Allergy Therapeutics plc

("Allergy Therapeutics" or the "Group")

Preliminary Results

25 September 2019 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 2019.

Highlights

Financial Highlights

- 8% revenue growth (both reported and constant rate[1]) to £73.7m (2018: £68.3m)
- 22% increase in pre-R&D operating profit to £11.3m (2018: £9.3m) as a result of sales growth and lower overhead cost growth
- Strong cash balance of £27.4m at 30 June 2019 (2018: £15.5m)
- Net profit of £3.5m for the year including Inflamax settlement of £6m (2018: Net loss of £7.5m)

Operating Highlights

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

Manuel Llobet, Chief Executive Officer of Allergy Therapeutics, commented: Allergy Therapeutics has traded well in 2019 with good sales growth, cost control and the favourable settlement of legal action delivering profitability for the year. Clinically, the unexpected failure of the Birch trial has been a disappointment, but we have learned from this outcome and will apply the lessons to our future clinical field-trials including the Grass MATA MPL Phase III trial. We are looking forward to the first in human peanut trial in the summer of next year. With our strong cash position, successful core products and exciting R&D pipeline, we look forward to the future with confidence."

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

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

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

Analyst briefing and webcast today

Manuel Llobet, Chief Executive Officer, and Nick Wykeman, Chief Financial Officer, will host a meeting and webcast for analysts to provide an update on the Group, followed by a Q&A session, at 09.30am BST today at the offices of Panmure Gordon & Co, One New Change, London, EC4M 9AF.

Dial-in details are:

Webcast link: https://edge.media-server.com/mmc/p/rwpq8gxe

UK dial-in: +44 (0) 2071 928000
US dial-in: +16315107495
Conference ID: 4269897

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Notes for editors:

About Allergy Therapeutics

Allergy Therapeutics is an international commercial biotechnology company focussed on the treatment and diagnosis of allergic disorders, including aluminium free 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 ten 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 11,000m2 of state-of-the-art MHRA-approved manufacturing facilities and laboratories. The Group, which has achieved double digit 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

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

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

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

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

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

Looking Ahead
The Board and management continue to focus on growing our current business through the delivery of patient-focused, short-course injectable treatments while developing a pipeline of next-generation allergy immunology products. Initial sales for the year look strong and we have much to look forward to in the mid-term with opportunities for the Grass MATA MPL product in the US and the development of the VLP platform.

The Group recognises that there will be increasing regulatory requirements in the allergy sector presenting both challenges and opportunities in the short and mid-term.

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

CEO Report
This year's performance has shown yet again that Allergy Therapeutics' focus on scientifically advanced products that are convenient for patients is the right approach for our business. Net sales grew by 8% to £73.7m (2018 £68.3m) in constant and actual terms, in a market where grass pollen incidence dipped due to the very high temperatures at the end of last summer. The Group continued to gain market share within its core markets in Europe and data for the key markets, in which we operate, for the 12 months to June 2019 showed a market share increase of 0.5 points to 14.1% from 13.6%. Our operating profit before R&D grew 22%, as a result of leveraging our sales growth which is a measure used by management to assess the trading performance. The strong operating performance and the settlement of the legal case with Inflamax led to a net profit of £3.5m. We ended the year with a strong cash balance of £27.4m.

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

Clinical trials
This year was affected by the results of the Birch MATA MPL Phase III trial. The results were unexpected given the two successful Phase II Birch trials and success of this product on a named-patient basis. Extensive work has been undertaken to understand the reasons for the results, including engaging with external experts and our analysis is still underway. We will ensure that the learnings are applied to the fully funded Grass MATA MPL Phase III trial due to start, subject to final design, in autumn 2020. If this clinical trial is successful, the only further trial that will be required before submission of the Biological Licence Application (BLA) is the completion of the safety database, opening up a potential US market of approximately USD2bn.

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

Litigation
As reported in June 2019, the Group has accepted a financial settlement of USD7.6m (£6.0m) plus costs from Inflamax following successful litigation in relation to the Grass Phase II trial undertaken in the US in 2015 and 2016. This credit is disclosed in the R&D expenses. The Group had commenced proceedings in the English High Court for breach of contract and misrepresentation. In July 2019, the Group received a further $4.1m of legal cost reimbursement that will be reported in the 2020 financial year as no agreement in respect of legal costs was reached at the balance sheet date. The result has drawn a line under the trial and achieved compensation for the costs incurred.

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

The VLP-based Peanut product continues to progress well at this early stage. We had successful meetings with the Paul Ehrlich Institute (PEI) and Swissmedic, the Swiss regulatory authority, to discuss an outline protocol for the first in-human trial that is due to take place in the summer of next year. The project has been fully endorsed by both regulatory authorities. The industrial scale–up of the product is progressing well with completion of manufacture of the Investigational Medicinal Product (IMP) batches and stability testing about to begin. There is a potential global market of USD8bn for a product treating this current unmet need.

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

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

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

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

Financial Review

Overview
The core business has continued to grow profitably with results for the 12 months to 30 June 2019 achieving an operating profit excluding R&D[2] of £11.3 m (2018: £9.3 m). Including R&D expense of £7.0 m (2018: £16.0 m), the Group reported an operating profit of £4.4 m (2018: loss £6.7 m). The operating profit includes a one-off settlement of USD7.6m (£6.0m) relating to the Inflamax litigation. The net profit after tax for the period was £3.5 m (2018: loss of £7.5 m).

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

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

	2019 Germany £m	2019 Other £m	2019 Total £m	2018 Germany £m	2018 Other £m	2018 Total £m
Revenue	**45.0**	**28.7**	**73.7**	**42.0**	**26.3**	**68.3**

Adjustment to retranslate at prior year foreign exchange rate	**0.2**	**0.1**	**0.3**			
Revenue at constant currency[1]	**45.2**	**28.8**	**74.0**	**42.0**	**26.3**	**68.3**

[1]Constant currency uses prior year weighted average exchange rates to translate current year foreign currency denominated revenue to give a year-on-year comparison excluding the effects of foreign exchange movements.
[2]Operating profit (pre-R&D) is calculated by adding back R&D expenditure for the year to the operating profit of the year to arrive at an operating profit (pre-R&D) of £11.3m (2018: £9.3m).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing
The Group's debt on its balance sheet relates to activities in Spain and consists of the loans acquired as a result of the Alerpharma acquisition (£0.9 m) and further loans (£1.5 m) arranged to fund development of products in the Spanish market. The overdraft facility was unused at 30 June 2019 but has since been renewed for a further 12 months to cover seasonal funding requirements.

In July 2018, the Group completed a successful placing and subscription of 40m shares, raising £10.6m gross (£10.2m net of expenses).

The Directors believe that the Group will have adequate facilities for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the full year results. For further details, see Note 1, Going concern.

Legal
On 23 February 2015, the Company received notification that the Federal Office for Economics and Export ('BAFA') had made a decision to reverse their preliminary exemption to the increased manufacturers rebate in Germany for the period July to December 2012. The Company was granted a preliminary exemption to the increased rebate for this period by BAFA in 2013. The Company recognised revenue of €1.4 m (£1.1 m at that time) against this exemption in the year ended 30 June 2013. All other preliminary exemptions (granted for periods up to 30 June 2012) have previously been ratified as final by BAFA. After taking legal advice, the Company has lodged an appeal against this decision and is confident that the exemption will be reinstated. Therefore, as at 30 June 2019, no provision has been recognised for the repayment of the rebate refund of €1.4 m (£1.2 m). This position will be kept under review.

Consolidated Income Statement for the year ended 30 June 2019

	Note	**Year to 30 June 2019 £'000**	**Year to 30 June 2019 £'000**	Year to 30 June 2018 £'000	Year to 30 June 2018 £'000
Revenue	3		**73,717**		68,346
Cost of sales			**(18,379)**		(17,013)
Gross profit			**55,338**		51,333
Sales, marketing and distribution costs			**(26,995)**		(27,133)
Administration expenses – other		**(17,595)**		(15,543)	
Research and development costs – expenditure for the year		**(12,987)**		(16,017)	
– credit relating to legal settlement		**6,037**		-	
– total research and development costs		**(6,950)**		16,017	
Total administration expenses			**(24,545)**		(31,560)
Other income	5		**593**		630
Operating profit/(loss)			**4,391**		(6,730)
Finance income	7		**103**		154
Finance expense	6		**(201)**		(320)

Profit/(loss) before tax		**4,293**	(6,896)
Income tax		**(826)**	(637)
Profit/(loss) for the period		**3,467**	(7,533)
Profit/(loss) per share	8		
Basic (pence per share)		**0.55p**	(1.27)p
Diluted (pence per share)		**0.52p**	(1.27)p

Consolidated Statement of Comprehensive Income for the year ended 30 June 2019

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

Consolidated Balance Sheet

	Note	**30 June 2019 £'000**	30 June 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment		**11,481**	10,096
Intangible assets – goodwill		**3,432**	3,406
Intangible assets – other		**1,408**	1,543
Investments – retirement benefit asset		**5,551**	5,043
Total non-current assets		**21,872**	20,088
Current assets			
Inventories	9	**9,409**	8,808
Trade and other receivables		**9,776**	6,587
Cash and cash equivalents		**27,440**	15,533
Total current assets		**46,625**	30,928
Total assets		**68,497**	51,016
Liabilities			
Current liabilities			
Trade and other payables		**(15,736)**	(13,890)
Current borrowings	10	**(694)**	(644)
Derivative financial instruments		**(429)**	(97)
Total current liabilities		**(16,859)**	(14,631)
Net current assets		**29,766**	16,297
Non-current liabilities			
Retirement benefit obligations		**(11,747)**	(10,346)
Deferred taxation liability		**(318)**	(309)
Non-current provisions		**(273)**	(282)

Long-term borrowings	10	**(1,742)**	(2,414)
Total non-current liabilities		**(14,080)**	(13,351)
Total liabilities		**(30,939)**	(27,982)
Net assets		**37,558**	23,034
Equity			
Capital and reserves			
Issued share capital	11	**646**	606
Share premium		**112,576**	102,420
Merger reserve – shares issued by subsidiary		**40,128**	40,128
Reserve – share-based payments		**3,023**	1,656
Revaluation reserve		**1,207**	949
Foreign exchange reserve		**(845)**	(975)
Retained earnings		**(119,177)**	(121,750)
Total equity		**37,558**	23,034

Consolidated Statement of Changes in Equity

	Issued capital £'000	Share premium £'000	Merger reserve– shares issued by subsidiary £'000	Reserve – share-based payment £'000	Revaluation reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2017	604	102,420	40,128	900	1,254	(907)	(114,434)	29,965
Exchange differences on translation of foreign operations	–	–	–	–	–	(68)	–	(68)
Remeasurement of net defined benefit liability	–	–	–	–	–	–	(278)	(278)
Remeasurement of investments – retirement benefit assets	–	–	–	–	–	–	(39)	(39)
Total other comprehensive income	–	–	–	–	–	(68)	(317)	(385)
Loss for the period after tax	–	–	–	–	–	–	(7,533)	(7,533)
Total comprehensive income	–	–	–	–	–	(68)	(7,850)	(7,918)
Transfer of depreciation on revalued property	–	–	–	–	(305)	–	305	–
Transactions with owners:								
Share-based payments	–	–	–	985	–	–	–	985
Shares issued	2	–	–	–	–	–	–	2
Transfer of lapsed options to retained earnings	–	–	–	(229)	–	–	229	–
At 30 June 2018	606	102,420	40,128	1,656	949	(975)	(121,750)	23,034
Exchange differences on translation of foreign operations	–	–	–	–	–	130	–	130
Valuation gains taken to equity (Land and buildings)	-	-	_	_	312	_	-	312
Remeasurement of net defined benefit liability	–	–	–	–	–	–	(906)	(906)
Remeasurement of investments – retirement benefit assets	–	–	–	–	–	–	(42)	(42)
Total other comprehensive loss	–	–	–	–	312	130	(948)	(506)
Profit for the period after tax	–	–	–	–	–	–	3,467	3,467
Total comprehensive income	–	–	–	–	312	130	2,519	2,961
Transfer of depreciation on revalued property	–	–	–	–	(54)	–	54	–
Transactions with owners:								
Share-based payments	–	–	–	1,367	–	–	–	1,367

Shares issued	40	10,560	–	–	–	–	–	10,600
Share issue costs	_	(404)	_	_	_	_	_	(404)
At 30 June 2019	646	112,576	40,128	3,023	1,207	(845)	(119,177)	37,558

Consolidated Cash Flow Statement

	Note	**Year to 30 June 2019 £'000**	Year to 30 June 2018 £'000
Cash flows from operating activities			
Profit/(loss) before tax		**4,293**	(6,896)
Adjustments for:			
Finance income	7	**(103)**	(154)
Finance expense	6	**201**	320
Non-cash movements on defined benefit pension plan		**273**	381
Depreciation and amortisation		**2,090**	2,020
Impairment of intangible assets		-	224
Loss on disposal of fixed assets		-	5
Net monetary value of above the line R&D tax credit		**(593)**	(630)
Charge for share-based payments		**1,367**	985
Movement in fair valuation of derivative financial instruments		**332**	(307)
Foreign exchange revaluation on US Dollar cash deposits		**(36)**	(10)
(Increase)/decrease in trade and other receivables		**(1,864)**	3,303
(Increase) in inventories		**(543)**	(1,330)
Increase/(decrease) in trade and other payables		**162**	(1,762)
Net cash generated/(used) by operations		**5,579**	(3,851)
Bank loan fees and interest paid		**(204)**	(318)
Income tax		**225**	367
Net cash generated/(used) by operating activities		**5,600**	(3,802)
Cash flows from investing activities			
Interest received		**151**	48
Payments for retirement benefit investments		**(405)**	(367)

Payments for intangible assets	**(289)**	(179)
Payments for property, plant and equipment	**(2,810)**	(2,005)
Net cash used in investing activities	**(3,353)**	(2,503)
Cash flows from financing activities		
Proceeds from issue of equity shares	**10,600**	-
Share issue costs	**(404)**	-
Share options exercised	**-**	2
Repayment of borrowings	**(651)**	(398)
Proceeds from borrowings	-	102
Net cash generated by/(used in) financing activities	**9,545**	(294)
Net increase/(decrease) in cash and cash equivalents	**11,792**	(6,599)
Effects of exchange rates on cash and cash equivalents	**115**	10
Cash and cash equivalents at the start of the period	**15,533**	22,122
Cash and cash equivalents at the end of the period	**27,440**	15,533
Cash at bank and in hand	**27,440**	15,533
Bank overdraft	**–**	–
Cash and cash equivalents at the end of the period	**27,440**	15,533

Notes to the Financial Statements

1. Basis of preparation

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 2018 have been delivered to the Registrar of Companies and those for the year to 30 June 2019 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 IFRS in issue as adopted by the European Union ('EU') and with those parts of the Companies Act 2006 that are relevant to the Group preparing its accounts in accordance with EU adopted IFRS.

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

The consolidated financial statements for the year ended 30 June 2019 (including comparatives) have been prepared under the historical cost convention except for land and buildings, and derivative financial instruments which have been measured at fair value. They were approved and authorised for issue by the Board of Directors on 24 September 2019.

New standards adopted

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

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

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

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

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

The Company chose to implement the new standard through the recognition of the cumulative effect of the retrospective application of the new

standard as at the beginning of the period of initial application on 1 July 2018, with no restatement of comparative periods.

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

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

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

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

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

The Group has concluded that the new standard has not had any impact on the amount or timing of recognition of reported revenue for periods up to 30 June 2018 and 30 June 2019.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group in the 30 June 2019 financial statements

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

IFRS 16 'Leases' (effective 1 January 2019)

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

The Group will implement IFRS 16 with effect from 1 July 2019, using the modified retrospective approach. Each lease is being evaluated and the finance lease creditor will be calculated as the discounted value of the remaining rentals payable under the lease contract (including any extensions that are considered probable). Right of use assets will be recognised equal to the finance lease creditor. It is expected that a liability of approximately £8m will be recognised on 1 July 2019 with an equal right of use asset recognised at the same time. There will be no restatement of prior year balances.

If IFRS 16 had been in force during the year ended 30 June 2019, the profit before tax for the year would have remained unchanged. EBITDA would have increased by £1.5m.

Going concern

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

Detailed budgets have been prepared, including cash flow projections for the periods ending 30 June 2020 and 30 June 2021. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing bank facilities. The Group had a cash balance of £27.4m at 30 June 2019 and the overdraft facility was renewed in August 2019. In July 2018, 40,000,000 Ordinary Shares of 0.1 pence each were issued pursuant to a placing and subscription at a price of 26.5 pence per share raising £10.6m (before expenses). After making appropriate enquiries, which included a review of the annual budget and latest forecast, by considering the cash flow requirements for the foreseeable future and the effects of sales and other sensitivities on the Group's funding plans, the Directors continue to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly have applied the going concern principle in preparing these financial statements.

2. Accounting policies (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.

The accounting policies and presentation of figures in this preliminary announcement are consistent with those in the full financial statements that will be published shortly.

Consolidation

The Group's financial statements consolidate those of the Parent Company and all of its subsidiaries drawn up to 30 June 2019. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

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

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; 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.

Revenue recognition

IFRS 15 – Accounting Policy:

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

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

Revenue Recognition

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

Sale of goods

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

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

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

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

Arrangements for sales through distributors

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

It is considered that the significant risks and rewards of ownership of the product are transferred to the distributor at the point of delivery and therefore revenue is recognised at this point in accordance with IAS18.

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 IAS18.16.

Statutory rebates

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

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

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

Revenue is recognised initially net of the full rebate, as at that stage it is not considered probable that any refund of the rebate will be received. When the preliminary exemption is granted, it is considered probable, based on our past experience, that the rebate refund will be received. Therefore, as it is probable that the economic benefits will flow to Allergy Therapeutics plc and in accordance with IAS18.14(d) revenue is adjusted at that time.

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

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

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

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

STEP 1 Identifying the contract with the Customer

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

a. The Group and the customer have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

b. The Group can identify each party's rights regarding the services to be transferred;

c. The Group can identify the payment terms for services to be transferred;

d. The contract has commercial substance (i.e. the risk, timing or amount of the Group's future cash flows is expected to change as a result of the contract); and

e. It is probable that the Group will collect the consideration to which it will be entitled in exchange for the services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due.

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

a. A good service (or a bundle of services) 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

STEP 2 identifying the performance obligations

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

The 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.

IFRS 15 OTHER DISCLOSURES

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

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

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

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

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

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

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

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

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

Expenditure recognition

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

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.

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

b) The Group had been awarded a provisional exemption to the increased statutory rebate charge in Germany for the period July to December 2012 by BAFA. Revenue of £1.1 million (equivalent of €1.4 million) was recognised in the year ended 30 June 2013 in relation to this exemption and the refund from the German authorities was subsequently collected.

In February 2015, the provisional exemption was withdrawn by BAFA. The Group has lodged an appeal and, following legal advice, believe that the exemption will be reinstated. While the Group is confident that the exemption will be confirmed, there is a possibility that this will not happen. If the exemption is not confirmed, then the Group will ultimately have to repay €1.4 million (£1.2 million now) with a corresponding impact on net income and net assets.

c) In respect of net revenue of £2.2m (2018: £1.8m) relating to certain products, an assessment has been made on the likelihood of a retrospective change in the level of rebates being applied. Details of this have been noted in Note 12, (Contingent liabilities).

d) In respect of the reimbursement of legal costs relating to the Inflamax claim disclosed in notes 14 and 15, based on the legal opinion from the Group's solicitors, the directors have applied judgement in determining that the claim for the reimbursement of legal costs represented a contingent asset in accordance with IAS 37 as at the balance sheet date and did not represent a financial asset in accordance with IFRS 9, as there was no contractually enforceable right to cash at that point in time. Based on the legal opinion from the Group's solicitors, the directors have also applied judgement in assessing that the likelihood of the legal costs being reimbursed was more than probable but not virtually certain as at 30 June 2019, and have accordingly disclosed the matter as a contingent asset in accordance with IAS 37. Had the directors taken the view that the legal cost reimbursement was virtually certain as at 30 June 2019 an asset would have been recognised.

Sources of estimation uncertainty

a) Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which the goodwill has been allocated. This value-in-use calculation requires an estimation of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. In relation to the goodwill in respect of the German CGU, there is no likely scenario in which this goodwill would be impaired. Discount rates would have to rise beyond 5000% or annual cash inflows would have to reduce by more than £20m pa before the goodwill would be impaired.

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

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

3. Revenue

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

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

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

4. Segmental reporting

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

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

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

Revenue by segment

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

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

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

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

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

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

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

Depreciation and amortisation by segment

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

EBITDA by segment

	2019	2018
	£'000	£'000
Allocated EBITDA		
Central Europe	283	(867)
Southern Europe	(448)	(381)

Rest of World (including UK)	6,646	(3,462)
Allocated EBITDA	6,481	(4,710)
Depreciation and amortisation	(2,090)	(2,020)
Operating profit/(loss)	4,391	(6,730)
Finance income	103	154
Finance expense	(201)	(320)
Profit/(loss) before tax	4,293	(6,896)

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

Total assets by segment

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

Included within Central Europe are non-current assets to the value of £2,620,000 (2018: £2,604,000) relating to goodwill and within Southern Europe assets to the value of £2,863,000 (2018: £2,691,000) relating to freehold land and buildings. There were no material additions (excluding foreign exchange differences) to non-current assets in any country except the UK where non-current asset additions totalled £2,439,000 (2018: £1,497,000).

Total liabilities by segment

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

Total liabilities per balance sheet	(30,939)	(27,982)

5. Other income

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

6. Finance expense

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

7. Finance income

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

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

8. Earnings per share

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

	Shares	Shares
	'000	'000
Issued Ordinary Shares at start of the period	596,169	594,118

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

9. Inventories

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

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

10. Borrowings

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

	2019	2018
	£'000	£'000

Due in more than one year		
Bank loans	1,742	2,414
	1,742	2,414

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

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

		Capital repayments due		
	Interest rate	<1 year £'000	1–5 years £'000	>5 years £'000
Bank Inter (1)	3 month Euribor +0.55%	139	97	–
Bank Inter (2)	1 month Euribor +5.0%	36	142	126
Santander (1)	12 month Euribor +2.5%	135	115	–
Tecnoalcala	Interest free	26	78	–
Santander (2)	Fixed rate of 2.5%	358	1,000	–
CDTI	Interest free	–	154	30
		694	1,586	156

No new loans were taken out during the year.

11. Issued share capital

	2019 Shares	**2019 £'000**	2018 Shares	2018 £'000
Authorised share capital				
Ordinary Shares of 0.10 pence each				
1 July and 30 June	**790,151,667**	**790**	790,151,667	790
Deferred Shares of 0.10 pence each				
1 July and 30 June	**9,848,333**	**10**	9,848,333	10
Issued and fully paid				

Ordinary Shares of 0.10 pence				
At 1 July	**596,168,616**	**596**	594,117,768	594
Issued during the year:				
Share placing	**40,000,000**	**40**	2,050,848	2
At 30 June	**636,168,616**	636	596,168,616	596
Issued and fully paid				
Deferred shares of 0.10 pence				
At 1 July	**9,848,333**	**10**	9,848,333	10
Issued during the year	**–**	**–**	–	–
At 30 June	**9,848,333**	**10**	9,848,333	10
Issued share capital	**646,016,949**	**646**	606,016,949	606

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

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

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

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

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

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

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On 23 February 2015, the Company received notification that the BAFA had made a decision to reverse their preliminary exemption to the increased manufacturers rebate in Germany for the period July to December 2012. The Company was granted a preliminary exemption to the increased rebate for this period by BAFA in 2013. The Company recognised revenue of €1.4m (£1.1m at that time, now £1.3m) 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 2019, no provision has been recognised for the repayment of the rebate refund.
This position will be kept under review.

13. Ultimate control

There is no overall ultimate controlling party.

14. Contingent asset

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

In addition to the claim for damages that was settled, the Group was also pursuing a claim in respect of reimbursement of legal costs incurred in connection with the claim.

At the balance sheet date there was no verbal or contractual agreement to the legal costs claim. This is not included in these financial statements as a financial asset due to the uncertainty at the balance sheet date about reimbursement of these costs.

15. Events after the balance sheet date

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