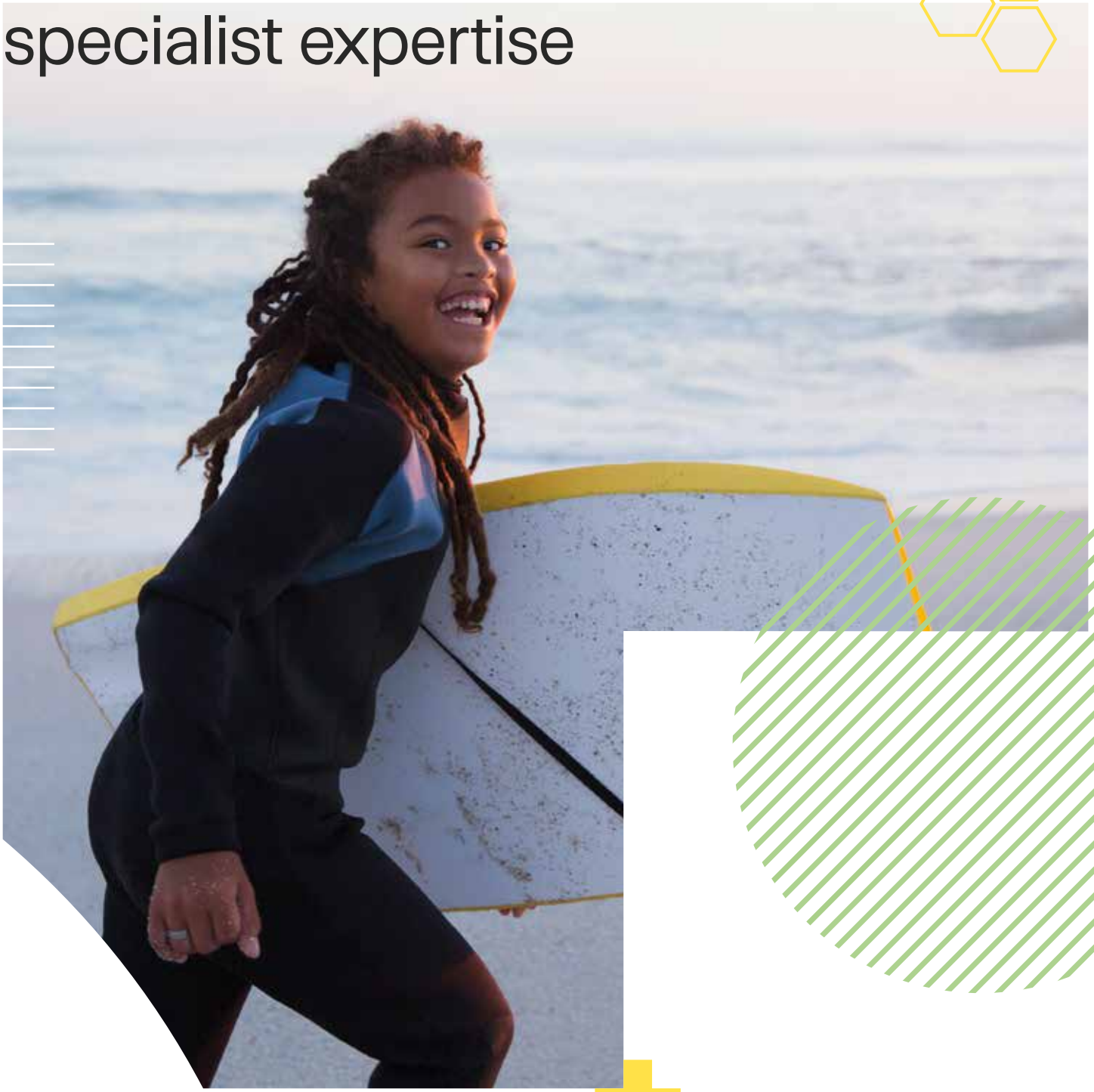
Transforming lives by delivering convenience through specialist expertise



Allergy Therapeutics PLC

Mission Statement

Committed to transforming lives by breaking new ground in immunology treatment.

Allergy Therapeutics is an AIM listed international commercial biotechnology group.

Allergy Therapeutics is European-based and focused on the treatment and prevention of allergy with aluminium-free products.

Find this report online at
www.allergytherapeutics.com/annualreport2018

Highlights

Financial

6.6%
revenue growth in actual terms to £68.3m
(2017: £64.1m)

3.5%
revenue growth[1] at constant currency[2] to £66.4m
(2017: £64.1m)

One
point increase to 14% in market share in European business[3]
(2017: 13%)

10%
compound annual growth in net sales over 19 years since the Company formed

26%
increase in operating profit (pre-R&D) to £9.3m[4]
(2017: £7.4m)[4]

£15.5m
cash at 30 June prior to the July 2018 fundraising of £10.2m net
(2017: £22.1m)

Operational

Completion of £10.6m (gross) oversubscribed placing in July 2018.

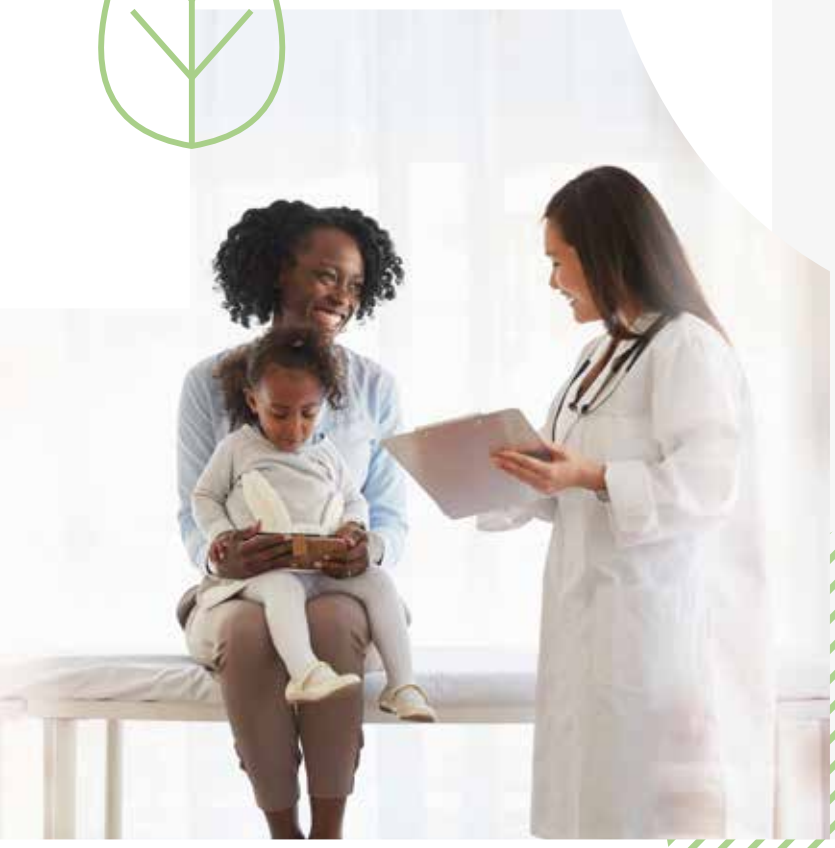
Successful completion of the Phase II PQ Grass (G205) in May, allowing progression to a pivotal trial for US registration. The Phase III PQ Birch (B301) study has completed and top line data are now expected by the end of the year.

Good pipeline progress, including initiation of Acarovac Phase I trial (data readout expected H1 2019) and positive pre-clinical Polyvac peanut work, with first in-human trials expected 2019.

1 Percentage based on figures in thousands (2018:£66.369m, 2017: £64.139m).
2 Constant currency uses prior year weighted average exchange rates to translate current year foreign currency denominated revenue to give a year-on-year comparison excluding the effects of foreign exchange movements. See table in the Financial Review for an analysis of revenue on page 37.
3 Market data and internal estimates for 12 months to 30 June 2018 for Allergy Therapeutics' direct sales competitive markets excluding UK and Switzerland due to lack of competitor information.
4 Operating profit (pre-R&D) is calculated by adding back R&D expenditure for the year to the operating loss of the year to arrive at an operating profit (pre-R&D) of £9.3m (2017: £7.4m).

What is Immunotherapy?

Immunotherapy is the practice of administering gradually increasing doses of an allergen extract (e.g. pollen) in order to reduce the symptoms of hay fever or asthma that it causes.

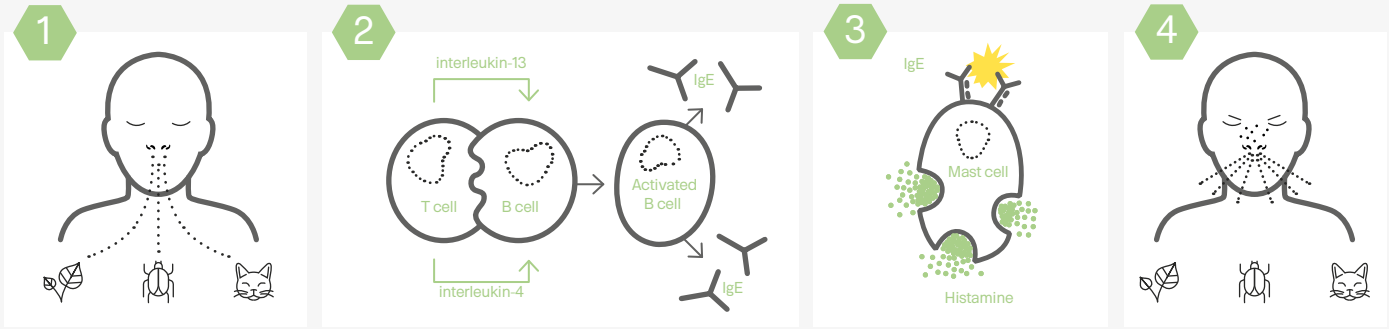


It was first carried out almost 100 years ago and is now in widespread use around the world. It is sometimes referred to as 'allergy vaccination' or 'desensitisation'.

Immunotherapy may be given by subcutaneous injections or sublingually.

Immunology

A patient who is suffering from an allergy:



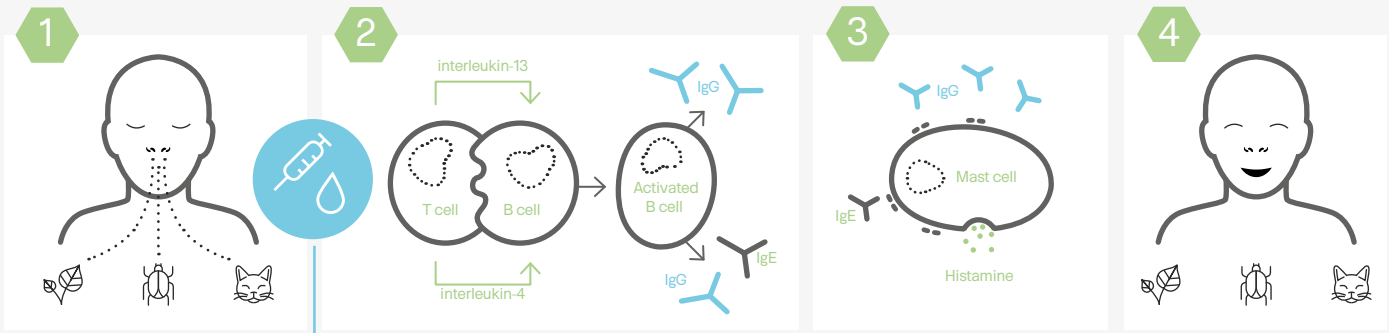
Patient comes into contact with an allergen

Th2 cell stimulates B cells to produce IgE

IgE binds to immune cells causing histamine release upon exposure to allergen

Histamine leads to classic symptoms of allergy

A patient who is treated with allergen immunotherapy:



Patient comes into contact with an allergen

Th1 Cell stimulates B cells to produce IgG

Increased IgG production inhibits the production of IgE

Lower levels of IgE prevent excess release of histamine and reduce symptoms of allergy

Treated with allergen specific immunotherapy

At a Glance

Who we are

We are a visionary immunology business with specialist experience in the research and development of allergy treatments. We have a well-established commercial presence in Europe and are focused on the US market opportunity.

What we do

We specialise in the diagnosis and treatment of allergy. Allergy vaccination is a successful treatment that deals with the underlying cause of allergies and not just the symptoms[1].

We mainly sell our products in European countries and our pipeline of products in clinical development includes vaccines for grass, tree and house dust mite, as well as a peanut allergy vaccine in pre-clinical development. Adjuvant systems to boost performance of vaccines outside allergy are also under evaluation.

What makes us different

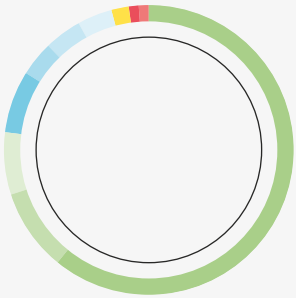
Our ultra-short course treatments consist of 4 injections over the course of 3 or 4 weeks compared to daily tablets or an average treatment in the market of a 12-15 course of injections. Our approach offers the simplicity of 4 injections, increased tolerability and demonstrated efficacy[2].

Our adjuvant technologies improve therapies by allowing them to increase efficacy. We are further developing this concept in our specialist business, Bencard Adjuvant Systems; improving health and evaluating vaccinations for infectious diseases and cancer treatments.

Our values have created a culture based around vision, commitment and humanity. We take extraordinary ideas and bring them to market – enhancing treatments and transforming people's lives.

Sales

Markets %

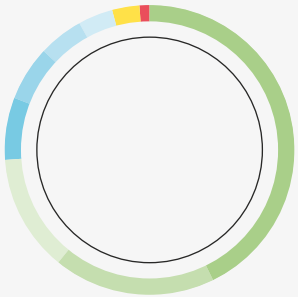


- Germany | **61%**
- Spain | **9%**
- Italy | **7%**
- Austria | **7%**
- Switzerland | **4%**
- Netherlands | **4%**
- UK and export market | **4%**
- Canada and South Korea | **2%**
- Czech Republic | **1%**
- Slovakia | **1%**

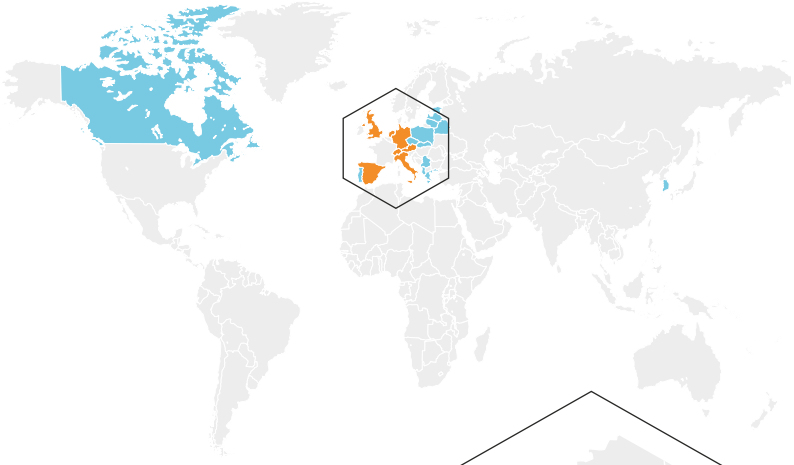
1 Zielen S., et al., Allergologie 2007 (30) Suppl 1;(S1-8).
2 Patel P., et al., J Allergy Clin Immunol 2014; 133:121-9.

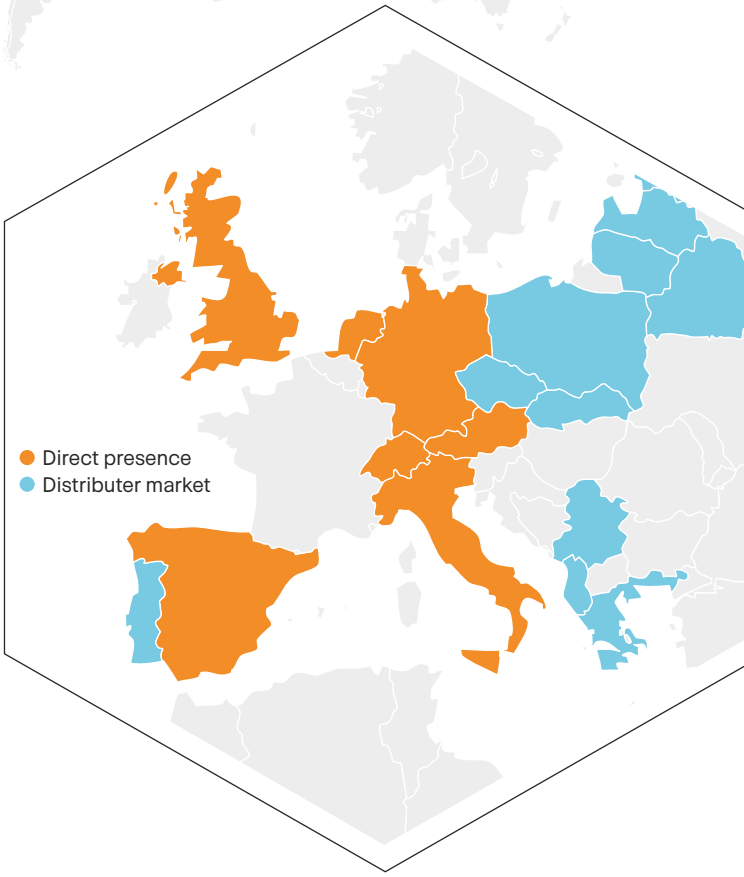
Our reach

Products %



- Pollinex Quattro | **43%**
- Pollinex | **18%**
- Oralvac | **13%**
- Third-party products | **7%**
- TyroMILBE | **6%**
- Tyrosine S/TU | **5%**
- Venomil | **4%**
- Acarovac Plus | **3%**
- Diagnostics | **1%**





Our pipeline

Pre-clinical	Phase I	Phase II	Phase III	
Pollinex Quattro Grass				✓
Pollinex Quattro Birch				✓
Pollinex Quattro Ragweed				
Pollinex Quattro Trees				✓
Oralvac Grass, Trees and House (Dust Mite)				✓
Modified Mite Platform				✓
Peanut SCIT				

✓ Also available as a Named Patient Product

Chairman's Statement

Peter Jensen | Chairman

Overview

I am pleased to introduce the Group's 2018 Annual Report and Accounts. Our three-pronged strategy continues to develop well with an impressive, profitable European business despite a low pollen season, a large upside potential with the US market and a strong pipeline.

We are pleased with the current momentum in the business and are confident that we can continue to deliver against our strategy in the year ahead.

Commercial and clinical performance
This year's performance demonstrates the resilience of our business in relatively weak market conditions. We have continued to gain market share from competitors while growing revenues by 3.5%[1] in constant currency[2] and increasing pre-R&D[3] operating profit by 26%. We continue to build suitable infrastructure for our future plans with organisational development and an increasingly US-focused team.

We also had a successful year with regard to our clinical trials, with the PQ Grass Phase II trial (G205) delivering positive data, further reinforcing the quality of our technology platform. Headline data from the PQ Birch Phase III trial (B301) is expected by the end of the year, and the data from the Phase I Acarovac trial will readout in the first half of 2019. First in-human trials for Polyvac peanut are also expected to start in 2019.

Fundraising
In July 2018, we completed a successful placing and subscription of 40m shares, raising £10.6m gross. The Group now has sufficient capital to fully fund an extended Phase III PQ Grass trial in the US and EU.

Governance
Corporate governance is important to the business and we have always developed our governance framework over and above the level required for an AIM listed company of our size. This year, the London Stock Exchange announced that from September 2018 all AIM listed companies will be required to apply a recognised corporate governance code. We have chosen to apply the QCA Governance Code and I am pleased to report that we have disclosed full compliance against the ten principles in the Governance Report. This year, the General Data Protection Regulations were introduced, and the business has taken a number of steps to ensure compliance with the regulations.

Looking ahead
We are pleased with the current momentum in the business and are confident that we can continue to deliver against our strategy in the year ahead. We are developing the infrastructure to achieve the goals that we have set ourselves with significant growth in the R&D team as well as other areas. We look forward to the exciting developments in our early pipeline planned for 2019, and we expect to continue to grow our European business while progressing towards US and German registration for our lead products.

On behalf of the Board, I would like to thank all the employees of Allergy Therapeutics for their commitment, creativity and teamwork.

Peter Jensen
Chairman
25 September 2018

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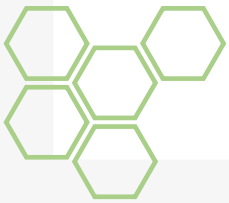
Chief Executive Officer's Review

Manuel Llobet | Chief Executive Officer

We are reporting a year of strong progress made against our strategic objectives of expanding in Europe, preparing for entry into the US market, and making clinical progress with the Group's lead assets.

Phase II PQ Grass trial: Primary endpoint was met with a highly statistically significant dose-response relationship.



Despite a low pollen season, we have maintained sales growth across our European business and continued to capture additional market share. Our clinical pipeline has strengthened with positive data readouts from our Grass Phase II trial and we continue to progress our early stage assets. As a result of these two developments – growing the commercial business in Europe and advancing our pipeline of assets – we continue to make good progress towards entering the attractive and commercially significant US market. In a market with a 16% compliance rate, our convenient and ultra-short course products have the potential to make a material impact for US patients.

European business

This year's performance has demonstrated the robustness of our European business, the quality of our convenient, aluminium-free, patient-friendly and technologically-advanced products and the excellent work of our sales and marketing teams. Despite a weak pollen season in the spring and summer of 2017, sales of £68.3m were up 3.5%[1] on last year on a constant[2] basis (6.6% on an actual basis) and we captured an additional one point of market share[3].

In addition, operating profit pre-R&D[4] increased 26%, demonstrating a sturdy trading model and continued cost discipline. This achievement of leveraging our sales to deliver profit is important both for generating returns from our business and to finance more of our pipeline from internal resources.

Clinical trial success

The Group has successfully completed a major trial with the recent readout of its Phase II PQ Grass trial for the US and Europe, and we look forward to the upcoming results of the Phase III trial for PQ Birch in Europe which are now expected by the end of the year.

The results of the PQ Grass Phase II trial, reported on 21 May 2018, offered an excellent foundation for the Grass Phase III trial in the US:

- Primary endpoint was met with a highly statistically significant dose-response relationship.
- All dosing regimes were safe and well tolerated.
- Current marketed product showed significant improvement compared to placebo.
- Significant increase in immunoglobulin results, highly consistent with the dose response observed for the primary endpoint.
- Excellent adherence to short course treatment (>95%).

Pipeline progress

The Group has also made significant progress with pipeline products. The Acarovac Phase I trial for house dust mite allergies is progressing well, with readout expected in H1 calendar year 2019. The process of scaling up our Polyvac peanut product is also on track, and we expect to have the first in-human trials in 2019.

In addition, we continue with the TAV process for products which are currently sold in Germany on a named patient basis. All ten of our products, which were initially registered in the process in 2010, remain in the pipeline. The most advanced are the PQ Birch and Trees followed by the PQ Grass. The Oralvac product for Grass, Tree and House Dust Mite will soon enter Phase IIa.

Progress towards US market entry

Having successfully completed the Grass Phase II trial, we expect to start the pivotal Phase III Grass trial for the US in H2 2019. Our recent fundraising allows us to progress with the expanded trial and we will meet with the FDA to agree the process for the Phase III CTA in the coming months.

We continue to prepare for entry into the US market, including planning for reimbursement and manufacturing. We will also assess further development of PQ Ragweed and PQ Trees for the US.

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Financial year 2019 is expected to show strong sales growth, more in line with prior years. Margins are expected to remain stable as we continue to invest in the business for future growth.

Chief Executive Officer's Review

continued

Funding
In July 2018, we successfully placed 40 million shares raising £10.6m gross. Alongside the Grass Phase III extension, part of the sum raised will go towards the Acarovac Phase II trial, expected to start in calendar year 2019 subject to satisfactory Phase I results.

Outlook
The outlook for the financial year ahead is positive. Discussions with the regulatory authorities regarding the PQ Grass Phase III trial in the autumn will be critical, as well as the upcoming results of PQ Birch Phase III trial. The Phase I Acarovac trial will read out in H1 calendar year 2019 while the peanut product is expected to start in-human studies in H1 calendar year 2019.

As with many companies operating in Europe, we continue to monitor the potential impact of Brexit. Clearly uncertainty remains about the future relationship between the UK and the EU and we will continue our mitigation planning. We remain of the view that, assuming a satisfactory agreement is reached between the UK and the EU, Brexit will not have a material impact on the business.

In operational terms, financial year 2019 is expected to show strong sales growth, more in line with prior years. Margins are expected to remain stable as we continue to invest in the business for future growth.

With the foundations laid for an important year, we look forward to continuing to execute our strategy by growing our European business, progressing our lead and early-stage assets through clinical development, and preparing to enter the commercially attractive US market. In doing so, we hope to create significant value for our shareholders.

Manuel Llobet
Chief Executive Officer
25 September 2018

Transforming Lives

"The benefits I've gained from the treatment are immense – my life is transformed. I can walk in the park without fear of severe hay fever symptoms. I now only take antihistamines occasionally, instead of daily eye drops, nasal spray, inhaler and tablets."

Allergy Therapeutics' patient

Current Market Overview

The Group continues to maintain a strong presence in Europe with established operations in significant markets including Germany, Italy, Spain, Austria, Switzerland, the Netherlands and the UK.

In markets where we do not have a direct presence, we often make our products available through partners. The most important distributor markets for the Group are Canada, the Czech Republic, Slovakia, South Korea, Greece and the Baltics. More recently, the Group has seen the granting of Market Authorisations in Belarus and Serbia,and the commencement of supply in Albania.

Germany remains the Group's main market, generating approximately 61% of the Group's revenue in the 12 months ending 30 June 2018. The percentage of revenue derived from each country is detailed below:

Spain 9%
The whole market in Spain grew 3.5% over the last year however the allergoid immunotherapy segment has grown 11.5%. The advanced allergoid products at Allergy Therapeutics allow the Group to be in a strong position to achieve further growth in the coming years. Spain continues to be a large valuable market, with approximately 150,000 immunotherapy patients a year. Of the injectable immunotherapy products, modified allergens remain the treatment of choice for Spanish physicians with Acarovac Plus® now the best-selling Group product in the Spanish market.

Italy 7%
The total Italian allergy immunotherapy market is shrinking because patients have been impacted by adverse economic conditions affecting their ability to pay for vaccines, compounded by the withdrawal of reimbursement in certain regions.

The Italian immunotherapy market is dominated by sublingual products. However, despite these challenges, it is believed that there remains a significant opportunity to continue to grow our market share in this important market. Outside immunotherapy, the Italian synbiotics market remains one of the largest in Europe.

Austria 7%
The Austrian market for allergen immunotherapy has been galvanised by two new entrants on the mites segment (Acarizax and Acarovac), growing by 4% in the last fiscal year. The German TAV registration process continues to indirectly influence the local market. Sales of tablet products have been the driving segment, cannibalising the classical sublingual allergens in drops but also enlarging the market. Modified allergen products (allergoid) are still cannibalising the subcutaneous native allergens at the same pace.

UK 4%
The UK is an important market due to its potential for future growth for the Group. Whilst currently, there is limited use of allergy vaccines in the UK, there is potential for this to change and the Group has focused on marketing to the medical community to promote greater awareness of more suitable treatment options. Pollinex is the only pollen SCIT product currently registered in the UK.

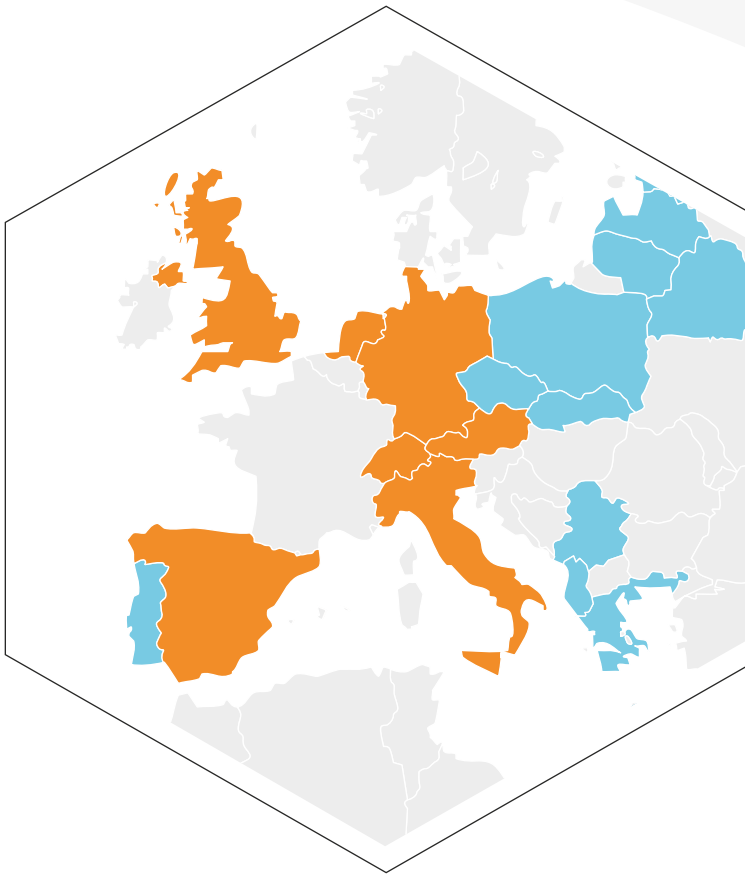
Netherlands 4%
Following a period of market decline, recent years have seen the allergen immunotherapy market in the Netherlands return to a stable state. The market is dominated by two companies, Allergy Therapeutics and ALK, with Allergy Therapeutics the only allergy company experiencing growth in the Dutch market with year-on-year growth of 10.5% in local currency (source: IMS Health).

61%

Germany

Germany is the single largest allergy immunotherapy market in Europe and is expected to show some marginal growth over the next two years.

Despite a weaker than average pollen season, Allergy Therapeutics outperformed market trends. This confirms the quality of the products and the sales and marketing team. Germany remains a key focus for the Group with continued strengthening of sales and marketing which has been instrumental to an increase in market share.



Switzerland 4%
The Swiss affiliate has recently aligned its name with the German subsidiary, Bencard Allergie. This change in name has been well accepted by local allergists. Due to a new study and publication completed by the University of Zurich, the sensitivity of the market towards aluminium avoidance in allergy treatment continues to grow. This, combined with the continued significant reduction in the product range of competitors, arrives at a time when the Group have made available the full product range on a named-patient basis.

Opportunities

Recent developments in the US market.

Four sublingual immunotherapy ('SLIT') products have been granted licence approval in the US. These sublingual medications require daily treatment for up to three years which poses a problem for adherence (the patients taking all the necessary doses to achieve a beneficial effect). Allergy Therapeutics' subcutaneous immunotherapies that require weekly injections over as little as four weeks offer a simpler means to gain the benefits of immunotherapy. For this reason, the research programme of clinical development of PQ platform has been extended to the US.

Allergy affects 15–40% of the US population (i.e. between 50 and 130 million), so the total market size for allergy vaccine products is potentially very large. About 2–3 million Americans with moderate to severe allergy received some form of allergen immunotherapy. For the US market, PQ Grass has been developed with an extended range of doses for a dose selection study. The PQ Grass Phase II dose ranging study which took place in 2017–18 reached its primary endpoint and was successfully completed. Discussions will take place with the FDA this autumn. The final, pivotal Phase III (G306) will start in the autumn 2019, subject to agreement with the FDA and take place in the US and Europe.

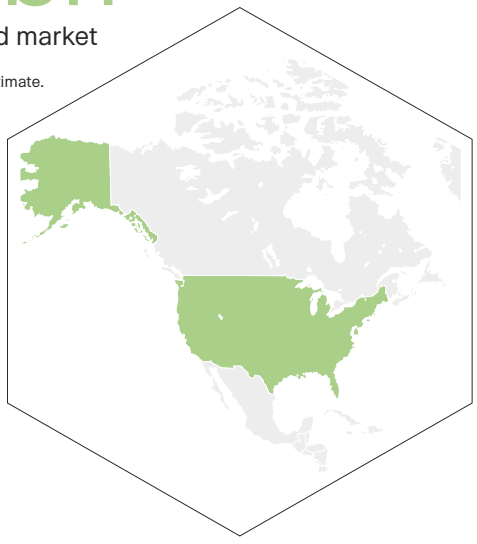
Our goal to be the first allergy immunotherapy company to launch a subcutaneous grass product in the US remains unchanged. To achieve this, a successful Phase III trial is needed as well as a safety database to satisfy the requirements of the CBER, the biologics division of the FDA.

The Group will also be looking to discuss lifting the clinical hold on PQ Ragweed and Trees in order to continue development of the rest of the PQ portfolio. This would provide a broader portfolio that could then be further complemented with the House Dust Mite and the Peanut products upon completion of applicable clinical trials.

$2bn[1]

Estimated market

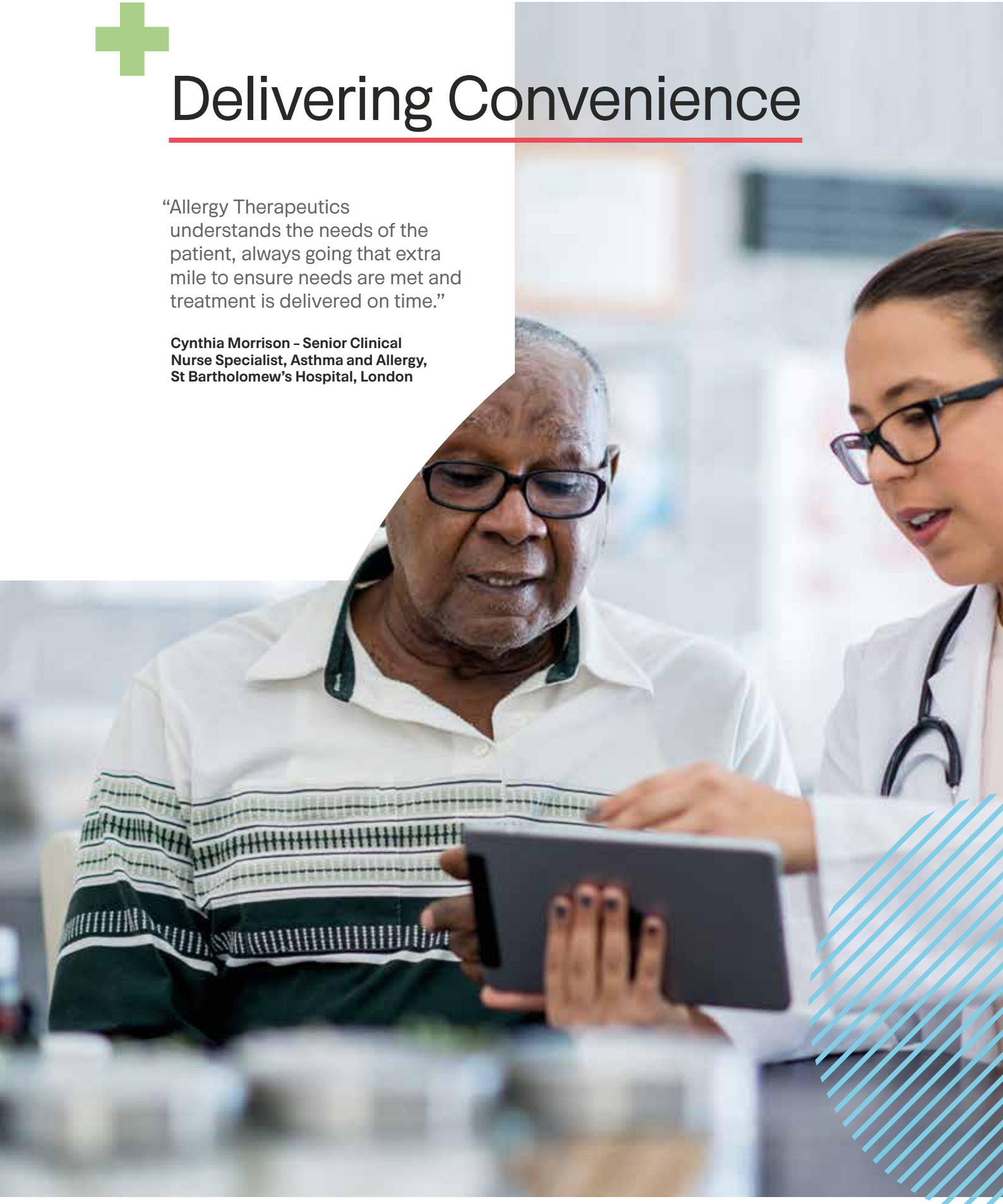
1 Internal estimate.



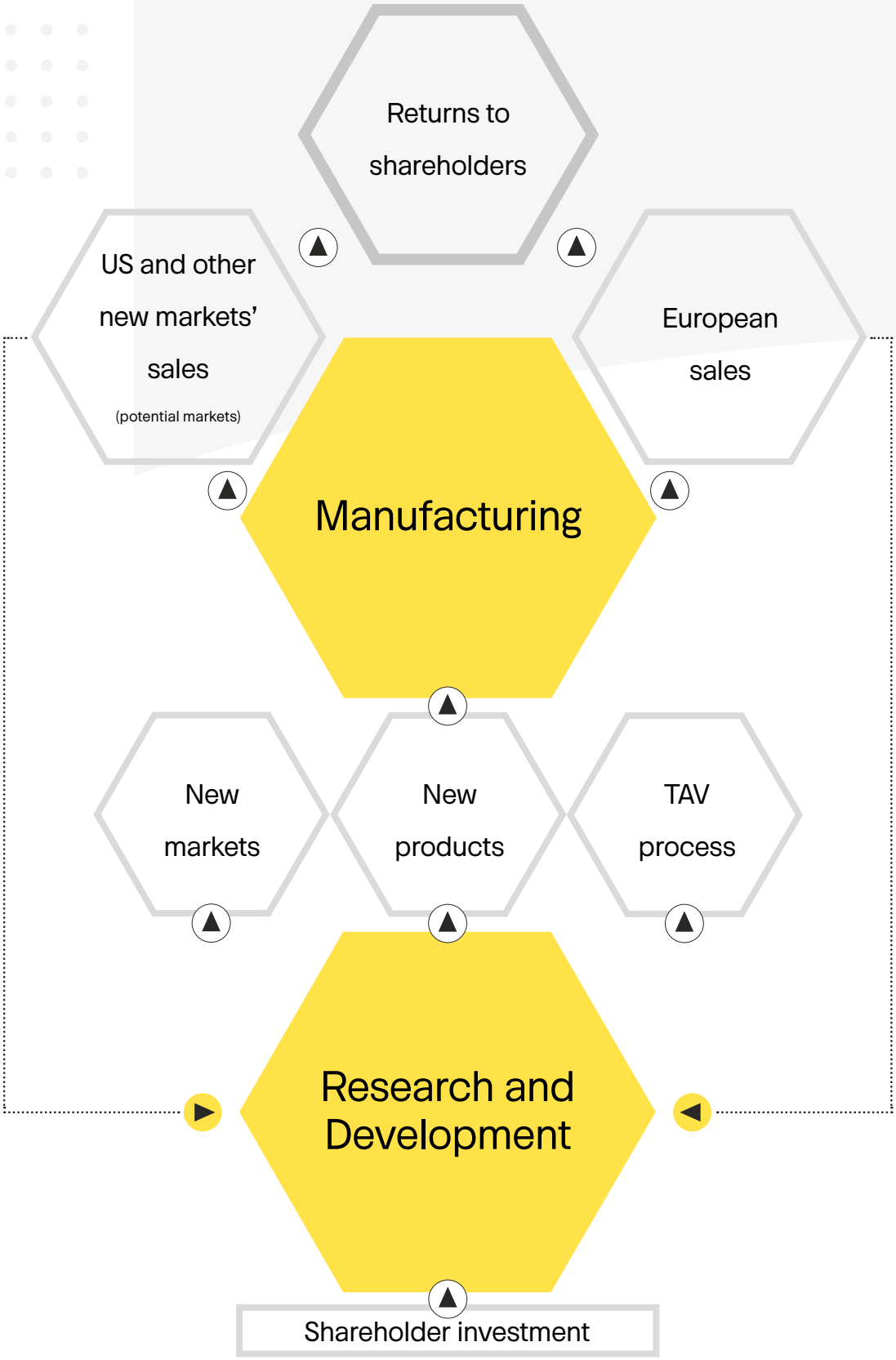
Delivering Convenience

"Allergy Therapeutics understands the needs of the patient, always going that extra mile to ensure needs are met and treatment is delivered on time."

Cynthia Morrison – Senior Clinical Nurse Specialist, Asthma and Allergy, St Bartholomew's Hospital, London



Business Model



How we create value for our stakeholders

For shareholders
We create value through strong individual market performances and pipeline developments. Investors are attracted by our portfolio of products, our adjuvant technologies and our commitment to innovation through R&D.

Healthcare professionals
We strive to deliver the best immunology treatments for patients. In treating the cause rather than just the symptoms of allergy with shorter course treatments, we are transforming lives for the better.

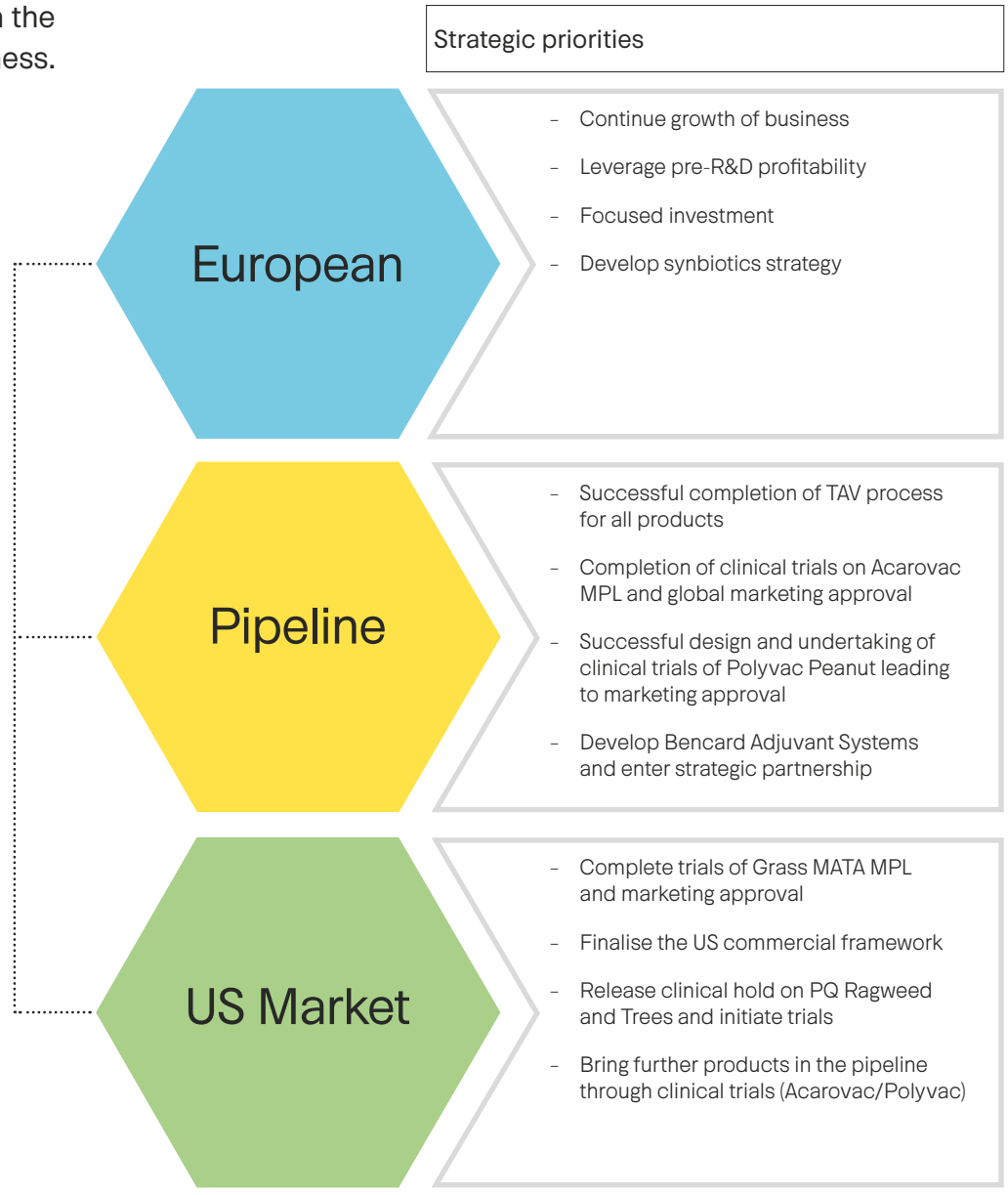
Patients
Healthcare professionals rely on our quality products, our knowledge and our trusted partnership to deliver the best care for their patients. 99% of named patient products were delivered on time during the year.

Employees
We put our people first knowing that they make our business successful; taking extraordinary ideas and bringing them to market. In return, we offer the opportunity to grow careers and make a real difference to our business.

Strategic Framework

Our strategy is based on the three pillars of the business.

Three pillars of the business



Progress in 2017–18

£68.3m
Net sales of £68.3m
(2017: £64.1m)

99.6%
Delivery on time in full
by supply chain of vaccines

14%
Market share
(2017: 13%)

26%
Continued strong growth of
pre-R&D operating profit

Acarovac MPL Phase I trial progressing well

Papers on MCT Adjuvant performance and House Dust Mite NPP in Spain

Successful Phase II trial for Grass MATA MPL

Development of KOLs in the US

Objectives for 2018–19

Continue strong growth of sales and market share

Improve pre-R&D profitability further

Successful pivotal Phase III PQ Birch trial

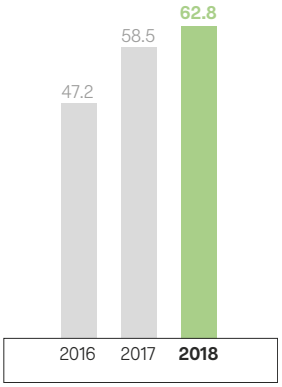
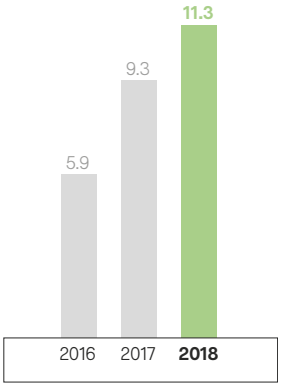
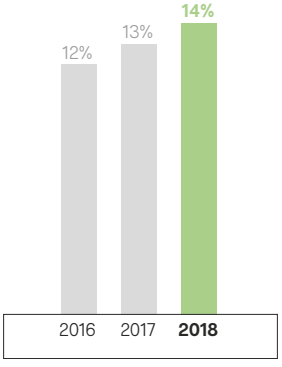
Successful completion of Acarovac Phase I Trial

Completion of scale-up of Polyvac Peanut and preparation for first in-human study

Preparation for Grass Phase III trial

Apply for clinical hold on Trees and Ragweed to be lifted

Key Performance Indicators ('KPIs')

Strategic objective	KPI	Analysis	Graph
Maximise revenue	Revenue at constant exchange rate (GB:EUR exchange rate 1.24). Total revenue measured at a constant budgeted foreign exchange rate.	Revenue at constant exchange rate has grown satisfactorily compared to the two prior years.	**Revenue at constant exchange rate**[1] £m 
Maximise funds available from operational activities for investment in other R&D and other value-adding projects	EBITDA excluding R&D. Profit before interest, tax, depreciation, amortisation and research and development expenditure.	EBITDA excluding R&D has increased year on year due to sales growth and good cost control.	**EBITDA excluding R&D** £m 
Maximise market share in the countries into which we sell our products	Combination of IMS Health data and information collected by independent third parties. Countries in which we have a distributor, agent or direct sales force.	The Group continues to make market gains based on best in class technology, excellent supply chain and a strong sales and marketing team.	**Operational markets** Percentage market share in the markets which we operate 

1 Constant currency uses prior year weighted average exchange rates to translate current year foreign currency denominated revenue to give a year-on-year comparison excluding the effects of foreign exchange movements.

Product Review

The Group sells a wide range of aluminium-free allergy therapies and diagnostics. The majority of revenue arises from sales of allergy therapies.

Our products
The Group sells both injectable and sublingual (oral) allergen-specific immunotherapies. The most commonly prescribed are those for the treatment of pollen-related allergies, particularly for allergies to grasses, weeds and trees. The therapies trade under various brand names depending on the market, e.g. Pollinex Quattro, Polligoid and TA Gräser Top. Our extensive range of well-characterised diagnostics includes in excess of 80 diagnostics in Germany with marketing authorisations and specialised allergens for other markets.

According to the current opinion of expert immunologists, immunoglobulin E (IgE) mediated allergies (type I allergies) are due to deregulation of the T helper lymphocyte (Th) cells. Whereas healthy people develop tolerance to allergens, allergy sufferers have a Th2-dominated immune response with increased IgE and corresponding clinical symptoms. This deregulation of the immune system can be counteracted efficiently using specific immunotherapy (SIT).

By administering high doses of allergen in a controlled fashion, the balance between Th1 and Th2 response to the allergen can be restored. Since SIT was first carried out successfully by Leonard Noon in 1911, it has become established as the only therapy addressing the cause of type I allergies.

Pollinex Quattro, launched in 1999, heralded a transformation in immunotherapy by introducing allergy vaccination with only four injections per course. The short course regime can be achieved due to the use of microcrystalline tyrosine ('MCT®') adsorbed allergoids, an improved extract allergen that has been modified in order to lower allergenicity while maintaining most of the immunogenicity, and the innovative adjuvant monophosphoryl-lipid A ('MPL'). An adjuvant is a substance which improves the immune response to an antigen or allergen.

Short-term MPL adjuvant therapy showed good efficacy at three years following treatment completion and is suited to the long-term improvement of patient quality of life.

Rabe et al., Long-term efficacy of specific subcutaneous, short-term MPL adjuvant immunotherapy over three treatment and three follow-up years, as measured by quality of life. Allergo J Int. 2017. DOI 10.1007/s40629-017-0029-8

Our products

	Modified Allergen (Allergoid)	Native Allergen	Recombinant Allergen	Microcrystalline (MCT)	Monophosphoryl Lipid A (MPL)	Virus-Like Particles (VLP)
Pollinex	●	○	○	●	○	○
Pollinex Quattro	●	○	○	●	●	○
Oralvac	○	●	○	○	○	○
Acarovac Plus	●	○	○	●	○	○
Acarovac MPL[1]	●	○	○	●	●	○
Venomil	○	●	○	○	○	○
Peanut[2]	○	○	●	●	○	●

1 Product in phase I clinical study.
2 Product under pre-clinical investigation, full product profile yet to be determined.

Acarovac Plus is a novel MCT-adsorbed, modified-allergen product developed to address the cause of perennial mite allergy.

Product Review

continued

MPL is derived from a lipopolysaccharide ('LPS') which is obtained from the cell wall of Salmonella Minnesota R595 using a process of extraction, purification and detoxification. As a vaccine adjuvant, MPL has been used for many years. Vaccines containing MPL have been evaluated in various indications such as cervical cancer and malaria at GlaxoSmithKline ('GSK'). Two vaccines with an adjuvant system containing MPL – Fendrix, a hepatitis B vaccine and Cervarix, a HPV vaccine to protect against cervical cancer – have received broad approval in Europe, the US, Japan and Canada.

The adjuvant effect of MPL in SIT has been documented in numerous studies and is seen in its essential role of promoting the switch from a Th2-directed immune response (with IgE induction) to a Th1-directed immune response.

Our sublingual product is Oralvac Compact with a dosing schedule which allows for a more rapid and simple escalation of dosage making treatment more convenient for patients and doctors. The course can be taken by the patient in their own homes and is raspberry flavoured for improved patient compliance.

Wasp and bee treatment is provided by our freeze dried Venomil product, which can be used via a 'Rush' dosing regimen.

Synbiotics

Synbiotics are special formulations of prebiotics and probiotics. Synbiotics act as bio-immunomodulators of the immunologic response. In June 2012, the Group launched three new synbiotic products (Kallergen-Th, ATI-Prob and Pollagen) across Spain and Italy. Since then, Austria and Germany have also been added. In 2013, the Group launched a further new synbiotic product, Syngut, specifically designed for food and lactose intolerance. The products contain specific combinations of Lactobacilli and Bifidobacteria.

Between 2015 and 2016, two further products were launched in line with the WAO guidelines for atopic dermatitis prevention: our first synbiotic in drops, Kallergen Baby for the prevention of atopic dermatitis in children from birth to three years old and Kallergen Mamy for pregnant women with high risk of atopic disease.

Acarovac Plus

Acarovac Plus was launched in Spain in March 2013 and is a novel MCT-adsorbed, modified-allergen product developed to address the cause of perennial mite allergy. The product has been standardised to meet a dose regime consistent with 'one vial' convenience. Clinical evaluation has been completed demonstrating excellent patient tolerability and serological analyses consistent with a favourable shift in Th1/Th2 balance compared with an unmodified version of the product (one-year follow-up study with Dr Albert Roger, Director of the Allergy Unit at Hospital Universitari Germans Trias i Pujol, Barcelona, Spain[1]).

Penicillin diagnostics

DAP is a product for exclusive use in the diagnosis of type I, or immediate hypersensitivity to benzyl penicillin and related antibiotics (beta lactams) by means of cutaneous tests (prick and intradermal). Allergic reactions to beta lactams are the most common cause of severe adverse drug reactions and there is an increasing prevalence in the population. DAP is supplied to Italy, the UK and the Netherlands.

1 Roger, et al., Immunotherapy 2016, 8(10), 1169-1174.

Research & Development

Scientific developments.

European and US clinical development of Subcutaneous Immunotherapies ('SCIT)
Clinical evaluation of Pollinex Quattro ('PQ') products is being undertaken as part of the German TAV (Therapieallergene-Verordnung) regulatory framework. Following the successful dose selection study PQ Birch 204 completed in April 2016, the Group progressed with a Phase III field study - PQ Birch 301.

The PQ Birch 301 study was a multi-centre, double-blind, placebo-controlled study designed to test the efficacy of cumulative doses of PQ Birch for birch-pollen induced seasonal allergic rhinitis. The European study took place in Germany, Poland, Austria and Sweden with 582 patients over 59 centres being randomised into active and placebo arms, evaluating the safety and efficacy in allergic symptoms as determined by the combined symptom medication score ('CSMS').

Headline data from the PQ Birch Phase III trial (B301) is now expected by the end of the year.

The Group continues to progress with the plans for the launch of a PQ Grass product in the US.

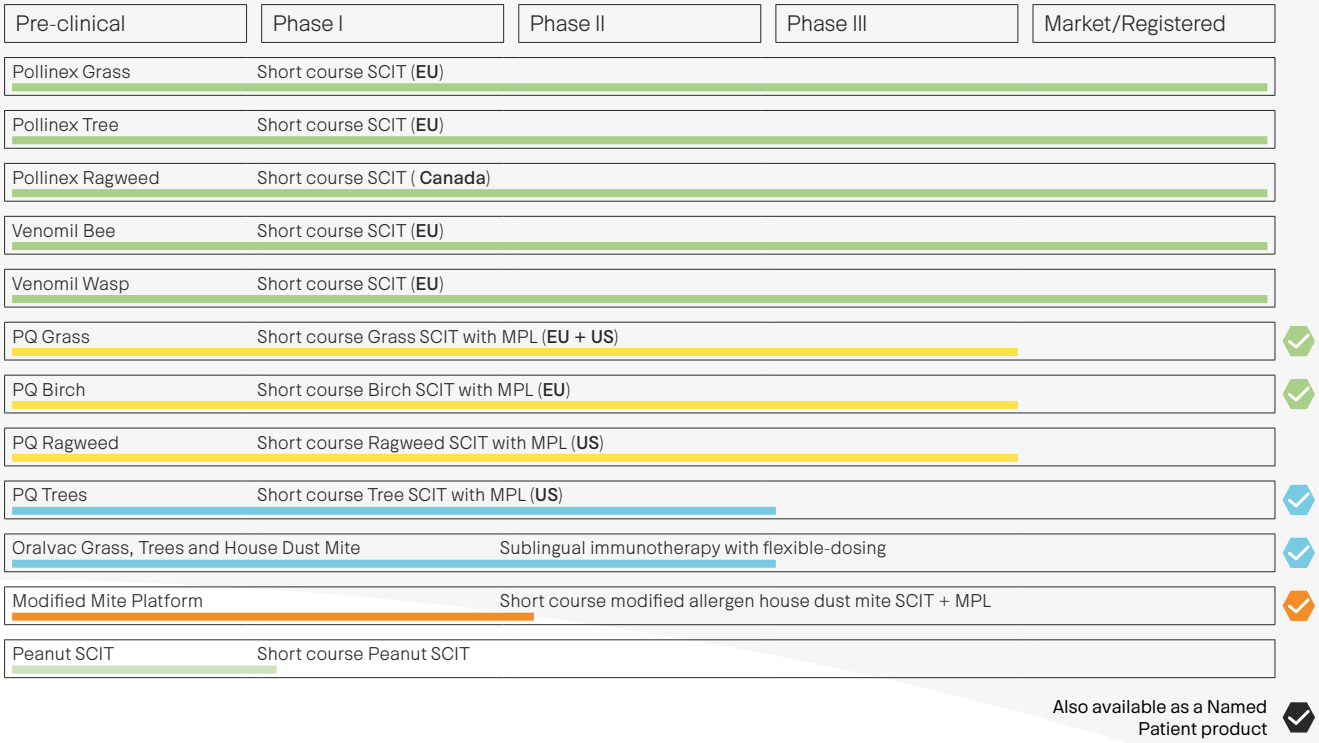
Following the successful G104 safety study, a Phase I clinical study evaluating safety and tolerability, conducted in New Jersey completed in February 2017, the Group progressed to the G205 dose selection study. The G205 study was a multi-centre, double-blind, placebo controlled study designed to explore the safety and response of different cumulative doses of PQ Grass for grass-pollen induced seasonal allergic rhinitis.

The study took place in Germany, Poland and Austria and 447 patients were randomised into four active arms plus a placebo, evaluating the change in allergic symptoms as determined by the total symptom score ('TSS') following conjunctival provocation test ('CPT') with the objective to achieve a dose recommended for Phase III development. As announced in May 2018, the G205 study met the primary endpoint of the trial with highly statistically significant dose-response relationship ($p<0.0001$). In addition, all dosing regimens were safe and well tolerated. Furthermore, adherence to the short treatment course was excellent with more than 95% of patients receiving the target cumulative dose during six-weekly subcutaneous injections.

The Group is now preparing for discussions with the regulatory authorities to discuss the results of the G104 and G205 studies such to enable the progression to a Phase III study (G306). These discussions will take place with the FDA over the requirements and timing of a safety database for the Grass MATA MPL product at a suitable point.

The Group's goal remains to be the first allergy immunotherapy company to launch a short course, subcutaneous and aluminium free Grass allergy therapy in the US.

Our pipeline



Acarovac Plus and Acarovac MPL – Next generation products for dust mite immunotherapy

Following the success of short course house dust mite SCIT product Acarovac Plus in Portugal and Austria, MPL was added to Acarovac Plus to create Acarovac MPL with new dose regimens tested in the AM101 Phase I study. The adjuvant MPL is used in the Company's successful PQ product range.

The AM101 study was designed to assess safety and tolerability of Acarovac MPL as seven injections over six to 12 weeks in adult patients with house dust mite allergic rhino conjunctivitis. This initial exploratory safety study will also evaluate efficacy via nasal provocation test and measurement of immunological parameters as was used for the Acarovac Plus study. The study is currently ongoing with results expected in H1 2019.

VLP Peanut

Preclinical data demonstrating protection against anaphylaxis when challenged with peanut enabled the Group to progress towards defining a target product profile according to timelines. The Group's innovative peanut vaccine is focused on a subcutaneous application of recombinant peanut allergen coupled with its state-of-the-art VLP platform with the aim of inducing protective immunity. Positive proof of concept data from the recombinant vaccine candidates enabled the Group to progress with GMP development of a defined target product profile to support the phase I timeline. Following this, the Group announced in February 2018 that it had signed an agreement with AGC Biologics to scale-up the manufacture of VLP Peanut in advance of the first clinical trials. The Group remains on target to begin first in-human studies in 2019, subject to successful scale-up, dosing analysis and discussions with the regulatory authorities.

Synbiotics

2018 saw the publication of the Lactose Intolerance Observational Efficacy SynGut Study ('LIONESS') that showed SynGut® improved the symptoms of people with lactose intolerance and after six months of treatment 81% of patients provided a negative breath test. These results open new perspectives in the use of specific probiotics in the treatment of lactose intolerance.

Transcriptomics: analysis of the pathways and molecular markers associated with allergen immunotherapy

The Group recently completed a detailed study investigating grass immunotherapy-induced molecular mechanisms and identified signature genes associated with immunological pathways and cellular functions after treatment. Blood samples were taken from volunteers after they had undergone allergen-specific immunotherapy and compared to those on placebo. The difference in patients' immune systems (genes that are switched on or off) was then compared to determine the effect of allergen-specific immunotherapy.

The results from the study support the concept that the number of genetic markers identified may be linked to early time-points during successful SIT with 13 Grass MATA MPL.

We are hugely proud of the standard of the work completed by all R&D teams across the Group that have generated such high-quality results towards our Phase I, II and III programmes. These achievements lay the foundations for future commercial successes.

Murray Skinner
Chief Scientific Officer

Research & Development

continued

Extensive scientific contributions to the 2018 EAACI congress

This year at the 37th Annual Congress of the European Academy of Allergy and Clinical Immunology ('EAACI') held in Munich, Germany, Allergy Therapeutics presented a series of 14 poster presentations with key highlights including an overview of the early-phase pre-clinical developments for the Group's planned recombinant peanut vaccine and a discussion of the results of a non-interventional study investigating rapid up-dosing of tree Oralvac sublingual immunotherapy.

Other events held by the Group at EAACI included a satellite symposium entitled: 'Adjuvants through the ages' which provided a summary of how adjuvant technologies have evolved and how Allergy Therapeutics is spearheading the design and testing of state-of-the-art allergen-specific immunotherapies.

Published work during the period

1. Worm M., et al., Randomised controlled trials define shape of dose response for Pollinex Quattro Birch allergoid immunotherapy. Allergy.2018;1-11.
2. Hutchings J.W., et al., Immunogenicity of a Modified Microcrystalline Tyrosine (MCT®)-Adsorbed Ragweed Immunotherapeutic Product with Monophosphoryl Lipid A in a Murine Mode ARC Journal of Immunology and Vaccines Volume 2, Issue 1, 2017, PP 22-27.
3. Gustavo Cabral-Miranda, et al., Microcrystalline Tyrosine: A Depot Adjuvant in Licensed Allergy Immunotherapy Offers New Opportunities in Malaria. Vaccines 2017, 5, 32; doi:10.3390/vaccines5040032.
4. Leuthard D., et al., Microcrystalline Tyrosine and Aluminium as Adjuvants in Allergen-Specific Immunotherapy Protect from I.e.-Mediated Reactivity in Mouse Models and Act Independently of Inflammasome and TLR Signaling. The Journal of Immunology 2018, 200: 3151-3159.
5. Rabe U., et al., Long-term efficacy of specific subcutaneous, short-term MPL adjuvant immunotherapy over three treatment and three follow-up years, as measured by quality of life. Allergo J Int (2017) 26: 147.
6. Kmenta, et al. The grass pollen season 2015: a proof of concept multi-approach study in three different European cities. World Allergy Organization Journal (2017) 10:31.
7. Fassio, F. and Guagnini, F., House dust mite-related respiratory allergies and probiotics: a narrative review. Clin Mol Allergy (2018) 16:15.

Specialist Expertise

"As Biochemistry Team Leader at Allergy Therapeutics, the most rewarding part of my job is working with a strong team of scientists to develop and release new products that can go on to help patients live normal lives."

Nicola Swan

Corporate Responsibility

In line with our commitment to transforming lives, we are committed to conducting our business in a responsible way.

Our Corporate Responsibility ('CR') initiatives focus on four core themes: our people, our customers, our communities and our planet, underpinned by a commitment to high standards of business practices.

Our people are at the heart of our business and we provide a range of support and training opportunities that enable us to develop the right talent to implement our strategy and help individuals to maximise their potential.

We support initiatives that help increase young people's interests and aspirations in careers in Science, Technology, Engineering and Mathematics ('STEM') and act as an Enterprise Adviser for Davison School for Girls near our Worthing headquarters specifically providing girls with a better understanding of the wide range of opportunities in a STEM related career.

We are committed to minimising the impact of our operations on the environment and are conscious of the principles of conservation: reduce, reuse and recycle.

We demand the highest standards of health and safety, and ethical practices in areas such as modern slavery, tax evasion, bribery and corruption, and undertake regular audits of suppliers to ensure that they are working to the same standards.

Community and environmental initiatives across the business are managed by each office. This report explains more about our activities in each of our areas of focus.

People

Our people are the key to our success and we are proud of the pioneering and groundbreaking work they carry out that can transform a patient's life.

We aim to develop careers by identifying and supporting talented individuals to ensure that we have a workforce capable of realising our ambitious strategy. We review succession planning of our Senior Executives at Nomination Committee meetings to ensure that the business has procedures in place to safeguard continuity of leadership.

We support our employees to make a difference to the business through a structured performance management process. Achievement of an individual's objectives is rewarded through a discretionary bonus. We provide a competitive compensation and benefits package which includes discretionary share awards for eligible employees.

We are committed to growth and investing in technology, both to advance our product portfolio and to allow us to operate globally. In the past year, we have invested in video conferencing technology across the Group to improve the quality of cross-border meetings. We have also invested in a global finance system to increase the efficiency of Group reporting and a global people system that will support the growing business and provide consistency in our approach to our people.

2017–18 people achievements

Values: During the year, all employees across the business attended workshops to engage with our corporate values, to allow them to move forward living these values on a day-to-day basis .

Culture: We have engaged over 10% of our employees globally in qualitative research to enquire about their experience of our current culture. The Executive Team has listened to their feedback and has shaped three cultural outcomes – One-Team, Transparency and Accountability – that we want to create in the Group in order to achieve our ambitious long-term business strategy.

Well-being: In the UK, 108 employees participated in a month-long steps challenge, encouraging employees to get fit and healthy.

OD and HR Executive appointment: During the year, a Global Organisational Development and HR Director, Dr Pavica Barr, was appointed with remit to develop the organisation in alignment with the long-term strategy.

Culture and values

Our three core values: Visionary, Commitment and Menschlichkeit (Humanity) shape how we work and are at the heart of every decision the business makes.

The ambitious and supportive culture at Allergy Therapeutics is reflective of our ambitious business strategy. Our people bring a positive, problem solving attitude and have the courage to think big. We encourage our people to adopt a healthy attitude to work-life balance and to take their full annual leave entitlement each year. We practice a flexible working approach to accommodate employees' needs.

Diversity

We believe that every person in the Group has a part to play in creating value and we understand the benefits of a diverse workforce. There is strong female representation across the business and we are keen to develop female talent. Our Board does not currently have any female Directors and this year, in recognition of the benefits of diversity at all levels in the business, the Company announced that it aims to have 30% female representation on the Board by 2025 so that our Board composition will better reflect the gender diversity within the Group.

Modern slavery

In accordance with the Modern Slavery Act 2015, the Board has approved a Modern Slavery and Human Trafficking Statement, which has been published on our website. The statement details the steps we take to avoid slavery and human trafficking in our own operations and in our supply chain.

We believe that our own operations present minimal risk, but recognise that a higher level of risk is posed by the suppliers we engage with to provide goods and services.

In the year ahead, we plan to provide further guidance to our employees and continue our ongoing engagement and audit of our suppliers.

As a healthcare company with a focus on improving allergy treatments through advanced technology, we want to encourage and support the next generation of scientists and healthcare professionals.

Corporate Responsibility

continued

Our customers

Transforming lives

Allergies reduce quality of life by preventing individuals and their loved ones from enjoying the everyday activities that most take for granted. At their most severe, allergies can be fatal. Whatever the severity of an allergy, the wider implications are negative. Many patients and their families live in fear and can feel isolated or excluded. There is no doubt that our work in allergy treatment is transforming lives.

We strive to deliver the best immunology treatments for patients. Our products and their associated adjuvant technologies address the causes of patient symptoms rather than masking them. We believe the best products for a thriving business are also the best products for patients. Therefore our product pipeline reflects this with programmes investigating allergens of serious concern such as peanut allergy.

Delivering convenience

Our shorter course treatments take 4 – 6 injections, over the course of 3 to 5 weeks. Alternative therapies in the USA can take 50-100 injections and up to 15 across Europe. Our approach increases efficiency for healthcare professionals and frees up time for our patients.

Healthcare professionals rely on our quality products, our knowledge and our trusted partnership to deliver the best care for their patients. 99% of our products were delivered on time during the year.

Customer support

We have dedicated customer support teams in every market who regularly seek feedback through customer satisfaction surveys. We also have established medical support where patients and health care professionals are able to contact our trained advisers via medical hotlines.

Biodegradable adjuvants

Adjuvants are added to vaccines to enhance and modify immune responses and can increase efficacy and reduce the number of injections required for a treatment. A number of vaccines use aluminium salts as an adjuvant, however, in the 1970's we began developing natural biodegradable alternatives and today, all our vaccines are aluminium free and feature natural adjuvants only.

Our communities

During the year, the Group worked to benefit the communities in which we operate and to support various allergy related initiatives.

Science, Technology, Engineering and Mathematics ('STEM')

During the year, the Company became involved in STEM Sussex which provides opportunities for businesses to work with schools to encourage enthusiasm in the STEM subjects of science, technology, engineering and mathematics. As a healthcare company with a focus on improving allergy treatments through advanced technology, we want to encourage and support the next generation of scientists and healthcare professionals.

STEM activities during the year included:

- Participation in 'Big Bang' – an exciting and interactive science and engineering event attended by over 500 schoolchildren.
- Bev Lees, the Group Operations Director, was appointed Enterprise Adviser for Davison School for Girls. This involves encouraging the pupils to have a better understanding of the wide range of opportunities available in a STEM related career and supporting the school with their Gatsby Benchmarks.
- Five-Year 10 students were provided with work experience places.
- Provided the opportunity for an A Level student to work on a four-week science project through the Nuffield Research placement scheme.

Charitable support
Beyond supporting causes linked directly to our business operations, we also support several other charitable causes around our global offices, including:

Aluminium for bread
In Germany, employees collect aluminium and other metals which are then sold to support the Bolivian Street Children Project.

Pfennigparade
In Germany, donations were also made during the year to Pfennigparade, a charity based in Munich, which aims to train and integrate people with physical disabilities into the workplace.

Beekeeping
In Germany, we support the Institute for Apiculture whose objectives are to research sustainable solutions to beekeeping in the country.

Worthing community
In Worthing, we provide support to a local hospice and support a charity which provides medicinal supplies to needy individuals.

Allergy related initiatives
The Group are platinum sponsors of the EAACI. EAACI help drive awareness of the existence of allergy treatments, support the training of a new generation of allergists and supports initiatives into food allergy and awareness.

Additionally, the Group supports a number of allergy related initiatives such as the German Association for Allergology and Clinical Immunology ('DGAKI') and the German Foundation for Prevention of Allergies and Respiratory Diseases, the Italian Association of Allergists and Immunologists, and the Austrian Society of the Paediatricians' allergy education programme.

Our planet
We are committed to responsibly managing the environmental impact of our operations and the products that we sell. We also recognise that using resources efficiently and reducing our carbon footprint helps reduce costs.

The energy used to power and heat our offices, distribution centres and manufacturing facilities is the greatest contributor to our carbon footprint and also represents a significant cost to the business. Throughout the year we have monitored our energy usage to identify energy saving opportunities in compliance with the Energy Saving Opportunity Scheme Regulations ('ESOS'). Actions taken have included the introduction of passive infrared sensors and the replacement of any fluorescent light bulbs with LED.

During the year, a new video conferencing communication system was installed across the Group, allowing us to operate globally while reducing the number of flights that we take, therefore reducing our overall carbon footprint.

We continue to work hard to reduce waste within the business. Waste created by inefficient use of resources can be costly to the business. In response, we operate recycling and waste reduction initiatives in all of our offices. We apply the Waste Hierarchy principles when segregating our waste.

Our ultra-short course treatments have fewer injections as compared to other similar available treatments; this reduces resource requirements in terms of packaging, raw materials and transportation costs.

Principal Risks and Uncertainties

The Board has overall responsibility for the Group's system of risk management.

In common with many pharmaceutical companies, the Group faces a number of risks and uncertainties. Internal controls are in place to help identify, manage and mitigate these risks. The main risks have been identified as follows:

Commercial successful products risk
Continued development of viable new products and their successful registration and marketing is key to the success of the Group and is a costly and lengthy process. Rationale for new product development may indicate potential; however, following significant investment there is no guarantee that a product will be commercially successful.

In order to mitigate this risk, the Group is developing and commercialising PQ products in the US, seeking PEI market authorisation for PQ products in Germany and continuing to increase market share across Europe, as well as developing new markets to spread risk.

Production risk
A significant majority of the Group's products are manufactured on the Worthing site which is shared with GSK. Any disruption to production caused by internal or external factors could materially affect the business. The site is also leased from GSK and, therefore, there is a mid-term risk that the lease is terminated. Further, any failure in production could lead to a product recall. In order to minimise these risks, regular maintenance and upgrade of the facility is undertaken. The Group has a recovery plan in place. In respect of the lease, the Group has negotiated a longer termination notice period. The Group also has an IT disaster recovery plan.

Product liability risk
Despite extensive product testing prior to market launch, products may produce unanticipated adverse side effects that may hinder their marketability. The Group may be insufficiently covered for any potential litigation which in some cases can potentially be open-ended. The Group's manufacturing facilities and those of some of its suppliers are subject to regulatory requirements and there is a risk that such facilities may not comply with such requirements. The Group maintains product liability insurance, and ensures systems and processes relating to the manufacture of its products are compliant and regularly reviewed. It has a Pharmacovigilance Team in place to monitor and address any safety issues arising including non-compliance in the treatment of patients.

Intellectual property risk
Group patents may be challenged at any time and any unsuccessful defence may cause the Group to lose protection for its products and subsequently affect further development and sales. The Group is reliant on some intellectual property owned by external stakeholders that, if lost, could hinder the commercialisation of some of it products. The Group has internal and external patent experts. Internal controls are in place to avoid disclosure of patentable material and to protect existing patents. Arrangements are also in place to notify the Group of any infringements of our intellectual property which it would defend robustly.

Economic risks
A high level of risk is attached to the research, development and commercialisation of innovative drugs. The Group ensures that business cases are scrutinised before Board approval and that any increases in costs are justified. Competitors may reduce prices or increase sales investment making maintaining market share less profitable. Key suppliers may be unable to execute contractual requirements that hamper product development, the route to markets or current sales, but the Group maintains appropriate measures to protect its supply chains. The Group may be unable to attract partners or licensees on favourable terms or recruit the right staff to help develop and market its products. Approximately 61% (2017: 59%) of Group sales are made in Germany and, therefore, Group results are particularly sensitive to German legislation and government policies and performance of the German market. To mitigate this risk, the Group continues to expand its revenue outside Germany. The Group also continues to develop new products and increase clinical data to protect its market position.

Pharmaceutical products are subject to far greater controls on price in certain markets than other products in the marketplace. Some governments intervene directly in setting price levels and rebates paid into public sick funds, especially with an increasing aged population in developed countries. The Group cannot accurately predict when, where and how such controls and restrictions may be altered, either to its benefit or detriment, but it does conduct regular reviews of pricing and reimbursement levels and assessments of healthcare reforms on pricing.

EU referendum risks
The referendum in the UK to leave the EU could pose a significant risk for the Group. The referendum outcome has and may continue to impact exchange rates and investor confidence. The risk impact in relation to the operation of the business is not clear given the uncertain nature of the future arrangements between the UK and the rest of the EU. Significant potential areas of risk are regulatory, fiscal and financial. The Group mitigation in relation to currencies is noted under financial risks. In relation to other aspects of this risk, the Group is currently developing detailed plans as well as taking some actions to protect the business as much as possible. If implemented, these plans will lead to material additional cost to the business. The Group is also actively liaising with regulatory authorities in order to minimise disruption.

Financial risks
Adequate funding may not be available to the Group, either through reserves or external partners for the advancement of clinical trials, manufacturing and marketing. Failure to obtain further funding may lead to postponement or cancellation of programmes. The Board actively reviews the financial requirements of the Group on a regular basis in order to ensure that adequate funding is available. A majority of the Group's sales are denominated in Euros whilst manufacturing and most corporate administration costs are in the UK and, therefore, the Group is exposed to volatility in exchange rate fluctuations. The Group monitors exchange rates regularly and implements hedges to mitigate such risks. Note 24 in the Notes to the Financial Statements gives details of the Group's objectives and policies for risk management of financial instruments.

Clinical and regulatory risk
The Group operates in a highly regulated environment for the testing, manufacture and supply of its products. Compliance with clinical and regulatory requirements within the EU affects not only the cost of product development and resource use, but also the time required to comply. Increased regulation may require products to be amended to comply with regulations and/or products have to be withdrawn, reducing revenues and/or increasing costs.

Regulatory authorities such as the FDA are increasingly focused on the benefit/risk of pharmaceutical products and safety data making it more onerous to obtain regulatory approval. Compliance systems are in place to ensure all clinical, manufacturing and marketing activities comply with regulations in the EU and other territories. Standard operating procedures are maintained to ensure compliance with good manufacturing practice. The Group strictly monitors new industry regulations and engages with key regulatory authorities to inform the Group's strategic direction and identify factors likely to affect the future development, performance and position of the Group's business. The Group maintains good relations with the small number of specialised suppliers for its raw materials for its products.

Internal controls
The internal control system is designed to manage rather than eliminate risk, but it can only provide reasonable and not absolute assurance against material misstatement or loss. Internal controls are designed for the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and management of business risk. The Group has an internal audit function, reporting directly to the Audit Committee, which carries out periodic reviews of the Group's subsidiaries. The Group also has a budgeting and reporting system in place, with results compared to annual budgets and half-yearly forecasts using variance analysis.

Key personnel
The Group is reliant on a number of key qualified scientific, technical and management personnel. Competition for such personnel is intense and there can be no assurance that the Group will be able to continue to attract and retain such personnel. Loss of these key personnel could adversely impact the effectiveness of the Group's operations. The Group continues to invest in training and development as well as externally benchmarking remuneration and developing succession planning.

Compliance
The Group aims to remain compliant with all relevant laws and regulations. The recent significant increase in such regulations around data protection, taxation and many other areas has increased the risk of a breach of regulations that could lead to a substantial fine. The Group has policies and procedures in place in order to comply with legislation and considers that its standards are above those of quoted businesses of a similar size but these may not be enough to avoid breaches.

Financial Review

Nick Wykeman | Chief Financial Officer

The results for the 12 months to 30 June 2018 demonstrate continuing growing profitability of the core business before R&D expense[5], with an operating profit excluding R&D of £9.3 million (2017: £7.4 million).

Overview

Including R&D expense of £16.0 million (2017: £9.3 million), the Group reported an operating loss of £6.7 million (2017: loss £1.9 million). The operating loss includes a non-cash credit of £0.3 million (2017: credit of £0.8 million) in relation to the fair valuation of forward exchange contracts. R&D expenditure in the year was higher due to the Birch Phase III and the Grass Phase II trials. The net loss after tax for the period was £7.5 million (2017: loss of £2.5 million).

Revenue

Revenue increased by 6.6% to £68.3 million (2017: £64.1 million). The weighted average Euro exchange rate in the year was €1.13 to £1 compared to €1.16 in the previous year; the positive impact of the stronger Euro on revenue was £1.9 million. Despite a weak pollen season, revenue at constant currency[1] was 3.5%[2] higher at £66.4 million (2017: £64.1 million) as shown in the table below:

	2018 Germany £m	2018 Other £m	2018 Total £m	2017 Germany £m	2017 Other £m	2017 Total £m
Revenue	**42.0**	**26.3**	**68.3**	37.8	26.3	64.1
Add rebates	**4.2**	**–**	**4.2**	5.8	–	5.8
Gross revenue	**46.2**	**26.3**	**72.5**	43.6	26.3	69.9
Adjustment to retranslate at prior year foreign exchange rate	**(1.5)**	**(0.6)**	**(2.1)**			
Gross revenue at constant currency[1]	**44.7**	**25.7**	**70.4**	43.6	26.3	69.9

	2018 Germany £m	2018 Other £m	2018 Total £m	2017 Germany £m	2017 Other £m	2017 Total £m
Revenue	**42.0**	**26.3**	**68.3**	37.8	26.3	64.1
Adjustment to retranslate at prior year foreign exchange rate	**(1.4)**	**(0.5)**	**(1.9)**			
Revenue at constant currency[1]	**40.6**	**25.8**	**66.4**	37.8	26.3	64.1

Revenue from Germany was 61% (2017: 59%) of total reported revenue although the Group continues to develop new and existing markets to reduce reliance on the German market. Rebates were lower this year due to changes in product composition that may not continue in 2019. Sales of PQ were broadly flat reflecting the weak pollen season while Pollinex, Venomil and Acarovac Plus continued to grow strongly. Total sales from other products contributed £4.1 million for the year ended 30 June 2018 (2017: £4.4 million).

Revenue in Germany grew well in the year with revenue at constant currency[3] increasing to £40.6 million (2017: £37.8 million), an increase of 7%.

All the main European markets (except for Italy) exhibited good sales growth at constant currency[2] with Spain showing 4%; the Netherlands 6%; Austria 5% and Germany 7%.

Gross profit

Cost of sales remained flat at £17.0 million (2017: £16.8 million). The gross margin was 75% (2017: 74%), leading to a gross profit of £51.3 million (2017: £47.4 million).

Operating expenses

Total overheads were £8.7 million higher against the prior year at £58.7 million (2017: £50.0 million), including an increase in R&D expenditure that rose by £6.7 million to £16.0 million (2017: £9.3 million) due to the increased clinical study activity during the year.

1 Constant currency uses prior year weighted average exchange rates to translate current year foreign currency denominated revenue to give a year-on-year comparison excluding the effects of foreign exchange movements.
2 Percentage based on figures in thousands (2018:£66.369m, 2017: £64.139m).
3 Constant currency uses prior year weighted average exchange rates to translate current year foreign currency denominated revenue to give a year-on-year comparison excluding the effects of foreign exchange movements. See table in the Financial Review for an analysis of revenue on page 36.
4 Market data and internal estimates for 12 months to 30 June 2018 for Allergy Therapeutics' direct sales competitive markets excluding UK and Switzerland due to lack of competitor information.
5 Operating profit (pre-R&D) is calculated by adding back R&D expenditure for the year to the operating loss of the year to arrive at an operating profit (pre-R&D) of £9.3m (2017: £7.4m).

Financial Review

continued

Sales, marketing and distribution costs which were mainly in continental Europe, increased by £0.2 million to £27.1 million (2017: £26.9 million). Administration expenses increased by £1.7 million to £15.5 million (2017: £13.8 million). The increase was driven by additional investment in compliance, rent, and staff incentives including the share-based payments charge arising on the long-term incentive programme.

Other income in the year of £0.6 million (2017: £0.7 million) was all due to R&D tax credits in the UK.

Looking forward to the current financial year, non-R&D expenses are expected to grow again due to some delay in costs from 2018 as well as investment in the expected launch of the new Birch product. R&D for 2019 is likely to return to the levels just above 2018, with some cost being carried over into 2019 from 2018 due to the timing of certain work relating to the end of the PQ Birch Phase III trial.

Tax
The current and prior year tax charges are predominately made up of provisions for tax in the Italian and German subsidiaries.

Balance sheet
Property, plant and equipment increased by £0.4 million to £10.1 million (2017: £9.7 million) with investment in new manufacturing plant and office refurbishment. Goodwill was similar to last year at £3.4 million (2017: £3.4 million), whilst other intangible assets were reduced due to a write down of assets related to the bacterial products which have been removed from the market (£1.5 million, 2017: £2.1 million).

Total current assets, excluding cash, remained at £15.3 million (2017: £15.3 million). Inventory increased by £1.3 million due to early production of commercial stock. Trade debtors have decreased (mainly in UK and Italy) reflecting the Group's management of debtors despite increased sales. Cash and cash at hand decreased to £15.5 million from £22.1 million in 2017.

The fair value of derivative financial instruments was a liability of £0.1 million in 2018 (2017: £0.4 million).

Retirement benefit obligations, which relate solely to the German pension scheme, increased to £10.3 million (2017: £9.6 million). The increase in the liability was mainly driven by the reduction in the discount rate from 2.05% to 1.85%.

The Group had a net cash outflow of £3.8 million in the year (2017: £0.2 million cash surplus) primarily due to investment in its R&D programme.

Currency
The Group uses forward exchange contracts to mitigate exposure to the effects of exchange rates. The current policy of the Group is to cover, on average, about 70% of the net Euro exposure for a year on a declining basis.

Financing
The Group's debt on its balance sheet relates to activities in Spain and consists of the loans acquired as a result of the Alerpharma acquisition (£1.2 million) and further loans (£1.9 million) arranged to fund development of products in the Spanish market. The overdraft facility was unused at 30 June 2018 but has been renewed for a further 12 months to cover seasonal funding requirements.

The Directors believe that the Group will have adequate facilities for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the full year results.

Legal
On 23 February 2015, the Company received notification that the Federal Office for Economics and Export ('BAFA') had made a decision to reverse their preliminary exemption to the increased manufacturers rebate in Germany for the period July to December 2012. The Company was granted a preliminary exemption to the increased rebate for this period by BAFA in 2013. The Company recognised revenue of €1.4 million (£1.1 million at that time) against this exemption in the year ended 30 June 2013. All other preliminary exemptions (granted for periods up to 30 June 2012) have previously been ratified as final by BAFA. After taking legal advice, the Company has lodged an appeal against this decision and is confident that the exemption will be reinstated. Therefore, as at 30 June 2018, no provision has been recognised for the repayment of the rebate refund of €1.4 million (£1.2 million). This position will be kept under review.

The Group is in legal proceedings with one of its suppliers over potential cost overruns on one of its clinical trials which may lead to additional expense for the Group, see Note 29 to the Financial Statements, Contingent Liabilities.

Nicolas Wykeman
Chief Financial Officer

The Strategic Report, as set out on pages 1 to 38, has been approved by the Board
On behalf of the Board

Nicolas Wykeman
Director
25 September 2018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Board of Directors

Peter Jensen |
Chairman

Peter is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Peter held a number of senior positions in his 21 years with SmithKline-Beecham, including Chairman of Consumer Healthcare and President of Worldwide Supply Operations.

He has previously held non-executive or Chairman roles at a number of public and private companies including Domino Printing Sciences plc, Glenmorangie plc and Genetix Group plc.

External appointments
Chairman Sandown Park Racecourse
Screendragon (Software) Limited
Home of Horseracing Trust Limited
British Sporting Art Trust
Trustee of National Horseracing Museum

A N*

Manuel Llobet |
Chief Executive Officer

Manuel has been Chief Executive Officer of Allergy Therapeutics plc since 2009, shaping strategy and driving growth. Prior to this, Manuel was the Principal Consultant for Biohealth LLC and Chief Executive Officer of International Operations of the Weinstein family's group of companies.

External appointments
None

Nick Wykeman |
Chief Financial Officer

Nick joined Allergy Therapeutics plc in 2016 as Finance Director. He leads the finance function developing and implementing financial strategy. Nick is a Chartered Accountant and previously held positions at Skyepharma PLC (now part of Vectura Group plc) and Quest International (a division of ICI PLC).

External appointments
None

Key to Committees

A Audit Committee
N Nomination Committee
R Remuneration Committee

* Denotes Chairman of a Committee

Stephen Smith |
Non-Executive Director and
Senior Independent Director

Stephen is a Chartered Management Accountant, Fellow of the Association of Corporate Treasurers and member of the Institute for Turnaround. During his career he held a number of financial roles in UK listed companies. Since 1995 he has operated as an independent executive and has since taken on a number of board, advisory or executive roles.

External appointments
Roles include Chairman of Tensator Holdings Limited, Rio Laranja Holdings Limited, Icknield Limited and Non-Executive Director of EAT Limited

A* N R*

Tunde Otulana |
Non-Executive Director

Tunde is Senior Vice President and Chief Medical Officer at Mallinckrodt Pharmaceuticals where he has responsibility for all global medical functions. His career includes leadership roles at Boehringer Ingelheim Pharmaceutical Inc. and the US Food and Drug Administration ('FDA').

External appointments
None

N R

Jeff Barton |
Non-Executive Director

Jeff recently retired as Vice President, Licensing and Acquisitions at Abbott Laboratories but has continued to serve as Abbott's nominated Director on the Board while Abbott searches for a replacement. During his career at Abbott, Jeff held a variety of financial management positions, including in diagnostics, nutrition and pharmaceuticals.

External appointments
None

N

Corporate Governance

Dear Shareholder,

I am pleased to introduce the Company's 2018 Corporate Governance Report.

Good corporate governance is important to the Company, its subsidiaries and subsidiary undertakings (the 'Group'), and we have always strived to develop our governance framework over and above the level required for an AIM listed company of our size. Earlier this year, the London Stock Exchange announced that from 28 September 2018, all AIM listed companies would be required to apply a recognised corporate governance code. We have chosen to apply the Quoted Companies Alliance Governance Code ('QCA Code'), on the basis that it is the most suitable governance code for the Group, having regard to its strategy, size, stage of development and resources.

The Corporate Governance Statement, together with the Committee Reports that follow, explain how our governance framework works and how the Group has applied the ten principles of the QCA Code this year. I am very pleased to say that we are able to report full compliance with each of the ten principles of the QCA Code and that our governance framework continues to ensure that the Group operates effectively and with integrity.

One of the Board's key focuses this year has been to further the three pillars of the Group strategy – expansion in Europe, maintaining strong pipelines and preparations for US entry. The management team has strived to pursue these targets within a framework of good governance, and in line with our culture, which is based on three core values: vision, commitment and humanity. We monitor and promote this culture through a regular and transparent dialogue with key stakeholders, including employee workshops and customer surveys.

Regular reviews are undertaken by the Nomination Committee to ensure that the Board has, and will continue to have, the appropriate mix of skills and experience to deliver the Company's strategy. This year, recognising the benefits of diversity especially with regards to gender, the Company announced that it aims to have 30% female representation on the Board by 2025. Female representation within our senior management team has been consistently strong and it is our intention that over the next few years our Board composition will better reflect the gender diversity within the Company.

Peter Jensen
Chairman
25 September 2018

Corporate Governance Statement
This Corporate Governance Statement addresses how the Group complies with each of the ten principles of the QCA Code; however further disclosure relating to each principle can be found in other sections of the 2018 Annual Report and Accounts (the '2018 Report') as indicated below:

Number	Principles:	Disclosure in the 2018 Report:
1.	Establish a strategy and business model which promote long-term value for shareholders	Pages 16 to 19
2.	Seek to understand and meet shareholder needs and expectations	See page 45
3.	Take into account wider stakeholder and social responsibilities, and their implications for long-term success	Pages 30 to 33
4.	Embed effective risk management, considering both opportunities and threats, throughout the organisation	Pages 34 and 35, and 47
5.	Maintain the Board as a well-functioning, balanced team led by the Chairman	Pages 43 to 45
6.	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Page 48
7.	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Pages 45 and 49 to 54
8.	Promote a corporate culture that is based on ethical values and behaviours	Page 31
9.	Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	Pages 43 to 54
10.	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Page 45

Strategy and model

The Company is an immunology business, specialising in research and development of allergy treatments. We have a well-established commercial presence in Europe (where we mainly sell our products), but are also focused on the US market opportunity. Our pipeline of products in clinical development includes vaccines for allergic reactions to grass, tree and house dust mites, as well as a peanut allergy vaccine in preclinical development; adjuvant systems to boost performance of vaccines outside allergies are also under evaluation. Our approach to the treatment of allergies offers the simplicity of four to six injections, with the aim of increased tolerability and efficacy. For more information on our strategy please see the Strategic Report on pages 1 to 38 and for information about the key challenges posed to the Company in executing its strategy, please see pages 34 and 35 of the 2018 Report.

Risk management

As discussed below, the Board has collective responsibility for risk management, and is assisted by the Audit Committee in monitoring the principal risks and uncertainties posed in the life sciences industry, as well as other micro and macroeconomic factors that may present risk to the Company's progression. The Company also considers Company-specific risks such as research progress, personnel and operational facilities and collaborations.

Further information on the Company's internal control systems, the risks and uncertainties posed to the Company, and how the Board gets its assurance that the risk management and related control systems in place are effective, can be found in the Audit Committee Report on pages 46 to 47.

The Board

The Board is collectively responsible for the long-term success of the Company and for its leadership, strategy, values, standards, control and management.

Day-to-day management of the Group is delegated to the Executive Directors, subject to formal delegated authority limits; however, certain matters are reserved for whole Board approval. These matters are reviewed periodically and include Board and Committee composition, strategy, funding decisions and corporate transactions among others. Directors are required to commit sufficient time to their role to appropriately discharge their duties. All Directors are offered regular training to develop their knowledge and ensure they stay up-to-date on matters for which they have responsibility as a Board member.

Board composition:

As at 30 June 2018, the Board comprised the Chairman, two Executive Directors and three Non-Executive Directors. The table below summarises the membership of the Board and Committees.

Biographies of each Director can be found on pages 40 and 41 of the 2018 Report.

Board independence:

The Board has considered the independence of the Non-Executive Directors, and the table below sets out those considered to be independent in character and judgement. Stephen (Steve) Smith has served on the Board for more than ten years and will be offering himself up for re-election at this year's Annual General Meeting ('AGM'). The Nomination Committee gave particular consideration to recommending that Steve Smith be reappointed concluding that Steve continues to make a valuable contribution to the work of the Board and its Committees. Despite the length of his service on the Board, the Nomination Committee concluded that Steve retains his independent status as he continues to challenge the Executive Directors and makes independent decisions.

The Board during the year

There were 10 Board meetings held during the year. The Directors' attendance record at these meetings is shown in the table below.

Directors at year end	Role	Independent/not independent	Date of appointment	Attendance at Board meetings	Attendance at Audit Committee	Attendance at Remuneration Committee	Attendance at Nomination Committee
Peter Jensen	Chairman	Independent	October 2010	10/10	3/3	–	2/2
Steve Smith	Non-Executive Director, Senior Independent Director	Independent	September 2004	10/10	3/3	2/2	2/2
Jeff Barton	Non-Executive Director	Not independent	February 2017	9/10	–	–	1/2
Tunde Otulana	Non-Executive Director	Independent	June 2017	10/10	–	2/2	–
Manuel Llobet	Chief Executive Officer	Not independent	July 2009	10/10	–	–	–
Nick Wykeman	Chief Financial Officer	Not independent	June 2016	10/10	–	–	–

Corporate Governance
continued

The annual calendar includes a budget meeting at which the Executive Team present its business unit updates and its proposed budget for the forthcoming financial year. The budget meetings are also an opportunity for the Board to spend some time with members of senior management in a less formal environment. This year, for the first time, a strategy meeting was held with the Executive Team. The Executive Team presented the Board with their long-term vision for the Company and this provided an opportunity for the Board to give guidance and advice. A strategy meeting with the Executive Team will form part of the annual meetings calendar going forward.

Board papers are circulated by email at least three clear business days in advance of any meeting to ensure that Directors have sufficient time to read the papers and consider their content prior to the meeting.

The Chairman maintains regular contact with the Non-Executive Directors and the Chief Executive Officer outside of meetings as part of his role to provide leadership to the Board and the Company.

The roles of all Board members are as follows:

Position	Name	Responsibilities
Chairman	Peter Jensen	Leads the Board, ensures its effectiveness and sets its agenda. Ensures an effective link between shareholders and the Board.
Chief Executive Officer	Manuel Llobet	Develops the Company's strategy, implements policies and strategies agreed by the Board and manages the business.
Chief Financial Officer	Nick Wykeman	Develops and implements financial strategy for the Group.
Non-Executive Directors	Steve Smith, Jeff Barton, Tunde Otulana	Constructively challenge the Executive Directors and monitor the delivery of the agreed corporate strategy and objectives.
All Directors have access to the Company Secretary's advice and support where necessary:		
Company Secretary	Sara Goldsbrough	Provides advice on Corporate Governance matters. Ensures a good flow of information within the Board and its Committees and between senior management and Board.

Matters considered by the Board

At each Board meeting, the Board receives business updates from the Chief Executive Officer, financial performance updates from the Chief Financial Officer, the Committee Chairmen update the Board on any Committee matters, there is a Health and Safety Report, a Pharmacovigilance Report and more recently a standing agenda item on 'Brexit' has been included.

R&D investment is regularly considered and clinical study budget variances are also brought to the attention of the Board.

New business opportunities and any other key investment decisions are proposed by the Chief Executive Officer as they arise. Often, such matters are complex and evolve over a period of time.

Other periodic matters considered by the Board include: annual and half-year results; the annual budget; principal risks posed to the Company; AGM resolutions; and Long-Term Incentive Plan awards ('LTIP').

Market and broker updates are circulated to the Board outside of the meetings.

Board committees

The Board has established Audit, Remuneration and Nomination Committees to enable the Board to operate effectively and ensure a good governance framework for decision making.

Each Committee has established terms of reference which are reviewed periodically and are available on the Company's website, www.allergytherapeutics.com/investor-relations/corporate-governance/. Minutes of all Committee meetings are made available to all Directors. The Committee Chairmen attend the AGM to answer any questions on the activities of the Committee.

The interplay between the Board and its Committees is as follows:

The Board
Collectively responsible for the long-term success of the Company, management of strategy, leadership and risk

Ensuring an effective Board

In 2016, to ensure that the Board continued to be effective, an evaluation of the Board's performance and that of its Committees and Directors was conducted by an external consultant. The report concluded that the Board operated well and suggested a number of actions that could be taken to strengthen its effectiveness which have been implemented. These actions included the appointment of a standalone Company Secretary and the regular consideration of Non-Executive Director succession planning.

This year, the Board intends to undertake an internal evaluation which will be managed by the Chairman and the Company Secretary. The process that we will undertake, and any agreed actions that arise from the evaluation, will be reported in next year's Annual Report and Accounts.

Communication with shareholders

The Board is keen to ensure that the Company's shareholders and any potential investors have a good understanding of the business and its performance, and that Directors are aware of any issues and concerns that shareholders may have. Principal responsibility for shareholder communication lies with the Chairman who can be contacted by registering an enquiry at: www.allergytherapeutics.com/contact-us/. The Company communicates with shareholders in a number of ways:

Corporate website:

Our corporate website, www.allergytherapeutics.com allows visitors to access company information including historical Annual Reports and Accounts, results presentations and webcasts.

AGM

The AGM allows the Board to update the shareholders on the Company's progress and provides an opportunity for shareholders to pose questions to Directors.

Shareholders are encouraged to vote on the resolutions put to the meeting, either in person or by submitting a proxy card. The results of the votes are published on our website after the meeting.

The 2018 AGM will be held on Tuesday 27 November 2018. The notice of meeting will be issued to shareholders at least 20 days before the meeting and separate resolutions will be proposed on each issue. In accordance with our Articles of Association, at least one-third of the Board will retire from office and offer themselves for re-election by shareholders on a rotational basis.

Should shareholders have any concerns that they are unable to successfully resolve following communication with the Chairman, Chief Executive Officer or Chief Financial Officer they may raise them through the Senior Independent Director.

Communication with stakeholders

The Board is mindful of how the Company's business activities impact on both the environment and society, and is conscious of the need to make a positive contribution to the world while delivering exceptional business results. The Company acknowledges its responsibilities to stakeholders (including staff, patients and healthcare professionals). All stakeholders are encouraged to relay feedback about the Company to the Board, via the 'Contact Us' section of the website, www.allergytherapeutics.com/contact-us/.

Audit Committee Report

Dear Shareholder,

I am pleased to introduce the Company's 2018 Audit Committee (the 'Committee') Report. The Committee plays a key role for the Board, monitoring and reviewing all aspects of the Group's financial reporting, internal controls and risk management procedures.

The following report provides an overview of the work undertaken by the Committee during the year. The most significant topics considered by the Committee during the year included revenue recognition and the impact of IFRS 15. The Committee also reviewed the principal risk disclosures which are set out on pages 34 and 35. These resulted from the Group's risk management process as described on page 47.

Stephen Smith
Chairman of the Committee
25 September 2018

The Committee

The Committee, which reports to the Board, oversees the financial reporting process as well as monitoring the effectiveness of internal control, internal audit, risk management and the external audit. It also monitors the independence of the external auditors and the provision of non-audit services. As at 30 June 2018, the Committee comprises two independent Non-Executive Directors, Peter Jensen and Steve Smith, and is Chaired by Steve Smith who is considered to have significant, recent and relevant financial experience.

The Committee's meetings were also attended (by invitation) by the Chief Financial Officer, Company Secretary, Group Financial Controller and Financial Reporting Manager together with senior representatives of Grant Thornton UK LLP (the 'External Auditor').

The Committee met three times during the year. Attendance at these meetings is shown in the table on page 43 of the Corporate Governance Statement. The Committee also met privately during the year with the External Auditor. The Committee follows an annual programme, which is agreed in advance.

External Auditor

The Committee oversees the relationship with the External Auditor, and is responsible for developing and monitoring the Company's policy on external audit and for monitoring the External Auditor's independence.

The External Auditor has direct access to the Committee Chairman should they wish to raise any matters outside of formal Committee meetings.

The Committee monitored the External Auditor's effectiveness during the year and considered the views of management that the External Auditor was providing a good-quality audit service. The Committee is satisfied that the External Auditor remains independent and objective and that the Group is receiving a robust audit and has, therefore, recommended to the Board that the External Auditor be reappointed in 2018.

Non-audit services

Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary.

The Company has adopted a policy to ensure that the provision of non-audit services by the External Auditor does not compromise its independence or objectivity. The policy requires the Committee to pre-approve any non-audit work with a cost exceeding £10,000. Approval is only given following a thorough assessment of the case.

The total fees charged by Grant Thornton in the year are shown on page 80.

Internal audit

During the year, the internal audit plan included reviews of financial controls in Italy, Switzerland, the Netherlands and Germany. This coming year, it is expected that the audit plan will include all our main Group countries.

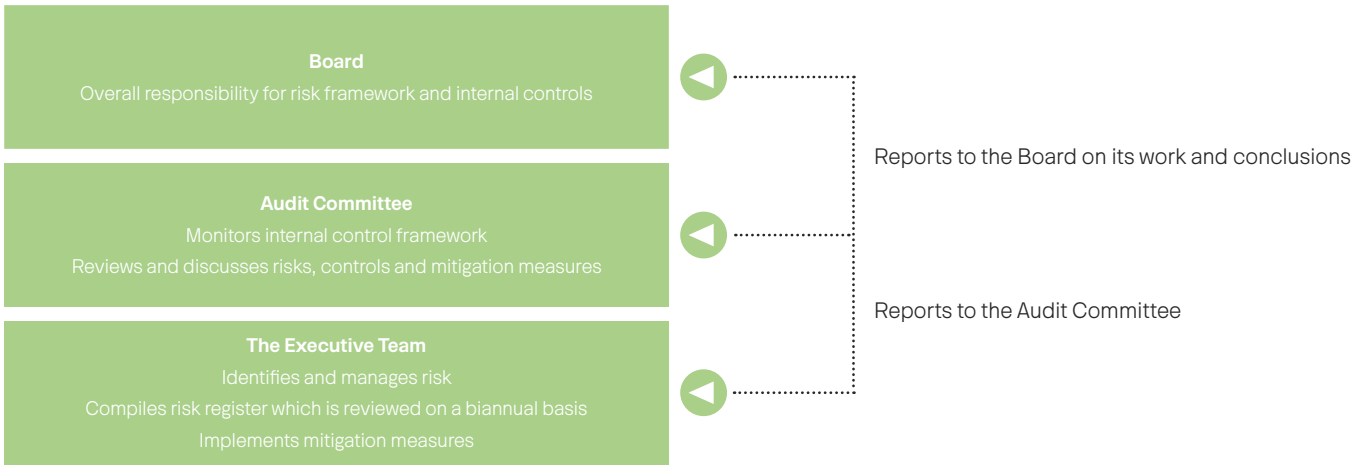
The Committee reviews the timetable and work of the internal audit programme, any matters identified as a result of internal audits and whether recommendations are addressed by management in a timely and appropriate way.

Risk management and internal control

The Board has overall responsibility for the Group's risk management. It reviews principal risks and uncertainties, together with the actions taken to mitigate them. The Board has delegated responsibility for the review of the adequacy and effectiveness of the internal control framework to the Committee.

During 2017, a comprehensive review of risk management across the business was undertaken. The purpose was to design a framework that managed rather than eliminated risk and developed a more risk-aware culture. The Executive Team is responsible for the day-to-day operational and commercial activity across the Group and is, therefore, responsible for the management of risk. The Committee reviews the key risks on an annual basis and any emerging risks can be identified and reported to the Board.

Risk management structure:



Internal controls

The Committee monitors and reviews the effectiveness of the Group's internal controls and reports to the Board on its work and conclusions. In reviewing the effectiveness of the Group's internal controls, the Committee considers reports from the internal audit team and the External Auditor as part of their auditing process. No significant failings or weaknesses have been identified in the review process during the year.

The Group's internal controls are managed via:

- The schedule of matters reserved for the Board.
- The terms of reference for Board Committees.
- The schedule of delegated authorities.
- Documentation of significant transactions.
- The whistleblowing procedure under which staff may raise matters of concern confidentially.

The controls relating to financial reporting are:

- An appropriately qualified management structure, with clear lines of responsibility.
- A comprehensive budget review and approval process.
- Board and Committee updates from the Chief Financial Officer, which include forecasts and performance against budget.
- Regular internal audit of the financial control procedures.

Anti-bribery and corruption

During the year, the Committee reviewed the Group's Whistleblowing, and Anti-Bribery and Corruption policies and procedures for their appropriateness. Following the review, some updates were made to both policies to ensure that the Group procedures remain proportionate to the risks that it faces. All employees will receive training on the new policies and procedures during the next six months.

Nomination Committee Report

Dear Shareholder,

I am pleased to introduce the Company's 2018 Nomination Committee (the 'Committee') Report.

During the year, the Committee continued to focus on succession planning both at Board level and within the Executive Team. The Committee has also monitored the performance of the two new Non-Executive Directors, Jeff Barton and Tunde Otulana, and I am pleased to report that both Directors have readily taken to their roles and provide excellent contributions at Board meetings.

In the coming year, the Committee will continue to monitor Board composition, including Directors' tenure, skills, experience and diversity, to ensure that it is best placed to deliver our strategy, and will continue to consider succession planning for all Directors.

Peter Jensen
Chairman of the Committee
25 September 2018

The Committee has responsibility for making recommendations on Board appointments and succession to the Board.

The members of the Committee as at 30 June 2018 comprised Peter Jensen (Chairman), Jeff Barton and Steve Smith. The Committee met twice during the year and attendance at these meetings is shown in the table on page 43.

Board composition and succession planning
The Committee regularly considers Board composition and succession planning for both Executive and Non-Executive Directors and also for the Executive Team. When considering Non-Executive Director succession planning, the Committee ensures that the Board and its Committees continue to have the right mix of skills and experience to be able to deliver the Group's strategy. A summary of the Directors' core skills and experience can be found on pages 40 and 41.

This year, the Committee will continue to consider these matters at meetings and will make any recommendations to the Board where appropriate.

Director development
The Chairman and the Committee ensures that the Directors keep their skills and knowledge up to date to allow them to fulfil their roles on the Board and Committees. The Company Secretary updates the Board on regulatory and corporate governance matters and periodic briefings are arranged with external advisers, such as our nominated adviser (Panmure Gordon (UK) Limited), to provide a better understanding of the broader market. Directors also receive regular business updates from the Executive Directors and other members of the Executive Team. Directors may also take independent advice at the Company's expense if they feel this is appropriate.

Diversity
Diversity is important to the Company and the Board recognises that diversity of experience and perspective can bring benefits across the business. During the year, the Committee terms of reference were reviewed and updated and now state that when considering the nomination of new Directors, the Committee will evaluate the balance of skills, knowledge and experience on the Board, to establish the particular skills and experience necessary for that appointment and that such evaluations will pay particular attention to the benefits of diversity on the Board, including gender.

The Board is committed to encouraging diversity, and aims that over the next few years, in the normal course of succession management, its composition will become more reflective of the diversity across our business, particularly in terms of gender. In the coming year, the Committee will give consideration to the Board's policy on diversity.

Directors' Remuneration Report

This report is for the period to 30 June 2018. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company. As an AIM-listed company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. Allergy Therapeutics plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008; however, the Company is committed to achieving both high governance standards and a simple remuneration structure. The information is unaudited except where stated.

Dear Shareholder,

In light of the continuing development of the Group, the Company has decided to develop the scope and content of its Directors' Remuneration Report and is this year including this letter from the Chairman of the Remuneration Committee to introduce the report, outline the major decisions on Directors' remuneration and any substantial changes relating to Directors' remuneration made during the year and explain the context in which these changes occurred and decisions have been taken.

Last year the Company put an advisory vote on its Directors' Remuneration Report to shareholders at its AGM and was pleased that this resolution was approved with 99.3% votes in favour. A similar resolution will be put to shareholders at the 2018 AGM. The Committee welcomes all shareholder feedback on remuneration and I will be available at the AGM to answer any questions which shareholders have on this topic.

Information on our remuneration policy is set out below this letter. The following commentary provides an overview of the work undertaken by the Committee during the year.

Performance and decisions on remuneration taken
Despite a weak pollen season, this year the business has continued to gain market share from competitors and increase pre-R&D profitability. This performance demonstrates the robustness of the business and its ability to respond to challenging market conditions. The most significant topics considered by the Committee during the year included a three-yearly review of the Chief Executive Officer's ('CEO's') salary which was benchmarked against a comparator group of companies. Following the review, the CEO's salary was increased by 9% reflecting an average of 3% per annum.

Reflecting performance during the year, the CEO was awarded a 2018 bonus of 47% of salary compared to a maximum of 75% of salary; the Chief Financial officer ('CFO') was awarded a bonus of 32% of salary compared to a maximum of 50%.

In November 2017, the long-term incentive awards which were awarded in 2014 vested at 74.13%. The compounded annual earnings growth for the period was approximately 20.2%, which exceeded the 20% required for a maximum vesting. The compounded share price growth for the period was approximately 13.1%, higher than the 10% required for a minimum vesting but not reaching the 20% target for a maximum vesting, therefore this half of the award vested in part.

In March 2018, the Company made long-term incentive ('LTIP') awards to Executive Directors and other senior team members based on a recommendation by the Remuneration Committee. These awards were subject to TSR and EPS performance conditions as detailed later in this report. The Committee normally makes a recommendation on LTIP awards once a year.

Development of remuneration policy
No significant changes to remuneration policy were made in the year ended June 2018 or are anticipated in the year ending June 2019.

Decisions for 2018–19
In September 2018, the Committee considered the salaries of the Executive Directors as detailed later in this report. No change in the remuneration of the Chairman and other Non-Executive Directors is expected during the year to 30 June 2019.

The Executive Bonus Plan for the year to June 2019 will operate on the same basis as in 2017–18 with a new financial performance target and revised personal objectives. The Committee expects that LTIP awards will be made to Executive Directors before the end of 2018.

I hope that you find the report helpful and informative and I look forward to receiving feedback from our investors on the information presented.

Stephen Smith
Chairman of the Remuneration Committee
25 September 2018

Directors' Remuneration Report

continued

The Remuneration Committee

The Committee's key objectives are to develop remuneration policies and packages that ensure that the Executive Directors are appropriately motivated and support the delivery of business objectives in the short, medium and long term, and that the interests of Executive Directors are aligned with the interests of long-term shareholders. The Committee is responsible for determining and agreeing the overall remuneration policy, including appropriate salary levels for each Executive Director; the composition of remuneration packages, performance periods, measures and targets for variable remuneration components, and any clawback arrangements. In addition, the Committee also agrees or recommends to the Board various compensation matters, including any share-related compensation, for the Executive Team.

During the financial year, the Remuneration Committee was comprised of two independent Non-Executive Directors, Steve Smith (Chairman) and Tunde Otulana. The terms of reference of the Committee, which were reviewed during the year, clearly set out the Committee's duties and responsibilities and are available to download on our corporate website, www.allergytherapeutics.com. The number of meetings held during the year and attendance at those meetings is set out in the table on page 43.

The Committee's advisers

During the year, the Committee appointed H2Glenfern as its independent remuneration adviser. During the year, the Committee received advice on various matters including the review of Executive Directors' salaries and LTIP performance targets. H2Glenfern has no other connection with the Company and the Committee is satisfied that the advice received during the year was objective and independent.

Remuneration policy

The key objectives of the Company's remuneration policy are to:

- Align Executive and shareholder interests.
- Underpin an effective pay-for-performance culture.
- Support retention, motivation and recruitment of talented people.

The Committee aims to achieve an appropriate balance between fixed and variable remuneration, and between variable remuneration based on short-term and longer-term performance. Fixed remuneration includes base salary, benefits and pension. Variable remuneration includes annual bonus and awards made under the LTIP.

The policy is aligned to the strategy and nature of the business and reflects the importance of rewarding the Executive Directors for delivering strong performance against the Company's KPIs. Details of each element of remuneration, their operation, purpose, link to strategy and performance metrics are set out in the policy table below.

Elements of remuneration:

	Purpose and link to strategy	Operation	Performance metric
Base salary	To provide an appropriately competitive base salary.	Basic salary is reviewed annually as at 1 October, with reference to: - each Executive Directors performance and contribution during the year; - the scope of the Executive Directors responsibilities; and - other similar companies.	The Committee considers individual and Company performance when setting base salary, as well as the general increase to other employees.
Benefits	To be appropriately competitive with those offered at comparator companies.	Benefits are in line with those offered to other senior management employees and may include private healthcare, life insurance, travel insurance and a car allowance.	n/a
Pension	To be appropriately competitive with those offered at comparator companies.	The UK Company operates a defined-contribution personal pension scheme and currently makes pension contributions in respect of all Executive Directors.	n/a

	Purpose and link to strategy	Operation	Performance metric
Annual bonus	To incentivise and reward performance. Performance measures and targets are set each year to reinforce the strategic business priorities for the year.	The annual cash bonus arrangements are reviewed annually at the start of the financial year and agreed by the Committee in September. The maximum bonus opportunity for Manuel Llobet is 75% of annual salary and is 50% for Nick Wykeman.	Executive's performance is measured relative to challenging one-year financial targets and other performance objectives.
Long-Term Incentive Plan	To incentivise and reward long-term outperformance, and help retain Executive Directors over the longer term.	Executive Directors are eligible to receive awards of shares under the 2013 LTIP, at the discretion of the Committee. In assessing the outcome of the performance conditions, the Committee satisfies itself that the figures are a genuine reflection of financial performance. LTIPs awarded since 2016 are subject to malus and clawback provisions.	2013 LTIP awards vest after a performance period of approximately three years. Since 2016, 50% of the Executive Directors award is subject to a three-year post vesting holding period. The vesting of the award is subject to continued employment and the Company's performance over a three-year performance period based: – 50% on compounded annual growth rate in profit (EBITDA) before R&D spend. – 50% on compounded share price growth. The performance measures and weighting are reviewed by the Committee annually and the Committee has the discretion to make changes to the measures or weightings for future awards to ensure that they remain relevant to the Company strategy and are suitably stretching.

Notes to the policy table

Annual bonus scheme

Executive Directors may earn bonuses depending on the Company's financial performance and performance against individual performance targets designed to deliver strategic goals. The principal target currently applied is EBITDA before research and development expenditure. The Committee sets targets it believes to be appropriately stretching, but achievable.

Long-term incentives

As mentioned above, the performance conditions for the LTIP currently comprise two measures:

- EBITDA before research and development expenditure; and
- Share price performance.

The Committee believes that these two measures are currently the most appropriate measures of long-term success for the Company as long-term relative performance provides an appropriately objective and relevant measure of the Company's success which is strongly aligned with shareholders' interests.

Malus and clawback

Awards granted under the long-term incentive arrangements are subject to malus and clawback until the end of the respective holding periods. Reasons for malus and clawback being applied would include gross misconduct of a Director and a material misstatement in the audited accounts of the Company. The application of any malus or clawback is at the discretion of the Remuneration Committee.

Remuneration of employees below the Board

No element of remuneration is operated solely for Executive Directors. Employees below the Board receive base salary, benefits, annual bonus, and senior members of staff are invited to participate in the LTIP.

Directors' Remuneration Report

continued

Executive Directors' service contracts

The service contracts of Executive Directors are approved by the Remuneration Committee. The commencement dates of the current contracts are shown below. The service contract of Manuel Llobet contains a 12-month notice period for Nick Wykeman the notice period is six months. The service contracts may be viewed at the Company's registered office.

Executive Directors	Date of contract	Notice period
Manuel Llobet	11 June 2009	12 months
Nick Wykeman	9 June 2016	6 months

Non-Executive Directors' service contracts

The Non-Executive Directors do not have service contracts but instead have letters of appointment which contain a three-month notice period. The Chairman's letter of appointment contains a six-month notice period. The letters of appointment may be viewed at the Company's registered office.

Non-Executive Directors	Date of contract	Notice period
Peter Jensen	1 October 2010	6 months
Jeff Barton	7 February 2017	3 months
Tunde Otulana	6 June 2017	3 months
Steve Smith	5 October 2004	3 months

Non-Executive Director fees

The Chairman and Non-Executive Director fees are reviewed periodically to ensure that the business is able to recruit and retain appropriately qualified Non-Executive Directors. The fees are reviewed with reference to other AIM listed companies and other UK companies of a similar size and nature, and the time that Non-Executive Directors are required to devote to the role.

Annual Report on Directors' Remuneration (audited information)

Details of remuneration of those who served as Directors during the financial year are set out below:

							Year ended 30 June 2017	
	Basic Salary £	Bonus for the year £	Taxable benefits £	Fees £	Total £	Pension[6] £	Total £	Pension[6] £
Manuel Llobet[8]	285,708	217,106	10,200	–	513,014	42,856	323,356	41,074
Nick Wykeman[9]	160,000	64,409	10,973	–	235,382	16,000	179,959	14,000
Peter Jensen	94,000	–	–	–	94,000	–	75,000	–
Steve Smith[1]	15,333	–	–	33,400	48,733	–	42,500	–
Jean-Yves Pavée[2,3]	–	–	–	–	–	–	21,972	–
Jeff Barton[2,4]	–	–	–	37,667	37,667	–	15,695	–
Tunde Otulana[5]	40,000	–	–	–	40,000	–	2,923	–
Thomas Lander[7]	–	–	–	–	–	–	38,000	–
Total	**595,041**	**281,515**	**21,173**	**71,067**	**968,796**	**58,856**	**699,405**	**55,074**

1 Steve Smith's fee payments are split between SRS Business Enterprises Limited and himself.
2 Fees payable to Abbott Laboratories.
3 Jean-Yves Pavée retired as a Director on 7 February 2017
4 Jeff Barton was appointed as a Director on 7 February 2017
5 Tunde Otulana was appointed as a Director on 6 June 2017
6 Pension contributions are in respect of a defined contribution scheme
7 Thomas Lander resigned as a Director on 30 June 2017
8 Includes bonus under accrual from prior year of £80,308 (2017: £24,000 over accrual).
9 Includes bonus under accrual from prior year of £13,016 (2017: Nil).

Executive Director remuneration

Bonuses 2017 – 2018

The Executive Directors were eligible to earn a bonus of up to 75% of salary for the CEO and 50% for the CFO, based on achievement of a target Group EBITDA (before research and development costs) and personal objectives. The level of Group EBITDA (pre R&D) achieved determines the bonus level subject to the maximum bonus and with one third of the bonus only being payable if satisfactory performance against personal objectives is achieved. For the year, the annual performance bonus for the Executive Directors was 47% and 32% of the basic salary of the CEO and CFO respectively. Reported bonuses in the Directors' Remuneration table on the opposite page include £80,308 that was under accrued in the prior year for Manuel Llobet and £13,016 that was under accrued in the prior year for Nick Wykeman.

Salary increases

The salaries of the Executive Directors were reviewed in September 2018. Following an evaluation of personal objectives, the CEO's salary was increased by 2.7% which was in line with increases across the Group. The CFO's salary was increased by 15.6% from £160,000 to £185,000 following a review of performance and adjustment towards market comparators.

Share options

Awards were granted to Executive Directors under the LTIP in March 2018, with the vesting of the awards subject to the following performance conditions:

- 50% of the awards are subject to compound annual earnings growth over the 3 year performance period achieving a target
- 50% of the awards are subject to compound share price growth over the 3 year performance period achieving a target

Conditional Share Awards granted in November 2014 vested at 74.13% in November 2017. The compounded annual earnings growth for the period was approximately 20.2%, which exceeded the 20% required for a maximum vesting. The compounded share price growth for the period was approximately 13.1%, higher than the 10% required for a minimum vesting but not reaching the 20% target for a maximum vesting, therefore this half of the award vested in part.

LTIPs and share options for Executive Directors who held office during the financial year

	Options/ LTIPs held 1 July 2017	LTIPs awarded in the year	Share Options/ LTIPs lapsed/ vested in the year	Share Options/ LTIPs held at 30 June 2018	Subscription price in £	Exercise Date from	Expiry date
Manuel Llobet	2,535,000	900,000	(845,000)	2,590,000			
	624,024[1]			624,024[1]	0.001	25-Nov-15	24-Nov-25
	905,000[1]			905,000[1]	0.001	10-Mar-16	09-Mar-28
			626,399[1]	626,399[1]	0.001	07-Nov-17	06-Nov-27
Nick Wykeman	422,500	450,000	–	872,500			
Total	**4,486,524**	**1,350,000**	**(218,601)**	**5,617,923**			

1 These share options were converted from vested LTIPs

No LTIP or share option awards were made to Non-Executive Directors during the year.

At 29 June 2018, the London Stock Exchange mid-market value of shares was 28.25 pence per share. The range of mid-market values during the period from 1 July 2017 to 29 June 2018 was 23.75 pence to 38 pence per share.

Non-Executive Director fees

Following a 2017 review, it was determined that the Chairman's annual base fee would be increased from £75,000 to £94,000 per annum with effect from 1 July 2017. This increase was decided by the Remuneration Committee having consulted with the CEO it followed a review of market comparators and took account of the contribution and time commitment provided by the Chairman.

The remuneration of the Non-Executive Directors is considered by the Chairman, with regards to market comparators and recommended to the Board as a whole. It was agreed that the Non-Executive Director fees would be increased as set out in the table below with effect from 1 July 2017:

	2018	2017
Basic fee	£40,000	£38,000
Audit Committee Chairman	£4,500	£4,500
Remuneration Committee Chairman	£4,500	–

Directors' Remuneration Report
continued

The Directors that held office during the financial year had the following interests in the Ordinary Shares of the Company:

	At beginning of year:		At end of year:	
Name	Ordinary Shares	Options & LTIPs	Ordinary Shares	Options & LTIPs
Manuel Llobet[1]	3,275,000	4,064,024	3,275,000	4,745,423
Nick Wykeman	150,000	–	150,000	812,500
Peter Jensen	150,000	–	150,000	–
Steve Smith	776,513	–	776,513	–
Jeff Barton	–	–	–	–
Tunde Otulana	–	–	50,000	–

1 Includes shares held by Wild Indigo

Decisions for the year ending June 2019
The Committee considered the salaries of the Executive Directors during September 2018 and increased the salary of the CEO from £289,000 to £296,303 and of the CFO from £160,000 to £185,000. No change in the remuneration of the Chairman and other Non-Executive Directors is expected during the year to 30 June 2019.

The Executive Bonus Plan for the year June 2019 will operate on the same basis as in 2017-18 with a new financial performance target and revised personal objectives.

The Committee expects that LTIP awards will be made to Executive Directors before the end of 2018.

Shareholder voting
The table below shows the results of the advisory vote on the 2017 Directors' Remuneration Report at the 2017 AGM.

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Remuneration Report	131,133,101	99.29%	918,274	0.7%	132,077,525	26,150

This Remuneration Report has been approved for issue by the Board of Directors on 25 September 2018.

Steve Smith
Chairman, Remuneration Committee
25 September 2018

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the 12 months ended 30 June 2018. The financial statements are for Allergy Therapeutics plc (the 'Company') and its subsidiary companies (together, the 'Group').

Strategic report

The Group's 2018 Strategic Report, on pages 1 to 38, which includes a review of the Group's business during the financial year, the Group's position at year end, post balance sheet events and a description of the principal risks and uncertainties facing the Group, comprises the following sections of the Annual Report:

Directors

The Directors of the Company who held office during the year and up to the date of signing the financial statements were as follows:

Chairman

Peter Jensen

Executive Directors

Manuel Llobet
Nick Wykeman

Non-Executive Directors

Jeff Barton
Tunde Otulana
Steve Smith

Biographies of each Director can be found on pages 40 and 41 and details of each Director's interests in the Company's shares are set out on page 54.

The powers of the Directors are determined by UK legislation and the Company's Articles of Association together with any specific authorities that shareholders may approve from time to time.

The rules governing the appointment and replacement of Directors are contained in the Company's Articles of Association and UK legislation.

Compensation for loss of office

The Company does not have any agreements with any Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's shares scheme may cause share options and awards to vest on a takeover.

Directors' indemnities and insurance

In accordance with the Company's Articles of Association, the Company has indemnified the Directors to the full extent allowed by law. The Company maintains Directors' and officers' liability insurance which is reviewed annually.

Dividend

The loss for the year after taxation was £7.5 million (2017: £2.5 million). The results for the year are set out on page 63 and are described in more detail in the Financial Review.

Due to the current research and development investment strategy, the Company has negative distributable reserves and is unable to declare a dividend (2017: Nil). Further details of the Group's research and development strategy can be found on pages 26 to 28.

Capital structure

Details of the Company's issued share capital, including details of movements during the year, authorities to issue or repurchase shares and details of shares repurchased by the Company during the year, of which there were none, are shown in Note 27 to the Financial Statements on page 98. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the transfer of shares beyond those standard provisions set out in the Articles of Association. No shareholder holds shares carrying special rights with regard to control of the Company.

Substantial shareholdings

The significant holdings of voting rights in the share capital of the Company notified and disclosed in accordance with Disclosure and Transparency Rule 5, as at 25 September 2018 are shown in the table below:

Shareholder	Number of Ordinary Shares	% of voting rights and issued share capital
Abbott Laboratories	240,584,571	37.82
Southern Fox Investments	144,321,539	22.69
Odey Asset Management	43,747,523	6.88
River & Mercantile	35,232,339	5.54
BlackRock Investment Management	30,461,964	4.79
Invesco Perpetual Asset Management	28,618,373	4.50

Use of financial instruments

Information on risk management objectives and policies, including hedging policies, and exposure of the Company in relation to the use of financial instruments, can be found in Note 24 to the Financial Statements on pages 92 to 95.

Directors' Report
continued

Employees
Information on Group employees can be found on pages 30 and 31 and in Note 7 to the Financial Statements on page 81.

The environment
Details of the Group's approach to corporate responsibility and its aims and activities are described on the Company's website, www.allergytherapeutics.com. An overview of the Group's corporate responsibility activity is on pages 30 to 33. The Group recognises the importance of minimising the adverse impact of its operations on the environment and the management of energy consumption and waste recycling. The Company strives to improve its environmental performance. The environmental management system is regularly reviewed to ensure that the Company maintains its commitment to environmental matters.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 38. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Chief Financial Officer's Financial Review on pages 36 to 38.

In addition, Note 24 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to foreign currency risk, interest rate risk and liquidity risk.

After making appropriate enquiries, which included a review of the annual budget, considering the cash flow requirements for the foreseeable future, noting the renewed overdraft facility, and the effects of sales and foreign exchange sensitivities on the Group's funding plans, the Directors continue to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly have applied the going concern principle in drawing up the financial statements. In reaching this view, the Directors have considered and prioritised the actions that could be taken to offset the impact of any shortfall in operating performance.

Disclosure to auditor
So far as the Directors are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Independent Auditor
The auditor, Grant Thornton UK LLP, have indicated its willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming AGM.

AGM
The 2018 AGM of the Company will be held from 11:00 am on 27 November 2018 at the offices of Covington & Burlington LLP in London. The Notice of the Meeting, together with an explanation of the business to be dealt with at the Meeting, is included as a separate document and is also available on our website.

Nicolas Wykeman
Chief Financial Officer
25 September 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs and UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that in so far as each Director is aware:

- there is no relevant audit information of which the Group's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board of Directors on 25 September 2018 and signed on its behalf by

Manuel Llobet
Chief Executive Officer

Nicolas Wykeman
Chief Financial Officer

Independent Auditor's Report to the Members of Allergy Therapeutics plc

Opinion

Our opinion on the financial statements is unmodified
We have audited the financial statements of Allergy Therapeutics plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet and the Statement of Changes in Equity (Company), and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard '101 Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £683,000, which represents 1.0% of the Group's revenue.
- Key audit matters were identified as revenue recognition, the valuation of the defined benefit pension scheme and impairment of non-current assets.
- We performed full scope procedures at the Group's operating locations in the UK and Germany. We performed targeted procedures over component locations in Italy, Spain and the Netherlands and analytical procedures over components in Austria and Switzerland.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter - Group	How the matter was addressed in the audit - Group
Revenue recognition Revenue from the sale of the Group's goods is recognised once certain criteria are met. The most critical element of these criteria is that revenue is recognised only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, which is generally when the customer has physically received those goods. While determining the date of delivery to the customer and therefore the timing of revenue recognition requires little significant management judgement or estimate, due to the volume of transactions that occur during the year, we identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – considering the appropriateness of the Group's revenue recognition policy in light of the requirements of International Accounting Standard ('IAS') 18 'Revenue' and ensuring its consistent application; – testing the occurrence of a sample of revenue transactions from across the Group by agreeing to source documentation pertaining to the validity of the sale and the date at which the risks and rewards of ownership transferred to the customer; and – verifying that the Group's cut-off controls were designed effectively across its key trading jurisdictions and testing whether delivery of goods to the customer had occurred for a selection of transactions occurring near period end. The Group's accounting policy on revenue recognition is set out in Note 2 to the Group Financial Statements and related disclosures are shown in Notes 3 and 4. **Key observations** Our procedures in respect of revenue recognition, as set out above, did not identify any material misstatement in respect of revenue recognised by the Group during the year. Based on these procedures we are satisfied that revenues have been appropriately recognised in the period in which the sale occurred.
Defined benefit pension scheme The Group has a defined benefit pension scheme that provides benefits to a number of current and former German employees. At 30 June 2018, the defined benefit pension net liability was £10.3 million. The gross value of pension scheme liabilities and assets which comprise the net liability amount to £11.7 million and £1.4 million respectively. The measurement of pension liabilities in accordance with IAS 19 'Employee Benefits' involves significant judgement and their valuation is subject to complex actuarial assumptions. Variations in those actuarial assumptions could lead to a materially different defined benefit pension scheme liability being recognised within the Group financial statements. We therefore identified the valuation of the defined benefit pension scheme as a as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – utilising the expertise of our actuarial specialists, in their capacity as our auditor's expert, in order to review the assumptions used (such as discount rate, price inflation, pension increase and mortality rates) for reasonableness; – through the use of our own expert, assessing for appropriateness the methods employed by the scheme actuary in calculation of the gross liability; – assessing the accuracy and completeness of the underlying data utilised by the scheme actuary through inquiry of the scheme actuary and comparison of the information provided to the scheme actuary by management; and – independently confirming the existence and valuation of pension scheme assets with third parties. The Group's accounting policy on defined benefit pension schemes is shown within Note 2 to the Group Financial Statements and related disclosures are included in Note 26. **Key observations** Our procedures, as set out above, did not identify any material misstatements in respect of the valuation of the defined benefit pension scheme as included within the consolidated balance sheet.

Independent Auditor's Report to the Members of Allergy Therapeutics plc

continued

Key audit matter - Group	How the matter was addressed in the audit - Group
Impairment of goodwill and intangible assets The Directors are required to make an annual assessment to determine whether the Group's goodwill, which stands at £3.4m as at 30 June 2018, is impaired. In addition, other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other intangible assets as at 30 June 2018 amount to £1.5m. The process for assessing whether impairment exists under IAS 36 'Impairment of assets' is complex. The process of determining the value in use, through forecasting cash flows related to cash generating units ('CGUs') and the determination of the appropriate discount rate and other assumptions to be applied can be highly judgemental and can significantly impact the results of the impairment review. We therefore identified the impairment of non-current assets, (specifically goodwill and other intangible assets), as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: - obtaining management's assessment of the relevant CGUs used in the impairment calculation and comparing those to our understanding of the business units and operating structure of the Group; - determining a reasonable range of values for key assumptions within the impairment model, including growth rates, discount rates and terminal values, and reperforming management's sensitivity analysis over those assumptions; - testing the accuracy of management's forecasting through a comparison of budget to actual data and historical variance trends and reviewing the cash flows for exceptional or usual items or assumptions; and - assessing the arithmetical accuracy and verifying the mechanical integrity of the impairment calculations. The Group's accounting policy on impairment of non-current assets is shown within Note 2 to the Group Financial Statements and related disclosures are included in Notes 14 and 15. **Key observations** Our procedures, as set out above, did not identify any material misstatements in respect of the carrying value of goodwill or intangible assets included within the consolidated balance sheet.

No key audit matters were identified in respect of the Parent Company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£683,000 which is 1% of Group revenue. This benchmark is considered the most appropriate because it is the primary reporting measure used to assess the Group's performance during the year. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2017 to reflect the Group's increased revenues for the year ended 30 June 2018.	£73,000 which is 2% of the Parent Company's total assets. This benchmark is considered the most appropriate because the Parent Company balance sheet primarily consists of investments in subsidiaries and intragroup debtors. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2017 to reflect the increase in the Company's assets over the year.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the Audit Committee	£34,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£2,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit
Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. For example, significance as a percentage of the Group's total assets, revenues and profit before taxation or significance based on qualitative factors, such as concerns over specific components;
- undertaking a planning visit to evaluate the Group's internal control environment, perform an evaluation of the design effectiveness of controls over key financial statement risk areas identified as part of our audit risk assessment and to select certain transaction items to test during our procedures at the final audit stage;
- we determined that full scope audit procedures were to be carried out in the UK and German locations and targeted procedures in Spain, Italy and the Netherlands based on their relative materiality to the Group and an assessment of their audit risk. Those procedures addressed the key audit matters set out above. Those locations subjected to full scope audit and targeted procedures represent 69% and 24% of external Group revenues respectively. We also undertook additional substantive audit procedures to ensure that there was not a material amount of Group revenues which was not subject to substantive testing;
- the Group locations subject to full scope and targeted audit procedures were consistent with the prior year;
- the remaining operations of the Group were subject to analytical procedures over the balance sheet and income statements of the related entities with a focus on applicable risks identified above and the significance to the Group balances;
- detailed audit instructions were issued to the auditors of the reporting components in Germany, Italy and the Netherlands where full scope and targeted audit approaches were undertaken. The instructions detailed the key audit matters and other audit risks that were to be addressed through their audit procedures. The Group Audit Team performed work remotely over balances held in Spain; and
- in addition, the Group audit team performed a site visit to Germany, which included a review of the work performed by the component auditors and conducted a review of working papers by the Italian component auditors remotely. The Group Audit Team communicated with all component auditors throughout the planning, fieldwork and concluding stages of the local audits.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts set out on pages 1 to 108, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' Report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report to the Members of Allergy Therapeutics plc

continued

Responsibilities of Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 57, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Jonathan Maile BSc (Hons) FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Gatwick
25 September 2018

Consolidated Income Statement

for the year ended 30 June 2018

	Note	Year to 30 June 2018 £'000	Year to 30 June 2018 £'000	Year to 30 June 2017 £'000	Year to 30 June 2017 £'000
Revenue	3		**68,346**		64,138
Cost of sales			**(17,013)**		(16,771)
Gross profit			**51,333**		47,367
Sales, marketing and distribution costs			**(27,133)**		(26,888)
Administration expenses - other		**(15,543)**		(13,778)	
Research and development costs		**(16,017)**		(9,296)	
Administration expenses			**(31,560)**		(23,074)
Other income	8		**630**		699
Operating loss			**(6,730)**		(1,896)
Finance income	10		**154**		151
Finance expense	9		**(320)**		(225)
Loss before tax	5		**(6,896)**		(1,970)
Income tax	11		**(637)**		(511)
Loss for the period			**(7,533)**		(2,481)
Loss per share	13				
Basic (pence per share)			**(1.27)p**		(0.42)p
Diluted (pence per share)			**(1.27)p**		(0.42)p

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2018

	Note	Year to 30 June 2018 £'000	Year to 30 June 2017 £'000
Loss for the period		**(7,533)**	(2,481)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit liability	26	**(278)**	1,500
Remeasurement of investments – retirement benefit assets	17	**(39)**	(91)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(68)**	(23)
Total comprehensive loss		**(7,918)**	(1,095)

Consolidated Balance Sheet

	Note	30 June 2018 £'000	30 June 2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	16	**10,096**	9,673
Intangible assets – goodwill	14	**3,406**	3,390
Intangible assets – other	15	**1,543**	2,069
Investments – retirement benefit asset	17	**5,043**	4,592
Total non-current assets		**20,088**	19,724
Current assets			
Inventories	18	**8,808**	7,484
Trade and other receivables	19	**6,587**	7,853
Cash and cash equivalents	20	**15,533**	22,122
Total current assets		**30,928**	37,459
Total assets		**51,016**	57,183
Liabilities			
Current liabilities			
Trade and other payables	21	**(13,890)**	(13,225)
Current borrowings	22	**(644)**	(391)
Derivative financial instruments	24	**(97)**	(404)
Total current liabilities		**(14,631)**	(14,020)
Net current assets		**16,297**	23,439
Non-current liabilities			
Retirement benefit obligations	26	**(10,346)**	(9,619)
Deferred taxation liability	12	**(309)**	(352)
Non-current provisions	23	**(282)**	(291)
Long-term borrowings	22	**(2,414)**	(2,936)
Total non-current liabilities		**(13,351)**	(13,198)
Total liabilities		**(27,982)**	(27,218)
Net assets		**23,034**	29,965
Equity			
Capital and reserves			
Issued share capital	27	**606**	604
Share premium		**102,420**	102,420
Merger reserve – shares issued by subsidiary		**40,128**	40,128
Reserve – share-based payments		**1,656**	900
Revaluation reserve		**949**	1,254
Foreign exchange reserve		**(975)**	(907)
Retained earnings		**(121,750)**	(114,434)
Total equity		**23,034**	29,965

These financial statements were approved by the Board of Directors and authorised for issue on 25 September 2018 and signed on its behalf by

Manuel Llobet
Chief Executive Officer

Nicolas Wykeman
Chief Financial Officer

Registered number: 05141592

Consolidated Statement of Changes in Equity

	Issued capital £'000	Share premium £'000	Merger reserve – shares issued by subsidiary £'000	Reserve – share-based payment £'000	Revaluation reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2016	599	102,392	40,128	741	1,254	(884)	(113,906)	30,324
Exchange differences on translation of foreign operations	–	–	–	–	–	(23)	–	(23)
Remeasurement of net defined benefit liability	–	–	–	–	–	–	1,500	1,500
Remeasurement of investments – retirement benefit assets	–	–	–	–	–	–	(91)	(91)
Total other comprehensive income	–	–	–	–	–	(23)	1,409	1,386
Loss for the period after tax	–	–	–	–	–	–	(2,481)	(2,481)
Total comprehensive income	–	–	–	–	–	(23)	(1,072)	(1,095)
Share-based payments	–	–	–	703	–	–	–	703
Shares issued	5	28	–	–	–	–	–	33
Transfer of lapsed options to retained earnings	–	–	–	(544)	–	–	544	–
At 30 June 2017	604	102,420	40,128	900	1,254	(907)	(114,434)	29,965
Exchange differences on translation of foreign operations	–	–	–	–	–	(68)	–	(68)
Remeasurement of net defined benefit liability	–	–	–	–	–	–	(278)	(278)
Remeasurement of investments – retirement benefit assets	–	–	–	–	–	–	(39)	(39)
Total other comprehensive loss	–	–	–	–	–	(68)	(317)	(385)
Loss for the period after tax	–	–	–	–	–	–	(7,533)	(7,533)
Total comprehensive loss	–	–	–	–	–	(68)	(7,850)	(7,918)
Share-based payments	–	–	–	985	–	–	–	985
Shares issued	2	–	–	–	–	–	–	2
Transfer of lapsed options to retained earnings	–	–	–	(229)	–	–	229	–
Transfer of depreciation on revalued property	–	–	–	–	(305)	–	305	–
At 30 June 2018	606	102,420	40,128	1,656	949	(975)	(121,750)	23,034

Consolidated Cash Flow Statement

	Note	Year to 30 June 2018 £'000	Year to 30 June 2017 £'000
Cash flows from operating activities			
Loss before tax		**(6,896)**	(1,970)
Adjustments for:			
Finance income	10	**(154)**	(151)
Finance expense	9	**320**	225
Non-cash movements on defined benefit pension plan		**381**	322
Depreciation and amortisation	15, 16	**2,020**	1,936
Impairment of intangible assets	15	**224**	69
Loss on disposal of fixed assets	15, 16	**5**	42
Net monetary value of above the line R&D tax credit	8	**(630)**	(699)
Charge for share-based payments		**985**	703
Movement in fair valuation of derivative financial instruments		**(307)**	(776)
Foreign exchange revaluation on US Dollar cash deposits		**(10)**	(361)
Decrease in trade and other receivables		**3,303**	1,004
(Increase)/decrease in inventories		**(1,330)**	334
(Decrease)/increase in trade and other payables		**(1,762)**	823
Net cash (used)/generated by operations		**(3,851)**	1,501
Bank loan fees and interest paid		**(318)**	(222)
Income tax		**367**	(1,101)
Net cash (used)/generated by operating activities		(3,802)	178
Cash flows from investing activities			
Interest received		**48**	41
Payments for retirement benefit investments		**(367)**	(258)
Payments for intangible assets		**(179)**	(226)
Payments for property, plant and equipment		**(2,005)**	(1,500)
Net cash used in investing activities		**(2,503)**	(1,943)
Cash flows from financing activities			
Share options exercised		**2**	33
Repayment of borrowings	32	**(398)**	(297)
Proceeds from borrowings	32	**102**	76
Net cash used by financing activities		**(294)**	(188)
Net decrease in cash and cash equivalents		**(6,599)**	(1,953)
Effects of exchange rates on cash and cash equivalents		**10**	669
Cash and cash equivalents at the start of the period		**22,122**	23,406
Cash and cash equivalents at the end of the period		**15,533**	22,122
Cash at bank and in hand		**15,533**	22,122
Bank overdraft		**-**	-
Cash and cash equivalents at the end of the period		**15,533**	22,122

Notes to the Financial Statements

1. Basis of preparation

Allergy Therapeutics is an International commercial biotechnology Group focused on the treatment and diagnosis of allergic disorders including immunotherapy vaccines that have the potential to cure disease.

The Group's financial statements have been prepared in accordance with IFRS in issue as adopted by the European Union ('EU') and with those parts of the Companies Act 2006 that are relevant to the Group preparing its accounts in accordance with EU adopted IFRS.

Allergy Therapeutics plc is the Group's Parent Company. The Company is a limited liability company incorporated and domiciled in England. The address of Allergy Therapeutics plc's registered office and its principal place of business is Dominion Way, Worthing, West Sussex BN14 8SA and its shares are listed on the AIM.

The consolidated financial statements for the year ended 30 June 2018 (including comparatives) have been prepared under the historical cost convention except for land and buildings, and derivative financial instruments which have been measured at fair value. They were approved and authorised for issue by the Board of Directors on 25 September 2018.

New standards adopted

There are no IFRS or IAS interpretations that are effective for the first time in this financial period that have had a material impact on the Group.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group in the 30 June 2018 financial statements

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective. Not all of these have yet been adopted by the EU. The Group has not adopted any of these pronouncements early. The new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements are as follows:

IFRS 9 'Financial Instruments' (effective 1 January 2018)

This IFRS replaces IAS 39 and addresses the usefulness for users of financial statements by simplifying the classification and measurement requirements for financial instruments. This new standard will not have a material impact on the Group's financial statements.

IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014 and effective 1 January 2018)

IFRS 15 supersedes current revenue recognition guidance including IAS 18 'Revenue' and specifies how and when entities recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and will be implemented by the Group from 1 July 2018. In its financial statements for the year ended 30 June 2019, the Group will apply the new standard using the modified retrospective approach.

The standard provides a principles-based approach to the recognition of revenue, following a five-step procedure.

The Group has reviewed its contracts with customers under the five-step method using a portfolio approach, treating all sales as having substantially the same terms and conditions attached. Sales in specific territories that have differentiating factors have been considered as exceptions.

The Group's revenues are almost entirely derived from the sale of allergy vaccines and probiotics products. The Group considers that all of its performance obligations have been fulfilled once the products have been delivered to customers and will continue to recognise revenue at that point.

The Group does not currently maintain a warranty returns provision as the historical experience shows that returns are insignificant. The Group does not provide extended warranties that are considered to represent a separate performance obligation with respect to the sale of goods and therefore do not recognise warranty revenues separately. The Group will continue to monitor warranty returns and will create a returns provision if necessary in future periods.

In respect of royalty income (less than £0.5m p.a), earnings derived from distributors' further sales on to customers, the Group believes that the amounts that would be reported under IFRS 15 are materially consistent with the current treatment under IAS 18. The Group sells to distributors at an initially low margin and there is further consideration receivable by the Group when the distributor sells the products. This is variable deferred consideration and is considered as part of the initial assessment of the transaction price for goods supplied, forming part of the fair valuation of consideration receivable. In these instances, the variable deferred consideration is accrued at a discounted value at the point of delivery.

The Group has concluded that the new standard will not have a material impact on the amount or timing of recognition of reported revenue for periods up to 30 June 2018. The amounts that would be reported under IFRS 15 are materially consistent with IAS 18.

1. Basis of preparation continued

IFRS 16 'Leases' (effective 1 January 2019)

IFRS 16 removes the current distinction between an operating and finance lease, introducing consistent requirements for all leases similar to the current finance lease accounting. Management are currently assessing the detailed impact on the Group's financial statements.

Other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Going concern

Operating loss in the period was £6.7 million (2017: £1.9 million loss); net cash outflow from operations was £3.9 million (2017: £1.5 million net cash inflow). The outflow was due to investment in R&D. Excluding the R&D expenditure, the Group would have reported an operating profit of £9.3 million (2017: £7.4 million). The Directors do not consider the current operating loss to be a cause for concern.

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 June 2019 and 30 June 2020. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing bank facilities. The Group had a cash balance of £15.5m at 30 June 2018 and the overdraft facility was renewed in August 2018. In July 2018, 40,000,000 Ordinary Shares of 0.1 pence each were issued pursuant to a placing and subscription at a price of 26.5 pence per share raising £10.6m (before expenses). After making appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the foreseeable future and the effects of sales and other sensitivities on the Group's funding plans, the Directors continue to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly have applied the going concern principle in preparing these financial statements.

2. Accounting policies

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

Consolidation

The Group's financial statements consolidate those of the Parent Company and all of its subsidiaries drawn up to 30 June 2018. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated on the date control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated except for unrealised losses if they show evidence of impairment.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used in the Group.

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of: a) fair value of consideration transferred; b) the recognised amount of any non-controlling interest in the acquiree; and c) acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Notes to the Financial Statements

continued

2. Accounting policies continued

Goodwill

Goodwill arising from business combinations is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities and contingent liabilities acquired. It is initially recognised as an intangible asset at cost and is subject to impairment testing on an annual basis or more frequently if circumstances indicate that the asset may have been impaired. Details of impairment testing are described in the accounting policies.

Intangible assets acquired as part of a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an asset and be identifiable. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised over their useful economic life as follows:

Trade names	15 years
Customer relationships	5 years
Know-how and patents	10 years
Distribution agreements	15 years/period of contract

Externally acquired intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over their useful economic life as below and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible assets is reviewed at least at each financial year end.

Computer software	7 years
Other intangibles	15 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the Consolidated Income Statement in the expense category consistent with the function of the intangible asset in either administration costs or marketing and distribution costs.

Internally generated intangible assets

An internally generated intangible asset arising from development (or the development phase) of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, R&D expenditure is charged to the Consolidated Income Statement in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Amortisation of all intangible assets is calculated on a straight-line basis over the useful economic life using the following annual rates:

Manufacturing know-how	15 years
Non-competing know-how	4 years
Other intangibles	15 years

These periods were selected to reflect the assets' useful economic lives to the Group.

The cost of amortising intangible assets is included within administration expenses in the Consolidated Income Statement.

2. Accounting policies continued

Segmental reporting

The Group's operating segments are market based and are reported in a manner consistent with the internal reporting provided to the Group's Chief Operating Decision Maker ('CODM') which has been identified as the Executive Directors. The CODM is responsible for allocating resources and assessing the performance of the operating segments.

In identifying its operating segments, management follow the Group's revenue lines which represent the main geographical markets within which the Group operates. These operating segments are managed separately as each requires different local expertise, regulatory knowledge and a specialised marketing approach. Each market-based operating segment is engaged in production, marketing and selling within a particular economic environment that is different from that in segments operating in other economic environments. All inter-segment transfers are carried out at arm's length prices.

Foreign currency translation

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group's presentational currency is Sterling, which is also the functional currency of the Group's parent.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at reporting period end exchange rates, of monetary assets and liabilities denominated in foreign currencies, are recognised in the Consolidated Income Statement. Non-monetary items are carried at historical cost or translated using the exchange rate at the date of the transaction or a weighted average rate as an approximation where this is not materially different.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than Sterling are translated into Sterling upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Sterling at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Sterling at the closing rate. Income and expenses have been translated into Sterling at the weighted average rate over the reporting period which approximates to actual rates. Exchange differences are charged or credited to other comprehensive income ('OCI') and recognised in the currency translation reserve in equity. OCI includes those items which would be reclassified to profit or loss and those items which would not be reclassified to profit or loss.

Revenue recognition

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, net of statutory rebates paid in Germany and excluding value added tax. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, which is generally when the customer has physically received the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold which is again when the customer has physically received the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where the Group provides services to new distributors, which mainly include marketing and customer information, in exchange for an up-front lump sum fee, revenue is recognised in line with these services being delivered. Services are fair valued and prorated to agree to the total fee receivable. Where there is an ongoing responsibility to provide services, the balance relating to those services is recognised in future periods as the service is performed.

Part of the Group's overseas sales are made through distributors and agents.

Notes to the Financial Statements

continued

2. Accounting policies continued

Arrangements for sales through distributors

For all distributor arrangements, the distributor is invoiced at the time of delivery and title to the product passes upon full and final settlement of the invoice to which the delivery relates. The distributor has full discretion over the setting of the final selling price to the end customer and is responsible for all customer returns of product.

It is considered that the significant risks and rewards of ownership of the product are transferred to the distributor at the point of delivery and therefore revenue is recognised at this point in accordance with IAS 18.

Where the Group sells to distributors at initially low margin and there is further consideration receivable by the Group, this deferred consideration forms part of the fair valuation of consideration receivable by the Group for goods supplied. In these instances, the deferred consideration is accrued at a discounted value at the point of delivery.

Arrangements for sales through agents

For all agreements with agents, the agent places orders with the Group and goods are then shipped to them. The Group, however, holds title to these products until they are sold on to a third party. The selling price to the end user is set by the relevant government body and the agent receives a fixed percentage of this selling price. The agent notifies the Group monthly on stock levels and this is reconciled to a statement which generates an invoice for payment by the agent. The Group is responsible for any customer returns of product.

It is considered that the significant risks and rewards of ownership of the product are not transferred from the Group until the agent has sold the product to a third party and, therefore, revenue on these sales is recognised only at this point by the Group in accordance with IAS 18.16.

Statutory rebates

In Germany, pharmaceutical companies are required to pay a manufacturer's rebate to the government as a contribution to the cost of medicines paid for by the State and private health funds. This is similar to a sales tax and the rebate is, therefore, treated as a deduction from revenue in accordance with IAS18.8.

Rebates have been in the region of 6% (inclusive of VAT). However, in 2010 the German government increased the rate to 16%. In certain circumstances, companies could apply for an exemption from the rebate increase, for limited periods at a time. If the application for the exemption is successful, a preliminary exemption is normally granted to be converted to a final exemption at a later date when audited financial statements are available.

Allergy Therapeutics plc has been successful in obtaining preliminary exemptions up to 30 June 2012, which have been subsequently confirmed as final.

Revenue is recognised initially net of the full rebate, as at that stage it is not considered probable that any refund of the rebate will be received. When the preliminary exemption is granted, it is considered probable, based on our past experience, that the rebate refund will be received. Therefore, as it is probable that the economic benefits will flow to Allergy Therapeutics plc, in accordance with IAS 18.14(d), revenue is adjusted at that time.

Since April 2014, the current rebate in force has been set at 7%. The rebate also incorporates a price moratorium and this applies to certain products in Germany.

Expenditure recognition

Operating expenses are recognised in the Consolidated Income Statement upon utilisation of the service or at the date of their origin.

Property, plant and equipment ('PPE')

The Group policy is that all freehold properties will be subject to a full revaluation with sufficient regularity so that the carrying amount and the fair value are not materially different.

Revaluations are performed by independent qualified and experienced valuers who have adequate local knowledge in the country in which the property is situated. In the intervening years between independent revaluations, the Directors review the carrying values of the freehold land and buildings, and adjustments are made if the carrying values differ significantly from their respective fair values. Increases in the carrying value from revaluations are recognised in OCI and accumulated in equity under the heading of revaluation reserve unless this reverses a revaluation decrease on some asset previously recognised in the income statement, in which case it is first credited to the Consolidated Income Statement to that extent. When an item of PPE is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset. The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount. Decreases in the carrying values arising from revaluations are first offset against increases from earlier revaluations in respect of the same assets and are thereafter charged to the Consolidated Income Statement.

2. Accounting policies continued
Other plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Provision for depreciation of all PPE assets of the Group (except land) is made over their estimated useful lives, on a straight-line basis principally using the following annual rates:

Freehold buildings	33 years
Computer equipment	3-7 years
Motor vehicles	4 years
Fixtures and fittings	5-15 years
Plant and machinery	5-15 years

Residual values and useful lives are reviewed annually and amended as necessary. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the PPE may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of the asset's fair value less costs to sell or value in use.

Depreciation charges are included in either administration expenses or cost of sales when arriving at operating profit in the Consolidated Income Statement.

Impairment
The Group's goodwill, other intangible assets, freehold land and buildings, and plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or CGUs that include goodwill or intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or CGUs are tested 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 assets or CGUs carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Inventories
Inventory is carried at the lower of cost or net realisable value. The costs of raw materials, consumables, work in progress and finished goods are measured by means of weighted average cost using standard costing techniques. The cost of finished goods and work in progress comprises direct production costs such as raw materials, consumables, utilities and labour, and production overheads such as employee costs, depreciation, maintenance and indirect factory costs. Standard costs are reviewed regularly in order to ensure relevant measures of utilisation, production lead time and appropriate levels of manufacturing expense are reflected in the standards.

Net realisable value is calculated based on the selling price in the normal course of business less any costs to sell.

R&D investment credits
Investment credits are directly related to the Group's qualifying R&D expenditure and have a monetary value that is independent of the Group's tax liability. Such investment credits are dealt with in other income in the Consolidated Income Statement.

Leases
A finance lease exists where the economic ownership of a leased asset is transferred to the lessee and the lessee bears substantially all the risks and rewards of ownership of the leased asset. All other leases are operating leases in the Group.

Operating lease rentals are charged to the income statement over the term of the lease. There are no finance leases in the Group.

Financial assets
Financial assets consist of cash at bank and in hand, trade and other receivables and derivative financial instruments. Financial assets are assigned to their different categories by management on initial recognition, depending on the contractual arrangements.

Notes to the Financial Statements
continued

2. Accounting policies continued
Cash and trade and other receivables are denominated as loans and receivables and these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. Financial derivatives are designated at fair value through profit and loss ('FVTPL') upon initial recognition.

Cash and cash equivalents comprise cash on hand, demand deposits and overdrafts, together with other short-term, highly liquid investments with maturities of three months or less from inception that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument and loans and receivables are initially recognised at fair value, including transaction costs, with the exception of FVTPL and subsequently at amortised cost, with any changes going through the Consolidated Income Statement. Where securities are designated as FVTPL, gains and losses arising from changes in fair value are included in net profit or loss for the period.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial liabilities
The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in 'Finance expense' in the Consolidated Income Statement.

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. Contingent consideration on business combinations is recognised initially at their fair value and subsequently measured at FVTPL.

Borrowings comprise secured bank borrowings, and are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments
The Group uses Euro forward contracts and Euro exchange swaps to manage the exposure to changes in translation rates and these are classified as derivative financial instruments. All derivative financial instruments are initially measured at fair value on acquisition and are subsequently restated to fair value at each reporting date. Any change in the fair value of the instruments is recognised in either administration expenses (Foreign exchange contracts) or finance expenses (Note 9) in the Consolidated Income Statement.

Equity
Equity comprises the following:
- 'Issued capital' represents the nominal value of equity shares that have been issued.
- 'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- 'Merger reserve' represents the excess over nominal value of the fair value of consideration received for equity shares issued on acquisition of subsidiaries, net of expenses of the share issue.
- 'Reserve - share-based payments' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Revaluation reserve' represents the revaluations of investment assets and land and buildings.
- 'Foreign exchange reserve' represents the foreign currency translation differences that have occurred since the transition date as per IFRS 21. Exchange differences prior to this date are included within retained earnings.
- 'Retained earnings' represents retained profits and losses.

Equity is any contract which evidences a residual interest in the assets of the Group after deducting all its liabilities.

Income taxes
Current income tax assets and liabilities comprise those obligations to fiscal authorities in the countries in which the Group carries out its operations. They are calculated according to the tax rates and tax laws applicable to the fiscal period and the country to which they relate that have been enacted or substantially enacted by the end of the reporting period. All changes to current tax liabilities are recognised as a component of tax expense in the Consolidated Income Statement.

2. Accounting policies continued

Deferred income taxes are calculated using the asset/liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is neither provided on the initial recognition of goodwill nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates and laws that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to OCI (such as the revaluation of land and buildings) or equity, in which case the related deferred tax is also charged or credited directly to OCI or equity, respectively.

Defined contribution pension scheme

Payments to defined contribution schemes are charged as an expense to the Consolidated Income Statement as they fall due in the expense category consistent with the function of the employee to which they relate.

Defined benefit pension scheme

Plan assets are measured at fair values. Defined benefit obligations are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. Interest expense or income is calculated on the net defined benefit liability (asset) by applying the discount rate to the net defined benefit liability (asset). Past service cost is recognised in the Consolidated Income Statement in the period when the plan is amended.

Remeasurements are recognised in the balance sheet immediately with a charge or credit to OCI in the periods in which they occur. The related deferred tax is shown with other deferred tax balances. A surplus is recognised only to the extent that it is recoverable by the Group.

The current service cost, past service cost and costs from settlements and curtailments are charged against administrative expenses in the Consolidated Income Statement. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs.

Other employee benefits

Short term

Short-term employee benefits, including holiday entitlement are included in current pension and other employee obligations, within trade and other payables, at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Long term

Under Italian law, alongside each monthly salary payment an amount is accrued into a reserve for each employee. When the employee leaves the Company, the accrued amount is paid as a deferred salary payment.

Investments

Investments relate to long-term insurance policies. In accordance with IAS 19, these cannot be directly deducted from the German pension obligation and are recognised as a separate asset, rather than as a deduction in determining the defined benefit liability. Interest income is recognised through the Consolidated Income Statement. They are held at fair value with any gains or losses on remeasurement charged or credited to OCI.

Provisions

Provisions are recognised when the present obligations arising from legal or constructive obligations resulting from past events, will probably lead to an outflow of economic resources from the Group which can be estimated reliably.

Provisions are measured at the present value of the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Notes to the Financial Statements

continued

2. Accounting policies continued

Share based employee compensation

The Group operates equity-settled share based compensation plans for remuneration of its employees comprising LTIP schemes.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share option or shares awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability or share price growth targets). The fair value of LTIP shares, which have market conditions attached, includes an adjustment based on the probability of the shares vesting at the end of the vesting period.

Details of the LTIP schemes and the conditions applying to each scheme are disclosed in Note 28 (share-based payments) on pages 98 to 100.

All share-based compensation is ultimately recognised as an expense in the Consolidated Income Statement with a corresponding credit to the share-based payments reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares expected to vest. Non-market vesting conditions are included in assumptions about the number of shares that are expected to become issuable. Estimates are subsequently revised if there is any indication that the number of shares expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer shares ultimately vest than estimated, however, the expensed value of these lapsed shares is transferred from the share-based payment reserve to retained earnings.

Use of accounting estimates and judgements

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the Notes to the Financial Statements and the key areas are summarised below:

Judgements in applying accounting policies

a) Capitalisation of development costs requires analysis of the technical feasibility and commercial viability of the project concerned. Capitalisation of the costs will be made only where there is evidence that an economic benefit will accrue to the Group. To date no development costs have been capitalised and all costs have been expensed in the income statement as R&D costs. Costs expensed in the year amounted to £16.0 million (2017: £9.3 million).

b) Where the Group sells to distributors at an initially low margin and there is further consideration receivable by the Group, this deferred consideration forms part of the fair valuation of consideration receivable by the Group for goods supplied. In these instances, the deferred consideration is accrued at a discounted value at the point of delivery.

   The Directors considered the following points in applying this accounting treatment:
   Although a significant portion of the sales price is received upon a further sale to an end customer, substantially all the risks and rewards of ownership are passed to the distributor when the goods are shipped, and the distributor is acting as principal (not merely as agent) when arranging to resell the goods. The Directors have reached this conclusion because:
   i. The Group does not have any continued managerial involvement in the distributor's onward sale of goods.
   ii. The distributor does not have the right to return any goods.
   More information on the reasoning behind the treatment of sales to distributors can be found in the 'Sale of goods' accounting policy description.

c) Land and buildings are carried at valuation and are revalued with sufficient regularity so that the carrying amount and the fair value are not materially different. The Italian freehold property was revalued in June 2016 by independent valuers (see Note 16). The Italian freehold property was revalued to fair value at that reporting date based on this valuation. The freehold property in Spain was revalued in June 2015 (see Note 16). The Directors do not consider an impairment provision to be required in respect of the freehold property in Spain.

d) The Group had been awarded a provisional exemption to the increased statutory rebate charge in Germany for the period July to December 2012 by BAFA. Revenue of £1.1 million (equivalent of €1.4 million) was recognised in the year ended 30 June 2013 in relation to this exemption and the refund from the German authorities was subsequently collected.
   In February 2015, the provisional exemption was withdrawn by BAFA. The Group has lodged an appeal and, following legal advice, believe that the exemption will be reinstated. While the Group is confident that the exemption will be confirmed, there is a possibility that this will not happen. If the exemption is not confirmed, then the Group will ultimately have to repay €1.4 million (£1.2 million) with a corresponding impact on net income and net assets.

e) In respect of net revenue of £1.8m relating to a certain product, an assessment has been made on the likelihood of a retrospective change in the level of rebates being applied. Details of this have been noted in Note 29, (Contingent liabilities).

2. Accounting policies continued

f) The Group is in litigation with one of its third party contractors (see Note 29, contingent liabilities). The Directors are required to assess the outcome of the litigation and to ensure that the appropriate accounting treatment is applied in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The process of assessing the likelihood of the outcome of the litigation involves significant judgement and estimation, and depending on the is assessment the accounting treatment could range from the recognition of a provision, the disclosure of a contingent liability or contingent asset, or none of the preceding. In making this assessment the Directors have taken appropriate legal advice and having considered the opinion of the solicitors acting on the Group's behalf and the known facts and circumstances relevant to the litigation proceedings, the Directors are of the opinion that the likelihood of any liability arising is less than probable, but not remote. Accordingly no provision has been recorded in the financial statements but a contingent liability has been disclosed in relation to this matter. In the judgement of the directors the relevant legal case is not yet sufficiently progressed to lead to the recognition of a contingent asset.

Sources of estimation uncertainty

a) Depreciation rates are based on estimates of the useful lives and residual values of the assets involved. There is inherent uncertainty in the useful lives of assets, which means that they are constantly reviewed by management (Accounting policies Note (page 73) and Note 16).
b) Estimates of future profitability are required for the decision whether or not to carry forward a deferred tax asset. (Note 12).
c) Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which the goodwill has been allocated. This value-in-use calculation requires an estimation of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.
d) Inventory standard costs are reviewed regularly in order to ensure relevant measures of utilisation, production lead time and appropriate levels of manufacturing expense are reflected in the standards.
e) In relation to the accrued additional revenue due from distributors referred to in the judgements section (point (b) above); there is some uncertainty that the additional revenue will crystallise as it is dependent on a further sale by the distributor. The Directors consider that the additional consideration can be measured reliably because it is based on a fixed list price and our past experience indicates that the distributor will sell the vaccines. The Directors have assessed that the accrued consideration of £0.1 million is recoverable and will crystallise in future periods and has been carried forward in prepayments and accrued income (2017: £0.1m).
f) The Group operates equity-settled share-based compensation plans for remuneration of its employees comprising LTIP schemes. As explained in Note 28, employee services received in exchange for the grant of any share based compensation are measured at their fair values and expensed over the vesting period. The fair value of this compensation is dependent on whether the provisional share awards will ultimately vest, which in turn is dependent on future events which are uncertain. The Directors use their judgement and experience of previous awards to estimate the probability that the awards will vest, which impacts the fair valuation of the compensation.
g) Where the Group is in negotiation with third-party contractors around final account payments in relation to contracts, there is always an element of uncertainty as to the exact amount that will become payable. The Group accounts for its liabilities based on best estimates of the most likely outcome and gives extra disclosure where the range of likely outcomes could be materially different from the estimate accounted for.

3. Revenue

An analysis of revenue by category is set out in the table below:

	2018 £'000	2017 £'000
Sale of goods	**68,321**	64,113
Rendering of services	**25**	25
	68,346	64,138

Rendering of services relates to the supply of services to a new distributor to assist them in setting up operations in their territory.

4. Segmental reporting

The Group's operating segments are reported based on the financial information provided to the Executive Directors, who are defined as the CODM, to enable them to allocate resources and make strategic decisions.

The CODM reviews information based on geographical market sectors and assesses performance at an EBITDA (operating profit before interest, tax, depreciation and amortisation) and operating profit level. Management have identified that the reportable segments are Central Europe (which includes the following operating segments; Germany, Austria, Switzerland and the Netherlands), Southern Europe (Italy, Spain and Portugal), the UK, and Rest of World.

For all material regions that have been aggregated, management consider that they share similar economic characteristics. They are also similar in respect of the products sold, types of customer, distribution channels and regulatory environments.

Notes to the Financial Statements

continued

4. Segmental reporting continued

Revenue by segment

	Revenue from external customers 2018 £'000	Inter segment revenue 2018 £'000	Total segment revenue 2018 £'000	Revenue from external customers 2017 £'000	Inter segment revenue 2017 £'000	Total segment revenue 2017 £'000
Central Europe						
Germany	**42,020**	–	**42,020**	38,200	–	38,200
Other	**9,672**	–	**9,672**	9,386	–	9,386
	51,692	–	**51,692**	47,586	–	47,586
Southern Europe						
Italy	**5,138**	–	**5,138**	5,535	–	5,535
Spain	**6,551**	–	**6,551**	6,075	–	6,075
Other	**644**	–	**644**	498	–	498
	12,333		**12,333**	12,108	–	12,108
UK	**1,832**	**29,164**	**30,996**	1,868	25,787	27,655
Rest of World	**2,489**	–	**2,489**	2,576	–	2,576
	68,346	**29,164**	**97,510**	64,138	25,787	89,925

Revenues from external customers in all segments are derived principally from the sale of a range of pharmaceutical products designed for the immunological treatment of the allergic condition.

Rest of World revenues include sales through distributors and agents in several markets including the Czech Republic, Slovakia, Canada and South Korea. These include rendering of services revenues (Note 3). Inter-segment revenues represent sales of product from the UK to the operating subsidiaries. The price is set on an arm's-length basis which is eliminated on consolidation.

The CODM also reviews revenue by segment on a budgeted constant currency basis, to provide relevant year-on-year comparisons.

The following revenue table is based on a budget currency rate of €1.24: £1.00 which was the rate used in the 2018 budget.

	Revenue from external customers 2018 £'000	Revenue from external customers 2017 £'000
Central Europe		
Germany	**38,148**	34,754
Other	**9,054**	8,220
	47,202	42,974
Southern Europe	**11,256**	11,062
UK	**1,832**	1,869
Other	**2,487**	2,589
	62,777	58,494

The Group has no customers which individually account for 10% or more of the Group's revenue.

Depreciation and amortisation by segment

	2018 £'000	2017 £'000
Central Europe	**276**	230
Southern Europe	**406**	488
UK	**1,338**	1,218
	2,020	1,936

4. Segmental reporting continued

EBITDA by segment

	2018 £'000	2017 £'000
Allocated EBITDA		
Central Europe	**(867)**	380
Southern Europe	**(381)**	89
UK	**(3,462)**	(429)
Allocated EBITDA	**(4,710)**	40
Depreciation and amortisation	**(2,020)**	(1,936)
Operating loss	**(6.730)**	(1,896)
Finance income	**154**	151
Finance expense	**(320)**	(225)
Loss before tax	**(6,896)**	(1,970)

Total assets by segment

	2018 £'000	2017 £'000
Central Europe	**15,180**	14,577
Southern Europe	**8,632**	7,154
UK	**58,271**	61,666
	82,083	83,397
Inter-segment assets	**(5,034)**	(4,586)
Inter-segment investments	**(26,033)**	(21,628)
Total assets per balance sheet	**51,016**	57,183

Included within Central Europe are non-current assets to the value of £2,604,000 (2017: £2,594,000) relating to goodwill and within Southern Europe assets to the value of £2,691,000 (2017: £2,840,000) relating to freehold land and buildings. There were no material additions (excluding foreign exchange differences) to non-current assets in any country except the UK where non-current asset additions totalled £1,497,000 (2017: £1,485,000).

Total liabilities by segment

	2018 £'000	2017 £'000
Central Europe	**(15,571)**	(14,964)
Southern Europe	**(5,334)**	(6,163)
UK	**(12,111)**	(10,677)
	(33,016)	(31,804)
Inter-segment liabilities	**5,034**	4,586
Total liabilities per balance sheet	**(27,982)**	(27,218)

Notes to the Financial Statements

continued

5. Loss before tax

	2018 £'000	2017 £'000
Loss for the period has been arrived at after charging/(crediting):		
(Gain) on fair valuation of foreign exchange forward contracts	**(306)**	(776)
(Gain) on foreign exchange forward contracts matured in the year	**870**	(1,930)
(Gain) on revaluation of US Dollar denominated cash deposits	**(10)**	(361)
Other foreign exchange gains	**123**	(525)
Depreciation and amortisation:		
Depreciation of PPE (Note 16)	**1,570**	1,510
Amortisation of intangible assets (Note 15)	**450**	426
Impairment of intangible assets (Note 15)	**224**	69
Loss on disposal of intangible assets (Note 15)	**–**	29
Loss on disposal of tangible assets (Note 16)	**5**	13
R&D	**16,017**	9,296
Land and buildings held under operating leases	**876**	752
Other operating leases	**1,232**	797
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	**56**	51
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**83**	81
Audit related assurance	**10**	10
Tax compliance services	**8**	6
Tax advisory services	**8**	8
Other services	**9**	–
Share-based payment expense (Note 28)	**985**	703

6. Remuneration of key management personnel

	2018 £'000	2017 £'000
Salaries and short-term employee benefits	**969**	699
Social security costs	**105**	76
Post-employment benefits – defined contribution plans	**59**	55
	1,133	830
Share-based payment	**100**	63
	1,233	893

Key management personnel are considered to be the Directors and full details of their remuneration are set out in the information included in the Directors' remuneration table on page 52 and forms part of the financial statements.

7. Employees (including Directors)

	2018 £'000	2017 £'000
Wages and salaries	**24,377**	21,913
Social security costs	**4,167**	3,654
Share-based payments	**985**	703
Pension costs – defined benefit plans	**330**	367
Pension costs – defined contribution plans	**540**	451
	30,399	27,088

The average number of employees during the period (including Executive Directors) was made up as follows:

	2018	2017
R & D, marketing and administration	**189**	178
Sales	**124**	126
Production	**186**	175
	499	479

8. Other income

	2018 £'000	2017 £'000
Net monetary value of above the line R&D tax credit	**630**	699

9. Finance expense

	2018 £'000	2017 £'000
Interest on borrowing facility	**63**	70
Net interest expenses on defined benefit pension liability	**198**	154
Other interest and charges	**59**	1
	320	225

10. Finance income

	2018 £'000	2017 £'000
Bank interest	**51**	45
Interest on investment assets	**90**	89
Other finance income	**13**	17
	154	151

Other finance income relates to the unwinding of the discount on accrued revenue.

Notes to the Financial Statements

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11. Income tax expense

	2018 £'000	2017 £'000
Current tax:		
Prior period overseas tax	–	9
Overseas tax	**670**	508
	670	517
Deferred tax - current year	**(33)**	(6)
Tax charge for the period	**637**	511

The tax charge assessed for the period is higher than the standard rate of corporation tax as applied in the respective trading domains where the Group operates.

The differences are explained below:

	2018 £'000	2017 £'000
Loss for the period before tax	**(6,896)**	(1,970)
Loss for the period multiplied by the respective standard rate of corporation tax applicable in each domain (average 19% (2017: 19.75%))	**(1,310)**	(389)
Effects of:		
Disallowable adjustments	**672**	376
Movements in unrecognised deferred tax	**1,154**	520
Adjustment of taxes for prior periods	**–**	9
Adjustment for different tax rates	**87**	198
Relief for shares acquired by employees and Directors	**(43)**	(102)
Gross up of R&D expenditure credit - current year	**22**	(101)
- prior year	**55**	–
	637	511
Deferred tax - reduction in carrying amount of deferred tax asset	**–**	–
Tax charge for the period	**637**	511

12. Deferred tax

Recognised deferred tax liability

	Tax value of carried forward losses £'000	Tax value of accelerated capital allowances £'000	Acquisition of Bencard A.G. (formerly Teomed A.G.) £'000	Italian freehold property £'000	Tax value of Alerpharma S.A. losses £'000	Acquisition of Alerpharma S.A. £'000	Total £'000
At 1 July 2017	359	(359)	(135)	(45)	199	(371)	(352)
Amount (charged)/credited to the income statement	(39)	39	15	(1)	(103)	122	33
Exchange differences	–	–	11	–	2	(3)	10
At 30 June 2018	320	(320)	(109)	(46)	98	(252)	(309)

	Tax value of carried forward losses £'000	Tax value of accelerated capital allowances £'000	Acquisition of Bencard A.G. (formerly Teomed A.G.) £'000	Italian freehold property £'000	Tax value of Alerpharma S.A. losses £'000	Acquisition of Alerpharma S.A. £'000	Total £'000
At 1 July 2016	403	(403)	(139)	(43)	243	(395)	(334)
Amount (charged)/credited to the income statement	(44)	44	15	–	(58)	49	6
Exchange differences	–	–	(11)	(2)	14	(25)	(24)
At 30 June 2017	359	(359)	(135)	(45)	199	(371)	(352)

Deferred tax is provided under the balance sheet liability method using the local tax rate for the overseas difference. Deferred tax assets and deferred tax liabilities are offset where the Group has a legally enforceable right to do so and when the deferred tax assets and liabilities relate to tax levied by the same tax authority and where there is an intention to settle the balances on a net basis. Deferred tax assets, in respect of losses, are recognised up to the value of the fixed asset liability as the nature of the asset and liability is such that they unwind at the same time.

The deferred tax liability in respect of the Italian freehold property relates to the revaluation of this property.

The following is the analysis of the deferred tax balances after offset for financial reporting purposes:

	2018 £'000	2017 £'000
Deferred tax assets	**418**	558
Deferred tax liabilities	**(727)**	(910)
	(309)	(352)

Unrecognised deferred tax

	2018 Deferred tax assets £'000	2017 Deferred tax assets £'000
Non-current assets		
PPE	**58**	57
R&D expenditure credit	**456**	306
Current assets		
Stock	**162**	148
Current liabilities		
Derivative financial instruments	**17**	69
Non-current liabilities		
Pension and other employee obligations	**1,748**	1,658
Share options	**317**	113
Unused tax losses	**14,819**	13,572
Total	**17,577**	15,923

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12. Deferred tax continued

As at 30 June 2018, the Group had approximately £86m of unutilised tax losses (2017: approximately £79m) available for offset against future profits. No net deferred tax asset has been recognised in respect of unutilised tax losses. Substantially all the tax losses have no fixed expiry date.

The main UK corporation tax rate is to change from 19% to 17% with effect from 1 April 2020. The recognised and unrecognised deferred tax assets have been calculated at 17%, being the rate enacted at 30 June 2018.

13. Loss per share

	2018 £'000	2017 £'000
Loss after tax attributable to equity shareholders	**(7,533)**	(2,481)

	Shares '000	Shares '000
Issued Ordinary Shares at start of the period	**594,118**	589,159
Ordinary Shares issued in the period	**2,051**	4,959
Issued Ordinary Shares at end of the period	**596,169**	594,118
Weighted average number of Ordinary Shares for the period	**595,099**	592,192
Potentially dilutive share options	**–**	–
Weighted average number of Ordinary Shares for diluted earnings per share	**595,099**	592,192
Basic loss per Ordinary Share (pence)	**(1.27)p**	(0.42)p
Diluted loss per Ordinary Share (pence)	**(1.27)p**	(0.42)p

The diluted loss per share does not differ from the basic loss per share as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive under the terms of IAS 33.

	2018 Number of shares '000	2017 Number of shares '000
Weighted average number of Ordinary Shares in issue	**595,099**	592,192
Potentially dilutive share options	**30,062**	22,893
Weighted average number of diluted Ordinary Shares	**625,161**	615,085

14. Goodwill

	2018 £'000	2017 £'000
At 1 July	**3,390**	3,271
Addition	**–**	–
Exchange difference	**16**	119
At 30 June	**3,406**	3,390

For the purposes of impairment testing of goodwill, the Directors recognise the Group's CGUs to be the following:

	2018 £'000	2017 £'000
Germany	**2,604**	2,594
Spain	**802**	796
Total	**3,406**	3,390

Apart from the considerations described in determining the value in use of the CGU described below, the Group's management is not currently aware of any reasonably possible changes that would necessitate changes in its key estimates. There are no reasonably possible changes in the assumptions that could lead to an impairment being recorded.

Management estimates discount rates using post-tax rates and post-tax cashflows that reflect the current market assessment of the time value of money and the risks specific to the cash generating unit.

Germany

The recoverable amount for the Germany CGU above was determined based on a value-in-use calculation, covering a detailed three-year forecast of future cash flows using budgeted projections assuming a 8% discount rate (2017: 13.2%) which the Group has estimated to be the weighted average cost of capital adjusted for risks specific to the CGU. The discount rate has been calculated using the capital asset pricing model ('CAPM'). The calculated discount rate has reduced due to a reduction in the expected market return used in this model.

Management's key assumptions include sales growth (at an average of 4% for the three-year period), which has been determined based on past experience in this market. The Group's management believes that this is the best available input for forecasting this mature market.

Spain

The recoverable amount for the Spain CGU above was determined based on a value-in-use calculation, covering a detailed five-year forecast of future cash flows using budgeted projections assuming a 17% discount rate (2017: 17%) which the Group has estimated to be the weighted average cost of capital adjusted for risks specific to the CGU.

Management's key assumptions include sales growth (at an average of 4% for the five-year period), which has been determined based on past experience in this market. The Group's management believes that this is the best available input for forecasting this mature market.

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15. Intangible assets

	Manufacturing and Noncompeting know-how £'000	Distribution agreements (Switzerland) £'000	Trade names (Spain) £'000	Customer relationships (Spain) £'000	Know-how and patents (Spain) £'000	Other intangibles £'000	Computer software £'000	Total £'000
Cost								
At 1 July 2016	4,578	1,094	372	237	220	1,036	2,470	10,007
Asset reclassification	–	–	–	–	–	–	216	216
Additions	–	–	–	–	–	14	212	226
Disposals	(23)	–	–	–	–	(6)	–	(29)
Foreign exchange	183	57	26	17	15	4	38	340
At 30 June 2017	4,738	1,151	398	254	235	1,048	2,936	10,760
Asset reclassification	–	–	–	–	–	–	4	4
Additions	–	–	–	–	–	–	244	244
Disposals	–	–	–	–	–	–	(12)	(12)
Foreign exchange	24	(55)	3	2	2	1	5	(18)
At 30 June 2018	**4,762**	**1,096**	**401**	**256**	**237**	**1,049**	**3,177**	**10,978**
Amortisation								
At 1 July 2016	4,557	395	20	39	18	939	1,955	7,923
Asset reclassification	–	–	–	–	–	–	23	23
Charge for the year	–	57	31	59	27	6	246	426
Impairment	–	–	69	–	–	–	–	69
Foreign exchange	181	21	2	3	2	3	38	250
At 30 June 2017	4,738	473	122	101	47	948	2,262	8,691
Asset reclassification	–	–	–	–	–	–	4	**4**
Disposals	–	–	–	–	–	–	(12)	**(12)**
Charge for the year	–	73	31	59	28	3	256	**450**
Impairment	–	–	224	–	–	–	–	**224**
Foreign exchange	24	44	–	–	–	2	8	**78**
At 30 June 2018	**4,762**	**590**	**377**	**160**	**75**	**953**	**2,518**	**9,435**
Net book value								
At 1 July 2016	21	699	352	198	202	97	515	2,084
At 30 June 2017	–	678	276	153	188	100	674	2,069
At 30 June 2018	**–**	**506**	**24**	**96**	**162**	**96**	**659**	**1,543**

The class of Intangible Assets 'Distribution agreements' arose from the acquisition of the Swiss subsidiary, Teomed A.G. on 1 July 2010.

These distribution agreements represent the present value of the future cash flows expected to arise from the agreements and are amortised over a period of 15 years.

Trade names, customer relationships, know-how and patent (Spain) assets were recognised at fair value upon the acquisition of Alerpharma S.A.

An impairment of £0.2m (2017:£0.1m) has been recognised in administration expenses in respect of trade names in Spain relating to Alerpharma S.A.

Other intangibles relate to trademarks and licences.

16. Property, plant and equipment

	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Freehold land and buildings £'000	Total £'000
Cost or valuation						
At 1 July 2016	9,792	5,863	36	3,950	3,023	22,664
Asset reclassification	–	–	–	(216)	–	(216)
Additions	531	727	–	242	–	1,500
Foreign exchange	31	42	–	53	180	306
Disposals	(910)	(768)	–	–	–	(1,678)
At 30 June 2017	9,444	5,864	36	4,029	3,203	22,576
Asset reclassification	–	–	–	(4)	–	(4)
Additions	668	1,174	4	82	1	1,929
Foreign exchange	3	5	–	6	68	82
Disposals	(4)	–	–	(139)	–	(143)
At 30 June 2018	**10,111**	**7,043**	**40**	**3,974**	**3,272**	**24,440**
Depreciation						
At 1 July 2016	5,593	4,088	22	3,213	81	12,997
Charge for the year	672	385	6	309	138	1,510
Asset reclassification	–	–	–	(23)	–	(23)
Foreign exchange	20	29	–	30	5	84
Disposals	(909)	(756)	–	–	–	(1,665)
At 30 June 2017	5,376	3,746	28	3,529	224	12,903
Charge for the year	611	563	8	217	171	1,570
Asset reclassification	–	–	–	(3)	–	(3)
Foreign exchange	2	4	–	5	1	12
Disposals	(1)	–	–	(137)	–	(138)
At 30 June 2018	**5,988**	**4,313**	**36**	**3,611**	**396**	**14,344**
Net book value						
At 1 July 2016	4,199	1,775	14	737	2,942	9,667
At 30 June 2017	4,068	2,118	8	500	2,979	9,673
At 30 June 2018	**4,123**	**2,730**	**4**	**363**	**2.876**	**10,096**

Note 22 provides details of the assets secured against the Group's bank borrowings.

Freehold land and buildings relates to the Group's office and warehouse building in Milan, Italy and the Group's manufacturing and office facility in Madrid, Spain. The building in Italy was revalued in June 2016 by independent valuers based on an open market valuation. This property is carried at fair value.

The Madrid premises were acquired on the acquisition of Alerpharma in June 2015 with a fair valuation of €2,299,000 (£1,607,000). The valuation was carried out by independent valuers. The valuation was performed using the depreciated cost replacement method (adjusted for reduction in value due to age). The age reduction applied related to a percentage discount to allow for the fact that the valuation reflected the current age of the building. The unobservable input relates to the percentage applied for this reduction in value. If the age reduction discount were to increase by 10% then the valuation of the building would reduce by £155,000. The net book value at acquisition was €1,327,000 (£937,000).

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16. Property, plant and equipment continued

The reconciliation of the carrying amounts of land and buildings non-financial assets classified within Level 3 is as follows:

	Spain £'000	Italy £'000	Total £'000
Balance at 1 July 2017	1,819	1,160	2,979
Loss recognised in income statement - depreciation of buildings	(118)	(53)	(171)
Gain recognised in OCI - exchange differences on translating foreign operations	59	9	68
Balance at 30 June 2018	**1,760**	**1,116**	**2,876**

The Italian land and buildings were previously valued using the cost model and had a carrying value of £1. Fair values were estimated based on recent market transactions, which were then adjusted for specific conditions relating to the land and buildings. A valuation of the Italian land and buildings was carried out in June 2018 by independent valuers using the market method. The value of the property was calculated taking into account the sale prices achieved by other properties similar to the one in question as regards size, location, type, use quality, construction features etc. The valuers used an equivalent value of €1,600 (£1,416) per sqm. This compares to a range of prices from €1,300 per sqm to €2,000 per sqm observed by the valuers. Carrying values were not adjusted as management do not consider that the fair value as at 30 June 2018 for the Italy and Spain land and buildings (based on the latest valuation, knowledge of the local market and enquiries of local experts) is significantly different to the carrying value.

If the cost basis was used, the carrying amounts of the Italian revalued land and buildings would be £1 (the carrying value of the asset at the point the subsidiary was first consolidated). The revalued amounts include a revaluation surplus of £1,298,000 before tax (of which £476,000 writes back the accumulated depreciation) which is not available for distribution to the shareholders of the Group.

17. Remeasurement of retirement benefit investments

The Group carries an insurance policy which is designed to contribute towards the obligation in respect of the German defined benefit pension scheme (see Note 26). The policy includes a right to reimbursement and therefore does not meet the definition of a qualifying insurance policy under IAS 19.8. It is valued at fair value by the pension scheme administrators (SLPM) each year. SLPM value the insurance policies according to contractual arrangements (equivalent to cash surrender values). This is classified as Level 2 in the fair value hierarchy.

	2018 £'000	2017 £'000
At 1 July	**4,592**	4,045
Additions	**367**	302
Finance income	**90**	89
Remeasurement of investment	**(39)**	(91)
Profit on foreign exchange	**33**	247
	5,043	4,592

18. Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	**2,164**	1,648
Work in progress	**2,778**	2,774
Finished goods	**3,866**	3,062
	8,808	7,484

The value of inventories measured at fair value less cost to sell was £347,000 (2017: £305,000). The movement in the value of inventories measured at fair value less cost to sell during the year gave rise to a charge of £42,000 which was dealt with in the Consolidated Income Statement.

19. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	**3,783**	4,336
Other receivables	**1,002**	1,546
VAT	**576**	333
Prepayments and accrued revenue	**1,226**	1,638
	6,587	7,853

Accrued revenue of £44,000 relates to deferred consideration receivable from customers (2017: £56,000).

All amounts due as shown above are short term. The carrying value of trade receivables is considered a reasonable approximation of fair value. All trade and other receivables have been reviewed for indicators of impairment. During the year, £81,000 of trade receivables were written back and £66,000 of the provision utilised. The impaired trade receivables are mostly due from private customers in the Italian market who are experiencing financial difficulties.

Bad and doubtful debt provision

	2018 £'000	2017 £'000
Balance brought forward	**612**	421
Foreign exchange adjustments	**70**	28
(Credit)/charge for the year	**(81)**	163
Utilised	**(66)**	–
Balance carried forward	**535**	612

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows.

The financial assets which were overdue but not provided for were:

	2018 £'000	2017 £'000
Trade receivables		
Not more than three months	**710**	1,196
More than three months but not more than six months	**179**	305
More than six months but not more than one year	**24**	88
More than one year	**110**	18
	1,023	1,607

20. Cash and cash in hand

	2018 £'000	2017 £'000
Cash at bank and in hand	**15,533**	22,122

21. Trade and other payables

	2018 £'000	2017 £'000
Due within one year		
Trade payables	**3,193**	2,881
Social security and other taxes	**2,216**	1,539
Other creditors	**212**	189
Accrued expenses and deferred income	**8,269**	8,616
	13,890	13,225

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22. Borrowings

	2018 £'000	2017 £'000
Due within one year		
Bank loans	**644**	391
	644	391

	2018 £'000	2017 £'000
Due in more than one year		
Bank loans	**2,414**	2,936
	2,414	2,936

There is an overdraft facility provided by NatWest Bank plc which has a variable limit during the year up to a maximum of £5 million (extended to £7 million in September 2018). Interest on the overdraft is at the bank's base rate plus a fixed margin of 2.50%. The facility is secured in favour of NatWest Bank plc by means of debentures granted by the Company and its principal subsidiaries and share pledge agreements relating to Bencard Allergie GmbH, Allergy Therapeutics Italia s.r.l. and Allergy Therapeutics Iberica S.L. In addition, the Group has issued a lien over the Group's interest in the equity of subsidiary undertakings as security against the banking facilities. The overdraft facility is due for renewal in August 2019. The overdraft was unused at 30 June 2018 (2017: Nil).

As part of the acquisition of Alerpharma S.A., the Group acquired loans totalling €2,386,000 (£1,684,000). The loans are secured by way of a charge on land and buildings owned by Alerpharma Group S.A.

		Capital repayments due		
	Interest rate	<1 year £'000	1-5 years £'000	>5 years £'000
Bank Inter (1)	3 month Euribor +0.55%	125	224	–
Bank Inter (2)	1 month Euribor +5.0%	34	134	167
Santander (1)	12 month Euribor +2.5%	126	252	–
Tecnoalcala	Interest free	26	103	–
Santander (2)	Fixed rate of 2.5%	333	1,353	–
CDTI	Interest free	–	114	67
		644	2,180	234

No new loans were taken out during the year.

23. Provisions

The provision refers to a leaving indemnity reserve in Allergy Therapeutics Italia s.r.l. Under Italian law, alongside each monthly salary payment an amount is accrued into this reserve for each employee. When the employee leaves the Company the accrued amount is paid as a deferred salary payment.

The actuarial valuation, in accordance with IAS 19 for employee benefits is based on assumptions determinate at the valuation date. The methodology used is the 'Projected unit credit method'. This method sees each year of service give rise to an additional unit of leaving indemnity entitlement and values each unit separately to build up to a final total obligation.

The actuarial valuation in accordance with IAS 19 was carried out by Managers & Partners Actuarial Services SpA at 30 June 2018. The major assumptions used were as follows:

	2018 % p.a.	2017 % p.a.
Retail price inflation	**1.5**	1.5
Salary increase rate	**0.5**	0.5
Annual rate of leaving indemnity increase	**2.6**	2.6
Annual discount rate	**0.98**	0.91
Demographic assumptions		
Mortality	**RG48**	RG48
Inability	**INPS tables**	INPS tables
Advanced payment annual rate	**1.00%**	1.00%
Withdrawal annual rate	**10.00%**	10.00%

The movement in the leaving indemnity reserve during the year was as follows:

	2018 Total £'000	2017 Total £'000
At 1 July	**291**	257
Additions	**29**	24
Utilisation	**(19)**	(46)
IAS 19 addition	**(21)**	40
Foreign exchange movement	**2**	16
At 30 June	**282**	291

During the year an independent actuarial valuation of the Italy leave indemnity reserve was carried out and an adjustment made so as to comply with IAS 19.

The following table summarises the effects of changes in these actuarial assumptions on the defined benefit liability at 30 June 2018:

Changes in significant actuarial assumptions

	2018 £'000	2017 £'000
Withdrawal annual rate +1.00%	**282**	289
Withdrawal annual rate -1.00%	**284**	293
Annual discount rate +0.25%	**286**	294
Annual discount rate -0.25%	**280**	288
Annual price inflation +0.25%	**278**	286
Annual price inflation -0.25%	**287**	296

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24. Financial instruments

Risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising the return to shareholders through the effective management of liquid resources raised through share issues and loan arrangements. Capital management objectives are met through regular reviews of cash flows, debtor/creditor balances, budgets and forecasts.

	2018 £'000	2017 £'000
Capital	**23,034**	29,965
Total equity	**23,034**	29,965
Borrowings	**3,058**	3,327
Overall financing	**26,092**	33,292
Capital-to-overall financing ratio (%)	**0.88**	0.90

There is no requirement by external parties to comply with any capital ratios.

The IAS 39 categories of financial assets and liabilities included in the balance sheet and the headings under which they are shown are as follows:

Categories of financial instrument

	2018 £'000	2017 £'000
Financial assets		
Current		
Loans and receivables (including cash and cash equivalents)	**20,937**	28,395
	20,937	28,395
Financial liabilities		
Current		
At amortised cost (including borrowings and payables)	**(14,534)**	(13,616)
Fair value through profit and loss - held for trading	**(97)**	(404)
	(14,631)	(14,020)
Non-current		
At amortised cost (including borrowings and payables)	**(2,696)**	(3,227)
	(17,327)	(17,247)

Derivative financial instruments

The Group uses derivative financial instruments to mitigate the effects of exchange rate exposure through the use of forward exchange contracts.

The fair value of these instruments is calculated by reference to observable market rates (spot rate versus forward rates for matching maturity dates) and supported by counterparty confirmation. Within the fair value hierarchy, this financial derivative is classified as Level 2.

Euro forward contracts (including Euro exchange swaps)

The Group has Euro forward contracts with its bank that are arranged for the net sale of €15,433,000 to purchase GBP at an average blended rate of 1.1357 for dates from July 2018 until March 2019.

Analysis of derivative financial instruments

	2018 £'000	2017 £'000
Credit/(charge) to administration expenses in the Consolidated Income Statement		
Euro forward contracts	**306**	776
Euro forward contracts - matured in the period	**(870)**	(1,930)
	(564)	(1,154)

Forward exchange contracts are considered by management to be part of economic hedge arrangements but have not been formally designated as such and hence hedge accounting is not used.

24. Financial instruments continued
Derivative financial instruments

	2018 £'000	2017 £'000
Current liabilities		
Derivative financial instruments – Euro forward contracts	**(97)**	(404)
	(97)	(404)

The net gain at fair value of financial instruments held at the balance sheet date that has been recorded through the Consolidated Income Statement is £307,000 (2017 gain: £776,000).

Foreign currency risk

The Group conducts most of its day-to-day financial activities in either the Euro (which is the functional currency of the active subsidiaries in Germany, Italy, Spain, Austria and the Netherlands), Sterling (which is the functional currency of the UK parent entity) and Swiss Francs (which is the functional currency of the Swiss subsidiary). Some costs are denominated in US Dollars and some income is denominated in Canadian Dollars.

The Group carries bank balances in the following currencies:

	2018 £'000	2017 £'000
Sterling	**11,920**	18,232
Euro	**3,340**	3,411
US Dollars	**72**	96
Canadian Dollars	**4**	11
Swiss Franc	**197**	372
	15,533	22,122

Foreign currency denominated financial assets and liabilities, translated into Sterling at closing rates, are as follows:

	2018			2017		
	Sterling £'000	Euro £'000	Other £'000	Sterling £'000	Euro £'000	Other £'000
Current						
Financial assets	**13,982**	**6,455**	**501**	20,574	7,113	707
Financial liabilities	**(8,114)**	**(6,323)**	**(194)**	(7,471)	(6,285)	(264)
Short-term exposure	**5,868**	**132**	**307**	13,103	828	443
Non-current						
Financial liabilities	**–**	**(2,696)**	**–**	–	(3,227)	–
Long-term exposure	**–**	**(2,696)**	**–**	–	(3,227)	–

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24. Financial instruments continued

The following table illustrates the sensitivity of the net result for the year and the equity of the Group with regard to its financial assets and liabilities and the Euro to Sterling exchange rate. Foreign exchange movements over the last two years have been considered and an average taken, and on this basis a 10% movement is considered to be a reasonable benchmark. For 2018, a 10% movement was also used.

	2018 £'000	2017 £'000
If Sterling had strengthened against the Euro by	**10%**	10%
Effect on net results for the year	**307**	(151)
Effect on OCI	**(577)**	(392)
Effect on equity	**(270)**	(543)
If Sterling had weakened against the Euro by	**10%**	10%
Effect on net results for the year	**(375)**	184
Effect on OCI	**703**	477
Effect on equity	**328**	661

Interest rate risk

The Group finances its operations through operating cash-flow, equity fundraising and overdraft facilities. Interest is charged at a floating rate on the overdraft facility. The overdraft facility is tailored in a way to give flexibility to the Group. This flexibility provides the Group with a higher level of the facility in the low sales season and allows it to pay down the facility in the high sales season. The following table illustrates the sensitivity of the net result for the year and equity to possible changes in interest rates of +1% with effect from the beginning of the year on the remaining element of borrowings. Due to the current low interest rates it is not feasible to illustrate the results were the interest rates to fall by 1%.

The sensitivities are considered to be reasonable given the current market conditions and the calculations are based on the financial instruments held at each balance sheet date, all other variables being held constant.

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
	+1%	**-1%**	+1%	-1%
Movement in net results for the year	**(18)**	**n/a**	(15)	n/a
Equity	**-**	**n/a**	-	n/a
	(18)	**n/a**	(15)	n/a

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk, the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is regularly monitored. The maximum exposure to credit risk is the carrying value of the debtor.

Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. The maximum exposure is the amount of the deposit. Credit risk on assets derived from financial derivatives are also considered to be small as the counterparties are all substantial banks with high credit ratings. The maximum exposure is the asset recognised.

The credit quality of financial assets that are not past due or impaired are regularly reviewed by management.

Liquidity risk

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern, and to provide adequate funding for its day-to-day operations. Management has access to funding through a bank facility and continues to have the option to raise funds from the issue of equity shares to ensure the Group remains able to meet its commitments as they fall due. The Group's bank facility (Note 22) is due for renewal in August 2019. As at 30 June 2018, the Group's contractual maturities (undiscounted and including interest) are summarised on the next page.

24. Financial instruments continued

Current liabilities

	2018 £'000 Within 6 months	2018 £'000 6 to 12 months	2017 £'000 Within 6 months	2017 £'000 6 to 12 months
Borrowing facility	**329**	**329**	169	169
Trade payables	**3,193**	**–**	2,881	–
Other short-term liabilities	**10,697**	**–**	10,344	–
	14,219	**329**	13,394	169
Derivatives	**77**	**20**	271	133
	14,296	**349**	13,665	302

Non-current liabilities

	2018 £'000 1 to 5 years	2018 £'000 Later than 5 years	2017 £'000 1 to 5 years	2017 £'000 Later than 5 years
Borrowing facility	**2,317**	**388**	2,566	971
Other long-term liabilities	**282**	**–**	291	–
	2,599	**388**	2,857	971

25. Operating lease commitments

The following payments are due to be made on operating lease commitments:

	Land and buildings		Other		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Within one year	**889**	982	**415**	536	**1,304**	1,518
Two to five years	**2,833**	3,038	**527**	449	**3,360**	3,487
Over five years	**2,087**	2,352	**–**	–	**2,087**	2,352
	5,809	6,372	**942**	985	**6,751**	7,357

Of the operating lease commitments for the land and buildings of £5,809,000 (2017: £6,372,000), £1,580,000 relates to the UK premises (2017: £2,021,000). The production facility accounts for £1,451,000 (2017: £1,828,000) of this commitment and expires in December 2023. Premises in Spain account for £49,000 (2017: £97,000) expiring in 2020 and in Germany for £4,603,000 (2017: £4,045,000) expiring in June 2027.

Of the other commitments, £746,000 (2017: £756,000) relates to leased vehicles all expiring within five years and none relate (2017: £Nil) to leased vehicles all expiring over five years.

26. Retirement benefit obligations

Defined contribution scheme

The Group operates a defined contribution pension scheme for certain employees in the UK. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the profits represents the contributions payable under the scheme in respect of the accounting period totalling £540,000 (2017: £451,000).

Defined benefit scheme

The Group operates a partly funded non-contributory defined benefit pension scheme for certain employees in Germany. The actuarial valuation was carried out by Swiss Life Pensions Management GmbH at 30 June 2018. The major assumptions used were as follows:

	2018 % p.a.	2017 % p.a.
Retail price inflation	**1.5**	1.5
Salary increase rate	**3.0**	3.0
Rate of pension increase	**1.5**	1.5
Discount rate at the beginning of the year	**2.05**	1.45
Discount rate at the end of the year	**1.85**	2.05
Increase of social security contribution ceiling	**3.0**	3.0

Notes to the Financial Statements

continued

26. Retirement benefit obligations continued

	Years	Years
Average life expectancies		
Male, 65 years of age at the balance sheet date	**19.9**	19.8
Female, 65 years of age at the balance sheet date	**23.9**	23.8
Male, 45 years of age at the balance sheet date	**39.7**	39.5
Female, 45 years of age at the balance sheet date	**44.7**	44.6

The assets in the scheme and the expected rates of return were as follows:

	2018 £'000	2017 £'000
Fair value of plan assets	**1,376**	1,346
Present value of scheme liabilities	**(11,722)**	(10,965)
Deficit in the scheme	**(10,346)**	(9,619)

The plan assets consist of long-term insurance policies held to cover the German pension obligation. The value of the plan assets is deducted from the value of the pension liability to give a net liability of £10.3m (2017: £9.6m). The basis used to determine the net interest cost is based on the net defined benefit asset or liability and the discount rate as determined by Swiss Life Pensions Management GmbH using the projected unit credit method. The actual gain on plan assets for the year is £77,000 (2017: £50,000). The pension charge generates an unrecognised deferred tax asset of £1,748,000 (2017: £1,658,000), however this is unrecognised in the Group accounts as there is uncertainty over the recoverability. The insurance contracts that form the plan assets are valued at fair value (market price) by the pension scheme administrators (SLPM) each year. SLPM value the insurance policies according to contractual arrangements (equivalent to cash surrender values). This is classified as Level 2 in the fair value hierarchy.

Long-term insurance policies that do not qualify as plan assets are recognised as separate investment assets at fair value and represent a re-imbursement right as defined by IAS 19. See Note 17 for further details of these investment assets.

	2018 £'000	2017 £'000
Amounts charged to operating profit	**330**	366
Current service costs		
Amounts included in other finance expenses		
Interest income on plan assets	**(28)**	(19)
Interest on pension scheme liabilities	**225**	170
Net charge	**197**	151
Amounts recognised in OCI		
Actual return less expected return on pension scheme assets	**49**	31
Experience gains/(losses) arising on scheme liabilities	**89**	(86)
Changes in assumptions underlying the present value of scheme liabilities	**(416)**	1,555
Total amount relating to year	**(278)**	1,500
Opening cumulative losses	**(3,901)**	(5,401)
Remeasurement of net defined liability	**(4,179)**	(3,901)
Cumulative net movement recognised	**(4,179)**	(3,901)

26. Retirement benefit obligations continued

Movement in assets during the year

	2018 £'000	2017 £'000
Balance as at 1 July	**1,346**	1,248
Foreign currency differences	**6**	75
Interest income on plan assets	**28**	18
Remeasurement of net defined liability	**49**	31
Contributions from employer	**11**	20
Assets transferred to finance benefits paid	**(64)**	(46)
Balance as at 30 June	**1,376**	1,346

Movement in liabilities in the year

	2018 £'000	2017 £'000
Balance as at 1 July	**(10,965)**	(11,422)
Foreign currency differences	**(75)**	(654)
Current service costs	**(330)**	(366)
Interest cost	**(225)**	(170)
Remeasurement of net defined liability	**(327)**	1,469
Benefits paid by employer	**136**	132
Benefits paid from assets	**64**	46
Balance as at 30 June	**(11,722)**	(10,965)

The expected contributions over the forthcoming year are £152,000.

The significant actuarial assumptions for the determination of the defined benefit IAS 19.173(b) obligation are the discount rate, the salary growth rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit liability at 30 June 2018:

Changes in the significant actuarial assumptions

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Discount rate	**Increase to 2.85%**	**Decrease to 0.85%**	Increase to 3.05%	Decrease to 1.05%
(Decrease)/increase in the defined benefit liability	**(1,876)**	**2,261**	(1,839)	2,238
Salary growth rate	**Increase to 4.00%**	**Decrease to 2.00%**	Increase to 4.00%	Decrease to 2.00%
Increase/(decrease) in the defined benefit liability	**460**	**(426)**	497	(455)
Average life expectancies of males	**Increase of one year**	**Decrease of one year**	Increase of one year	Decrease of one year
Increase/(decrease) in the defined benefit liability	**424**	**(420)**	381	(377)
Average life expectancies of females	**Increase of one year**	**Decrease of one year**	Increase of one year	Decrease of one year
Increase/(decrease) in the defined benefit liability	**467**	**(465)**	423	(422)

Notes to the Financial Statements

continued

27. Issued share capital

	2018 Shares	2018 £'000	2017 Shares	2017 £'000
Authorised share capital				
Ordinary Shares of 0.10 pence each				
1 July and 30 June	**790,151,667**	**790**	790,151,667	790
Deferred Shares of 0.10 pence each				
1 July and 30 June	**9,848,333**	**10**	9,848,333	10
Issued and fully paid				
Ordinary Shares of 0.10 pence				
At 1 July	**594,117,768**	**594**	589,158,508	589
Issued during the year:				
Share options exercised	**2,050,848**	**2**	4,959,260	5
At 30 June	**596,168,616**	**596**	594,117,768	594
Issued and fully paid				
Deferred shares of 0.10 pence				
At 1 July	**9,848,333**	**10**	9,848,333	10
Issued during the year	**–**	**–**	–	–
At 30 June	**9,848,333**	**10**	9,848,333	10
Issued share capital	**606,016,949**	**606**	603,966,101	604

The deferred shares have no voting rights, dividend rights or value attached to them.

Share options issued on vesting of LTIP awards were exercised in the year with proceeds of £2,000 (2017: £33,000).

28. Share-based payments

The Group has a LTIP under which Executive Directors and senior employees may receive an annual provisional award of performance vesting shares.

The Group has two plans: the initial 2005 Plan and the 2013 Plan. The 2013 LTIP was adopted by the Board on 20 March 2013, the Board having consulted major shareholders. Awards were made under the new 2013 Plan during the year.

For the 2013 Plan, performance criteria for each award are set by the Remuneration Committee. An award shall vest at 100% if at the end of the plan cycle the share price has increased by 25% has been satisfied. If the share price increase is less than 10% then no shares will vest. If the share price increase is between 10% and 25%, share distributions will be on a straight-line basis between 25% and 100% of the initial award. Each plan cycle will comprise a period of three years. An award will be forfeited if the employee leaves the Group before the shares vest.

For awards under the 2013 Plan during the years ended 30 June 2014 and 2015, the performance criteria are based on a combination of share price performance and adjusted earnings growth.

Share options were granted to employees and Directors under earlier schemes. The vesting periods are usually from one to three years. The vesting of some options is dependent on the Group's TSR performance as for the LTIPs detailed above. The options are settled in equity once exercised. If the options remain unexercised after a period of ten years from the date of the grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

During the current year, LTIP grants were provisionally awarded in March 2018 under the 2013 Plan subject to performance criteria being met.

28. Share-based payments continued

The following table sets out share options outstanding which are unrelated to the LTIP awards and have been disclosed separately to avoid distorting the weighted average exercise price ('WAEP'):

	2018 WAEP		2017 WAEP	
	Number	Price (£)	Number	Price (£)
Outstanding at the beginning of the year	**38,739**	**0.18**	852,539	0.14
Exercised during the year	**(3,000)**	**0.18**	(517,248)	–
Lapsed during the year	**–**	**–**	(296,552)	–
Outstanding at the year end	**35,739**	**0.18**	38,739	0.18
Exercisable at the year end	**35,739**	**0.18**	38,739	0.18

The share options outstanding at the end of the year have a weighted average remaining contractual life of 1.3 years (2017: 2.3 years) and all have an exercise price of £0.18:

	30 June 2018 Number	30 June 2017 Number
Exercise price (p)		
18.25	**35,739**	38,739

The movement in low cost options (LTIP awards that have been converted to share options redeemable at par) during the year was as follows:-

	2018 Number	2017 Number
Outstanding at the beginning of the year	**1,648,026**	6,170,038
Converted in the year from LTIPs	**4,457,066**	–
Exercised during the year	**(2,047,842)**	(4,442,012)
Lapsed during the year	**–**	(80,000)
Outstanding at the year end	**4,057,250**	1,648,026
Exercisable at the year end	**4,057,250**	1,648,026

For low cost options exercised during the year, the weighted average share price at the date of exercise was £0.28 (2017: £0.19).

Outstanding shares provisionally awarded under the LTIP, with a low cost exercise price, are as follows:

	2018 Number	2017 Number
Outstanding at the beginning of the year	**21,206,250**	11,862,500
Awarded during the year	**11,035,000**	15,193,750
Converted to options	**(4,457,066)**	–
Lapsed during the year	**(1,815,434)**	(5,850,000)
Outstanding at the year end	**25,968,750**	21,206,250

The fair values of LTIP shares conditionally awarded in December 2016 and March 2018 were determined using a Monte Carlo simulation (with 5,000 iterations) that takes into account factors specific to the share incentive plans.

A discount has been applied for lack of marketability to the portion of the awards that would have to be retained for three years after vesting.

Notes to the Financial Statements

continued

28. Share-based payments continued

The following principal assumptions were used in the valuation:

Date of grant	Exercisable from	Exercisable to	Exercise price (£)	Share price at grant (£)	Risk-free rate	Volatility	Number of awards expected to vest (non-market conditions)	Fair value (£)	Number outstanding
30/12/2016	24/09/2019	24/09/2026	0.001	0.209	0.11%	47%		0.055	3,225,625
30/12/2016	24/09/2019	24/09/2026	0.001	0.209	0.11%		63.10%	0.192	3,225,625
30/12/2016	24/09/2019	24/09/2026	0.001	0.209	0.11%	47%		0.091	4,273,750
30/12/2016	24/09/2019	24/09/2026	0.001	0.209	0.11%		63.10%	0.192	4,273,750
15/03/2018	15/03/2021	14/03/2031	0.001	0.270	0.85%	50%		0.133	5,485,000
15/03/2018	15/03/2021	14/03/2031	0.001	0.270	0.85%		71.6%	0.250	5,485,000

The share-based payment charge assumes an employee attrition rate of 5% per annum.

The Group recognised total expenses of £985,000 (2017: £703,000) related to equity-settled share-based payment transactions during the year.

29. Contingent liabilities

Allergy Therapeutics (UK) Ltd, a subsidiary of Allergy Therapeutics plc, has given a guarantee in lieu of deposits for leases on cars and rented office space of Bencard Allergie GmbH. The amount as at 30 June 2018 was €66,917; £59,229 (2017: €107,426; £94,391).

A cross-guarantee exists between Allergy Therapeutics (Holdings) Ltd, Allergy Therapeutics (UK) Ltd, Bencard Allergie GmbH, Allergy Therapeutics Italia s.r.l. and Allergy Therapeutics Iberica S.L. in which the liabilities of each entity to NatWest Bank plc are guaranteed by all
the others.

In respect of net revenue relating to a certain product, there is a risk that revenue of up to £1.8m (2017: £Nil) recorded for the full year to 30 June 2018 may be subject to a retrospective change in the level of rebate being applied.

The Group is in litigation with one of its third-party contractors. The Group is claiming $10.2m from the third-party contractor in damages, and additionally, interest and legal fees. The third-party contractor is counterclaiming $4.3m in what it claims are unpaid invoices, plus interest and legal fees. The Group is of the opinion that it has a strong claim against the contractor and a full defence to the counterclaim. No liabilities or assets have been recognised in these financial statements in relation to these claims.

On 23 February 2015, the Company received notification that the BAFA had made a decision to reverse their preliminary exemption to the increased manufacturers rebate in Germany for the period July to December 2012. The Company was granted a preliminary exemption to the increased rebate for this period by BAFA in 2013. The Company recognised revenue of €1.4m (£1.1m at that time, now £1.2m) against this exemption in the year ended 30 June 2013. All other preliminary exemptions (granted for periods up to 30 June 2012) have previously been ratified as final by BAFA. After taking legal advice, the Company has lodged an appeal against this decision and is confident that the exemption will be reinstated. Therefore, as at 30 June 2018, no provision has been recognised for the repayment of the rebate refund. This position will be kept under review.

30. Capital commitments

The Group's capital commitments at the end of the financial period, for which no provision has been made, are as follows:

	30 June 2018 £'000	30 June 2017 £'000
Capital commitments	**1,133**	201

Included in the above is £105,000 for ongoing factory refurbishments in the UK (2017: £192,000); £798,000 for new plant and machinery (2017: £2,000) and £230,000 for IT equipment and systems upgrades (2017: £7,000).

31. Related party transactions and ultimate control

Allergy Therapeutics plc's related parties include its subsidiary companies and its key management. Key management personnel are the Company's Directors, and as such, full disclosure of their remuneration can be found in the Directors' remuneration table on page 52.

At 30 June 2018, the Company's subsidiary undertakings were:

Subsidiary undertaking	Country of incorporation	Principal activity	Percentage of shares held	Class of shares held
Allergy Therapeutics (Holdings) Ltd	UK	Holding company	100	Ordinary and deferred
Allergy Therapeutics (UK) Ltd	UK	Manufacture and sale of pharmaceutical products	100	Ordinary
Bencard Allergie GmbH	Germany	Sale of pharmaceutical products	100	Ordinary
Bencard Allergie (Austria) GmbH	Austria	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Italia s.r.l.	Italy	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Iberica S.L.	Spain	Sale of pharmaceutical products	100	Ordinary
Bencard A.G. (name changed from Teomed A.G.)	Switzerland	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Netherlands BV	Netherlands	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Argentina S.A.	Argentina	Marketing of pharmaceutical products	100	Ordinary
Bencard Allergy Therapeutics Unipessoal LDA	Portugal	Sale of pharmaceutical products	100	Ordinary

During the year, Group companies entered into the following transactions with related parties that are not members of the Group:

	Sales of goods		Amounts owed by/(to) related parties	
Related Party	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Laboratorios Synthesis S.A.S.	–	–	**(73)**	(73)
Gynopharm de Venezuela C.A.	–	–	**(60)**	(60)
Total	–	–	**(133)**	(133)

Laboratorios Synthesis S.A.S. and Gynopharm de Venezuela C.A. are wholly-owned subsidiaries of CFR Pharmaceuticals SA. CFR Pharmaceuticals SA is a major investor in Allergy Therapeutics plc.

Sales of goods to related parties were made on normal commercial terms.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

There is no overall ultimate controlling party.

Notes to the Financial Statements

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32. Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	£'000 Total borrowings
1 July 2017	3,327
Cash flows	
Repayment	(398)
Proceeds	102
Non-cash	
Foreign exchange movements	27
30 June 2018	3,058

	£'000 Total borrowings
1 July 2016	3,365
Cash flows	
Repayment	(297)
Proceeds	76
Non-cash	
Foreign exchange movements	183
30 June 2017	3,327

33. Events after the balance sheet date

In July 2018, 40,000,000 Ordinary Shares of 0.1 pence each were issued pursuant to a placing and subscription at a price of 26.5 pence per share raising £10.6 million (before expenses).

Company Balance Sheet

	Note	30 June 2018 £'000	30 June 2017 £'000
Fixed assets			
Investments	2	**3,295**	1,641
Current assets			
Debtors: amounts falling due within one year	3	**357**	615
Total assets		**3,652**	2,256
Creditors: amounts falling due within one year	4	**(256)**	(271)
Net current assets		**101**	344
Total assets less current liabilities		**3,396**	1,985
Net assets		**3,396**	1,985
Capital and reserves			
Called up share capital	5	**606**	604
Share premium account		**102,420**	102,420
Other reserves - share-based payments		**1,657**	1,268
Profit and loss account		**(101,287)**	(102,307)
Total equity		**3,396**	1,985

The Company has taken advantage of s.408 of the Companies Act 2006 and has not included its own income statement in these financial statements. The Company's profit for the period was £424,000 (2017: £798,000 loss).

These financial statements were approved by the Board of Directors and authorised for issue on 25 September 2018 and were signed on its behalf by

Manuel Llobet
Chief Executive Officer

Nicolas Wykeman
Chief Financial Officer

Registered number: 05141592

Statement of Changes in Equity (Company)

	Issued capital £'000	Share premium £'000	Reserve - share based payment £'000	Retained earnings £'000	Total equity £'000
At 30 June 2016	599	102,392	741	(101,845)	1,887
Loss for the period after tax	–	–	–	(798)	(798)
Share-based payments	–	–	863	–	863
Shares issued	5	28	–	–	33
Transfer of lapsed options to retained earnings	–	–	(336)	336	–
At 30 June 2017	604	102,420	1,268	(102,307)	1,985
Profit for the period after tax	–	–	–	424	424
Share-based payments	–	–	985	–	985
Shares issued	2	–	–	–	2
Transfer of lapsed options to retained earnings	–	–	(596)	596	–
At 30 June 2018	**606**	**102,420**	**1,657**	**(101,287)**	**3,396**

Notes to Company Balance Sheet

1. Accounting policies

Basis of preparation

The separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101') and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

As permitted by the Companies Act, the separate financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Allergy Therapeutics plc.

In accordance with section 408 of the Companies Act 2006, no separate income statement has been presented for the Company.
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.

Going Concern

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 June 2019 and 30 June 2020. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing bank facilities. The Group had a cash balance of £15.5m at 30 June 2018 and the overdraft facility was renewed in August 2018. In July 2018, 40,000,000 Ordinary Shares of 0.1 pence each were issued pursuant to a placing and subscription at a price of 26.5 pence per share raising £10.6m (before expenses). After making appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the foreseeable future and the effects of sales and other sensitivities on the Group's funding plans, the Directors continue to believe that the Group and Company will have adequate resources to continue in operational existence for the foreseeable future and accordingly have applied the going concern principle in preparing these financial statements.

Investments

Investments in shares in subsidiary undertakings are included at cost less any provision for impairment.

Foreign currencies

Transactions in foreign currencies are recorded using an average exchange rate for the period. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit or loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates and laws that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Employment costs

The Company does not have any employees. All employment costs are dealt by the Group's subsidiaries. Details of employment costs are detailed on page 81 of the consolidated financial statements.

Share-based payments

Share-based payments made in respect of the Company's shares to employees of its subsidiaries are reported as an increase in investment.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

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

Notes to Company Balance Sheet

continued

1. Accounting policies continued

If market-based vesting conditions apply, the expense is allocated over the relevant period, usually the period over which performance is measured. Vesting assumptions and resulting expenses are fixed at the date of grant, regardless of whether market conditions are actually met. Any adjustment for options which lapse prior to vesting is recognised in the current period. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are vested than estimated, however, the expensed value of these lapsed shares is transferred from the share-based payment reserve to the profit and loss reserve.

Full details of the Group's share-based payments are set out in Note 28 of the consolidated financial statements.

2. Investments

	Shares in subsidiary undertaking £'000
Cost	
Investment brought forward	1,641
Additions	985
Reversal of provision	669
Investment carried forward	**3,295**

The additions relate to share-based payments in respect of the Company's shares to employees of its subsidiaries.

The diminution in value represents the shortfall in the net assets of the shares in the subsidiary undertakings' own statutory financial statements as compared to the carrying value in the Company's books.

At 30 June 2018, the Company's subsidiary undertakings were:

Subsidiary undertaking	Country of incorporation	Principal activity	Percentage of shares held	Class of shares held
Allergy Therapeutics (Holdings) Ltd	UK	Holding company	100	Ordinary and deferred
Allergy Therapeutics (UK) Ltd	UK	Manufacture and sale of pharmaceutical products	100	Ordinary
Bencard Allergie GmbH	Germany	Sale of pharmaceutical products	100	Ordinary
Bencard Allergie (Austria) GmbH	Austria	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Italia s.r.l.	Italy	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Iberica S.L.	Spain	Sale of pharmaceutical products	100	Ordinary
Bencard A.G. (name changed from Teomed A.G.)	Switzerland	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Netherlands BV	Netherlands	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Argentina S.A.	Argentina	Marketing of pharmaceutical products	100	Ordinary
Bencard Allergy Therapeutics Unipessoal LDA	Portugal	Sale of pharmaceutical products	100	Ordinary

Allergy Therapeutics (Holdings) Ltd is fully owned by Allergy Therapeutics plc. All other subsidiary undertakings except Bencard Allergie (Austria) GmbH and Allergy Therapeutics S.A. are fully owned by Allergy Therapeutics (Holdings) Ltd. Bencard Allergie (Austria) GmbH is fully owned by Bencard Allergie GmbH.

3. Debtors

	30 June 2018 £'000	30 June 2017 £'000
Amounts falling due within one year		
Amount owed by subsidiary undertakings	**349**	180
Prepayments and accrued income	**8**	435
	357	615

The amount owed by subsidiary undertakings is stated net of provisions of £101,625,458 (2017: £100,646,170).

4. Creditors – amounts falling due within one year

	30 June 2018 £'000	30 June 2017 £'000
Accruals	**255**	271
	255	271

5. Called up share capital
Full details of the Company's share capital are set out in Note 27 of the consolidated financial statements.

6. Share-based payments
Allergy Therapeutics plc (the 'Company') does not have any employees. All share-based payments are recharged to the respective Group employing subsidiary. Full details of the Company's share-based payments are set out in Note 28 of the consolidated financial statements.

7. Directors' emoluments
Full details of the Company's Directors' emoluments are set out in the Directors' Remuneration Report on pages 52 to 54.

8. Contingent Liabilities
Full details of the Company's contingent liabilities are set out in Note 29 of the consolidated financial statements.

9. Related party transactions
In accordance with the provisions of FRS 101, the Company is exempt from the requirements in IAS 24 ('Related Party Disclosures') to disclose related party transactions entered into between members of a group, as all parties to the transactions are wholly owned by the Company. Details of other related party transactions can be found in Note 31 to the consolidated financial statements.

10. Events after the balance sheet date
Full details of events after the balance sheet date are set out in Note 33 of the consolidated financial statements.

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