Allergy Therapeutics PLC

Transforming lives

Annual Report and Accounts 2020

What we do

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

Contents

Highlights

Financial highlights

25%

Increase in pre-R&D operating profit to £14.2m as a result of sales growth and lower overhead cost growth
(2019: £11.3m)

£37.0m

Strong cash balance at 30 June 2020
(2019: £27.4m)

7%

Revenue growth at constant rate[1] and 6% at reported rate to £78.2m
(2019: £73.7m)

£7.1m

Net profit for the year including one-off legal settlement of £3.2m
(2019: Net profit of £3.5m)

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.

Operating highlights

(including post period)

- Good growth across all key products in the portfolio with further incremental increase in market share in European business
- Exploratory field study for Grass MATA MPL will begin in Q4 2020, moving on to the second stage Phase III trial in H2 2022 to improve outcome and mitigate risk
- Licence agreement signed with Saiba and DeepVax, VLP partner, to explore new therapeutic areas, including solid cancer tumours and asthma
- Signed exclusive rights to multi-allergy oral product ImmunoBON
- VLP-based peanut product Phase I trial due to commence in 2021

See more on pages 08 to 13

At a glance

We are visionary

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.

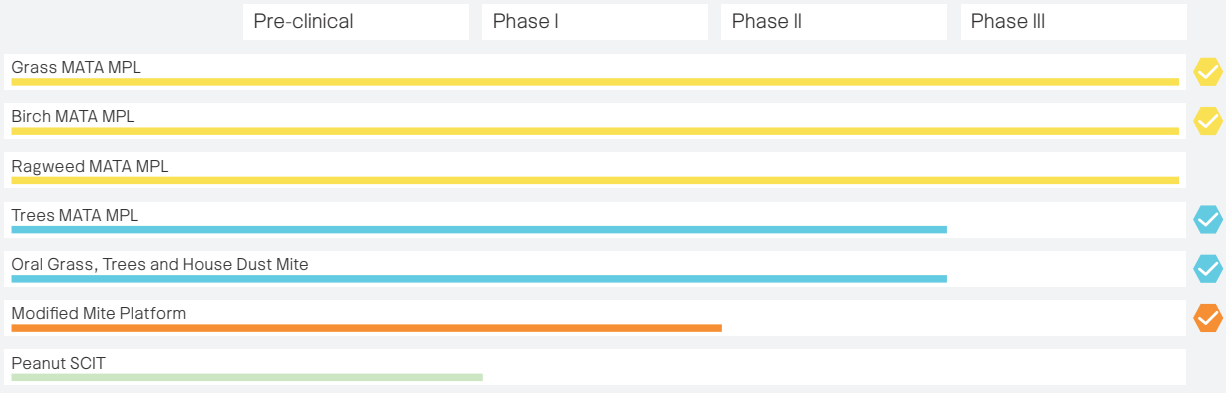
£78.2m

Revenue
(2019: £73.7m)

8

New products in the pipeline
(2019: 3)

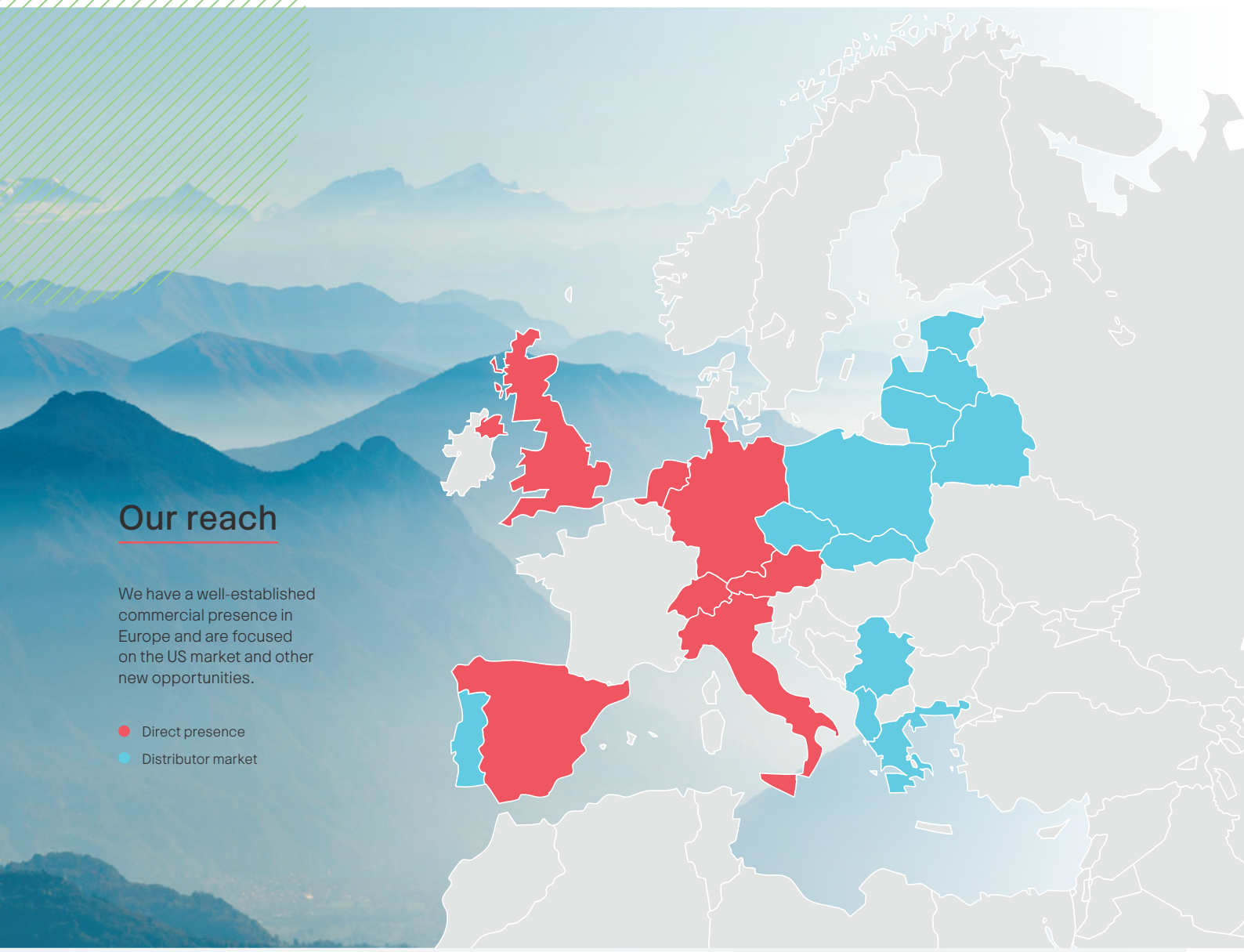
Our pipeline



SCIT: Subcutaneous Immunotherapy
MATA: Modified Allergen Tyrosine Adsorbed

Also available as a named-patient product

VLP candidates under proof-of-concept evaluation for uses in areas outside of allergy including cancer, asthma, psoriasis and atopic dermatitis.

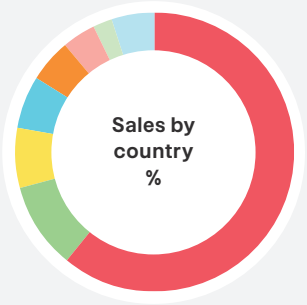


Our reach

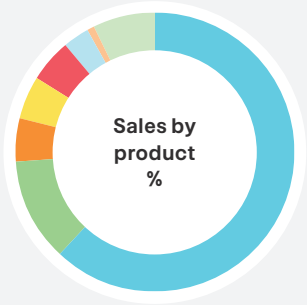
We have a well-established commercial presence in Europe and are focused on the US market and other new opportunities.

- Direct presence
- Distributor market

Sales



- Germany | 61%
- Spain | 10%
- Austria | 7%
- Italy | 6%
- Netherlands | 5%
- Switzerland | 4%
- UK | 2%
- Other | 5%



- Pollinex Quattro | 62%
- Oralvac | 12%
- Venomil | 5%
- Tyrosine S/TU | 5%
- Tyromite | 5%
- Acarovac Plus | 3%
- Diagnostics | 1%
- Other | 7%

See more on pages 18 and 19

How immunotherapy is transforming lives

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 allergy, 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.

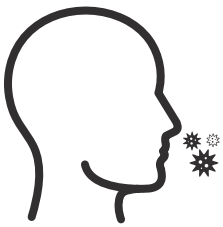
Immunotherapy is the only treatment which affects the underlying cause of an allergy. The alternative is to continue with medicines which suppress the symptoms of allergy, such as antihistamines and steroid-based medicines.

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.

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.

1



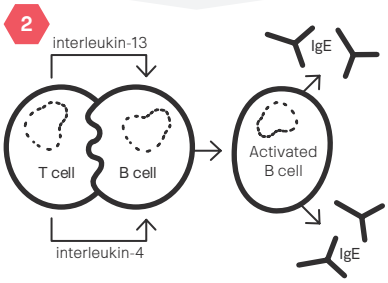
Patient comes into contact with an allergen

Treated with allergen-specific immunotherapy

No treatment

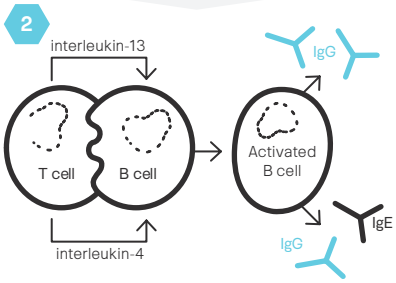
Treatment

2



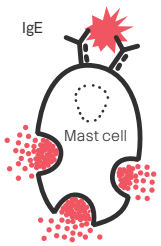
Th2 cell stimulates B cells to produce IgE

2



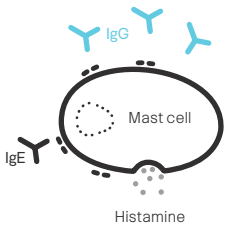
Th1 cell stimulates B cells to produce IgG

3



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

3



Increased IgG production inhibits the production of IgE

4

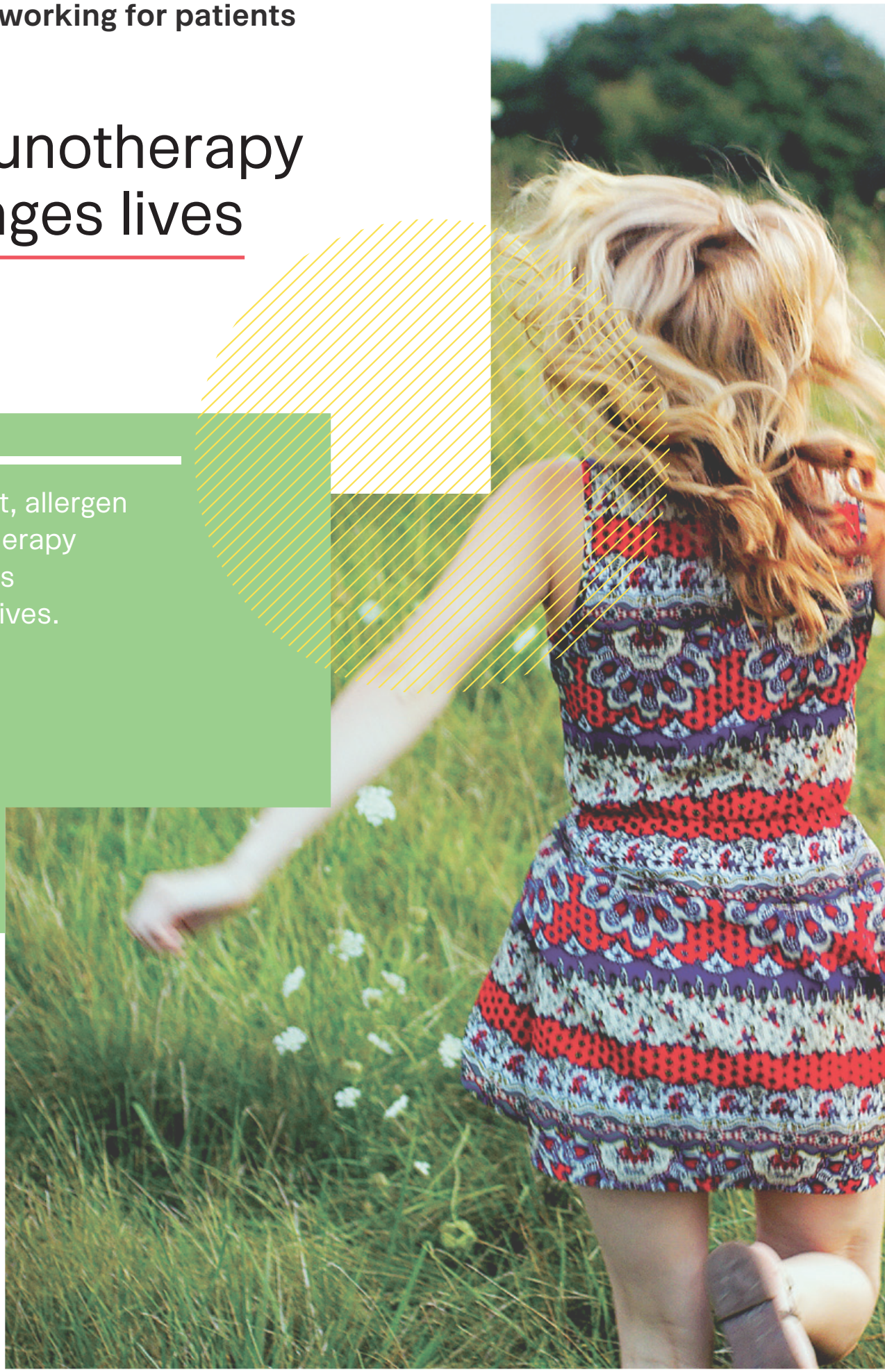
Histamine leads to classic symptoms of allergy

4

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

Immunotherapy changes lives

Simply put, allergen immunotherapy transforms patients' lives.



Case study

Lawrence DuBuske, MD.

The provision of allergen-specific immunotherapy is the ultimate art unique to the practice of allergy. To transform the lives of patients who have suffered from seasonal allergy is the reward which motivates those of us who have taken clinical allergy as our life's work. Twenty years ago my son developed seasonal allergy so severe that he rapidly evolved from rhinitis to asthma. Allergy immunotherapy changed his life, resulting in minimal medication requirement and remarkable tolerance of the pollen seasons.

Similarly, my wife progressed from minimal rhinitis symptoms to asthma due to birch pollen which evolved into sensitisation with severe rhinitis and asthma symptoms due to exposure to multiple allergens which was so severe that she required oral corticosteroids to survive the pollen seasons.

She has responded dramatically to allergen immunotherapy, today requiring no medications with minimal seasonal respiratory symptoms. Simply put, allergen immunotherapy transforms patients' lives. For the allergist, this is the accomplishment which motivates us to continue to help our patients live symptom free in a world where allergen exposure is inevitable.

Lawrence DuBuske
Clinical Professor of Medicine
The George Washington University
School of Medicine and Health Sciences
Washington, DC

Strong governance

Peter Jensen
Chairman

"Allergy Therapeutics continues to evolve with a solid European business and a strong pipeline."

25%

Increase in pre-R&D operating profit to £14.2m
(2019: £11.3m)

Despite major challenges caused by the global COVID-19 pandemic, Allergy Therapeutics finished the year by announcing earnings ahead of expectations in July 2020, achieved through a combination of a robust operational performance, cost efficiencies and the timing of research and development spend.

The relatively limited impact of COVID-19 on the business in 2020 could not have been achieved without the efforts of the management team and the Company's employees, and I would like to take this opportunity to thank them for their continuing flexibility in ensuring that performance was, and is, being maintained to enable us to transform patients' lives.

Innovation
As well as managing through the COVID-19 challenge, the Group has been actively bringing new products into its commercial portfolio and further strengthening the pipeline. Having licensed exclusive rights to oral product ImmunoBON from Biomedical International R+D GmbH in July 2020, we intend to launch the product in Germany and Austria in the spring of 2021, providing patients with an add-on option in the allergy space.

The signing of the contract with Saiba AG and DeepVax GmbH in September 2020, which expands our licence to explore the potential of their VLP technology in new therapeutic areas, including solid cancer tumours, atopic dermatitis, asthma and psoriasis, is a key development of the business into the broader immunology space.

This, in time, will allow the business to operate in a broader immunology market, while also using technologies that the Group has extensive experience with from the development of its peanut allergy vaccine candidate.

Intention to conduct audit tender
The Board has agreed that the Company will conduct an audit tender process during the autumn of 2020. The process is expected to complete with a recommendation from the Audit Committee to the Board by the end of October. The outcome will be announced once it has been agreed by the Board.

Outlook
Allergy Therapeutics continues to evolve, with a solid European business and a strong pipeline of innovative, patient-focused products. This is in line with our three cultural objectives of visionary thinking, commitment to our stakeholders and fairness and honesty – or as we call it, due to our large German presence, menschlichkeit. There are still a number of uncertainties to the performance of the Group over the short to medium term, including the cost and logistical impact of a hard Brexit in December 2020 and a changing regulatory environment. Of course, there also remains the potential for further waves of COVID-19, but we believe we are in a robust position to respond swiftly to ensure the best outcome for all stakeholders.

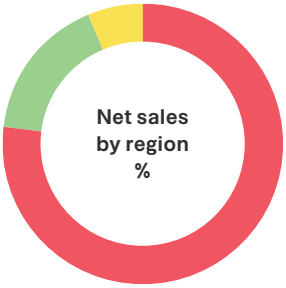
On behalf of the Board, I would like to say how proud I am of the strong team of dedicated people across all the markets in which we operate. Their commitment, determination and creativity has enabled us to continue delivery of our products to patients throughout this intense period.

Peter Jensen
Chairman
22 September 2020

Delivering our strategy

Manuel Llobet
Chief Executive Officer

"Management is excited by the new opportunities that we are creating in our product portfolio and pipeline."



- DACH | £60.3m
- Southern Europe | £13.1m
- ROW (inc. UK) | £4.8m

This year's performance has shown that our Group is resilient and has the ability to respond swiftly to changes in the market. Further, the business is developing on many fronts while continuing to trade well.

Financial performance

We are pleased to report a strong set of financials for the year ended 30 June 2020, with net sales of £78.2m, an increase of 6% in actual terms and 7% in constant terms over the prior year. The growth for the year was tempered by the impact of the COVID-19 crisis, with sales in March to May 2020 affected by clinics and hospitals being closed to all non-urgent cases. The impact was more keenly seen in Southern Europe, where most allergy clinics are situated in hospitals, whereas Northern Europe benefited from separate allergy clinics that reopened earlier.

Overall, growth in Pollinex Quattro, Pollinex and Venomil were strongest, with most of the portfolio performing well in a tough market. Growth was strongest in our larger markets with only Italy exhibiting a reduction due to the severe COVID-19 impact.

As soon as the crisis hit, the Group took steps to ensure the safety of employees. This was followed by making operating efficiencies to compensate, where possible, for lower expected sales. This has proved very successful with the net effect of the efficiencies being £3.0m greater than the loss of sales. This resulted in the pre-R&D operating profit increasing by 25%. This was above market expectations, as announced in the July 2020 trading update.

R&D spend in the year of £9.0m, excluding the one-off legal expenses settlement with Inflamax, has been lower than the prior period due to timing (£13.0m, excluding legal settlement) and has focused on the Pollinex Quattro and peanut vaccine candidate development.

Overall, the financial performance was strong with a net income of £7.1m, up £3.6m on 2019, and a cash balance of £37.0m (2019: £27.4m).

Trials

Preparations for the pilot field study (G309) in the Grass MATA MPL clinical development programme are well underway with the trial due to start in Q4 2020 and readout expected in H2 2021. The Grass MATA MPL Phase III field trial will start in H2 2022 to improve the outcome and mitigate risks which we and others have encountered in the past with these types of trials. It will also allow for any changes in the approach to patient selection, which typically starts in the month of August of the year in which the trial starts.

£7.1m

Net profit for year
(2019: £3.5m)

Trials continued

We were pleased in January to see the publication of encouraging pre-clinical data for our peanut allergy vaccine candidate in The Journal of Allergy and Clinical Immunology. Work on scale-up and stability ahead of human trials is ongoing and the team expects the Phase I trial to start in 2021. A pre-IND (Investigational New Drug Application) meeting with the FDA is planned for Q4 2020 to discuss the protocol for the first in-human study. An ex-vivo biomarker study is planned to take place by H1 2021 using the final product formulation to confirm translation of its hypo-allergic potential and biomarker profile using blood samples from peanut allergy patients. This will support progression to the first in-human studies.

As announced in July 2020, the analysis of the primary endpoint of the Birch B301 Phase III trial has been declared invalid by the German Regulatory Authority, the Paul Ehrlich Institute ("PEI"), owing to technical issues encountered in the study, which made it impossible to reconstruct the data. The Group intends to repeat the trial after the Grass Phase III Trial (G306) has met the expected endpoints.

The Grass MATA MPL Phase III programme and the initial Phase I peanut trial are both fully funded.

Pipeline

We announced on 3 September 2020 the signing of our new exclusive licensing agreement with the Swiss biotechnology companies, Saiba AG and DeepVax GmbH, to use their patented VLP technology platform to develop and commercialise vaccines targeting solid cancer tumours, atopic dermatitis, asthma and psoriasis. This is the first step of a long-term strategy for the Group to move into the broader immunology space while utilising its knowledge of vaccines, the VLP technology, immunotherapy and adjuvant systems. The relationship with Saiba AG has also been deepened with the knowledge-sharing agreement in relation to VLP, announced in July 2020, which Saiba AG is using to develop COVID-19 vaccine candidates. This agreement will provide valuable information to the Group about the development of a VLP product through clinical studies.

As announced on 15 July 2020, the Group has signed a commercial agreement for the exclusive rights to ImmunoBON, a patented protein-based oral product for the general treatment of allergies based on the lower allergic incidence shown by people who live near or are brought up on a livestock farm, the so-called 'farm effect'. This product adds to our strong portfolio of allergy products based on patient convenience and short course treatment. ImmunoBON comprises a three-month treatment period and therefore has the advantage of potentially higher compliance than longer course treatments.

Outlook

The outlook for the next financial year is hard to predict accurately, given the lack of clarity over the impact of COVID-19 over the next 12 months and the potential impact of a hard Brexit. Management expects that sales are likely to grow at a similar rate to 2020 due to the anticipated reduction of new patients in the autumn, caused by the reduced number of patient clinic visits made in spring and early summer 2020 resulting from COVID-19 restrictions.

Costs are expected to increase by a low double-digit percentage in the next financial year following the low levels this year, due to the investment in IT, regulatory and sales capabilities.

R&D expenses are anticipated to be approximately 75% higher than in 2020 (excluding the one-off legal settlement of £3.2m) as research continues with Grass MATA MPL and our peanut allergy candidate vaccine.

Overall, management remains confident about the future of the business and the exciting new opportunities that we are creating in our product portfolio and pipeline.

Manuel Llobet
Chief Executive Officer
22 September 2020

Living our values

Discovermore

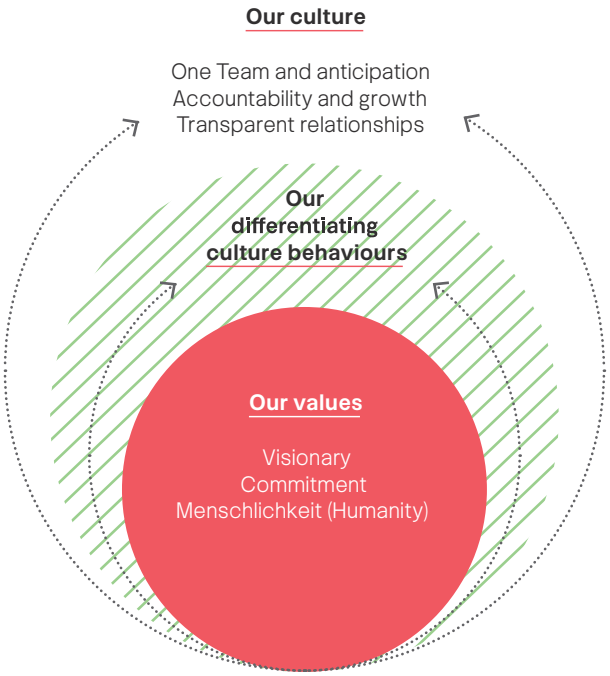
Inspired by the purpose of our organisation to transform lives, we have engaged our employees to help define our culture. Our culture enables our business to realise its ambitious strategy and strengthen our competitive advantage.

Our values, Visionary, Commitment and Menschlichkeit (Humanity), are at the core of our culture. We have taken a number of deliberate steps to evolve our culture:

- defined our employer brand, aligned with our corporate brand;
- created a global community of senior leaders and culture champions, supported through an ongoing learning and development programme;
- invested in development of our most senior leaders 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;
- implemented both manager and employee performance management training throughout the whole organisation enabling everyone to acquire skills and confidence; and
- introduced a global digital platform to underpin all our people management practices and facilitate global communication and connectivity.

Going forward, we will continue to focus on developing a globally consistent approach to talent management, succession planning, reward and leadership development. We will also deploy our first ever engagement survey, enabling an informed direction for our people agenda and cultural journey while continuing to improve overall performance.

Our evolving culture and underlying values have never been more evident than in the way that the business responded to the COVID-19 crisis. Our employees have acted as One Team, anticipating the future. Senior management were transparent with all decision-making throughout the peak of the crisis and we have emerged stronger than ever.



Our response to COVID-19

Since the pandemic began to take hold, we have taken decisive action, focusing on the following four immediate priorities:

- protecting the health, safety and wellbeing of our employees and the communities in which we operate;
- ensuring that our supply chain was protected in order to continue delivering our vaccines to our patients;
- to keep connected to our doctors and to support them in the best way we could; and
- protecting the financial strength of the Group to ensure sustainability of the business.

The response of the entire team to ensure that we could successfully balance these four challenging priorities, in very uncertain times, has been exceptional. Throughout this crisis, the Group has clearly demonstrated that it lives and breathes its values and culture.

See more on pages 39 and 41

Our values in action

Visionary:

Across the business, our team is passionate about what we do and how we do it. Our adjuvant technologies improve therapies by increasing their efficacy. This concept has been developed further during the pandemic. We have shared our adjuvant systems technology with biotechs, universities and national health authorities for pre-clinical evaluations to enable potential synergies with COVID-19 vaccine development. The Group acted fast at the beginning of this crisis and learnt many lessons relating to digitalisation, working remotely and how and when to communicate. Moving forward, we are proactively developing the ideas and new ways of working so that we are a business well prepared for the post-COVID-19 world.

See more on pages 39 and 41

Commitment:

We are very proud of our dedicated team who worked tirelessly to ensure business sustainability through the peak of the crisis. As the pandemic continues to evolve so does the business. The cross-functional Crisis Management Team, who initially met daily, are now the Business Evolution Team who continue to monitor risks to the supply chain, revenue and assess the ongoing impact of COVID-19 to the Group so that we may adapt as necessary.

See more on pages 22 to 25

Menschlichkeit (Humanity):

From the very beginning of the crisis, the business responded by asking “What can I do to help?”. This question was being asked to our employees whose job role required them to continue coming to site daily, and to our employees who suddenly found themselves isolated working at home. We asked the question to our local hospitals and health centres and were able to provide them with essential PPE. We asked the question to our doctors and physicians to ease some of their anxieties for their return to work. We considered the pandemic itself, and very quickly established a COVID-19 testing laboratory in Spain.

See more on pages 22 to 25

The opportunity

Allergy Therapeutics is well placed to respond to the trends driving demand for immunotherapy.

Macro 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 and associated changes to allergenic components.
- Increases in pollution causes pollen, paired with particles, to cause more serious effects.

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.

Use of probiotics to address respiratory and food allergies

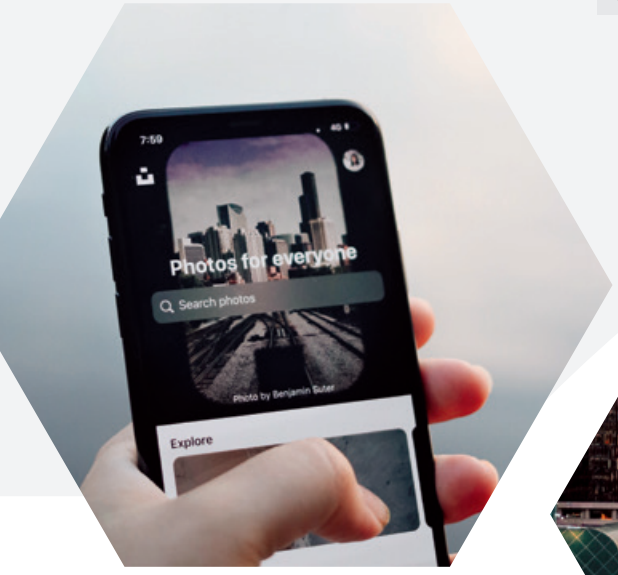
- The microbiome is recognised as being important to wellbeing and changes in gut health have been associated with allergy.
- Research into the microbiome and the relationship between preventing or curing allergic diseases is ongoing.

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.
- Mobile apps are increasingly supporting patients and doctors in managing their disease and adherence to treatments.

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.



Micro trends

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 leaves 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.

Adapting to our markets

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

Central Europe

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.

The German operation is situated in Munich and currently employs approximately 150 staff members, including our corporate medical team, pharmacovigilance team and a large clinical operations team. 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 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 over the past few years.

Although COVID-19 affected the market, the German team was able to increase its sales by nearly 8%. This was mainly driven by the good in-market performance during the high season, but also due to the very fast adaption to the new pandemic situation. In addition, a new, patented product, ImmunoBON, will be launched within the over the counter ("OTC") area to strengthen the OTC portfolio.

Germany remains the Group's main market, generating approximately 61% of the Group's revenue in the 12 months ending 30 June 2020.

"Bencard Allergie 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."

René Kreis
Managing Director
Germany

Austria

The Austrian market has grown by 7% in the last fiscal year, boosted by the thriving sublingual tablet market (+25%).

The Austrian subsidiary managed to maintain sales at a similar level to last year in a highly competitive market. The COVID-19 crisis affected the country in a similar way to Germany. In the forthcoming year, the COVID-19 crisis may offer new opportunities in terms of product characteristics (ultra-short therapy) and continuous medical education (digitalisation). Growth within the market is expected over the coming years.

Switzerland

This year, the Swiss subsidiary was able to significantly capitalise on opportunities in the Swiss allergy market created by competitors reducing their portfolio or having supply problems. The Group's agile supply chain has been able to react to market forces and supply the gap in the market, allowing the Swiss team to grow sales at a strong rate. Early signs indicate that this opportunity may continue in the coming year. Plans are also underway to introduce new products into the market. The COVID-19 impact on Switzerland was similar to Germany with a fairly minor impact on sales.

"This year, our Swiss subsidiary was able to further and significantly capitalise on opportunities in the Swiss allergen immunotherapy market because the competitors have significantly reduced their portfolio."

Martin Graff
General Manager
Switzerland

Our response to COVID-19

In response to the COVID-19 pandemic, Allergy Therapeutics is expanding its facilities in Alcalá de Henares (Madrid) to incorporate a SARS-COV-2 coronavirus diagnostic test into the portfolio using the RT-PCR technique (real-time polymer chain reaction).

Our top priority has always been the wellbeing of our staff, healthcare professionals and our patients. Our culture and philosophy has moved all of us at Allergy Therapeutics to do our best to contribute to the relief effort during this difficult time.

ATimmunolab

Southern Europe

Italy

The Italian immunotherapy market has decreased 5% in value over the last ten months. The market remains dominated by sublingual products and, during the COVID-19 crisis, patients were strongly recommended to avoid entering clinics by doctors' associations. The market is slowly recovering.

A key challenge remains public tenders in the hospitals in certain regions and conditions imposed by the regulatory institution (AIFA) relating to the interpretation of existing local legislation regarding the prescription and commercialisation of named-patient products.

The Italian team plan to maintain market position by leveraging a sublingual house dust mite campaign and protecting market share in SCIT therapies.

Outside immunotherapy, the Italian synbiotic market remains one of the largest in Europe and it represents a complementary key business for the Group. Our approach is to keep focus on atopic dermatitis, allergy and the food intolerance segment.

Spain

The overall allergen immunotherapy market in Spain grew 3% over the last year with the SCIT segment growing 7%. The Group's advanced allergoid products puts the Spanish team in a strong position to achieve further growth in the coming years. Spain continues to be a valuable market, with approximately 335,000 immunotherapy patients a year. Of the injectable immunotherapy products, modified allergens remain the treatment of choice for Spanish physicians, with Pollinex Quattro and Acarovac Plus the best-selling products in the Spanish market. The COVID-19 crisis did affect the market quite badly with most clinics being in hospitals that only allowed patients suffering from COVID-19 in. The business has worked hard to support doctors and patients and expects the market to recover. The business has also moved into COVID-19 testing using the Company laboratory at Alcalá, near Madrid.

"The advanced allergoid products at Allergy Therapeutics allow the Group to be in a strong position to achieve further growth in the coming years."

Glória Garcia
Directora General
Spain

Northern Europe

Netherlands

The market in the Netherlands grew sharply this year (20.7% IMS MAT April 2020) helped by the continued leading growth of Allergy Therapeutics (+21.1%) and the mite tablet product launched by a competitor a few years ago. The market is dominated by Allergy Therapeutics and ALK.

COVID-19 has not impacted the Netherlands market as much as other markets and it has rebounded robustly.

The Dutch subsidiary continued its strong growth with the grass and tree therapies. This growth is driven by a strong service before sales strategy and the return on marketing and sales investments. Looking forward, despite the launch of a competing tree tablet, the team expects to continue their position as the fastest-growing company in the Dutch market with the SCIT pollen product Pollinex (24.1% market share/MAT April 2020) and furthering the growth of Oralair.

UK

The UK is the Group's home market and whilst small in comparison to other subsidiaries, it is an important market to sustain. Whilst currently there is limited use of allergy vaccines in the UK due to the constraints of the unique national health service, 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 Grasses & Rye and Pollinex Trees are the only SCIT products registered in the UK. COVID-19 has affected the market quite significantly but it is now returning to normal.

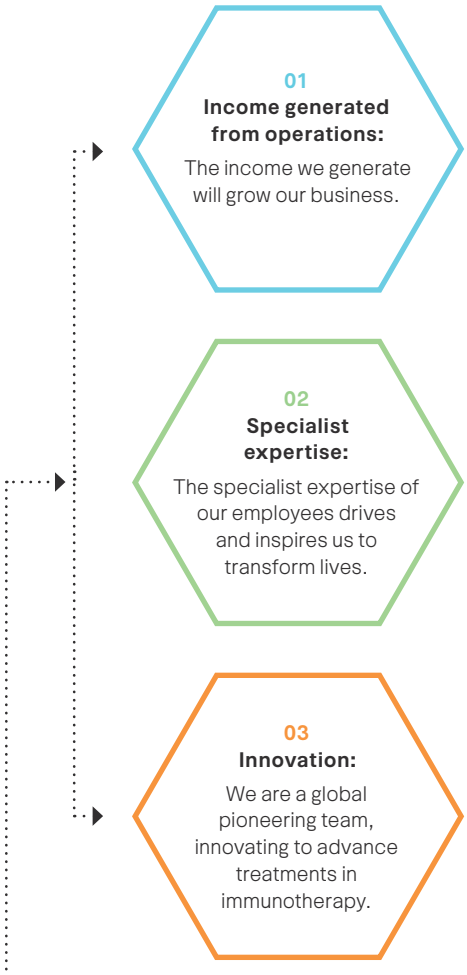
Emerging markets

The Group continues to develop new markets with significant economic potential across the world as well as looking to introduce new products into existing markets.

How we create value

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

Our resources



Underpinned by our culture and values

See more on pages 14 and 15

What we do

Research & Development (key to future growth)

Focus on:

- new pipeline products such as VLP peanut; and
- marketed products for serious reactions to allergens such as house dust mites, 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 2019/20 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 more on pages 26 to 37

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 mindset.

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 22 and 23

For patients:

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

See more on pages 22 and 23

For our employees:

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

See more on pages 22 and 23

For healthcare professionals:

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

See more on pages 24 and 25

Our stakeholders

We believe that the success of our business is down to the collaborative culture and strong working relationships we have built with our stakeholders.

For Allergy Therapeutics, engaging with our stakeholders is an integral part of how we operate as a business. We actively seek to understand what really matters to our stakeholders and ensure that we take this into account in our decision-making, both at a strategic and an operational level.

This engagement enables us to continue to make and deliver our products to patients around the world, and maintain a motivated workforce and dependable supply chains. It encourages customer confidence in our products and helps us maintain close relationships with healthcare professionals.

In the table below and on the following pages, we set out our key stakeholder groups, their material issues and how we engage with them.

Our key stakeholders	Key issues for them
Investors We actively engage with our investors to support a full understanding of our business, progress against our strategic priorities and to address any concerns.	– Sustainable business performance and growth – Return on investment – Clinical performance – Financial performance – ESG (environmental, social and governance)
Our people Our people are essential to our success and growth. We recognise that we need a skilled and committed workforce, with a diverse range of experience and perspectives.	– Fulfilling and rewarding work – Health, safety and wellbeing – Company culture and reputation – Opportunities for learning and career development – Compensation and benefits – Opportunities to make a difference
Our patients Our patients rely on us to produce products that can help to transform their quality of life. Every day we make a difference to the lives of patients through the provision of high quality products with good safety and efficacy profiles.	– Improving quality of life – Efficacy – Product safety – Convenience

Section 172 statement and stakeholder engagement

Statement regarding section 172 of the UK Companies Act 2006 and our commitment to transparent and constructive dialogue with our stakeholders:

The Board is required to take into account wider stakeholder and social responsibilities and their implications for long-term success; the Company is also required to report on how the Directors have carried out their section 172 duties throughout the year. During the year, the Directors consider that they have acted and made decisions that would most likely promote the success of the Group for the benefit of its members as a whole, with particular regard for:

(a) the likely consequences of any decision in the long term: see our business model on pages 20 and 21 and the principal risks and uncertainties section from page 45;

(b) the interests of the Group's employees: see our people section on pages 22 and 23;

(c) the need to foster the Company's business relationships with suppliers, customers and others: see section where we detail our stakeholder engagement on pages 24 and 25;

(d) the impact of the Company's operations on the community and environment: see our operating responsibly section from pages 38 to 42;

(e) the desirability of the Company maintaining a reputation for high standards of business conduct: see our operating responsibly section from page 38 and the principal risks and uncertainties section from page 45; and

(f) the need to act fairly to all members of the Company: the corporate governance section from page 61 outlines the ways in which the Board and management interact with and communicate to shareholders.

The following pages outline our key stakeholder groups, how we interact with them and how the Board considers their interests and opinions during its discussions and decision-making processes. Going forward, we want to increase our stakeholder awareness, and do more to strengthen our Directors' understanding of the broad range of views expressed by Allergy Therapeutics' stakeholders.

How we engage / engagement through the year	Links to other relevant content
Investor meetings and roadshows that mostly align with financial results include the CEO and CFO, provide the forum for discussions on strategic progress, financial and operational performance, and other matters relevant to shareholders. The AGM is an opportunity for shareholders, including non-institutional ones, to hear directly from the Board on the Group's performance and strategic direction and to ask questions. The Company communicates with its shareholders generally through regular results and strategy announcements and has a comprehensive website on which detailed Company information is available.	Governance: see page 61
During the year, the Executive Team discussed how to improve employee engagement. The Group's geographical and cultural diversity reflects our seven main operating sites and over 600 workers, making effective Group-wide engagement sometimes a difficult task. Over the last 12 months we have delivered a significant amount of training to all employees as a way of upskilling and engaging them. We have listened to their feedback regarding a globally consistent performance management process. To continue this focus, our Executive Team have communicated our business strategy and immediate objectives for the year ahead through the use of video and team meetings. We continue to find new ways to engage and communicate with all employees. Recently we introduced a new quarterly digital global newsletter and a social networking site for the business. Other initiatives included 'under the spotlight', where employees can join a webinar with one of our Executive members to ask questions and learn about the business. Our targeted employee 'pulse surveys' deployed during COVID-19 have provided a valuable insight into how our people are feeling and enabled us to take specific actions to improve the workplace where possible. We recognise that we must continue to improve employee engagement and we will launch our first ever employee engagement survey this autumn. The results of the study will provide a benchmark for our business in our sector. It will be presented to the Board, informing and influencing our employee strategy.	Operating responsibly – our people: see page 38 Our strategy: see page 10
For our consumer healthcare products, we engage with patients via digital channels (websites, social media), advertising (across multiple media, including TV, print media and in-store promotions in pharmacies and retail stores), in addition to providing basic product information as part of our Medical Information function. For prescription-only medicines, our direct engagement with patients is much more limited, due to regulatory constraints governing promotional activities.	Operating responsibly – our commitment to patients: see page 40 Our business model: see pages 20 and 21

Our stakeholders continued

Our key stakeholders	Key issues for them
Healthcare professionals ("HCPs") Our healthcare professionals rely on us to deliver quality products efficiently.	– Product safety – Cost – Efficacy – Availability – Training in the administration of products
Communities We look to minimise any negative impacts from our operations and to support sustainable socio-economic development and growth in our local communities.	– Local employment opportunities – Environmental management – Operational impacts
Governments and regulators We look to develop and maintain constructive relationships with regulators and the national and local governments of the countries in which we operate.	– Compliance with regulatory, legal and taxation requirements – Transparency
Suppliers Our products are essential to transforming the lives of our patients. We work to provide safe and quality-assured materials that meet regulatory requirements and industry standards across the whole supply chain.	– Transparency in the supply chain – Responsible sourcing and human rights – Compliance with laws – Competitive pricing – Equitable terms – Payment terms

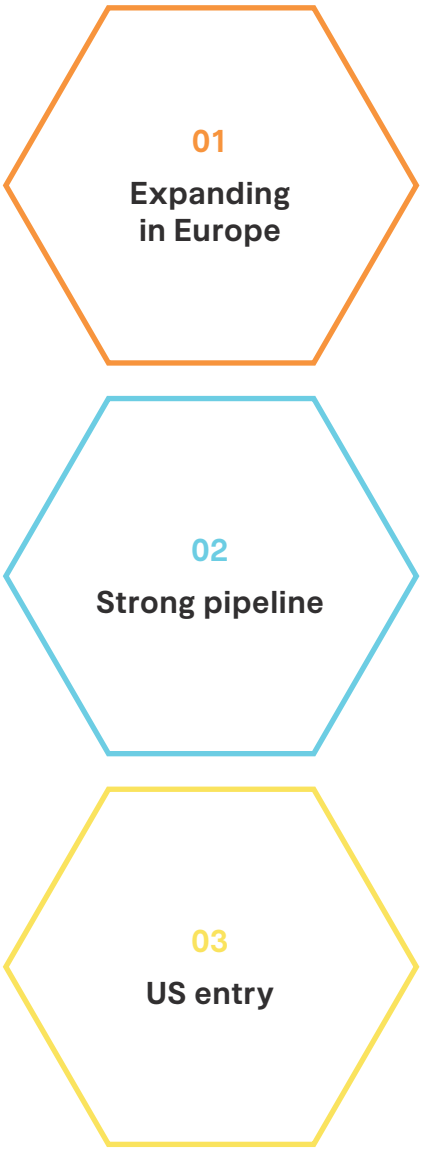
Recognising that our relevance and value is in how we work together with our customers, suppliers, partners and stakeholders to achieve more.

How we engage / engagement through the year	Links to other relevant content
The Group liaises with its HCPs regularly through various channels including direct site visits, online meetings and via sessions at congresses and industry meetings such as symposia and seminars. As the COVID-19 pandemic unfolded across our markets, we worked with our HCPs and supplied Perspex screens, masks and gloves (where local regulations allowed) enabling clinics to continue to run safely. We additionally run bespoke training sessions to HCPs and other medical professionals instructing how to administer and treat patients effectively.	Operating responsibly: see page 38
The local communities living near our operations are part of the structure of our business. Our engagement with these stakeholders is mainly through our operations team. We recognise that through proactive, strategic stakeholder and community engagement we can increase the profile of the business, support the local community through school and STEM engagement, provide apprentice opportunities and work experience. We work with local council groups to build support from businesses such as Coastal West Sussex Partnership Board, STEaM Ahead and The Sand Project.	Operating responsibly – our people: see page 38 Our strategy: see pages 26 and 27
Our Executive Team, regulatory teams and operational management engage with governments and regulators in the countries in which we operate. Engagement activities are for relationship building and to advance understanding on specific topics, such as expectations for the clinical development programme/trials and to understand the requirements of regulators.	R&D report: see pages 32 to 36 Our business model: see pages 20 and 21
Our approach to quality helps us to ensure the products we supply to customers are of the right quality and safety standards for people and the environment. The supply chain is managed by our Operations Director who provides regular reports to the Board on any risks. Customers and other stakeholders are increasing their focus on responsible supply chains. The business has high expectations for ethical business practices, health and safety and human rights of our suppliers and procurement partners; all GMP suppliers are subject to quality audits. The Board recognises that to meet patient expectations and maintain our access to markets, our products must meet the latest regulatory requirements and industry standards.	Governance: see page 56

Our strategic pillars

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

Three pillars of business



Strategic priorities

- Strongly performing profitable business
- Growing existing market share, additional product registrations and entering new markets
- Drive market position by world-class supply chain and increased patient adherence

- New technologies underpin pipeline depth in convenient products
- Investment strategy supported by growing revenue streams

- Significant opportunity in largest allergy market
- Develop market access approach and relationships
- Secure funding for successful clinical development plans to deliver market access strategy

Progress in 2019-20

£78.2m
Net sales of £78.2m (2019: £73.7m)

96%
Delivery of vaccines on time and in full by supply chain

7%
Growth in sales at constant rates

25%
Continued strong growth in pre-R&D operating profit

Peanut scale-up progressing well with first human trial expected in 2021

Licence agreement with VLP partner for exciting new treatment areas including cancer and asthma

Learnings of Birch MATA MPL trial integrated in next Grass MATA MPL trial

Grass 309 protocol submitted to the IND

Objectives for 2020-21

Continued strong growth of sales and market share

Improve pre-R&D profitability further

Launch ImmunoBON

Complete initial in vitro human cell peanut trial

Start pre-clinical evaluation work for immunotherapy VLP products

Successful G309 trial

Discussion with US KOLs in respect of peanut development and impending trial

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
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.

Oralvac
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 home 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 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).

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.

Our products

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

	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	●	○	○	●	●	○
Venomil	○	●	○	○	○	○
Peanut	○	○	●	●	○	●

Strategy in action

ImmunoBON

"We have packaged the long-known 'farm protection effect' against allergies into the lozenge ImmunoBON. It strengthens and directs the natural immune response against allergies. Our latest studies prove the mechanism of action and show improvement of allergy symptoms in allergy sufferers."

Prof. Dr. Erika Jensen-Jarolim
Institute of Pathophysiology and Allergy Research, Medical University Vienna

In 2020, the Group signed a commercial agreement with Biomedical International R+D GmbH for the exclusive rights to ImmunoBON, a patented protein-based oral treatment which was developed to replicate the reduction in incidence of allergy as seen by those who live on a farm with livestock, the so-called 'farm effect'.

In a pre-clinical study programme, the immunogenicity of the protein formulation with the selected ligands was proven, as well as the capacity to prevent allergic sensitisation[1-5]. At the scientific congress of the European Academy of Allergy and Clinical Immunology in June 2020, two poster presentations demonstrated that the product significantly reduced allergic symptoms in a mouse model[6], and also among patients in a double-blind placebo controlled pilot study[7] when compared to placebo treatment. Additionally, a recently completed study in an allergen exposure chamber (European Centre for Allergy Research Foundation, Berlin, Germany) revealed significant improvement in allergy symptoms in house dust mite allergic patients (data on file). The product will initially be available in Germany with roll-out across the rest of Europe to follow.

References:

1 Roth-Walter et al. The Major Cow Milk Allergen Bos d 5 Manipulates T-Helper Cells Depending on its Load with Siderophore-Bound Iron. PLoS ONE 9(8): e104803.

2 Roth-Walter et al. Bet v 1 from Birch Pollen is a Lipocalin-like Protein Acting as Allergen Only When Devoid of Iron by Promoting Th2 Lymphocytes. J. Biol. Chem. 2014, 289:17416-17421.

3 Hufnagl et al. Retinoic acid prevents immunogenicity of milk lipocalin Bos d 5 through binding to its immunodominant T-cell epitope. Scientific Reports 2018; 8:1598.

4 Hufnagl et al. Retinoic acid-loading of the major birch pollen allergen Bet v 1 may improve specific allergen immunotherapy: In silico, in vitro and in vivo data in BALB/c mice. Allergy. 2020;00:1–5.

5 Roth-Walter et al. Cow milk protein beta-lactoglobulin confers resilience against allergy by targeting complexed iron into immune cells. JACI 2020, in press (available as Journal pre-proof) doi.org/10.1016/j.jaci.2020.05.023.

6 Afify et al. Dietary supplementation with a new immune tablet reduces antigen presentation and allergic symptoms in a poly-sensitization BALB/c model. EAACI poster #1414, 2020.

7 Bartosik et al. Dietary supplementation with a new immune tablet ameliorates human symptom load during birch pollen season: lower B-cell numbers yet with higher intracellular iron. EAACI poster #1213, 2020.

Innovative, broad pipeline and marketed products

Grass programme
The Group previously presented the positive results from the Phase II Grass MATA MPL 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.

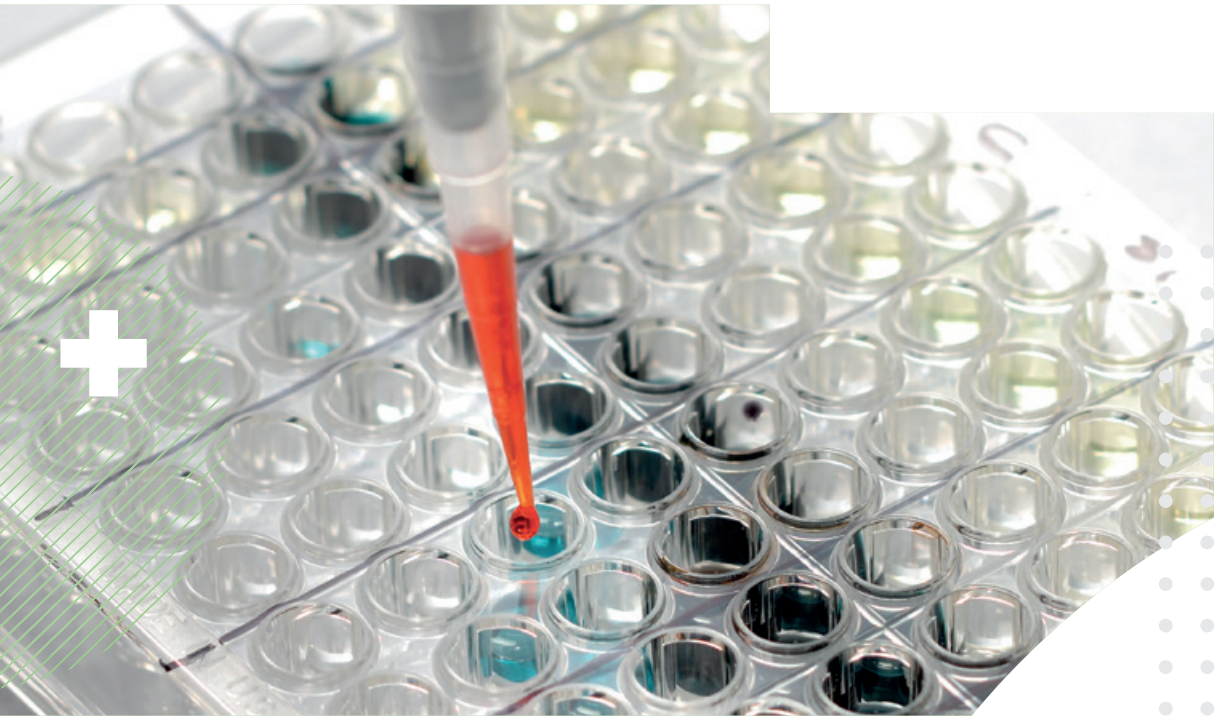
The clinical trial application for the first exploratory field study was submitted in April 2020 and the trial itself will be initiated in H2 2020. This exploratory field study is a multi-centre, randomised, parallel-group, double-blind, placebo-controlled exploratory study to explore the efficacy and safety of the selected Phase III cumulative dose of 27600 SU Grass MATA MPL. The study will be conducted in approximately 12 clinical sites in both Europe and the US. Active treatment or placebo will be administered in a 2:1 ratio to approximately 150 adult subjects with moderate to severe seasonal allergic rhinoconjunctivitis with or without well-controlled asthma.

The Group has implemented mitigation strategies to ensure clinical development continues despite the COVID-19 situation. The Group's goal remains to be the first allergy immunotherapy company to launch a short course, subcutaneous and aluminium-free therapy in the US, with Grass MATA MPL being first in line.

The results of this exploratory field study will facilitate optimal design and execution of the subsequent pivotal Phase III field study. The pivotal Grass Phase III study will commence in 2022 to allow the learnings of the exploratory study to be implemented.

Birch programme
Last year it was communicated that the B301 Birch Phase III trial did not reach its primary endpoint. However, following extensive data investigations and discussions with the PEI, this year the Group announced that the analysis of the primary endpoint of the Birch B301 clinical trial has been declared invalid due to the influence of eDiary quality issues on the study and thus the primary trial endpoint cannot be assessed, and thus no efficacy conclusion can be drawn from the study. The B301 study continues to provide important data to positively support the immunological and safety profile of Birch MATA MPL.

Importantly, it has been agreed with the PEI that Birch MATA MPL remains within the TAV process and the product will remain available on the German market. A new Birch MATA MPL pivotal Phase III study will be conducted within the TAV time frame after completion of the Grass MATA MPL pivotal Phase III trial. The Birch clinical evidence will additionally be used to support the Trees MATA MPL application.



Method development

The Group continues to strengthen quality control and quality assurance of the existing portfolio to ensure continued supply by taking advantage of new technologies and to ensure uninterrupted supply in the event of a hard Brexit. Part of the Brexit mitigation strategy involved the creation of a laboratory at our Spanish site in Alcalá, Madrid. Methods performed in the UK will be able to be conducted at our new facility to safeguard against Brexit uncertainties and protect key markets.

Along with the Brexit campaigns, several analytical methods have been updated with monoclonal technologies in line with the state-of-the-art for key products to safeguard delivery of current products and multiple methods and validations have been implemented, including the introduction of new technologies such as High Performance Liquid Chromatography ("HPLC") detectors.

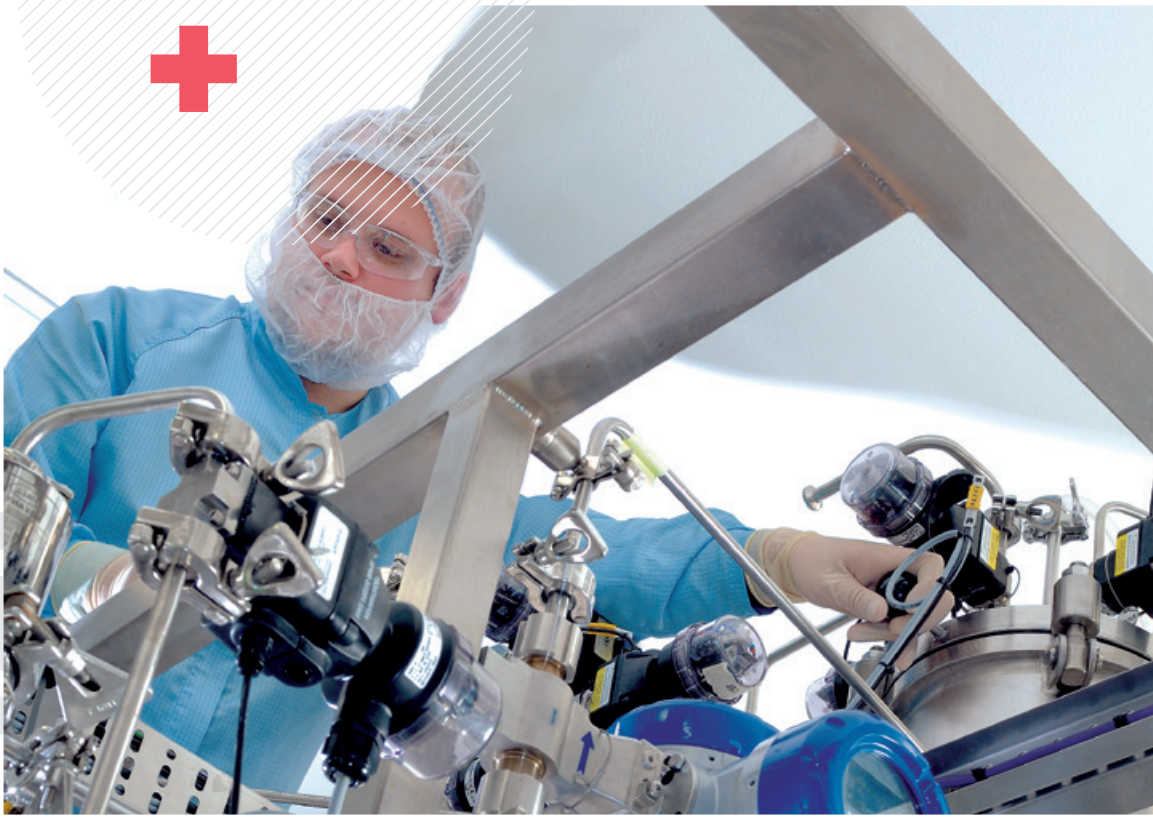
In addition to support for the Group's existing portfolio, the Group's Method Development team have recently collaborated with a world-leading allergen and antibody company in the development of new assays for our next two generations of products, improving characterisation and allowing the selection of the most robust technologies to support clinical and commercial release.

As a consequence of the COVID-19 situation, the Group has created a new working system to allow laboratory workers to alternate between operating in the laboratories and at home without any impact on testing or timelines.

MATA products meta-analysis

The Group performed an analysis of publications that evaluated the safety and efficacy of glutaraldehyde-modified and MCT-adsorbed allergoids for allergen-specific immunotherapy.

The analysis determined that the clinical efficacy and safety had been evaluated in several studies including in children and/or adults with regards to the treatment of allergic patients with MATA. No serious side effects were reported in those studies. The meta-analysis concluded that MATA products (various allergens) significantly improved allergic symptoms and reduced the use of anti-allergic medication in comparison to placebo. The study was presented at the 2020 London digital European Academy of Allergy and Clinical Immunology ("EAACI") congress.



VLP peanut

The symptoms associated with peanut allergy are caused by the body reacting to allergens in peanuts. The allergens attach to mast cells via surface-bound IgE, that then go on to release histamine, causing the symptoms associated with allergy. The VLP peanut vaccine works by re-training the body to respond appropriately to the peanut allergens. It does this via tricking the immune system into thinking that peanut allergens on the surface of the VLPs are part of a virus, and therefore activates a different part of the immune system.

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.

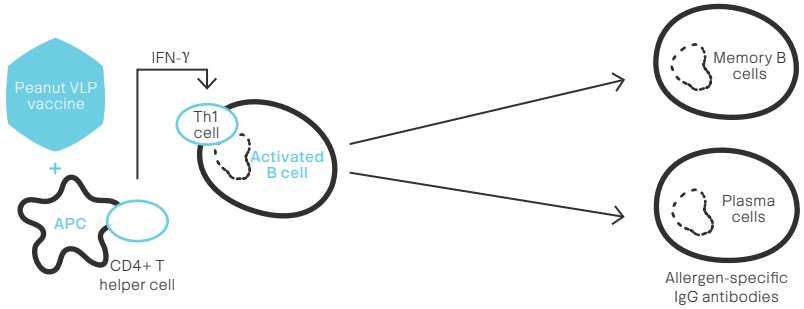
Following positive meetings with regulatory authorities where the first in-human trial design was discussed, the Group is progressing the development of the new product formulation. Manufacture of small-scale batches of the investigational drug are planned for Q3 2020 and a scale batch in Q4 2020. A pre-IND meeting with the FDA is planned for Q4 2020 to discuss the protocol for the first in-human study.

An ex vivo biomarker study is planned using the final product formulation to confirm translation of its hypo-allergic potential and biomarker profile using blood samples from peanut allergic patients, to support progression to first in-human studies. Once successful formulation, scale-up, and the supporting pre-clinical data are generated, it is planned to progress to the first in-human clinical trial in H2 2021.

VLP peanut vaccine: proof of concept publication
As part of the development of the vaccine against peanut allergy, the Group published a proof of concept paper investigating the vaccine candidate based on engineered virus-like particles displaying single major peanut allergens by Bachmann et al., in the Journal of Allergy and Clinical Immunology.

The pre-clinical study suggests that the vaccine candidate is immunogenic, protective, and non-reactogenic. To generate vaccine candidates, extracts of roasted peanut (Ara R) or the single allergens Ara h 1 or Ara h 2 were coupled to immunologically optimised Cucumber Mosaic Virus-derived VLPs (CuMVtt). Our data suggest that vaccination using single peanut allergens displayed on CuMVtt may represent a novel therapy against peanut allergy with a favourable safety profile.

Vaccination against peanut allergy via virus-like particles



1

Peanut antigens displayed on the surface of VLPs do not illicit an allergic reaction because they only activate a limited number of neighbouring mast cells.

2

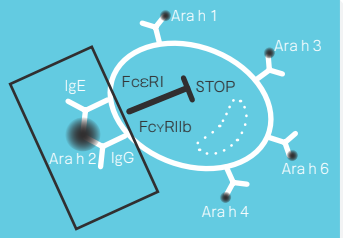
Instead, the design of the vaccine candidate allows efficient trafficking of VLPs to Antigen-Presenting Cells ("APCs") and B cells.

3

There is therefore direct uptake of VLPs via APCs where they interact with CD4+ T helper cells, releasing interferon-gamma (IFN-γ).

4

The interaction between activated B cells (subsequent to antigen uptake) and Th1 cells is essential for long-lived IgG response and memory B cell response.



5

In the presence of high levels of IgG antibodies specific for a single allergen, IgG-immune complexes are formed and inhibit IgE-mediated signals, including those from IgE molecules cross-linked by other peanut allergens preventing anaphylaxis upon accidental exposure.

Our pipeline

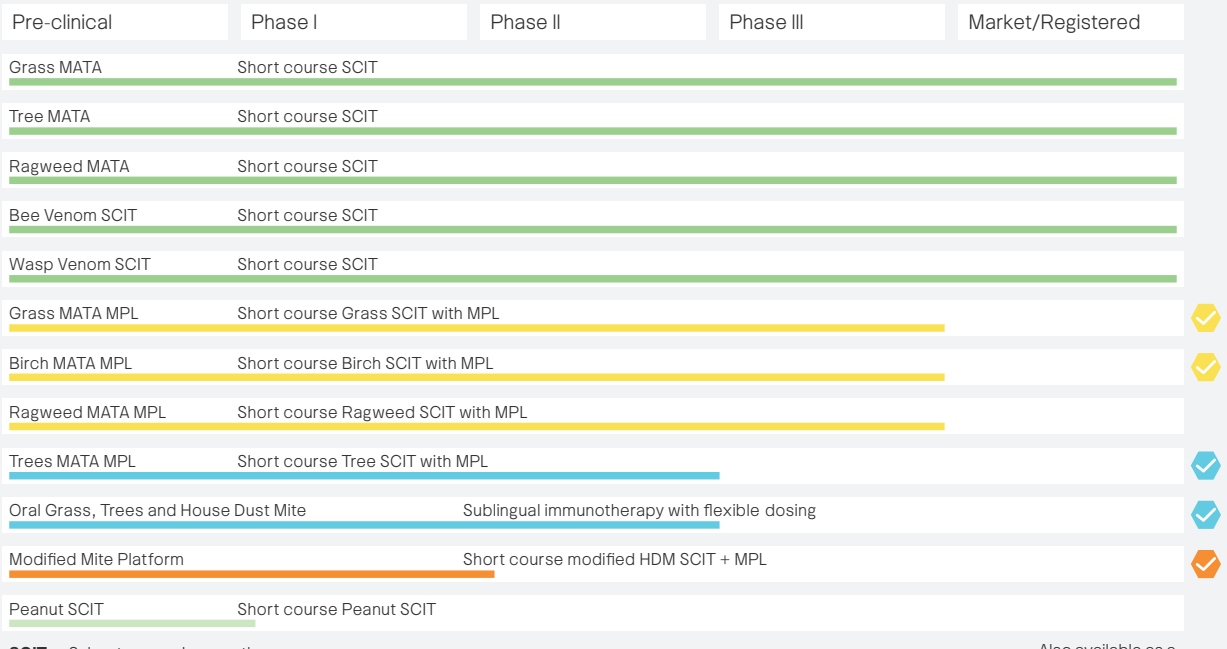
Analysis of VLP platform in areas outside allergy
Based on the VLP peanut experience and the great potential of this innovative VLP platform, the Group recently signed an exclusive licence to develop and commercialise the use of VLP technologies in solid cancer tumours, atopic dermatitis, asthma and psoriasis.

Cytokines have been identified as being crucial in the pathogenesis of the aforementioned diseases. Current approaches to address these disease areas have often focused on developing treatments that knock out such cytokines. Mostly these are monoclonal antibodies against the cytokine itself or directed against its receptor(s). A limitation of such approaches is that their effect is rather short lived and hence repeated injections are required.

The use of VLP+MCT is an exciting and disruptive approach to generate an active vaccine against the appropriate cytokine. This concept has many benefits, including sustained efficacy and a much lower cost for the patient.

The Group plans to evaluate these new therapies via initial pre-clinical evaluations which are planned to begin in 2021 and should these studies be successful, move forward with clinical development plans and discussions with regulatory authorities.

R&D pipeline



SCIT: Subcutaneous Immunotherapy
MATA: Modified Allergen Tyrosine Adsorbed

Also available as a named-patient product

VLP candidates under proof-of-concept evaluation for uses in areas outside of allergy including cancer, asthma, psoriasis and atopic dermatitis.

Strategy in action

US strategy

The Group continues to work towards the strategic goal of entry into the US market. Our Grass MATA MPL product will be the first subcutaneously administered product to reach the market should the pivotal field trial be successful and the product is approved by the FDA regulatory authority. In order to maximise the chances of having a successful pivotal Phase III field trial and to test the learnings from the invalidated Birch MATA MPL trial, the Group is undertaking a small field trial to test various parameters in a trial protocol.

A significant amount of work has already been carried out to select investigators and brief key opinion leaders in advance of the formal start of the trial. The clinical trial application for the exploratory field study was submitted in April 2020 and the trial itself will be initiated in H2 2020. The trial will also provide valuable information about regional variability in the US.

In addition to the work for the Grass trials, the R&D team has been busy talking to key opinion leaders about the trials and our approach. This is critical to ensure the Group has a strong base to work from when the product gets to the market.

In addition to Grass MATA MPL and its associated MATA MPL products (Birch, Ragweed and Mite) for the US market, the VLP peanut product is also first targeted for the US market before launching more widely. The USA is the largest potential market for peanut allergy sufferers in the world and it is also home to a large number of knowledgeable and experienced doctors who have experience of other treatments with a significant patient base.

This will be very important in setting up and running trials to ensure they are successfully and speedily recruited.

The third strand of the US strategy in action is the continued work that the Group's management has executed to connect with potential US investors. There is a natural synergy between developing products for the market and looking to potential US investors to fund the further trials to ensure we have a full portfolio in the US market.

Responsible operations

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.

Our 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.

Streamlined Energy and Carbon Reporting ("SECR")

From 1 January 2020, we are required to report under the Streamlined Energy and Carbon Reporting ("SECR") regulations and our first report of these regulations is set out on page 42.

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.

Digitalisation

We are committed to growth and investing in technology, both to advance our product portfolio and to allow us to operate globally. Before COVID-19, we had already established a good practice of working globally and virtually by utilising technology, having invested in a global finance system and a global people system that supports the growing business and provides consistency in our approach across the Group.

COVID-19 forced the business to work in a fully digital way; we are proactively developing the lessons learnt and new ways of working to prepare us for the future.

Case study

COVID-19 response

Responsible employer during the COVID-19 crisis

Our immediate priority at the beginning of the crisis was our employees. We ensured that anyone whose job role meant they must continue to work on site felt safe to do so (please see the Health and Safety case study for more information on page 41) and that our employees who suddenly had to work remotely had systems in place where they still felt connected to the business. In the UK, any member of staff who had to shield or self-isolate was paid in full and we provided support to any employees with childcare or other caring responsibilities. Across the Group, we put in place initiatives to show our employees how much they were appreciated during this difficult time. When it became clear that the Group had not been as impacted by the crisis as initially expected, the Executive Team agreed to repay any UK furlough monies claimed back to the government.

Operating responsibly continued

Our people continued

Culture and values

Our three core values, Vision, Commitment and Menschlichkeit, 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 pages 14 and 15.

Diversity and inclusion

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. We believe that diversity improves our effectiveness and we will continue to address our gender imbalance when making future Board and senior leadership positions.

Our gender pay gap, while reducing, reflects the fact that we have a smaller proportion of women than men occupying senior leadership roles. More information can be found in our gender pay gap report on our website **www.allergytherapeutics.com**

We are working towards a consistently inclusive environment where differences are valued.

Recognising that an inclusive working environment is one in which everyone feels that they belong, we will be undertaking our first employee engagement survey in the autumn of 2020 which will help the business to implement fair policies and practices and inform the business of ways that people can work together effectively while continuing to work remotely.

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 engage with our patients, please see page 22.

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 four to six injections, over the course of three to five 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 1970s 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. We took part in the 'Visit Worthing' promotion which featured our Worthing laboratories, in addition to working with the BBC to highlight Brexit readiness.

A programme has been started with 'The Sand Project' to bring young people into the workplace at our UK head office.

During the peak of the COVID-19 crisis we were very proud that our business was able to directly help frontline health workers. In both the UK and Spain, PPE was donated to local hospitals and health centres, and in Italy our team raised funds for the COVID-19 Intensive Care Unit.

Case study

Health and safety

"The business has been able to continue to operate safely throughout the pandemic – and this has only been possible through the co-operation, support and dedication of all our employees."

Austin Cleary
HS&E Manager

Keeping our people safe and well
Keeping our people safe and well is our absolute priority at Allergy Therapeutics. This extends to the safety of our contractors, our patients and our local communities. The Board of Directors has overall responsibility for health and safety and this includes approving the health and safety strategy and reviewing performance at each meeting.

During the year, we continued to embed best practice health and safety standards within the business across all our sites; all employees and contractors are trained in health and safety. During the year we only recorded one lost time incident (2019: one).

We care about the health and wellbeing of our employees as well as their safety. During the year, the business focused on raising awareness for those suffering from mental health and introduced trained Mental Health First Aiders. This wellbeing programme delivers regular campaigns, training and provides employees with a dedicated website with advice and guidance on how to improve wellbeing.

COVID-19
The second half of the year was dominated by the emergence of COVID-19. This presented a challenge for the HS&E and management teams to keep the business operating whilst protecting those manufacturing our products. From the outset of the pandemic, new health and safety measures were introduced across the business. This initially included increased cleaning regimes and educating employees on smarter health habits such as handwashing, cough hygiene and staying at home while sick. As the pandemic evolved, so did our safety measures.

We quickly introduced a system of working whereby only staff essential to the manufacture of our products were allowed to be on site. A social distance of two metres was implemented throughout the offices, and where spaces were too small for social distancing, such as in some of our laboratories, teams were split and shift working introduced. Perspex screens were installed around desks in open plan areas, and employees wore face masks when moving around the site, which had a new one-way system introduced.

Risks assessments have been undertaken for all employees working at home to ensure that they have a safe working environment and, if necessary, equipment from the office was sent to their homes.

The mental wellbeing of our employees is very important to the business and we introduced systems to monitor and identify any anxieties across the Group, which included undertaking a wellbeing survey. We continue to monitor changes to government guidelines and introduce new measures as necessary.

Operating responsibly continued

Our communities continued

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.

Bev Lees, the Group Operations Director, continued to work with Davison School for Girls as an Enterprise Adviser. In addition, Bev is a member of the Executive Management Group STEaM Ahead for Coastal West Sussex. The Company sent its apprentices to Davison School for a day to support the apprenticeship programme; five Year 10 students were provided with work experience places involving engineering, manufacturing and laboratories.

We 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, and 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 helps drive awareness of the existence of allergy treatments, supports 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 organisations such as the German Association for Allergy and Clinical Immunology ("DGAKI"), 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. We understand that climate change is one of the most serious environmental challenges currently threatening the global community and we know that we have a role to play in reducing greenhouse gas emissions.

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 that we have taken in this financial year to reduce our energy use in Worthing have included lighting upgrades to energy efficient systems, and it is expected that a voltage optimiser will be installed on site which is predicted to save around 10% of electrical energy (approximately 62,500 kWh based on SECR data).

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. We operate recycling and waste reduction initiatives in all of our offices; we apply the 'Waste Hierarchy' principles when segregating our waste and have made efforts during the year to reduce single-use plastic waste throughout the Group.

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.

SECR

See below for our statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting ("SECR") covering energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and information relating to energy efficiency actions.

Methodology used in the calculation of disclosures

ESOS methodology (as specified in Complying with the Energy Savings Opportunity Scheme version 6, published by the Environment Agency 28/10/2019) used in conjunction with Government GHG reporting conversion factors.

Current reporting year (July 2019 - June 2020)

Total energy use covering electricity, gas and transport	3,871,339 kWh
Total emissions generated through combustion of gas	10.96 tCO_2e
Total emissions generated through use of purchased electricity	967.05 tCO_2e
Total emissions generated through use of other fuels	793.42 tCO_2e
Total emissions generated through business travel	8.37 tCO_2e
Total gross emissions	1,779.80 tCO_2e
Intensity ratio (total gross emissions)	14.01 $kgCO_2e$ per sqft

Key performance indicators ("KPIs")

Strategic objectives

Maximise revenue	Maximise funds available from operational activities for investment in R&D and other value-adding projects	Maximise market share in the countries into which we sell our products

KPIs

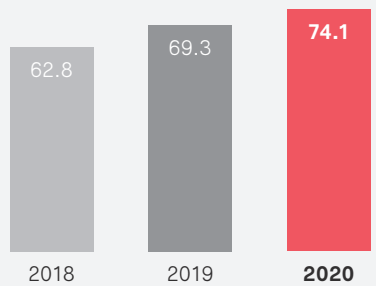
Revenue at constant exchange rate (GBP:EUR exchange rate 1.21) Total revenue measured at a constant budgeted foreign exchange rate	EBITDA excluding R&D Profit before interest, tax, depreciation, amortisation and research and development expenditure	Combination of IMS Health data and information collected by independent third parties Countries in which we have a distributor, agent or direct sales force

Analysis

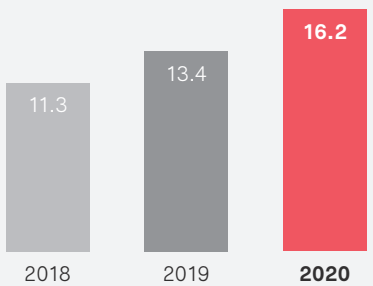
Revenue at constant exchange rate has grown well compared to the two prior years	EBITDA excluding R&D has increased year-on-year due to sales growth and good cost control	The Group continues over the mid term to make market share gains based on best-in-class technology, supply chain and sales and marketing team

Graph

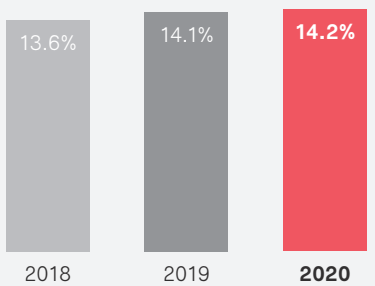
Revenue at constant exchange rate[1]
£m



EBITDA excluding R&D[2]
£m



Operational markets
Percentage of 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.

2 The 2020 figure has been adjusted to remove the IFRS 16 impact of £1.9m and create like-for-like figures.

Effective risk management

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

Our risk management framework and internal control systems enable the Group to identify, assess and prioritise risks within the business and seek to minimise, control and monitor their impact. This helps us to meet our strategic objectives and deliver the long-term growth and viability of our business.

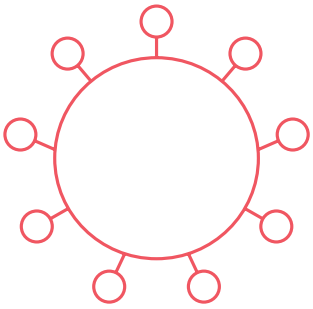
The Board has overall responsibility for Group risk management and it is firmly embedded within our everyday business activities and our culture. Risk is a standing agenda item at Board meetings where principal and emerging risks are reported, together with the actions taken to mitigate them. The Board has delegated responsibility for the review of the adequacy and effectiveness of the Group's 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 risks in their own business functions.

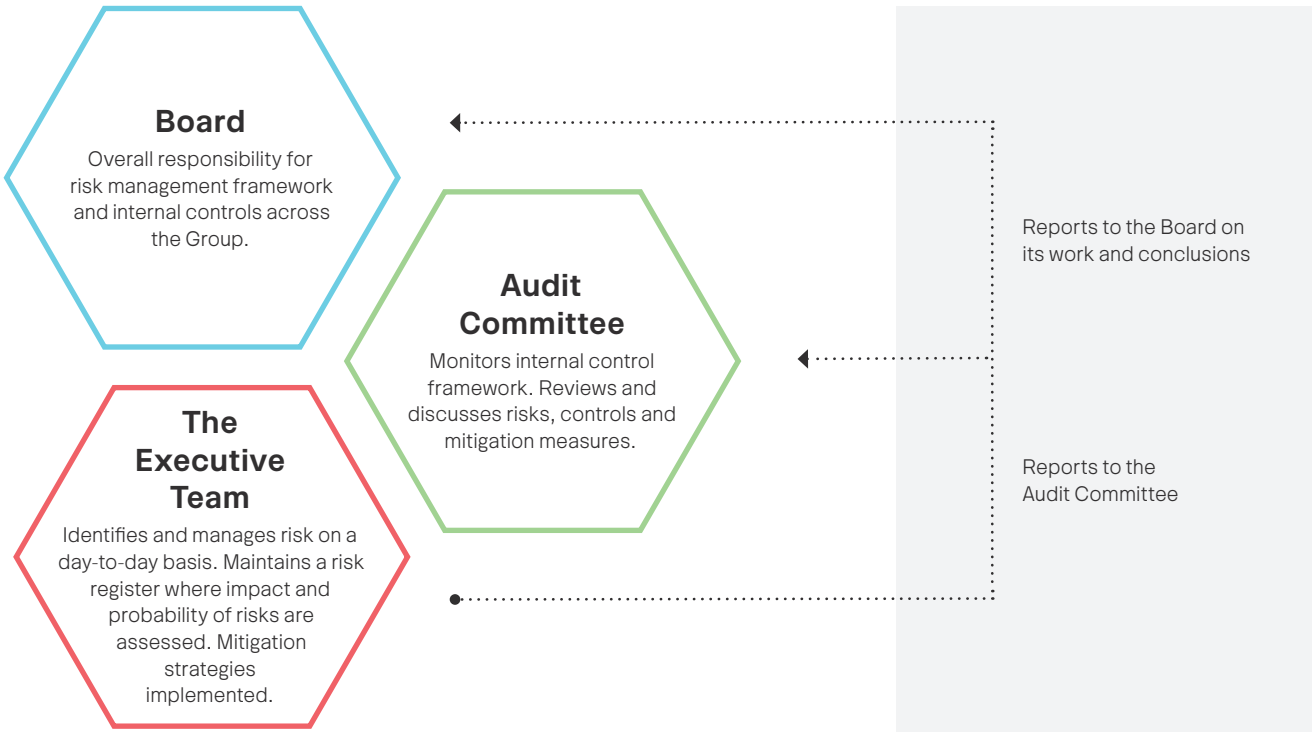
Senior leaders across the business identify and manage the risks for their division or function and a risk register is maintained which contains all current and emerging risks. The severity of each risk is assessed through a combination of each risk's likelihood and impact. In assessing impact, consideration is given to financial, reputational and regulatory factors, and risk mitigation plans are established.

Any emerging risks or changes to risk profiles are reported and discussed at Executive Team meetings. This gives rise to a more risk-aware culture and consistency in decision-making across the organisation in line with the corporate strategy. All corporate decision-making takes risk into account, in a measured way, while continuing to drive business growth.

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.

Risk	Description of risk and impact	Mitigation	Developments in 2020
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.	– Business development work with key opinion leaders in new markets or in relation to new products to ease entry into the market. – Market research for new products. – Continuing to increase market share of current products across Europe as well as developing new markets to spread risk.	– Start of new registrations for approved products in other markets. – Continued growth in sales in the year. – Increase in number of candidate products in pipeline. – New products on the market in 2021.
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.	– Cyber training and review of procedures complete. – Upgrade of certain software and approach following review. – Good communication with GSK over the period. – Assessment of suppliers in the year to identify any weaknesses.
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. – The Group's manufacturing facilities and those of some of its suppliers are subject to regulatory requirements and there is a risk that such facilities may not comply with such requirements.	– 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 last year and in Spain this year which have not identified any critical issues.

Principal risks and uncertainties continued

Risk	Description of risk and impact	Mitigation	Developments in 2020
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 its products.	- Know-how protected by non-disclosure agreements. - 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% (2019: 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 sick funds, especially with an increasing aged population in developed countries. The Group cannot accurately predict when, where and how such controls and restrictions may be altered, either to its benefit or detriment.	- Exploratory field trials to maximise probability of success in Phase III trials. - Continuous effort to expand its revenue outside Germany as well as diversify into adjacent markets. - Development of new products and increase in clinical data to protect market position. - Regular reviews are conducted of pricing and reimbursement levels and assessments of healthcare reforms on pricing.	- Two new products are in development that should reach the market in the next year or so. - Reimbursement levels have remained stable over the year and, in certain cases, price rises have been allowed. - A review has been undertaken of all key suppliers to assess risk and dual-source supply where possible.

Risk	Description of risk and impact	Mitigation	Developments in 2020
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 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.	- Completion of 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. - Increased stock levels in case of a hard Brexit in December 2020.
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 25 in the Notes to the financial statements gives details of the Group's objectives and policies for risk management of financial instruments.	- Cash management during the challenging 2020 financial year to ensure there is enough funding for key projects. - Investigate a revolving credit facility in case of working capital swings.

Principal risks and uncertainties continued

Risk	Description of risk and impact	Mitigation	Developments in 2020
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.	– Working with reputable CROs. – Learnings from previous trials. – 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 the raw materials for its products.	– Completion of the investigation into the invalidated Birch Phase III trial and design of a Grass Trial (G309) to test out learning prior to the next Phase III field trial. – There is ongoing dialogue with the Paul Ehrlich Institute and the FDA in respect of trials and development.
Pandemic	– Any type of pandemic, such as COVID-19, creates risk and challenges across all functions in the Group. There is significant risk of supply chain disruption, economic damage, disruption of trials and market disruption/ alteration.	– The Group has in place a disaster recovery plan for the main manufacturing site. – The Group has a contingency plan to mitigate against a limited COVID-19 second wave.	– A COVID-19 crisis committee covering all functions met regularly to discuss key issues, share learnings and make decisions. – Clear communication channels keep both internal and external parties informed of progress and actions. – Home working for all but the direct supply chain workers in factories, social distancing and split-shift teams kept the business going.

Risk	Description of risk and impact	Mitigation	Developments in 2020
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, carried out by an external party, is in place reporting directly to the Audit Committee. It 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 and an external company of internal auditors, Mazars, has recently been appointed and started work.
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 a process to identify and develop talent in the organisation.
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 are in place in order to comply with legislation and the Group 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 across all significant countries.

Continued growth

Nick Wykeman
Chief Financial Officer

"The Group has continued to grow profitably, achieving an operating profit excluding R&D[1] of £14.2m (2019: £11.3m) for the year to 30 June 2020 despite the impact of COVID-19 in the fourth quarter of the financial year."

£78.2m

Revenue
(2019: £73.7m)

£14.2m

Operating profit excluding R&D[1]
(2019: £11.3m)

£7.1m

Net profit after tax
(2019: £3.5m)

Overview

The Group has continued to grow profitably, achieving an operating profit excluding R&D[1] of £14.2m (2019: £11.3m) for the year to 30 June 2020 despite the impact of COVID-19 in the fourth quarter of the financial year. COVID-19 especially impacted Southern Europe with lower Italian sales and slower growth in Spain as can be seen in the segmental reporting section (see Note 4). It is estimated this took roughly two percentage points off the net sales growth this year. Including R&D expense of £5.8m (2019: £7.0m), the Group reported an operating profit of £8.3m (2019: £4.4m). The operating profit includes the £3.2m received in settlement of legal claims relating to the litigation with Inflamax.

The net profit after tax for the period was £7.1m (2019: £3.5m). The implementation of IFRS 16, Leases for the 2020 results has introduced all the Group's leases onto the balance sheet as a 'right-of-use' asset and lease liability and uplifted 2020 EBITDA by £1.9m and operating profit by £0.3m.

Revenue

Reported revenue increased by 6% to £78.2m (2019: £73.7m). The weighted average Euro exchange rate in the year was €1.14 to £1 compared to €1.13 in 2019. Revenue at constant currency[2] was 7% higher as shown in the table below:

	2020			2019		
	Germany £m	**Other £m**	**Total £m**	Germany £m	Other £m	Total £m
Revenue	**48.0**	**30.2**	**78.2**	45.0	28.7	73.7
Add rebates	**5.0**	**—**	**5.0**	3.8	—	3.8
Gross revenue	**53.0**	**30.2**	**83.2**	48.8	28.7	77.5
Adjustment to retranslate at prior year foreign exchange rate	**0.5**	**0.1**	**0.6**			
Gross revenue at constant currency[2]	**53.5**	**30.3**	**83.8**	48.8	28.7	77.5

	2020			2019		
	Germany £m	**Other £m**	**Total £m**	Germany £m	Other £m	Total £m
Revenue	**48.0**	**30.2**	**78.2**	45.0	28.7	73.7
Adjustment to retranslate at prior year foreign exchange rate	**0.5**	**0.1**	**0.6**			
Revenue at constant currency[2]	**48.5**	**30.3**	**78.8**	45.0	28.7	73.7

1 Operating profit (pre-R&D) is calculated by adding back total R&D expenditure for the year to the operating profit of the year to arrive at an operating profit (pre-R&D) of £14.2m (2019: £11.3m).

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

Financial review continued

Revenue continued
Revenue from Germany was 61% (2019: 61%) of total reported revenue. Rebates were higher this year due to changes in product mix sold. Sales of Venomil continued to grow very strongly while Pollinex and Pollinex Quattro achieved reasonable growth. Total sales from other products contributed £3.5m for the year ended 30 June 2020 (2019: £3.8m).

Revenue in Germany grew well in the year with revenue at constant currency[2] increasing to £48.5m (2019: £45.0m), an increase of 8%.

All the main European markets (except for Italy and Austria) exhibited good sales growth at constant currency[2] with Spain showing 10%, the Netherlands 22%, Switzerland 18% and Germany 8%. The Group continues to develop new and existing markets to broaden its reach and reduce reliance on any one market or product.

Gross profit
Cost of sales increased to £20.2m (2019: £18.4m). The gross margin was 74% (2019: 75%), leading to a gross profit of £58.0m (2019: £55.3m).

Operating expenses
Total overheads were £4.1m lower than prior year at £53.5m (2019: £57.6m), excluding the one-off receipt in respect of a legal settlement. This was due to a £4m reduction in R&D expenses in the year as a result of timing of clinical spend. Non-R&D operating costs of £44.5m (2019: £44.6m) were unchanged from last year due to reduced spend in sales, marketing and distribution offsetting an increase in administration costs.

Sales, marketing and distribution reduced by £2.1m to £24.9m (2019: £27.0m) mainly as a result of reduced sales and marketing activity due to COVID-19. Other administration expenses increased by £2.0m to £19.6m (2019: £17.6m) as a result of additional investment in compliance and support functions.

Other income in the year of £0.6m (2019: £0.6m) was all due to R&D tax credits in the UK.

Tax
IFRIC 23 has been adopted by the Group with effect from 1 July 2019, with the modified retrospective approach being applied (i.e. the cumulative effect of initially applying the interpretation is recognised as an adjustment to the opening balance of retained earnings, with no change being made to the prior year comparative numbers).

The effect of IFRIC 23 provisions in these financial statements is a transitional opening balance adjustment to retained reserves of £0.7m and a current period additional tax charge of £0.3m.

Balance sheet
Property, plant and equipment (excluding IFRS 16) increased by £0.5m to £12.0m (2019: £11.5m) with investment in new manufacturing plant to replace older equipment and increase automation. The implementation of IFRS 16, Leases for the 2020 results has introduced the Group's leases onto the balance sheet as a lease liability and a corresponding 'right-of-use' asset. Further detail on the adoption of IFRS 16 is set out in Notes 1 and 23.

Goodwill was broadly in line with last year at £3.5m (2019: £3.4m), whilst other intangible assets were reduced slightly to £1.3m (2019: £1.4m) due to amortisation exceeding additions.

Total current assets, excluding cash, reduced to £18.2m (2019: £19.2m). Inventory increased further by £0.7m due to early production of commercial stock as part of Brexit preparations (cover for approved products for the 2021 financial year). Trade and other receivables have reduced due to the collection of all outstanding monies relating to the litigation settlement accrued in the prior year and improved collection of trade debtors. Cash and cash at hand increased to £37.0m from £27.4m in 2019 mainly as a result of the £3.2m legal costs settlement and additional bank loans taken out for the Spanish market (£1.9m). The Group had a net cash inflow of £9.4m in the year (2019: £1.6m cash inflow excluding equity raise of £10.2m) primarily due to good trading, the reimbursement of legal settlement costs and net borrowing increase of £1.2m.

The fair value of derivative financial instruments was a liability of £0.8m in 2020 (2019: £0.4m).

Retirement benefit obligations, which relate solely to the German pension scheme, increased to £13.5m (2019: £11.7m). The increase in the liability was mainly driven by the reduction in the discount rate from 1.45% to 0.8% (resulting from German bond yields).

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 bank debt on its balance sheet consists mainly of bank loans arranged to fund development of products in the Spanish market. Group borrowing totalled £3.8m (2019: £2.4m) at 30 June 2020. The overdraft facility of £7m was unused at 30 June 2020 and has since been renewed for a further 12 months.

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, £1.3m 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 2020, no provision has been recognised for the repayment of the rebate refund of €1.4m (£1.3m). This position will be kept under review.

Nicolas Wykeman
Chief Financial Officer

The strategic report, as set out on pages 1 to 52, has been approved by the Board.

On behalf of the Board

Nicolas Wykeman
Director

22 September 2020

Governance

Governance

Board of Directors

A good balance of skills and experience to support the delivery of the Company's strategy.

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 of Sandown Park Racecourse, Screendragon (Software) Limited, and The Home of Horseracing Trust Limited. Trustee of The National Horseracing Museum.

Committee membership:
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

Committee membership:
None

Nick Wykeman

Chief Financial Officer

Nick joined Allergy Therapeutics plc in 2016. 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

Committee membership:
None

Steve Smith

Non-Executive Director and
Senior Independent Director

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

External appointments:
Roles include Chairman of Tensator Holdings Limited, Rio Laranja Holdings Limited and Icknield Limited.

Committee membership:
A N R

Tunde Otulana

Non-Executive Director

Tunde has been the Chief Medical Officer of Veloxis Pharmaceuticals in North Carolina, USA since August 2020. Prior to Veloxis he was Senior Vice President and Chief Medical Officer at Mallinckrodt Pharmaceuticals. His career includes leadership roles at Boehringer Ingelheim Pharmaceutical Inc. and the US Food and Drug Administration ("FDA"). Tunde is a physician trained in Pulmonary and Critical Care Medicine.

External appointments:
None

Committee membership:
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 member of the Chartered Institute of Management Accountants ("ACMA") 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:
None

Committee membership:
A

Scott Leinenweber

Non-Executive Director

Scott is Vice President of Investor Relations and Licensing & Acquisitions at Abbott Laboratories and is their nominated Director on the Board. His career includes leadership and strategy roles in finance, sales and marketing in medical technology, pharmaceuticals and nutritionals.

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

Committee membership:
None

Key to Committees:

A Audit Committee | N Nomination Committee | R Remuneration Committee | Denotes Chair of a Committee

Chairman's introduction

Our governance framework promotes a culture of accountability and responsibility which is supported by our values and behaviours.

Peter Jensen
Chairman

Dear Shareholder,
On behalf of the Board, I am pleased to introduce the Group's corporate governance report for this year. The Group has had another successful year, delivering on its strategy, while operating in line with its culture and values.

During the second half of the year, the Board focused on the Group's response to the impact of COVID-19, providing oversight on the critical decisions of the Executive Team which included various measures for near-term cash preservation. A Committee of the Board held weekly calls with members of the Executive Team during which it received updates on the status of response planning, the impact to our employees, other stakeholders and the business in general. Further details on our response to COVID-19 are set out on pages 39 to 41.

Governance
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.

The Board and Executive Team are working hard to serve the interests of all our stakeholders and constantly review the actions necessary to ensure the sustainability of the Group.

This report, and the Committee reports which follow, explain how the Board and its Committees work and how we applied the principles of the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code').

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 of our size.

Section 172 and stakeholder engagement
Set out on page 23 is the Board's first section 172 statement. In order to comply with section 172, the Board is required to consider a number of matters in its decision-making including the interests of its stakeholders. The Board fulfilling its section 172 duties has been clearly demonstrated in its response to COVID-19.

All of our stakeholders have been affected by the pandemic in some way and the Board has supported the business to act in line with its values and purpose, ensuring the continued supply of our products to our patients while approving measures to protect and preserve the fundamental value of the business to ensure its long-term sustainability.

Streamlined Energy and Carbon Reporting ("SECR")
Set out on page 42 is the Company's first SECR report which includes a full analysis of our energy usage and efforts that we are making to reduce our carbon footprint. Over the coming year we aim to build on our sustainability initiatives to continue making a positive impact to the environment and our communities.

Thank you for your continued support.

Peter Jensen
Chairman
22 September 2020

Corporate Governance Statement

The Board has adopted the Quoted Companies Alliance Corporate Governance Code (the '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 ten principles of the QCA Code; however, further disclosure relating to each principle can be found in other sections of the 2020 Annual Report and Accounts (the '2020 Report') as indicated in the adjacent table:

Number	Principle	Disclosure in the 2020 Report
1.	Establish a strategy and business model which promote long-term value for shareholders	Pages 20 and 21 and 26 and 27
2.	Seek to understand and meet shareholder needs and expectations	Pages 22 to 25 and 61
3.	Take into account wider stakeholder and social responsibilities and their implications for long-term success	Pages 22 to 25
4.	Embed effective risk management, considering both opportunities and threats, throughout the organisation	Pages 44 to 49
5.	Maintain the Board as a well-functioning, balanced team led by the Chairman	Pages 54, 56 and 58
6.	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Pages 54, 55 and 63
7.	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Page 60
8.	Promote a corporate culture that is based on ethical values and behaviours	Pages 14, 15, 22 and 38 to 42
9.	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Page 57
10.	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Pages 61 and 22 to 25

Our governance framework

The corporate governance framework comprises of matters reserved for the Board, the establishment of Committees with clear Terms of Reference and the delegated authorities matrix, which enables decision-making at appropriate levels within the Group.

The Board

The role of the Board is to collectively promote the long-term success of the Company, generating value for shareholders and providing effective leadership and direction to the business as a whole. It agrees the Group's strategy, having regard to all stakeholders, while maintaining a balanced approach to risk within a framework of effective controls. It has also established the Company's purpose and values and monitors culture to ensure alignment. It sets the tone and approach to corporate governance and is responsible for the overall financial performance of the Group.

The Committees

The principal Board Committees are the Audit, Remuneration and Nomination Committees. Each Committee has its own Terms of Reference, approved by the Board, which are reviewed periodically and are available to view at **www.allergytherapeutics.com**

The Audit Committee

Oversees financial reporting and monitors internal controls including risk management. Monitors the effectiveness of the internal and external auditors.

See pages 64 to 66

The Remuneration Committee

Sets, reviews and recommends the Group's overall remuneration policy and strategy and monitors their implementation.

See pages 67 to 73

The Nomination Committee

Evaluates and makes recommendations regarding Board and Committee composition and succession planning.

See pages 62 and 63

Executive Team

The Executive Team is responsible for the day-to-day running of the business. The team meets at least monthly and receives regular reports on risks to major projects, financial and key business matters. Relevant matters are reported to the Board by the Chief Executive Officer or the Chief Financial Officer.

Corporate governance report continued

Roles and responsibilities

The Board members have separate, clearly defined roles and responsibilities, as set out in the table below. Each member of the Board has a range of skills and experience that is relevant to the successful operation of the Group, as set out in their biographies on pages 54 and 55.

Role	Name	Responsibility
Chairman	Peter Jensen	The Chairman leads the Board and is responsible for its overall effectiveness. Additionally, the Chairman promotes a culture of openness and debate with effective contributions from Non-Executive Directors and ensuring constructive relations between them 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 Chief Financial Officer supports the Chief Executive Officer in developing and implementing strategy, and oversees 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 acts as Secretary to the Board and all its Committees and is responsible for advising the Chairman and the Board on all corporate governance matters. The Company Secretary ensures good information flows between the Board, its Committees and the Executive Team and also ensures that the Board receives accurate, timely and clear information.

Board and Committee balance and composition

As at 30 June 2020, the Board comprised the Chairman, two Executive Directors and four Non-Executive Directors. The table above summarises the membership of the Board and its Committees. The Board keeps under review its current composition, which provides a sufficiently wide range of skills and 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 54 and 55.

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 ten years and will be offering himself up for re-election at this year's Annual General Meeting ("AGM"). In considering the independence of Steve Smith, the Nomination Committee concluded 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.

Peter Jensen has served as Chairman for more than nine years. During the year, the Nomination Committee reviewed this position and concluded that Peter remains independent. Please see page 63 for more details.

With the support of the Nomination Committee, the Board will continue to consider any appropriate additions to the Board to further broaden the experience and effectiveness of the Board as the Group continues to grow.

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
Tunde Otulana	Non-Executive Director	Independent	June 2017	9/10	—	2/2	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	Non-Executive Director	Not independent	November 2018	9/10	—	—	—
Mary Tavener	Non-Executive Director	Independent	June 2019	10/10	3/3	—	—

How the Board operates

The Board had ten scheduled meetings during the year, which since March 2020 have been held virtually. Additional Board calls were also held as and when circumstances required it, and regular update calls were also held following the COVID-19 outbreak. Directors' attendance at scheduled Board and Committee meetings held during the year is set out in the table above.

An outline of the Board's activities covered at those meetings is set out on page 57. Directors are provided with papers five working days in advance of each Board or Committee meeting and meeting packs are accessed from a Board portal. For each scheduled Board meeting, the papers include updates on trading, financial performance and investor relations and, in addition, papers for any special business of 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 when the Executive Team present their business unit updates and their proposed budget for the forthcoming financial year, and a strategy brainstorm meeting. In January 2020, commercial and market access opportunities 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 budget meeting this year was held virtually.

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

Matters reserved for the Board

In order to retain control of key decisions and ensure that there is a clear division of responsibilities between the Board and the running of the Company business, the Board has a formal schedule of matters reserved for its decision that is reviewed annually to ensure it remains fit for purpose. This is available at **www.allergytherapeutics.com**.

Board allocation of agenda time

Agendas for each Board meeting are prepared in advance and are aligned with the Board programme, which is reviewed annually, and updated when appropriate. All matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycles.

Corporate governance report continued

Activities of the Board during the year:

Strategy, business performance and capital investment
- Approved the Company's corporate strategy
- Considered and approved investment in clinical programmes and commercial projects
- Approved the revised Grass strategy
- Approved a number of material contracts
- Considered Brexit impact, mitigations and preparations
- Considered the impact of COVID-19 on the business
- Received business performance updates

Finance
- Approved the 2020/21 budget
- Reviewed and approved the preliminary and interim results announcements
- Reviewed and approved the Pre-close Trading Statements
- Recommended to the shareholders the re-appointment of the auditor
- Reviewed the preliminary results roadshow presentation
- Approved renewal of overdraft facility

People and culture
- Approved the Company's People Strategy
- Approved the Company's Modern Slavery and Human Trafficking Statement
- Approved the Company's Gender Pay Gap Statement

Governance, compliance and risk
- Reviewed and approved the 2020 Annual Report and Accounts and Notice of AGM
- Reviewed and approved the schedule of matters reserved for the Board and the Terms of Reference of the Board Committees
- Agreed the 2020/21 Board and Board Committee programmes and calendar
- Approved the Group's Business Code of Conduct
- Considered the Board and Board Committees evaluation questionnaire
- Reviewed the principal risks to the Company
- Approved the Group's Health and Safety programme

Standing agenda items, such as reports from the Executive Directors, are presented at every meeting. Market and broker updates are circulated to the Board outside of the meetings.

Review of Board effectiveness

The 2019 Board performance evaluation was an internal review led by the Company Secretary. An update on actions identified is set out below:

1) Format of Board papers

A Board paper template has been developed by the Company Secretary which has helped improve the quality and length of Board papers.

2) Cyber risks

The Board was presented with an overview of how the business manages its cyber risks at a Board meeting; a standing agenda item was then added to the Audit Committee work plan to monitor the actions taken by the business following its cyber risk audit.

3) Strategic milestones

The Executive Team have clarified the key elements to the strategy and have developed a detailed timeline to track progress and identify critical decision points. Plans have also been developed as part of the strategic milestones to achieve a mid-term move to a Nasdaq listing and funding for the development of the pipeline. These plans have been shared with the Board, which has endorsed the approach. There is a regular process to review these plans and milestones at the Board.

4) Macro trends and opportunities

On an annual basis, various functions in the Group present opportunities and consider the broader competitive landscape. Many of these ideas and thoughts are shared with the Board at the budget meeting.

A further review of Board effectiveness will be carried out in spring 2021.

How the Board engages with stakeholders

The Board is committed to maintaining open channels of communication with all shareholders, whether institutional or private.

Shareholder engagement

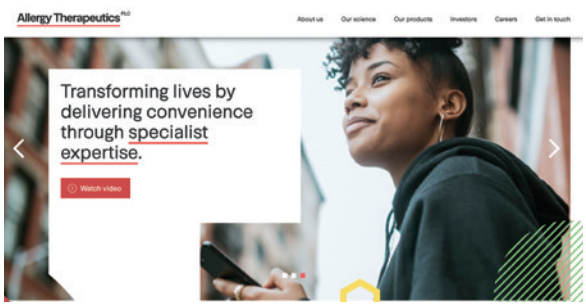
The Board is committed to maintaining open channels of communication with all shareholders, whether institutional or private. It is important that shareholders understand the Group's strategy and objectives, and for the Group to receive shareholders' feedback and consider the issues and questions raised.

To facilitate this, the Group has a comprehensive investor relations strategy and investor relations activity is reported at each Board meeting. For our private shareholders, there is an opportunity to meet the Directors at our Annual General Meeting and further information on the Group can be found below or on our website. Information on how the Group communicates with its shareholders, investors and analysts can be found in Engaging our Stakeholders on pages 23 and 24.

Both the Executive Directors and the Chairman meet shareholders and prospective shareholders, both institutional and private, on a regular basis. Non-Executive Directors are available to meet shareholders if they wish to raise issues without the Executive Directors present. During the year, the Executive Directors have held meetings with both existing and potential institutional shareholders, providing insight into the development of the business and its progress. In addition, our Chairman met with a selection of our largest shareholders during the year.

The Board receives regular updates on the views of our shareholders and analysts through briefings and in market reports circulated between Board meetings, which include:

- share price performance monitoring;
- review of shareholder performance and sector analysis;
- composition of the shareholder register;
- peer group comparison; and
- professional and external adviser feedback.



Corporate website

Our corporate website **www.allergytherapeutics.com** acts as a good medium through which results and other news releases are published, including key financial calendar information, details of live webcasting services for key presentations and the source of past key presentations and announcements.

Annual General Meeting

The AGM allows the Board to update the shareholders on the Group'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 2020 AGM will be held virtually on Tuesday 8 December. 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 Group's business activities impact on both the environment and society, and is conscious of the need to make a positive contribution to the world while delivering exceptional business results.

The Group acknowledges its responsibilities to all its stakeholders (including employees, patients and healthcare professionals). Much of the day-to-day decision-making and stakeholder engagement in the Group is carried out at a business level. Further details are set out on pages 23 and 24. The Board receives details on this engagement through the Executive Directors and the reports it receives from the Executive Team in the Board and Committee papers.

All stakeholders are encouraged to relay feedback about the Company to the Board, via the 'Contact Us' section of the website, available here **www.allergytherapeutics.com/contact-us**. Employees are encouraged to relay any feedback via the Company Secretary or via the Senior Independent Director.

Nomination Committee report

Ensuring a well balanced Board and a robust leadership talent pipeline.

Peter Jensen
Chair of the Nomination Committee

Dear Shareholder,

I am pleased to introduce the Company's 2020 Nomination Committee (the 'Committee') report.

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.

The Board also focused on the leadership talent pipeline and succession plans for the Executive Team. This will continue to be monitored throughout the coming year.

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
Chair of the Nomination Committee
22 September 2020

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 2020 comprised Peter Jensen (Chair), Tunde Otulana and Steve Smith. The Committee met twice during the year and attendance at these meetings is shown in the table on page 59.

The Company Secretary attends all the Committee meetings.

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 provides 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 the Executive 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 54 and 55.

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

Chairman's tenure

During the year, the Committee considered the tenure of the Company's Chairman in light of the requirement under the 2018 UK Corporate Governance Code that a Chair should not remain in post beyond nine years from the date of their first appointment to the Board.

The Senior Independent Director, Steve Smith, therefore led a review of the Chairman's appointment which included obtaining feedback from the Company's Nomad. The review determined that the Chairman continued to perform his role effectively and that he continued to be independent in character and judgement. It was also considered that it was not an appropriate time to undertake a search for a new Chair of the Board. The Board therefore concluded that Peter Jensen should continue in his role as Chairman. The Committee will review this position again later in 2020.

Diversity and inclusion

Diversity and inclusion 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 programme tailored to their role. The process 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.

To update the Directors' familiarity with the business, the Board would usually visit one of our offices outside of the UK during the year. These visits enable the Board to 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 planned visit to the Barcelona offices and Alcalá manufacturing plant in 2020 has been postponed to 2021 due to COVID-19.

The Company Secretary updates the Board on regulatory and corporate governance matters and periodic briefings are arranged with external advisers, such as our Nominated Adviser (Panmure Gordon (UK) Limited), to provide a better understanding of the broader market. Directors also receive regular business updates from the Executive Directors and other members of the Executive Team. Directors may also take independent advice at the Company's expense if they feel this is appropriate.

Audit Committee report

The Committee plays a key role in supporting the Board by monitoring, reviewing and challenging the effectiveness of the Group's financial reporting, accounting processes, systems of control and risk management.

Mary Tavener
Chair of the Audit Committee

Dear Shareholder,

I am pleased to introduce the Company's 2020 Audit Committee (the 'Committee') report and my first as Chair of the Committee.

The report that follows details the work of the Committee over the past year in fulfilling our responsibilities to provide effective governance over the Group's financial and risk management processes.

The Committee plays a key role in supporting the Board by monitoring, reviewing and challenging the effectiveness of the Group's financial reporting, accounting processes, systems of control and risk management. It ensures the independence and effectiveness of the internal and external audit functions and supports the Board in its consideration as to whether the Group's published financial statements are fair, balanced and understandable.

In meeting these responsibilities the Committee continues to observe the provisions of the QCA Code and the FRC Guidance on Audit Committees.

Mary Tavener
Chair of the Audit Committee
22 September 2020

The Committee

The Committee has been chaired by Mary Tavener since September 2019, having assumed this responsibility from Steve Smith. Other members of the Committee were Peter Jensen and Steve Smith. The qualifications of the Committee members are detailed on pages 54 and 55. The members between them have a range of relevant business skills and knowledge, including financial expertise, that allow them to be able to robustly challenge management and make clear and considered decisions.

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

The Committee has agreed an annual work programme and met three times during the year to discharge its responsibilities. Attendance at these meetings is shown in the table on page 59. It met a further four times to review the business contingency plans implemented in the light of the COVID-19 pandemic. The Committee also met privately during the year with the External Auditor.

Responsibilities of the Committee

The Committee's responsibilities are set out in its Terms of Reference on the Company's website and include:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- advising the Board on the Group's risk exposure and related risk management strategies;
- reviewing the Group's internal financial controls and internal control and risk management systems;
- formally reviewing the risk register at least annually;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- reviewing the engagement, effectiveness, remuneration and independence of the External Auditor, and considering a tender process where appropriate;
- monitoring and reviewing the effectiveness of the Group's financial and internal controls. The Group's internal controls are managed through:
  - schedule of matters reserved for the Board;
  - schedule of delegated authorities;
  - documentation of significant transactions;
  - clear lines of responsibility; and
  - comprehensive budget and approval process;
- reviewing the Group's procedures for the prevention of fraud, bribery and corruption and enabling employees to raise matters of impropriety in confidence; and
- reviewing the Committee's Terms of Reference.

To discharge its responsibilities, during the year, the Committee has undertaken the following activities:

Financial statements	External Auditor	Internal audit	Risk management and internal controls
- Reviewed the annual and half-yearly financial reports and related statements, ensuring clarity and completeness of disclosures. - Assessed significant accounting and reporting judgements with special consideration given to revenue cycles, management override of controls and reviewed impairment of goodwill and other intangible assets. - Assessed cost of capital. - Reviewed the integrity and consistency of the key accounting judgements. - Reviewed support for the going concern assumption including the consideration of the impact of COVID-19 and Brexit on going concern. This is set out on page 66.	- Approved the annual external audit plan. - Approved the fees paid to the External Auditor for audit and non-audit services (over £10,000). - Monitored the independence and ensured the objectivity of the External Auditor. - Discussed the key findings of the External Auditor on the interim and annual consolidated financial statements. - Reviewed the independence, objectivity, performance and effectiveness of the External Auditor and considered whether it was appropriate for the business to undertake a tender process. The total fees charged by the External Auditor in the year are shown on page 99.	- Reviewed the existing internal audit resource and agreed to extend the role of Mazars LLP as Internal Auditor for the Group. - Considered and agreed a three-year internal audit plan for the Group. - Reviewed and followed up on management responses to internal audit findings and recommendations. - Reviewed the performance of Mazars LLP and considered their re-appointment. - Reviewed the fees of Mazars LLP.	- Reviewed principal risks, paying particular attention to the impact of Brexit and the COVID-19 pandemic on the business. - Reviewed the analysis undertaken in relation to strategic risk management and risk assessment, internal control, risk and control reporting structure. - Formally reviewed the risk register twice in the year. - Reviewed the risk mitigation strategies set in place to address the COVID-19 pandemic. - Reviewed the budget and stress tested forecasts in light of the potential impact of COVID-19. - Reviewed the Group's whistleblowing, anti-bribery and corruption, non-audit services and property valuation policies. - Reviewed the effectiveness and integrity of the internal financial controls framework which underpins financial reporting by considering reports on internal control.

Audit Committee report continued

Going concern

In carrying out its duties in respect of going concern, the Committee has reviewed detailed budgets, including cash flow projections for the periods ending 30 June 2021 and 30 June 2022. 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 £37.0m as at 30 June 2020 and the £7m overdraft facility was renewed in August 2020. The Directors have made appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the forecast period and the effects of sales and other sensitivities such as Brexit, COVID-19 and other risks as noted in the principal risks section of the Annual Report on the Group's forecast cash balances. This was carried out via a stress test which included reducing sales by 30% (15 times the estimated COVID-19 impact and more than the combined downsides sensitivities identified with no upsides) which the Directors consider to be no more than a highly remote possibility. The stress test resulted in a slightly positive cash balance at the end of the reviewed period. As a result of this review, the Directors have concluded 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.

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 Auditor and the External Auditor as part of their auditing process.
All recommendations made by the Internal Auditor were accepted and acted upon. 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; and
- 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; and
- 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 and risk management systems to ensure that they reflect the changing risks of our business. The Directors plan to complete a tender of the external audit contract during autumn 2020. The Audit Committee will make a recommendation to the Board as a result of the tender process.

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

The Company is committed to achieving both high governance standards and a simple remuneration structure.

Steve Smith
Chair of the Remuneration Committee

Dear Shareholder,

I am pleased to introduce the Directors' remuneration report for 2020.

The Company continues to develop the scope and content of this report and the report that follows sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company. It outlines the major decisions on Directors' remuneration and any substantial changes relating to Directors' remuneration made during the year and explains the context in which these changes occurred and which decisions have been taken.

Information on our remuneration policy is set out on pages 69 and 70. The annual report on remuneration containing information on remuneration and decisions in respect of the year is set out below the policy section.

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 Group is committed to achieving both high governance standards and a simple remuneration structure. The information is unaudited except where stated.

Performance and decisions on remuneration taken

This was another year of strong commercial performance for the business. Net revenue was £78.2m representing 6% annual growth (7% growth on a constant currency basis) reflective of a robust performance in challenging circumstances. Operating efficiencies and timing of the research and development spend led to strong overall performance for the Group with net income of £7.1m, representing 104% annual growth. Due to the Group's strong performance, the executive management has taken the decision to repay all UK furlough monies claimed back to the government.

The growth for the year was tempered by the impact of COVID-19; however, the business reacted quickly to the pandemic ensuring that operating efficiencies compensated for lower sales.

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.

During the year, the performance period for the Long Term Incentive Plan ("LTIP") awarded in 2016 ended. The awards vested in part, resulting in 50% of the awards being granted.

In March 2020, the Company made 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.

Directors' remuneration report continued

Key actions during the year

Key topics considered by the Committee during the year included:

- reviewing and approving executive performance against annual bonus and personal performance targets in respect of the historic year;
- considering and determining salary changes effective 1 October 2020;
- reviewing and approving performance against the 2016 LTIP awards which were due to vest during the year;
- reviewing and determining performance conditions and targets for the 2020/21 bonus and LTIP awards;
- reviewing remuneration market trends and corporate governance developments;
- reviewing the gender pay gap report; and
- reviewing the CEO's pay ratio.

Post year end in July 2020, the Committee asked h2glenfern Remuneration Advisory to prepare a remuneration comparator report looking at the remuneration levels and structure of peer quoted companies. The last report was prepared in 2017. The Committee considered this report in determining executive salary increases for 2020. Details of salary changes are set out later in this report.

Changes to the UK Corporate Governance Code and remuneration reporting

The Committee has continued to monitor the UK corporate governance environment and remuneration reporting regulations and reviews its remuneration processes and policies to ensure they remain appropriate on an ongoing basis. This year the Committee reviewed Allergy Therapeutics' CEO pay ratio in line with the reporting requirement for Main Market listed companies, and reports on this on a voluntary basis for 2019/20 in line with the requirements. Additionally, the Committee monitors the gender pay gap.

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 Directors' remuneration report to provide accountability for the Board over the appropriateness of our remuneration policy and its implementation. At the AGM in November 2019, 96.7% of shareholders voted in favour of the Directors' remuneration report. The Committee was pleased with this level of support. It 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 Directors' remuneration report informative and look forward to your continuing support in the coming year.

Stephen Smith
Chair of the Remuneration Committee
22 September 2020

Policy report

Remuneration policy

The key objectives of the Group'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.	Base salary is reviewed annually as at 1 October, with reference to: - each Executive Director's performance and contribution during the year; - the scope of the Executive Director's 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 Group 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
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 are determined shortly after the year end. The annual bonus is paid out in cash.	The maximum bonus opportunity for Manuel Llobet is 75% of annual salary and for Nick Wykeman is 50%.	Executives' performance is measured relative to challenging one-year financial targets and other performance objectives.

Policy report continued

Remuneration policy continued

Elements of remuneration continued

	Purpose and link to strategy	Operation	Maximum opportunity	Performance metric
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 Director's 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 weightings 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 Group's 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 Group's financial performance and performance against individual targets designed to deliver strategic goals. The principal target currently applied is EBITDA before research and development expenditure. The Committee sets targets it believes to be appropriately stretching, but achievable.

Long-term incentives

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

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

The Committee believes that these two measures are currently the most appropriate measures of long-term success for the Company as long-term relative performance provides an appropriately objective and relevant measure of the Group'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 Group. 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 and 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 six 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
Nick Wykeman	9 June 2016	6 months

Non-Executive Directors' service contracts

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

Non-Executive Directors	Date of contract	Notice period
Peter Jensen	1 October 2010	6 months
Tunde Otulana	6 June 2017	3 months
Steve 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

This section of the Directors' remuneration report explains how the remuneration policy has been implemented during the year. The information is audited where stated.

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, Steve Smith (Chair) and Tunde Otulana. The Terms of Reference of the Committee, which were reviewed during the year, clearly set out the Committee's duties and responsibilities and are available to download on our corporate website **www.allergytherapeutics.com.** The number of meetings held during the year and attendance at those meetings is set out in the table on page 59.

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. h2glenfern prepared an executive remuneration benchmarking report in the summer of 2020.

Annual report on Directors' remuneration continued

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[7]		Taxable benefits		Fees		Total		Pension[6]	
	2020 £	2019 £	**2020 £**	2019 £	**2020 £**	2019 £	**2020 £**	2019 £	**2020 £**	2019 £	**2020 £**	2019 £
Manuel Llobet	**303,258**	294,852	**183,000**	208,079	**10,200**	10,000	**—**	—	**496,458**	512,931	**45,489**	44,228
Nick Wykeman	**194,375**	178,750	**79,000**	74,666	**11,459**	11,659	**—**	—	**284,834**	265,075	**19,437**	17,875
Peter Jensen	**94,000**	94,000	**—**	—	**—**	—	**—**	—	**94,000**	94,000	**—**	—
Steve Smith[1]	**15,600**	15,600	**—**	—	**—**	—	**30,025**	33,400	**45,625**	49,000	**—**	—
Jeff Barton[2,3]	**—**	—	**—**	—	**—**	—	**—**	12,556	**—**	12,556	**—**	—
Tunde Otulana	**40,000**	40,000	**—**	—	**—**	—	**—**	—	**40,000**	40,000	**—**	—
Scott Leinenweber[2,4]	**—**	—	**—**	—	**—**	—	**37,667**	25,111	**37,667**	25,111	**—**	—
Mary Tavener[5]	**42,873**	—	**—**	—	**—**	—	**—**	—	**42,873**	—	**3,798**	—
Total	**690,106**	623,202	**262,000**	282,745	**21,659**	21,659	**67,692**	71,067	**1,041,457**	998,673	**68,724**	62,103

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 defined contribution schemes.
7 Provisional.

Executive Director remuneration

Bonuses 2019/20

The bonus plan for the CEO and CFO is based on an annual target for operational profit prior to R&D with one-third of performance above target going into a bonus pot. The bonus plan includes other Senior Executives, is capped based on maximum bonuses for each participant and is allocated based on those maximum bonuses, which are 75% of annual salary for the CEO and 50% for the CFO. The annual bonus payments are reviewed and determined by the Remuneration Committee which makes adjustments to the bonus pot where necessary to ensure a fair result. One-third of the annual bonus for each participant is subject to performance against personal objectives.

Share awards

Awards were granted to Executive Directors under the LTIP in March 2020, 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 three-year performance period achieving a target; and
- 50% of the awards are subject to compound share price growth over the three-year performance period achieving a target.

Vesting of awards

Awards granted to Executive Directors under the LTIP in December 2016 vested in part:

- the 50% of the awards subject to compound annual earnings growth vested in full; however
- the 50% subject to compound annual share price growth over a three-year period did not achieve its minimum.

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

	Options/ LTIPs held 1 July 2019	LTIPs awarded in the year	Share options/ LTIPs lapsed/ vested in the year	Share options/ LTIPs held at 30 June 2020	Subscription price in £	Exercise date from	Expiry date
Manuel Llobet	3,490,000	900,000	(1,690,000)	2,700,000			
	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
			845,000[1]	845,000[1]	0.001	27-Mar-20	26-Mar-30
Nick Wykeman	1,322,500	450,000	(422,500)	1,350,000			
			211,250[1]	211,250[1]	0.001	27-Mar-20	26-Mar-30
Total	**6,967,923**	**1,350,000**	**(1,056,250)**	**7,261,673**			

1 These share options were converted from vested LTIPs.

At 30 June 2020, 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 2019 to 30 June 2020 was 7.38 pence to 14.00 pence per share.

Non-Executive Director fees

The remuneration of the Non-Executive Directors is considered by the Chairman, with regard to market comparators, and recommended to the Board as a whole. It was agreed that the Non-Executive Director fees are as set out below:

	2020	2019
Basic fee	**£40,000**	£40,000
Audit Committee Chair	**£4,500**	£4,500
Remuneration Committee Chair	**£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 2019		**At 30 June 2020**	
Name	Ordinary Shares	Options and LTIPs	**Ordinary Shares**	**Options and LTIPs**
Manuel Llobet[1]	3,325,000	5,645,423	**3,325,000**	**5,700,423**
Nick Wykeman	300,000	1,322,500	**300,000**	**1,561,250**
Peter Jensen	170,000	—	**170,000**	**—**
Steve Smith	776,513	—	**776,513**	**—**
Tunde Otulana	50,000	—	**50,000**	**—**
Scott Leinenweber	—	—	**—**	**—**
Mary Tavener	—	—	**—**	**—**

1 Includes shares held by Wild Indigo.

Decisions for the year ending 30 June 2021

Salary increases

The salaries of the Executive Directors were reviewed in September 2020. Whilst not driving decision-making, decisions were made having reviewed a benchmarking report setting out the remuneration arrangements at a group of peer companies prepared by h2glenfern Remuneration Advisory.

Following an evaluation of personal objectives, the CEO's salary was increased by 2.84% to £314,084 which was in line with increases across the Group. The CFO's salary was increased by 7.5% from £197,500 to £212,313 following a review of performance and adjustment towards market comparators.

The executive bonus plan for the year ending 30 June 2021 will operate on the same basis as in 2019/20 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 2020.

Shareholder voting

The table below shows the results of the advisory vote on the 2019 Directors' remuneration report at the 2019 AGM.

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration report	60,303,999	96.7%	2,078,065	3.3%	62,384,064	95,303

This Directors' remuneration report has been approved for issue by the Board of Directors on 22 September 2020.

Stephen Smith
Chair of the Remuneration Committee
22 September 2020

Directors' report

The Directors present their Annual Report and the audited consolidated financial statements for the 12 months ended 30 June 2020. The financial statements are for Allergy Therapeutics plc (the 'Company') and its subsidiary companies (together, the 'Group').

Strategic report

Certain disclosure requirements of the Directors' report are included within the strategic report. The Group's 2020 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
Tunde Otulana
Steve Smith
Scott Leinenweber
Mary Tavener

Biographies of each Director can be found on pages 54 and 55 and details of each Director's interests in the Company's shares are set out on page 73.

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

Dividend

The profit for the year after taxation was £7.1m (2019: £3.5m). The results for the year are set out on page 84 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 (2019: £nil). Further details of the Group's research and development strategy can be found on pages 32 to 36.

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 28 to the financial statements on page 114. 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 22 September 2020, are shown in the table below:

Shareholder	Number of Ordinary Shares	% of voting rights and issued share capital
Abbott Laboratories	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 Note 25 on pages 109 to 112.

Employees

Information on Group employees can be found on pages 38 to 40 and in Note 7 to the financial statements on page 99.

The environment

Details of the Group's approach to the environment 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 38 to 42.

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 Group strives to improve its environmental performance. The environmental management system is regularly reviewed to ensure that the Company maintains its commitment to environmental matters. Details of the Company's energy usage can be found in its SECR report on page 42.

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 52. 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 50 to 52.

In addition, Note 25 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.

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 September 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 £37.0m as at 30 June 2020 and the £7m overdraft facility was renewed in August 2020. The Directors have made appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the forecast period and the effects of sales and other sensitivities, such as Brexit, COVID-19 and other risks as noted in the principal risks section of the Annual Report on the Group's forecast cash balances. This was carried out via a stress test which included reducing sales by 30% (15 times the estimated COVID-19 impact and more than the combined downsides sensitivities identified with no upsides) which the Directors consider to be no more than a highly remote possibility. The stress test resulted in a slightly positive cash balance at the end of the reviewed period. As a result of this review, the Directors have concluded 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.

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 the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Post balance sheet events

The Directors are not aware of any post balance sheet events that require disclosure.

Independent auditors

A tender for the external audit contract will be completed during October 2020 and a resolution to seek appointment of an audit firm will be proposed at the AGM, to be held in December.

Annual General Meeting

The 2020 Annual General Meeting of the Company will be held virtually on Tuesday 8 December 2020. The Notice of 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
22 September 2020

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs and UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 22 September 2020 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 2020 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 their preparation 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 2020 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the parent company's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and a parent company associated with these particular events.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group and the parent company to cease or continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation, is included in the 'Key audit matters' section of our report.

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

In our evaluation of the Directors' conclusions, we considered the risks associated with the Group's and the parent company's business model, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the Group's and the parent company's resources or ability to continue operations over the period of at least 12 months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the parent company will continue in operation.

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit

Overview of our audit approach

Overall materiality:

Group: £782,000, which represents 1% of the Group's revenues. Company: £77,000, which represents 2% of the parent company's total assets as assessed at the planning phase of our audit.

Key audit matters were identified as:

- revenue recognition in the later part of the year;
- valuation of the defined benefit pension scheme liabilities;
- impairment of non-current assets; and
- going concern.

Our auditor's report for the year ended 30 June 2019 did not include any key audit matters which have not been reported as key audit matters in our current year's report.

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 in other component locations in the Netherlands, Austria and Switzerland and the existence of inventory in the Netherlands. We performed analytical procedures over all other components.

Key audit matters

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

Key audit matter – Group

Revenue recognition in the later part of the year

We identified revenue recognition as one of the most significant assessed risks of material misstatement due to fraud.

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 the recognition of revenue transactions around the year end date (which we defined as revenue recognised in the later part of the year) as a significant risk, which was one of the most significant assessed risks of material misstatement.

Relevant disclosures in the Annual Report and Accounts 2020

- **Financial statements:** 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.

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures and made the following significant judgements:

- 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 invoices, purchase orders and delivery notes or direct confirmations to determine whether the revenue recognised was valid, had occurred and was recognised in accordance with the Group's accounting policies;
- performed a completeness test on the full year by identifying despatch notes in the year and ensuring all despatches were included in the revenue listing;
- 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 by substantively testing a sample of transactions occurring near year end; and
- data analytics testing to identify any unusual transactions which did not follow the expected revenue journal posting trend, investigating and performing tests of detail on transactions which appeared to be unusual.

Our results

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.

Key audit matter – Group	How our scope addressed the matter – Group
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 2020 the defined benefit pension net liability was £13.5m. The gross value of pension scheme liabilities and assets which comprise the net liability amount to £14.9m 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. **Relevant disclosures in the Annual Report and Accounts 2020** – **Financial statements:** 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 27.	In responding to the key audit matter, we performed the following audit procedures and made the following significant judgements: – 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); – assessing the accuracy of the underlying data utilised by the scheme actuary through inquiry of the scheme actuary; – for the plan assets, we independently confirmed the existence and valuation of pension scheme assets with the third party custodian; and – assessed the competency and qualification of both managements' experts. **Our results** 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.
Impairment of non-current assets The Directors are required to make an annual assessment to determine whether the Group's goodwill, which stands at £3.5m as at 30 June 2020, 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 2020 amount to £1.3m. 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. Additionally, due to the economic uncertainties associated with the COVID-19 pandemic, the preparation of accurate cash flow forecasts is inherently more difficult. Due to the above, we 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. **Relevant disclosures in the Annual Report and Accounts 2020** – **Financial statements:** 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 Note 14.	In responding to the key audit matter, we performed the following audit procedures and made the following significant judgements: – 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, terminal values and the allowances that have been made for the anticipated future effects of the COVID-19 pandemic; – 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. **Our results** 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.

Key audit matter – Group

Going concern

As stated in 'The impact of macro-economic uncertainties on our audit' section of our report, COVID-19 is among the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the Group and the parent company and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. We therefore identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.

Relevant disclosures in the Annual Report and Accounts 2020

- **Financial statements:** The Group's accounting policy on going concern is shown in Note 1 to the financial statements. The Audit Committee identified going concern as a significant issue in its report on page 65, where the Audit Committee also described the action that it has taken to address this issue.

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures and made the following significant judgements:

- obtaining management's base case cash flow forecasts covering the period from 30 June 2020 to 30 September 2021, assessing how these cash flow forecasts were compiled and assessing their appropriateness by applying relevant sensitivities to the underlying assumptions, and challenging those assumptions;
- assessing the accuracy of management's past forecasting by comparing the prior year forecast to the actual results and considering the impact on the base case cash flow forecast to ascertain whether assumptions are appropriate, including revenue growth and cost control;
- evaluated management's assumptions regarding the impact of no new business, repayment of rebates, loss of German products from market, impact of a hard Brexit and impact of COVID-19 used in the worst-case scenario forecast prepared to assess the potential impact on the business. We considered whether the assumptions were consistent with our understanding of the business derived from other detailed audit work undertaken;
- performing sensitivity analysis over management's assumptions and challenging these through consideration of the impact of alternative assumptions or conditions not taken into account by management;
- considered the availability of the Group's banking facility and associated covenant compliance through the going concern period;
- assessing the impact of the mitigating factors available to management in respect of the ability to restrict cash impact, including the level of available facilities;
- considering the results of management's reverse stress test scenario to consider whether such a scenario was sufficiently severe and, furthermore, whether that scenario indicated a scenario which was both severe and plausible; and
- assessing the adequacy of related disclosures within the Annual Report.

Our results

We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

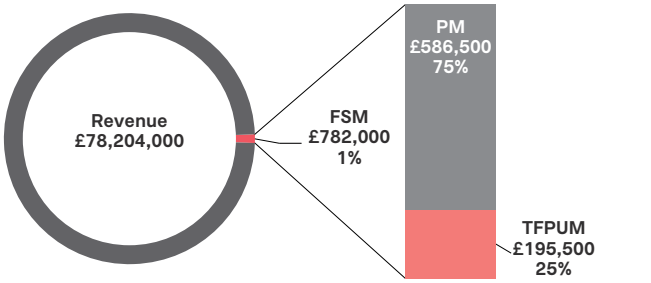
Materiality was determined as follows:

Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£782,000 which is 1% of the Group's revenues.	£77,000 which is 2% of the parent company's total assets as assessed at the planning phase of our audit.
Materiality benchmark	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 2019 to reflect the increase in the Group's revenues for the year ending 30 June 2020.	This benchmark is considered the most appropriate because the parent company balance sheet primarily consists of investments in subsidiaries and intercompany receivables. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2019 to reflect the increase in the parent company's total assets as at 30 June 2020.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£587,000 which is 75% of financial statement materiality.	£58,000 which is 75% of financial statement materiality.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality threshold	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions at £39,100.	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions at £3,900.
Communication of misstatements to the Audit Committee	We determine a threshold for reporting unadjusted differences to the Audit Committee.	
Threshold for communication	£39,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£3,900 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

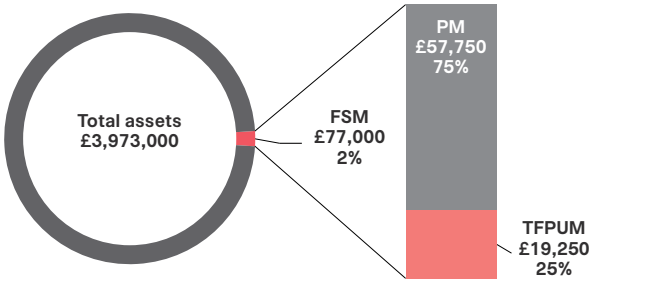
Our application of materiality continued

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

Overall materiality – Group



Overall materiality – Parent company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and the parent company's business and in particular matters related to:

- 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 review in order to evaluate the Group's internal control environment, performing an evaluation of the design effectiveness of controls over key financial statement risk areas identified as part of our audit risk assessment and selecting certain transaction items to test during our procedures at the final audit stage;
- performing full-scope audit procedures over 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. Through these full scope audit procedures and in conjunction with specified audit procedures performed by the component auditor in Germany and Italy, and with specified audit procedures performed remotely by the Group audit team over other Group components, we have substantively tested 99% of total Group revenue, and we have tested 86% of total assets of the Group (the remaining 14% of total assets have been subjected to desktop analytical procedures);
- performing an 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, receivables and payables;
- 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 performed work over the account balances and classes of transactions held in Spain remotely. 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
- the Group audit team performed a review of component auditor files, which included remotely reviewing the work performed by the 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 76, 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

22 September 2020

Consolidated income statement
for the year ended 30 June 2020

	Note	Year to 30 June 2020 £'000	Year to 30 June 2020 £'000	Year to 30 June 2019 £'000	Year to 30 June 2019 £'000
Revenue	3		**78,204**		73,717
Cost of sales			**(20,201)**		(18,379)
Gross profit			**58,003**		55,338
Sales, marketing and distribution costs			**(24,853)**		(26,995)
Administration expenses – other		**(19,627)**		(17,595)	
Research and development costs – expenditure for the year		**(9,000)**		(12,987)	
– credit relating to legal settlement		**3,152**		6,037	
– total research and development costs		**(5,848)**		(6,950)	
Total administrative expenses			**(25,475)**		(24,545)
Other income	8		**634**		593
Operating profit			**8,309**		4,391
Finance income	10		**266**		103
Finance expense	9		**(504)**		(201)
Profit before tax	5		**8,071**		4,293
Income tax	11		**(1,013)**		(826)
Profit for the period			**7,058**		3,467
Profit per share	13				
Basic (pence per share)			**1.11p**		0.55p
Diluted (pence per share)			**1.05p**		0.52p

Consolidated statement of comprehensive income
for the year ended 30 June 2020

	Note	**Year to 30 June 2020 £'000**	Year to 30 June 2019 £'000
Profit for the period		**7,058**	3,467
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit liability	27	**(1,287)**	(906)
Remeasurement of investments – retirement benefit assets	17	**(23)**	(42)
Revaluation gains – freehold land and buildings	16	**364**	312
Deferred tax movement – freehold land and buildings	12	**(146)**	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**160**	130
Total comprehensive profit		**6,126**	2,961

Consolidated balance sheet
as at 30 June 2020

	Note	30 June 2020 £'000	30 June 2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	16	**20,417**	11,481
Intangible assets - goodwill	14	**3,467**	3,432
Intangible assets - other	15	**1,269**	1,408
Investments - retirement benefit asset	17	**5,902**	5,551
Total non-current assets		**31,055**	21,872
Current assets			
Inventories	18	**10,132**	9,409
Trade and other receivables	19	**8,076**	9,776
Cash and cash equivalents	20	**36,962**	27,440
Total current assets		**55,170**	46,625
Total assets		**86,225**	68,497
Liabilities			
Current liabilities			
Trade and other payables	21	**(15,148)**	(15,736)
Current borrowings	22	**(829)**	(694)
Lease liabilities	23	**(1,435)**	—
Derivative financial instruments	25	**(815)**	(429)
Total current liabilities		**(18,227)**	(16,859)
Net current assets		**36,943**	29,766
Non-current liabilities			
Retirement benefit obligations	27	**(13,526)**	(11,747)
Deferred taxation liability	12	**(470)**	(318)
Non-current provisions	24	**(304)**	(273)
Lease liabilities	23	**(6,988)**	—
Long-term borrowings	22	**(2,927)**	(1,742)
Total non-current liabilities		**(24,215)**	(14,080)
Total liabilities		**(42,442)**	(30,939)
Net assets		**43,783**	37,558
Equity			
Capital and reserves			
Issued share capital	28	**647**	646
Share premium		**112,576**	112,576
Merger reserve - shares issued by subsidiary		**40,128**	40,128
Reserve - share-based payments		**3,104**	3,023
Revaluation reserve		**974**	1,207
Foreign exchange reserve		**(685)**	(845)
Retained earnings		**(112,961)**	(119,177)
Total equity		**43,783**	37,558

These financial statements were approved by the Board of Directors and authorised for issue on 22 September 2020 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
for the year ended 30 June 2020

	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 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 income	—	—	—	—	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
Exchange differences on translation of foreign operations	—	—	—	—	—	160	—	160
Valuation gains taken to equity (land and buildings) - net of deferred tax	—	—	—	—	218	—	—	218
Remeasurement of net defined benefit liability	—	—	—	—	—	—	(1,287)	(1,287)
Remeasurement of investments - retirement benefit assets	—	—	—	—	—	—	(23)	(23)
Total other comprehensive loss	—	—	—	—	218	160	(1,310)	(932)
Profit for the period after tax	—	—	—	—	—	—	7,058	7,058
Total comprehensive income	—	—	—	—	218	160	5,748	6,126
Transfer of depreciation on revalued property	—	—	—	—	(451)	—	451	—
IFRIC 23 tax provision (See Note 1)	—	—	—	—	—	—	(696)	(696)
Transactions with owners:								
Share-based payments	—	—	—	794	—	—	—	794
Shares issued	1	—	—	—	—	—	—	1
Transfer of lapsed options to retained earnings	—	—	—	(713)	—	—	713	—
At 30 June 2020	**647**	**112,576**	**40,128**	**3,104**	**974**	**(685)**	**(112,961)**	**43,783**

Consolidated cash flow statement
for the year ended 30 June 2020

	Note	Year to 30 June 2020 £'000	Year to 30 June 2019 £'000
Cash flows from operating activities			
Profit before tax		**8,071**	4,293
Adjustments for:			
Finance income	10	**(266)**	(103)
Finance expense	9	**504**	201
Non-cash movements on defined benefit pension plan		**192**	273
Depreciation and amortisation	15, 16	**3,914**	2,090
Net monetary value of above the line R&D tax credit	8	**(634)**	(593)
Charge for share-based payments		**794**	1,367
Movement in fair valuation of derivative financial instruments		**386**	332
Foreign exchange revaluation on US Dollar cash deposits		**(154)**	(36)
Decrease/(increase) in trade and other receivables		**3,694**	(1,864)
(Increase) in inventories		**(706)**	(543)
(Decrease)/increase in trade and other payables		**(2,399)**	162
Net cash generated by operations		**13,396**	5,579
Bank loan fees and interest paid		**(489)**	(204)
Income tax (paid)/received		**(897)**	225
Net cash generated by operating activities		**12,010**	5,600
Cash flows from investing activities			
Interest received		**266**	151
Payments for retirement benefit investments		**(228)**	(405)
Payments for intangible assets		**(283)**	(289)
Payments for property, plant and equipment		**(2,264)**	(2,810)
Net cash used in investing activities		**(2,509)**	(3,353)
Cash flows from financing activities			
Proceeds from issue of equity shares		**—**	10,600
Share issue costs		**—**	(404)
Proceeds from issue of equity shares		**1**	—
Repayment of bank loan borrowings	33	**(654)**	(651)
Repayment of finance lease creditors	33	**(1,343)**	—
Proceeds from borrowings	33	**1,886**	—
Net cash (used in)/generated by financing activities		**(110)**	9,545
Net increase in cash and cash equivalents		**9,391**	11,792
Effects of exchange rates on cash and cash equivalents		**131**	115
Cash and cash equivalents at the start of the period		**27,440**	15,533
Cash and cash equivalents at the end of the period		**36,962**	27,440
Cash at bank and in hand		**36,962**	27,440
Bank overdraft		**—**	—
Cash and cash equivalents at the end of the period		**36,962**	27,440

Notes to the financial statements
for the year ended 30 June 2020

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 2020 (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 22 September 2020.

New standards adopted

IFRS 16, Leases (effective 1 January 2019)

During the year the Group adopted IFRS 16, Leases. The adoption of this new standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with former operating leases except those identified as low value or having a remaining lease term of less than 12 months from the date of initial application.

The Group has applied the modified retrospective approach in transitioning to IFRS 16, recognising the cumulative effect of transition as at 1 July 2019. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. There was no transitional impact on the Group's previously reported financial position as at 1 July 2019.

There were no leases previously classified as finance leases under IAS 17 immediately before the date of initial application.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 July 2019:

	Carrying amount at 30 June 2019 £'000	Remeasurement £'000	IFRS 16 carrying amount at 1 July 2019 £'000
Property, plant and equipment	11,481	9,766	21,247
Lease liabilities	—	(9,766)	(9,766)
Total	11,481	—	11,481

The following is a reconciliation of total operating lease commitments at 30 June 2019 (as disclosed in the financial statements to 30 June 2019) to the lease liabilities recognised at 1 July 2019:

	£'000	£'000
Total operating lease commitment disclosed at 30 June 2019		11,124
Recognition exemptions:		
Low-value assets	(9)	
Leases with remaining lease term of less than 12 months	(52)	
Other adjustments relating to commitment disclosures	(142)	
		(203)
Operating lease liabilities before discounting		10,921
Discounted using incremental borrowing rate		(1,755)
Operating lease liabilities		9,166
Reasonably certain extension options		600
Total lease liabilities recognised under IFRS 16 at 1 July 2019		9,766

The Group does not have any lease agreements in which it is a lessor. Further details with regard to leases are contained in accounting policy Note 2, Leases and the notes to the financial statements for property, plant and equipment (Note 16) and lease liabilities (Note 23).

IFRIC 23: Uncertainty over income tax treatments

The Group prepares provisions against uncertain tax positions in accordance with IFRIC 23. IFRIC 23 has been adopted by the Group with effect from 1 July 2019, with the modified retrospective approach being applied (i.e. the cumulative effect of initially applying the interpretation is recognised as an adjustment to the opening balance of retained earnings, with no change being made to the prior year comparative numbers).

The effect of IFRIC 23 provisions in these financial statements is a transitional opening balance adjustment to retained reserves of £0.7m and a current period additional tax charge of £0.3m.

1. Basis of preparation continued

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

At the date of authorisation of these financial statements, several new, but not yet effective, standards and amendments to existing standards and interpretations have been published by the IASB. None of these standards or amendments to existing standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

Going concern

Operating profit in the period was £8.3m (2019: £4.4m profit); net cash inflow from operations was £12.0m (2019: £5.6m net cash inflow). The inflow was due to good trading and settlement of the legal claim reimbursement. Excluding the R&D expenditure, the Group would have reported an operating profit of £14.2m (2019: £11.3m).

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 September 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 £37.0m as at 30 June 2020 and the £7m overdraft facility was renewed in August 2020. The Directors have made appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the forecast period and the effects of sales and other sensitivities, such as Brexit, COVID-19 and other risks as noted in the principal risks section of the Annual Report on the Group's forecast cash balances. This was carried out via a stress test which included reducing sales by 30% (15 times the estimated COVID-19 impact and more than the combined downsides sensitivities identified with no upsides) which the Directors consider to be no more than a highly remote possibility. The stress test resulted in a slightly positive cash balance at the end of the reviewed period. As a result of this review, the Directors have concluded 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 2020. 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.

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 can 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 are 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.

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

The Group's revenue recognition policy 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 as follows:

STEP 1 Identifying the contract with the customer

The Group accounts for contracts with customers 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.

2. Accounting policies continued

Revenue recognition continued

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.

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 rebate is 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 2020 there were no remaining performance obligations for revenue recognised in the year.

All obligations pertaining to revenue recognised have 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 accounting policies.

The 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.

Leasing

For the year ended 30 June 2019 management applied the following accounting policy in respect of its leasing obligations in accordance with IAS 17:

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 were operating leases in the Group.

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

Following the adoption of IFRS 16 in the current year, as of 1 July 2019 and onwards the Group applied the following accounting policies in respect of its leasing obligations:

Lease accounting (IFRS 16)

IFRS 16 impacts the measurement and disclosure of lease liabilities, the assets and liabilities shown on the Group's balance sheet. The Group has applied the modified retrospective approach in transitioning to IFRS 16, recognising the cumulative effect of transition as at 1 July 2019 and taking full advantage of the practical expedients and transitional reliefs available. The Group does not have any lease agreements in which it is a lessor.

The right-of-use asset is initially measured at the amount of the lease liability plus any lease payments made at or before the commencement date (less any lease incentives received), plus any initial direct costs incurred in agreeing the lease, plus an estimate of future dismantling, removal and restoration costs. Subsequent to the initial measurement, the right-of-use asset is accounted for using the cost model set out in IAS 16, Property, Plant and Equipment, which is based on depreciating the asset over the estimated useful economic life. In connection with the Group's right-of-use assets as at 30 June 2020 there were no lease payments that had been made prior to the commencement of the lease, nor any lease incentives, nor has the Group made any structural or other changes to any right-of-use assets that would require material costs in respect of dismantling, removal or restoration.

The initial recognition of the lease liability has been based on discounting the cash flows associated with the lease. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The average rate applied was 3.2%. After initial measurement the Group charges the lease liability with the interest cost to unwind the discount factor and reduces the liability by the amount of contractual payments made annually.

In reviewing the leases, the Directors took into consideration those which were long-term leases, those which were short-term leases, the underlying asset value and the lease and non-lease components.

Leases of low-value assets and short-term leases with a term of 12 months or less have continued to be recognised as an operating expense and it was determined that all of these short-term leases had termination clauses of three months or less and therefore could be readily terminated if required. The Directors have set a guideline of £5,000 or less lease value as the threshold for determining the value of a potential lease asset. All the short-term leases are therefore also considered low-value assets and have been excluded from right-of-use assets. Further details on these leases are contained in Note 23.

Low-value and short-term leases

Where the Group is a lessee, payments on low-value and short-term operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred. Benefits received and receivable as an incentive to enter an operating lease are also spread on a straight-line basis over the lease term.

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.

2. Accounting policies continued

Impairment continued

An impairment loss is recognised for the amount by which the asset's or CGU's 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.

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.

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 2020 or 1 July 2019.

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 are carried subsequently at fair value with gains or losses recognised in profit or loss. Please see Note 25 for the fair value hierarchy.

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; and
- '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.

IFRIC 23: Uncertainty over income tax treatments
Where an uncertain tax position ("UTP") is identified, management will make a judgement as to what the probable outcome will be, assuming that the relevant tax authority has full knowledge of the situation. The local filing history, and status of relationship with the domestic tax authorities, will be factored into management's judgement. Where it is considered that an economic outflow is probable, a provision is made for the best estimate of that liability. In estimating any such liability a risk-based approach has been applied using weighted probabilities of a range of likely outcomes. These estimates take into account the specific circumstances of each UTP, together with the opinion of relevant external advisers, as appropriate.

IFRIC 23 has been adopted by the Group with effect from 1 July 2019, with the modified retrospective approach being applied (i.e. the cumulative effect of initially applying the interpretation is recognised as an adjustment to the opening balance of retained earnings, with no change being made to the prior year comparative numbers).

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

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

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

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

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

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

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

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

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

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

Share-based employee compensation
The Group operates equity-settled share-based compensation plans for remuneration of its employees comprising LTIP (Long Term Incentive Plan) 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.

2. Accounting policies continued

Share-based employee compensation continued

Details of the LTIP schemes and the conditions applying to each scheme are disclosed in Note 29, Share-based payments on pages 115 to 116.

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

Use of accounting estimates and judgements

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

Judgements in applying accounting policies

a) Capitalisation of development costs requires analysis of the technical feasibility and commercial viability of the project concerned. Capitalisation of the costs will be made only where there is evidence that an economic benefit will accrue to the Group. To date no development costs have been capitalised and all costs have been expensed in the income statement as R&D costs. Costs expensed in the year amounted to £9.0m which together with a credit relating to a legal claim for reimbursement of £3.2m resulted in total net R&D expenditure for the year of £5.8m (2019: £13.0m together with a credit relating to a legal settlement of £6.0m resulted in total net R&D expenditure of £7.0m).

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 £1.1m (equivalent of €1.4m) 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 €1.4m (£1.3m now) with a corresponding impact on net income and net assets.

c) In respect of net revenue of £7.4m cumulative recognised (2019: £4.0m cumulative recognised) 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 30, Contingent liabilities.

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 1000% or annual cash inflows would have to reduce by more than £20m p.a. 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% 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 29, 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 29.

3. Revenue

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

	2020 £'000	2019 £'000
Sale of goods at a point in time	**78,179**	73,676
Rendering of services transferred over time	**25**	41
	78,204	73,717

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 2020 £'000	**Inter-segment revenue 2020 £'000**	**Total segment revenue 2020 £'000**	Revenue from external customers 2019 £'000	Inter-segment revenue 2019 £'000	Total segment revenue 2019 £'000
Central Europe						
Germany	**47,977**	**—**	**47,977**	45,021	—	45,021
Other	**12,272**	**—**	**12,272**	10,967	—	10,967
	60,249	**—**	**60,249**	55,988	—	55,988
Southern Europe						
Italy	**4,493**	**—**	**4,493**	4,989	—	4,989
Spain	**7,939**	**—**	**7,939**	7,308	—	7,308
Other	**690**	**—**	**690**	682	—	682
	13,122	**—**	**13,122**	12,979	—	12,979
Rest of World (including UK)	**4,833**	**35,262**	**40,095**	4,750	35,056	39,806
	78,204	**35,262**	**113,466**	73,717	35,056	108,773

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

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

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

The following revenue table is based on a budget currency rate of €1.21:£1.00 which was the rate used in the 2020 budget.

	Revenue from external customers 2020 £'000	Revenue from external customers 2019 £'000
Central Europe		
Germany	**45,230**	42,065
Other	**11,610**	10,388
	56,840	52,453
Southern Europe	**12,411**	12,169
UK	**1,911**	1,966
Other	**2,890**	2,719
	74,052	69,307

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

4. Segmental reporting continued

Depreciation and amortisation by segment

	2020 £'000	2019 £'000
Central Europe	**1,014**	279
Southern Europe	**811**	407
Rest of World (including UK)	**2,089**	1,404
	3,914	2,090

EBITDA by segment

	2020 £'000	2019 £'000
Allocated EBITDA		
Central Europe	**3,042**	283
Southern Europe	**886**	(448)
Rest of World (including UK)	**8,295**	6,646
Allocated EBITDA	**12,223**	6,481
Depreciation and amortisation	**(3,914)**	(2,090)
Operating profit	**8,309**	4,391
Finance income	**266**	103
Finance expense	**(504)**	(201)
Profit before tax	**8,071**	4,293

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

Total assets by segment

	2020 £'000	2019 £'000
Central Europe	**23,492**	17,562
Southern Europe	**12,269**	8,674
Rest of World (including UK)	**87,755**	78,756
	123,516	104,992
Inter-segment assets	**(6,934)**	(7,728)
Inter-segment investments	**(30,357)**	(28,767)
Total assets per balance sheet	**86,225**	68,497

Included within Central Europe are non-current assets to the value of £2,641,000 (2019: £2,620,000) relating to goodwill and within Southern Europe assets to the value of £4,251,000 of which £1,125,000 relates to the adoption of IFRS 16 (2019: £2,863,000 relating to freehold land and buildings). There were no material additions (excluding foreign exchange differences) to non-current assets in any country except the UK where non-current asset additions totalled £1,584,000 (2019: £2,439,000).

Total liabilities by segment

	2020 £'000	2019 £'000
Central Europe	**(22,915)**	(18,450)
Southern Europe	**(8,432)**	(5,090)
Rest of World (including UK)	**(18,029)**	(15,127)
	(49,376)	(38,667)
Inter-segment liabilities	**6,934**	7,728
Total liabilities per balance sheet	**(42,442)**	(30,939)

5. Profit before tax

	2020 £'000	2019 £'000
Profit for the period has been arrived at after charging/(crediting):		
Loss on fair valuation of foreign exchange forward contracts	**386**	380
(Gain)/loss on foreign exchange forward contracts matured in the year	**(755)**	54
(Gain)/loss on revaluation of US Dollar denominated cash deposits	**(154)**	36
Other foreign exchange gains	**458**	121
Depreciation and amortisation:		
Depreciation of property, plant and equipment excluding right-of-use assets (Note 16)	**1,907**	1,638
Depreciation of right-of-use assets (Note 16)	**1,517**	—
Amortisation of intangible assets (Note 15)	**489**	452
R&D – includes credit of £3.2m relating to legal settlement	**5,848**	6,950
Rental – land and buildings held under operating leases	**—**	982
Rental – other operating lease rentals	**—**	1,365
Share-based payment expense (Note 29)	**794**	1,367
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	**124**	96
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries' accounts pursuant to legislation	**56**	45
Audit-related assurance	**11**	11
Tax compliance services	**5**	5
Tax advisory services	**1**	1
Other services	**3**	3

6. Remuneration of key management personnel

	2020 £'000	2019 £'000
Salaries and short-term employee benefits	**1,042**	999
Social security costs	**129**	108
Post-employment benefits – defined contribution plans	**69**	62
	1,240	1,169
Share-based payment	**61**	139
	1,301	1,308

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 72 and forms part of the financial statements.

7. Employees (including Directors)

	2020 £'000	2019 £'000
Wages and salaries	**28,599**	26,962
Social security costs	**4,878**	4,374
Share-based payments	**794**	1,367
Pension costs – defined benefit plans	**253**	300
Pension costs – defined contribution plans	**1,464**	1,178
	35,988	34,181

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

	2020	2019
R&D, marketing and administration	**230**	202
Sales	**124**	123
Production	**217**	195
	571	520

8. Other income

	2020 £'000	2019 £'000
Net monetary value of above the line R&D tax credit	**634**	593

9. Finance expense

	2020 £'000	2019 £'000
Interest on borrowing facility	**18**	11
Net interest expenses on defined benefit pension liability	**165**	190
Interest on lease liabilities	**321**	—
	504	201

10. Finance income

	2020 £'000	2019 £'000
Bank interest	**216**	12
Interest on investment assets	**45**	76
Other finance income	**5**	15
	266	103

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

11. Income tax expense

	2020 £'000	2019 £'000
Current tax:		
UK corporation tax on profit for the period at 19% (2019: 19%)		
Current year	**106**	50
Prior year	**(6)**	—
Overseas tax	**908**	718
Prior period overseas tax	**22**	64
	1,030	832
Deferred tax - current year	**(17)**	(6)
Tax charge for the period	**1,013**	826

The reconciliation between the tax charge and the accounting profit multiplied by the UK corporation tax rate for the years ended 30 June is as follows:

	2020 £'000	2019 £'000
Profit for the period before tax	**8,071**	4,293
Profit for the period multiplied by the standard rate of corporation tax of 19% (2019: 19%)	**1,534**	816
Effects of:		
Disallowable adjustments	**135**	668
Movements in unrecognised deferred tax - losses utilised	**(1,155)**	(1,013)
Adjustment of taxes for prior periods	**15**	64
Movement in uncertain tax positions	**283**	—
Adjustment for different tax rates	**221**	266
Relief for shares acquired by employees and Directors	**(18)**	—
Gross up of R&D expenditure credit - current year	**1**	18
- prior year	**(3)**	7
Tax charge for the period	**1,013**	826

At 30 June 2020, the Group had recognised provisions of £1.7m (2019: £0.7m) in respect of uncertain tax positions on the balance sheet which are included under social security and other taxes within Current liabilities - Trade and other payables. See Note 1 in respect of the implementation of IFRIC 23 in these financial statements.

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. £'000	Italian freehold property £'000	Tax value of Alerpharma S.A. losses £'000	Acquisition of Alerpharma S.A. £'000	Total £'000
At 1 July 2019	**322**	**(322)**	**(105)**	**(47)**	**69**	**(235)**	**(318)**
Amount (charged)/credited to the income statement	**79**	**(79)**	**16**	**—**	**(29)**	**30**	**17**
Amount (charged)/credited to other comprehensive income	**—**	**—**	**—**	**(88)**	**—**	**(58)**	**(146)**
Exchange differences	**—**	**—**	**(15)**	**(4)**	**—**	**(4)**	**(23)**
At 30 June 2020	**401**	**(401)**	**(104)**	**(139)**	**40**	**(267)**	**(470)**

	Tax value of carried forward losses £'000	Tax value of accelerated capital allowances £'000	Acquisition of Bencard 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)

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

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

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

	2020 £'000	2019 £'000
Deferred tax assets	**441**	391
Deferred tax liabilities	**(911)**	(709)
	(470)	(318)

Unrecognised deferred tax

	2020 Deferred tax assets £'000	2019 Deferred tax assets £'000
Non-current assets		
Property, plant and equipment	**—**	—
R&D expenditure credit	**495**	549
Current assets		
Stock	**235**	405
Current liabilities		
Derivative financial instruments	**155**	73
Non-current liabilities		
Pension and other employee obligations	**2,545**	2,043
Share options	**257**	254
Unused tax losses	**14,161**	13,836
Total	**17,848**	17,160

As at 30 June 2020, the Group had approximately £74m of unutilised tax losses (2019: approximately £81m) 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 remains unchanged at 19%. The recognised and unrecognised deferred tax assets have been calculated at 19%, being the rate enacted at 30 June 2020.

13. Earnings per share

	2020 £'000	2019 £'000
Profit after tax attributable to equity shareholders	**7,058**	3,467

	Shares '000	Shares '000
Issued Ordinary Shares at start of the period	**636,169**	596,169
Ordinary Shares issued in the period	**1,117**	40,000
Issued Ordinary Shares at end of the period	**637,286**	636,169
Weighted average number of Ordinary Shares for the period	**636,169**	632,835
Potentially dilutive share options	**37,323**	36,868
Weighted average number of Ordinary Shares for diluted earnings per share	**673,492**	669,703
Basic earnings per Ordinary Share (pence)	**1.11p**	0.55p
Diluted earnings per Ordinary Share (pence)	**1.05p**	0.52p

14. Goodwill

	2020 £'000	2019 £'000
At 1 July	**3,432**	3,406
Addition	**—**	—
Exchange difference	**35**	26
At 30 June	**3,467**	3,432

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

	2020 £'000	2019 £'000
Germany	**2,642**	2,620
Spain	**825**	812
Total	**3,467**	3,432

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 CGU.

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 2020 and 2019.

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 an 11% discount rate (2019: 10%) 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 10% 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 14% discount rate (2019: 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 10% 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 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
Additions	—	—	—	—	—	4	279	283
Foreign exchange	55	68	8	5	5	1	16	158
At 30 June 2020	**4,858**	**1,224**	**480**	**306**	**284**	**1,097**	**3,736**	**11,985**
Amortisation								
At 1 July 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
Charge for the year	—	82	31	59	27	38	252	489
Foreign exchange	55	—	7	6	4	5	14	91
At 30 June 2020	**4,858**	**703**	**377**	**306**	**225**	**1,097**	**3,150**	**10,716**
Net book value								
At 1 July 2018	—	575	158	116	110	14	570	1,543
At 30 June 2019	—	535	133	60	85	38	557	1,408
At 30 June 2020	**—**	**521**	**103**	**—**	**59**	**—**	**586**	**1,269**

The class of intangible assets 'Distribution agreements' arose from the acquisition of the Swiss subsidiary Bencard A.G. (formerly 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.

Other intangibles relate to trademarks and licences.

16. Property, plant and equipment

	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Freehold land and buildings £'000	Total £'000
Cost or valuation						
At 1 July 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
Reclassification	388	(36)	(1)	(164)	(187)	—
Adjustment on transition to IFRS 16	73	40	912	—	8,741	9,766
Revaluation	—	—	—	—	176	176
Additions	1,517	263	262	182	40	2,264
Foreign exchange	14	24	—	19	46	103
Disposals	(297)	(54)	(22)	(25)	—	(398)
At 30 June 2020	**13,795**	**7,813**	**1,203**	**4,157**	**11,865**	**38,833**
Depreciation						
At 1 July 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
Reclassification	201	(42)	—	(159)	—	—
Charge for the year	829	738	505	194	1,159	3,425
Revaluation	—	—	—	—	(188)	(188)
Foreign exchange	11	18	4	5	30	68
Disposals	(265)	(23)	(18)	(24)	—	(330)
At 30 June 2020	**7,419**	**5,617**	**533**	**3,846**	**1,001**	**18,416**
Net book value						
At 1 July 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
At 30 June 2020	**6,376**	**2,196**	**670**	**311**	**10,864**	**20,417**

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

Freehold land and buildings include 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 2020 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 2020 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 €2,031,760 as at 30 June 2020. 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.

The Italian premises were revalued to €1,400,000 as at 30 June 2020 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 €1,530 (£1,394) per sq m. This compares to the range of prices from €1,300 per sq m to €1,800 per sq m 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 £1,275,000 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 2019	1,776	1,273	3,049
Other adjustment	(187)	—	(187)
Additions at cost	40	—	40
Gain recognised in other comprehensive income:			
Revaluation of freehold land and buildings	328	36	364
Loss recognised in income statement - depreciation of buildings	(129)	(52)	(181)
Gain recognised in OCI - exchange differences on translating foreign operations	23	18	41
Balance at 30 June 2020	**1,851**	**1,275**	**3,126**
IFRS 16 - right-of-use assets			**7,738**
NBV of land and buildings at 30 June 2020			**10,864**

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 27). 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.

	2020 £'000	2019 £'000
At 1 July	**5,551**	5,043
Additions	**228**	405
Finance income	**44**	76
Remeasurement of investment	**(23)**	(42)
Profit on foreign exchange	**102**	69
	5,902	5,551

18. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	**2,874**	2,343
Work in progress	**3,696**	2,845
Finished goods	**3,562**	4,221
	10,132	9,409

The value of inventories measured at fair value less cost to sell was £336,000 (2019: £322,000). The movement in the value of inventories measured at fair value less cost to sell during the year gave rise to a charge of £14,000 which was dealt with in the Consolidated Income Statement.

19. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	**3,491**	4,373
Other receivables	**1,622**	3,409
VAT	**540**	591
Prepayments and accrued revenue	**2,423**	1,403
	8,076	9,776

Accrued revenue of £182,000 relates to deferred consideration receivable from customers (2019: £119,000).

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, £69,000 of trade receivables were provided for 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 IFRS 9 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 2020 and 30 June 2019 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 five months from the invoice due date is considered an indicator of possible non-recovery.

Bad and doubtful debt provision

	2020 £'000	2019 £'000
Balance brought forward	**460**	535
Foreign exchange adjustments	**12**	5
Allowance for credit losses	**69**	(80)
Utilised	**—**	—
Balance carried forward	**541**	460

This note 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 IFRS 9 expected loss model.

On the above basis the expected credit loss for trade receivables as at 30 June 2020 and 30 June 2019 was determined as follows:

	2020			2019		
	Expected credit loss rate %	**Gross carrying amount £'000**	**Lifetime expected credit loss £'000**	Expected credit loss rate %	Gross carrying amount £'000	Lifetime expected credit loss £'000
Trade receivables						
Current	**—**	**2,301**	**—**	—	2,459	—
Not more than three months	**—**	**863**	**—**	—	1,004	—
More than three months but not more than six months	**2%**	**243**	**4**	0%	804	4
More than six months but not more than one year	**66%**	**136**	**90**	23%	77	18
More than one year	**91%**	**489**	**447**	90%	489	438
		4,032	**541**		4,833	460

20. Cash and cash in hand

	2020 £'000	2019 £'000
Cash at bank and in hand	**36,962**	27,440

21. Trade and other payables

	2020 £'000	2019 £'000
Due within one year		
Trade payables	**2,217**	4,141
Social security and other taxes	**4,440**	1,875
Other creditors	**72**	132
Accrued expenses and deferred income	**8,419**	9,588
	15,148	15,736

22. Borrowings

	2020 £'000	2019 £'000
Due within one year		
Bank loans	**829**	694
	829	694

	2020 £'000	2019 £'000
Due in more than one year		
Bank loans	**2,927**	1,742
	2,927	1,742

There is an overdraft facility provided by NatWest Bank plc which has a maximum limit during the year of up to £7m. 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 2020. The overdraft was unused at 30 June 2020 (2019: £nil).

The loans below were taken out by Allergy Therapeutics Iberica S.L. and are secured by way of a charge on land and buildings owned by Allergy Therapeutics Iberica S.L.

		Capital repayments due		
	Interest rate	<1 year £'000	1–5 years £'000	>5 years £'000
Bank Inter (1)	3 month Euribor +0.55%	98	—	—
Bank Inter (2)	1 month Euribor +5.0%	36	145	91
Santander (1)	12 month Euribor +2.5%	117	—	—
Tecnoalcala	Interest free	27	53	—
Santander (2)	Fixed rate of 2.5%	445	585	—
CDTI (1)	Interest free	19	156	149
Santander (3)	Fixed rate of 2.3%	87	333	—
CDTI (2)	Fixed rate of 0.2%	—	49	—
Santander (4)	Fixed rate of 2.3%	—	1,366	—
		829	2,687	240

During the year, Allergy Therapeutics Iberica S.L. took out a number of loans for €2.2m (included above) to further expand the Group's manufacturing and quality control facilities. Warranties in respect of €2m of these loans were provided by Allergy Therapeutics plc.

23. Lease liabilities

Lease liabilities are presented in the Group consolidated balance sheet as follows:

	2020 £'000	2019 £'000
Due within one year	**1,435**	—
Due in more than one year	**6,988**	—
	8,423	—

The Group has leases for the main manufacturing and production facility in Worthing, Group offices in Continental Europe, motor vehicles and mainly IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 16).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term
Buildings (office, manufacturing and warehousing)	9	1-13 years	6 years
Cars	118	1-3 years	1 year
Other equipment	5	1-5 years	2 years

The related underlying asset secures the lease liabilities. Future minimum lease payments at 30 June 2020 were as follows:

	Minimum lease payments due						
30 June 2020	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	After 5 years £'000	**Total £'000**
Lease payments	1,616	1,311	993	939	939	4,072	**9,870**
Finance charges	(275)	(233)	(197)	(170)	(144)	(428)	**(1,447)**
Net present values	1,341	1,078	796	769	795	3,644	**8,423**

Additional information on the right-of-use assets by class of assets is as follows:

	Carrying amount £'000	Depreciation expense £'000	Impairment £'000
Buildings (office, manufacturing and warehousing)	7,740	978	—
Cars	654	497	—
Other equipment	69	42	—
Total right-of-use assets	**8,463**	**1,517**	**—**

24. 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 2020. The major assumptions used were as follows:

	2020 % p.a.	2019 % p.a.
Retail price inflation	**1.2**	1.5
Salary increase rate	**0.5**	0.5
Annual rate of leaving indemnity increase	**2.4**	2.6
Annual discount rate	**0.27**	0.35
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:

	2020 Total £'000	2019 Total £'000
At 1 July	**273**	282
Additions	**22**	32
Utilisation	**—**	(54)
IAS 19 addition	**4**	10
Foreign exchange movement	**5**	3
At 30 June	**304**	273

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 2020:

Changes in significant actuarial assumptions

	2020 £'000	2019 £'000
Withdrawal annual rate +1.00%	**303**	272
Withdrawal annual rate -1.00%	**306**	275
Annual discount rate +0.25%	**307**	270
Annual discount rate -0.25%	**301**	277
Annual price inflation +0.25%	**300**	276
Annual price inflation -0.25%	**308**	271

25. 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.

	2020 £'000	2019 £'000
Capital	**43,783**	37,558
Total equity	**43,783**	37,558
Borrowings	**12,179**	2,436
Overall financing	**55,962**	39,994
Capital-to-overall financing ratio (%)	**0.78**	0.94

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

25. Financial instruments continued

Risk management continued

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

	2020 £'000	2019 £'000
Financial assets		
Current		
Financial assets at amortised cost	**42,797**	35,932
	42,797	35,932
Financial liabilities		
Current		
At amortised cost (including borrowings and payables)	**(17,411)**	(16,430)
Fair value through profit and loss – held for trading	**(815)**	(429)
	(18,226)	(16,859)
Non-current		
At amortised cost (including borrowings and payables)	**(7,924)**	(2,015)
	(26,150)	(18,874)

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 €19,195,000 to purchase GBP at an average blended rate of 1.1503 for dates from July 2020 until May 2021.

Analysis of derivative financial instruments

	2020 £'000	2019 £'000
Credit/(charge) to administration expenses in the Consolidated Income Statement		
Euro forward contracts	**(386)**	(332)
Euro forward contracts – matured in the period	**755**	(54)
	369	(386)

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.

Derivative financial instruments

	2020 £'000	2019 £'000
Current liabilities		
Derivative financial instruments – Euro forward contracts	**(815)**	(429)
	(815)	(429)

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 £386,000 (2019 loss: £332,000).

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:

	2020 £'000	2019 £'000
Sterling	**30,119**	20,973
Euro	**5,389**	2,010
US Dollars	**801**	4,116
Canadian Dollars	**23**	16
Swiss Franc	**632**	325
	36,964	27,440

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

	2020			2019		
	Sterling £'000	**Euro £'000**	**Other £'000**	Sterling £'000	Euro £'000	Other £'000
Current						
Financial assets	**32,214**	**8,719**	**1,865**	26,144	4,994	4,795
Financial liabilities	**(7,715)**	**(10,160)**	**(351)**	(8,685)	(7,888)	(189)
Short-term exposure	**24,499**	**(1,441)**	**1,514**	17,459	2,894	4,606
Non-current						
Financial liabilities	**(3,504)**	**(4,420)**	**—**	—	(2,015)	—
Long-term exposure	**(3,504)**	**(4,420)**	**—**	—	(2,015)	—

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 2019, a 10% movement was also used.

	2020 £'000	2019 £'000
If Sterling had strengthened against the Euro by	**10%**	10%
Effect on net results for the year	**371**	531
Effect on OCI	**(773)**	(618)
Effect on equity	**(402)**	(87)
If Sterling had weakened against the Euro by	**10%**	10%
Effect on net results for the year	**(453)**	(649)
Effect on OCI	**944**	756
Effect on equity	**491**	107

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.

	2020		2019	
	£'000	**£'000**	£'000	£'000
Movement in interest rates	**+1%**	**-1%**	+1%	-1%
Movement in net results for the year	**(6)**	**n/a**	(17)	n/a
Equity	**—**	**n/a**	—	n/a
	(6)	**n/a**	(17)	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.

25. Financial instruments continued

Credit risk continued

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 is 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 is 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 2020. As at 30 June 2020, the Group's contractual maturities (undiscounted and including interest) are summarised below:

Current liabilities

	2020		2019	
	Within 6 months £'000	**6 to 12 months £'000**	Within 6 months £'000	6 to 12 months £'000
Borrowing facility	**416**	**416**	172	172
Finance leases	**808**	**808**	—	—
Trade payables	**2,217**	**—**	4,141	—
Other short-term liabilities	**12,931**	**—**	11,498	—
	16,372	**1,224**	15,811	172
Derivatives	**636**	**179**	212	217
	17,008	**1,403**	16,023	389

Non-current liabilities

	2020		2019	
	1 to 5 years £'000	**Later than 5 years £'000**	1 to 5 years £'000	Later than 5 years £'000
Borrowing facility	**2,993**	**214**	2,617	990
Finance leases	**4,182**	**4,072**	—	—
Other long-term liabilities	**304**	**—**	273	—
	7,479	**4,286**	2,890	990

26. Operating lease commitments

As a result of the adoption of IFRS 16, from 1 July 2019, all leases, except those classified as either low-value assets or short-term, have been recognised on the balance sheet as a right-of-use asset and lease liability and are no longer included in this non-cancellable operating lease disclosure.

See Note 1 for further information on the adoption of IFRS 16 and its impact on these financial statements.

At the year end, the Group had no non-cancellable operating leases.

27. Retirement benefit obligations

Defined contribution scheme

The Group operates a defined contribution pension scheme for all employees in the UK except those that have opted out of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. A salary sacrifice scheme is in operation at Allergy Therapeutics (UK) Ltd. The effect of the scheme is to transfer a proportion of the payroll cost to pension contributions; see Note 7, Employees for further details.

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 2020. The major assumptions used were as follows:

	2020 % p.a.	2019 % 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	**1.45**	1.85
Discount rate at the end of the year	**0.80**	1.45
Increase of social security contribution ceiling	**3.0**	3.0

	2020 Years	2019 Years
Average life expectancies		
Male, 65 years of age at the balance sheet date	**20.8**	20.7
Female, 65 years of age at the balance sheet date	**24.3**	24.2
Male, 45 years of age at the balance sheet date	**40.8**	40.6
Female, 45 years of age at the balance sheet date	**44.8**	44.7

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

	2020 £'000	2019 £'000
Fair value of plan assets	**1,354**	1,364
Present value of scheme liabilities	**(14,880)**	(13,111)
Deficit in the scheme	**(13,526)**	(11,747)

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 £13.5m (2019: £11.7m). 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 £55,000 (2019: £57,000). The pension charge generates an unrecognised deferred tax asset of £2,545,000 (2019: £2,043,000), 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.

	2020 £'000	2019 £'000
Amounts charged to operating profit		
Current service costs	**253**	300
Amounts included in other finance expenses		
Interest income on plan assets	**(19)**	(25)
Interest on pension scheme liabilities	**184**	215
Net charge	**165**	190
Amounts recognised in OCI		
Actual return less expected return on pension scheme assets	**37**	32
Experience gains/(losses) arising on scheme liabilities	**312**	(59)
Changes in assumptions underlying the present value of scheme liabilities	**(1,636)**	(879)
Total amount relating to year	**(1,287)**	(906)
Opening cumulative losses	**(5,085)**	(4,179)
Remeasurement of net defined liability/cumulative net movement recognised	**(6,372)**	(5,085)

Movement in assets during the year

	2020 £'000	2019 £'000
Balance as at 1 July	**1,364**	1,376
Foreign currency differences	**21**	18
Interest income on plan assets	**19**	25
Remeasurement of net defined liability	**37**	32
Contributions from employer	**—**	—
Assets transferred to finance benefits paid	**(87)**	(87)
Balance as at 30 June	**1,354**	1,364

27. Retirement benefit obligations continued

Movement in liabilities in the year

	2020 £'000	2019 £'000
Balance as at 1 July	**(13,111)**	(11,722)
Foreign currency differences	**(276)**	(164)
Current service costs	**(253)**	(300)
Interest cost	**(184)**	(215)
Remeasurement of net defined liability	**(1,324)**	(938)
Benefits paid by employer	**181**	141
Benefits paid from assets	**87**	87
Balance as at 30 June	**(14,880)**	(13,111)

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

The significant actuarial assumptions for the determination of the defined benefit IAS 19.173(b) obligation are the discount rate, the salary growth rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit liability at 30 June 2020:

Changes in the significant actuarial assumptions

	2020		2019	
	£'000	**£'000**	£'000	£'000
Discount rate	**Increase to 1.80%**	**Decrease to 0.20%**	Increase to 2.45%	Decrease to 0.45%
(Decrease)/increase in the defined benefit liability	**(2,529)**	**3,084**	(2,107)	2,541
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	**538**	**(498)**	480	(444)
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	**633**	**(628)**	514	(514)
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	**665**	**(659)**	542	(543)

28. Issued share capital

	2020		2019	
	Shares	**£'000**	Shares	£'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	**636,168,616**	**636**	596,168,616	596
Issued during the year:				
Share options exercised	**1,117,188**	**1**	—	—
Share placing	**—**	**—**	40,000,000	40
At 30 June	**637,285,804**	**637**	636,168,616	636
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	**647,134,137**	**647**	646,016,949	646

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

Share options issued on vesting of LTIP awards were exercised in the year with proceeds of £66,000 (2019: £nil).

29. Share-based payments

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

The 2013 Group LTIP plan was adopted by the Board on 20 March 2013, following consultation with major shareholders. Provisional awards were made under this plan during the year in March 2020 subject to performance criteria being met.

Performance criteria for each award are set by the Remuneration Committee. The performance criteria are based on a combination of compound share price growth (50%) and compound annual adjusted earnings growth (50%). Both are measured against base figures designated by the Remuneration Committee.

In relation to compound share price growth, this portion of the award shall vest at 100% if at the end of the plan cycle the share price has increased by the upper target set by the Remuneration Committee. If the share price increase is less than the minimum target then no options will vest. If the share price increase is between the upper and lower targets then the vesting will be pro-rated on a straight-line basis between these targets.

In relation to compound annual adjusted earnings growth, this portion of the award shall vest at 100% if at the end of the plan cycle the compound annual adjusted earnings have increased by the upper target set by the Committee. If the compound annual adjusted earnings increase is less than the minimum target then no options will vest. If the compound annual adjusted earnings increase is between the upper and lower targets then the vesting will be pro-rated on a straight-line basis between these targets.

Each award cycle will comprise a period of three years. An award will be forfeited if the employee leaves the Group before the options vest.

Share options were granted to employees and Directors under earlier schemes. 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 (unless the Remuneration Committee revises the expiry date). Options are usually forfeited if the employee leaves the Group before the options vest.

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"):

	2020 WAEP		2019 WAEP	
	Number	**Price (£)**	Number	Price (£)
Outstanding at the beginning of the year	**35,289**	**0.18**	35,739	0.18
Lapsed during the year	**(35,289)**	**—**	(450)	—
Outstanding at the year end	**—**	**0.00**	35,289	0.18
Exercisable at the year end	**—**	**0.00**	35,289	0.18

The share options outstanding at the end of year had all lapsed with no contractual life remaining. In the prior year the weighted average remaining contractual life was 0.3 years and all had an exercise price of £0.18 as follows:

	30 June 2020 Number	30 June 2019 Number
Exercise price (p):		
18.25	**—**	35,289

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

	2020 Number	2019 Number
Outstanding at the beginning of the year	**3,695,866**	4,057,250
Converted in the year from LTIPs	**6,520,577**	—
Exercised during the year	**(1,117,194)**	—
Lapsed during the year	**—**	(361,384)
Outstanding at the year end	**9,099,249**	3,695,866
Exercisable at the year end	**9,099,249**	3,695,866

Low-cost options were exercised during the year at a weighted average share price at the date of exercise of £0.13 (2019: None exercised).

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

	2020 Number	2019 Number
Outstanding at the beginning of the year	**33,136,154**	25,968,750
Awarded during the year	**10,560,000**	11,110,000
Converted to options	**(6,869,059)**	—
Lapsed during the year	**(8,602,928)**	(3,942,596)
Outstanding at the year end	**28,224,167**	33,136,154

The fair values of LTIP shares conditionally awarded in March 2018, November 2018 and March 2020 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.

29. Share-based payments continued

The following principal assumptions were used in the valuation:

Date of grant	Exercisable from	Exercisable to	Exercise price (£)	Share price at grant (£)	Risk-free rate	Volatility	Number of awards expected to vest (non-market conditions)	Fair value (£)	Number outstanding
15/03/2018	15/03/2021	14/03/2031	0.001	0.270	0.85%	50%		0.133	4,600,834
15/03/2018	15/03/2021	14/03/2031	0.001	0.270	0.85%		100%	0.250	4,600,833
01/11/2018	01/09/2021	31/10/2031	0.001	0.175	0.84%	33%		0.031	4,601,250
01/11/2018	01/09/2021	31/10/2031	0.001	0.175	0.84%		0%	0.161	4,601,250
27/03/2020	01/03/2023	01/03/2033	0.001	0.085	0.13%	49%		0.010	4,910,000
27/03/2020	01/03/2023	01/03/2033	0.001	0.085	0.13%		0%	0.078	4,910,000

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

The Group recognised total expenses of £794,000 (2019: £1,367,000) 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% p.a. 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	794	788	798	794	853
Credit/(charge) to income statement due to sensitivity adjustment	—	6	(4)	—	(59)

30. Contingent liabilities

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.

During the year, Allergy Therapeutics Iberica S.L. took out a number of loans for €2.2m to further expand the Group's manufacturing and quality control facilities. Warranties in respect of €2m of these loans were provided by Allergy Therapeutics plc.

In respect of net revenue relating to certain products there is a risk that up to £7.4m cumulative revenue recognised (2019: £4.0m) may be reversed due to a retrospective change in the level of rebate being applied (2020: £3.4m recognised and periods up to 2019: £4.0m recognised).

On 23 February 2015, the Company received notification that BAFA had made a decision to reverse their preliminary exemption to the increased manufacturer's 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 £1.3m) 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 2020, no provision has been recognised for the repayment of the rebate refund. This position will be kept under review.

31. 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 2020 £'000	30 June 2019 £'000
Capital commitments	**1,011**	1,224

Included in the above is £176,000 for ongoing factory refurbishments in the UK (2019: £293,000), £167,000 for new plant and machinery (2019: £810,000) and £668,000 for IT equipment and systems upgrades (2019: £121,000).

32. 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 72.

At 30 June 2020, 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:

	Sale of goods		Amounts owed by/(to) related parties	
Related party	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Laboratorios Synthesis S.A.S.	**—**	—	**(73)**	(73)
Gynopharm de Venezuela C.A.	**—**	—	**(60)**	(60)
Total	**—**	—	**(133)**	(133)

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

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

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

There is no overall ultimate controlling party.

33. Reconciliation of liabilities arising from financing activities

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

	Total borrowings £'000	**Lease liabilities £'000**	**Total liabilities £'000**
1 July 2019	**2,436**	**—**	**2,436**
Adoption of IFRS 16	**—**	**9,766**	**9,766**
Revised 1 July 2019	**2,436**	**9,766**	**12,202**
Cash flows			
Repayment	**(654)**	**(1,343)**	**(1,997)**
Proceeds	**1,886**	**—**	**1,886**
Non-cash			
Foreign exchange movements	**88**	**—**	**88**
30 June 2020	**3,756**	**8,423**	**12,179**

	Total borrowings £'000	Lease liabilities £'000	Total liabilities £'000
1 July 2018	3,058	—	3,058
Cash flows			
Repayment	(651)	—	(651)
Proceeds	—	—	—
Non-cash			
Foreign exchange movements	29	—	29
30 June 2019	2,436	—	2,436

34. Events after the balance sheet date

No adjusting or significant non-adjusting events have occurred between the 30 June 2020 reporting date and the date of authorisation.

Company balance sheet
as at 30 June 2020

	Note	30 June 2020 £'000	30 June 2019 £'000
Fixed assets			
Investments	2	**3,995**	3,620
Current assets			
Debtors: amounts falling due within one year	3	**231**	233
Total assets		**4,226**	3,853
Creditors: amounts falling due within one year	4	**(253)**	(254)
Net current liabilities		**(22)**	(21)
Total assets less current liabilities		**3,973**	3,599
Net assets		**3,973**	3,599
Capital and reserves			
Called up share capital	5	**647**	646
Share premium account		**112,576**	112,576
Other reserves – share-based payments		**3,104**	3,024
Profit and loss account		**(112,354)**	(112,647)
Total equity		**3,973**	3,599

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 £421,000 (2019: £11,360,000 loss).

These financial statements were approved by the Board of Directors and authorised for issue on 22 September 2020 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)
for the year ended 30 June 2020

	Issued capital £'000	Share premium £'000	Reserve - share-based payment £'000	Retained earnings £'000	Total equity £'000
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
At 30 June 2019	646	112,576	3,024	(112,647)	3,599
Loss for the period after tax	—	—	—	(421)	(421)
Transactions with owners:					
Share-based payments	—	—	794	—	794
Shares issued	1	—	—	—	1
Transfer of lapsed options to retained earnings	—	—	(714)	714	—
At 30 June 2020	**647**	**112,576**	**3,104**	**(112,354)**	**3,973**

Notes to the Company financial statements
for the year ended 30 June 2020

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 September 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 £37.0m as at 30 June 2020 and the £7m overdraft facility was renewed in August 2020. The Directors have made appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the forecast period and the effects of sales and other sensitivities, such as Brexit, COVID-19 and other risks as noted in the principal risks section of the Annual Report on the Group's forecast cash balances. This was carried out via a stress test which included reducing sales by 30% (15 times the estimated COVID-19 impact and more than the combined downsides sensitivities identified with no upsides) which the Directors consider to be no more than a highly remote possibility. The stress test resulted in a slightly positive cash balance at the end of the reviewed period. As a result of this review, the Directors have concluded 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.

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 investments.

Intercompany receivables

Receivables including intercompany receivables are financial assets measured at amortised cost in accordance with IFRS 9. See Note 2 of the consolidated financial statements on page 94 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.

Employment costs

The Company does not have any employees. All employment costs are dealt with by the Group's subsidiaries. Details of employment costs are detailed on page 99 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 29 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' adjacent), 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	3,620
Additions	794
Diminution in value	(419)
Investment carried forward	**3,995**

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

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

2. Investments continued

At 30 June 2020, the Company's subsidiary undertakings were:

Subsidiary undertaking and 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. 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.

3. Debtors

	30 June 2020 £'000	30 June 2019 £'000
Amounts falling due within one year		
Amount owed by subsidiary undertakings	**187**	184
Prepayments and accrued income	**44**	49
	231	233

Intercompany debtors have been assessed for impairment. The amount owed by subsidiary undertakings is stated net of provisions of £113,986,732 (2019: £113,542,312).

4. Creditors – amounts falling due within one year

	30 June 2020 £'000	30 June 2019 £'000
Accruals	**253**	254
	253	254

5. Called up share capital
Full details of the Company's share capital are set out in Note 28 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 29 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 67 to 73.

8. Contingent liabilities
Full details of the Company's contingent liabilities are set out in Note 30 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 32 to the consolidated financial statements.

Definition of non-GAAP measures

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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