Allergy Therapeutics plc
("Allergy Therapeutics" or the "Group")

Preliminary Results

26 September 2018 Allergy Therapeutics plc (AIM:AGY), the fully integrated specialty pharmaceutical company specialising in allergy vaccines, today announces preliminary results for the year ended 30 June 2018.

Financial highlights

- 6.6% revenue growth increase in actual terms to £68.3m (2017: £64.1m)
- 3.5%[1] revenue growth at constant currency[2] to £66.4m (2017: £64.1m)
- One point increase to 14%[3] in market share in European business (2017: 13%)
- 10% compound annual growth in net sales over 19 years since the company formed
- 26% increase in operating profit[4] (pre-R&D) to £9.3m (2017: £7.4m)
- Cash at 30 June £15.5m (2017: £22.1m) prior to the July 2018 fundraising of £10.2m net of expenses

Operational highlights

- Successful completion of the Phase II PQ Grass (G205) in May, allowing progression to a pivotal trial for US registration. The Phase III PQ Birch (B301) study has completed and top line data are now expected by the end of the year
- Good pipeline progress, including initiation of Acarovac Phase I trial (data readout expected H1 2019) and positive pre-clinical Polyvac peanut work, with first in-human trials expected in 2019
- Completion of £10.6m (gross) oversubscribed placing in July 2018

Manuel Llobet, Chief Executive Officer of Allergy Therapeutics, commented: *"2018 was a solid year for Allergy Therapeutics as we made important progress in key areas across the Company. We generated continued growth despite a low pollen season in our core business, with constant currency revenue growth of 3.5%[1], driving additional gains in market share and a 26% increase in pre-R&D operating profit[4]. We also achieved significant clinical success in the year, with the positive Phase II PQ Grass in May and we now expect headline data from the Phase III PQ Birch study by the end of the year. With progress towards the US market, a pipeline of exciting clinical and pre-clinical assets, and a robust balance sheet, we look to the future with confidence in our growth prospects."*

[1]Percentage based on figures in thousands (2018: £66.369m, 2017:£ 64.139m)

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

[3]Market data and internal estimates for 12 months to 30 June 2018 for Allergy Therapeutics' direct sales competitive markets excluding UK and Switzerland due to lack of competitor information.

[4]Operating profit (pre R&D) is calculated by adding back R&D expenditure for the year to the operating loss of the year to arrive at an operating profit (pre R&D) of £9.3m (2017: £7.4m)

This announcement contains insider information for the purposes of Article 7 of Regulatory (EU) No596/2014.

- ENDS -

Analyst briefing today

Manuel Llobet, Chief Executive Officer, and Nick Wykeman, Chief Financial Officer, will host a meeting and call for analysts to provide an update on the Group, followed by a Q&A session, at 10.30 BST today at the offices of Panmure Gordon & Co, One New Change, London, EC4M 9AF. **Dial-in details are: +44 (0) 207 192 8000**. Conference ID: **9583215**.

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Notes for editors:
About Allergy Therapeutics

Allergy Therapeutics is an international commercial biotechnology group focussed on the treatment and diagnosis of allergic disorders, including immunotherapy vaccines that have the potential to cure disease. The Group sells proprietary and third party products from its subsidiaries in nine major European countries and via distribution agreements in an additional fourteen countries. Its broad pipeline of products in clinical development include vaccines for grass, tree and house dust mite, and peanut allergy vaccine in pre-clinical development. Adjuvant systems to boost performance of vaccines outside allergy are also in development.

Formed in 1999 out of Smith Kline Beecham, Allergy Therapeutics is headquartered in Worthing, UK with more than 11,000m^2 of state-of-the-art MHRA-approved manufacturing facilities and laboratories. The Group, which has achieved 10% compound annual growth since formation, employs c.500 employees and is listed on the London Stock Exchange (AIM:AGY). For more information, please see www.allergytherapeutics.com.

CHAIRMAN'S STATEMENT

Overview

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

Commercial & clinical performance

This year's performance demonstrates the resilience of our business in relatively weak market conditions. We have continued to gain market share from competitors while growing revenues by 3.5%[1] in constant currency[2] and increasing pre-R&D operating profit[4] by 26%. We continue to build suitable infrastructure for our future plans with organisational development and an increasingly US-focused team.

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

Fundraising

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

Governance

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

Looking ahead

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

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

Peter Jensen
Chairman
25 September 2018

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

We are reporting a year of strong progress made against our strategic objectives of expanding in Europe, preparing for entry into the US market, and making clinical progress with the Group's lead assets. Despite a low pollen season, we have maintained sales growth across our European business and continued to capture additional market share. Our clinical pipeline has strengthened with a positive data readout from our Grass Phase II trial and we continue to progress our early stage assets. As a result of these two developments – growing the commercial business in Europe and advancing our pipeline of assets – we continue to make good progress towards entering the attractive and commercially significant US market. In a market with a 16% compliance rate, our convenient and ultra-short course products have the potential to make a material impact for US patients.

European business

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

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

Clinical trial success

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

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

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

Pipeline progress

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

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

Progress towards US market entry

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

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

Funding

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

Outlook

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

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

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

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

Manuel Llobet
CEO
25 September 2018

Financial Review

The following section should be read in conjunction with the financial statements and related notes below.

Overview

The results for the 12 months to 30 June 2018 demonstrate continuing growing profitability of the core business before R&D expense, with an operating profit** excluding R&D of £9.3 million (2017: £7.4 million). Including R&D expense of £16.0 million (2017: £9.3 million), the Group reported an operating loss of £6.7 million (2017: loss £1.9 million). The operating loss includes a non-cash credit of £0.3 million (2017: credit of £0.8 million) in relation to the fair valuation of forward exchange contracts. R&D expenditure in the year was higher due to the Birch Phase III and the Grass Phase II trials. The net loss after tax for the period was £7.5 million (2017: loss of £2.5 million).

Revenue

Revenue increased by 6.6% to £68.3 million (2017: £64.1 million). The weighted average euro exchange rate in the year was €1.13 to £1 compared to €1.16 in the previous year; the positive impact of the stronger euro on revenue was £2.1 million. Despite a weak pollen season, revenue at constant currency* was 3.5% higher at £66.4 million (2017: £64.1 million) as shown in the table below:

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

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

** 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.*

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

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

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

Gross Profit

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

**Operating profit (pre R&D) is calculated by adding back R&D expenditure for the year to the operating loss of the year to arrive at an operating profit (pre R&D) of £9.3m (2017: £7.4m)

Operating Expenses

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

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

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

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

Tax

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

Balance Sheet

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

Total current assets, excluding cash, remained roughly flat at £15.4 million (2017: £15.3 million). Inventory increased by £1.3 million due to early production of commercial stock. Trade debtors have decreased (mainly in UK and Italy) reflecting the Group's management of debtors despite increased sales. Cash and cash at hand decreased to £15.5 million from £22.1 million in 2017.

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

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

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

Currency

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

Financing

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

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

Legal

On 23 February 2015, the Company received notification that The Federal Office for Economics and Export ("BAFA") had made a decision to reverse their preliminary exemption to the increased manufacturers rebate in Germany for the period July to December 2012. The Company was granted a preliminary exemption to the increased rebate for this period by BAFA in 2013. The Company recognised revenue of €1.4 million (£1.1

million at that time) against this exemption in the year ended 30 June 2013. All other preliminary exemptions (granted for periods up to 30 June 2012) have previously been ratified as final by BAFA. After taking legal advice, the Company has lodged an appeal against this decision and is confident that the exemption will be re-instated. Therefore, as at 30 June 2018, no provision has been recognised for the repayment of the rebate refund of €1.4 million (£1.2 million). This position will be kept under review.

The Group is in legal proceedings with one of its suppliers over potential cost overruns on one of its clinical trials which may lead to additional expense for the Group (see note 12, contingent liabilities).

Nick Wykeman
CFO
25 September 2018

Consolidated Income Statement

for the year ended 30 June 2018

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2018

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

Consolidated Balance Sheet

	Note	30 June 2018 £'000	30 June 2017 £'000
Assets			
Non-current assets			
Property, plant and equipment		10,096	9,673
Intangible assets – goodwill		3,406	3,390
Intangible assets – other		1,543	2,069
Investments – retirement benefit asset		5,043	4,592
Total non-current assets		20,088	19,724
Current assets			
Inventories	9	8,808	7,484
Trade and other receivables		6,587	7,853
Cash and cash equivalents		15,533	22,122
Total current assets		30,928	37,459
Total assets		51,016	57,183
Liabilities			
Current liabilities			
Trade and other payables		(13,890)	(13,225)
Current borrowings	10	(644)	(391)
Derivative financial instruments		(97)	(404)
Total current liabilities		(14,631)	(14,020)
Net current assets		16,297	23,439
Non-current liabilities			
Retirement benefit obligations		(10,346)	(9,619)
Deferred taxation liability		(309)	(352)
Non-current provisions		(282)	(291)
Long term borrowings	10	(2,414)	(2,936)
Total non-current liabilities		(13,351)	(13,198)
Total liabilities		(27,982)	(27,218)
Net assets		23,034	29,965
Equity			
Capital and reserves			
Issued share capital	11	606	604
Share premium		102,420	102,420
Merger reserve – shares issued by subsidiary		40,128	40,128
Reserve – share based payments		1,656	900
Revaluation reserve		949	1,254
Foreign exchange reserve		(975)	(907)
Retained earnings		(121,750)	(114,434)
Total equity		23,034	29,965

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

Manuel Llobet
Chief Executive Officer

Nicolas Wykeman
Chief Financial Officer

Registered number: 05141592

Consolidated Statement of Changes in Equity

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

Consolidated Cash Flow Statement

	Note	Year to 30 June 2018 £'000	Year to 30 June 2017 £'000
Cash flows from operating activities			
Loss before tax		(6,896)	(1,970)
Adjustments for:			
Finance income	7	(154)	(151)
Finance expense	6	320	225
Non cash movements on defined benefit pension plan		381	322
Depreciation and amortisation		2,020	1,936
Impairment of intangible assets		224	69
Loss on disposal of fixed assets		5	42
Net monetary value of above the line R&D tax credit	5	(630)	(699)
Charge for share based payments		985	703
Movement in fair valuation of derivative financial instruments		(307)	(776)
Foreign exchange revaluation on US dollar cash deposits		(10)	(361)
Decrease in trade and other receivables		3,303	1,004
(Increase)/decrease in inventories		(1,330)	334
(Decrease)/increase in trade and other payables		(1,762)	823
Net cash (used)/generated by operations		(3,851)	1,501
Bank loan fees and interest paid		(318)	(222)
Income tax		367	(1,101)
Net cash (used)/generated by operating activities		(3,802)	178
Cash flows from investing activities			
Interest received		48	41
Payments for retirement benefit investments		(367)	(258)
Payments for intangible assets		(179)	(226)
Payments for property plant and equipment		(2,005)	(1,500)
Net cash used in investing activities		(2,503)	(1,943)
Cash flows from financing activities			
Share options exercised		2	33
Repayment of borrowings		(398)	(297)
Proceeds from borrowings		102	76
Net cash used by financing activities		(294)	(188)
Net decrease in cash and cash equivalents		(6,599)	(1,953)
Effects of exchange rates on cash and cash equivalents		10	669
Cash and cash equivalents at the start of the period		22,122	23,406
Cash and cash equivalents at the end of the period		15,533	22,122
Cash at bank and in hand		15,533	22,122
Bank overdraft		–	–
Cash and cash equivalents at the end of the period		15,533	22,122

Notes to the Financial Statements

1. Basis of preparation

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

Whist the financial information included in this announcement has been prepared in accordance with EU adopted IFRS, this announcement itself does not contain sufficient information to comply with EU adopted IFRS. Statutory accounts for the year ended 30 June 2017 have been delivered to the Registrar of Companies and those for the year to 30 June 2018 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts. Their reports were unqualified and did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (2) Companies Act 2006 or equivalent preceding legislation.

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 International Financial Reporting Standards (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 and its shares are listed on the Alternative Investment Market (AIM).

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

New standards adopted

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

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

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

IFRS 9 Financial Instruments (effective 1 January 2018)

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

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

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

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

The standard provides a principles-based approach to the recognition of revenue, following a 5 step procedure.

The Group has reviewed its contracts with customers under the 5 step method using a portfolio approach, treating all sales as having substantially the same terms and conditions attached. Sales in specific territories that have differentiating factors have been considered as exceptions.

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

The Group does not currently maintain a warranty returns provision as the historical experience shows that returns are insignificant. The Group does not provide extended warranties that are considered to represent a separate performance

obligation with respect to the sale of goods and therefore do not recognise warranty revenues separately. The Group will continue to monitor warranty returns and will create a returns provision if necessary in future periods.

In respect of royalty income (less than £0.5m pa), earnings derived from distributors' further sales on to customers, the Group believes that the amounts that would be reported under IFRS 15 are materially consistent with the current treatment under IAS18.The Group sells to distributors at an initially low margin and there is further consideration receivable by the Group when the distributor sells the products.. This is variable deferred consideration and is considered as part of the initial assessment of the transaction price for goods supplied, forming part of the fair valuation of consideration receivable. In these instances, the variable deferred consideration is accrued at a discounted value at the point of delivery.

The Group has concluded that the new standard will not have a material impact on the amount or timing of recognition of reported revenue for periods up to 30 June 2018. The amounts that would be reported under IFRS 15 are materially consistent with IAS18.

IFRS 16 Leases (effective 1 January 2019)
IFRS 16 removes the current distinction between an operating and finance lease, introducing consistent requirements for all leases similar to the current finance lease accounting. Management are currently assessing the detailed impact on the Group's financial statements.

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

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

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

2. Accounting policies (extract)

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

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

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

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

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

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

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

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c)

acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

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

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

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

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

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

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

Computer software	7 years
Other intangibles	15 years

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- the intention to complete the intangible asset and use or sell it
- the ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- 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, research and development 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) who 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.

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

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

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

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

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

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

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

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

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

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

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

Rebates had been in the region of 6% (inclusive of VAT) but in 2010 the German government increased the rate to 16%.

In certain circumstances, companies could apply for an exemption from the rebate increase, for limited periods at a time. If the application for the exemption is successful, a preliminary exemption is normally granted to be converted to a final exemption at a later date when audited financial statements are available.

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

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

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

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

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

Research & Development Investment Credits
Investment credits are directly related to the Group's qualifying research and development 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.

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 research and development costs. Costs expensed in the year amounted to £16.0 million (2017: £9.3 million).
b) Where the Group sells to distributors at an initially low margin and there is further consideration receivable by the Group, this deferred consideration forms part of the fair valuation of consideration receivable by the Group for goods supplied. In these instances, the deferred consideration is accrued at a discounted value at the point of delivery.

   The Directors considered the following points in applying this accounting treatment:

   Although a significant portion of the sales price is received upon a further sale to an end customer, substantially all the risks and rewards of ownership are passed to the distributor when the goods are shipped, and the distributor is acting as principal (not merely as agent) when arranging to resell the goods. The Directors have reached this conclusion because;
   i. The Group does not have any continued managerial involvement in the distributor's onward sale of goods;
   ii. The distributor does not have the right to return any goods.

   More information on the reasoning behind the treatment of sales to distributors can be found in the 'Sale of goods' accounting policy description.
c) Land and buildings are carried at valuation and are re-valued with sufficient regularity so that the carrying amount and the fair value are not materially different. The Italian freehold property was revalued in June 2016 by independent valuers. The Italian freehold property was revalued to fair value at that reporting date based on this valuation. The freehold property in Spain was revalued in June 2015. The Directors do not consider an impairment provision to be required in respect of the freehold property in Spain.
d) The Group had been awarded a provisional exemption to the increased statutory rebate charge in Germany for the period July to December 2012 by BAFA. Revenue of £1.1 million (equivalent of €1.4 million) was recognised in the year ended 30 June 2013 in relation to this exemption and the refund from the German authorities was subsequently collected. In February 2015, the provisional exemption was withdrawn by BAFA. The Group has lodged an appeal

and, following legal advice, believe that the exemption will be re-instated. While the Group is confident that the exemption will be confirmed, there is a possibility that this will not happen. If the exemption is not confirmed, then the Group will ultimately have to repay €1.4 million (£1.2 million) with a corresponding impact on net income and net assets.

e) In respect of net revenue of £1.8m relating to a certain product, an assessment has been made on the likelihood of a retrospective change in the level of rebates being applied. Details of this have been noted in Note 12, contingent liabilities.

f) The Group is in litigation with one of its third party contractors (see note 12, contingent liabilities). The Directors are required to assess the outcome of the litigation and to ensure that the appropriate accounting treatment is applied in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The process of assessing the likelihood of the outcome of the litigation involves significant judgement and estimation, and depending on this assessment the accounting treatment could range from the recognition of a provision, the disclosure of a contingent liability or contingent asset, or none of the preceding. In making this assessment the Directors have taken appropriate legal advice and having considered the opinion of the solicitors acting on the Group's behalf and the known facts and circumstances relevant to the litigation proceedings, the Directors are of the opinion that the likelihood of any liability arising is less than probable, but not remote. Accordingly no provision has been recorded in the financial statements but a contingent liability has been disclosed in relation to this matter. In the judgement of the directors the relevant legal case is not yet sufficiently progressed to lead to the recognition of a contingent asset.

Sources of estimation uncertainty

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

3. Revenue

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

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

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

4. Segmental reporting

The Group's operating segments are reported based on the financial information provided to the Executive Directors, who are defined as the Chief Operating Decision-Maker (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 2018 £'000	Inter Segment Revenue 2018 £'000	Total Segment Revenue 2018 £'000	Revenue from External Customers 2017 £'000	Inter Segment Revenue 2017 £'000	Total Segment Revenue 2017 £'000
Central Europe						
Germany	42,020		42,020	38,200		38,200
Other	9,672		9,672	9,386		9,386
	51,692		51,692	47,586		47,586
Southern Europe						
Italy	5,138		5,138	5,535		5,535
Spain	6,551		6,551	6,075		6,075
Other	644		644	498		498
	12,333		12,333	12,108		12,108
UK	1,832	29,164	30,996	1,868	25,787	27,655
Rest of World	2,489		2,489	2,576		2,576
	68,346	29,164	97,510	64,138	25,787	89,925

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

Rest of World revenues include sales through distributors and agents in several markets including Czech and Slovak Republics, 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 arms-length basis which is eliminated on consolidation.

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

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

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

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

Depreciation and amortisation by segment

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

	2,020	1,936

EBITDA by segment

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

Total assets by segment

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

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

Total liabilities by segment

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

5. Other income

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

6. Finance expense

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

7. Finance income

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

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

8. Loss per share

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

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

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

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

9. Inventories

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

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

10. Borrowings

	2018 £'000	2017 £'000

Due within one year		
Bank Loans	644	391
	644	391

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

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

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

		Capital Repayments Due		
	Interest rate	<1 Year £'000	1-5 Years £'000	>5 Years £'000
Bank Inter	3 month Euribor + 0.55%	125	224	–
Bank Inter	1 month Euribor + 5.0%	34	134	167
Santander	12 month Euribor + 2.5%	126	252	–
Tecnoalcala	Interest Free	26	103	–
Santander	Fixed rate of 2.5%	333	1,353	–
CDTI	Interest Free	–	114	67
		644	2,180	234

No new loans were taken out during the year.

11. Issued share capital

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

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

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

12. Contingent liabilities

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

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

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

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, now £1.2m) against this exemption in the year ended 30 June 2013. All other preliminary exemptions (granted for periods up to 30 June 2012) have previously been ratified as final by BAFA. After taking legal advice, the Company has lodged an appeal against this decision and is confident that the exemption will be re-instated. Therefore, as at 30 June 2018, no provision has been recognised for the repayment of the rebate refund. This position will be kept under review.

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

13. Ultimate control

There is no overall ultimate controlling party.

14. Events after the balance sheet date

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