Transforming lives

Annual report and accounts 2019

Allergy Therapeutics PLC

What we do

We're committed to transforming lives by breaking new ground in immunology treatment through specialist expertise

Contents

How we do it

We've a history of innovation, combined with a pioneering spirit

1998

Allergy Therapeutics was formed following a successful management buy-out from SmithKline Beecham and remains headquartered in Worthing, UK.

1999

Allergy Therapeutics created Pollinex Quattro; utilising a novel adjuvant system, an entire year's treatment could be completed in just four injections.

2004

Allergy Therapeutics became a publicly listed company on the London Stock Exchange's AIM.

2008

The G301 Phase III clinical study conducted in Europe and the USA demonstrated that Pollinex Quattro has statistically significant clinical benefits over placebo.

2013

Acarovac Plus was launched. This modified allergen house dust mite subcutaneous immunotherapy is dosed from a single vial for added patient convenience.

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2018

The Group publishes positive pre-clinical results in the development of a vaccine targeted against peanut allergy using Virus-Like Particles (VLP) combined with peanut allergens.

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2019

The Paul Ehrlich Institute and the FDA agreed to allow Allergy Therapeutics to commence Phase III studies for PQ Grass to be conducted simultaneously in the US and Europe.

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Highlights

Financial Highlights

8%
Revenue growth (both reported and constant currency rate)[1]

22%
Increase in pre-R&D operating profit to £11.3m (2018: £9.3m) as a result of sales growth and lower overhead cost growth
(2018: £9.3m)

£27.4m
Strong cash balance at 30 June 2019
(2018: £15.5m)

£3.5m
Net profit for the year including Inflamax settlement of £6m
(2018: Net loss of £7.5m)

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 Market data and internal estimates for 12 months to 30 June 2019 for Allergy Therapeutics' direct sales competitive markets excluding UK and Switzerland due to lack of competitor information.

Operating Highlights

- Good growth across key countries and products with 0.5 point increase in market share[2] in European business to 14.1% (2018: 13.6%)
- Scale up of VLP-based (virus like particle) peanut product going well following encouraging initial discussions with regulatory authorities; Phase I trial due to commence next year
- Successful modified House Dust Mite Phase I safety trial
- Primary endpoint of Birch MATA MPL Phase III trial not met but learnings being applied to clinical, field-trial planning
- Successful completion of legal action resulting in £6m settlement with costs recovered in 2020

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At a Glance

We are visionary

£73.7m
Revenue 2019
(2018: £68.3m)

61%
Revenue generated from Germany
(2018: 61%)

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We are a visionary immunology business with specialist experience in the research and development of allergy treatments.

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

Our reach

We have a well-established commercial presence in Europe and are focused on the US market and other new opportunities.

● **Direct presence**
● **Distributor market**

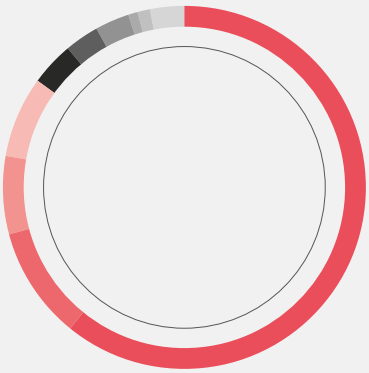
Our pipeline includes allergy vaccines for grass, tree and house dust mite, as well as peanut.

Our ultra-short course treatments offers the simplicity of four injections, increased tolerability and demonstrated efficacy.

Our adjuvant technologies improve therapies by allowing them to increase efficacy. Adjuvant systems to boost performance of vaccines outside allergy are also under evaluation.

Sales

Sales by country %



- Germany | 61%
- Spain | 10%
- Austria | 7%
- Italy | 7%
- Netherlands | 4%
- Switzerland | 3%
- UK | 3%
- Czech Republic | 1%
- Slovakia | 1%
- Other | 3%

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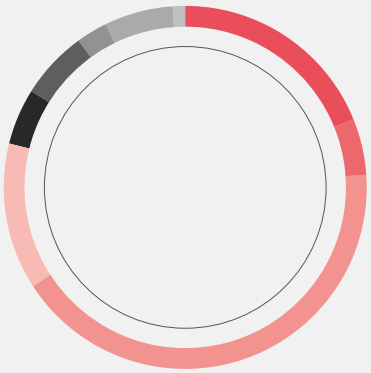
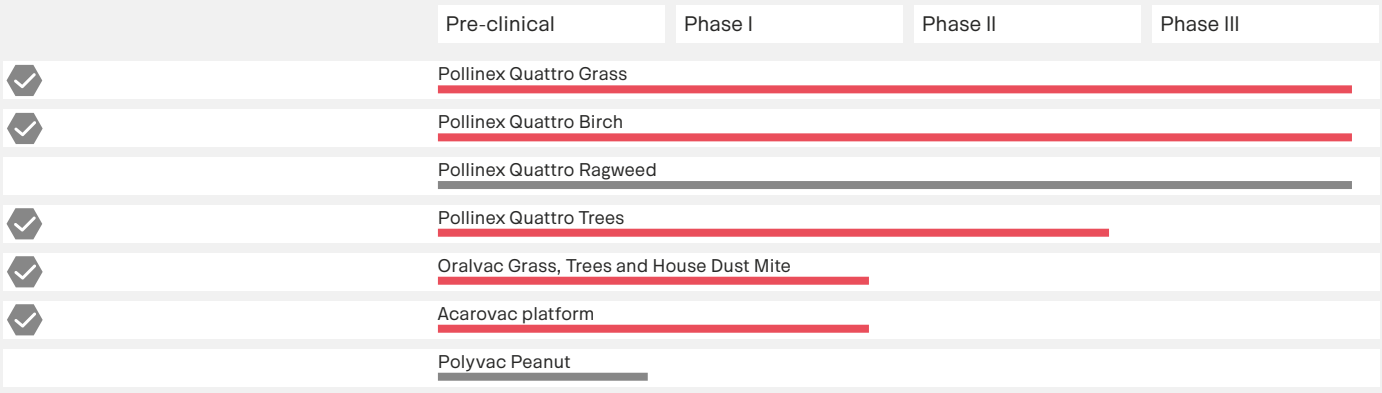
Sales by product %



- Pollinex | 19%
- Venomil | 5%
- Pollinex Quattro | 42%
- Oralvac | 13%
- Tyrosine S/TU | 5%
- Tyromilbe | 6%
- Acarovac Plus | 3%
- Third party products | 6%
- Diagnostics | 1%

Our pipeline



Also available as Named Patient Product

How it works

How immunotherapy is transforming lives

Allergies are the immune system's response to substances it thinks are a threat but which are usually harmless, such as pollen, house dust mites or cat fur.

Immunotherapy is the practice of administering gradually increasing doses of an allergen extract (e.g. grass or tree pollen) in order to reduce the symptoms of hay fever, such as sneezing, an itchy or runny nose, a blocked nose or itchy watery eyes.

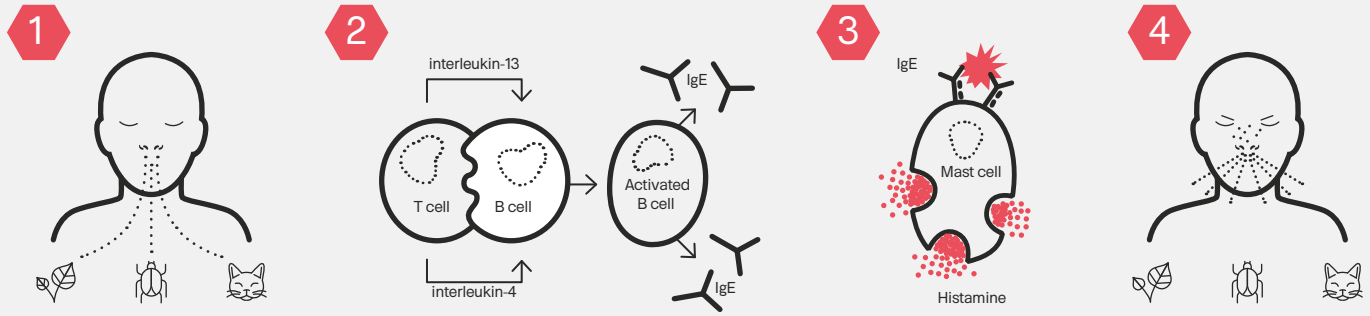
It was first carried out almost 100 years ago and is now in widespread use around the world. It is sometimes referred to as desensitisation.

Immunotherapy is the only treatment which affects the underlying cause of an allergy. The alternative is to continue with medicines which suppress the symptoms of hay fever, such as anti-histamines and steroid-based medicines.

Subcutaneous immunotherapy is the most common form of specific immunotherapy and involves a course of injections that build up tolerance to particular allergens through small, controlled doses. Over time this desensitises the inappropriate immune response so the body doesn't overreact and create the histamine release that causes allergy symptoms.

Sublingual immunotherapy is an alternative to injection immunotherapy. For this form of treatment, daily drops or tablets containing the specific allergen are placed under the tongue. The first dose of the sublingual immunotherapy is usually administered in a clinic under observation, then the patient will be required to self-administer the treatment every day at home.

A patient who is suffering from an allergy:



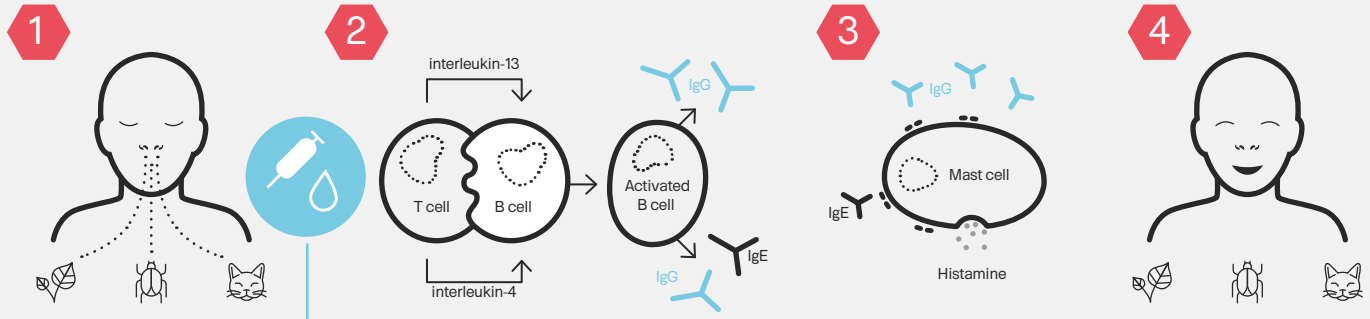
Patient comes into contact with an allergen

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

How it's working for patients

Transforming lives of our patients

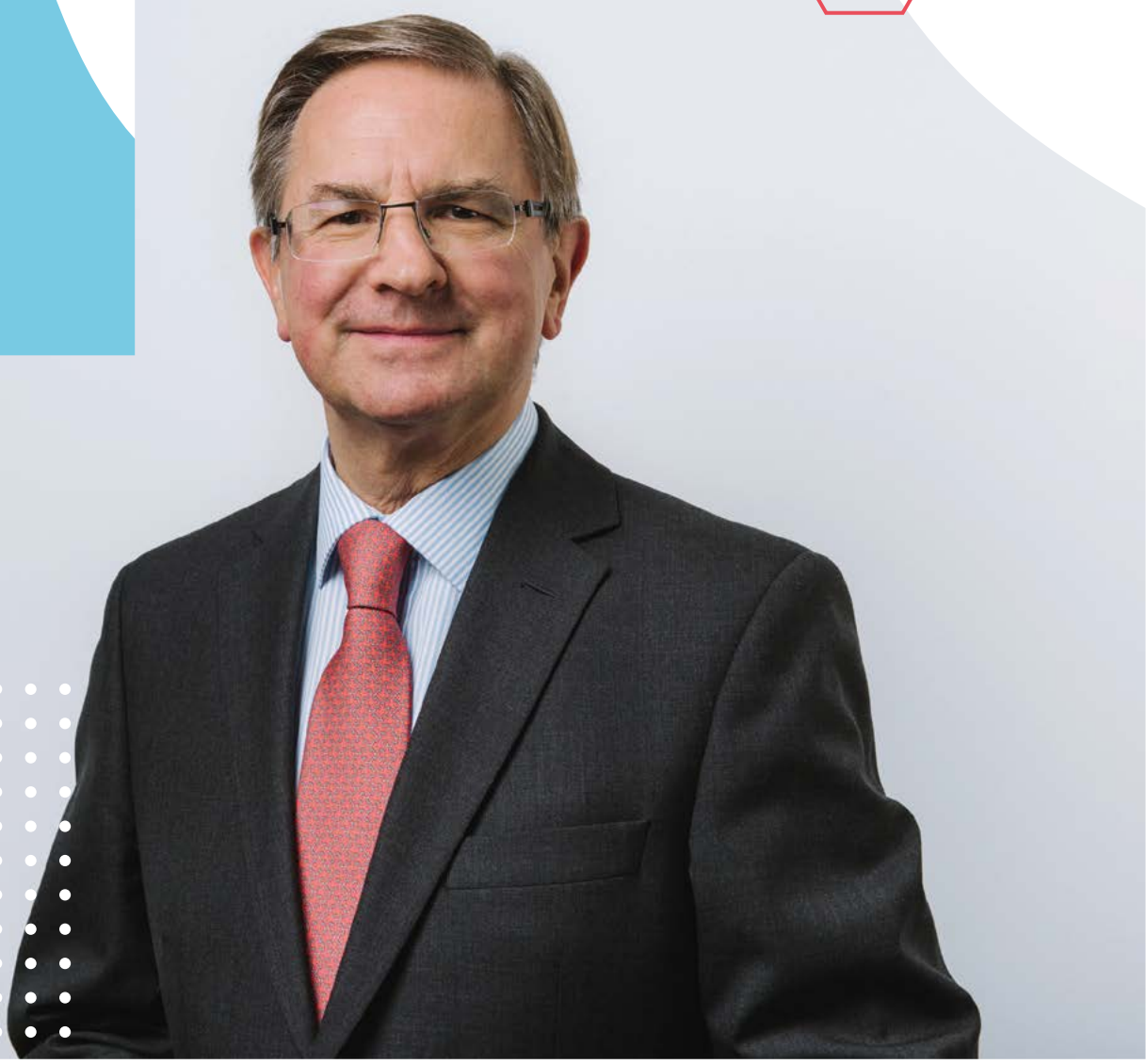
Paediatrician Dr Reinhard Erdl is a pioneer in the treatment of allergic diseases. During his time working in hospitals, he has treated allergies in children and adolescents.

Dr Erdl has been afflicted by pollen allergies himself since he was young and in 1999, he decided to try out a new treatment on himself. In that first year of treatment, he felt much better. After the third year of treatment, he was symptom-free and has remained so until today. He has since used this treatment very successfully in his practice and now treats the parents as well as the children, saying "They come and say to me, 'My child is so much better after treatment, I want to have it for myself'."

We have a high success rate in the treatment of allergies. I think that the formula for success is the combination of effective ingredients and our extensive care and diagnosis of patients throughout the entire period of treatment.

Dr Reinhard Erdl – Paediatrician, Munich

Chairman's Statement



Peter Jensen
Chairman

2019 was a year of strong commercial performance.

22%

Increase in pre-R&D operating profit to £11.3m

(2018: £9.3m)

Commercial performance this year has been strong with growth in sales and further gains in market share in an increasingly tough regulatory environment. It is encouraging to see growth across many areas of the business, including a significant increase in pre-R&D operating profit as well as a net profit for the year.

Clinical performance

This year's clinical performance was affected by the results of the pivotal Phase III Birch trial. Whilst missing the primary end-point was unexpected, we have learned valuable lessons from the trial that will be applied in the next clinical field trial. Notably, however, we had a successful outcome of our modified House Dust Mite MATA Phase I trial and the commercial scale up of the Virus Like Particle (VLP) based Peanut product is progressing well. In the next 12 months, we expect to begin the first in-human trial of the peanut product. VLP is an exciting technology platform that offers great potential in many other allergy areas and we look forward to its clinical development.

In June 2019, litigation concluded in our favour against a Clinical Research Organisation (CRO) (Inflamax) relating to the poorly-run Phase II Grass MATA MPL trial that took place in the US in 2015-16. Compensation of £6m has been agreed and, although no agreement in respect of legal costs was reached at the balance sheet date, a cost reimbursement of £3.2m has been received and will be recognised in 2020. This was an important result for the Group. We have always had full confidence in the Grass MATA MPL product and it is good to have this matter resolved.

Board

The Board is committed to maintaining and developing effective corporate governance processes.

Following a review of the Board succession plans, we strengthened the Board with the appointment of Mary Tavener as a Non-Executive Director. It is intended that Mary will succeed Stephen Smith as Chairman of the Audit Committee, following the release of this year's Annual Results. Mary brings with her an impressive breadth of executive experience at AIM listed businesses and her perspective will be invaluable.

Looking ahead

The Board and management continue to focus on growing our current business through the delivery of patient-focused, short-course injectable treatments while developing a pipeline of next-generation allergy immunology products. Initial sales for the year look strong and we have much to look forward to in the mid-term with opportunities for the Grass MATA MPL product in the US and the development of the VLP platform. The Group recognises that there will be increasing regulatory requirements in the allergy sector presenting both challenges and opportunities in the short and mid-term.

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
24 September 2019

Chief Executive Officer's Review

CEO's Review

Manuel Llobet
Chief Executive Officer

This year's performance has shown yet again that Allergy Therapeutics' focus on scientifically advanced products that are convenient for patients is the right approach for our business.

Net sales grew by 8% to £73.7m (2018: £68.3m) in constant and actual terms, in a market where grass pollen incidence dipped due to the very high temperatures at the end of last summer.

The Group continued to gain market share within its core markets in Europe and data for the key markets, in which we operate, for the 12 months to June 2019 showed a market share increase of 0.5 points to 14.1% from 13.6%. Our operating profit before R&D grew 22%, as a result of leveraging our sales growth which is a measure used by management to assess the trading performance. The strong operating performance and the settlement of the legal case with Inflamax led to a net profit of £3.5m. We ended the year with a strong cash balance of £27.4m.

European business

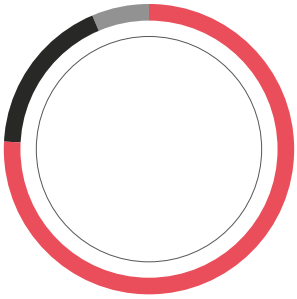
The European business has continued to expand with particularly strong growth in Austria, The Netherlands and Spain. In terms of products, Venomil, Acarovac Plus, Pollinex and Pollinex Quattro were the top performers. Higher sales of Venomil, used for bee and wasp allergies, have been driven by a number of allergists using the product for the first time. The increase of Pollinex and Pollinex Quattro has been driven by increased penetration of the markets due to the quality of the products and the expertise of our sales and marketing team. We continue to look for new markets and we are exploring potential partnership options for the Chinese market.

Clinical trials

This year was affected by the results of the Birch MATA MPL Phase III trial. The results were unexpected given the two successful Phase II Birch trials and success of this product on a named-patient basis. Extensive work has been undertaken to understand the reasons for the results, including engaging with external experts and our analysis is still underway. We will ensure that the learnings are applied to the fully funded Grass MATA MPL Phase III trial due to start, subject to final design, in autumn 2020. If this clinical trial is successful, the only further trial that will be required before submission of the Biological Licence Application (BLA) is the completion of the safety database, opening up a potential US market of approximately $2bn.

The Group is in dialogue with the German regulatory authorities about the results of the Birch MATA MPL Phase III trial. The team will focus first on applying the lessons to the Grass MATA MPL trial before returning to any further clinical trial in relation to Birch.

Net sales by region



- **DACH | £56.0m**
- **Southern Europe | £13.0m**
- **ROW (inc. UK) | £4.7m**

Chief Executive Officer's Review continued

£3.5m

Net profit for the year (including the Inflamax settlement)

(2018: loss of £7.5m)

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Litigation

As reported in June 2019, the Group has accepted a financial settlement of $7.6m (£6.0m) plus costs from Inflamax following successful litigation in relation to the Grass Phase II trial undertaken in the US in 2015 and 2016. This credit is disclosed in the R&D expenses. The Group had commenced proceedings in the English High Court for breach of contract and misrepresentation. In July 2019, the Group received a further $4.1m of legal cost reimbursement that will be recognised in the 2020 financial year as no agreement in respect of legal costs was reached at the balance sheet date. The result has drawn a line under the trial and achieved compensation for the costs incurred.

Pipeline progress

In May 2019, we announced the successful completion of the House Dust Mite Phase I trial to evaluate safety and tolerability of our investigational house dust mite allergy vaccine. The Phase II dosing trial is currently planned to start in 2020. The product, which is the only short-course treatment for perennial house dust mite, is state of the art and has great potential with patients across Europe, the USA and China. The estimated global market is $3-4bn.

The VLP-based Peanut product continues to progress well at this early stage. We had successful meetings with Paul Ehrlich Institute (PEI) and Swissmedic, the Swiss regulatory authority, to discuss an outline protocol for the first in-human trial that is due to take place in the summer of next year. The project has been fully endorsed by both regulatory authorities. The industrial scale-up of the product is progressing well with completion of manufacture of the Investigational Medicinal Product (IMP) batches and stability testing about to begin. There is a potential global market of $8bn for a product treating this current unmet need.

The German TAV process continues with the Oralvac Mite Phase II trial due to start within the 2020 financial year. Additionally, discussions are underway within the European Member states to harmonise marketing authorisations for all allergen medicinal products. Consultation is at an early stage but the indication is that regulatory requirements for all allergen products will be increasing but that approval of a product in one European country will provide access to all of the European member states. All our products that began the TAV process remain in it with further work expected on the remaining products.

Outlook

Management expects that the next financial year will show further growth in sales. Gross margin percentage is likely to be similar to the 2019 financial year. Other operating costs are likely to rise reflecting additional cost in technical support in preparation for Brexit of approximately £1.5m. Research and development costs are likely to be slightly higher than in 2019 as we prepare for the Grass Phase III trial, due to begin in autumn 2020 subject to final design, as well as the Oralvac Mite Phase II trial.

The Group has made preparations, where possible, relating to Brexit contingency planning including capital investments of £1.3million on cold storage facilities and a quality control laboratory in Spain and moving stock of approved products to the Spanish facility in advance of the deadline. The Group continues to monitor all developments closely.

We remain positive about the future of Allergy Therapeutics and are excited for the year ahead.

Manuel Llobet
Chief Executive Officer
24 September 2019

Discover more

Evolving our culture

Inspired by our purpose to transform lives, we have defined the culture we want in our business, which will enable the business to realise our ambitious strategy and strengthen our competitive advantage.

We have engaged with our employees, leaders and other stakeholders to collectively create a vision for our future culture and organisation, which builds on our current strengths.

Our values, Vision, Commitment and Menschlichkeit (Humanity), are at the core of our culture. To evolve our culture further, this year we have taken a number of deliberate steps:

- Defined our employer brand, aligned with our refreshed corporate brand
- Created a global community of senior leaders and culture champions, who are supported through an ongoing learning and development programme
- Invested in development of our most senior leaders to enable them to grow, not only as individual leaders, but also as a team of role-models for the whole organisation
- Designed a global performance management approach to facilitate high performance, accountability, dialogue and growth
- Introduced a global digital platform to underpin all our people management practices and facilitate global communication and connectivity
- Implemented a global capability development programme for our people managers to create a consistent employment experience for all our employees

Going forward we will focus on developing globally consistent and cutting edge approaches to talent management, succession planning, reward and leadership development.

Our evolving culture was evident in recent actions and business achievements, from successfully collaborating across teams to prepare for Brexit to learning from our Birch 301 Phase III study outcomes. Our employees have also worked together with a single global mindset when responding to market opportunities in order to secure further growth for the business.

Macro and Micro Trends

We continue to review macro and micro trends in both allergy and the allergy immunology market, so that any opportunities for the business can be identified.

Macro trends

Micro trends

Increase in pollen allergy potential due to:

- Increase in personal hygiene and spread of the Western lifestyle
- Urbanisation and changes in social mobility
- Climate change & associated changes to allergenic components

Rapid increase in food allergies due to:

- Changes in diet associated with the Western lifestyle such as low fibre and high sugar
- Lack of exposure to certain foods (e.g. peanut) at an early enough age
- Reduction in exposure to sunlight and subsequent decrease in vitamin D

Digitalisation and AI in medicine

- Thanks to improved technology platforms, greater analysis of clinical and patient data will be possible allowing refined treatments based on real clinical experience from other patients
- Digitalisation of medical records could allow better analysis of allergy changes in the population and treatment optimisation

Use of probiotics to address respiratory and food allergies

- The microbiome is recognised as being important to well-being and changes in gut health have been associated with allergy
- Research into the microbiome and the relationship between preventing or curing allergic diseases is ongoing

State of the art biotechnology developments such as VLP could permit precise and targeted removal of allergy

- The VLP platform aims to induce protective immunity, enabling shorter therapy duration and an enhanced tolerability profile in disease areas such as peanut allergy

Regulatory landscape

- Regulators in Europe are increasing their focus on ensuring medicines are registered and fit for purpose
- The Group's experience within the German TAV process and the plans to register the named-patient product portfolio leave us well-placed to meet these guideline changes

Adherence and convenience

- Adherence is an issue for all medicines
- Medications should be easy to adhere to and should be convenient to use
- Tablet-based therapies are convenient, but compliance can be an issue
- Injections given in a physician's office ensure compliance, and a short-course treatment regimen aids convenience

Our markets

Allergy Therapeutics continues to maintain a strong presence in Europe with established operations in 19 markets, either directly or via partnerships.

Germany remains the Group's main market, generating approximately 61% of the Group's revenue in the 12 months ending 30 June 2019.

Central Europe (DACH Region)

Germany

Germany is the largest allergy immunotherapy market in Europe and our German subsidiary, Bencard Allergie GmbH, is the largest subsidiary of Allergy Therapeutics. It has been one of the fastest growing companies in the allergy sector in Germany over the past two decades.

Bencard Allergie is situated in Munich and currently employs approximately 140 staff members, including our corporate medical team, pharmacovigilance team and are involved in coordination of clinical trial studies. The broad product portfolio comprises allergen-specific immunotherapies for numerous allergies, including pollen, house dust mite and mould allergies, as well as pet and insect allergies. The range also includes probiotics available over the counter from pharmacies as supportive medication to help with the allergy symptoms. 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.

Austria

The Austrian market for allergen immunotherapy has grown by 7% in the last fiscal year, boosted by the sublingual tablet market (+10%) and the subcutaneous allergoid market (+13%). Two new competitors have announced that they will be entering the Austrian market in the next fiscal year, proving that this small market is one of the most dynamic in Europe.

Switzerland

This year, our Swiss subsidiary was able to capitalise on opportunities in the Swiss market when competition had a significantly reduced portfolio (including ash tree pollen products). This has allowed for significant growth and has enabled the Swiss subsidiary to bridge the gap until new products can be licensed.

Southern Europe

Spain

The whole market in Spain grew 8% over the last year, however the allergoid immunotherapy segment has grown 10%. 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 valuable market, with approximately 300,000 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

The total Italian allergy immunotherapy market, after years of continuous decrease, has shown a recovery in the last 16 months (+4% in value) despite the impact of adverse economic conditions in the country. The Italian immunotherapy market is dominated by sublingual products. The main risk to the business remains the reducing of prices in public hospital tenders in some regions, although this could be partially managed through direct sales to those same hospitals. We are also adding a SCIT mite product to our portfolio in Italy this year which would be an opportunity to grow sales.

Despite the challenges mentioned above, we believe there remains a significant opportunity to continue growing our market share (currently 16%) in this important market which is the fourth largest in Europe.

Outside immunotherapy, the Italian Synbiotic market remains one of the largest in Europe. Our approach is to focus in the allergy related segment of the synbiotic market.

Rest of World

Netherlands

The market in the Netherlands started to grow sharply this year (+21% IMS MAT June 2019/€16.5M) helped by the continued leading growth of Allergy Therapeutics (+23.5%) and the launch of a mite tablet product by a competitor two years ago. The market is dominated by Allergy Therapeutics and ALK.

Two years ago, Allergy Therapeutics entered into an exclusive licensing agreement in the Netherlands to promote the grass tablet product Oralair (+10% growth) which now competes with ALK's Grazax.

Looking forward, we expect to continue leading the growth in the Dutch market with our own SCIT Pollen product Pollinex (23% market share/MAT June 2019) and speeding up the growth of Oralair.

UK

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.

Emerging markets

The Company is continuing the development of new markets in Europe with newly registered products and planning ahead for the registration and launch of new products in other areas of the world during the next fiscal year.

How we create value

Our business model enables us to achieve our purpose of transforming lives.

Our resources

01

Income generated from operations: The income we generate is invested to grow our business.

02

Specialist expertise: The specialist expertise of our employees drives and inspires us to transform lives.

03

Innovation: We are a global pioneering team, innovating to advance treatments in allergy immunotherapy.

Underpinned by our culture and values

See more on page | 13

What we do

Research & Development (key to future growth)

Focused on:

- new pipeline products such as VLP Peanut
- marketed products for serious reactions to allergens such as house dust mite, venom and pollens

Manufacturing

We maintain quality grade A manufacturing facilities in the UK and Spain which produce our medicines for sale and any clinical trial batches. Investment was made into our Spanish facilities during 2019 to mitigate any potential adverse impact of Brexit.

Sales

As a result of our growth strategy, we sell our products in 19 markets and plan to expand into the US and other new markets, transforming the lives of more patients worldwide.

See Our Strategy on page | 20 for more detail on our growth plans

We are ambitious people who transform lives through the ideas we develop and bring to market. Our values shape how we work every day, enabling us to maintain a high-achieving culture with a single global mind-set.

How we create value for stakeholders

For investors:

We create value through strong growth in our markets and our pipeline developments.

See more on pages | 17 and 24

For patients:

We strive to deliver the best immunology treatments for patients. We transform lives for the better.

See more on page | 24

For our employees:

We offer our employees the opportunity to grow careers and make a real difference to the business.

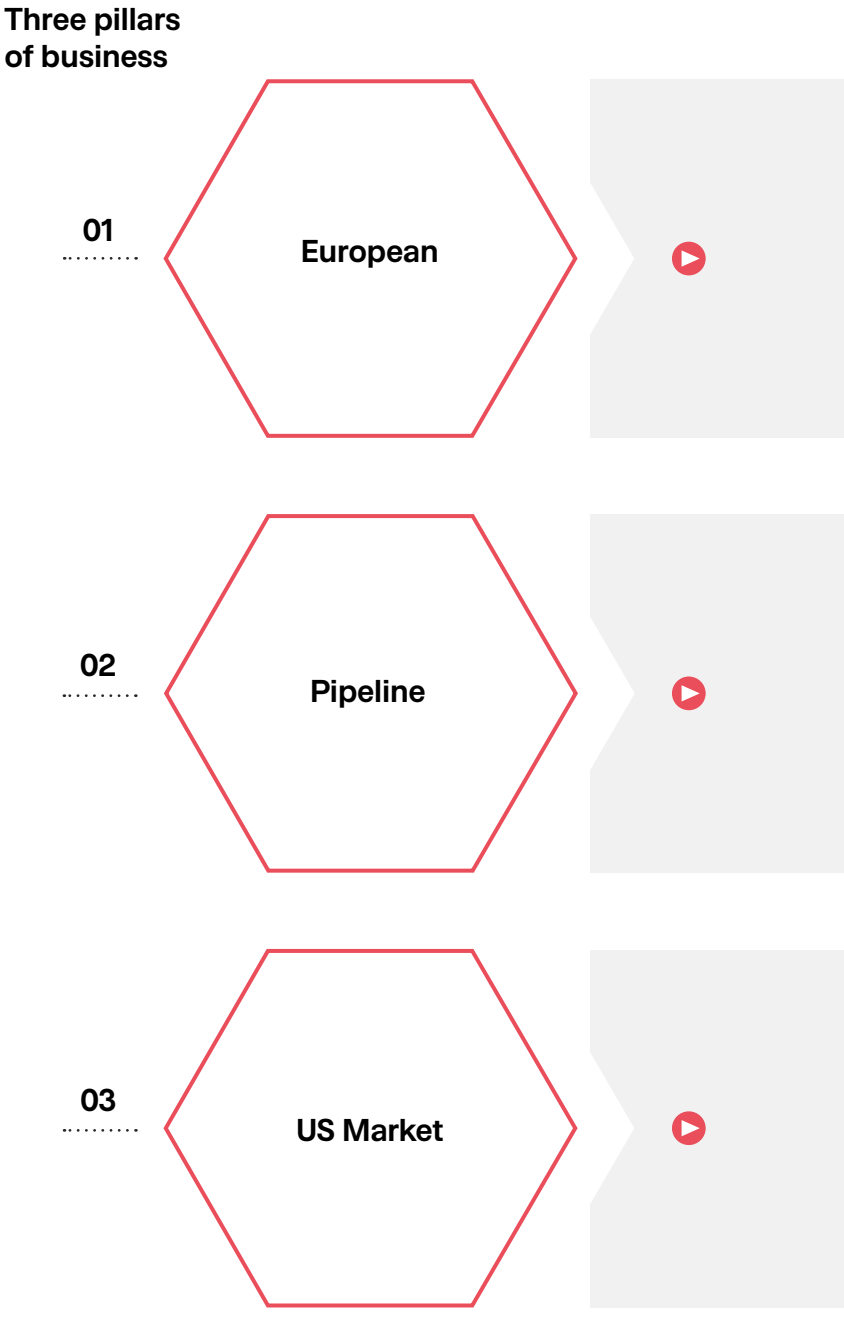
For healthcare professionals:

Healthcare professionals rely on our quality products, our knowledge and our trusted partnerships to deliver the best care for their patients.

Strategic Framework

Our strategic pillars

Our strategy is based on three pillars of the business.



Strategic priorities	Progress in 2018-19	Objectives for 2019-20
– Continued growth of business – Leverage pre-R&D profitability – Focused investment – Implement synbiotics strategy	**£73.7m** Net sales of £73.7m (2018: £68.3m) **96%** Delivery on time and in full by supply chain of vaccines **8%** Growth in sales **22%** Continued strong growth in pre-R&D operating profit	Continued strong growth of sales and market share Improve pre-R&D profitability further
– Successful completion of TAV process for all commercial products – Completion of clinical trials on House Dust Mite MATA product and global marketing approval – Successful design and undertaking of clinical trials of Polyvac Peanut leading to market approval – Develop Bencard Adjuvant Systems and enter strategic partnership	Primary end point of Birch MATA MPL Phase III not reached Successful Phase I clinical safety study for House Dust Mite MATA MPL completed Scale-up of Polyvac Peanut progressing well	Start of Oralvac Phase II dosing trial Completion of scale-up and start of first in-human peanut study
– Complete trials of Grass MATA MPL and marketing approval – Decide route to market either via distributor or own sales force in US – Release clinical hold on Ragweed and PQ Trees and complete trials – Bring further products in the pipeline through clinical trials (House Dust Mite MATA and Polyvac Peanut)	Start of Grass MATA MPL Phase III trial delayed to collect learnings from Birch trial Development of Key Opinion Leaders in the US	Preparation for Grass MATA MPL Phase III trial to start in autumn 2020 Apply for clinical hold on Trees and Ragweed to be lifted

Our products

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

Since specific immunotherapy was first carried out successfully in the early 20th Century, it has become established as the only therapy that addresses the cause of serious allergic reactions.

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.

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.

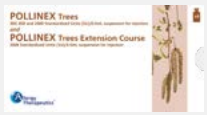
Our Products continued

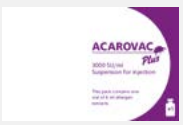
Acarovac Plus is a novel MCT-adsorbed, modified-allergen product developed to address the cause of perennial mite allergy.

Our products

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

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





Strategy in action – Growth in European Markets

Since the foundation of the Spanish affiliate 20 years ago, it has not only achieved excellent results, but what makes us feel most proud is that we have been able to do so whilst embedding and living our core values. Our actions and behaviours are always established around what's most important for our employees, patients and doctors.

Beginning with the recruitment of our employees, we encourage our teams to work as One Team, to contribute their ideas, to recognise their achievements and to support their professional development. We believe that living the values of the Company, by taking ownership and being role models, is the best way to achieve our objectives.

The Spanish office began as a small team in Barcelona that promoted and distributed named-patient product (NPPs) vaccines. In 2015 we expanded with the acquisition of the manufacturing site in Alcalá de Henares, Madrid. This doubled the number of staff and we developed high performance departments in Spain such as Quality Assurance, Quality Control and Microbiology Centres for the development and manufacture of NPPs.

The merger of the two companies involved a great effort of coordination and communication that continues today with the integration of the quality systems with our UK head office. Due to the excellent performance of the teams and our forward thinking strategy, we are now able to tackle upcoming challenging projects like becoming the EU QP release site for all vaccines delivered in the EU once the UK implements Brexit.

Today in Spain, we employ 86 people who are always seeking excellence in their work and we are proud to say that all these achievements have led us in 2019 to open new offices in Barcelona that will enable us to continue to support the global team.

Glòria Garcia
Directora General
Allergy Therapeutics Iberica

Research & Development Report 2019

European and US clinical development of Subcutaneous Immunotherapies (SCIT)
As part of the German TAV (Therapie allergene Verordnung) regulatory ordinance framework, clinical evaluation of the Pollinex Quattro ('PQ') products is being undertaken to enable market authorisation. Two successful dose selection studies have been performed – PQ Birch 203 and PQ Birch 204 – completed in April 2016, and the Group progressed with a Phase III field study – PQ Birch 301.

The Birch MATA MPL 301 study design was a multi-centre, double-blind, placebo-controlled study 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').

The Birch MATA MPL Phase III trial did not meet the primary endpoint. The results were unexpected given the previous two successful Phase II trials and the success of this product on a named-patient basis. Extensive work has been undertaken to understand the reasons for the results, including engaging with external experts and ensuring learnings are applied to subsequent clinical trial designs planned by the Group. The team are focussing on applying the lessons to the Grass MATA MPL trial before returning to further clinical trials evaluating PQ Birch.

Following the successful G205 dose selection study, a Phase II study designed to explore the safety and response of different cumulative doses of PQ Grass for grass pollen induced seasonal allergic rhinitis in 2018, the Group are progressing with the design and planning of the G306 phase III study.

The Group presented the positive results from the Phase II PQ Grass trial to the PEI and FDA and agreement was reached on the appropriate dose to progress into Phase III, as well as other essential features of the trial design. Accordingly, in order to finalise the design of the trial and incorporate the latest clinical evidence, the trial is expected to commence in H2 2020, to be aligned with the 2020/2021 allergy season.

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.

Acarovac – next generation products for dust mite immunotherapy
In May 2019, the Group presented positive Phase I safety and tolerability data for Mite subcutaneous allergoid preparations including MCT and MPL adjuvants (Monophosphoryl Lipid A) in patients with house dust mite (HDM)-induced allergic rhinoconjunctivitis. The AM101 trial was an open-label study to assess the safety and tolerability in adult patients with house dust mite-mediated allergic rhinoconjunctivitis.

The primary endpoint was the safety and tolerability of seven injections of Acarovac MPL administered over 6-12 weeks each 1-2 weeks apart. The formulation was well-tolerated. The safety profile was satisfactory and the reported adverse events were consistent with what have been observed with similar formulations of allergy vaccines.

Based on these encouraging results and class-leading research, the Group is evaluating all technical and clinical development options to optimise the candidate product to match the defined Target Product Profile. The Group is aiming to deliver a best-in-class product for the Global Market including China and US.

In collaboration with the Helmholtz Centre, Munich the Group established a mouse model of HDM allergy to assess the benefit of adjuvants. The mouse model was developed to more closely resemble symptoms of allergic asthma in humans. Sensitised mice were immunized with native and modified extracts with and without adjuvant candidates. The results of the HDM-specific immunotherapy model indicated adjuvant benefits in 8 independent biomarker assays.

Analysis of VLP platform in cancer immunotherapy
The Group recently completed a detailed study investigating the use of VLP technology in cancer immunotherapy. The research, Vaccination with nanoparticles combined with micro-adjuvants protects against cancer (Mohsen M et al.), undertaken by the Group's adjuvant research division, Bencard Adjuvant Systems and published in the Journal for Immunotherapy of Cancer, investigated the protective efficacy of the Group's adjuvant system against cancer and showed that the combination of MCT and VLPs caused tumour regression in an aggressive melanoma mouse model and initiated a highly protective CD8 T-cell immune response.

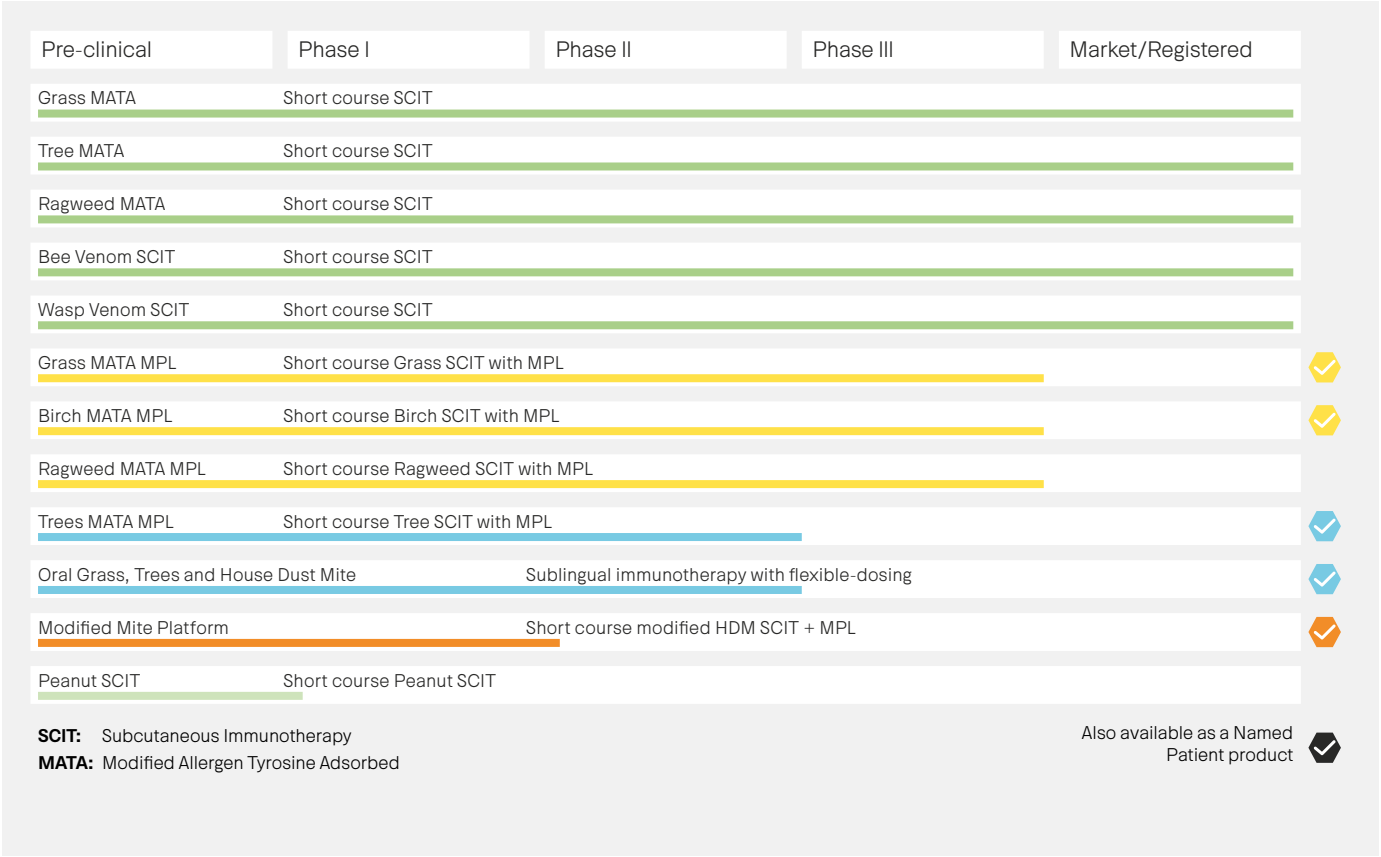
Oralvac
The German TAV process is progressing well, with the Oralvac Mite Phase II trial planned first. This multi-centre, combined dose-tolerability and dose-ranging study is designed to determine the optimal safe and effective dose of OV Mites in subjects with allergic rhinitis and/or rhinoconjunctivitis due to house dust mite. All products that began the TAV process remain within it with further work expected on the remaining products.

Real-world evidence
Real-world evidence is increasingly considered an important source of data by organisations such as the NICE or the FDA. A huge amount of valuable medical information is recorded by physicians in Electronic Clinical Records. This data is considered to replicate conditions in real life. In Spain, the Group is undertaking a retrospective non-interventional study (real-world evidence based on big data analysis) in patients allergic to olive pollen who have been treated with an ultra-short-course olive allergy vaccine containing MPL in the last five years.

Extensive scientific contributions to the 2019 EAACI congress
This year at the 38th Annual Congress of the European Academy of Allergy and Clinical Immunology (EAACI) in Lisbon, Portugal, Allergy Therapeutics presented a series of 17 poster presentations over three days.

Other events held by the Group at EAACI included a company-sponsored symposium entitled: "Transforming Allergy Treatment", providing a summary of the Group's world-leading innovation in the field of allergy immunotherapies. The symposium included an overview of the Group's registered venom immunotherapy and the clinical importance of the presence of the major allergen Api m 10.

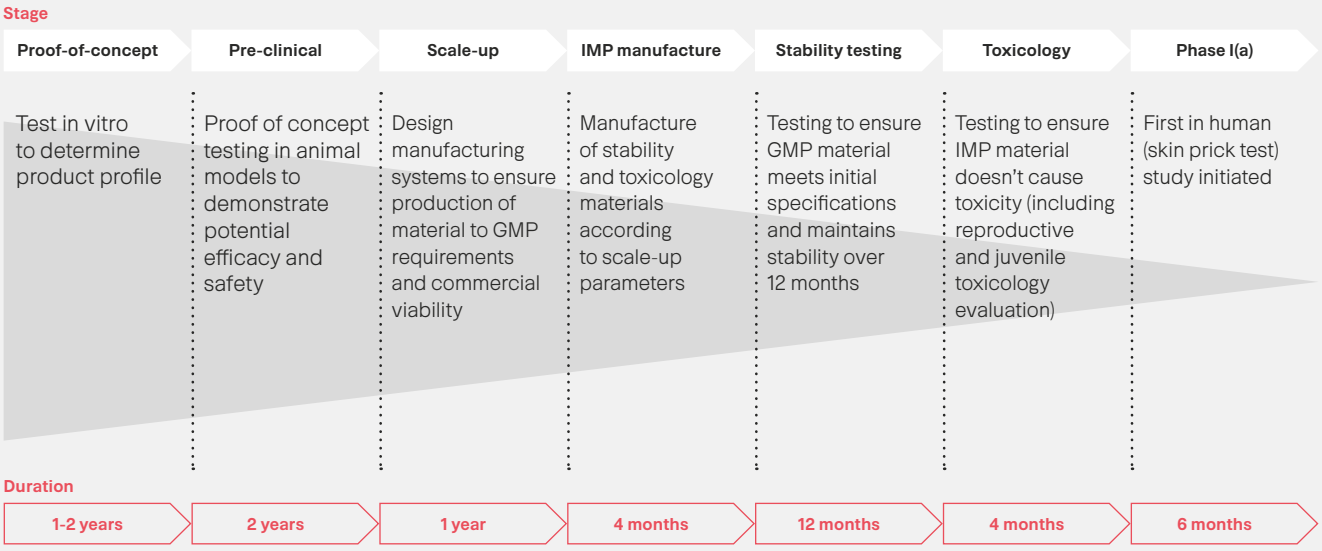
Innovative, broad pipeline and marketed products



Research & Development Report 2019 continued

VLP Peanut timeline

VLP Peanut
The Group's innovative peanut vaccine focused on a subcutaneous application of recombinant peanut allergen coupled with its state-of-the-art VLP (Virus-like Particle) platform with the aim of inducing protective immunity is progressing well. The Group had positive meetings with regulatory authorities to discuss the potential protocol for the first in human trial of the VLP-based Peanut product, due to start in H2 2020. Commercial scale-up continues to make good progress with the manufacture of IMP (investigational medicinal product) and stability on schedule. The Group is also looking to expand the VLP technology into other allergy areas.

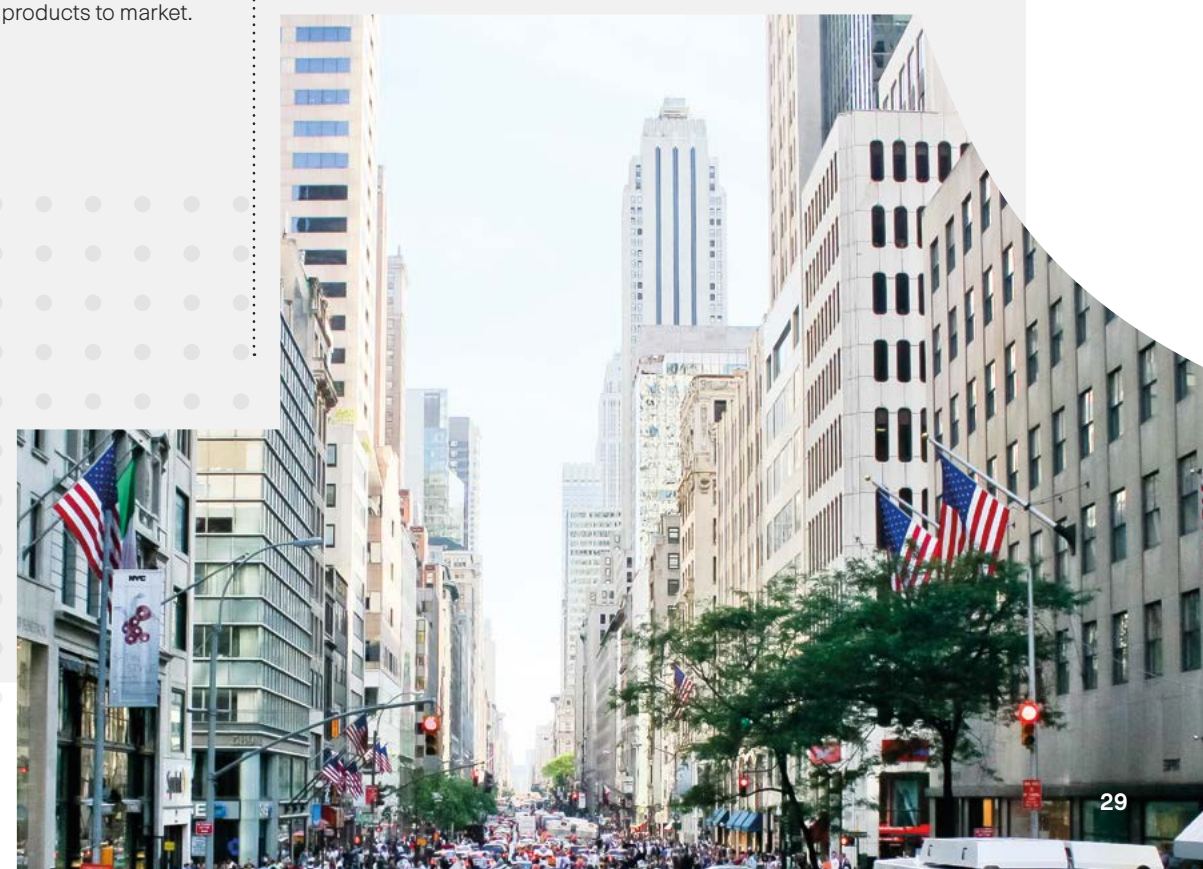


Strategy in action – Progress in the US

Investor interaction
During the year there has been increased activity in our engagement with potential US investors. The reason for this is multifaceted. Management wishes to diversify the shareholder base and increase the potential sources of funding for the pipeline and the US Strategy. The team has been on several non-deal roadshows and attended the 2019 JP Morgan Conference week. Initial feedback from potential investors has been positive with interest shown in the VLP peanut product, largely due to the visibility of the two companies already listed in the US with first generation peanut products (DBV, Aimmune), as well as the potential for a MATA MPL product in the US market. Several of the investors had first or second hand knowledge of the current treatments available in the US and immediately saw the benefit of our clinically proven ultra-short course product. Further, the successful trading model applied in Europe gives confidence in the ability of the business to move products to market.

KOL interaction
The science team has also been busy with allergy conferences and visits to individual KOLs to build up a network for the Grass MATA MPL Phase III trial starting in autumn 2020. As well as this, the advice of KOLs has been sought in relation to the development plans for the VLP peanut product, due to start first in human trials in the middle of next year. The US is considered a key market for this product with an estimated 4.7m people allergic to peanut by 2025 (Delveinsight 2017).

This interaction is important to understand the potential market, to assess the best approach in respect of clinical development and to raise the profile of our products and potential products among the medical community.



Operating Responsibly

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

Our commitment to operate responsibly focuses on four core areas: our people, our patients, our communities and our planet. This is 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 UK 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 ground-breaking 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. In addition, we are developing a globally consistent talent management and succession planning approach which we plan to implement over the next year.

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. We now have established a good practice of working globally and virtually by utilising technology. We have also invested in a global finance system to increase the efficiency of Group reporting. In addition, we have launched our global people system that supports the growing business and provides global consistency in our approach to people.

Culture and values
Our three core values: Vision, Commitment and Menschlichkeit (Humanity) shape how we work and are at the heart of every decision the business makes. For more information on how we are evolving culture within the business, please see page 13.

Case study

Over the Wall camp

OVER THE WALL
a seriousfun camp

Children with severe allergies are often excluded from school trips and other residential camps due to the inability for the setting to cater for their allergies. Over the Wall provides safe, therapeutic recreation camps which help to develop the confidence, self-esteem and coping strategies of the campers.

Allergy Therapeutics sponsored the Over the Wall allergy camp held in October 2018 and Mike Shaw, an employee of Allergy Therapeutics, volunteered as a camp recorder. Many of the children who attended this camp had never been away from home before. Some had never eaten a meal that wasn't prepared at home by their parents.

Before the campers arrived, every person on site received allergy and anaphylaxis training, including use of adrenaline auto-injectors. The site was made free of all airborne allergens and rooms and surfaces were deep cleaned. Meals had been meticulously planned so that each child could eat every single item on the menu. This led to mealtimes being relaxed and fun – not something the campers experienced in everyday life.

The campers were supported by experienced and dedicated volunteers, as well as a team of doctors and nurses who worked around the clock keeping the children safe. The children could be themselves rather than being held back by fear and limitations.

Mike supported a team of campers, encouraging them to complete activities such as the climbing wall and inspiring them to try new foods.

I was buzzing after camp, a truly life-affirming experience! I hope that in some small way I was able to contribute. I have gained so much more from the camp than I ever imagined.

Operating Responsibly continued

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. In recognition of the benefits of diversity at all levels in the business, the Company announced in 2018 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. This year, Mary Tavener was appointed as our first female member of the Board.

In addition, with our digital people system platform, we will be increasingly monitoring and taking proactive action to improve diversity across the organisation, beyond gender.

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.

Our patients
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.

For more information on how we consider our patients' well-being and safety throughout the product life cycle, please see page 33.

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.

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. 96% of our products were delivered on time during the year.

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 continued its support to activities in STEM subjects in the local Sussex community. 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 our participation in the Sussex STEM careers fair day, an exciting and interactive day attended by students and the community. Bev Lees, the Group Operations Director, continued work as Enterprise Adviser for Davison School for Girls. In addition, Bev also became a member of the Executive Management Group "Full STEaM Ahead" for Coastal West Sussex. The Company sent its apprentices to Davison school for a day to support the apprenticeship programme and Bev Lees gave a talk on opportunities in the Company. Five-Year 10 students and four A-level students were provided with work experience places involving engineering, manufacturing and laboratories. It also provided the opportunity for an A Level student to work on a four-week science project through the Nuffield Research placement scheme.

Other initiatives around the group were the continued support for the 'Aluminium for Bread' charity in Germany where our employees collect aluminium and other metals to support a children's charity in Bolivia, support to the Special Olympics in Switzerland among others.

Allergy related initiatives
The Group are platinum sponsors of the European Academy of Allergy and Clinical Immunology "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 can help to 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 to reduce our energy use in Worthing have included the upgrade to more efficient air handling unit motors in our manufacturing facility, the new units use approximately 40% less energy than the previous units.

The Group uses a video conferencing communication system, allowing us to operate globally while reducing the number of flights that we take, therefore reducing our overall carbon footprint. Our staff are encouraged, where possible, to take trains rather than fly when travelling between offices or when on business.

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. We have made efforts during the year to reduce single use plastic waste in all our offices and in our manufacturing processes.

As a business we want to have a positive impact on the planet and during the next financial year we will continue to focus on reducing our energy consumption and waste and will be aligning our efforts and commitments across the Group.

Case study

Putting patient safety first

The well-being and safety of our patients is at the heart of everything that we do. Throughout the life cycle of our products, we work to ensure that the safety and benefits to our patients are maximised by having systems and processes in place for continuous review of all the products in our portfolio, including marketed products and those in development.

Clinical research
All our clinical studies are performed according to current Good Clinical Practice guidelines using suitably trained personnel. Before a trial starts, an independent ethics committee reviews the protocols. All risks associated with the trials are tracked to ensure that quality and safety standards are maintained throughout.

Ensuring quality in manufacturing and supply
We have extensive quality control and quality assurance processes in place. Our products are manufactured in accordance with both Good Manufacturing Practice regulations and our internal quality management system. Our suppliers are also expected to ensure consistent high quality and safety in the production of our raw materials. This approach safeguards patient safety and helps us to deliver quality products.

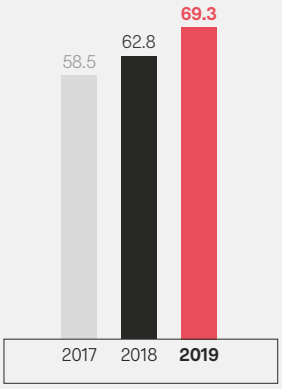
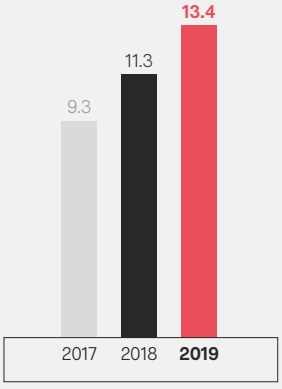
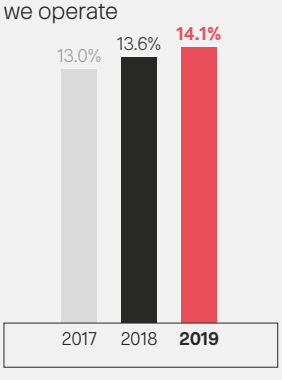
Training and education
The Medical Team provides training to Health Care Professionals (HCPs) in the correct administration of our products and also trains them in the management of any complicated reactions. Such training can save lives.

Our Medical Team consists of experienced medical doctors who understand the different needs of patients and are able to provide them with accessible and comprehensive information. They can be contacted to provide information to both HCPs and patients for any drug-related enquiry. The team receives direct feedback from these enquiries that allows them to constantly improve the handling and safety of our products.

Pharmacovigilance
A globally acting Pharmacovigilance team constantly monitors the drug safety of all our products on the market. There are a number of controls in place to detect and address safety concerns early, such as the monitoring and timely collection of relevant information, risk assessments and safety update reports.

Our Local Safety Officers, in each country where our products are marketed, provide training to our employees or the employees of the distributor to make them aware of safety information or product risks.

Key Performance Indicators ("KPIs")

Strategic objective	KPI	Analysis	Graph
Maximise revenue	Revenue at constant exchange rate (GBP:EUR exchange rate 1.21) 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 @ 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 share 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 in which we operate 

1 GBP:EUR exchange rate 1.21. 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.

Risk Management

We recognise that our purpose and mission can only be realised through effective risk management.

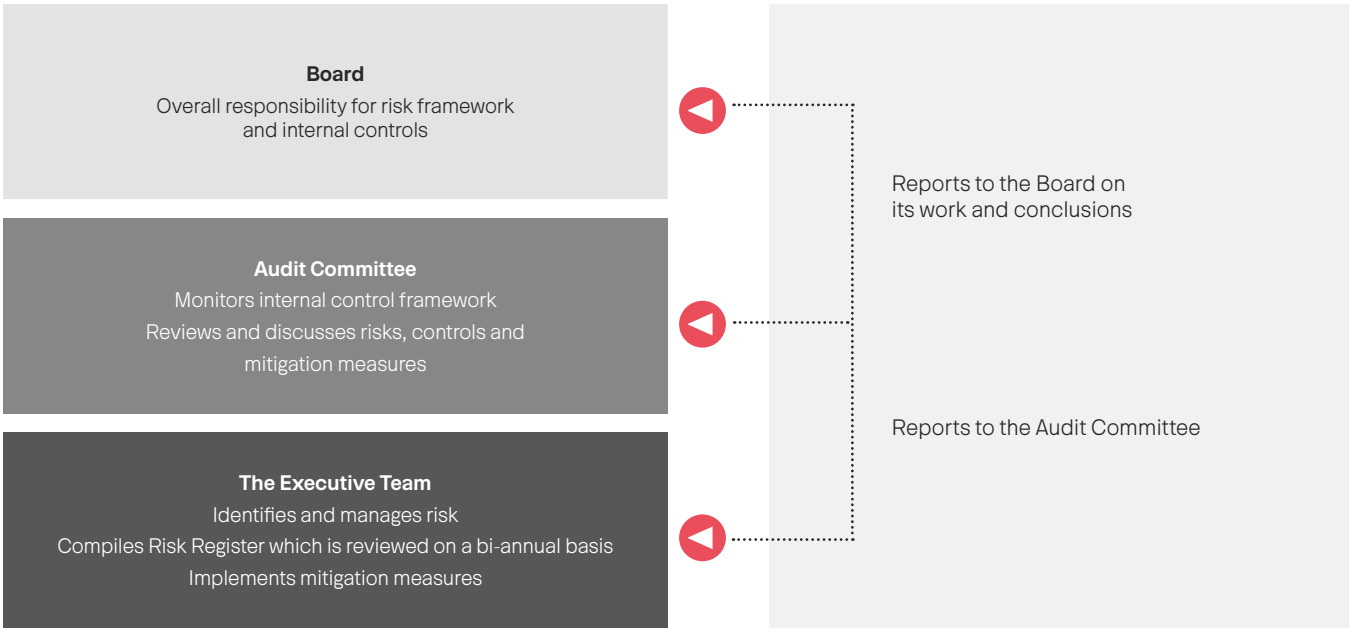
Our Risk Management Framework is designed to enable us to assess and determine what our key risks are and how to manage them appropriately. That then enables us to meet our strategic objectives and deliver the long-term growth and viability of our business.

The Board has overall responsibility for the Group's risk management. It reviews principal risks and uncertainties and mitigation strategies and considers how those risks may affect the achievement of business objectives. The Board has delegated responsibility for the review of the adequacy and effectiveness of the internal control framework to the Audit Committee.

The Executive Team are responsible for the day to day operational and commercial activity across the Group and are therefore responsible for the management of risk.

To ensure that there is a more integrated and deeper focus on applying and evolving risk management, principal and emerging risks are reported and discussed at each monthly Executive Team meeting. The Audit Committee reviews the key risks on an annual basis and any emerging risks can be identified and reported to the Board. The risk framework manages rather than eliminates risk and has helped us to develop a more risk-aware culture.

Risk Management Structure



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:

Risk	Description of risk and impact	Mitigation	Developments in 2019
Commercially Successful Products	• 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.	• Developing and commercialising Pollinex Quattro products in the US, seeking PEI market authorisation for Pollinex Quattro products in Germany. • Continuing to increase market share across Europe as well as developing new markets to spread risk.	• Successful Phase II Grass Trial opening possibility of a final Phase III trial to get a product into the US market. • Continued growth in sales in the year.
Production	• 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. • Any failure in production could lead to a product recall.	• Regular maintenance and upgrade of the facility is undertaken. • Recovery plan in place. • In respect of the lease, the Group has negotiated a longer termination notice period and has a contingency plan in place. • IT disaster recovery plan.	• Work is underway on cyber training and review of procedures. • Good communication with GSK over the period. • Assessment of cyber vulnerability with action plan for changes.
Product Liability	• 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. • 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.	• Maintenance of product liability insurance and ensuring systems and processes relating to the manufacture of its products are compliant and regularly reviewed. • Pharmacovigilance team in place to monitor and address any safety issues arising including non-compliance in the treatment of patients.	• The Group has had audits by regulators in the UK, Spain and Switzerland which have not identified any critical issues.

Risk	Description of risk and impact	Mitigation	Developments in 2019
Intellectual Property	• 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.	• Internal and external patent experts. Internal controls are in place to avoid disclosure of patentable material and to protect existing patents. • Arrangements are in place to notify the Group of any infringements of our intellectual property which it would defend robustly.	• In several areas, the Group has strengthened its control through new patents and new, complex processing methods.
Economic	• 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 where possible. • 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% (2018: 61%) 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. • 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 health 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.	• Continuous effort to expand its revenue outside Germany. • Development of new products and increase clinical data to protect market position. • Regular reviews are conducted of pricing and reimbursement levels and assessments of healthcare reforms on pricing.	• Reimbursement levels have remained stable over the year and in certain cases, price rises have been allowed.

Principal Risks and Uncertainties continued

Risk	Description of risk and impact	Mitigation	Developments in 2019
EU Referendum	• The referendum in the UK to leave the EU could pose a significant risk for the Group. • Short-term risk; the referendum outcome has and may continue to impact exchange rates and investor confidence. • Medium term risk impact 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.	• Mitigation in relation to currencies is noted under Financial Risks. • In relation to other aspects of this risk, the Group has considered at a detailed level the potential effects. • Contingency plans have been implemented with some parts completed to limit damage as far as possible in the event of a hard Brexit and the UK moving to third country status. • Active liaison with regulatory authorities in order to minimise disruption.	• Investment in cold storage facilities in Alcalá, Spain. • Creation of a parallel testing team and equipment in Alcalá. • Increased production to cover the full year's demand for approved products for Continental Europe which was then shipped to Alcalá, Spain.
Financial	• 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. • A majority of the Group's sales are denominated in euros whilst the manufacturing and most corporate administration costs are in the UK and therefore the Group is exposed to volatility in exchange rate fluctuations.	• The Board actively reviews the financial requirements of the Group on a regular basis in order to ensure that adequate funding is available. • Monitoring exchange rates regularly with implementation of 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.	• Equity raise in July 2018. • Settlement of litigation has reduced risk and increased funds available.

Risk	Description of risk and impact	Mitigation	Developments in 2019
Clinical and Regulatory	• 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. • Strict monitoring of new industry regulations and engagement 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.	• The unsuccessful Phase III Birch trial has led to an in depth investigation to identify causes and take action where necessary. • There is ongoing dialogue with the PEI, the MHRA and the FDA in respect of trials and development.
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.	• An internal audit function is in place, reporting directly to the Audit Committee, which carries out periodic reviews of the Group's subsidiaries. • Budgeting and reporting systems are in place, with results compared to annual budgets and half-yearly forecasts using variance analysis.	• Internal audits continue to be carried out on a rotational basis.

Principal Risks and Uncertainties continued

Risk	Description of risk and impact	Mitigation	Developments in 2019
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.	• Continued investment in training and development as well as externally benchmarking remuneration and developing succession planning.	• The Group has created an organisational development function and invested in HR systems to track and develop talent.
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.	• 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.	• The Group has continued to invest in additional compliance resource.

Financial Review

Overview
The core business has continued to grow profitably with results for the 12 months to 30 June 2019 achieving an operating profit excluding R&D[2] of £11.3m (2018: £9.3m). Including R&D expense of £7.0m (2018: £16.0m), the Group reported an operating profit of £4.4m (2018: loss £6.7m). The operating profit includes a one-off settlement of $7.6m (£6.0m) relating to the Inflamax litigation. The net profit after tax for the period was £3.5m (2018: loss of £7.5m).

Revenue
Revenue increased by 8% to £73.7m (2018: £68.3m). The impact of currency has been negligible in comparison to the prior year with the weighted average Euro exchange rate in the year was €1.12 to £1 compared to €1.13 in 2018. Revenue at constant currency[1] was 8% higher at £74.0m (2018: £68.3m) as shown in the table below:

	2019 Germany £m	2019 Other £m	2019 Total £m	2018 Germany £m	2018 Other £m	2018 Total £m
Revenue	**45.0**	**28.7**	**73.7**	42.0	26.3	68.3
Add rebates	**3.8**	**–**	**3.8**	4.2	–	4.2
Gross revenue	**48.8**	**28.7**	**77.5**	46.2	26.3	72.5
Adjustment to retranslate at prior year foreign exchange rate	**0.2**	**0.1**	**0.3**			
Gross revenue at constant currency[1]	**49.0**	**28.8**	**77.8**	46.2	26.3	72.5

	2019 Germany £m	2019 Other £m	2019 Total £m	2018 Germany £m	2018 Other £m	2018 Total £m
Revenue	**45.0**	**28.7**	**73.7**	42.0	26.3	68.3
Adjustment to retranslate at prior year foreign exchange rate	**0.2**	**0.1**	**0.3**			
Revenue at constant currency[1]	**45.2**	**28.8**	**74.0**	42.0	26.3	68.3

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 Operating profit (pre-R&D) is calculated by adding back R&D expenditure for the year to the operating profit of the year to arrive at an operating profit (pre-R&D) of £11.3m (2018: £9.3m).

Revenue from Germany was 61% (2018: 61%) of total reported revenue. Rebates were lower this year due to changes in product composition that may not continue in 2020. Sales of Venomil and Acarovac Plus continued to grow very strongly while Pollinex and Pollinex Quattro achieved reasonable growth. Total sales from other products contributed £3.8m for the year ended 30 June 2019 (2018: £4.1m).

Revenue in Germany grew well in the year with revenue at constant currency[1] increasing to £45.2m (2018: £42.0m), an increase of 8%.

All the main European markets (except for Italy) exhibited good sales growth at constant currency[1] with Spain showing 12%; the Netherlands 16%; Austria 13% and Germany 8%. The Group continues to develop new and existing markets to reduce reliance on the German market.

Gross profit
Cost of sales increased to £18.4m (2018: £17.0m). The gross margin was 75% (2018: 75%), leading to a gross profit of £55.3m (2018: £51.3m).

Operating expenses
Total overheads were £1.1m lower than prior year at £57.6m (2018: £58.7m), excluding the credit in relation to the Inflamax legal settlement. This was due to a £3m reduction in R&D expenses in the year due to lower clinical activity partially offset by increased administration expenses.

Sales, marketing and distribution costs which were mainly in continental Europe, remained flat at £27.0m (2018: £27.1m) other administration expenses increased by £2.1m to £17.6m (2018: £15.5m) which included £0.6m of Brexit-related costs. The rest of the increase was driven by additional investment in compliance and support functions.

Other income in the year of £0.6m (2018: £0.6m) was all due to R&D tax credits in the UK.

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

Financial Review continued

Balance sheet
Property, plant and equipment increased by £1.4m to £11.5m (2018: £10.1m) with investment in new manufacturing plant to replace older equipment and increase automation. Goodwill was similar to last year at £3.4m (2018: £3.4m), whilst other intangible assets were reduced slightly due to £1.4m (2018: £1.5m).

Total current assets, excluding cash, increased to £19.2m (2018: £15.3m). Inventory increased further by £0.6m due to early production of commercial stock as part of Brexit preparations (cover for approved products for the 2020 financial year). Trade and other receivables have increased due to a receivable related to the legal settlement (£3.2m) as well as timing. Cash and cash at hand increased to £27.4m from £15.5m in 2018.

The fair value of derivative financial instruments was a liability of £0.4m in 2019 (2018: £0.1m).

Retirement benefit obligations, which relate solely to the German pension scheme, increased to £11.7m (2018: £10.3m). The increase in the liability was mainly driven by the reduction in the discount rate from 1.85% to 1.45%.

The Group had a net cash inflow of £11.8m in the year (2018: £6.6m cash outflow) primarily due to an equity raise, good trading and settlement of the Inflamax legal case.

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 (£0.9m) and further loans (£1.5m) arranged to fund development of products in the Spanish market. The overdraft facility was unused at 30 June 2019 but has since been renewed for a further 12 months to cover seasonal funding requirements. In July 2018, the Group completed a successful placing and subscription of 40m shares, raising £10.6m gross (£10.2m net of expenses)

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. For further details, see Note 1, Going Concern.

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 €1.4m (£1.1m at that time, £1.2m now) 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 2019, no provision has been recognised for the repayment of the rebate refund of €1.4m (£1.2m). This position will be kept under review.

Nicolas Wykeman
Chief Financial Officer

The Strategic Report, as set out on pages 1 to 42, has been approved by the Board

On behalf of the Board

Nicolas Wykeman
Director
24 September 2019

Governance

Contents

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 Europe 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 CEO of Allergy Therapeutics plc since 2009, shaping strategy and driving growth. Prior to this, Manuel was the Principal Consultant for Biohealth LLC and CEO 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 (until 2 July 2019).

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

Mary Tavener
Non-Executive Director

Mary has extensive experience in the healthcare sector, having spent more than 19 years as Chief Financial Officer and Board member of AIM listed Advanced Medical Solutions ("AMS"). At AMS, Mary was responsible for strategy and risk management, finance, operations, regulatory and legal. Mary is a Fellow of the Chartered Institute of Management Accountants (FCMA) and a Fellow of the Association of Corporate Treasurers (FCT). Prior to joining AMS, Mary was the Group Financial Controller of BTP plc.

External appointments
Cuddington & Sandiway Parish Playing Fields Association Limited.

A

Scott Leinenweber
Non-Executive Director

Scott Leinenweber is Vice President of Investor Relations and Licensing & Acquisitions at Abbott Laboratories and is their nominated Director on the Board. Scott started his career at Abbott in 1997 as a financial analyst, before moving into product management, sales and marketing roles across Abbott's businesses.

External appointments
Abbott Healthcare Private Limited (an Indian subsidiary of Abbott Laboratories).

Corporate Governance Report

Dear Shareholder,

I am pleased to introduce the Company's 2019 Corporate Governance Report. The Board recognises that good corporate governance is essential to building a successful business that is sustainable for the long term.

I am very pleased to say that we are again able to report full compliance with each of the 10 principles of the Quoted Companies Alliance Corporate Governance Code "QCA Code" and that our governance framework continues to ensure that the Group operates effectively and with integrity. As well as ensuring compliance with the QCA Code, we also continue to monitor any developments in the UK Corporate Governance Code to keep abreast of matters which we feel should also be considered for an AIM company like ourselves, and this year, we have considered the Company's purpose, ensuring that it is aligned to our values, strategy and culture.

The Corporate Governance Statement, together with the Committee Reports that follow, explain how our governance framework works and how the Group has applied the 10 principles of the QCA Code this year.

Our governance framework promotes a culture of accountability and responsibility which is supported by our values and behaviours. During the year, the Board has promoted open and transparent discussion, and has provided constructive challenge and support to the business.

Ensuring that we have succession plans in place for all our Board members plays a vital part in making sure that the Board remains effective in supporting the Company's growth strategy. Over the year, the Nomination Committee undertook a review of the composition and membership of the Board and its Committees. Following this review, a careful search and recruitment process was carried out and we were delighted to announce on 19 June 2019 the Non-Executive appointment of Mary Tavener, for which biographical details can be found on page 45.

Like many business in the UK, we have been navigating the varied political uncertainties of Brexit throughout the year and have continued to focus on our systems of risk management and internal controls. Details of our principal risks and uncertainties can be found on pages 36 to 40.

Thank you for your continued support and the Board looks forward to meeting any shareholder who can join us at our Annual General Meeting on 25 November 2019.

Peter Jensen
Chairman
24 September 2019

Corporate Governance Statement

The Board has adopted the Quoted Companies Alliance Corporate Governance Code (QCA Code). The Board believes that this Code provides an appropriate and suitable governance framework for a group of our size and complexity.

This Corporate Governance Statement addresses how the Group complies with each of the 10 principles of the QCA Code; however further disclosure relating to each principle can be found in other sections of the 2019 Annual Report and Accounts (the "2019 Report") as indicated below:

Number	Principle:	Disclosure in the 2019 Report:
1.	Establish a strategy and business model which promote long-term value for shareholders	Pages 18 - 21
2.	Seek to understand and meet shareholder needs and expectations	See page 51
3.	Take into account wider stakeholder and social responsibilities and their implications for long-term success	Pages 30 - 33
4.	Embed effective Risk management, considering both opportunities and threats, throughout the organisation	Pages 35 - 40
5.	Maintain the Board as a well-functioning, balanced team led by the Chairman	Page 47 - 50
6.	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Page 44,45 & 53
7.	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Page 50
8.	Promote a corporate culture that is based on ethical values and behaviours	Page 13
9.	Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	Pages 48 - 63
10.	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Pages 46 - 51

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 Team, 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.

Corporate Governance Report continued

Board and Committee balance and composition

As at 30 June 2019, the Board comprised the Chairman, two Executive Directors and four Non-Executive Directors. The table below summarises the membership of the Board and Committees. The Board keeps under review its current composition, which provides a sufficiently wide range of skills experience to enable it to pursue its strategic goals and to address anticipated issues in the foreseeable future.

Biographies of each Director can be found on pages 44 and 45 of the 2019 Report.

Board independence

The Board has considered the independence of the Non-Executive Directors, and the table on the next page sets out those considered to be independent in character and judgement. Stephen (Steve) Smith has served on the Board for more than 10 years and will be offering himself up for re-election at this years' 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 will continue, with the support of the Nomination Committee, to consider any appropriate additions to the Board to further broaden the experience and effectiveness of the Board as the Group continues to grow.

Roles and responsibilities

Role	Name	Responsibility
Chairman	Peter Jensen	The Chairman's primary role is to lead the Board and ensure that it operates effectively. In particular, the Chairman sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items. Additionally, the Chairman promotes a culture of openness and debate with effective contributions from Non-Executive Directors and ensuring constructive relations between themselves and the Executive Directors.
CEO	Manuel Llobet	The CEO's role is the day-to-day running of the Group and includes the development and implementation of strategy, decisions made by the Board and operational management of the Group, supported by the Executive Team.
CFO	Nick Wykeman	The CFO's role is the day to day management of the Group's finances including the development and implementation of financial strategy.
Senior Independent Director	Steve Smith	The Senior Independent Director (SID) provides advice and additional support and experience to the Chairman and can perform an intermediary role to other Directors, if necessary.
Non-Executive Directors	Tunde Otulana; Mary Tavener; Scott Leinenweber	Non-executive Directors are responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision making, and to support and constructively challenge the Executive Directors using their broad range of experience and expertise.
Company Secretary	Sara Goldsbrough	The Company Secretary attends all Board and Committee meetings and is responsible for advising the Chairman and Board on all corporate governance matters and ensuring good information flows between the Board and its Committees and the Executive Team.

The Board during the year
There were ten 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[1]	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	–	–	–
Scott Leinenweber[2]	Non-Executive Director	Independent	November 2018	6/7	–	–	–
Mary Tavener[3]	Non-Executive Director	Independent	June 2019	1/1	–	–	–

1 Jeff Barton resigned from the Board on 7 November 2018.
2 Scott Leinenweber was appointed on 7 November 2018.
3 Mary Tavener was appointed on 19 June 2019.

The Board has an approved annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle.

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.

Non-Executive Directors are encouraged to communicate directly with senior management between Board meetings. Members of the Executive Team are invited to attend Board Meetings during the year to present an update on performance and forward focus of their specific areas of responsibility.

The annual calendar includes two meetings at which the Executive Team are present: an annual budget meeting at which the Executive Team present their business unit updates and their proposed budget for the forthcoming financial year and a strategy brainstorm meeting which focusses on a particular area of the business. In January 2019, the R&D timelines and priorities provided the focus of the meeting. These two meetings are also an opportunity for the Board to spend some time with members of the Executive Team in a less formal environment.

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.

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 & Safety Report, a Pharmacovigilance Report and more recently a standing agenda item on key risks has been included.

R&D investment is regularly considered and clinical study budget variances are also brought to the attention of the Board. During the year, the Board considered the outcome of the B301 Trial, its impact on the overall clinical study programme and any potential commercial impact.

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").

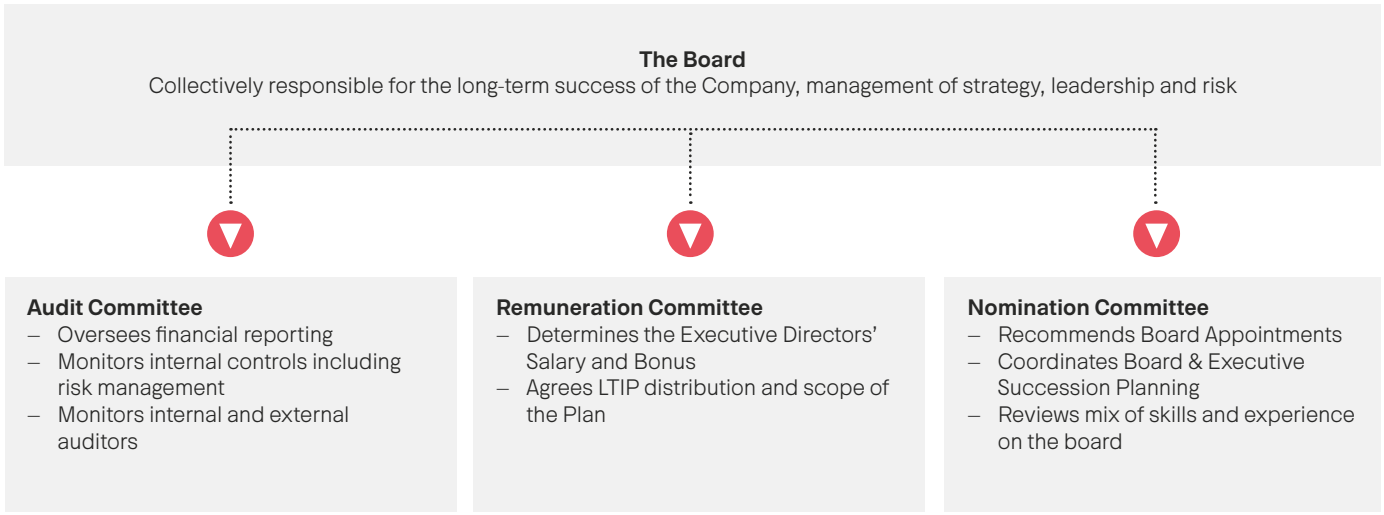
Market and broker updates are circulated to the Board outside of the meetings.

Board Committees
The Board has established three Board Committees, the 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, here https://www.allergytherapeutics.com/investor-relations/corporate-governance/. Minutes of all Committee Meetings are made available to all Directors. The Committee Chairmen's attend the AGM to answer any questions on the activities of the Committee.

Corporate Governance Report continued

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



Ensuring an effective Board
During the year, an internal review of the effectiveness of the Board and its Committees was undertaken.

The objectives of the review were to identify any matters that the Board considered may require more focus, to provide the Chairman with valuable insight into the overall management and mechanics of the meetings and to identify any development needs of Board members to ensure that the Board remained effective.

This review consisted of a structured questionnaire which was circulated to all Directors, the questions were arranged in four categories which related to culture of the Board, strategic oversight, managing risks and meeting dynamics and information. The Board were asked to rate the Board's performance in these areas and provide a rationale for their views.

The same process was followed for each Board Committee. The Board also completed a self-assessment questionnaire.

The results and outcomes were analysed by the Company Secretary and the Chairman and any key issues were reported and discussed with the Board and its Committees.

Overall, it was concluded that the Board was effective, it worked well together on a basis of trust and openness and that it had the right mix of skills and experience to lead the business to achieve its strategic goals. A number of actions for the year ahead were agreed. These included:

– Board to be provided with a better understanding of how the business manages its cyber risks.
– Strategic milestones to be set out clearly and monitoring framework established.
– An Annual Macro-Trends and Opportunities report to be added to the annual calendar.

An update on progress against these actions will be included in the 2020 Annual Report.

Communications with Stakeholders

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 here https://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.

Annual General Meeting
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 2019 AGM will be held on Monday 25 November 2019. The notice of meeting will be issued to shareholders at least 21 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.

Other 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 make a positive contribution to the world while delivering exceptional business results. The Company acknowledges its responsibilities to all its 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, available here https://www.allergytherapeutics.com/contact-us/. Employees are encouraged to relay any feedback via the Company Secretary or via the Senior Non-Executive Director.

Nomination Committee Report

Dear Shareholder,

I am pleased to introduce the Company's 2019 Nomination Committee (the "Committee") Report.

During the year, the composition of the Board has evolved. In November 2018, Scott Leinenweber replaced Jeff Barton as the Abbott nominated Director and in June 2019 we welcomed a new Non-Executive Director, Mary Tavener who will succeed Steve Smith as Chair of the Audit Committee and brings with her a wealth of financial and strategic expertise. Full details of the Mary's induction are contained on page 53.

Throughout the year, the Committee has continued to monitor the composition of the Board and its Committees to ensure that it has the breadth of experience and skill set to ensure effective governance and oversight of the business both now and in the future.

This coming year, the Committee will focus on the leadership talent pipeline and succession plans for the Executive Team. The Committee takes an active interest in the quality and development of employees within the Company, ensuring that appropriate opportunities are in place to develop high-performing individuals.

Peter Jensen
Chairman of the Committee
24 September 2019

The Role of the Committee
The Committee is responsible for the leadership needs and succession planning for the Board, to ensure that the Group has the ability to perform effectively now and in the future.

Membership of the Committee and attendance
The members of the Committee as at 30 June 2019 comprised Peter Jensen (Chairman), Tunde Otulana and Steve Smith. The Committee met twice during the year and attendance at these meetings is shown in the table on page 49.

The Company Secretary attends all the Committee meetings as Secretary to the Committee and in addition the Global OD and HR Director attends by invitation.

Key responsibilities
The Committee's responsibilities are set out in its Terms of Reference on the Company's website and include:
- evaluating the balance of skills, knowledge, experience and diversity of the Board and its Committees, and making recommendations to the Board on any desired changes;
- overseeing the succession planning for the Board and senior management, including the identification and assessment of potential candidates and making recommendations to the Board;
- leading the process for Board appointments by identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- keeping under review the leadership needs of the Group in respect of both its Executive Directors and other senior management; and
- Reviewing the independence of Directors.

Board composition and skills
The Board considers that the current membership of two Executive Directors, a Non-Executive Chairman and four Non-Executive Directors is the right blend of commercial and governance experience, independence and challenge and that the diverse range of skills and backgrounds of the Directors prevents any undue individual or collective influence over the Board's decision making.

Board composition and succession planning
The Committee considers Board composition and succession planning for both Executive and Non-Executive Directors and also for the Executive Management Team at each meeting. 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 44 and 45.

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

Diversity
Diversity is important to the Company and the Board recognises that diversity of experience and perspective can bring benefits across the business.

The Board is committed to encouraging diversity, and recognises the benefit of diversity, including gender, when searching for candidates for Board appointments. The Board 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.

Directors' induction, training and development
Upon appointment, all Directors receive an induction on their duties and responsibilities as Directors of a publicly quoted company. The induction process also comprises a comprehensive programme which includes meetings with all Directors, the Company Secretary and other members of the Executive Team.

A visit to our main manufacturing site in Worthing is also incorporated into the programme to understand business management and develop greater commercial awareness of the Group; these visits continue throughout the year. For more detailed information on the tailored induction programme followed by Mary Tavener, please see the box opposite.

To update the Directors' familiarity with the business, the Board visited our offices in Munich during the year. During this visit, they received briefing sessions from technical experts based in Munich, allowing them to ask questions, learn about the business and spend time with different teams and individuals to observe and experience at first-hand how the culture and values are becoming embedded across the Company.

The Company Secretary updates the Board on regulatory and corporate governance matters and periodic briefings are arranged with external advisors, 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 Management team. Directors may also take independent advice at the Company's expense if they feel this is appropriate.

Case study

Board Induction

Mary Tavener
On acceptance of her appointment, Mary followed a tailored induction programme. The purpose of this was to provide Mary with all the information and support needed to understand the business, the environment in which it operates, and Mary's role in making the business a success.

The business
In order to understand the business in greater depth, Mary held induction meetings with Board members, the CEO, the CFO, the Company Secretary and other members of the Executive Team. Mary was presented with the strategic framework, business model and objectives.

In June 2019, Mary also visited our Worthing manufacturing site as part of her induction, this included a tour of the manufacturing facilities and the opportunity to meet with the Operations Director which provided an insight into the operational requirements needed to run the site and some of the challenges faced.

Culture and values
Mary met with the Global OD and HR Director and discussed the Company's culture and its values to understand how these align within the Company's strategic plan.

The Board and governance
The Company Secretary provided information on the Company's corporate governance framework, internal control and risk management processes.

A comprehensive suite of induction materials were also provided, which comprised: Group strategic plan; financial information and trading updates, recent brokers' notes; risk register; Group and business structure; statutory documents of the Company; Board and Committee calendar; Board and Committee programmes for the year, and Board and Committee papers, minutes and other useful reference documents.

In addition, as part of her future role as Chair of the Audit Committee, Mary held meetings with Steve Smith and other key stakeholders including the External Auditors.

Audit Committee Report

Dear Shareholder,

I am pleased to introduce the Company's 2019 Audit Committee (the "Committee") Report. The Committee plays a key role in helping the Board to discharge its overall responsibility to protect as far as possible the long-term success of the Company by appropriately managing the risks to the business.

We do this by monitoring, reviewing and challenging the effectiveness of the Group's systems of control in areas such as financial reporting, risk management, business continuity, and assurances in areas such as cyber security, fraud and bribery and corruption.

In June 2019, the Board appointed Mary Tavener as a member of the Audit Committee. Mary has worked closely with me since June in anticipation of her succeeding me as chair of the Committee after the Company publishes its final 2019 results.

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 considered the valuation, recognition and presentation of the Inflamax settlement income in the annual report. The principal risk disclosures which are set out on page 36 - 40 were also reviewed, these resulted from the Group's risk management process as described on page 35.

Stephen Smith
Chairman of the Audit Committee
24 September 2019

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 2019, the Committee comprises three independent Non-Executive Directors, Peter Jensen, Steve Smith and Mary Tavener. Throughout the year, the Committee was Chaired by Steve Smith. Mary Tavener will succeed Steve Smith as Chair of the Committee upon the release of the 2019 Financial Results. Both Steve and Mary are 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, 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 49 of the Corporate Governance Statement. The Committee also met privately during the year with the External Auditors. The Committee follows an annual programme, which is agreed in advance.

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

The External Auditors have direct access to the Committee Chairman should they wish to raise any concerns outside of formal Committee meetings.

The Committee monitored the External Auditors' effectiveness during the year and considered the views of management that the External Auditors were providing a good-quality audit service. The Committee is satisfied that the External Auditors remain independent and objective and that the Group is receiving a robust audit and has therefore recommended to the Board that the External Auditors be reappointed in 2019.

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 the external Auditor in the year are shown on page 92.

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 including an Internal Audit, to be carried out by an external firm, for the UK offices.

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.

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 Auditors 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.

Our priorities for the year ahead

During the forthcoming year, the Committee will continue to focus on the integrity of the financial controls, risk management systems and the Company's cyber security arrangements, to ensure that they reflect the changing risks of our business. The security of our data will be a key focus in the financial year ahead and our controls will be regularly monitored by the Committee. The committee will continue to oversee the governance of the internal audit programme to ensure that management actions are fully and effectively implemented in a timely manner.

Directors' Remuneration Report

This report is for the period to 30 June 2019. It sets out the remuneration policy and the remuneration details for the Executive and Non-executive Directors of the Company. As an AIM-quoted 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.

Chairman's Statement

Dear Shareholder,

The Company continues to develop the scope and content of its Directors' remuneration report. The report that follows outlines 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 which decisions have been taken.

Information on our remuneration policy is set out below this letter. The annual report on remuneration containing information on remuneration and decisions in respect of the year is set out below the policy section.

Performance and decisions on remuneration taken
This was another year of strong commercial performance for the business. It has continued to gain market share from competitors in an increasingly tough regulatory environment. Operating profit before R&D grew significantly (up 22%) mainly due to good cost controlling measures being in place across the business.

In addition to these financial achievements, Allergy Therapeutics management has continued to make progress against the strategic objectives, ensuring that we have the capacity and capability to achieve our business goals. Further information on our progress can be found on pages 20 and 21.

Allergy Therapeutics has a culture of rewarding high-performance and targets set for Executive Directors are stretching, taking into account internal and external forecasts. Bonus targets are set for EBITDA growth before R&D expense and personal strategic performance targets. The 2019 Executive Bonus paid out in full, reflecting performance above threshold (after adjustments had been made for the fx effect). Overall bonuses of 71% of salary was paid out to the CEO and 42% to the CFO.

Key topics considered by the Committee during the year included:
- Reviewed and approved Executive performance against annual bonus and personal performance targets in respect of the historic year.
- Considered and determined salary changes effective 1 October 2019.
- Reviewed determined performance conditions and targets for the 2019/20 bonus and LTIP awards.
- Reviewed remuneration market trends and corporate governance developments.
- Reviewed the Gender Pay Gap report.
- Reviewed the outcomes of the Committee Effectiveness Review.
- Reviewed the updated business approach to target setting and performance measurement.
- Approved Remuneration arrangements for new Senior Executive to succeed the Commercial Operations Director of DACH region.

In November 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.

Changes to UK Corporate Governance Code and remuneration reporting

The Committee is aware of the upcoming changes to the UK Corporate Governance Code and remuneration reporting regulations and has been reviewing its remuneration processes and policies to ensure they remain appropriate in view of the forthcoming changes. This includes the following:

- We are pleased to report that, in accordance with the Committee's Terms of Reference, the scope of the Committee's remit already includes setting pay for all senior management and to review the remuneration arrangements of the broader workforce, the Committee will continue to review its terms of reference annually to ensure appropriate approvals and oversight processes are in place.
- In the forthcoming year, the Committee will review Allergy Therapeutics' CEO pay ratio in advance of the reporting requirement for main market listed companies, and will report on this on a voluntary basis in 2020 in line with the requirements.
- A significant piece of work was undertaken during the year on gender reporting so that we were able to publish our second report in early April, Any improvements in our gender pay gap will be kept under review by the Committee.

Concluding remarks

The Committee is aware of the ongoing pressures on executive remuneration for main market listed companies and continues to monitor developments as they arise. In particular, we are aware of the importance of considering the views of all our stakeholders, including shareholders and employees, and we will continue to consider the implications for Allergy Therapeutics' executive remuneration policy as required.

As an AIM-listed company, we seek voluntary shareholder approval for our Remuneration Report to provide accountability for the Board over the appropriateness of our remuneration policy and its implementation. At the AGM in November 2018, 98.8% of shareholders voted in favour of the Directors' Remuneration Report. The Committee welcomes all feedback on remuneration and I will be available at the AGM to answer any questions which shareholders have on this topic.

We hope that you find this year's Remuneration Report informative and look forward to your continuing support in the coming year.

Stephen Smith
Chairman of the Remuneration Committee
24 September 2019

Directors' Remuneration Report continued

The Remuneration Committee
The Committee's key objectives are to develop remuneration policies and packages that ensure that the Allergy Therapeutics' Executive Team is 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 executive management.

During the financial year, the Remuneration Committee was comprised of two independent Non-Executive Directors Stephen Smith (Chairman) and Tunde Otulana. The Terms of Reference of the Committee, which were reviewed during the year, clearly sets 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 49.

The Committee's advisers
The Committee has retained the services of 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; and
- 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 Long Term Incentive Plan.

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	Maximum opportunity	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.	There is no prescribed maximum annual base salary or salary increase. The committee is guided by the general increase for the broader employee population, but has discretion to decide to award a lower or higher increase to executive directors to recognise, for example, an increase in the scale, scope or responsibility of the role.	The Committee considers individual and Company performance when setting base salary.
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.	The level of benefits is not pre-determined but is in line with other senior managers.	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.	The Company may contribute up to 15% of base salary (in the case of the CEO) and up to 10% of base salary (in the case of CFO).	n/a

	Purpose and link to strategy	Operation	Maximum opportunity	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 bonus arrangements are reviewed annually at the start of the financial year and agreed by the Committee in September. Performance against targets and award levels determined shortly after the year end. Annual bonus is paid out in cash.	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 Long Term Incentive Plan, 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.	There is no pre-determined maximum award.	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; and – 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.
Non-Executive Directors	Provide fees appropriate to time commitments and responsibilities of each role.	Non-executive directors are paid a base fee in cash and additional fees for chairing the audit and remuneration committees. Fees are reviewed periodically. In addition, reasonable business expenses (together with any tax thereon) may be reimbursed.	There is no prescribed maximum annual fee or fee increase. The Board is guided by the general increase for the broader employee population and takes into account relevant market movements.	n/a

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.

Directors' Remuneration Report continued

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.

Executive Directors' service contracts and payments for loss of office
Our executive directors have rolling service contracts with an indefinite term, but a fixed period of notice of termination. The services of the CEO may be terminated on a maximum of 12 months' notice by the Company or the individual, the CFO may be terminated on a maximum of 6 months' notice. Our approach to remuneration in each of the circumstances in which an executive director may leave is determined by the Remuneration Committee in accordance with the rules of any applicable scheme.

Executive Directors	Date of contract	Notice period
Manuel Llobet	11 June 2009	12 months
Nicolas 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 6-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
Tunde Otulana	6 June 2017	3 months
Stephen Smith	5 October 2004	3 months
Scott Leinenweber	7 November 2018	3 months
Mary Tavener	19 June 2019	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.

Consideration of new Executive Directors or senior executives
When recruiting or promoting any senior executive, we seek to apply consistent policies on fixed and variable remuneration components in line with the remuneration policy set out above. This helps to ensure that any new executive director or senior executive is on the same remuneration footing as existing executive directors or senior executives respectively, while still taking into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Annual report on Directors' remuneration

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

Annual report on Directors' remuneration (audited information)

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

	Basic salary		Bonus for the year		Taxable benefits		Fees		Total		Pension[6]	
	2019 £	2018 £	**2019** £	2018 £	**2019** £	2018 £	**2019** £	2018 £	**2019** £	2018 £	**2019** £	2018 £
Manuel Llobet	**294,852**	285,708	**208,079**	217,106	**10,000**	10,200	**–**	–	**512,931**	513,014	**44,228**	42,856
Nick Wykeman	**178,750**	160,000	**74,666**	64,409	**11,659**	10,973	**–**	–	**265,075**	235,382	**17,875**	16,000
Peter Jensen	**94,000**	94,000	**–**	–	**–**	–	**–**	–	**94,000**	94,000	**–**	–
Steve Smith[1]	**15,600**	15,333	**–**	–	**–**	–	**33,400**	33,400	**49,000**	48,733	**–**	–
Jeff Barton[2,3]	**–**	–	**–**	–	**–**	–	**12,556**	37,667	**12,556**	37,667	**–**	–
Tunde Otulana	**40,000**	40,000	**–**	–	**–**	–	**–**	–	**40,000**	40,000	**–**	–
Scott Leinenweber[2,4]	**–**	–	**–**	–	**–**	–	**25,111**	–	**25,111**	–	**–**	–
Mary Tavener[5]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**623,202**	595,041	**282,745**	281,515	**21,659**	21,173	**71,067**	71,067	**998,673**	968,796	**62,103**	58,856

1 Steve Smith's fee payments are split between SRS Business Enterprises Limited and himself.
2 Fees payable to Abbott Laboratories.
3 Jeff Barton resigned as a Director on 7 November 2018.
4 Scott Leinenweber was appointed as a Director on 7 November 2018.
5 Mary Tavener was appointed as a Director on 19 June 2019.
6 Pension contributions are in respect of a defined contribution scheme.

Executive Director remuneration

Bonuses 2018 - 2019

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 71% and 42% of the basic salary of the CEO and CFO respectively.

Salary increases

The salaries of the Executive Directors were reviewed in September 2019. Following an evaluation of personal objectives, the CEO's salary was increased by 2.9% which was in line with increases across the Group. The CFO's salary was increased by 6.8% from £185,000 to £197,500 following a review of performance and adjustment towards market comparators.

Share awards

Awards were granted to Executive Directors under the LTIP in November 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; and
– 50% of the awards are subject to compound share price growth over the 3 year performance period achieving a target.

No share awards vested during the year.

Directors' Remuneration Report continued

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

	Options/LTIPs held 1 July 2018	LTIPs awarded in the year	Share options/ LTIPs lapsed/ vested in the year	Share options/ LTIPs held at 30 June 2019	Subscription price in £	Exercise date from	Expiry date
Manuel Llobet	2,590,000	900,000	–	3,490,000			
	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	872,500	450,000	–	1,322,500			
Total	**5,617,923**	**1,350,000**		**6,967,923**			

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 30 June 2019, the London Stock Exchange mid-market value of shares was 14.00 pence per share. The range of mid-market values during the period from 1 July 2018 to 30 June 2019 was 8.20 pence to 28.25 pence per share.

Non-Executive Director fees
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 are set out below:

	2019	2018
Basic Fee	£40,000	£40,000
Audit Committee Chairman	£4,500	£4,500
Remuneration Committee Chairman	£4,500	£4,500

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

	At 1 July 2018:		At 30 June 2019:	
Name	Ordinary Shares	Options & LTIPs	Ordinary Shares	Options & LTIPs
Manuel Llobet[1]	3,275,000	4,745,423	3,325,000	5,645,423
Nicolas Wykeman	150,000	872,500	300,000	1,322,500
Peter Jensen	150,000	–	170,000	–
Stephen Smith	776,513	–	776,513	–
Jeff Barton	–	–	n/a	n/a
Tunde Otulana	50,000	–	50,000	–
Scott Leinenweber	n/a	n/a	–	–
Mary Tavener	n/a	n/a	–	–

1 Includes shares held by Wild Indigo.

Decisions for the year ending June 2020
The Committee will consider the salaries of the Executive Directors. No change in the remuneration of the Chairman and other non-executive directors is expected during the year to 30 June 2020.

The Executive Bonus Plan for the year June 2020 will operate on the same basis as in 2018/19 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 2019.

Shareholder voting
The table below shows the results of the advisory vote on the 2018 Directors' Remuneration Report at the 2018 AGM

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Remuneration Report	166,189,759	98.8	2,014,064	1.2	168,210,675	6,852

This Remuneration Report has been approved for issue by the Board of Directors on 24 September 2019.

Stephen Smith
Chairman, Remuneration Committee
24 September 2019

Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for the 12 months ended 30 June 2019. The financial statements are for Allergy Therapeutics plc (the "Company") and its subsidiary companies (together, the "Group").

Strategic Report
The Group's 2019 Strategic Report, which includes a review of the Group's business during the financial year, the Group's position at year end 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 (retired 7 November 2018)
Tunde Otulana
Steve Smith
Scott Leinenweber (Appointed 7 November 2018)
Mary Tavener (Appointed 19 June 2019)

Biographies of each Director can be found on pages 44 and 45 and details of each Director's interests in the Company's shares are set out on page 63.

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, the Company had indemnified the Directors to the full extent allowed by law. The Company maintains Directors' and Officers' liability insurance which is reviewed annually.

Dividend
The profit for the year after taxation was £3.5 million (2018: loss £7.5 million). The results for the year are set out on page 72 and are described in more detail in the Financial Review.

Due to the current research and development investment strategy, the Company will not be declaring a dividend (2018: 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 108. 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 24 September 2019 are shown in the table below:

Shareholder	Number of Ordinary Shares	% of voting rights and issued share capital
CFR International SPA & Associated Holding	240,584,571	37.8
Southern Fox Investments	128,833,783	20.3
SkyGem Acquisition Limited (ZQ Capital)	99, 054, 416	15.6

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 the Note 24 on pages 103 to 105.

Employees
Information on Group employees can be found on pages 30 and 31 and in Note 7 to the Financial Statements on page 93.

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 42. 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 41 to 42.

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

Independent auditors
The auditors, Grant Thornton UK LLP, have indicated their willingness to continue in office and a resolution seeking to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The 2019 Annual General Meeting of the Company will be held from 11:00 am on 25 November 2019 at the offices of Covington 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.

By order of the Board

Sara Goldsbrough
Company Secretary
24 September 2019

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 FRS101 "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 judgments 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; and
- 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 auditors are 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 auditors are 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 United Kingdom 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 24 September 2019 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 2019 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 2019 and of the Group's profit 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.

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 twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £737,000, which represents 1% of the Group's revenue;
- Key audit matters were identified as revenue recognition, the valuation of the defined benefit pension scheme liabilities and impairment of non-current assets; and
- We performed full scope procedures at the Group's operating locations in the UK and Germany. We audited specific classes of transactions and account balances in component locations in Italy and Spain where we determined a significant risk of material misstatement of the Group financial statements. We also performed specified audit procedures in respect of occurrence of revenue and existence of stocks in other component locations in the Netherlands, Austria and Switzerland. We performed analytical procedures over all other components.

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, 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 Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Revenue from the sale of the Group's goods is recognised once certain criteria are met. Revenue is recognised at a point in time, when the Group satisfies performance obligations, generally being 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 Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers' and ensuring its consistent application; – transactional testing of a sample of revenue transactions from across the Group by agreeing to source documentation to determine whether the revenue recognised was valid, had occurred and was recognised in accordance with the Group's accounting policies; 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 when revenue had been recognised for a selection of transactions occurring near year end. The Group's accounting policy on revenue recognition is shown in Note 2 to the financial statements and related disclosures are included 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.
Valuation of defined benefit pension scheme liabilities The Group has a defined benefit pension scheme that provides benefits to a number of current and former German employees. At 30 June 2019 the defined benefit pension net liability was £11.7m. The gross value of pension scheme liabilities and assets which comprise the net liability amount to £13.1m and £1.4m 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 liability 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: – assessment of whether the Group's accounting policy for the defined benefit pension scheme complied with IAS 19 and ensuring its consistent application – utilising the expertise of our actuarial specialists, in their capacity as our auditor's expert, in order to assess the appropriateness of the methods employed by the scheme actuary, as well as the reasonableness of the assumptions used in calculating the gross liability (such as discount rate, price inflation, pension increase and mortality rates); – 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 of the underlying data utilised by the scheme actuary through inquiry of the scheme actuary and verifying that pertinent scheme details such as membership information used in the actuarial valuation align with the entity's underlying records; and – independently confirming the existence and valuation of pension scheme assets with third parties. The Group's accounting policy on accounting for the defined benefit pension scheme is shown in Note 2 to the 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.

Key Audit Matter - Group	How the matter was addressed in the audit - Group
Impairment of non-current 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 2019, 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 2019 amount to £1.4m. 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 checking this is consistent with our understanding of the business units and operating structure of the Group; – assessing and challenging the appropriateness of inputs and key assumptions within the impairment model, including growth rates, discount rates and terminal values; – 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; – performing sensitivity analysis over management's assumptions and challenging these through consideration of the impact of alternative assumptions and comparison against past experiences, 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 in Note 2 to the 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.

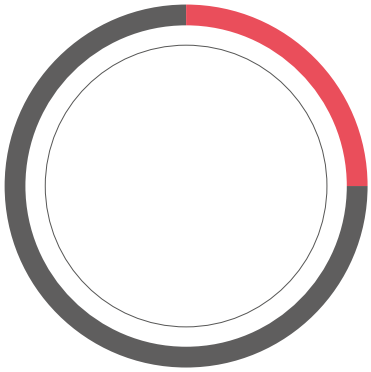
Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of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

Materiality measure	Group	Parent Company
Financial statements as a whole	£737,000 which is 1% of the group's 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 2018 to reflect the Group's increased revenues for the year ended 30 June 2019.	£73,000 which is 2% of the parent Company's total assets as assessed at the planning phase of our audit. This benchmark is considered the most appropriate because the parent Company balance sheet primarily consists of investments in subsidiaries and intragroup debtors. The level of materiality for the current year is the same as the level that we determined for the year ended 30 June 2018.
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	£37,000 and misstatements above that threshold that, in our view, warrant reporting on qualitative grounds.	£2,000 and misstatements above that threshold that, in our view, warrant reporting on qualitative grounds.

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

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group and Parent Company



- **Tolerance for potential uncorrected misstatements | 25%**
- **Performance materiality | 75%**

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, evaluating significance as a percentage of the Group's total assets, revenues and profit before taxation or evaluating significance based on qualitative factors, such as specific uses or concerns over specific components;
- undertaking a planning visit in order 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 select certain transaction items to test during our procedures at the final audit stage;
- performing full-scope audit procedures of the financial statements of the components in the UK and Germany based on their relative materiality to the Group and our assessment of the audit risks. Our audit procedures included substantive testing on significant and material transactions and account balances;
- performing audit of account balances and classes of transactions determined to likely include significant risk of material misstatements of the Group financial statements at the components in Italy and Spain. Our audit procedures included substantive testing on revenue, debtors, inventory and creditors;
- performing specified audit procedures in respect of occurrence of revenue at the components in the Netherlands, Austria and Switzerland. We also performed specified audit procedures in respect of existence of inventory at the component in the Netherlands;
- subjecting the remaining operations of the Group 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;
- issuing detailed audit instructions to the auditors of the reporting components in Germany and Italy. The instructions detailed the key audit matters and other audit risks that were to be addressed through their audit procedures. We requested the auditor in Germany to perform specified audit procedures relating to revenue occurrence at the component in Austria. The Group audit team visited and performed work over the account balances and classes of transactions held in Spain. The Group audit team remotely performed the specified audit procedures relating to revenue occurrence and inventory existence at the component in the Netherlands and relating to revenue occurrence at the component in Switzerland. The Group audit team performed analytical procedures on non-significant components; and
- in addition, the Group audit team performed a site visit to Germany, which included reviewing the work performed by the component auditors and remotely reviewing working papers by the Italian component auditors. 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, 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.

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 66, 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.

Use of our report
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.

Jonathan Maile BSc (Hons) FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Crawley
24 September 2019

Consolidated Income Statement

for the year ended 30 June 2019

	Note	Year to 30 June 2019 £'000	Year to 30 June 2019 £'000	Year to 30 June 2018 £'000	Year to 30 June 2018 £'000
Revenue	3		**73,717**		68,346
Cost of sales			**(18,379)**		(17,013)
Gross profit			**55,338**		51,333
Sales, marketing and distribution costs			**(26,995)**		(27,133)
Administration expenses – other		**(17,595)**		(15,543)	
Research and development costs – expenditure for the year		**(12,987)**		(16,017)	
– credit relating to legal settlement		**6,037**		–	
– total research and development costs		**(6,950)**		(16,017)	
Total administrative expenses			**(24,545)**		(31,560)
Other income	8		**593**		630
Operating profit/(loss)			**4,391**		(6,730)
Finance income	10		**103**		154
Finance expense	9		**(201)**		(320)
Profit/(loss) before tax	5		**4,293**		(6,896)
Income tax	11		**(826)**		(637)
Profit/(loss) for the period			**3,467**		(7,533)
Profit/(loss) per share	13				
Basic (pence per share)			**0.55p**		(1.27)p
Diluted (pence per share)			**0.52p**		(1.27)p

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2019

	Note	Year to 30 June 2019 £'000	Year to 30 June 2018 £'000
Profit/(loss) for the period		3,467	(7,533)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit liability	26	(906)	(278)
Remeasurement of investments - retirement benefit assets	17	(42)	(39)
Revaluation gains - freehold land and buildings	16	312	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		130	(68)
Total comprehensive profit/(loss)		2,961	(7,918)

Consolidated Balance Sheet

	Note	30 June 2019 £'000	30 June 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	16	**11,481**	10,096
Intangible assets - goodwill	14	**3,432**	3,406
Intangible assets - other	15	**1,408**	1,543
Investments - retirement benefit asset	17	**5,551**	5,043
Total non-current assets		**21,872**	20,088
Current assets			
Inventories	18	**9,409**	8,808
Trade and other receivables	19	**9,776**	6,587
Cash and cash equivalents	20	**27,440**	15,533
Total current assets		**46,625**	30,928
Total assets		**68,497**	51,016
Liabilities			
Current liabilities			
Trade and other payables	21	**(15,736)**	(13,890)
Current borrowings	22	**(694)**	(644)
Derivative financial instruments	24	**(429)**	(97)
Total current liabilities		**(16,859)**	(14,631)
Net current assets		**29,766**	16,297
Non-current liabilities			
Retirement benefit obligations	26	**(11,747)**	(10,346)
Deferred taxation liability	12	**(318)**	(309)
Non-current provisions	23	**(273)**	(282)
Long-term borrowings	22	**(1,742)**	(2,414)
Total non-current liabilities		**(14,080)**	(13,351)
Total liabilities		**(30,939)**	(27,982)
Net assets		**37,558**	23,034
Equity			
Capital and reserves			
Issued share capital	27	**646**	606
Share premium		**112,576**	102,420
Merger reserve - shares issued by subsidiary		**40,128**	40,128
Reserve - share-based payments		**3,023**	1,656
Revaluation reserve		**1,207**	949
Foreign exchange reserve		**(845)**	(975)
Retained earnings		**(119,177)**	(121,750)
Total equity		**37,558**	23,034

These financial statements were approved by the Board of Directors and authorised for issue on 24 September 2019 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 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 income	–	–	–	–	–	(68)	(317)	(385)
Loss for the period after tax	–	–	–	–	–	–	(7,533)	(7,533)
Total comprehensive income	–	–	–	–	–	(68)	(7,850)	(7,918)
Transfer of depreciation on revalued property	–	–	–	–	(305)	–	305	–
Transactions with owners:	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	985	–	–	–	985
Shares issued	2	–	–	–	–	–	–	2
Transfer of lapsed options to retained earnings	–	–	–	(229)	–	–	229	–
At 30 June 2018	606	102,420	40,128	1,656	949	(975)	(121,750)	23,034
Exchange differences on translation of foreign operations	–	–	–	–	–	130	–	130
Valuation gains taken to equity (land and buildings)	–	–	–	–	312	–	–	312
Remeasurement of net defined benefit liability	–	–	–	–	–	–	(906)	(906)
Remeasurement of investments – retirement benefit assets	–	–	–	–	–	–	(42)	(42)
Total other comprehensive loss	–	–	–	–	312	130	(948)	(506)
Profit for the period after tax	–	–	–	–	–	–	3,467	3,467
Total comprehensive income	–	–	–	–	312	130	2,519	2,961
Transfer of depreciation on revalued property	–	–	–	–	(54)	–	54	–
Transactions with owners:								
Share-based payments	–	–	–	1,367	–	–	–	1,367
Shares issued	40	10,560	–	–	–	–	–	10,600
Share issue costs	–	(404)	–	–	–	–	–	(404)
At 30 June 2019	**646**	**112,576**	**40,128**	**3,023**	**1,207**	**(845)**	**(119,177)**	**37,558**

Consolidated Cash Flow Statement

	Note	Year to 30 June 2019 £'000	Year to 30 June 2018 £'000
Cash flows from operating activities			
Profit/(loss) before tax		**4,293**	(6,896)
Adjustments for:			
Finance income	10	**(103)**	(154)
Finance expense	9	**201**	320
Non-cash movements on defined benefit pension plan		**273**	381
Depreciation and amortisation	15, 16	**2,090**	2,020
Impairment of intangible assets	15	**–**	224
Loss on disposal of fixed assets	15, 16	**–**	5
Net monetary value of above the line R&D tax credit	8	**(593)**	(630)
Charge for share-based payments		**1,367**	985
Movement in fair valuation of derivative financial instruments		**332**	(307)
Foreign exchange revaluation on US Dollar cash deposits		**(36)**	(10)
(Increase)/decrease in trade and other receivables		**(1,864)**	3,303
(Increase) in inventories		**(543)**	(1,330)
Increase/(decrease) in trade and other payables		**162**	(1,762)
Net cash generated/(used) by operations		**5,579**	(3,851)
Bank loan fees and interest paid		**(204)**	(318)
Income tax		**225**	367
Net cash generated/(used) by operating activities		**5,600**	(3,802)
Cash flows from investing activities			
Interest received		**151**	48
Payments for retirement benefit investments		**(405)**	(367)
Payments for intangible assets		**(289)**	(179)
Payments for property, plant and equipment		**(2,810)**	(2,005)
Net cash used in investing activities		**(3,353)**	(2,503)
Cash flows from financing activities			
Proceeds from issue of equity shares		**10,600**	–
Share issue costs		**(404)**	–
Share options exercised		**–**	2
Repayment of borrowings	32	**(651)**	(398)
Proceeds from borrowings	32	**–**	102
Net cash generated by/(used in) financing activities		**9,545**	(294)
Net increase/(decrease) in cash and cash equivalents		**11,792**	(6,599)
Effects of exchange rates on cash and cash equivalents		**115**	10
Cash and cash equivalents at the start of the period		**15,533**	22,122
Cash and cash equivalents at the end of the period		**27,440**	15,533
Cash at bank and in hand		**27,440**	15,533
Bank overdraft		**–**	–
Cash and cash equivalents at the end of the period		**27,440**	15,533

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 2019 (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 24 September 2019.

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.

IFRS 9 "Financial Instruments" (effective 1 January 2018)
IFRS 9 "Financial Instruments" introduced extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduced a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provided new guidance on the application of hedge accounting. The impairment model required recognition for any expected credit losses rather than being restricted to only those that have been incurred. No significant changes arose to receivable balances through adopting IFRS 9.

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

The Company chose to implement the new standard through the recognition of the cumulative effect of the retrospective application of the new standard as at the beginning of the period of initial application on 1 July 2018, with no restatement of comparative periods.

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 are derived from distributors' further sales on to customers. The Group has evaluated that the amounts reported under IFRS 15 are materially consistent with the previous 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 has not had any impact on the amount or timing of recognition of reported revenue for periods up to 30 June 2018 and 30 June 2019.

Notes to the Financial Statements continued

1. Basis of preparation continued

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 2019 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 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.

The Group will implement IFRS 16 with effect from 1 July 2019, using the modified retrospective approach. Each lease is being evaluated and the finance lease creditor will be calculated as the discounted value of the remaining rentals payable under the lease contract (including any extensions that are considered probable). Right of use assets will be recognised equal to the finance lease creditor. It is expected that a liability in the range of approximately £7.7m to £8.7m will be recognised on 1 July 2019 with an equal right of use asset recognised at the same time. There will be no restatement of prior year balances. If IFRS 16 had been in force during the year ended 30 June 2019, the profit before tax for the year would remain unchanged. EBITDA would have increased by £1.5m.

Going concern

Operating profit in the period was £4.4 million (2018: £6.7 million loss); net cash inflow from operations was £5.6 million (2018: £3.9 million net cash outflow). The inflow was due to good trading and settlement of the Inflamax legal case. Excluding the R&D expenditure, the Group would have reported an operating profit of £11.3 million (2018: £9.3 million).

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 June 2020 and 30 June 2021. 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 £27.4m at 30 June 2019 and the overdraft facility was renewed in August 2019. 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 2019. 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.

Intercompany 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.

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.

Notes to the Financial Statements continued

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

IFRS 15 – Accounting Policy

The Group has adopted IFRS 15 'Revenue from Contracts With Customers', which came into effect on 1 July 2018 and replaced IAS 18 'Revenue'.

The Group's previously stated revenue recognition policy, which outlined the Group's compliance with IAS 18, and was applied during the year ended 30 June 2018, was as follows:

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.*

2. Accounting policies continued

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.

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 IAS 18.8.

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.

The Group's revised revenue recognition policy, effective for the year ended 30 June 2019 is as follows:

Revenue generated from a contract for the sale of goods is recognised on delivery when all conditions have been fulfilled to the customer such as the supply of vaccines.

The Group recognises revenue in accordance with the requirements of IFRS 15 and in the five step model set out within the standard.

Notes to the Financial Statements continued

2. Accounting policies continued

STEP 1 Identifying the contract with the Customer

The Group accounts for contracts with a customer within the scope of IFRS 15 only when all of the following criteria are met:

a. the Group and the customer have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
b. the Group can identify each party's rights regarding the services to be transferred;
c. the Group can identify the payment terms for services to be transferred;
d. the contract has commercial substance (i.e. the risk, timing or amount of the Group's future cash flows is expected to change as a result of the contract); and
e. it is probable that the Group will collect the consideration to which it will be entitled in exchange for the services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due.

Significant new contracts with distributors are reviewed by senior management to ensure the relevant terms are identified and agreed.

Substantially all sales are via purchase orders received from the customer which specifies the product to be delivered.

STEP 2 Identifying the performance obligations

At contract inception, the Group assesses the goods or services promised within the contract and identifies as a performance obligation, each promise to transfer to the customer either:

a. a good or service that is distinct; or
b. a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer

With the exception of trivial amounts, the only identifiable performance obligation is the delivery of products.

STEP 3 Determining the transaction price

For the majority of supplies, the goods are sold at an agreed list price (or a variation of the list price as agreed between the parties). In these cases there is no variable consideration.

One exception is in the Canadian market where the Group sells to a distributor 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 and therefore forms part of the transaction price. In these instances, the deferred consideration is accrued at a discounted value at the point of delivery. This further consideration is calculated at a fixed percentage of the distributor's sales revenue in relation to these products less certain costs associated with their sale. The distributor revenue and selling costs are estimated based on their selling price lists and accumulated experience. Although this additional revenue is variable in nature it is not of a significant value.

There is no material difference between the timing of cash receipts and the timing of revenue recognition in respect of revenue contracts.

STEP 4 Allocating the transaction price to the separate performance obligations

There is only one performance obligation and accordingly the transaction price is allocated to the delivery of the product.

STEP 5 Recognising revenue when performance obligations are satisfied

The performance obligation is satisfied at the point in time when the product is delivered to the customer. Each transaction is recognised as a separate chargeable event.

2. Accounting policies continued

Agent vs principal considerations

Upon inception of a contract with a customer, the Group considers whether it is acting as agent or as principal in accordance with IFRS 15. The Group considers that it is acting as a principal if it controls the specified good or service before that good or service is transferred to a customer. In doing so the Group has determined that it has acted as a principal and not as an agent as part of all of its contracts with customers. In reaching this conclusion the directors considered the following arrangements:

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.

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.

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. The rebates are not considered to meet the definition of variable consideration as set out in IFRS 15.50-53. This is because at the point of entering into a contract with a customer on which a rebate is likely to apply (for example the supply of an allergy vaccine to a patient in Germany), there is no variability relating to the consideration to be received by the Group in exchange for the supply of the goods – the sales price and associated rebate is crystallised at the point of the supply. The calculation of the rebate to be repaid by the Group is carried out and invoiced in arrears by the various health insurer rebate centres in Germany. Accordingly, the rebates are considered to be a reduction in the selling price and is therefore deducted from the transaction price.

IFRS 15 OTHER DISCLOSURES

All revenue recognised in the income statement is from contracts with customers and no other revenue has been recognised.

Disclosures regarding impairment losses are detailed in Note 19, trade and other receivables.

A disaggregation of revenue is reported in Note 3, Revenue. Revenue by segment is reported in Note 4, Segmental reporting.

Revenue for each item is recognised when the goods are provided to the client and the obligation to pay the Group arises at the same time. Control passes to the customer once the goods are delivered, at which point the Group becomes entitled to consideration for the goods provided. The Group sells on credit and debtors are typically recovered between 20 to 90 days later. Further details regarding this are detailed in Note 19, trade and other receivables.

As at 30 June 2019 there were no remaining performance obligations for revenue recognised in the year.

All obligations pertaining to revenue recognised has been met. No revenue was recognised relating to obligations not yet performed. No revenue has been recognised in the period relating to obligations met in the preceding period.

Significant judgements regarding the timing of transactions or price are detailed in Note 2, Judgements in applying in accounting policies.

Transaction price is set out in individual contractual agreements and there is a range of prices based on the goods sold.

No assets were recognised from costs to obtain or fulfil a contract with any customer.

Presentation of material items

In preparing the financial statements the Directors consider whether there have been any material or unusual items . These items are disclosed separately on the face of the primary financial statements.

Expenditure recognition

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

Notes to the Financial Statements continued

2. Accounting policies continued

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.

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 on equipment used in production, 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.

2. Accounting policies continued

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 instruments assets

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below. Financial derivatives are designated at fair value through the profit and loss ("FVTPL") upon initial recognition.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, substantial modification of the terms of an existing financial liability shall be accounted for as an extinguishment of the original liability and the recognition of a financial liability. A substantial modification of terms occurs when the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original facility.

The only types of financial assets held by the Group are loans, receivables and derivative financial instruments.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, 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. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. The expected loss rates are based on the payment profile of historical sales and the corresponding historical credit losses expected in this period. The Company also considers future expected credit losses due to circumstances in addition to historical loss rates.

On that basis no loss allowance was identified as at 30 June 2019 or 1 July 2018.

Derivative financial instruments

The Group utilises derivative financial instruments which are recognised at fair value at the end of the year with changes in fair value recognised in the income statement. 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.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method except for derivatives. The only derivatives held by the Group are derivative financial instruments to mitigate the effects of exchange rate exposure through the use of forward exchange contracts. These derivative financial instruments have been included at fair value. Financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss. Please see Note 24 for the fair value hierarchy.

Notes to the Financial Statements continued

2. Accounting policies continued

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.

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.

2. Accounting policies continued

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.

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). 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 109 to 110.

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 overleaf:

Notes to the Financial Statements continued

2. Accounting policies continued

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 £13.0 million which together with a credit relating to a legal settlement of £6.0 million resulted in total net R&D expenditure for the year of £7.0 million (2018: £16.0 million).

b) 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 now) with a corresponding impact on net income and net assets.

c) In respect of net revenue of £2.2m (2018: £1.8m) relating to certain products, 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).

d) In respect of the reimbursement of legal costs relating to the Inflamax claim disclosed in notes 33 and 34, based on the legal opinion from the Group's solicitors, the directors have applied judgement in determining that the claim for the reimbursement of legal costs represented a contingent asset in accordance with IAS 37 as at the balance sheet date and did not represent a financial asset in accordance with IFRS 9, as there was no contractually enforceable right to cash at that point in time. Based on the legal opinion from the Group's solicitors, the directors have also applied judgement in assessing that the likelihood of the legal costs being reimbursed was more than probable but not virtually certain as at 30 June 2019, and have accordingly disclosed the matter as a contingent asset in accordance with IAS 37. Had the directors taken the view that the legal cost reimbursement was virtually certain as at 30 June 2019 an asset would have been recognised.

Sources of estimation uncertainty

a) 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. Please see Note 14, Goodwill for key assumptions regarding Goodwill.

In relation to the goodwill in respect of the German CGU, there is no likely scenario in which this goodwill would be impaired. Discount rates would have to rise beyond 5000% or annual cash inflows would have to reduce by more than £20m pa before the goodwill would be impaired.

In relation to the goodwill in respect of the Spanish CGU, possible impairment was sensitised with a discount rate of 27% (an increase of 10%) and alternatively with reduced annual cash inflows of £0.5m with neither of these scenarios indicating an impairment.

b) 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.

The key variables to be estimated are the number of awards that will lapse before the vesting date due to leavers, and the number of awards that will vest in relation to the non-market condition performance tests. The sensitivity to these variables can be seen in the table given in Note 28.

3. Revenue

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

	2019 £'000	2018 £'000
Sale of goods at a point in time	**73,676**	68,321
Rendering of services transferred over time	**41**	25
	73,717	68,346

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.

Revenue by segment

	Revenue from external customers 2019 £'000	**Inter segment revenue 2019 £'000**	**Total segment revenue 2019 £'000**	Revenue from external customers 2018 £'000	Inter segment revenue 2018 £'000	Total segment revenue 2018 £'000
Central Europe						
Germany	**45,021**	**–**	**45,021**	42,020	–	42,020
Other	**10,967**	**–**	**10,967**	9,672	–	9,672
	55,988	**–**	**55,988**	51,692	–	51,692
Southern Europe						
Italy	**4,989**	**–**	**4,989**	5,138	–	5,138
Spain	**7,308**	**–**	**7,308**	6,551	–	6,551
Other	**682**	**–**	**682**	644	–	644
	12,979	**–**	**12,979**	12,333	–	12,333
Rest of World (including UK)	**4,750**	**35,056**	**39,806**	4,321	29,164	33,485
	73,717	**35,056**	**108,773**	68,346	29,164	97,510

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.

Notes to the Financial Statements continued

4. Segmental reporting continued
The following revenue table is based on a budget currency rate of €1.21: £1.00 which was the rate used in the 2019 budget.

	Revenue from external customers 2019 £'000	Revenue from external customers 2018 £'000
Central Europe		
Germany	**42,065**	38,148
Other	**10,388**	9,054
	52,453	47,202
Southern Europe	**12,169**	11,256
UK	**1,966**	1,832
Other	**2,719**	2,487
	69,307	62,777

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

Depreciation and amortisation by segment

	2019 £'000	2018 £'000
Central Europe	**279**	276
Southern Europe	**407**	406
Rest of World (including UK)	**1,404**	1,338
	2,090	2,020

EBITDA by segment

	2019 £'000	2018 £'000
Allocated EBITDA		
Central Europe	**283**	(867)
Southern Europe	**(448)**	(381)
Rest of World (including UK)	**6,646**	(3,462)
Allocated EBITDA	**6,481**	(4,710)
Depreciation and amortisation	**(2,090)**	(2,020)
Operating profit/(loss)	**4,391**	(6,730)
Finance income	**103**	154
Finance expense	**(201)**	(320)
Profit/(loss) before tax	**4,293**	(6,896)

The negative EBITDA in the Southern Europe segment arises as a result of applying the Group's transfer pricing policy.

4. Segmental reporting continued

Total assets by segment

	2019 £'000	2018 £'000
Central Europe	**17,562**	15,180
Southern Europe	**8,674**	8,632
Rest of World (including UK)	**78,756**	58,271
	104,992	82,083
Inter-segment assets	**(7,728)**	(5,034)
Inter-segment investments	**(28,767)**	(26,033)
Total assets per balance sheet	**68,497**	51,016

Included within Central Europe are non-current assets to the value of £2,620,000 (2018: £2,604,000) relating to goodwill and within Southern Europe assets to the value of £2,863,000 (2018: £2,691,000) 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 £2,439,000 (2018: £1,497,000).

Total liabilities by segment

	2019 £'000	2018 £'000
Central Europe	**(18,450)**	(15,571)
Southern Europe	**(5,090)**	(5,334)
Rest of World (including UK)	**(15,127)**	(12,111)
	(38,667)	(33,016)
Inter-segment liabilities	**7,728**	5,034
Total liabilities per balance sheet	**(30,939)**	(27,982)

Notes to the Financial Statements continued

5. Profit/(loss) before tax

	2019 £'000	2018 £'000
Profit for the period has been arrived at after charging/(crediting):		
Loss/(gain) on fair valuation of foreign exchange forward contracts	**380**	(306)
(Gain) on foreign exchange forward contracts matured in the year	**54**	870
Loss/(gain) on revaluation of US Dollar denominated cash deposits	**36**	(10)
Other foreign exchange gains	**121**	123
Depreciation and amortisation:		
Depreciation of PPE (Note 16)	**1,638**	1,570
Amortisation of intangible assets (Note 15)	**452**	450
Impairment of intangible assets (Note 15)	**–**	224
Loss on disposal of tangible assets (Note 16)	**–**	5
R&D – includes credit of £6.0m relating to legal settlement (Note 33)	**6,950**	16,017
Land and buildings held under operating leases	**982**	876
Other operating leases	**1,365**	1,232
Share-based payment expense (Note 28)	**1,367**	985
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	**96**	95
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries accounts pursuant to legislation	**45**	50
Audit related assurance	**11**	10
Tax compliance services	**5**	8
Tax advisory services	**1**	8
Other services	**3**	9

6. Remuneration of key management personnel

	2019 £'000	2018 £'000
Salaries and short-term employee benefits	**999**	969
Social security costs	**108**	105
Post-employment benefits – defined contribution plans	**62**	59
	1,169	1,133
Share-based payment	**139**	100
	1,308	1,233

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 61 and forms part of the financial statements.

7. Employees (including Directors)

	2019 £'000	2018 £'000
Wages and salaries	**26,962**	24,377
Social security costs	**4,374**	4,167
Share-based payments	**1,367**	985
Pension costs – defined benefit plans	**300**	330
Pension costs – defined contribution plans	**1,178**	540
	34,181	30,399

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

	2019	2018
R&D, marketing and administration	**202**	189
Sales	**123**	124
Production	**195**	186
	520	499

8. Other income

	2019 £'000	2018 £'000
Net monetary value of above line R&D tax credit	**593**	630

9. Finance expense

	2019 £'000	2018 £'000
Interest on borrowing facility	**11**	63
Net interest expenses on defined benefit pension liability	**190**	198
Other interest and charges	**–**	59
	201	320

10. Finance income

	2019 £'000	2018 £'000
Bank interest	**12**	51
Interest on investment assets	**76**	90
Other finance income	**15**	13
	103	154

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

11. Income tax expense

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax on profit for the period at 19% (2018: 19%)	**50**	–
Overseas tax	**718**	670
Prior period overseas tax	**64**	–
	832	670
Deferred tax – current year	**(6)**	(33)
Tax charge for the period	**826**	637

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.

Notes to the Financial Statements continued

11. Income tax expense continued
The differences are explained below:

	2019 £'000	2018 £'000
Profit/(loss) for the period before tax	**4,293**	(6,896)
Profit/(loss) for the period multiplied by the standard rate of corporation tax rate of 19% (2018: 19%)	**816**	(1,310)
Effects of:		
Disallowable adjustments	**668**	672
Movements in unrecognised deferred tax - losses utilised	**(1,013)**	(77)
Movements in unrecognised deferred tax - other movements	**-**	1,231
Adjustment of taxes for prior periods	**64**	-
Adjustment for different tax rates	**266**	87
Relief for shares acquired by employees and Directors	**-**	(43)
Gross up of R&D expenditure credit - current year	**18**	22
- prior year	**7**	55
	826	637
Deferred tax - reduction in carrying amount of deferred tax asset	**-**	-
Tax charge for the period	**826**	637

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 2018	**320**	**(320)**	**(109)**	**(46)**	**98**	**(252)**	**(309)**
Amount (charged)/credited to the income statement	**2**	**(2)**	**16**	**-**	**(30)**	**20**	**6**
Exchange differences	**-**	**-**	**(12)**	**(1)**	**1**	**(3)**	**(15)**
At 30 June 2019	**322**	**(322)**	**(105)**	**(47)**	**69**	**(235)**	**(318)**

	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)

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.

12. Deferred tax continued

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

	2019 £'000	2018 £'000
Deferred tax assets	**391**	418
Deferred tax liabilities	**(709)**	(727)
	(318)	(309)

Unrecognised deferred tax

	2019 Deferred tax assets £'000	2018 Deferred tax assets £'000
Non-current assets		
PPE	**–**	58
R&D expenditure credit	**549**	456
Current assets		
Stock	**405**	162
Current liabilities		
Derivative financial instruments	**73**	17
Non-current liabilities		
Pension and other employee obligations	**2,043**	1,748
Share options	**254**	317
Unused tax losses	**13,836**	14,819
Total	**17,160**	17,577

As at 30 June 2019, the Group had approximately £81m of unutilised tax losses (2018: approximately £86m) 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 Group reviewed the unrecognised tax losses and determined that it was not probable that taxable profits will be available against which the tax losses can be utilised.

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 2019.

13. Earnings per share

	2019 £'000	2018 £'000
Profit/(loss) after tax attributable to equity shareholders	**3,467**	(7,533)

	Shares '000	Shares '000
Issued Ordinary Shares at start of the period	**596,169**	594,118
Ordinary Shares issued in the period	**40,000**	2,051
Issued Ordinary Shares at end of the period	**636,169**	596,169
Weighted average number of Ordinary Shares for the period	**632,835**	595,099
Potentially dilutive share options	**36,868**	30,062
Weighted average number of Ordinary Shares for diluted earnings per share	**669,703**	625,161
Basic earnings per Ordinary Share (pence)	**0.55p**	(1.27)p
Diluted earnings per Ordinary Share (pence)	**0.52p**	(1.27)p

Notes to the Financial Statements continued

14. Goodwill

	2019 £'000	2018 £'000
At 1 July	**3,406**	3,390
Addition	**–**	–
Exchange difference	**26**	16
At 30 June	**3,432**	3,406

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

	2019 £'000	2018 £'000
Germany	**2,620**	2,604
Spain	**812**	802
Total	**3,432**	3,406

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 cash flows that reflect the current market assessment of the time value of money and the risks specific to the cash generating unit.

Impairment review
Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable and a potential impairment may be required. Impairment reviews have been performed for all CGUs for the years ended 30 June 2019 and 2018.

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 10% discount rate (2018: 8%) 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 increased due to an increase 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 (2018: 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.

15. Intangible assets

	Manufacturing and non-competing 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 2017	4,738	1,151	463	295	274	1,054	2,936	10,911
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	466	297	276	1,055	3,177	11,129
Additions	–	–	–	–	–	36	253	289
Foreign exchange	41	60	6	4	3	1	11	126
At 30 June 2019	**4,803**	**1,156**	**472**	**301**	**279**	**1,092**	**3,441**	**11,544**
Amortisation								
At 1 July 2017	4,738	404	135	122	56	1,036	2,351	8,842
Asset reclassification	–	–	–	–	–	–	4	4
Disposals	–	–	–	–	–	–	(12)	(12)
Charge for the year	–	73	31	59	28	3	256	450
Impairment	–	–	142	–	82	–	–	224
Foreign exchange	24	44	–	–	–	2	8	78
At 30 June 2018	4,762	521	308	181	166	1,041	2,607	9,586
Charge for the year	–	77	31	59	28	2	255	452
Foreign exchange	41	23	–	1	–	11	22	98
At 30 June 2019	**4,803**	**621**	**339**	**241**	**194**	**1,054**	**2,884**	**10,136**
Net book value								
At 1 July 2017	–	747	328	173	218	18	585	2,069
At 30 June 2018	–	575	158	116	110	14	570	1,543
At 30 June 2019	**–**	**535**	**133**	**60**	**85**	**38**	**557**	**1,408**

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.

In the prior year, an impairment of £0.2m was recognised in administration expenses in respect of trade names in Spain relating to Alerpharma S.A. (2019: Nil).

Other intangibles relate to trademarks and licences.

Notes to the Financial Statements continued

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 2017	9,444	5,864	36	4,029	3,354	22,727
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	3,423	24,591
Revaluation	–	–	–	–	(414)	(414)
Additions	1,981	517	12	161	–	2,671
Foreign exchange	8	16	–	14	40	78
Disposals	–	–	–	(4)	–	(4)
At 30 June 2019	**12,100**	**7,576**	**52**	**4,145**	**3,049**	**26,922**
Depreciation						
At 1 July 2017	5,376	3,746	28	3,529	375	13,054
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	547	14,495
Charge for the year	648	603	6	210	171	1,638
Revaluation	–	–	–	–	(725)	(725)
Foreign exchange	7	10	–	13	7	37
Disposals	–	–	–	(4)	–	(4)
At 30 June 2019	**6,643**	**4,926**	**42**	**3,830**	**–**	**15,441**
Net book value						
At 1 July 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
At 30 June 2019	**5,457**	**2,650**	**10**	**315**	**3,049**	**11,481**

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 2019 by Yard S.p.A. independent valuers, certified by RICS in Milan, Italy based on an open market valuation. This property is carried at fair value. The building in Spain was revalued in June 2019 by Co. Hispania S.A., an independent valuation company accredited by the Bank Of Spain and based in Madrid, Spain. This property is carried at fair value.

The Madrid premises were revalued to €2,113,000 as at 30 June 2019. The valuation was performed using the depreciated cost replacement method (adjusted for reduction in value due to age).

If the cost basis was used, the carrying amounts of the Spanish revalued land and buildings would be £1,607,000 (the carrying value of the asset at the point the subsidiary was first consolidated). The revalued amounts include a revaluation surplus of £115,000 before tax which is not available for distribution to the shareholders of the Group.

16. Property, plant and equipment continued
The Italian premises were revalued to €1,420,000 as at 30 June 2019 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 €1,550 (£1,389) per sqm. This compares to a range of prices from €1,200 per sqm to €1,900 per sqm observed by the valuers.

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 £1,092,000 before tax which is not available for distribution to the shareholders of the Group.

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 2018	1,760	1,116	2,876
Gain recognised in other comprehensive income			
Revaluation of freehold land and buildings	115	197	312
Loss recognised in income statement – depreciation of buildings	(118)	(53)	(171)
Gain recognised in OCI – exchange differences on translating foreign operations	19	13	32
Balance at 30 June 2019	**1,776**	**1,273**	**3,049**

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.

	2019 £'000	2018 £'000
At 1 July	**5,043**	4,592
Additions	**405**	367
Finance income	**76**	90
Remeasurement of investment	**(42)**	(39)
Profit on foreign exchange	**69**	33
	5,551	5,043

18. Inventories

	2019 £'000	2018 £'000
Raw materials and consumables	**2,343**	2,164
Work in progress	**2,845**	2,778
Finished goods	**4,221**	3,866
	9,409	8,808

The value of inventories measured at fair value less cost to sell was £322,000 (2018: £347,000). The movement in the value of inventories measured at fair value less cost to sell during the year gave rise to a credit of £25,000 which was dealt with in the Consolidated Income Statement.

Notes to the Financial Statements continued

19. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**4,373**	3,783
Other receivables	**3,409**	1,002
VAT	**591**	576
Prepayments and accrued revenue	**1,403**	1,226
	9,776	6,587

Accrued revenue of £119,000 relates to deferred consideration receivable from customers (2018: £44,000).

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, £80,000 of trade receivables were written back and none of the provision utilised. The impaired trade receivables are mostly due from private customers in the Italian market who are experiencing financial difficulties.

The Group applies the IFRS9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

All of the Group's trade receivables in the comparative periods have been reviewed for indicators of impairment. The impaired trade receivables are mostly due from customers in the business-to-business market that are experiencing financial difficulties.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the payment profile over the past 24 months to 30 June 2019 and 30 June 2018 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

Trade receivables are written off (i.e. derecognised) where there is no reasonable expectation of recovery. An allowance is made for credit losses when there is an indication that the debt may not be recovered. Failure to make payments within 5 months from the invoice due date is considered an indicator of possible non recovery.

Bad and doubtful debt provision

	2019 £'000	2018 £'000
Balance brought forward	**535**	612
Foreign exchange adjustments	**5**	70
Allowance for credit losses	**(80)**	(81)
Utilised	**–**	(66)
Balance carried forward	**460**	535

Note 19 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. Both the current and comparative impairment provisions apply the IFRS9 expected loss model.

On the above basis the expected credit loss for trade receivables as at 30 June 2019 and 30 June 2018 was determined as follows:

	2019			2018		
	Expected credit loss rate £'000	**Gross carrying amount £'000**	**Lifetime expected credit loss £'000**	Expected credit loss rate £'000	Gross carrying amount £'000	Lifetime expected credit loss £'000
Trade receivables						
Current	**–**	**2,459**	**–**	–	2,759	–
Not more than three months	**–**	**1,004**	**–**	–	710	–
More than three months but not more than six months	**0%**	**804**	**4**	2%	183	4
More than six months but not more than one year	**23%**	**77**	**18**	56%	55	31
More than one year	**90%**	**489**	**438**	82%	611	500
		4,833	**460**		4,318	535

20. Cash and cash in hand

	2019 £'000	2018 £'000
Cash at bank and in hand	**27,440**	15,533

21. Trade and other payables

	2019 £'000	2018 £'000
Due within one year		
Trade payables	**4,141**	3,193
Social security and other taxes	**1,875**	2,216
Other creditors	**132**	212
Accrued expenses and deferred income	**9,588**	8,269
	15,736	13,890

22. Borrowings

	2019 £'000	2018 £'000
Due within one year		
Bank loans	**694**	644
	694	644

	2019 £'000	2018 £'000
Due in more than one year		
Bank loans	**1,742**	2,414
	1,742	2,414

There is an overdraft facility provided by NatWest Bank plc which has a variable limit during the year up to a maximum of £7 million. 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 was renewed in August 2019. The overdraft was unused at 30 June 2019 (2018: 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%	139	97	–
Bank Inter (2)	1 month Euribor +5.0%	36	142	126
Santander (1)	12 month Euribor +2.5%	135	115	–
Tecnoalcala	Interest free	26	78	–
Santander (2)	Fixed rate of 2.5%	358	1,000	–
CDTI	Interest free	–	154	30
		694	1,586	156

No new loans were taken out during the year.

Notes to the Financial Statements continued

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 S.p.A. at 30 June 2019. The major assumptions used were as follows:

	2019 % p.a.	2018 % 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	**0.35**	0.98
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:

	2019 Total £'000	2018 Total £'000
At 1 July	**282**	291
Additions	**32**	29
Utilisation	**(54)**	(19)
IAS 19 addition	**10**	(21)
Foreign exchange movement	**3**	2
At 30 June	**273**	282

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 2019:

Changes in significant actuarial assumptions

	2019 £'000	2018 £'000
Withdrawal annual rate +1.00%	**272**	282
Withdrawal annual rate -1.00%	**275**	284
Annual discount rate +0.25%	**270**	286
Annual discount rate -0.25%	**277**	280
Annual price inflation +0.25%	**276**	278
Annual price inflation -0.25%	**271**	287

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.

	2019 £'000	2018 £'000
Capital	**37,558**	23,034
Total equity	**37,558**	23,034
Borrowings	**2,436**	3,058
Overall financing	**39,994**	26,092
Capital-to-overall financing ratio (%)	**0.94**	0.88

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

	2019 £'000	2018 £'000
Financial assets		
Current		
Financial assets at amortised cost	**35,932**	20,937
	35,932	20,937
Financial liabilities		
Current		
At amortised cost (including borrowings and payables)	**(16,430)**	(14,534)
Fair value through profit and loss – held for trading	**(429)**	(97)
	(16,859)	(14,631)
Non-current		
At amortised cost (including borrowings and payables)	**(2,015)**	(2,696)
	(18,874)	(17,327)

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 €27,796,000 to purchase GBP at an average blended rate of 1.1292 for dates from July 2019 until May 2020.

Analysis of derivative financial instruments

	2019 £'000	2018 £'000
Credit/(charge) to administration expenses in the Consolidated Income Statement		
Euro forward contracts	**(332)**	306
Euro forward contracts – matured in the period	**(54)**	(870)
	(386)	(564)

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.

Notes to the Financial Statements continued

24. Financial instruments continued
Derivative financial instruments

	2019 £'000	2018 £'000
Current liabilities		
Derivative financial instruments – Euro forward contracts	**(429)**	(97)
	(429)	(97)

The net loss at fair value of financial instruments held at the balance sheet date that has been recorded through the Consolidated Income Statement is £332,000 (2018 gain: £307,000).

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:

	2019 £'000	2018 £'000
Sterling	**20,973**	11,920
Euro	**2,010**	3,340
US Dollars	**4,116**	72
Canadian Dollars	**16**	4
Swiss Franc	**325**	197
	27,440	15,533

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

	2019			2018		
	Sterling £'000	**Euro £'000**	**Other £'000**	Sterling £'000	Euro £'000	Other £'000
Current						
Financial assets	**26,144**	**4,994**	**4,795**	13,982	6,455	501
Financial liabilities	**(8,685)**	**(7,888)**	**(189)**	(8,114)	(6,323)	(194)
Short-term exposure	**17,459**	**2,894**	**4,606**	5,868	132	307
Non-current						
Financial liabilities	**–**	**(2,015)**	**–**	–	(2,696)	–
Long-term exposure	**–**	**(2,015)**	**–**	–	(2,696)	–

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.

	2019 £'000	2018 £'000
If Sterling had strengthened against the Euro by	**10%**	10%
Effect on net results for the year	**531**	307
Effect on OCI	**(618)**	(577)
Effect on equity	**(87)**	(270)
If Sterling had weakened against the Euro by	**10%**	10%
Effect on net results for the year	**(649)**	(375)
Effect on OCI	**756**	703
Effect on equity	**107**	328

24. Financial instruments continued

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.

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
	+1%	-1%	+1%	-1%
Movement in net results for the year	(17)	n/a	(18)	n/a
Equity	–	n/a	–	n/a
	(17)	n/a	(18)	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) was renewed in August 2019. As at 30 June 2019, the Group's contractual maturities (undiscounted and including interest) are summarised below:

Current liabilities

	2019 £'000 Within 6 months	2019 £'000 6 to 12 months	2018 £'000 Within 6 months	2018 £'000 6 to 12 months
Borrowing facility	172	172	329	329
Trade payables	4,141	–	3,193	–
Other short-term liabilities	11,498	–	10,697	–
	15,811	172	14,219	329
Derivatives	212	217	77	20
	16,023	389	14,296	349

Non-current liabilities

	2019 £'000 1 to 5 years	2019 £'000 Later than 5 years	2018 £'000 1 to 5 years	2018 £'000 Later than 5 years
Borrowing facility	2,617	990	2,317	388
Other long-term liabilities	273	–	282	–
	2,890	990	2,599	388

Notes to the Financial Statements continued

25. Operating lease commitments

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

	Land and buildings		Other		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Within one year	**1,118**	889	**553**	415	**1,671**	1,304
Two to five years	**4,216**	2,833	**565**	527	**4,781**	3,360
Over five years	**4,569**	2,087	**4**	–	**4,573**	2,087
	9,903	5,809	**1,122**	942	**11,025**	6,751

Of the operating lease commitments for the land and buildings of £9,903,000 (2018: £5,089,000), £5,268,000 relates to the UK premises (2018: £1,580,000). The production facility accounts for £5,075,000 (2018: £1,451,000) of this commitment and expires in December 2033. Premises in Spain account for £1,088,000 (2018: £49,000) expiring in 2029 and in Germany for £3,410,000 (2018: £4,603,000) expiring in June 2027.

Of the other commitments, £910,000 (2018: £746,000) relates to leased vehicles all expiring within five years and none relate (2018: £Nil) to leased vehicles 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. In June 2018, a salary sacrifice scheme was introduced by Allergy Therapeutics (UK) Ltd. The effect of the scheme was to transfer a proportion of the payroll cost to pension contributions. The amount charged against profits represents the contributions payable under the scheme in respect of the accounting period totalling £1,177,951 (2018: £540,000).

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 2019. The major assumptions used were as follows:

	2019 % p.a.	2018 % 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	**1.85**	2.05
Discount rate at the end of the year	**1.45**	1.85
Increase of social security contribution ceiling	**3.0**	3.0

	Years	Years
Average life expectancies		
Male, 65 years of age at the balance sheet date	**20.7**	19.9
Female, 65 years of age at the balance sheet date	**24.2**	23.9
Male, 45 years of age at the balance sheet date	**40.6**	39.7
Female, 45 years of age at the balance sheet date	**44.7**	44.7

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

	2019 £'000	2018 £'000
Fair value of plan assets	**1,364**	1,376
Present value of scheme liabilities	**(13,111)**	(11,722)
Deficit in the scheme	**(11,747)**	(10,346)

26. Retirement benefit obligations continued

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 £11.7m (2018: £10.3m). 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 £57,000 (2018: £77,000). The pension charge generates an unrecognised deferred tax asset of £2,043,000 (2018: £1,748,000), 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 reimbursement right as defined by IAS 19. See Note 17 for further details of these investment assets.

	2019 £'000	2018 £'000
Amounts charged to operating profit		
Current service costs	**300**	330
Amounts included in other finance expenses		
Interest income on plan assets	**(25)**	(28)
Interest on pension scheme liabilities	**215**	225
Net charge	**190**	197
Amounts recognised in OCI		
Actual return less expected return on pension scheme assets	**32**	49
Experience (losses)/gains arising on scheme liabilities	**(59)**	89
Changes in assumptions underlying the present value of scheme liabilities	**(879)**	(416)
Total amount relating to year	**(906)**	(278)
Opening cumulative losses	**(4,179)**	(3,901)
Remeasurement of net defined liability/Cumulative net movement recognised	**(5,085)**	(4,179)

Movement in assets during the year

	2019 £'000	2018 £'000
Balance as at 1 July	**1,376**	1,346
Foreign currency differences	**18**	6
Interest income on plan assets	**25**	28
Remeasurement of net defined liability	**32**	49
Contributions from employer	**–**	11
Assets transferred to finance benefits paid	**(87)**	(64)
Balance as at 30 June	**1,364**	1,376

Movement in liabilities in the year

	2019 £'000	2018 £'000
Balance as at 1 July	**(11,722)**	(10,965)
Foreign currency differences	**(164)**	(75)
Current service costs	**(300)**	(330)
Interest cost	**(215)**	(225)
Remeasurement of net defined liability	**(938)**	(327)
Benefits paid by employer	**141**	136
Benefits paid from assets	**87**	64
Balance as at 30 June	**(13,111)**	(11,722)

The expected contributions over the forthcoming year are £150,000.

Notes to the Financial Statements continued

26. Retirement benefit obligations continued

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 2019:

Changes in the significant actuarial assumptions

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Discount rate	**Increase to 2.45%**	**Decrease to 0.45%**	Increase to 2.85%	Decrease to 0.85%
(Decrease)/increase in the defined benefit liability	**(2,107)**	**2,541**	(1,876)	2,261
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	**480**	**(444)**	460	(426)
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	**514**	**(514)**	424	(420)
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	**542**	**(543)**	467	(465)

27. Issued share capital

	2019 Shares	2019 £'000	2018 Shares	2018 £'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	**596,168,616**	**596**	594,117,768	594
Issued during the year:				
Share placing	**40,000,000**	**40**	2,050,848	2
At 30 June	**636,168,616**	**636**	596,168,616	596
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	**646,016,949**	**646**	606,016,949	606

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

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

Share options issued on vesting of LTIP awards were exercised in the year with proceeds of £Nil (2018: £2,000).

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.

In relation to awards under the 2013 Plan for the years ended 30 June 2014 onwards, 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 November 2018 under the 2013 Plan subject to performance criteria being met.

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"):

	2019 WAEP		2018 WAEP	
	Number	**Price (£)**	Number	Price (£)
Outstanding at the beginning of the year	**35,739**	**0.18**	38,739	0.18
Exercised during the year	**–**	**–**	(3,000)	0.18
Lapsed during the year	**(450)**	**–**	–	–
Outstanding at the year end	**35,289**	**0.18**	35,739	0.18
Exercisable at the year end	**35,289**	**0.18**	35,739	0.18

The share options outstanding at the end of the year have a weighted average remaining contractual life of 0.3 years (2018: 1.3 years) and all have an exercise price of £0.18:

	30 June 2019 Number	30 June 2018 Number
Exercise price (p)		
18.25	**35,289**	35,739

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

	2019 Number	2018 Number
Outstanding at the beginning of the year	**4,057,250**	1,648,026
Converted in the year from LTIPs	**–**	4,457,066
Exercised during the year	**–**	(2,047,842)
Lapsed during the year	**(361,384)**	–
Outstanding at the year end	**3,695,866**	4,057,250
Exercisable at the year end	**3,695,866**	4,057,250

No low cost options were exercised during the year. For low cost options exercised in the prior year, the weighted average share price at the date of exercise was £0.28.

Notes to the Financial Statements continued

28. Share-based payments continued

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

	2019 Number	2018 Number
Outstanding at the beginning of the year	**25,968,750**	21,206,250
Awarded during the year	**11,110,000**	11,035,000
Converted to options	**–**	(4,457,066)
Lapsed during the year	**(3,942,596)**	(1,815,434)
Outstanding at the year end	**33,136,154**	25,968,750

The fair values of LTIP shares conditionally awarded in December 2016, March 2018 and November 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.

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	2,784,976
30/12/2016	24/09/2019	24/09/2026	0.001	0.209	0.11%		100.0%	0.192	2,784,976
30/12/2016	24/09/2019	24/09/2026	0.001	0.209	0.11%	47%		0.091	3,781,601
30/12/2016	24/09/2019	24/09/2026	0.001	0.209	0.11%		100.0%	0.192	3,781,601
15/03/2018	15/03/2021	14/03/2031	0.001	0.270	0.85%	50%		0.133	4,927,500
15/03/2018	15/03/2021	14/03/2031	0.001	0.270	0.85%		57.5%	0.250	4,927,500
01/11/2018	01/09/2021	31/10/2031	0.001	0.175	0.84%	33%		0.031	5,087,500
01/11/2018	01/09/2021	31/10/2031	0.001	0.175	0.84%		38.3%	0.161	5,087,500

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

The Group recognised total expenses of £1,367,000 (2018: £985,000) related to equity-settled share-based payment transactions during the year.

If the assumptions underlying the expense were varied, the results would be as follows:

	As reported: (future leavers at 5% pa and non-market condition vesting probabilities as above) £'000	Increase in leavers to 10% p.a. £'000	Decrease in leavers to 2% p.a. £'000	Future non-market condition vestings decrease by 10% £'000	Future non-market condition vestings increase by 10% £'000
Charge to Income statement	1,367	1,310	1,402	1,262	1,472
Credit/(charge) to income statement	–	7	(35)	105	(105)

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 2019 was €Nil; £Nil (2018: €66,917; £59,229).

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 certain products there is a risk that up to £4.0m cumulative revenue recognised (2018:£1.8m) may be reversed due to a retrospective change in the level of rebate being applied (2019: £2.2m recognised and 2018: £1.8m recognised).

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 2019, 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 2019 £'000	30 June 2018 £'000
Capital commitments	**1,224**	1,133

Included in the above is £293,000 for ongoing factory refurbishments in the UK (2018: £105,000); £810,000 for new plant and machinery (2018: £798,000) and £121,000 for IT equipment and systems upgrades (2018: £230,000).

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 61.

At 30 June 2019, 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	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Laboratorios Synthesis S.A.S.	**–**	–	**(73)**	(73)
Gynopharm de Venezuela C.A.	**–**	–	**(60)**	(60)
Total	**–**	–	**(133)**	(133)

Notes to the Financial Statements continued

31. Related party transactions and ultimate control continued
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.

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 2018	**3,058**
Cash flows	
Repayment	**(651)**
Proceeds	**–**
Non-cash	
Foreign exchange movements	**29**
30 June 2019	**2,436**

	£'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

33. Contingent asset
During the year the Group settled its legal dispute with Inflamax (the Clinical Research organisation who had carried out the inconclusive Grass Phase II trial on its behalf in 2016/2017). The Group received damages of $7.6m (£6.0m) from Inflamax which has been fully paid as at the year end.

In addition to the claim for damages that was settled, the Group was also pursuing a claim in respect of reimbursement of legal costs incurred in connection with the claim. At the balance sheet date there was no verbal or contractual agreement to the legal costs claim. This is not included in these financial statements as a financial asset due to the uncertainty at the balance sheet date about reimbursement of these costs. The financial impact of the claim for legal fees is given in Note 34.

34. Events after the balance sheet date
In July 2019, Inflamax paid the Group $4.1m (£3.2m) in respect of legal costs which will be recognised in the Group's financial statements for the year ended 30 June 2020.

Company Balance Sheet

	Note	30 June 2019 £'000	30 June 2018 £'000
Fixed assets			
Investments	2	**3,620**	3,295
Current assets			
Debtors: amounts falling due within one year	3	**233**	357
Total assets		**3,853**	3,652
Creditors: amounts falling due within one year	4	**(254)**	(256)
Net current (liabilities)/assets		**(21)**	101
Total assets less current liabilities		**3,599**	3,396
Net assets		**3,599**	3,396
Capital and reserves			
Called up share capital	5	**646**	606
Share premium account		**112,576**	102,420
Other reserves - share-based payments		**3,024**	1,657
Profit and loss account		**(112,647)**	(101,287)
Total equity		**3,599**	3,396

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements. The Company's loss for the period was £11,360,000 (2018: £424,000 profit).

These financial statements were approved by the Board of Directors and authorised for issue on 24 September 2019 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 2017	604	102,420	1,268	(102,307)	1,985
Profit for the period after tax	–	–	–	424	424
Transactions with owners:					
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
Loss for the period after tax	–	–	–	(11,360)	(11,360)
Transactions with owners:					
Share-based payments	–	–	1,367	–	1,367
Shares issued	40	10,156	–	–	10,196
Transfer of lapsed options to retained earnings	–	–	–	–	–
At 30 June 2019	**646**	**112,576**	**3,024**	**(112,647)**	**3,599**

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 2020 and 30 June 2021. 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 £27.4m at 30 June 2019 and the overdraft facility was renewed in August 2019. 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

Fixed asset investments in subsidiaries are shown at cost less provision for impairment. Share-based payments made in respect of the Company's shares to employees of its subsidiaries are reported as an increase in investment.

Intercompany receivables

Receivables including intercompany receivables are financial assets measured at amortised cost in accordance with IFRS9. See note 2 of the consolidated financial statements on page 85 for more information.

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.

Notes to Company Balance Sheet continued

1. Accounting policies continued

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 93 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.

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.

Significant judgement and estimates

Investments

Investments in subsidiary undertakings are assessed for indicators of impairment at each balance sheet date. An investment is impaired where the book value of the investment in the parent company's accounts, together with the carrying amount of amounts receivable from the subsidiary undertaking (see 'Intercompany receivables' below), exceed the carrying amount of net assets in the subsidiaries' accounts.

Where there is an indication of impairment, the company undertakes an impairment test by comparing the recoverable amount of the investment in subsidiary undertakings with the carrying amount. The directors have based the recoverable amount of the investment in subsidiary undertakings, together with any amounts receivable from the subsidiary undertakings, on the book value of the subsidiaries' net assets as in the view of the directors, this is a reasonable approximation of the fair value less cost to sell. Impairment losses, where recognised in the year, are included within administrative expenses.

Intercompany receivables

Intercompany receivables are measured at amortised cost and assessed for impairment using the expected credit loss model in accordance with IFRS 9. The receivable is impaired where the book value of the receivable in the parent company's accounts, together with the carrying amount of investments in the subsidiary undertaking, exceed the carrying amount of net assets in the subsidiaries' accounts (less any amount already matched against the carrying value of the intercompany investment). These book values are used as a reasonable approximation of fair value less selling costs of the subsidiary net assets.

2. Investments

	Shares in subsidiary undertaking £'000
Cost	
Investment brought forward	3,295
Additions	1,367
Diminution in value	(1,042)
Investment carried forward	**3,620**

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

2. Investments continued
Investments have been assessed for impairment. The diminution in value is calculated as referred to in the significant judgement and estimates paragraph above.

At 30 June 2019, the Company's subsidiary undertakings were:

Subsidiary undertaking & registered office address	Country of incorporation	Principal activity	Percentage of shares held	Class of shares held
Allergy Therapeutics (Holdings) Ltd Address: Dominion Way, Worthing, West Sussex, BN14 8SA, UK	UK	Holding company	100	Ordinary and deferred
Allergy Therapeutics (UK) Ltd Address: Dominion Way, Worthing, West Sussex, BN14 8SA, UK	UK	Manufacture and sale of pharmaceutical products	100	Ordinary
Bencard Allergie GmbH Address: Leopoldstraße 175175, 80804 Munich, Germany	Germany	Sale of pharmaceutical products	100	Ordinary
Bencard Allergie (Austria) GmbH Address: Stiftgasse 18/5-6, 1070 Vienna, Austria	Austria	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Italia s.r.l. Address: Via Quattro Novembre, 76, 20019 Settimo Milanese, Milan, Italy	Italy	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Iberica S.L. Address: Avda Barcelona, 115, Edificio Brasol, 2ª Planta, 08970 Sant Joan Despí, Barcelona, Spain	Spain	Sale of pharmaceutical products	100	Ordinary
Bencard A.G. (name changed from Teomed A.G.) Address: Tumigerstrasse 71, 8606 Greifensee, Switzerland	Switzerland	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Netherlands BV Address: Maanlander 10, 3824DZ, Amersfoort, Netherlands	Netherlands	Sale of pharmaceutical products	100	Ordinary
Allergy Therapeutics Argentina S.A. Address: In liquidation	Argentina	Marketing of pharmaceutical products	100	Ordinary
Bencard Allergy Therapeutics Unipessoal LDA Address: Avenida Antonio Augusto de Aguiar, nº 17, 5ª Dto.1050-012 Lisbon	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.

Notes to Company Balance Sheet continued

3. Debtors

	30 June 2019 £'000	30 June 2018 £'000
Amounts falling due within one year		
Amount owed by subsidiary undertakings	**184**	349
Prepayments and accrued income	**49**	8
	233	357

Intercompany debtors have been assessed for impairment. The diminution in value is calculated as referred to in the significant judgement and estimates paragraph on page 116. The amount owed by subsidiary undertakings is stated net of provisions of £113,542,312 (2018: £101,625,458).

4. Creditors – amounts falling due within one year

	30 June 2019 £'000	30 June 2018 £'000
Accruals	**254**	256
	254	256

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

7. Directors' emoluments
Full details of the Company's Directors' emoluments are set out in the Directors' Remuneration Report on pages 56 to 63.

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 34 of the consolidated financial statements.

Definition of Non-GAAP Measures

Constant currency
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.

Operating profit (pre-R&D)
This is calculated by adding back R&D expenditure for the year to the operating result of the year to arrive at an operating profit.

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