipate selecting a lead candidate in H2 2015, which we plan to progress into toxicology testing in 2016.

**ToleroMune® development: immunology studies complete**

During 2014, we undertook a number of studies to support the efficient leveraging of our ToleroMune® technology. We completed two successful clinical trials as part of our Adiga joint venture with McMaster University. These were designed to assist in the development of future products, and are evaluating a number of mechanistic aspects of SPIRE treatment, such as the identification of novel biomarkers. In addition, our collaboration with Professor Mark Larché at McMaster, which is funded by the NIH, continued to make good progress and provided important immunology data associated with SPIRE treatment. During the year, we also progressed additional work evaluating immunological mechanisms, such as the detection of treatment-related changes in gene expression in allergen-specific T cells.

## Manufacturing progress

**Production milestones achieved for clinical programmes and to support commercial launch**

As part of our outsourcing strategy we work with established manufacturers for the production of our products. During 2014, we continued our work with Bachem and Patheon to produce study supplies and prepare for commercial production. As a result, active pharmaceutical ingredient (API) manufacturing is now at commercial scale for all four of our late-stage products and the commercial fill-finish process is in place for three of the treatments, and work on the fourth is underway.

During the year, Bachem completed the production of the Cat-SPIRE API validation batches required for regulatory approval, and Patheon completed validation batches of drug product. Bachem also produced initial API validation batches for HDM-SPIRE, and Patheon established the product's lyophilisation process at commercial scale. For Ragweed-SPIRE, the API commercial scale manufacture has been established in the US, and the fill-finish process has completed scale-up. For Grass-SPIRE, the initial API pre-validation batches are being produced, and transfer of the lyophilisation process to the commercial manufacturing site is progressing well.

## Commercialisation progress

**Chief Commercial Officer appointed; team recruitment underway; positive market research results**

In November 2014, we announced the appointment of our Chief Commercial Officer, who will establish and lead our global commercial operations in preparation for the launch of our first next generation allergy treatment. Linda Szyper, who brings over 20 years' experience of product commercialisation, will also head our newly established US subsidiary. Following Linda's appointment, we have begun to expand our commercialisation infrastructure, starting with the recruitment of US medical science liaisons who will focus

on working with key opinion leaders and allergists, as well as supporting our clinical programmes. We plan to mirror this approach in the five key European markets, and are currently recruiting in each of these countries. At the same time, we plan to build our internal market access capabilities, and intend to recruit experts in both the US and Europe in the coming months.

During 2014, we also progressed our pre-launch activities for Cat-SPIRE, including the development of the product's brand name. Following successful initial research with healthcare professionals and patients we are currently testing a panel of four potential names. In the coming months, we intend to select the final name and file trade mark applications. During 2014, we also commissioned a range of market research with allergists, payers and patients in the US and key European markets. Positive results show that all groups welcomed the product profile presented for Cat-SPIRE, and the outcomes will be used to inform our message development, product positioning and value proposition for launch. Importantly, the recent results from US payers suggest Cat-SPIRE has a pricing opportunity that is potentially greater than that identified in research we conducted before the 2014 US approvals of sublingual whole allergen therapies for grass and ragweed allergies.

### Building our team

**Teams strengthened to support phase III programmes and commercialisation**

During the year we accelerated our clinical portfolio, initiating a large number of studies and preparing to begin others, including a pivotal phase III trial for Grass-SPIRE. We also progressed our launch preparations for our lead product. To support this rapid advance, we have recruited experts to join our medical, clinical, regulatory, quality and Chemistry, Manufacturing and Control (CMC) teams, and are currently building our commercial organisation. As a result, Circassia's team more than doubled during 2014, growing from 25 employees at the start of the period to 56 at the end of the year.

### Intellectual property progress

**US protection extended to 2030; 13 patents granted; opposition successfully defended**

During 2014, we continued to invest in our intellectual property to protect our ToleroMune® technology and product portfolio. In the US, we succeeded in obtaining patent term adjustments for Cat-SPIRE, HDM-SPIRE and Grass-SPIRE, and protection will run to 2030 for each of these treatments, with the potential for further significant patent extensions available post-approval. During the year, we also created additional layers of protection, with 13 new patents granted, of which six relate to Cat-SPIRE, HDM-SPIRE and Grass-SPIRE in the US, Japan, and China. In addition, we completed six new filings in key markets to provide additional protection for these products. We also made progress defending our intellectual property position. In November 2014, we were successful at a European Patent Office opposition hearing, at which the Opposition Division upheld the validity of our patent covering Ragweed-SPIRE.

### Outlook

**Clinical progress continuing; commercial plans accelerating; US immunotherapy market advancing**

During 2015, we plan to continue advancing our clinical portfolio, with six studies ongoing of which three are scheduled for completion in support of our phase III programmes. The first two, an observational study and a controlled asthmatic safety trial, will support the design of our Grass-SPIRE phase III pivotal study, which remains on track to begin in H1 2016. The third, a paediatric safety study, will support our ongoing Cat-SPIRE phase III study as part of our European regulatory filing strategy. We continue on track to complete our phase III study in H1 2016, and, subject to the results, plan to file for marketing approval in North America and Europe later that year.

Alongside our clinical plans, we intend to further develop our commercial organisation in preparation for the launch of our first product, and are currently building the foundations while continuing to review opportunities to accelerate our commercialisation strategy, including through acquisition. As part of this process, we are recruiting medical science liaisons in the US and Europe, and we intend to augment our commercial team with market access and marketing specialists during 2015. In addition, we plan to finalise the brand name for Cat-SPIRE, and to initiate large-scale global research that will provide the foundations for our future marketing programmes.

Over the longer term, we believe Circassia is well placed to capitalise on a renewed focus on the allergy field. With the recent approval of sublingual immunotherapies in the US, 2015 is likely to see the opening up of the market to new treatments. We welcome these positive developments, and believe the allergy field, which has long been poorly served by the pharmaceutical industry, is poised to undergo a resurgence that Circassia is well positioned to exploit.

## FINANCIAL REVIEW

During the year, the Company transformed its financial position through a successful flotation on the London Stock Exchange. The proceeds have supported greater investment in R&D, with a number of new clinical studies initiated, and an expansion of the Company's R&D team to manage the increased activity. At the end of the year, the Group's balance sheet remains strong, with cash, cash equivalents and short-term deposits of £186.6 million.

### Admission to London Stock Exchange

On 18 March 2014, the Company completed a landmark Initial Public Offering and was admitted to the London Stock Exchange. The Company offered approximately 64.5 million Ordinary shares at 310p each, raising gross proceeds of £200.0 million. It also offered 0.6 million shares from the over-allotment option at the same price, raising additional gross proceeds of £2.0 million.

### Research and development activities

During the period, the Group increased its investment in research and development to £38.6 million (2013: £21.1 million). This covered a number of activities:

- Initiation of new clinical trials, including a phase III follow-on study for Cat-SPIRE (CP007A), a phase II controlled asthmatic study for Ragweed-SPIRE (TR007) and a phase IIb field study of HDM-SPIRE (TH005).
- Completion of recruitment into the Cat-SPIRE phase III registration study (CP007).
- Completion of a phase IIb chamber study of Ragweed-SPIRE (TR006).
- Manufacture of clinical trial supplies for Cat-SPIRE, HDM-SPIRE and Ragweed-SPIRE, and production of validation batches for Cat-SPIRE.
- Increase in R&D headcount to 44 at the end of the year (2013: 16).
- Award of new share options with a charge to the income statement of £0.7 million (2013: £nil).

### Administrative expenditure

Commercial infrastructure and administrative expenses, including corporate overheads, centrally-managed support functions and corporate costs, increased to £7.2 million (2013: £3.8 million). This expenditure covered a number of costs:

- Increase in headcount to 12 at the end of the year (2013: 9).
- Award of new share options with a charge to the income statement of £0.5 million (2013: £nil).
- Professional fees including public company costs and patent costs of £3.5 million (2013: £1.3 million).
- IPO-related costs not available for offset against the share premium account of £0.2 million (2013: £nil).
- Commercial infrastructure build costs of £0.8 million (2013: £0.3 million).

### Financial income

Net finance income increased by £1.3 million to £1.9 million, due to higher average cash balances following admission.

### Operating loss

Operating loss for the year ended 31 December 2014 was £45.8 million (2013: £24.5 million). This increase reflects the greater number of clinical trials undertaken and more advanced stage of product development across the Group's portfolio. Average headcount also increased from 20 during 2013 to 49 during 2014 to manage this increase in activity.

### R&D tax credits

The Group recorded a tax credit for the year of £8.9 million (2013: £3.9 million) in the income statement, relating to qualifying research and development expenditure. The increase reflects the higher R&D investment during the year, and an increase in the R&D tax credit rate from 11% to 14.5% from 1 April 2014.

### Loss per share

Basic loss per share decreased to 21p (2013: 126p after adjustment for the re-capitalisation). This reflects an increased loss after tax of £35.1 million (2013: £20.0 million), which was significantly more than offset by the increase in Ordinary Share capital of the Company following admission. Note 21 to the Financial Statements provides a full explanation of the change in share capital.

### Financial position

The Group's net assets of £190.8 million were significantly higher at the end of the year compared to the previous year (2013: £30.0 million), largely due to the increase in cash following admission. Costs relating to admission amounted to £9.6 million, of which, £9.4 million was offset against the Share Premium Account and £0.2 million of indirect admission costs were included in the income statement. Current tax assets stood at £8.8 million at the end of the year (2013: £4.0 million), representing the R&D tax credit for the year. Trade and other payables increased by £3.8 million to £9.8 million, mainly due to year-end accruals of supplier invoices and annual year-end bonuses.

### Cash flow and position

The Group's cash position (including short-term deposits) increased significantly from £30.6 million at the end of 2013 to £186.6 million at 31 December 2014. This reflects a number of changes:

- Net proceeds of £192.4 million from shares issued on admission (2013: £1,928 for issued shares).
- Net cash used in operating activities increased to £36.7 million (2013: £17.9 million) due to higher investment in research and development and an increase in administrative expenditure.
- Receipt of £4.1 million R&D tax credit from HMRC (2013: £3.0 million).
- Interest from bank deposits decreased to £0.2 million (2013: £1.3 million) due to the timing of the maturity of fixed-term deposits.
- Capital expenditure of £0.3 million (2013: £nil) for fit out of additional R&D office space.

### Summary and outlook

During 2014, Circassia's admission to the London Stock Exchange transformed the Company's financial position. The funds raised at the flotation supported increased R&D investment during the year as the Company conducted a greater number of clinical studies across its portfolio. The balance sheet remains robust, and the Company anticipates maintaining momentum in its clinical development programmes during 2015. With the phase III registration study of the Company's lead product on track to complete in H1 2016, Circassia remains funded to bring its first allergy treatment to market.

**Consolidated statement of comprehensive income**
**for the year ended 31 December 2014**

| | Notes | **2014** **£'000** | 2013 £'000 |
|---|---|---|---|
| Research and development costs | | **(38,574)** | (21,101) |
| Administrative expenses | | **(7,239)** | (3,817) |
| Other gains | 8 | **-** | 393 |
| **Operating loss** | 6 | **(45,813)** | (24,525) |
| Finance costs | 5 | **(18)** | (21) |
| Finance income | 5 | **1,924** | 606 |
| **Finance income - net** | | **1,906** | 585 |
| Share of (loss)/profit of joint venture | 14 | **(82)** | 46 |
| **Loss before tax** | | **(43,989)** | (23,894) |
| Taxation | 9 | **8,881** | 3,913 |
| **Loss for the financial year attributable to owners of the parent** | | **(35,108)** | (19,981) |
| Other comprehensive expense | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Share of other comprehensive expense of joint venture | 14 | **(10)** | (18) |
| Currency translation differences | 24 | **(6)** | - |
| **Total other comprehensive expense for the year, net of tax** | | **(16)** | (18) |
| **Total comprehensive expense for the year** | | **(35,124)** | (19,999) |

**Loss per share attributable to owners of the parent during the year (expressed in £ per share)**

**Basic and diluted loss per share**

| | **£** | £ |
|---|---|---|
| Loss per share from continuing operations | **(0.21)** | (1.26) |

The results for the financial years above are derived entirely from continuing operations.

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

The profit for the parent company for the year was £467k (2013: £57k).

The notes on pages 16 to 43 are an integral part of these consolidated financial statements.

**Consolidated statement of financial position**
**as at 31 December 2014**

| | Notes | **2014** **£'000** | 2013 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant & equipment | 11 | **309** | - |
| Intangible assets | 12 | **2,050** | 2,012 |
| Investment in joint venture | 14 | **103** | 195 |
| | | **2,462** | 2,207 |
| **Current assets** | | | |
| Other receivables | 15 | **2,649** | 1,215 |
| Current tax assets | 9 | **8,824** | 3,995 |
| Short-term bank deposits | 16 | **156,874** | 7,047 |
| Cash and cash equivalents | 16 | **29,716** | 23,568 |
| | | **198,063** | 35,825 |
| **Total assets** | | **200,525** | 38,032 |
| | | | |
| **Equity and liabilities** | | | |
| **Equity attributable to the owners of the parent company** | | | |
| Ordinary shares | 21 | **152** | 13 |
| Preference shares | 21 | **-** | 52 |
| Share premium | 23 | **297,938** | 103,403 |
| Share option reserve | 25 | **1,305** | 56 |
| Translation reserve | 24 | **(6)** | - |
| Accumulated losses | 25 | **(108,630)** | (73,479) |
| **Total equity** | | **190,759** | 30,045 |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **9,766** | 5,975 |
| Financial liabilities | 18 | **-** | 2,012 |
| **Total liabilities** | | **9,766** | 7,987 |
| **Total equity and liabilities** | | **200,525** | 38,032 |

The notes on pages 16 to 43 are an integral part of these consolidated financial statements.

The financial statements on pages 10 to 43 were authorised for issue by the Board of Directors on 26 February 2015 and were signed on its behalf by

**Steven Harris**
Chief Executive Officer
Circassia Pharmaceuticals Plc

**Julien Cotta**
Chief Financial Officer
Circassia Pharmaceuticals Plc

Registered number: 05822706

**Parent company statement of financial position**
**as at 31 December 2014**

| | Notes | **2014** **£'000** | 2013 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 13 | **3,035** | 1,780 |
| | | **3,035** | 1,780 |
| **Current assets** | | | |
| Other receivables | 15 | **122,583** | 94,157 |
| Short-term bank deposits | 16 | **156,874** | 7,047 |
| Cash and cash equivalents | 16 | **18,754** | 3,839 |
| | | **298,211** | 105,043 |
| **Total assets** | | **301,246** | 106,823 |
| | | | |
| **Equity and liabilities** | | | |
| **Equity attributable to the owners of the company** | | | |
| Ordinary shares | 21 | **152** | 13 |
| Preference shares | 21 | **-** | 52 |
| Share premium account | 23 | **297,938** | 103,403 |
| Share option reserve | 25 | **1,305** | 56 |
| Retained earnings | 25 | **1,198** | 764 |
| **Total equity** | | **300,593** | 104,288 |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **653** | 523 |
| Financial liabilities | 18 | **-** | 2,012 |
| | | **653** | 2,535 |
| **Total equity and liabilities** | | **301,246** | 106,823 |

The notes on pages 16 to 43 are an integral part of these financial statements.

The financial statements on pages 10 to 43 were authorised for issue by the Board of Directors on 26 February 2015 and were signed on its behalf by

**Steven Harris**
Chief Executive Officer
Circassia Pharmaceuticals Plc

**Julien Cotta**
Chief Financial Officer
Circassia Pharmaceuticals Plc

Registered number: 05822706

**Group and parent company statement of cash flows**
**for the year ended 31 December 2014**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | Note | **£'000** | £'000 | **£'000** | £'000 |
| **Cash flows from operating activities** | | | | | |
| Cash used in operations | 26 | **(41,010)** | (22,168) | **(28,695)** | (6,199) |
| Interest received | | **246** | 1,279 | **206** | 366 |
| Interest paid | | **(15)** | (11) | **(7)** | - |
| Tax credit received | | **4,052** | 3,019 | **-** | - |
| Net cash used in operating activities | | **(36,727)** | (17,881) | **(28,496)** | (5,833) |
| **Cash flows from investing activities** | | | | | |
| Investment in subsidiary | | **-** | - | **(6)** | - |
| Purchases of intangibles | | **(38)** | - | **-** | - |
| Purchases of property, plant & equipment | | **(333)** | - | **-** | - |
| (Increase)/decrease in short-term bank deposits | | **(149,827)** | 27,179 | **(149,827)** | 4,184 |
| Net cash (used in)/from investing activities | | **(150,198)** | 27,179 | **(149,833)** | 4,184 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of ordinary shares | | **192,574** | 2 | **192,574** | 2 |
| Net cash from financing activities | | **192,574** | 2 | **192,574** | 2 |
| **Net increase/(decrease) in cash and cash equivalents** | | **5,649** | 9,300 | **14,245** | (1,647) |
| Cash and cash equivalents 1 January | 16 | **23,568** | 13,981 | **3,839** | 5,621 |
| Exchange gains/(losses) on cash and cash equivalents | | **499** | 287 | **670** | (135) |
| Cash and cash equivalents at 31 December | 16 | **29,716** | 23,568 | **18,754** | 3,839 |

The notes on pages 16 to 43 are an integral part of these consolidated financial statements.

## Group statement of changes in equity for the year ended 31 December 2014

| | Note | Share capital £'000 | Share premium £'000 | Share option reserve £'000 | Translation reserve £'000 | Accumulated losses £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2013** | 21, 23, 25 | 63 | 103,403 | 1 | - | (53,480) | 49,987 |
| Comprehensive expense: | | | | | | | |
| Loss for the financial year | | - | - | - | - | (19,981) | (19,981) |
| Other comprehensive expense: | | | | | | | |
| Share of other comprehensive expense of joint venture | | - | - | - | - | (18) | (18) |
| Total comprehensive expense | 25 | - | - | - | - | (19,999) | (19,999) |
| Transactions with owners: | | | | | | | |
| Issue of ordinary shares | 21 | 2 | - | - | - | - | 2 |
| Employee share option scheme | 25 | - | - | 55 | - | - | 55 |
| **At 31 December 2013** | 21, 23, 25 | 65 | 103,403 | 56 | - | (73,479) | 30,045 |
| **At 1 January 2014** | 21, 23, 25 | 65 | 103,403 | 56 | - | (73,479) | 30,045 |
| Comprehensive expense: | | | | | | | |
| Loss for the financial year | | - | - | - | - | (35,108) | (35,108) |
| Other comprehensive expense: | | | | | | | |
| Share of other comprehensive expense of joint venture | | - | - | - | - | (10) | (10) |
| Currency translation differences | | - | - | - | (6) | - | (6) |
| Total comprehensive expense | 24, 25 | - | - | - | (6) | (35,118) | (35,124) |
| Transactions with owners: | | | | | | | |
| Issue of ordinary shares | 21 | 54 | 194,535 | - | - | - | 194,589 |
| Capitalised reserves of bonus shares at IPO | 25 | 33 | - | - | - | (33) | - |
| Employee share option scheme | 25 | - | - | 1,249 | - | - | 1,249 |
| **At 31 December 2014** | 21, 23, 24, 25 | **152** | **297,938** | **1,305** | **(6)** | **(108,630)** | **190,759** |

The notes on pages 16 to 43 are an integral part of these consolidated financial statements.

**Parent company statement of changes in equity**
**for the year ended 31 December 2014**

| | Note | Share capital £'000 | Share premium £'000 | Share option reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2013** | 21, 23, 25 | 63 | 103,403 | 1 | 707 | 104,174 |
| Profit and total comprehensive income | 25 | - | - | - | 57 | 57 |
| Transactions with owners: | | | | | | |
| Issue of ordinary shares | 21 | 2 | - | - | - | 2 |
| Employee share option scheme | 25 | - | - | 55 | - | 55 |
| **At 31 December 2013** | 21, 23, 25 | 65 | 103,403 | 56 | 764 | 104,288 |
| **At 1 January 2014** | 21, 23, 25 | 65 | 103,403 | 56 | 764 | 104,288 |
| Profit and total comprehensive income | 25 | - | - | - | 467 | 467 |
| Transactions with owners: | | | | | | |
| Issue of ordinary shares | 21 | 54 | 194,535 | - | - | 194,589 |
| Capitalised reserves of bonus shares at IPO | 25 | 33 | - | - | (33) | - |
| Employee share option scheme | 25 | - | - | 1,249 | - | 1,249 |
| **At 31 December 2014** | 21, 23, 25 | **152** | **297,938** | **1,305** | **1,198** | **300,593** |

The notes on pages 16 to 43 are an integral part of these financial statements.

## Notes to the financial statements

### 1. Summary of significant accounting policies

**General information**

The Group is a clinical-stage specialty biopharmaceutical group focused on the development and commercialisation of a range of immunotherapy products for the treatment of allergy. These product candidates were developed using the Company's innovative technology, ToleroMune® which was initially developed at Imperial College, London by Mark Larché and Barry Kay and acquired by the co-founders of the Company, Steve Harris and Charles Swingland in 2006.

Circassia Pharmaceuticals Plc is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in England and Wales. The company is resident in England and the registered office is The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GA.

The principal accounting policies adopted in the preparation of this financial information are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

**Basis of preparation**

The financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information is prepared on the going concern basis and in accordance with the historical cost convention as modified by revaluation of financial liabilities (including derivative instruments) at fair value through profit or loss.

**Going concern**

Though the Group continues to make losses, the directors believe it is appropriate to prepare the financial information on the going concern basis. This is because the Group's research into new products continues to progress according to plan and the additional funding secured in March 2014 when the company successfully completed its IPO, will allow the Group to meet its liabilities as they fall due for the foreseeable future.

**Changes in accounting policy and disclosures**

a) New and amended standards adopted by the Group

No new or amended standards were adopted during the year.

The following standards had previously been early adopted and applied consistently in the years ended 31 December 2013 and 2014 (effective 1 January 2014 and early adopted from 1 January 2013):

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosure of interests in other entities'
- IAS 27 (revised 2011), 'Separate financial statements'
- IAS 28 (revised 2011), 'Investments in associates and joint ventures'
- IAS 32 (amendment), 'Financial instruments – Presentation' on asset and liability offsetting
- Amendments to IFRS 10, IFRS 11 and IFRS 12
- Amendments to IAS 36, 'Impairment of assets'

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

**Notes to the financial statements**

**1. Summary of significant accounting policies (continued)**

IFRS 9 'Financial instruments', on 'Classification and measurement' (effective 1 January 2015). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Amortised cost accounting will also be applicable for most financial liabilities, with bifurcation of embedded derivatives. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the impact of IFRS 9 on its financial information. The Group will also consider the impact of the remaining phases of IFRS 9.

IFRS 15 'Revenue from contract with customers' (effective from 1 January 2017), IFRIC 21 'Levies' (effective from 1 January), and IFRS 14 'Regulatory deferral accounts' (effective from 1 January 2016) will have no impact on the group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

**Use of estimates and assumptions**
The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

*Critical accounting estimates and assumptions*

Where the Group makes estimates and assumptions concerning the future, the resulting accounting estimates will seldom exactly match actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*Clinical study accruals*
Due to the amounts involved, the estimates and assumptions regarding the amounts accrued for clinical study costs have a greater risk of causing a material adjustment to the carrying amounts of assets and liabilities.

*Intangible assets*
The group tests annually whether goodwill has suffered any impairment. The key assumptions used for the value in use calculations are given in note 12, and in particular the anticipated launch date. If the Company is unable to obtain regulatory approval or to commercialise its product candidates, or experiences significant delays in doing so, this could result in an impairment of the related goodwill and intellectual property rights.

*Share based payments*
Options were valued using the Black Scholes option pricing model or the Monte Carlo Simulation depending on the type of option issued. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculation of share based payments is given in note 22.

**Notes to the financial statements**

**1. Summary of significant accounting policies (continued)**

*Classification of IPO costs*
Due to the nature of an initial public offering (IPO), new shares are issued to investors to raise additional capital and, along with existing shares, subsequently become listed on a stock exchange. Judgement is required in assessing whether the associated expenditure is directly attributable to the issue of shares and whether it meets the criteria to be offset against the share premium account.

**Consolidation**

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(b) Joint arrangements

The Group has applied IFRS 11 to all joint arrangements since 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Circassia Pharmaceuticals Plc has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Segmental reporting**
The Group has one single business segment, based upon its proprietary technology, operated out of a single geographical location. This is consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance, has been identified as the Executive Directors, who make strategic decisions.

**Notes to the financial statements**

**1. Summary of significant accounting policies (continued)**

**Clinical study expenses**
Where payments to clinical study sites are made in advance for the purchase of stocks of materials for use in clinical studies, the relevant costs are included in receivables as prepaid clinical study expenses. Expenses are charged to the statement of comprehensive income as clinical study services are carried out by third party suppliers, or clinical study materials are received.

**Financial instruments**
The Group's financial instruments comprise cash and cash equivalents, short-term bank deposits, debtors and creditors arising directly from operations.

Cash and cash equivalents comprise cash in hand and short-term deposits which have an original maturity of three months or less and are readily convertible into known amounts of cash. Such assets are classified as current, where management intend to dispose of the asset within twelve months of the end of the reporting period. Bank deposits with maturity of more than twelve months after the end of the reporting period are classified as non-current assets.

The Group previously held derivatives in 2013 which comprised solely of forward rate foreign exchange contracts and were categorised as financial liabilities through profit or loss. Where derivatives exist in the financial year, they are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date, with any resulting gain or loss recognised through profit or loss. With the exception of the loan notes in 2013, the Group does not have any committed borrowing facilities, as its cash, cash equivalents and short-term deposits are sufficient to finance its current operations. Cash balances are mainly held on short and medium term deposits with quality financial institutions, in line with the Group's policy to minimise the risk of loss. The main risks associated with the Group's financial instruments relate to interest rate risk and foreign currency risk (note 2.).

The Group had in issue loan notes which were convertible into fully paid ordinary shares at any time and could be redeemed, if they have not previously been converted, on 31 March 2016. The loan notes were recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost. The loan notes were classified as current liabilities as the Group did not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period. As part of the capital reorganisation and prior to the IPO, loan notes were converted into equity shares. Borrowing costs were recognised in profit or loss in the period in which they were incurred. See note 21 for details on the conversion of the loan notes in 2014.

**Leases**
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

**Intangible assets**
Intangible fixed assets, relating to goodwill and intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost, less accumulated amortisation, where the useful economic life of the asset is finite and the asset will probably generate economic benefits exceeding costs. Where a finite useful life of the acquired intangible asset cannot be determined, the asset is tested annually for impairment by allocating the assets to the cash generating units to which they relate. Amortisation would commence when product candidates underpinned by the intellectual property rights become available for commercial use. Amortisation would be calculated on a straight line basis over the shorter of the remaining useful life of the intellectual property or the estimated sales life of the product candidates. No amortisation has been charged to date, as the product candidates underpinned by the intellectual property rights are not yet available for commercial use.

**Notes to the financial statements**

**1. Summary of significant accounting policies (continued)**

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful economic life of the product candidate concerned. Capitalisation commences from the point at which technical feasibility and commercial viability of the product candidate can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product candidate once completed. Capitalisation ceases when the product candidate receives regulatory approval for launch. No such costs have been capitalised to date.

Expenditure on research and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is charged to the statement of comprehensive income as incurred. Intellectual property and in-process research and development from acquisitions are recognised as intangible assets at fair value. Any residual excess of consideration over the fair value of net assets in an acquisition is recognised as goodwill in the financial statements.

Expenditure on software costs are capitalised as an intangible asset and amortised over the expected useful economic life of the software. Until such an asset is fully developed, the costs are capitalised and classified within intangibles assets as 'Software in development'. These costs are not amortised until the software has been fully developed and operational, at which point the total cost of the software development is amortised over its estimated useful life.

**Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Charges or credits for impairment are passed through the statement of comprehensive income.

**Notes to the financial statements**

**1. Summary of significant accounting policies (continued)**

**Property, plant and equipment**
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of replaced parts is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost of assets over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements – Over the life of the unbreakable portion of the lease | 43% |

Individually significant tangible assets that are intended to be held by the Group for use in the production or supply of goods and services or for administrative purposes and that are expected to provide economic benefit for more than one year are capitalised. All other assets of insignificant value are charged to the income statement in the year of acquisition.

**Other receivables**
Other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

**Trade payables**
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are initially recognised at fair value and subsequently held at amortised cost. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

**Cash and cash equivalents**
In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of original investment.

**Share capital**
Ordinary shares and preference shares are classified as equity. All shares are classified as equity as there are no mandatorily redeemable shares in the Company. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Employee benefit costs**
The Group makes contributions to defined contribution personal pension schemes for its Directors and employees. The pension cost charge recognised in the year represents amounts payable by the Group to the funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

**Notes to the financial statements**

**1. Summary of significant accounting policies (continued)**

**Share based payments**

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including the effect of any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The Group's employees participate in various share option schemes as disclosed in note 22. Equity settled share based payments are measured at fair value at the date of grant and expensed on a straight line basis over the vesting period of the award. At the end of each reporting period the Group revises its estimate of the number of options that are expected to become exercisable. The financial consequences of revisions to the original estimates, if any, are recognised in the statement of comprehensive income, with a corresponding adjustment to equity.

The fair value of share options is measured using either the Black Scholes option pricing model or the Monte Carlo Simulation. This is dependent on the conditions attached to each of the issued options. Where conditions are non-market based the Black Scholes option pricing model is used. Where market based conditions are attached to options, the fair value is determined using the Monte Carlo Simulation.

**Notes to the financial statements**

## 1. Summary of significant accounting policies (continued)

**Other employee benefits**
The expected cost of compensated short-term absence (e.g. holidays) is recognised when employees render services that increased their entitlement. An accrual is made for holidays earned but not taken, and prepayments recognised for holidays taken in excess of days earned.

**Foreign currency translation**
Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange differences are taken to the statement of comprehensive income in the year in which they arise and presented within 'Finance costs or income'.

Foreign exchange differences on translation of foreign operations into the Group presentational currency, are recognised as a separate element of other comprehensive income. Cumulative exchange differences are presented in a separate component of equity entitled Translation reserve.

**Taxation including deferred tax**
The charge for current tax is based on the results for the year, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements at the year end represents the credit receivable by the Group for the year and adjustments to prior years.

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the average tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

## 2. Financial and capital risk management

**Capital risk management**
The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the Group's research activities. The Group's principal method of adjusting the capital available is through issuing new shares. The Group's share capital and share premium are disclosed in notes 21 and 23 respectively. The Group monitors the availability of capital with regard to its forecast future expenditure on an ongoing basis. The Group has extinguished its liability instruments (loan notes) through the issue of equity instruments during the year.

**Notes to the financial statements**

**2. Financial and capital risk management (continued)**

**Financial risk factors**
The Group's simple structure, operating from a single location in the United Kingdom, and the lack of external debt financing reduces the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Board's ongoing risk management, the effectiveness of which is reviewed annually. The Group's agreed policies are implemented by the Chief Executive Officer, who submits periodic reports to the Board.

*a) Foreign exchange risk*
The Group currently has no revenue. The majority of operating costs are denominated in Sterling, United States dollars, Canadian dollars, Euro or Swiss francs. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

In relation to foreign currency risk, the Group's policy is to hold the majority of its funds in Sterling, and to use short - medium term currency purchase options (including spot purchases and forward contracts) and interest-bearing foreign currency deposits to manage short - medium term fluctuations in exchange rates.

The Group sometimes uses short-term currency purchase options and interest-bearing deposits of Swiss francs and Euros to manage short-term fluctuations in exchange rates. The Group uses foreign currency forward contracts to manage medium term fluctuations in Canadian and United States dollars exchange rates.

At 31 December 2014, if the Euro had weakened/strengthened by 5% against Sterling with all other variables held constant, the post tax loss for the year would have been £5,595 (2013: £709) lower/higher, as a result of net foreign exchange gains/losses on translation of Euro-denominated payables and foreign exchange losses/gains on translation of Euro-denominated bank balances.

The impact on post tax loss at 31 December 2014 of a 5% weakening/strengthening of the US dollar against Sterling with all other variables held constant would have been a decrease/increase of £30,304 (2013: £38,509).

The impact on post tax loss at 31 December 2014 of a 5% weakening/strengthening of the Canadian dollar against Sterling with all other variables held constant would have been a decrease/increase of £23,713 (2013: £4,627).

The impact on post tax loss at 31 December 2014 of a 15% weakening/strengthening of the Swiss franc against Sterling with all other variables held constant would have been a decrease/increase of £129,561 (2013: based on 5% £4,984).

The change in foreign exchange rates that is assessed to be reasonably likely for each currency except Swiss francs in 2014 is 5%. As the Swiss franc strengthened by 15% after the year end, this has been used as the basis for assessment in determining the impact on post tax loss.

*b) Interest rate risk*
The Group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements.

The Group does not have any committed external borrowing facilities, as its cash and cash equivalents and short-term deposit balances are sufficient to finance its current operations. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

**Notes to the financial statements**

## 2. Financial and capital risk management (continued)

If interest rates had been 10 basis points higher/lower the impact on net loss in 2014 would have been an increase/decrease of £169,105 (2013: £39,800) due to changes in the amount of interest receivable.

*c) Credit risks*
The Group's policy following Admission to the London Stock Exchange is to place funds with financial institutions which have a minimum credit rating with Fitch IBCA of A- long term /F1 short-term. During 2014 the Group placed funds on deposit with 12 banks (2013: nine banks). The Group does not allocate a quota to individual institutions but seeks to diversify its investments, where this is consistent with achieving competitive rates of return. It is the Group's policy to place not more than £35 million (or the equivalent in other currencies) with any one counterparty.

The value of financial instruments held represents the maximum exposure that the Group has to them. There is no collateral held for this type of credit risk.

No credit limits were exceeded during any of the periods reported, and management does not expect any material losses from non-performance by these counterparties.

*d) Cash flow and liquidity risk*
Funds are generally placed on deposit with the maturity profile of investments being structured to ensure that sufficient liquid funds are available to meet operating requirements. The Directors do not consider that there is presently a material cash flow or liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. There were no financial liabilities outstanding for periods greater than one year. The amounts disclosed in the table are the contracted undiscounted cash flows:

| **At 31 December** | **Less than 1 year 2014 £'000** | Less than 1 year 2013 £'000 |
|---|---|---|
| Trade and other payables | **9,766** | 5,975 |
| Financial liabilities (convertible loan notes) | **-** | 2,012 |
| **Total** | **9,766** | 7,987 |

**Derivative financial instruments and hedging**
There were no derivatives at 31 December 2014 or 31 December 2013. Hedge accounting was not used.

**Fair value estimates**
There were no financial liabilities at fair value through profit or loss at 31 December 2014 or 31 December 2013.

## 3. Principal activity analysis

The Group's loss on ordinary activities before taxation is derived entirely from its one business segment, pharmaceutical research and development, which is carried out at a single site. All costs of acquisition of intangible assets borne by the Group, relate to this one segment. In addition, all other non-cash expenses incurred by the Group relate to this one segment.

**Notes to the financial statements**

## 4. Employees and directors

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:

| By activity | **2014 Number** | 2013 Number |
|---|---|---|
| Office and management | **15** | 6 |
| Research and development | **34** | 14 |
| **Total average headcount** | **49** | 20 |

**Company**
The average number of administration staff employed by the company during the year, including Executive Directors was 2 (2013: nil).

| **Employee benefit costs** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| Wages and salaries | **6,128** | 2,744 | **1,788** | - |
| Social security costs | **762** | 331 | **183** | - |
| Pension costs | **358** | 215 | **91** | - |
| Share options expense | **1,249** | 55 | **-** | - |
| **Total employee benefit costs** | **8,497** | 3,345 | **2,062** | **-** |

The Group contributes to defined contribution pension schemes for its Executive Directors and employees. Contributions of £29,876 (included in other payables) were payable to the funds at the year end (2013: £8,768).

The details of Directors of the Group who received emoluments from the Group during the year are shown in the Annual Report on Remuneration in the Remuneration Committee Report.

**Key management personnel**

Key management includes Directors (Executive and Non-executive), the VP of Commercial Operations, the Senior VP of Corporate Development, the Chief Commercial Officer (start date 15 September 2014), the General Counsel (start date 7 July 2014), VP of Human Resources (start date 4 June 2014), the Chief Medical Officer (start date 6 January 2014) and the VP of Investor Relations (start date 20 January 2014, leave date 5 August 2014). The compensation paid or payable to key management is set out below.

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Salaries and fees | **2,048** | 1,318 |
| Benefits in kind | **15** | 13 |
| Pension contributions to money purchase schemes | **208** | 130 |
| Share based payments | **815** | 55 |
| Bonus | **1,221** | 347 |
| Total | **4,307** | 1,863 |

## Notes to the financial statements

### 5. Finance income and costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Finance costs:** | | |
| Bank charges payable | **(16)** | (11) |
| Interest payable on loan notes | **(2)** | (10) |
| **Total finance costs** | **(18)** | (21) |
| | | |
| **Finance income:** | | |
| Bank interest receivable | **1,746** | 606 |
| Net gain on foreign exchange | **178** | - |
| **Total finance income** | **1,924** | 606 |
| **Net finance income** | **1,906** | 585 |

Translational foreign exchange gains and losses relating to cash and cash equivalents and short-term deposits have been reallocated from 'Administrative expenses' to 'Finance costs' in 2014.

### 6. Operating loss

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Employee benefit costs (note 4) | **8,497** | 3,345 |
| Externally contracted research & development | **33,419** | 19,080 |
| Legal and professional fees including patent costs | **1,763** | 707 |
| Net loss on foreign exchange[(1)] | **-** | 480 |
| Foreign exchange forward contract derivative (profit) (note 8) | **-** | (393) |
| Operating lease expense | **330** | 89 |
| Depreciation | **24** | - |
| Impairment | **-** | 122 |
| Other expenses | **1,780** | 1,095 |
| **Total operating loss** | **45,813** | 24,525 |

(1) As explained in note 5, translational foreign exchange gains and losses on cash and cash equivalents and short-term deposits have been reallocated from 'Administrative expenses' to 'Finance costs' in 2014 on the face of the income statement. Translational foreign exchange gains and losses on cash and cash equivalents and short-term deposits are disclosed in 'Administrative expenses' in 2013.

### 7. Auditor's remuneration

**Services provided by the Group's auditor and its associates**
During the year the Group obtained services from the auditor as detailed below:

| **Group** | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the parent company and consolidated financial statements | **50** | 16 |
| | | |
| Fees payable to the Company's auditor and its associates for other services: | | |
| The audit of the Company's subsidiaries | **5** | - |
| Audit related assurance services | **5** | - |
| Tax compliance services | **5** | 5 |
| Other assurance services | **235** | 235 |
| Other | **10** | - |
| **Total** | **310** | 256 |

**Notes to the financial statements**

## 8. Other gains

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Foreign exchange forward contract derivative gain | - | 393 |

## 9. Taxation

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements for the years ended 31 December 2014 and 2013 represents the credit receivable by the Group for the year and adjustments to prior years. The 2014 amounts have not yet been agreed with the relevant tax authorities.

| **Continuing operations** | 2014 £'000 | 2013 £'000 |
|---|---|---|
| United Kingdom corporation tax research and development credit | **(8,824)** | (3,995) |
| Adjustments in respect of prior year | **(57)** | 82 |
| **Income tax credit** | **(8,881)** | (3,913) |

The tax credit for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Loss on ordinary activities before tax** | **(43,989)** | (23,894) |
| Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%) | **(9,471)** | (5,555) |
| Expenses not deductible for tax purposes (permanent differences) | **(937)** | 12 |
| Temporary timing differences | **(43)** | - |
| Research & development relief 100%/125% mark-up on expenses | **(7,572)** | (4,691) |
| Surrender of losses for research & development tax credit refund | **5,118** | 4,449 |
| Adjustments in respect of prior year | **(57)** | 82 |
| Tax losses carried forward to future periods | **4,081** | 1,790 |
| **Current tax credit for the year** | **(8,881)** | (3,913) |

At 31 December 2014, the Group had tax losses to be carried forward of approximately £76.4m (2013: £58.0m).

At 31 December 2014, the Group has current tax assets arising from tax credits in the United Kingdom for certain research and development expenditure of £8.8m (2013: £3.9m).

No deferred tax assets are recognised. See note 20 for more details.

**Notes to the financial statements**

## 10. Loss per share

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

| | **2014** | 2013 |
|---|---|---|
| Loss from continuing operations attributable to ordinary equity owners of the parent company (£'000) | **(35,108)** | (19,981) |
| Weighted average number of Ordinary shares in issue (Number[(1)]) | **169,118,824** | 15,812,679 |
| **Loss per share** | **(£0.21)** | (£1.26) |

As net losses from continuing operations were recorded in 2014 and 2013, the dilutive potential shares are anti-dilutive for the earnings per share calculation.

1. Please refer to called-up share capital note (see note 21) regarding the change in the number of shares. Pursuant to IAS 33.26, the weighted average number of Ordinary shares outstanding during the year and for all years presented have been adjusted for the subdivision of each 10p Ordinary share into 125 Ordinary shares of 0.08p.

   The additional Ordinary shares issued in respect of the above events have been treated as if the events had occurred at the beginning of the earliest year reported.

## 11. Property, plant & equipment

**Group**

| **Cost** | Leasehold Improvements £'000 |
|---|---|
| At 1 January and 31 December 2013 | - |
| Additions | 333 |
| **As at 31 December 2014** | **333** |
| **Accumulated depreciation** | |
| At 1 January and 31 December 2013 | - |
| Depreciation charge | (24) |
| **As at 31 December 2014** | **(24)** |
| Net book value at 31 December 2013 | **-** |
| **Net book value at 31 December 2014** | **309** |

All of the above assets are wholly owned and not pledged as security against any of the Group's liabilities.

**Notes to the financial statements**

## 12. Intangible assets

| Group<br>Cost | Goodwill<br>£'000 | Intellectual Property Rights<br>£'000 | Software in development<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| At 1 January 2013 | 1,835 | 437 | - | 2,272 |
| Additions | - | - | - | - |
| As at 31 December 2013 | 1,835 | 437 | - | 2,272 |
| Additions | - | - | 38 | 38 |
| **As at 31 December 2014** | **1,835** | **437** | **38** | **2,310** |
| **Accumulated amortisation and impairment** | | | | |
| At 1 January 2013 | - | (138) | - | (138) |
| Impairment charge | - | (122) | - | (122) |
| As at 31 December 2013 | - | (260) | - | (260) |
| Impairment charge | **-** | **-** | **-** | **-** |
| **As at 31 December 2014** | **-** | **(260)** | **-** | **(260)** |
| Net book value at 31 December 2013 | 1,835 | 177 | - | 2,012 |
| **Net book value at 31 December 2014** | **1,835** | **177** | **38** | **2,050** |

Impairment charges are included within research and development costs in the Consolidated statement of comprehensive income. An impairment test is performed annually based on the value in use of the intangible assets.

The cumulative impairment charge at 1 January 2013 arose in 2008 when the results of a clinical study for dopexamine indicated that one licence agreement should be fully impaired.

In 2013, the results of the clinical study for the Company's psoriasis product indicated that this licence be fully impaired. In addition, a full impairment charge has been taken on a licence relating to a peanut product.

The goodwill arose on the purchase of 100% of the share capital of Circassia Limited from Imperial Innovations Businesses LLP on 17 July 2006. The goodwill represents the excess of cost over the fair value of assets acquired.

The Group tests annually whether goodwill and intangible assets have suffered any impairment and tests more frequently when events or circumstances indicate that the current carrying value may not be recoverable. No such adverse events or circumstances have arisen in the year and the market capitalisation of the Group at the year end is substantially in excess of the carrying value of the Group's net assets. The Directors consider there to be one cash-generating unit and have determined the recoverable amount based on value in use calculations, which require the use of estimates and assumptions.

The calculations use pre-tax cash flow projections. In light of the stage of development of the product candidates these cover a ten year period. Cash flows beyond the ten year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business. The discount rate used is pre-tax and reflects specific risks relating to the Group and uncertainties surrounding the cash flow projections, particularly in relation to the assumed successful launch of the Group's products in the expected timeframe and the resulting sales.

**Notes to the financial statements**

## 12. Intangible assets (continued)

The key assumptions used for the value in use calculations for 2013 and 2014 are as follows:

| | | |
|---|---|---|
| Anticipated launch date | Cat-SPIRE | 2017 |
| | Tier 2 product candidates (House Dust Mite-SPIRE, Grass-SPIRE, Ragweed-SPIRE) | 2018 - 2020 |
| | Remaining pipeline | 2020 - 2022 |
| Research and development costs | Based on management forecasts of clinical study costs for its product candidates, as well as related expenses associated with the regulatory approval process and commercialisation. | |
| Sales value and volume | Estimates of sales value and volume are internal forecasts based on both internal and external market information and market research commissioned by the Company. | |
| Advertising and promotion investment | Based on management forecasts of advertising and promotion required in the key territories. | |
| Profit margins | Margins reflect management's forecasts of sales values and costs of manufacture adjusted for its expectations of market developments. | |
| Period of specified projected cash flows | 10 years | |
| Terminal growth rate | Terminal growth rates based on management's estimate of future long term average growth rate<br>2014 0%<br>2013 0% | |
| Discount rate | Discount rates based on Group WACC, adjusted where appropriate:<br>2014 20%<br>2013 20% | |

In each case the valuations indicate sufficient headroom such that a change to key assumptions that are reasonably possible is unlikely to result in an impairment of the related goodwill. Therefore, the Group did not take a goodwill impairment charge for the years ended 31 December 2014 and 2013.

Software in development relates to the development of a new financial reporting software platform that was not yet complete at year end. Once this is complete and the system fully operational, it will be reviewed for impairment on a regular basis.

## 13. Investments in subsidiaries

| | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| Investments in subsidiaries at 1 January | **1,780** | 1,725 |
| Investment in Circassia Pharmaceuticals Inc | **6** | - |
| Equity settled instruments granted to employees of subsidiaries | **1,249** | 55 |
| **Investments in subsidiaries at 31 December** | **3,035** | 1,780 |

**Notes to the financial statements**

## 13. Investments in subsidiaries (continued)

The capital contribution relating to share based payment is for 3,165,857 (2013: 3,010,375) 0.08p share options granted by the Company to employees of subsidiary undertakings in the Group. Further details on the Group's share option schemes can be found in note 22.

Details of the Company's subsidiaries are provided below. All subsidiaries are included in the consolidation and the Directors believe that the fair value of all subsidiaries exceeds their carrying values.

| Name | Country of Incorporation | Nature of business | Proportion of ordinary shares held |
|---|---|---|---|
| Circassia Limited | UK | Pharmaceutical research | 100% |
| Circassia Pharma Limited | UK | Pharmaceutical research | 100% |
| Circassia Pharmaceuticals Inc | USA | Pharmaceutical research | 100% |

## 14. Investment in joint venture

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| **At 1 January** | **195** | 167 |
| Share of (loss)/profit | **(82)** | 46 |
| Foreign exchange loss on consolidation | **(10)** | (18) |
| **At 31 December** | **103** | 195 |

The joint venture listed below has share capital consisting solely of Ordinary shares, which are held directly by the Group.

**Nature of investment in joint venture 2014 and 2013**

| Name of entity | Place of business / country of incorporation | % of ownership interest | Nature of the relationship | Measurement method |
|---|---|---|---|---|
| Adiga Life Sciences | Canada | 50 | Note 1 | Equity |

Note 1.
Adiga Life Sciences ("Adiga") is a joint venture with McMaster University in Canada for early epitope and mechanistic clinical studies. Adiga is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities or commitments relating to the Group's interest in the joint venture.

**Notes to the financial statements**

**14. Investment in joint venture (continued)**

**Summarised financial information for joint venture**

Set out below is the summarised financial information for Adiga which is accounted for using the equity method.

| **Summarised statement of financial position at 31 December** | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Current assets | | |
| Trade and other receivables | **116** | 436 |
| Cash | **695** | 644 |
| | **811** | 1,080 |
| Current liabilities | | |
| Trade payables | **(518)** | (600) |
| Other payables | **(88)** | (91) |
| | **(606)** | (691) |
| **Net assets** | **205** | 389 |

| Summarised statement of comprehensive income for the year ended 31 December | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Revenue | **4,893** | 4,257 |
| Research & development costs | **(5,830)** | (5,245) |
| Administration expense | **(28)** | (36) |
| Interest income | **2** | 4 |
| Interest expense | **(2)** | (2) |
| Loss from continuing operations | **(965)** | (1,022) |
| Income tax income | **801** | 1,114 |
| Post tax (loss)/profit from continuing operations | **(164)** | 92 |
| Other comprehensive expense | **(20)** | (37) |
| Total comprehensive (expense)/income | **(184)** | 55 |

The information above reflects the amounts presented in the financial statements of the joint venture adjusted for differences in accounting policies between the Group and the joint venture (and not Circassia Pharmaceuticals Plc's share of those amounts).

**Reconciliation of summarised financial information**

Reconciliation of the summarised financial information presented to the carrying amount of the Company's interest in the joint venture.

| Summarised financial information | **2014 £'000** | 2013 £'000 |
|---|---|---|
| **Opening net assets 1 January** | **389** | 334 |
| (Loss)/profit for the year | **(164)** | 92 |
| Other comprehensive expense | **(20)** | (37) |
| **Closing net assets** | **205** | 389 |
| Interest in joint venture @ 50% | **103** | 195 |
| **Carrying value** | **103** | 195 |

**Notes to the financial statements**

## 15. Other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Other receivables | **700** | 717 | **64** | 90 |
| Prepayments and accrued interest | **1,949** | 498 | **1,530** | 449 |
| Receivables from subsidiary undertakings | **-** | - | **120,989** | 93,618 |
| Total trade and other receivables | **2,649** | 1,215 | **122,583** | 94,157 |

The fair value of other receivables are their current book values.

Receivables from subsidiary undertakings are amounts provided by the Company to its subsidiaries in order to undertake studies. The receivable is unsecured, interest free and has no fixed date of repayment. Recoverability of the amount is dependent on the success of those studies.

The carrying amounts of the Group and Company other receivables, excluding prepayments and recoverable taxes, are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| UK pounds | **1,552** | 1,205 | **122,494** | 94,148 |
| United States dollar | **-** | 7 | **-** | 7 |
| Canadian dollar | **14** | 2 | **14** | 2 |
| Other currencies | **-** | 1 | **-** | - |
| | **1,566** | 1,215 | **122,508** | 94,157 |

## 16. Cash and cash equivalents and short-term bank deposits

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Short-term bank deposit, with original maturity: | | | | |
| More than 3 months | **156,874** | 7,047 | **156,874** | 7,047 |
| Total short-term bank deposits | **156,874** | 7,047 | **156,874** | 7,047 |
| | | | | |
| Cash and cash equivalents: | | | | |
| Cash at bank and in hand | **29,716** | 23,568 | **18,754** | 3,839 |
| Total cash and cash equivalents | **29,716** | 23,568 | **18,754** | 3,839 |

The Group and Company cash and cash equivalents and short-term deposits are held with institutions with the following Fitch IBCA long term rating:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| AA- | **51,446** | 12,641 | **40,593** | - |
| A+ | **35,000** | - | **35,000** | - |
| A | **92,114** | 7,858 | **92,005** | 770 |
| A- | **8,030** | - | **8,030** | - |
| BBB- | **-** | 10,116 | **-** | 10,116 |
| | **186,590** | 30,615 | **175,628** | 10,886 |

**Notes to the financial statements**

## 16. Cash and cash equivalents and short-term bank deposits (continued)

The Group and Company cash and cash equivalents and short-term deposits are held in the following currencies at 31 December:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| UK pounds | **157,899** | 13,255 | **154,437** | 3,270 |
| United States dollar | **11,683** | 14,532 | **11,321** | 6,197 |
| Canadian dollar | **9,462** | 1,489 | **8,030** | 1,419 |
| Euro | **1,979** | 48 | **1,840** | - |
| Swiss franc | **5,567** | 1,291 | **-** | - |
| | **186,590** | 30,615 | **175,628** | 10,886 |

## 17. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Trade payables | **2,746** | 3,461 | **321** | 523 |
| Social security and other taxes | **199** | 104 | **-** | - |
| Other payables | **40** | 19 | **-** | - |
| Accruals | **6,781** | 2,391 | **332** | - |
| Total trade and other payables | **9,766** | 5,975 | **653** | 523 |

## 18. Financial liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Convertible loan notes | **-** | 2,012 | **-** | 2,012 |
| **Financial liabilities** | **-** | 2,012 | **-** | 2,012 |

The Group had in issue nil (2013: 115) convertible loan notes which accrued interest at the daily Libor rate and were convertible into fully paid Ordinary shares at the option of the holder at any time and were to be redeemed, if they had not previously been converted, on 31 March 2016. The loan notes were classified as current liabilities as the Group did not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period. Borrowing costs were recognised in profit or loss in the period in which they were incurred.

As part of the capital reorganisation in 2014, the 115 loan notes and accrued interest were converted into 7,155 Ordinary shares (note 21).

Included in current financial liabilities is accrued interest of £nil (2013: £0.3m).

**Notes to the financial statements**

## 19. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, derivatives, convertible loan notes, short-term bank deposits, other receivables and trade and other payables. Additional disclosures are set out in the accounting policies relating to risk management (note 2).

The Group had the following financial instruments at 31 December each year:

| | **2014** | 2013 |
|---|---|---|
| **Assets** | **£'000** | £'000 |
| Cash and cash equivalents | **29,716** | 23,568 |
| Short-term bank deposits | **156,874** | 7,047 |
| Other receivables | **1,566** | 1,215 |
| **Loans and receivables** | **188,156** | 31,830 |

| | **2014** | 2013 |
|---|---|---|
| **Liabilities** | **£'000** | £'000 |
| Trade and other payables - current | **9,766** | 5,975 |
| Financial liabilities | **-** | 2,012 |
| **Financial liabilities at amortised cost** | **9,766** | 7,987 |

The Company had the following financial instruments at 31 December each year

| | **2014** | 2013 |
|---|---|---|
| **Assets** | **£'000** | £'000 |
| Cash and cash equivalents | **18,754** | 3,839 |
| Short-term bank deposits | **156,874** | 7,047 |
| Other receivables | **1,519** | 539 |
| Receivable from subsidiary undertaking | **120,989** | 93,618 |
| **Loans and receivables** | **298,136** | 105,043 |

| | **2014** | 2013 |
|---|---|---|
| **Liabilities** | **£'000** | £'000 |
| Trade and other payables - current | **653** | 523 |
| Financial liabilities | **-** | 2,012 |
| **Financial liabilities at amortised cost** | **653** | 2,535 |

Cash balances comprise floating rate instant access deposits earning interest at prevailing bank rates. Short-term deposits bear interest at fixed rates.

In accordance with IAS 39 'Financial instruments Recognition and Measurement' the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no such derivatives identified at 31 December 2014 or 31 December 2013.

**Fair value**

The Directors consider that the fair values of the Group's financial instruments do not differ significantly from their book values.

**Notes to the financial statements**

## 20. Deferred taxation

The Group has no recognised deferred tax assets or liabilities at 31 December 2014 (2013: £nil). The Group has an unrecognised deferred tax asset in respect of:

| | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| Losses | **15,323** | 11,652 |
| Accelerated capital allowances | **43** | - |
| Other | **1,337** | 1 |
| **Total unrecognised deferred tax asset** | **16,703** | 11,653 |

In light of the continuing losses, recovery of the deferred tax asset is not sufficiently certain, and therefore no asset has been recognised.

## 21. Share capital

| **Authorised, called up and fully paid** [1] | **2014** **£'000** | 2013 £'000 |
|---|---|---|
| 189,419,634 (2013: 80,548,375) Ordinary shares of 0.08p each | **152** | 65 |

[1] All numbers of Ordinary shares in the 2013 column above were updated retrospectively to give effect to the capital reorganisation which occurred on 18 March 2014.

The change in the number of shares in 2013 is reconciled below:

| **2013 Share capital pre and post capital reorganisation** | Post capital reorganisation Number | Capital [2] reorganisation Number | Pre capital reorganisation Number |
|---|---|---|---|
| Ordinary shares of 10p | - | - | 129,489 |
| A Preference shares of 10p | - | - | 147,932 |
| B Preference shares of 10p | - | - | 366,967 |
| Conversion and subdivision of 10p Ordinary shares into 0.08p Ordinary shares | - | 79,903,987 | - |
| Ordinary shares | 80,548,375 | 79,903,987 | 644,388 |

[2] See note 21 (a) and (d). The preference A and B shares were converted into 10p Ordinary shares and all 10p Ordinary shares were subsequently subdivided into 0.08p Ordinary shares.

**Notes to the financial statements**

**21. Share capital (continued)**

On 24 February 2014, a Director of the Company, exercised 4,000 EMI share options, which resulted in 4,000 Ordinary shares of 10p (equivalent to 500,000 Ordinary shares of 0.08p) being issued, with proceeds on exercise of £400.

Immediately prior to admission of the Company's shares on the London Stock Exchange, the Company effected a capital reorganisation, which resulted in the following:

a) Conversion of Preference shares to Ordinary shares

There were 514,898 Preference shares all of which converted automatically into Ordinary shares at a conversion rate of one Ordinary share for each Preference share held.

b) Issue of liquidation Preference shares

Each holder of Preference shares was issued additional Ordinary shares (Liquidation Preference shares) by the Company. This was by way of capitalisation of reserves and resulted in the issue of 327,708 additional 10p Ordinary shares.

c) Conversion of loan notes

As part of the capital reorganisation, the 115 loan notes were converted into 7,155 Ordinary shares of 10p in the Company.

d) Initial Public Offering

On 18 March 2014, the Company subdivided each 10p Ordinary share held (983,250) into 125 Ordinary shares of 0.08p (122,906,250). In addition, 64,516,129 new Ordinary shares of 0.08p were issued, raising gross proceeds of £200 million.

On 20, 22, 24 and 27 March 2014, a number of employees exercised their EMI options, which resulted in 1,363,875 shares being issued, with exercise proceeds of £1,091.10.

On 11 April 2014, 633,380 Ordinary shares of 0.08p from the Over-Allotment Option were issued, raising gross proceeds of approximately £2 million.

**22. Share based payments**

**Share options**

Options have been awarded under the Circassia PSP Share Option Scheme ("the PSP Scheme"), the Circassia EMI Share Option Scheme ("the EMI Scheme") and the Circassia Unapproved Share Option Scheme ("the Unapproved Scheme").

The share options outstanding can be summarised as follows:

| | **2014 Number of Ordinary shares ('000)** | 2013[iv] Number of Ordinary shares ('000) |
|---|---|---|
| PSP Scheme[i] | **1,969** | - |
| EMI Scheme[ii] | **535** | 2,399 |
| Unapproved Scheme[iii] | **661** | 611 |
| | **3,165** | 3,010 |

**Notes to the financial statements**

## 22. Share based payments (continued)

The contractual life of all options is 10 years and the options cannot normally be exercised before the third anniversary of the date of grant.

(i) All employees of the Group are eligible for options over 0.08p ordinary shares in the company. Options granted under the PSP Scheme do not have a fixed exercise price and are subject to additional vesting performance conditions. The performance conditions state that 70% of an award shall vest subject to the Company Total Shareholder Return (TSR) ranking against the Comparator Index TSR and the remaining 30% of an award shall vest subject to the meeting of certain strategic Company objectives.

(ii) Options granted under the EMI Scheme have a fixed exercise price based on the market price at the date of grant.

(iii) Options granted under the Unapproved Scheme also have a fixed exercise price based on the market price at the date of grant.

(iv) All numbers of Ordinary shares in the 2013 column above were updated retrospectively to give effect to the capital reorganisation which occurred on 18 March 2014.

The movement in share options outstanding is summarised in the following table:

| | **2014** | | 2013 [1] | |
|---|---|---|---|---|
| | **Number ('000)** | **Weighted average exercise price (£)** | Number ('000) | Weighted average exercise price (£) |
| Outstanding at 1 January | **3,010** | **0.23** | 2,949 | 0.0008 |
| Granted | **2,439** | **0.23** | 438 | 1.55 |
| Expired | **-** | **n/a** | - | n/a |
| Forfeited | **(420)** | **1.05** | - | n/a |
| Exercised | **(1,864)** | **0.0008** | (377) | 0.0008 |
| Outstanding at 31 December | **3,165** | **0.25** | 3,010 | 0.23 |
| Exercisable at 31 December | **631** | **0.0008** | 1,598 | 0.0008 |

[1] See note 21. The 2013 numbers were updated retrospectively to give effect to the capital reorganisation which occurred on 18 March 2014.

The options exercised in 2014 resulted in 1.9m shares (2013: 0.4m shares) being issued at a weighted average price of £0.0008 each (2013: £0.0008 each). The related weighted average share price at the time of exercise was £2.23 (2013: £0.0008) per share.

**Valuation models**

The fair value of PSP share options granted during the period was determined using the Monte Carlo Simulation model or Black Scholes model dependent on the performance vesting conditions. All other options granted during the year and in previous years were valued using the Black Scholes valuation model.

The weighted average fair value of options granted during the period determined using the Monte Carlo Simulation model at the grant date was £1.39 per option (2013: £nil).

The weighted average fair value of options granted during the period determined using the Black Scholes valuation model at the grant date was £1.57 per option (2013: £2.16).

**Notes to the financial statements**

## 22. Share based payments (continued)

The following weighted average assumptions were used in the Black Scholes model in calculating the fair values of the options granted during the year:

| | **2014** | 2013 |
|---|---|---|
| Share price | **£3.19** | £2.88 |
| Exercise price | **£0.23** | £1.55 |
| Expected volatility | **50%** | 50% |
| Expected life | **10 years** | 10 years |
| Expected dividends | **0%** | 0% |
| Risk free interest rate | **3%** | 3% |

For the options using the Monte Carlo Simulation, a 50% probability was applied to the number of options likely to vest. Expected volatility is based on historical volatility for a period the same length as the expected option life ending on the date of grant. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. Expected life was based on the contractual life of the options.

**Restricted shares**
The company previously made awards of Ordinary shares to employees and Non-Executive Directors by entering into a form of restricted share agreement with each participant, under which the participant subscribed for or purchased Ordinary shares in the Company at 10p per ordinary share (converted into 0.08p shares post capital reorganisation). These shares are subject to certain restrictions on transfer and forfeiture, as set out in the restricted share agreement. The restrictions lift on the earlier of a sale of the Company and the expiry of a vesting period of between two and three years (depending on the date of award of the restricted shares).

There were 1.8m Ordinary shares of 0.08p (2013: 1.8m Ordinary shares of 0.08p) in issue at 31 December 2014 and 46,875 Ordinary shares were forfeited during the year (2013: nil).

**Income statement**
See note 4 for the total expense recognised in the income statement in respect of the above equity settled instruments granted to Directors and employees.

## 23. Share premium

| **Group and Company** | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| At 1 January | **103,403** | 103,403 |
| Conversion of loan notes into Ordinary shares | **2,014** | - |
| Issue of new shares | **201,911** | - |
| Expenses relating to share issue | **(9,390)** | - |
| **At 31 December** | **297,938** | 103,403 |

## 24. Translation reserve

| **Group** | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| At 1 January | **-** | - |
| Currency translation differences | **(6)** | - |
| **At 31 December** | **(6)** | - |

## Notes to the financial statements

### 25. Deficit on reserves

| Group | Share option reserve | | Accumulated losses | |
|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| At 1 January (deficit) | **56** | 1 | **(73,479)** | (53,480) |
| Total comprehensive expense | **-** | - | **(35,118)** | (19,999) |
| Capitalised reserves – bonus shares for Preference shares | **-** | - | **(33)** | - |
| Employee share option scheme | **1,249** | 55 | **-** | - |
| **At 31 December (deficit)** | **1,305** | 56 | **(108,630)** | (73,479) |

| Company | Share option reserve | | Retained earnings | |
|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| At 1 January | **56** | 1 | **764** | 707 |
| Total comprehensive income | **-** | - | **467** | 57 |
| Capitalised reserves – bonus shares for Preference shares | **-** | - | **(33)** | - |
| Employee share option scheme | **1,249** | 55 | **-** | - |
| **At 31 December** | **1,305** | 56 | **1,198** | 764 |

### 26. Cash used in operations

**Reconciliation of (loss)/profit before tax to net cash used in operations**

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| **Continuing operations** | | | | |
| (Loss)/profit before tax | **(43,989)** | (23,894) | **467** | 57 |
| Adjustment for: [1] | | | | |
| Interest income | **(1,746)** | (606) | **(1,709)** | (158) |
| Interest expense | **18** | 21 | **9** | 10 |
| Impairment | **-** | 122 | **-** | - |
| Depreciation | **24** | - | **-** | - |
| Share of joint venture loss/(profit) | **82** | (46) | **-** | - |
| Fair value loss on derivative | **-** | (393) | **-** | (393) |
| Share based payment charge | **1,249** | 55 | **-** | - |
| Exchange movements | **(6)** | - | **-** | - |
| Foreign exchange on non-operating cash flows | **(499)** | 8 | **(670)** | 430 |
| Changes in working capital: | | | | |
| Decrease/(increase) in trade and other receivables | **65** | (492) | **(26,922)** | (6,668) |
| Increase in trade and other payables | **3,792** | 3,057 | **130** | 523 |
| **Net cash used in operations** | **(41,010)** | (22,168) | **(28,695)** | (6,199) |

[1] The conversion of the loan notes is a non-cash item

**Notes to the financial statements**

## 27. Contingent liabilities

There were no contingent liabilities at 31 December 2014 or at 31 December 2013.

## 28. Operating lease commitments

The total of future minimum lease payments payable under the entity's non-cancellable operating lease for each of the following periods is as follows:

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Due within one year | **282** | 17 |
| Due between one and five years | **329** | - |
| Due after five years | **-** | - |

The company operates out of two leased buildings. The operating lease commitment above relates to the lease of the Oxford premises John Eccles House. The second lease currently held does not constitute a commitment due to the existence of an annual break clause.

## 29. Capital commitments

The Group had no capital commitments as at 31 December 2014 (2013: £nil).

## 30. Related party transactions

**Group**
There is no ultimate controlling party of the Group as ownership is split between the Company's shareholders. The most significant shareholders as at 31 December 2014 are as follows: Invesco Asset Management (35.30% of total voting rights); Imperial Innovations Businesses LLP (13.99% of total voting rights); Oppenheimer Funds Inc (9.23% of total voting rights), Odey Asset Management (7.96% of total voting rights) and Lansdowne Partners Limited (6.10% of total voting rights).

Transactions with related parties during the year and balances with related parties at 31 December are as follows:

| **Related party** | **2014 Purchases £'000** | 2013 Purchases £'000 | **2014 Payables £'000** | 2013 Payables £'000 |
|---|---|---|---|---|
| Adiga Life Sciences (Joint venture) | **4,920** | 4,202 | **-** | 113 |
| Key management personnel | **-** | 8 | **-** | - |
| Imperial Innovations Businesses LLP[1, 2] | **38** | 27 | **-** | 1,487 |
| Steven Harris[2] | **-** | - | **-** | 262 |
| Charles Swingland[2] | **-** | - | **-** | 262 |

[1] 'Purchases' includes compensation paid or payable in respect of services provided by Russ Cummings as Non-Executive Director of the Company.
[2] 'Payables' represents the amounts due on the convertible loan notes including accrued interest to 31 December 2013 (see note 18).

**Notes to the financial statements**

## 30. Related party transactions (continued)

Disclosure of compensation provided to Directors is given in the Annual Report on Remuneration and in note 4 for key management. Included within key management personnel is Chief Commercial Officer (start date 15 September 2014) Linda Szyper. Linda is the spouse of Paul Edick, a Non-Executive Director of the Company. The compensation paid or payable to Linda is shown below:

| **Key management compensation** | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| **Linda Szyper:** | | |
| Short-term employee benefits (including bonus) | **147** | - |
| Post-employment benefits | **11** | - |
| Share based payments | **8** | - |
| **Total** | **166** | - |

**Company**
The following transactions with subsidiaries occurred in the year:

| | | **Circassia Limited** |
|---|---|---|
| **Related party** | **2014** | 2013 |
| | **£'000** | £'000 |
| Rendering of services to Circassia Limited [(1)] | **1,622** | 41 |
| Settlement of liabilities on behalf of the Company | **(2,955)** | (16) |
| Net transfer of funds to Circassia Limited | **28,704** | 6,202 |
| | **27,371** | 6,145 |

[(1)] Remuneration costs (excluding share options charges) relating to Steven Harris and Julien Cotta in respect of services rendered to Circassia Limited.

| | **2014** | 2013 |
|---|---|---|
| **Balances with subsidiary companies** | **£'000** | £'000 |
| **Payable:** | | |
| Circassia Limited | **120,989** | 93,618 |

The amount due is unsecured, interest free and has no fixed date of repayment.

**Employee benefit trust**
During the year the company set up an Employee benefit trust for the purposes of buying and selling shares on the employees' behalf. A total of £5,100 of funding was paid into the Trust by the Company during the year ended 31 December 2014 (2013: £nil). This balance has been included in the Company financial statements on the grounds that the Trust is controlled by the Company.