

Mawla Laboratories Ltd
3357249



WED WEDNESDAY



A9I3RK0A

A16	18/11/2020	#314
COMPANIES HOUSE		
A9FMYP8X		
A18	14/10/2020	#27
COMPANIES HOUSE		

**Providing clinically valuable healthcare
products to people around the world**

Our vision

To be a leading international healthcare business built around products which are clinically valuable to patients.

We will be both the partner and employer of choice.

Our mission

To create partnerships that unlock potential for brands, businesses and people around the world.

Our purpose

Our purpose is to make a difference to people's lives through making a range of clinically valuable healthcare products available to consumers and patients around the world.

We achieve this through working together as one global team, to create partnerships that unlock potential for brands, businesses and people, enabling us to identify and respond to user demand as the markets in which we operate continue to grow.

Responsible business

We are committed to operating our business in an ethical and sustainable way, having regard to the interests of all our stakeholders – our customers, suppliers, business partners and employees.

We recognise that everything we do has an impact on the natural environment and on the people and communities within it and we are committed to looking for ways to reduce our impact in these areas to ensure a better future for all.

Contents

Overview		Governance		Financial Statements		Additional Information	
2019 Highlights	01	Chairman's Introduction to Governance	52	Independent Auditor's Report	78	Unaudited Information	132
At a Glance	02	Board of Directors	54	Consolidated Income Statement	84	Five Year Summary	133
Strategic Report		QCA Code Compliance	56	Consolidated Statement of Comprehensive Income	85	Advisors and Key Service Providers	134
Investment Case	06	Nomination Committee Report	62	Consolidated Balance Sheet	86	Cautionary Statement	135
Chief Executive's Q&A	08	Audit and Risk Committee Report	63	Company Balance Sheet	87	Glossary	136
Our Markets	12	Remuneration Committee Report	65	Consolidated Statement of Changes in Equity	88		
Our Business Model	14	Directors' Report	73	Company Statement of Changes in Equity	89		
Stakeholder Engagement	16			Consolidated and Company Cash Flow Statements	90		
Our Strategy	20			Notes to the Financial Statements	91		
Strategy in Action	22						
Chief Executive's Review	30						
Responsible Business	34						
Financial Review	38						
Risk Management and Internal Controls	42						
Our Principal Risks and Uncertainties	44						

For more information visit
alliancepharmaceuticals.com

2019 Financial Highlights

See-through Revenue*

£144.3m +16%



Statutory Revenue

£135.6m +15%



Underlying Profit Before Tax

£32.9m +17%



Reported Profit Before Tax

£31.1m +36%



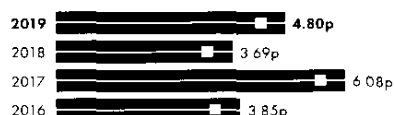
Underlying Basic EPS**

5.09p +12%



Reported Basic EPS

4.80p +31%



* Non-IFRS alternative performance measures (see note 33). See-through revenue includes sales from Nizoral as if they had been invoiced by Alliance. For statutory accounting purposes the product margin on Nizoral sales is included within Revenue, in line with IFRS 15.

** The 2017 measure refers to the Underlying Adjusted Basic EPS as disclosed in the 2017 Annual Report which was adjusted to normalise the impact of significant changes in overseas tax rates.

Overview

- See-through revenues up 16% at £144.3m (2018: £124m), on both a reported and constant currency basis, in line with expectations.
 - Continued strong performance from International Star and other consumer brands, led by Kelo-cote™.
 - International sales saw another year of strong growth.
 - Includes full year's revenues from Nizoral™ (under Johnson & Johnson management).
 - Excluding acquisitions, year on year revenue increased 10% in 2019 (up 8% on a constant currency basis).
- Statutory revenues up 15%, to £135.6m (2018: £118.2m).
- Underlying EBITDA* up 22% to £39.4m (2018: £32.4m).
- Underlying profit before tax up 17% to £32.9m (2018: £28.1m), reported profit before tax up 36% to £31.1m (2018: £22.8m).
- Good progress made with the Nizoral transition and the enhancement of our Asia Pacific operations, revenues in line with expectations.
- Continued good growth from our US operation, with year on year revenues up 11%.
- UK and EU licensing rights to Xonved™ returned. Under the terms of the agreement, the Group booked non-underlying inventory provisions and associated restructuring costs of £1.9m in 2019; the total non-underlying loss on disposal being £1.7m. £0.25m of the £2m milestone payments made to date have already been repaid, with the balance to be repaid in 2020.
- Continued strong cash generation, with free cash flow over 80% higher than in the previous year, and leverage falling to 1.48x from 2.33x at the end of 2018.
- The Board has decided not to propose a final dividend for FY2019 to prudently preserve cash in light of the COVID-19 pandemic.

AT A GLANCE

We are an international healthcare group, supplying a range of clinically valuable products to people around the world.

Who we are

Founded in the UK over 20 years ago, we have grown both our geographic reach and our product range and now market over 90 consumer healthcare and pharmaceutical products in over 100 countries worldwide.

What we do

All our products have an established clinical heritage – many can trace their origins back several decades.

Outsourcing all our manufacturing, warehousing and logistics activities enables us to remain asset-light and focus on what we do best – bringing our specialist expertise to the marketing and regulatory management of our products, so as to ensure that they can be made available to the widest range of people who could potentially benefit from them, wherever they may be located.

We continue to look to enhance our product portfolio through making carefully selected acquisitions.

How we do it

We have built a successful business with a strong collaborative culture. We recognise that our relevance and value is in how we work together, both with our colleagues and with our customers, suppliers and all other external stakeholders. Our entrepreneurial spirit and our core values of performance, realism, accountability, integrity, skill and entrepreneurship remain at the heart of how we engage with each other and conduct our business.

 See more in our business model on **page 14**

Our values

Performance

Our high performing people continually drive business success

Realism

We set stretching goals and targets which we believe are achievable

Accountability

We take responsibility and deliver what we promise

Integrity

We build trust in all our relationships through openness and fairness

Skill

We recruit highly skilled people and develop their talents to the full

Entrepreneurship

Our people think of the business as if it was their own

Where we operate

We currently employ over 200 people, located in ten offices around the globe. Our international presence is further enhanced by an extensive network of distributors enabling us to serve customers in more than 100 countries worldwide.

- Country with international office
- Distributor relationships

1

Team

100+

Countries

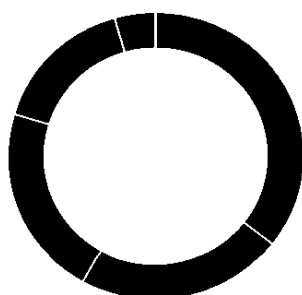
10

Offices

200+

People

2019 see-through revenue by geography



UK & ROI

£51.4m

(36%)

Mainland Europe

£32.5m

(23%)

Asia Pacific incl. China

£31.4m

(22%)

Other International

£22.8m

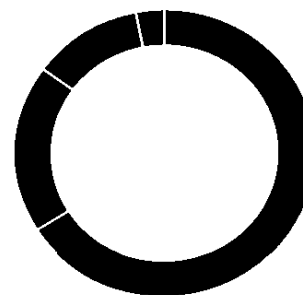
(16%)

US

£6.1m

(4%)

Employees by location



UK & ROI

139

Asia Pacific

25

Mainland Europe

40

US

6

Total

210

STRATEGIC REPORT

Investment Case	06
Chief Executive's Q&A	08
Our Markets	12
Our Business Model	14
Stakeholder Engagement	16
Our Strategy	20
Strategy in Action	22
Chief Executive's Review	30
Responsible Business	34
Financial Review	38
Risk Management and Internal Controls	42
Our Principal Risks and Uncertainties	44

INVESTMENT CASE

Our established business partnerships, strong collaborative culture and clearly articulated strategy have enabled us to deliver an impressive track record of growth, creating sustainable value for our shareholders and other stakeholders. We are committed to leveraging these capabilities in an ethical and responsible way as we continue our growth trajectory in pursuance of our purpose.

Six reasons to invest in Alliance Pharma plc

Recognised expertise

We are a highly capable business, with a distinctive 'can do' culture and deep sector expertise in the management of many types of product, from pharmaceuticals to medical devices, food supplements and traditional herbal remedies, across multiple geographies. We also have an established network of experts we can call on to cover any requirements for additional specialist knowledge, as needed.

- ▶ 87 employees in our Scientific Affairs and Operations team
- ▶ 50 employees in our global Commercial teams

Clearly articulated strategy and proven business model

We have a clearly articulated strategy for delivering sustainable business growth which is well understood both within and outside the business. This centres on maximising the potential of our brands, particularly our consumer healthcare brands, to generate organic growth, and then supplementing this with carefully selected acquisitions.

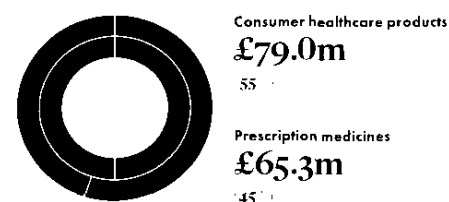
Our business model is well-established and centres around the following key activities:

- ▶ Maintaining our cash-generative heritage pharmaceutical products, whilst investing behind selected brands, primarily our consumer healthcare brands, to drive organic growth
- ▶ Reinvesting the cash generated from our trading activities in growing our existing brands, in paying down debt and funding further acquisitions
- ▶ Selectively identifying, acquiring and integrating new products into our portfolio, to provide additional opportunities for growth

Diversified portfolio creates a platform for sustainable growth

Our diversified portfolio of around 90 brands, spanning both consumer healthcare and pharmaceuticals across multiple therapy areas and geographies helps to reduce risk and we have become adept at managing both the complexity and the opportunities this creates for us.

2019 see-through revenue by product type



2019 see-through revenue by brand



For more information see [page 34](#)

For more on our strategy see [page 20](#)

For more on our business model see [page 14](#)

For more information see [page 30](#)

Strong financial performance

We are a highly profitable and cash generative business, with an established track-record of delivering underlying profit growth and effectively managing our borrowing commitments, enabling us to borrow to fund acquisitions and then rapidly de-lever. Our profitability and cash generation capabilities are reflected in the dividend payments to our shareholders, which have increased by at least 10% p.a. every year for the past nine years (to 2018).

- ▶ Progressive dividend policy
- ▶ Highly profitable and cash generative, which supports deal flow and growth
- ▶ 15 acquisitions in the past ten years

Ethical business commitments

We are committed to operating our business in an ethical and sustainable way, having regard to the interests of all our stakeholders – our customers, suppliers, business partners and employees. We recognise that everything we do has an impact on the natural environment and on the people and communities within it and we are committed to looking for ways to reduce our impact in these areas to ensure a better future for all.

Experienced leadership team

Our leadership team has a collective length of service of more than 45 years, all members having held senior leadership positions since their respective dates of joining the business and having built up a wealth of relevant experience in other businesses prior to this.

Alliance Chief Executive Peter Butterfield answers some key questions on the business's operations and outlook.

The current Alliance business looks very different now to how it did a few years ago – what's changed and what's been the driver behind these changes?

The business has undergone a period of transformation over the past four years – it's evolved to become much more consumer-focused, with over half our revenues now derived from our consumer healthcare brands, and has significantly broadened its geographic reach, with more than 60% of our sales now coming from international markets. From being a predominantly UK-based business, we now have an established trading presence in nine countries around the world.

These changes have been made to move the business closer to our vision of being a leading international healthcare business built around products which are clinically valuable to patients. We've also been proactive in evolving the composition of our Board, so we continue to be equipped to take advantage of opportunities and address new challenges associated with this phase in the Group's development.

Which of the Group's achievements are you most proud of in 2019?

I'm pleased to say that the Group successfully achieved much of what it set out to do in 2019 – we've grown see-through revenues by 16% (and reported revenues by 15%), with some fantastic growth coming through from Kelo-cote, as we've continued to invest behind this key brand. We've made substantial progress with the Nizoral transition and the scaling-up of our Asia Pacific operations and seen good growth continuing to come through from our US business.

The level of free cash flow which we've been able to generate this year, at £29.1m is more than 80% up on that achieved in 2018, with cash generated from operations up almost 50%. This has allowed us to pay down our debt and reduce our leverage to below 1.5x – for the first time since 2013. This, together with the enhanced credit facilities we put in place in 2019, leaves us very well placed to make further acquisitions. What I'm most proud of though is maintaining our high employee engagement as the business continues to grow, both geographically and in scale.

 See more in the Chief Executive's Review on page 30

What's the hardest decision you had to make in 2019?

Returning the UK and EU licensing rights to Xonvea was a particularly difficult decision for us, especially given the internal restructuring that this involved in our sales team. However we are pleased that we managed to reach an agreement with Duchesnay Inc (the licensor) which both ensures the return of the original milestone payments to Alliance and more importantly, enables this landmark product to continue to be made available to patients and clinicians in the UK, pending the appointment of a new licensor. I think this is a testament to the good working relationship we have built up between our respective businesses over the past five years.

Whilst it was by no means an easy decision, we needed to do what was right for the business in the longer term. By returning the rights to Xonvea, we have reduced uncertainty in the business, and allowed investment to be focused on our growing consumer healthcare portfolio and the continued expansion of our international business.

What are the Group's priorities for 2020?

On top of driving organic growth and selective acquisitions, one of our key operational priorities for the Group in 2020 will be on progressing the implementation of our ERP system. This project has taken longer than we originally anticipated, and it will be good to start to see some real business benefits coming out of this investment – particularly given the ability of these systems to support our future growth ambitions.

We will also be focusing on the roll-out of our marketing excellence programme, which aims to ensure that an appropriate level of support is provided for our consumer brands, both on a global and local level.

CHIEF EXECUTIVE'S Q&A CONTINUED

What most excites you about the future?

We've built a great platform, with some leading products and filled it with great people. This bodes well for the future. I'm excited by the potential that still exists to be realised from a number of our larger consumer brands – in particular *Kelo-cote*, and look forward to the transitional arrangements for *Nizoral* starting to fall away during 2020, enabling us to take greater control of the development of this well-established brand.

With our relatively low debt levels and strong cash generation, we are now very well placed to take on the challenge of another acquisition, as and when a suitable opportunity arises.

Your employees are one of your major assets – how do you ensure that you attract, develop and retain the best?

Our employees are one of our most important assets and the great results we have delivered this year bears testament to the combined efforts of our team of colleagues around the globe. We aim to attract and retain the very best healthcare and business professionals, to reward them well and to create great opportunities for their ongoing career development, through engaging in fulfilling and frequently challenging work. Through our annual share option award scheme, all of Alliance's employees get to share in the success of the business, giving them another reason to 'go the extra mile' to deliver great performance.

We are also committed to nurturing early-stage talent, be it recent graduates or apprentices, giving them the opportunity to learn and grow – both in a professional and a personal capacity – in the foundational stage of their careers.

Case study: MacuShield Chewables

One of the most common questions we were asked by MacuShield consumers was whether there was another way the product could be taken. Many of the brand's consumers suffer from dysphagia (inability to swallow), which make swallowing traditional capsules particularly challenging for them.

In response to this, we assembled a cross-functional team to look at developing an alternative presentation. Working collaboratively with our ingredient suppliers and our CMO we developed a chewable tablet which contains the same active ingredients as the traditional capsule.

MacuShield Chewables were launched in the UK in October 2019 making MacuShield among the first eye health brands in Europe to offer alternative formats to the traditional capsule – another example of how we have evolved our product to better meet the needs of our customers.

1.5m

packs of MacuShield sold in 2019

24

Number of countries in which MacuShield is currently sold

12

registrations currently in progress

What is it that's unique about the culture at Alliance?

This is something we've spent time looking at over the past couple of years, and initially it's quite hard to put your finger on. However, I think it comes down to a few key ingredients. First and foremost, we've created an extremely collegiate approach within the business. This is evident when you walk through the door of any of our offices. Secondly, having completed 15 acquisitions over the past ten years, the organisation is well versed in change management and frankly no-one here expects things to stay the same for very long. Finally, there's the innate drive for performance, with employees at all levels in the business benefiting from this through participation in the Group's share option scheme.

What impact is COVID-19 likely to have on the business and what steps are you taking to mitigate this?

As a diversified global business, we have been paying close attention to the COVID-19 pandemic and our position on this remains as announced on 23 March 2020.

We have good control of our cost base and will continue to manage our levels of discretionary spend carefully to help mitigate the potential impact of any reduction in revenue as a result of COVID-19.

We have also decided it would be prudent at this time to preserve cash and therefore have taken the decision not to propose a final dividend for year ended 31 December 2019. We will provide further updates at our Annual General Meeting ('AGM') in May, in our H1 trading update in July and at other times as appropriate.

Notwithstanding the current uncertainty created by COVID-19, our underlying business remains resilient, with strong financials, good liquidity and covenant headroom, and we look forward to continuing our path of growth in the years ahead.

OUR MARKETS

The changing landscape of the global market for consumer healthcare.

Global market overview – trends in consumer healthcare

THE GLOBAL MARKET FOR CONSUMER HEALTHCARE IS BEING DRIVEN BY SEVERAL KEY TRENDS:

Increasing life expectancy

According to the World Health Organisation, global average life expectancy increased by 5.5 years between 2000 and 2016, the fastest increase since the 1960s – a trend which is expected to continue, with global life expectancy expected to increase by a further 4.4 years by 2040 and life expectancies in 59 countries including China projected to exceed 80 years.¹

With increasing longevity and ageing populations comes an increased demand for healthcare – particularly for products which target conditions typically experienced in later life.

Increasing prosperity, self-care and the wellness movement

Levels of prosperity are also rising in many parts of the world, particularly in developing countries, creating a greater number of consumers who can afford to spend money on non-essential items.

The shift towards self-medication using over the counter (OTC) products, rather than relying on prescription medicines, and an increased focus on personal wellbeing and on prevention rather than cure, are also helping to shape the landscape for consumer healthcare products.

Digital healthcare and the empowerment of patients and consumers

Whilst many industries have fully embraced digital marketing, the healthcare industry has been slow to adopt digital strategies. However, as most consumers, patients and carers are now active online and with consumers, especially younger ones, increasingly turning to online resources to self-diagnose and discover solutions to their health concerns, it is crucial that healthcare brands have an effective digital strategy, with a strong presence on search engines and engagement on social media, and provide quality and informative educational content, so individuals can make informed choices.

In today's increasingly digital world, consumers as prospective patients are now active partners in their healthcare journey. They no longer simply accept what they are told by healthcare professionals (doctors, pharmacists, nurses, etc.) and can carry out extensive research online, making them more knowledgeable about the services they receive and the products they use.

According to recent research:²

72%

of global internet users have looked online for health information, including treatments and procedures, symptoms, conditions or diseases in the past year

77%

of consumers use search engines to start their research as well as other channels such as social media

40%+

of consumers use social media, with Facebook being the main platform

45%

of consumers watched an online video on YouTube (e.g. patient testimonials, patient-generated content)

1. Forecasting life expectancy, years of life lost, and all-cause and cause-specific mortality for 250 causes of death, reference and alternative scenarios for 2016–40 for 195 countries and territories, The Lancet, 2018
2. How digital marketing is impacting the healthcare industry, January 2019, WBS
3. Nicholas Hall Digital and e-commerce report, December 2019

The growth of e-commerce

The rapid expansion of e-commerce sales is being fuelled by online discounting, the emergence of high-speed mobile data, and increasingly secure and speedy payment methods, all of which are leading consumers to embrace the convenience of online purchases. Already hugely important in the major markets of China, USA, Japan and Germany, online sales are expanding rapidly in all markets where permitted.

E-commerce is currently the fastest-growing sales channel in consumer healthcare. Whilst offline remains the dominant channel, online sales are growing at a much faster rate and will see their share of the total consumer health market rise incrementally over the next few years. Currently accounting for 9% of all consumer healthcare sales globally, this figure is expected to reach 16% in the next ten years.³

In the USA, one of the largest e-commerce markets globally, pharmacy, health and beauty products are among the most purchased items online, according to a recent e-commerce survey.³

The challenges posed by increasing regulatory scrutiny

Regulatory authorities like the Medicines and Healthcare products Regulatory Agency ('MHRA') in the UK and the Food and Drug Administration ('FDA') in the United States have increased their level of scrutiny of medicines, in terms of safety and efficacy, in recent years. Some ingredients which have been switched from Prescription to OTC status have been reclassified due to safety concerns. This has meant that companies who develop novel formulations or new chemical entities ('NCEs') have experienced much longer drug approval times, helping to maintain the demand for older, more established products.

The opportunity for Alliance

Our consumer healthcare products currently account for around 55% of our revenues, the remainder coming from our prescription medicine products.

In the consumer healthcare sector, we are positioning ourselves to take advantage of future growth opportunities through increasingly focusing our marketing investment on digital content and communication, ensuring we develop engaging activity which drives business growth through this channel – prioritising the growth of Kelo-cote for example using e-commerce platforms like Tmall in China and Amazon in the UK.

Our pharma heritage means we have significant experience of operating in the highly regulated environment of prescription medicines, leaving us well placed to deal with the challenge of increased regulation that is now impacting consumer healthcare products – for example medical devices, which are currently facing increased regulation under the MDR in the EU. We continue to upskill our medical and regulatory capabilities to support us in this as needed.

Case study: Focus on China

In China, the retail medicines market grew by 9% from 2017 to 2018 from RMB400.3 billion (£45.7 billion) in 2017 to RMB437.7 billion (£49.7 billion) in 2018. The penetration rate of online drug purchase in China has also increased over the past few years and is now as high as 37.6%, with huge market development potential. From 2012 to 2016, the number of online pharmacies in China grew rapidly, with an average increase of 111 each year. China is a key market for two of our largest consumer healthcare products, Kelo-cote and Nizoral.

OUR BUSINESS MODEL

We have built a successful business with a strong collaborative culture.

Our resources

People and culture

Our dedicated team of talented and engaged people embody the Alliance values and entrepreneurial spirit and thrive in a 'can-do' collaborative culture, working together to develop and fulfil their potential whilst optimising business success.

Knowledge and expertise

We have deep sector expertise in the management of many types of product, from pharmaceuticals to medical devices, food supplements and traditional herbal remedies, across multiple geographies.

Brands

Our diversified portfolio of around 90 brands, many of which deliver high margins and are well-positioned in their respective markets, offer a wide range of opportunities for growth.

Relationships

We have strong relationships with 1,000+ distributors, well-established contract manufacturing relationships and a reliable network of warehousing and logistics partners.

Infrastructure

We have offices in three continents and distributor relationships spanning the globe.

Financial resources

Our highly profitable business generates strong cash flow, enabling us to continue to invest in our existing business and in funding further acquisitions.

How we create value

Invest

Investing behind selected brands, primarily our consumer healthcare brands, to drive organic growth.

Maintain

Maintaining our cash-generative heritage pharmaceutical products.

Underpinned by:

Our purpose

Our purpose is to make a difference to people's lives through making a range of clinically valuable healthcare products available to consumers and patients around the world.

We achieve this through working together as one global team, to create partnerships that unlock potential for brands, businesses and people, enabling us to identify and respond to user demand as the markets in which we operate continue to grow.

Reinvest

Reinvesting the cash generated from our trading activities:

- in growing our *existing brands*
- in paying down debt
- in funding further acquisitions

Our values

Performance

Our high performing people continually drive business success.

Realism

We set stretching goals and targets we believe are achievable.

Accountability

We take responsibility and deliver what we promise.

Our vision is to be a leading international healthcare business, built around products that are clinically valuable to patients.

Through our strategy of maximising the potential of our existing portfolio of brands and selectively acquiring new products, we look to create sustainable value for all our stakeholders – our shareholders, employees, consumers and patients, our suppliers and partners, healthcare professionals and our communities.

The value we create

For our shareholders

Our shareholders benefit from the strong financial performance of our business and its ability to deliver both short-term returns via dividends and longer-term share price appreciation.

10%+ annual dividend growth for the last nine years (to 2018)

For our employees

Alliance currently employs over 200 people, all of whom benefit from our competitive reward structures and share in the business's success through annual share option awards. This year we increased our headcount in the Asia Pacific region by a further nine people as we created new opportunities for the very best healthcare and business professionals to achieve more.

200+ employees

For consumers and patients

Consumers and patients rely on us to deliver products that can help to improve their health. Every day we make a real difference to the lives of millions of people around the world, through the provision of high quality products which have good safety and efficacy profiles.

40m+ packs sold in 2019

For our suppliers and partners

Our supplier and partners continue to benefit from the growth of our business. Over the past four years, as the business has grown, there has been a three-fold increase in our spend on products and a significant expansion of our supplier base, whilst the percentage of sales generated through our network of international distribution partners has grown to around 50%.

75+ contract manufacturers

For healthcare professionals

Healthcare providers in a range of specialties value our engagement and the education, information and resources we provide. Through our work with key opinion leaders (KOLs), we continue to build on our growing global reputation as trusted experts in selected therapy areas.

Relationships maintained with c. 30 KOLs

For our communities

We aim to ensure that as many people as possible can benefit both from our products and from our employees' desire to make a difference in their local communities. Our ongoing involvement with International Health Partners (IHP), our partnership with Smile Train and our many other charitable initiatives bear testament to this.

£75k of medicines donated to IHP in 2019 and over
£30k raised for Smile Train

Acquire

Selectively identifying, acquiring and integrating new products into our portfolio, to provide additional opportunities for growth

Integrity

We build trust in all our relationships through openness and fairness

Skill

We recruit highly skilled people and develop their talents to the full

Entrepreneurship

Our people think of the business as if it was their own

See more in responsible business on [page 34](#)

STAKEHOLDER ENGAGEMENT

We believe that the continued success of our business is down to our collaborative culture and the strong working relationships we have built up with our stakeholders – recognising that our relevance and value is in how we work together with our customers, suppliers, and partners to achieve more.

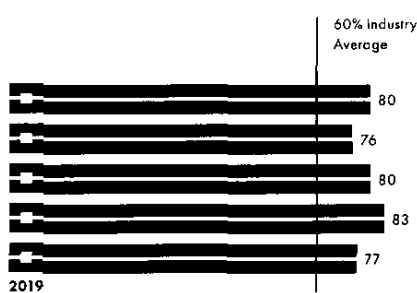
s172 Companies Act 2006

For Alliance, engaging with our stakeholders is an integral part of how we operate as a business – actively seeking to understand *what really matters to our stakeholders and ensuring that we take this into account in our decision-making, both at a strategic and an operational level.* This engagement enables us to continue to make our clinically valuable healthcare products available to people around the world, through maintaining a motivated workforce, dependable supply chains, customer confidence in our products, close relationships with healthcare professionals, good returns for our shareholders and social impact in our local communities.

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

Further information on how stakeholder considerations are taken into account by the Board in their decision-making in accordance with s172 of the Companies Act 2006 is provided in the Governance section.

Our key stakeholders	How we engage with them
Shareholders Maintaining an open and transparent dialogue with our shareholders to ensure they have a good understanding of our business operations, strategy and performance is a key element of our corporate governance processes.	 Our principal means of engaging with our shareholders are through: <ul style="list-style-type: none">• Investor roadshows• Capital markets days• One-to-one meetings• Annual Report and Accounts• Half year and full year trading and results announcements
Employees We recognise that great results can only be achieved through the combined efforts of our dedicated and talented team of colleagues around the world and as such, our employees represent one of our key assets. We work hard to ensure that our collaborative culture and values-based approach provides them with every opportunity to fulfil their potential.	 We engage with all our employees on a regular basis, primarily through monthly Company briefings, a bi-annual appraisal process, annual development reviews and employee surveys, and more informally through a variety of social events and team away days. We measure employee engagement through our annual employee engagement survey, the results of which are shared with and acted on by the Board.



Employee Survey – Average 'yes' score %

77%

(2018: 83%) -6%

Their material issues / What's important to them

- Financial performance
- Dividends
- Share price appreciation
- Strategy
- Business Model
- ESG

Key metrics for 2019

- 28% increase in share price

Links to other relevant content

Governance
see page 59

- Fulfilling and rewarding work
- Opportunity to share in the Group's success
- Competitive remuneration and benefits package
- Opportunities for learning and career development
- Opportunities to make a difference

- 77% of employees are positive and motivated in their work

Responsible Business
Our people
see page 34
Our Strategy
see page 20

STAKEHOLDER ENGAGEMENT CONTINUED

s172 Companies Act 2006 continued

Our key stakeholders	How we engage with them
<p>Consumers and patients</p> <p>Consumers and patients rely on us to deliver products that can help to improve their health. Every day we make a real difference to the lives of millions of people around the world, through the provision of high quality products with good safety and efficacy profiles.</p>	<p>For our consumer healthcare products, we engage with consumers via digital channels (websites, social media), advertising (across multiple media, including TV, print media and in-store promotions in pharmacies and retail stores), in addition to providing basic product information as part of our Medical Information function.</p> <p>For medicines, our direct engagement with patients is much more limited, due to regulatory constraints governing promotional activities – although we do provide basic product information as part of our Medical Information function.</p>
<p>Suppliers</p> <p>As all of our manufacturing activities are outsourced, it is critical that we maintain effective working relationships with our 75+ contract manufacturers, to ensure the continued supply of high quality product, likewise our network of warehousing and logistics partners.</p>	<p>We aim to work collaboratively with our suppliers to build long-term, mutually beneficial relationships, so as to assure the continued availability of our products for consumers and patients.</p> <p>We hold regular cross-functional meetings with key suppliers throughout the year – both at our offices and at the manufacturing sites, to review their performance and address any issues or concerns they may have.</p> <p>We are committed to paying our suppliers in line with agreed payment terms.</p>
<p>Distribution partners</p> <p>Our 100+ distributors are another key component of our business model, enabling us to fulfil demand for our products from all around the globe, helping us to identify opportunities for growth and providing local regulatory support.</p>	<p>We see our distributors as trusted business partners and work collaboratively with them to maximise market opportunities, holding regular meetings to understand market dynamics and sales performance, provide product training and address any regulatory or supply issues. Many of these distributors have been with the business for many years, a testament to the efforts of our commercial team, who work hard to maintain these partnering arrangements and ensure that they continue to operate in a mutually beneficial way.</p>
<p>Healthcare professionals</p> <p>Healthcare professionals, including doctors, nurses and pharmacists, are essential partners and stakeholders in our business. It is important that HCPs recognise the value of our products, so that they can prescribe or recommend them with confidence and offer informed guidance to users.</p>	<p>We engage with HCPs in a variety of ways, from answering specific questions about our products, to providing educational materials and resources in associated disease areas, to acting as a source of scientific and clinical background to enable them to judge the place of our products in clinical practice, in guidelines and in funding decisions. We also value the expertise and advice they can provide as we develop our products and educational materials.</p> <p>Engagement with the leading clinicians or KOLs is crucial to ensure that our activities recognise their needs and to allow them to act as informed advocates for our products.</p>
<p>Local communities</p> <p>We aim to ensure that as many people as possible can benefit both from our products and from our employees' desire to make a difference in their local communities.</p>	<p>We provide support for our local communities through a variety of charity initiatives, from fundraising, to providing time and expertise, to providing donations of Christmas gifts and personal care products.</p> <p>Our ongoing work with International Health Partners enables our products to be made available to those most in need.</p>

Their material issues / What's important to them

Key metrics for 2019

Links to other relevant content

- Product quality
- Product safety and efficacy
- Product availability
- Product cost

- 55% of sales: consumer healthcare
- 45% of sales: prescription medicines

Responsible Business –
Our commitment to patients
see page 37

Our Business Model
see page 14

- Long-term partnerships
- Collaborative approach
- Balanced contractual terms
- Fair payment terms
- Growth of our business

- £50m cost of sales spend

Responsible Business
Supply chain management
see page 36

- Long-term partnerships
- Collaborative approach
- Balanced contractual terms
- Growth of our business
- Ability to supply

- c. 50% of sales via distributors

Our Business Model
see page 14

- Engagement
- Product expertise
- Education, information and resources

- Engaged with clinical experts at ten scientific congresses covering multiple therapy areas
- Maintained relationships with around 30 KOLs

Responsible Business
Our commitment to transparency
see page 37

Our Business Model
see page 14

- Time, skills and expertise
- Financial support
- Product donations
- Participation as an active member of the local business community

- £75k of products donated to International Health Partners
- Over £30k raised for Smile Train

Responsible Business
Social impact
see page 36

Our Business Model
see page 14

OUR STRATEGY

We have a clearly articulated strategy for delivering continued business growth.

Maximising brand potential


A key component of our strategy is to maximise the potential of our existing portfolio of brands, particularly those in the consumer healthcare sector. This could be by range extension to better meet evolving consumer demand, extending our geographical reach through establishing new distributor relationships, or engaging in targeted marketing activity to increase brand awareness, either at a global or local level.

Strategy in action

The opportunity for Kelo-cote in China

 For more information see page 22

Increasing awareness of Forceval in the UK

 For more information see page 24

Acquiring and integrating new products


To supplement the organic growth delivered primarily by our promoted brands, we also engage in a selective programme of acquisitions, to refresh our portfolio, expand our product range and take advantage of operating synergies – both geographic and by therapy area, to deliver additional growth.

These may be small product acquisitions or more substantial strategic acquisitions, of assets or corporates, but all have one thing in common – that the target products are clinically valuable to healthcare consumers and patients. Our acquisition focus currently is on augmenting our consumer healthcare brands in international markets.

We have well-developed integration capabilities, enabling us to absorb acquired assets in an appropriate timeframe, working collaboratively with the vendor where appropriate. This is an area where our culture of working together across functions and geographies really comes into its own.

Strategy in action

Nizoral transition and expanding our geographic presence in Asia Pacific


 For more information see page 26

Investing in people

We recognise that our people are key to our success and that great results can only be achieved through the combined efforts of our dedicated team of colleagues across the globe, our partners and customers, and to the strong collaborative culture that we have built within Alliance. We are committed to ongoing investment in training and development for all our employees and to ensuring that our offices are pleasant and environmentally friendly places to work.


Acting responsibly

As an ethical business, we aim to ensure that we conduct our business in a way that maximises the value created for all our stakeholders and are committed to doing this in a responsible and sustainable way. As part of this commitment, we continually evaluate and develop our business practices to ensure they remain fit for purpose, in fulfilment of our mission to create partnerships that unlock potential for brands, businesses and people around the world.

 For more information on our responsible business initiatives see [page 34](#)

Strategy in action

The social impact of our partnership with Smile Train

 For more information see [page 28](#)

Our strategy is underpinned by a number of Critical Success Factors ('CSFs'), which together form the focus for the operational delivery of our strategy – these include:

CSF	Progress in 2019	Focus for 2020
Maintaining a blended model – acquisitions and organic growth	Good progress made with Nizoral transition and with the continued growth of our other consumer brands	Continuing to invest in our consumer brands to maximise future growth potential, whilst looking to augment this part of our portfolio and extend our international reach, through suitable acquisitions
Maximising deal flow	We reviewed over 120 acquisition opportunities in 2019, several of which were progressed to late stage evaluation	Identifying and securing one or more acquisitions which fit our selective acquisition criteria
Developing our marketing excellence	Creation of a new Head of Global Marketing role, to lead our global marketing function and increase our level of expertise in this area	Roll-out of marketing excellence programme, ensuring appropriate level of support provided for our consumer brands on a local and global basis
Maintaining operational excellence	Substantial progress made with our ERP implementation and several other initiatives aimed at improving our business systems and processes, including our New Product Introduction (NPI) and Sales & Operations Planning (S&OP) processes Further enhancements made to our global connectivity	Continuing to progress with the development of our ERP implementation Fully embedding our improved NPI and S&OP processes
Ensuring we have an engaged, skilled and motivated workforce	Pleasing results from employee engagement survey, with 77% of employees positive and motivated in their work Ongoing investment in employees' professional and personal development across multiple disciplines Expansion of apprenticeship programme Scored in the top quartile in Britain's Healthiest Workplace (workplace wellbeing study) for the third year running	Working towards the 'Great Place to Work' survey to generate enhanced data and insights to deepen our levels of engagement Implementation of actions coming out of Britain's Healthiest Workplace survey

The opportunity for Kelo-cote in China

China is one of the fastest growing scar treatment markets in the world¹, growing at over 20% per annum, driven by factors such as the rising demand for cosmetic procedures and C-section births. The Aesthetic Medicine (AM) market in China has grown rapidly and in 2018 China overtook the USA in the number of procedures, growing 26.4% on the previous year, to reach over 20 million!²

Despite this fact, China lags way behind markets such as Korea in terms of consumption per head which indicates there is significant opportunity for further growth. Consumption is spreading to lower tier cities and not just confined to the 'tier one' cities anymore i.e. Beijing, Shanghai, Guangzhou and Shenzhen.

Kelo-cote is well placed to take advantage of this growth opportunity, having built a well-established presence in the AM market in China, growing significantly as a brand over the past four years under Alliance's ownership (CAGR all markets 2015–2019: 42%), with a current market share in this market of 26%.

Our focus on this category will continue in 2020 and beyond, as we seek to enforce our leadership position, through working collaboratively with our distribution partner in China to maximise their effectiveness and drive recommendations by healthcare professionals, supported by a continuing focus on raising awareness of the brand more generally through our global marketing initiatives, such as the roll-out of websites with a new global identity, improved global packaging, and featuring Kelo-cote at key health care congresses.



For more information visit
alliancepharmaceuticals.com

¹ Nicholas Hall DB6 database 2018

² 2019 New-Oxygen White Paper of Aesthetic Medicine Industry

Increasing awareness of Forceval in the UK

Forceval is Alliance's nutritional support product, comprising Forceval Capsules, the UK's most comprehensive licensed multivitamin (and one of only a small number of medicinal vitamin products), and Forceval Soluble, an effervescent tablet food supplement.

The purpose of Forceval Capsules is to help tackle the increasing and significant impact of malnutrition in the UK, a condition that impacts three million people across the country and costs around £20 billion a year to treat¹. It is a condition that is regularly under recognised and inadequately treated and so our activities with Forceval in 2019 have focused on driving awareness of malnutrition with healthcare professionals in both Primary and Secondary Care and of the value that using a licensed medicine to treat this condition can have. In a healthcare system that is increasingly focused on the benefits of self-care, NHS England guidance² still acknowledges the need and value of prescribing to treat medically diagnosed malnutrition.

This messaging, as well as the value that healthcare professionals continue to place on the brand, resulted in the capsules becoming the number one prescribed multivitamin in the UK in both Primary Care and Secondary Care in 2019. For a long time Forceval Capsules was the multivitamin of choice in Secondary Care, but 2019 saw the brand achieve this in Primary Care as well (with Primary Care accounting for over 90% of the prescription market). In a market that has declined 8% by volume through 2019 due to the move to self-care, Forceval Capsules has seen over 10% in-market growth³, further demonstrating the value that healthcare professionals place on the brand as part of their suite of measures for tackling malnutrition.

1 Elia M. on behalf of the Malnutrition Action Group of BAPEN. The cost of malnutrition in England and potential cost savings from nutrition interventions (short version), 2015, www.bapen.org.uk/pdfs/economic-report-short.pdf, accessed February 2020

2 NHS England and NHS Clinical Commissioners. Conditions for which over the counter items should not routinely be prescribed in primary care. Guidance for Clinical Commissioning Groups (CCGs), 2018. Available at: www.england.nhs.uk/publication/conditions-for-which-over-the-counter-items-should-not-routinely-be-prescribed-in-primary-care-guidance-for-ccgs/ Accessed January 2020

3 IQVIA HPA Subnational and NHSBSC PCA data



For more information visit
alliancepharmaceuticals.com

Nizoral transition and expanding our geographic presence in Asia Pacific

We have built a successful business with a strong collaborative culture, recognising that our relevance and value is in the way we work together, both with our colleagues and with our customers, suppliers and other external stakeholders. Nowhere has this been more evident in 2019 than in the development of our operating capabilities in the Asia Pacific region, to support the Nizoral transition, whilst also providing a platform for future growth.

When we acquired Nizoral in mid-2018, we had little by way of local infrastructure to enable us to trade significantly from a manufacturing base in Asia Pacific. As part of this acquisition, we acquired seven new contract manufacturers ('CMOs') and trading relationships in new territories including India and Thailand. Therefore, it was essential that we recruited local people with the capability to not only manage the Nizoral transition but to also support Alliance's future growth plans, both for the brand and for the region. We relocated to new larger, more central offices in both Singapore and Shanghai which could be easily accessed by CMOs and distributors, and bolstered our existing headcount with new appointments of highly skilled personnel in Technical, Regulatory, Procurement, Supply Chain and Marketing functions to deliver the transition and grow the brand. This included personnel from J&J, with a detailed understanding of the manufacturing process for the product, bringing a wealth of invaluable knowledge into the business.

Once the team was in place, the focus was on developing our relationships with J&J, both the various J&J local teams across all the Asia Pacific territories and reporting up to the Central teams in EU/US. This enabled us to leverage the support we needed to ensure an effective transition, for example, in agreeing an extension to the transition period in China, where new guidelines for Marketing Authorisation

Holders are due to be released by the Chinese authorities in late 2020. We have also built strong relations with the CMO base across the Asia Pacific region, some of whom we see as strategic suppliers of the future, who will enable Alliance to gain competitive advantage not only for Nizoral but also potentially for other products in Alliance's portfolio too.

To enable us to trade in a compliant and tax efficient way, we are in the process of creating new legal entities in Thailand, Philippines and India, which are expected to go live in 2020. In each of these regions, we are also having to source office and warehouse space, recruit local directors and competent persons in order to satisfy local regulations. We have identified strong partners in each of these regions, who are working with us to achieve this, advising us on the best approach.

It is this spirit of collaboration which has powered the progress of the Nizoral transition to date and will continue to do so through 2020 and beyond.

Nizoral transition – progress to date:

- New distribution agreements in place for seven out of the 14 markets – several others close to finalisation.
- Six out of 14 Marketing Authorisation transfers approved – a further five are expected during H1 2020.
- One market (Taiwan) is now producing product in Alliance livery.

The social impact of our partnership with Smile Train

Smile Train is a global charity with the sole vision of supporting safe and quality cleft treatment for children all over the world.

Every year, approximately one in 700 babies is born with a cleft lip or palate globally. Due to challenges with infrastructure, lack of trained medical professionals, and poverty in some areas of the world, many of these children do not have access to safe and quality cleft care. If left untreated, these children often face serious health and survival issues – including the ability to eat, breathe, speak and ultimately thrive.

To tackle this global issue, Smile Train's sustainable model empowers local medical professionals with training, funding and resources to provide free cleft surgery and comprehensive cleft care to children in their own communities.

In May 2019, Kelo-cote, Alliance's scar prevention and treatment product, announced that it had entered into a two-year corporate sponsorship arrangement with Smile Train, to provide brand sponsorship and product donation to children who have received cleft surgery, in order to help prevent post-surgical hypertrophic and keloid scarring.

Smile Train is now being featured on Kelo-cote brand materials, which are shared regularly with partners, healthcare professionals and consumers globally, to raise awareness. To date, we have received positive feedback from several of our distributors who are keen to participate in this initiative and we have linked them with Smile Train offices in their local countries.

We have also been working on the set up of a pilot with two Smile Train partner hospitals in India, to provide Kelo-cote to children who have undergone cleft surgery, to help reduce post-surgical scarring, with plans to roll-out to more.

These initiatives have been supported by a matched fundraising programme for all Alliance's employees, which collectively raised more than £32,000 for the charity in 2019 – enough to fund 215 operations.



For more information visit
alliancepharmaceuticals.com

“We are thrilled with the success of Smile Train UK’s partnership with Alliance Pharma and the dedicated support from their employees. This partnership helps us continue to fulfil our vision of supporting free cleft surgery and comprehensive cleft care for children in need globally. Together, we are changing the world one smile at a time.”

SUSANNAH SCHAEFER
President & CEO, Smile Train

CHIEF EXECUTIVE'S REVIEW

2019 saw another year of strong revenue and profit growth, led by our consumer brands in international markets, as we continued to pursue our strategy to deliver sustainable business growth.

Jo LeCouilliard and Richard Jones take up their positions as independent Non-executive Directors

Timeline

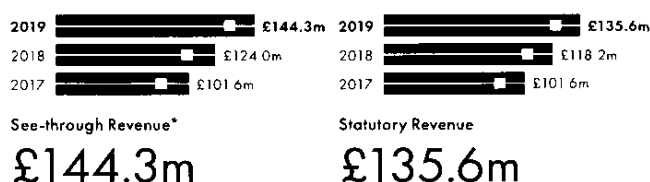
Jan

2019 Highlights

- Strong revenue growth, driven by another impressive performance from Kelo-cote (+38%), underpinned by good performances from our other Star brands
- Good cash generation with leverage now below 1.5x, leaving us well placed to selectively add to our portfolio during 2020
- Good progress made with Nizoral transition and the enhancement of our operating capabilities in the Asia Pacific region; continued growth in the US, led by Vamousse

“I'm really pleased with the way the Group performed during 2019, both in terms of its financial performance and also the considerable progress we made in developing our operating capabilities.”

PETER BUTTERFIELD
Chief Executive



TRADING PERFORMANCE

Overview

The Group continued to trade strongly in 2019 with revenue on a see-through basis up 16% to £144.3m (2018: £124m) and up 15% on a statutory basis to £135.6m (2018: £118.2m). See-through revenue benefitted by £9.3m in 2019 due to the inclusion of the first full year's trading revenue from Nizoral, which was acquired in June 2018. Coupled with improving gross profit margins, gross profit increased by 19% to £86.1m (2018: £72.6m). Through maintaining good control over our operating costs, we were pleased to be able to deliver some operational leverage, with underlying EBITDA up 22% to £39.4m (2018: £32.4m). Underlying profit before tax increased 17% to £32.9m (2018: £28.1m) and reported profit before tax increased 36% to £31.1m (2018: £22.8m).

International Star brands performance

Our portfolio of International Star brands all performed very well during 2019, delivering collective revenue growth of 43% (30% on a like for like basis, excluding Nizoral). These key brands now account for over 45% of Group revenue, with this percentage expected to increase further in the current year.

Opening of new offices
in Shanghai

Awarded Business of the
Year and Best Place to Work –
Chippenham Business Awards

Feb

First MacuShield Global
Marketing Forum held
in Frankfurt

Mar

Opening of new offices
in Singapore

Apr

May

Kelo-cote – scar prevention and treatment

Kelo-cote delivered another impressive performance in 2019, with revenues up 38% to £31m (2018: £22.5m) due to continued strong demand, primarily from China and other countries in the Asia Pacific region, reflecting the growth in the Aesthetic Medicine (AM) market in this part of the world. With rising demand for cosmetic procedures and C-section births, Kelo-cote remains very well-placed to take advantage of this AM growth trend, particularly in China, where it is well established in the market. For more on the continued demand and opportunity for Kelo-cote in China see page 22.

During 2019, our global marketing team continued to support the local brand teams in delivering a range of marketing activities to support brand growth, attending several conferences and interacting with healthcare professionals across the globe, to increase brand awareness.

Nizoral – medicated anti-dandruff shampoo

Nizoral (under J&J management during 2019) performed in line with expectations, generating see-through revenues in its first full year of ownership by the Group of £20.2m, as compared with £10.9m in the second half of 2018.

Our focus during 2019 has been on refining and executing detailed transition plans to support the transfer of the product licences in each of the territories from J&J to Alliance, including establishing new trading relationships with suppliers and distributors to enable us to continue to manufacture and sell the product post transfer. As previously reported, during the first half of 2019 we enhanced our presence in Singapore and Shanghai, moving to larger offices in both locations and establishing a dedicated team to support the transfer and subsequent management of Nizoral.

The first two product licences (for Hong Kong and Thailand) transferred to Alliance in Q4 2019 and we expect the majority of the remaining licences to transfer during 2020. Once all of the product licences are under our control, we will be able to manage the associated commercial relationships and brand development more proactively. China continues to be an important market for Nizoral and a future growth-driver for this key brand. Further detail on the Nizoral transition and our geographic expansion in the Asia Pacific region can be found on page 26.

MacuShield – eye health supplement

MacuShield grew strongly in 2019, generating revenues of £8.2m, up 18% year on year (2018: £7m), driven by distributor stocking and changes in trading arrangements with a key distributor. Excluding these 'one-off' benefits, the brand delivered underlying growth in 2019 of around 5%.

In addition to launches in Italy and Turkey in the first half of the year, we launched MacuShield in Pakistan during the second half and plan to launch the brand in a further six territories during 2020. In the UK, we expanded the range of products available with the launch of MacuShield chewable tablets in October 2019, for consumers who find the original capsule presentation difficult to swallow.

Vamousse – prevention and treatment of head lice

Vamousse delivered another strong performance, particularly in the US, its core market, with global revenues up 14% to £6.5m (2018: £5.8m) and up 10% on a constant currency basis.

Whilst we continue to evaluate opportunities to introduce Vamousse into new markets, our near-term focus is on continuing to grow the brand in the US, where it continues to out-perform the general market.

Further detail on our Star brands can be found on our website: www.alliancepharmaceuticals.com/our-brands/our-star-brands

Local brands

Our Local brands portfolio delivered a stable performance overall, with revenues of £78.3m, £0.3m above those for the previous year (2018: £78m). We saw good performances from some of the consumer brands in this part of our portfolio, with new UK retail listings for Aloclair (treatment for mouth ulcers) and Ashton & Parsons (teething gel) and strong sales of a number of products to our international distributors, offsetting the decline we experienced with some of our heritage pharmaceutical products, due to generic competition and competitive tender activity. We also took the decision to discontinue a few products within our Local brands portfolio, which were generating very low revenues and margins, as part of a regular periodic review of our portfolio.

Going forwards, we will continue to actively manage this part of our portfolio, in particular the heritage pharmaceutical products, and expect sales in this category to modestly decline over time. However, the cash generation from these assets is expected to remain strong, with limited requirements for promotional investment.

Regional performance

International

Our international distributor business continued to go from strength to strength in 2019, benefitting from a full year's revenues from Nizoral and continued strong demand for Kelo-cote, which helped to deliver significant year on year revenue growth across the Asia Pacific region and particularly in China. We also saw good growth from our Middle East and Africa distributor business, with revenues up 26% on the previous year at £6.7m.

* Non-IFRS alternative performance measures (see note 33). See-through revenue includes sales from Nizoral as if they had been invoiced by Alliance. For statutory accounting purposes the product margin on Nizoral sales is included within Revenue, in line with IFRS 15

CHIEF EXECUTIVE'S REVIEW CONTINUED

Timeline continued	Awarded International Company of the Year (25m+ turnover), South West Global Growth awards (UK)	Alliance appoints its first Head of Global Marketing	
	Chester to Chippenham cycle ride in aid of Smile Train	New enhanced credit facilities agreed, to facilitate future growth	Distribution agreement signed with new partner in Saudi Arabia
	Jun	Jul	Aug

Regional performance continued

International continued

See-through revenues for our international distributor business increased 32% to £54.2m in 2019 (2018: £40.9m) and reported revenues increased 30% to £45.6m (2018: £35.1m).

US

Revenues in our new US business increased by 11% in 2019 to £6.1m (2018: £5.5m), with a particularly strong performance by Vamousse, with revenues up 19% to £5.4m (2018: £4.6m), supported by £0.7m of reclassified revenues from products previously included within International sales.

UK and Republic of Ireland

Revenues in the UK and Republic of Ireland were down 2% on the previous year at £51.4m (2018: £52.3m) due to weaker performances from some of our heritage pharma products being partially offset by a stronger performance from our UK consumer products, with MacuShield, Ashton & Parsons and Aloclair all delivering good revenue growth as we continue to invest behind these brands.

Mainland Europe

Our Mainland Europe business saw another year of strong top-line growth in 2019, with revenues increasing by 28% to £32.5m (2018: £25.4m), largely due to continued growth in Kelo-cote, to satisfy both export and regional demand.

Return of Xonvea licensing rights

As we have previously reported, we returned the UK and EU licensing rights to Xonvea, the prescription medicine for the treatment of nausea and vomiting of pregnancy where conservative management has failed, which we launched in the UK in October 2018, to Duchesnay, Inc ('Duchesnay') (the licensor) in November 2019.

Under the terms of the agreement signed with Duchesnay, the £2m in milestone payments made to date by Alliance will be repaid to the Group, £0.25m was paid in 2019 and the remaining balance is due in 2020. As a result of this agreement, the Group booked non-underlying inventory provisions and associated restructuring costs of £1.9m in 2019; the total non-underlying loss on disposal being £1.7m.

Alliance will continue to make Xonvea available to patients in the UK for up to 12 months to assist Duchesnay with the transition to a new licensee.

Acquisitions

Our acquisition strategy remains focused on selectively adding to our portfolio, as suitable opportunities arise, with a focus on augmenting our consumer healthcare brands in international markets where we already have a presence. Our strong cash generation in 2019, increased credit facilities and significant reduction in net debt leave us well-placed to pursue this element of our strategy.

Operational review

Following the UK's departure from the EU on 31 January 2020, we continue to monitor the progress of negotiations closely to ensure we have the most up to date information available to allow us to ensure continuity of supply, irrespective of the timings or nature of the trade agreements reached with the EU with regard to consumer healthcare and pharmaceutical products, or the nature and duration of any transitional arrangements which may apply.

We remain on track to ensure our technical documentation and processes meet the new requirements of the MDR, which will now start to apply from May 2021. The new regulation places greater scrutiny on the technical documentation, product safety and medical device performance through stricter requirements on clinical information and requires enhanced traceability and transparency.

We continue to progress with the development of our ERP system which, when implemented, will deliver business benefits and scale-up capability through the standardisation of processes.

We have also invested time in several other initiatives aimed at improving our business systems and processes, including our New Product Introduction (NPI) and Sales & Operations Planning (S&OP) processes.

Work is now underway to fully embed these improved processes into the business in 2020, to further improve our operational leverage and facilitate future growth.

People

As previously announced, our two new independent Non-executive Directors, Jo LeCouilliard and Richard Jones, took up office at the start of 2019 and we are grateful to both for the valuable contributions they have made to the Group's activities during the first year of their tenure. The composition of the Board underwent a further change in June 2019, when John Dawson, founder and former CEO, stepped down as a Non-executive Director of the Group.

We recognise that great results can only be achieved through the combined efforts of our dedicated team of colleagues around the globe, our partners and customers, and through the strong collaborative culture that we have built within Alliance. Alliance currently employs more than 200 people in ten locations around the world. In 2019 we scaled up our existing operations in Asia Pacific, to support the transition and ongoing management of Nizoral. We also appointed our first Head of Global Marketing, as we continue to develop our marketing insight, processes and performance across all our teams to further accelerate the growth of our larger consumer brands. We were delighted to once again achieve exceptionally high engagement scores in our annual employee survey, with some aspects of the survey achieving satisfaction levels in excess of 90%, for the second year in succession.

New corporate website goes live

Our annual employee engagement survey delivers another set of great results

Sep

MacuShield chewables launched in the UK

First two product licences for Nizoral transferred to Alliance (Hong Kong & Thailand)

Oct

Xonvea licensing rights returned to Duchesnay, allowing us to focus on core international brands

Nov

First delivery of Alliance-branded Nizoral ready for shipment to Taiwan

Our fundraising for SmileTrain charity reaches £32,000 – enough to fund 215 operations

Dec

Overview

Strategic Report

Governance

Financial Statements

Additional Information

We received several awards this year, including 'Best Place to Work' in the Chippenham Business Awards, where our head office is based. Our social impact activities were again extremely well supported by employees in 2019. Alliance matched employee fundraising enabled us to raise more than £32,000 for the charity Smile Train and we also supported more than 20 other charities, through fundraising and donations of time and money. In addition, we donated £75,000 of products to International Health Partners, who we have been supporting for more than ten years now.

The Group places great importance on attracting and retaining high quality employees and aligning the success of the Group with their rewards. In recognition of this, the Group operates a share option scheme which aims to ensure that all employees have an opportunity to benefit from the growth of the business as reflected in the Company's share price.

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to all those who have contributed to another very successful year for Alliance.

COVID-19

Our priority is to ensure the safety of our people across the globe. In the UK, Republic of Ireland, mainland Europe, Singapore and the US, our employees are now working from home in line with local government guidelines. Our investment in IT has ensured a high level of connectivity throughout the world which means we can operate remotely with minimal disruption to the business. In Asia, we are pleased that our Shanghai office has now fully reopened.

Our supply chain is holding up well and we do not anticipate any material supply impact in the current year. For those products we sell directly, we hold typically a minimum of three months of inventory and, in some cases more, depending on the level of clinical need. Most of our international sales are generated via distributors, who typically hold three to six months of inventory. We continue to monitor our supplier base for early indications of any issues and are forward booking transport for the remainder of 2020 in order to mitigate any potential future capacity constraints.

Whilst supply is holding up well, demand is harder to forecast. Although the COVID-19 situation in China and across the Asia Pacific region looks to be improving, we anticipate that demand in the Asia Pacific region, including China, will be lower in the first half of 2020 and then, depending on the speed with which this region returns to normality, begin to recover in H2. Sales in our UK and mainland Europe businesses are expected to be impacted, but to a lesser extent due to the higher proportion of prescription medicines sold in this region.

Given the fast-moving nature of the pandemic, the full-year impact on trading of the COVID-19 coronavirus is very difficult to forecast but we anticipate that trading will be weighted to the second half.

We will provide further updates at our AGM in May, in our H1 trading update in July and at other times as appropriate.

Current trading and outlook

After another strong performance in 2019, we entered 2020 well-positioned for further growth.

Whilst we are expecting to see some impact on revenues this year as a result of the COVID-19 coronavirus, we are actively working with our suppliers and distributors to mitigate the impact. Our supply chain is holding up well and we, and our distributors, hold good levels of inventory which provides a level of in-market inventory buffer.

We continue to monitor developments and are looking closely for any changes in market demand so that we can evolve our mitigation plans in response to these; our objective is to minimise the economic impact on our business, whilst ensuring that we continue to maintain the safety of our employees in all countries affected by the virus.

As a result of the potential impact of COVID-19 on global economic activity, we have decided it would be prudent at this time to preserve cash and therefore have taken the decision not to propose a final dividend for year ending 2019. We will continue to monitor the situation and to reassess the position later in the year and potentially declare a further interim dividend for 2020.

Operationally, the priorities for the Group remain unchanged: continuing to invest in our consumer healthcare brands in order to deliver organic growth and continuing to progress with the transition of Nizoral, to enable us to benefit from the increased control we will have over the brand as the various territories complete transition.

We will continue to look to selectively add to our portfolio, as suitable opportunities arise, with a focus on augmenting our consumer healthcare brands in international markets where we already have a presence.



Peter Butterfield
Chief Executive

7 April 2020

We are committed to operating our business in an ethical and sustainable way, having regard to the interests of all our stakeholders – our customers, suppliers, business partners and employees.

We recognise that everything we do has an impact on the natural environment and on the people and communities within it and we are committed to looking for ways to reduce our impact in these areas to ensure a better future for all.

“We work hard to ensure the business decisions we make have a positive impact on our people, society and the environment.”

JANICE TIMBERLAKE
Chief People and Infrastructure Officer

Our people

Engaging with our employees

Our employees constitute one of our most important stakeholder groups and play an integral part in the delivery of successful outcomes for the business. The Group engages regularly with its employees and monitors closely their views and any concerns raised. The Group carries out an annual employee engagement survey, the results of which are reviewed by the Board to ensure appropriate actions are taken in response to this, so as to deliver a positive outcome to the process – the results of the 2019 survey showed that 77% of employees are positive and motivated in their work, with some aspects of the survey achieving levels of satisfaction exceeding 90%, for the second year running.

Celebrating success

Alliance's core values of performance, realism, accountability, integrity, skill and entrepreneurship remain at the heart of how we engage with each other and conduct our business. Every month we celebrate with our employees great examples of our values in practice in our global employees briefing. These achievements are many and varied; from providing excellent customer service to a concerned patient, to delivery of challenging projects, be they commercial, technical, system and process – employees who go above and beyond in putting our values into practice are identified and recognised.

These briefings also provide an opportunity for the Senior Leadership Team to communicate Group performance, targets and operational priorities to all employees, to ensure that everyone's efforts remain aligned and maintain an open dialogue with employees, through providing an opportunity for Q&A.

In June 2019, Alliance was awarded International Company of the Year (£25m+ turnover) at the South West (UK) Global Growth Awards, in recognition of the successful expansion of our business outside of the UK.

Creating opportunities for continued growth and development

Alongside the recruitment of external talent, we encourage and support the development of our existing employees' skills and knowledge through internal and external short courses and formal training programmes. As a business, we invested in our employees' professional and personal development across a number of disciplines in 2019, including specialist training for Regulatory and Pharmacovigilance colleagues on the ABPI and PAGB codes of practice and professional qualifications in Finance (CIMA and ACCA), in addition to our bespoke management skills development programme and external leadership development.

We continue to focus on early career talent development and after the initial success of our apprenticeship programme, have expanded this to other functions such as HR. We will look at furthering these opportunities, together with continuing to cement our ties with our local community of schools, throughout 2020.

Employee health and wellbeing

Alliance recognises that its people are key to the business's success and remains committed to ensuring the health and wellbeing of its workforce.

From providing free fruit to all our employees and a gym in our head office, through to the selection of our healthcare insurance provider which, for UK-based employees, is an organisation that actively promotes and rewards members for maintaining a healthy lifestyle. Healthcare insurance is provided to all permanent employees and their dependents, subject to qualifying conditions.

As part of our commitment both to our employees and to the environment, we work hard to ensure that our offices are pleasant and environmentally friendly places to work. Around 45% of our employees have now been provided with height-adjustable desks, which allow users to stand or sit when working, whilst our LED lighting, as well as being longer lasting and around 89% more energy efficient, aims to mimic natural daylight.

For the third year running, we participated in Britain's Healthiest Workplace – the UK's most comprehensive workplace wellness study. In addition to the ability to benchmark against comparable companies, participating employers receive an in-depth report detailing the health profile of their organisation, while employees receive Personal Health Reports. We are proud to have again scored among the top quartile in the small business category.

We have had some great data and feedback from our participation in the survey to date regarding our organisational health and wellbeing, our work performance and the work environment and have developed an action plan to address some of the key findings.

Our focus in 2020 will be to progress towards 'Great Place to Work' which surveys both the internal trust and engagement of employees, together with the cultural norms within an organisation; we believe this will provide us with a richer source of data and insight into how our employees view Alliance, so as we can further progress our engagement journey.

Environmental sustainability

Alliance is actively pursuing environmental sustainability, both within its own operations and within its supply chain.

Within our own business operations, we have entered into a contract with a new waste-management company to ensure all waste from our Chippenham head office, where the majority of our employees are based, is segregated and recycled as far as possible, so as to minimise what goes to landfill. Over the past three years, we have also carried out an extensive building refurbishment programme, implementing a number of measures designed to reduce our environmental impact, including the installation of movement-controlled LED lighting, new, more efficient air conditioning systems, improved building insulation, new energy efficient flash boilers for hot water generation and other measures designed to reduce energy consumption.

This is reflected in the assessors comments in our most recent Energy Savings Opportunity Scheme (ESOS) report, for the four years to December 2019, which notes that "Alliance Pharma occupies a historic building in the centre of Chippenham, the building has been refurbished to a high standard but there is further scope for improvement subject to the appropriate local authority consent. The building has a Display Energy rating of 94 which indicates better than average performance".

We plan to carry out further improvement works, in line with these recommendations, during 2020 and we are also looking to further reduce our carbon footprint through reviewing activities such as stationery purchasing, travel and water usage.

RESPONSIBLE BUSINESS CONTINUED

Environmental Sustainability continued

From 1 January 2020, we are required to report under the Streamlined Energy and Carbon Reporting ('SECR') regulations and our first report until these regulations will be provided as part of our 2020 Annual Report.

Supply chain management

Our well-established vendor selection processes ensure that our CMOs are assessed, and future performance evaluated against, a broad set of measures, including compliance with Alliance's policies around anti-bribery and anti-slavery, in addition to appropriate quality and regulatory standards.

We are fully compliant with the LUCID environmental recycling regulations in Germany, which require all companies to sign up to a recycling scheme, to ensure that packaging can be recycled, with the costs for this being born by Alliance as the manufacturer of the product. All packs have a green dot confirming their compliance. A similar scheme is in operation in Czech Republic and Slovakia, which our distributor in these territories participates in, and in Denmark.

We continue to work with our suppliers to improve the environmental sustainability of our products on an ongoing basis. Current initiatives include planning for the implementation of environmental health and safety audits of our suppliers, to help identify areas of risk and develop and agree appropriate mitigation plans.

Modern slavery

In keeping with the Group's values, we are opposed to modern slavery. We regularly review and where necessary update our operating procedures in consideration of the provisions of the Modern Slavery Act 2015, to ensure that we do what we can to prevent slavery and human trafficking in our businesses/supply chains. Our policy can be found on our website: www.alliancepharmaceuticals.com/en-gb/about/anti-slavery-statement

We are currently working towards independent assessment of Alliance's labour standard assurance system ('LSAS') by Lloyd's Register Quality Assurance ('LRQA'), to ensure that both we and our suppliers (principally our CMOs) have systems and policies in place which demonstrate that they have given due consideration to the wellbeing of their employees, having regard to minimum standards. LSAS provides an extra level of corporate, social and ethical governance regarding labour standards for organisations supplying the NHS supply chain.

We are also planning to roll-out training around the provisions of the Modern Slavery Act 2015 to all members of our Scientific Affairs and Operations team in 2020, to increase levels of awareness and understanding in this important area.

Social impact

Our people and the community

Our people have a strong interest in supporting the wider community, looking for fun but meaningful ways to make a difference. All our employees globally are given a volunteer day each year, and these are widely used – as people are keen to give back time directly to support the charities which mean the most to them.

Our fundraising for Smile Train

Smile Train is a global charity with the sole vision of supporting safe and quality cleft treatment for children all over the world. Smile Train use a sustainable model by training local medical professionals to be able to carry out this important work.

In May 2019, we announced our corporate sponsorship partnership between Smile Train and our scar treatment product, Kelo-cote. More information about this can be found on page 28.

In addition to the brand support provided by Kelo-cote, we also adopted Smile Train as our chosen charity for 2019, with Alliance matching employees fundraising to raise more than £32,000 for the charity, enough to fund 215 operations, through a variety of physical challenges such as running, walking or climbing walls and climbing mountains and other activities such as cake sales, raffles, auctions and sponsored events in the office.

Charity support through PRAISE awards

Our PRAISE awards, which reward employees for outstanding demonstrations of our values in practice, give recipients the opportunity to direct the rewards for their achievements to their favourite charity.

Engaging with our local community

In September 2019 we held an open day at our Chippenham head office as part of the local museum's 'open door' initiative. Our head office building, Avonbridge House, is a Grade 2 listed building with an interesting heritage, having previously been the site of the first Nestle condensed milk factory in the UK. This event gave visitors the opportunity to find out more about the past and present uses of the building, including its current use by Alliance and to see some of the surviving features from its previous industrial use.

Other community support initiatives

In 2019, Alliance employees once again provided gifts to those adults and children spending Christmas in a local domestic abuse refuge. We also collected donations of toiletries for a local homeless hostel and the local hygiene bank – similar in concept to a food bank but focusing on personal and domestic hygiene products for distribution to those in need.

In the US, members of the Alliance team used their annual charity day to support 'Habitat for Humanity', which helps to build safe, affordable homes for families who otherwise couldn't afford to purchase one, by participating in a community house-building project in Raleigh.

Our employees have also supported many other local charities such as Cancer Research UK, Singapore Children's Society, Dorothy House Hospice Care and Save the Children.

It is this level of employee engagement and desire to make a difference that is at the heart of our business and contributes to it being a meaningful place to work.

Our work with International Health Partners

International Health Partners (IHP) were set up in 2004 as a response to the Indian Ocean tsunami and earthquake and are now Europe's largest facilitator of product donations between healthcare companies and agencies. Their mission is to serve those in need – from those caught up in conflict, to those impacted by natural disasters, by providing high-quality donated medicines. Last year alone IHP sent 1.2 million treatments to those suffering due to a lack of access to medicines. Alliance has been a supporter of IHP since 2009, regularly donating a range of pharmaceutical products for inclusion in IHP's Essential Health Packs (EHPs), pre-packed kit that is filled with a range of medicines essential to support critical healthcare delivery in remote or disaster hit areas. Last year, Alliance provided £75,000 of treatments for inclusion in the EHPs, which were distributed to 23 countries around the world.

Our commitment to transparency

Alliance is committed to providing transparency and clarity around our collaboration with healthcare professionals, healthcare organisations and patient organisations.

In the UK and Republic of Ireland, Alliance publishes transfers of value in accordance with the ABPI and IPHA Codes of Practice.

Our commitment to patients

Patients rely on us to deliver products that can help to improve their health – whether these are prescription medicines, or products bought off the shelf in their local pharmacy, as part of a self-care regime, or to treat common ailments.

We are committed to ensuring that all our products meet the highest standards of safety and efficacy and that we remain fully compliant with all applicable regulations. Our quality assurance systems and processes aim to provide an appropriate level of confidence that suppliers, vendors and contractors are able to supply consistent quality of materials, components and services in compliance with regulatory requirements and to identify and mitigate any associated risks.

FINANCIAL REVIEW

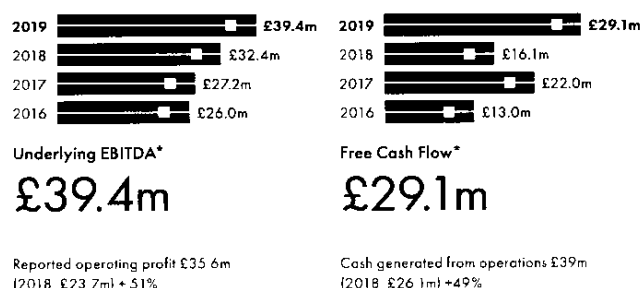
2019 saw another year of strong performance, with Group revenues on a see-through basis increasing by 16%, a 22% increase in underlying EBITDA, very healthy cash generation and leverage below 1.5 times.

2019 Highlights

- Continued good growth in underlying EBITDA (+22%) and in underlying operating profit (+29%) (reported operating profit +51%), with operating leverage maintained in line with 2018
- Very strong cash generation, helping to bring net debt down by £26.6m to £59.2m
- Leverage now below 1.5x

“2019 saw another year of solid financial performance by the Group, both in terms of profitability and cash generation.”

ANDREW FRANKLIN
Chief Financial Officer



The Group delivered a strong financial performance in 2019, with see-through revenues increasing 16% to £144.3m (2018: 124m) and statutory revenues increasing 15% to £135.6m (2018: £118.2m). The increase was largely driven by a strong performance from our International Star brands, particularly Kelo-cote, and by the inclusion of a full year's post-acquisition revenues from Nizoral. Overall, underlying profit before taxation increased by 17% to £32.9m (2018: £28.1m) and reported profit before tax increased 36% to £31.1m (2018: £22.8m).

The impact of exchange rate movements on the Group's revenues was limited, the benefit of Sterling weakening against the US Dollar in 2019 being largely offset by Sterling strengthening slightly against the Euro. Likewise, there was minimal impact on operating profits this year as a result of currency movements.

Gross profit increased at a slightly higher rate than revenue, up 18% to £86.1m (2018: £72.6m), resulting in a 1.1% increase in gross margin, from 58.6% to 59.7% of see-through revenue (+2.0% increase from 61.5% to 63.5% of statutory revenue), due to mix and improving inventory management.

Operating costs (defined as underlying administration and marketing expenses, excluding underlying depreciation, amortisation and impairment charges) increased by £6.5m to £44.9m (2018: £38.4m), due to the full year impact of transitional service fees payable to J&J in connection with Nizoral, an increase in employee costs required to support the scale up of our operations in Asia Pacific and the wider business, and the continued growth of our Star brands. As a percentage of sales, operating costs were in line with 2018 and represented 31.1% of see-through sales (2018: 31.0%).

The IFRS2 share options charge for 2019 remained in line with that for the previous year, at £1.8m (2018: £1.8m).

Notwithstanding the increase in operating costs, underlying earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 22% to £39.4m (2018: £32.4m), whilst underlying operating profit increased by 29% to £37.4m (2018: £28.9m) and reported operating profit increased 51% to £35.6m (2018: £23.7m).

Depreciation, amortisation and impairment charges

Underlying depreciation, amortisation and impairment charges for 2019 amounted to £2m, a £1.5m reduction on the prior year (2018: £3.5m); the 2018 charge included the write-down of a supply agreement of £1.9m.

Finance costs

Overall, net finance costs in 2019 increased by £3.7m to £4.6m (2018: £0.9m), due primarily to a £1.4m adverse movement in foreign currencies (2019: £0.8m loss, 2018: profit £0.6m) and the fair value of contingent consideration in 2018 (£2m credit).

Interest payable increased by £0.3m to £3.8m, the increased costs resulting from the Nizoral drawdown in June 2018 and non-utilisation costs on the new credit facilities put in place in July 2019 being offset by lower interest charges due to the reduction in net debt and the lower interest rates associated with the new borrowing facility.

The average interest charge on gross debt during the period (including non-utilisation fees) was 3.37%.

Underlying Profit Before Tax

£32.9m +17%



Reported profit before tax £31.1m (2018: 22.8m) +36%

Underlying Basic EPS**

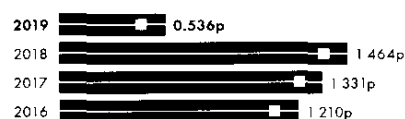
5.09p +12%



Reported Basic EPS 4.80p (2018: 3.69p) +31%

Dividend Per Share

0.536p -63%



Net Debt

£59.2m -31%



* Non-IFRS alternative performance measures (see note 33). See-through revenue includes sales from Nizoral as if they had been invoiced by Alliance. For statutory accounting purposes the product margin on Nizoral sales is included within Revenue, in line with IFRS 15.

** The 2017 measure refers to the Underlying Adjusted Basic EPS as disclosed in the 2017 Annual Report which was adjusted to normalise the impact of significant changes in overseas tax rates.

FINANCIAL REVIEW CONTINUED

Reconciliation of underlying to reported profit before tax

Year ended 31 December	2019 £m	2018 £m
Underlying profit before taxation	32.9	28.1
Non-underlying items:		
Return of Xonvea licensing rights	(1.7)	
Disposal of Flammacerium	(0.1)	
Profit on disposal of Unigreg Joint Venture		1.5
Impairment and write-down of Synthasia Joint Venture assets		(2.5)
Impairment of anti-malarial intangible asset		(4.3)
Total	(1.8)	(5.3)
Reported profit before taxation	31.1	22.8

Taxation

The total tax charge for the period was £6.1m (2018: £4.4m), resulting in an effective tax rate of 19.5% (2018: 19.5%). Excluding non-underlying items, which generated a tax credit of £0.3m in 2019 (2018: £1m tax credit), the underlying tax charge was £6.4m (2018: £5.5m), representing an underlying ETR of 19.5% (2018: 19.6%).

Earnings per share

Underlying basic earnings per share for 2019 was 5.09p, an increase of 12% (2018: 4.54p).

Reported basic earnings per share was 4.80p (2018: 3.69p) due to non-underlying items reducing earnings to a lesser extent in 2019 than in 2018.

Dividend

The Board is closely monitoring the impact of the COVID-19 virus on our people and business. At this stage it is too soon to quantify the impact it may have in the future on our financial performance but, given the scale of the potential impact of

COVID-19 on economic activity, the Board has decided it would be prudent to preserve cash at this time and therefore has taken the decision to not to propose a final dividend for year ended 31 December 2019.

The Board will continue to monitor the position with an intention, to the extent that the Board deems it prudent in light of all relevant developments, to reassess the position later in the year and potentially declare a further interim dividend for 2020.

The Company will update the shareholders at the time of the AGM.

Return of the licensing rights to Xonvea

On 27 November 2019, Alliance announced that the Group had reached agreement with Duchesnay Inc. of Canada ('Duchesnay') to return the UK and EU licensing rights to Xonvea, a prescription medicine for the treatment of nausea and vomiting of pregnancy where conservative management has failed. As a result of this agreement, the Group booked non-underlying inventory provisions and associated restructuring costs of £1.9m in the year ending 31 December 2019, incurring a non-underlying loss on disposal of £1.7m.

Balance sheet

Intangible assets decreased by £6.6m in 2019, to £328.7m (2018: £335.2m), £3.1m of which related to foreign currency translation adjustments, the remainder primarily to the disposals of Xonvea and Flammacerium.

Intangible assets currently account for around 80% of the Group's total assets. As part of the wider 2020 strategic review, the Group will continue to consider the appropriateness of accounting estimates for intangible assets within its portfolio.

Working capital

The Group continued to maintain good control of its working capital with total net working capital of £24.7m, a reduction of £1.4m on the prior year (2018: £26.1m).

Inventories, net of provisions, amounted to £15.5m as at 31 December 2019, a decrease of £3.2m in the year (2018: £18.7m), due to the partial reversal of an inventory build made during 2018 in preparation for the FMD and Brexit and a £1.2m provision for Xonvea following the return of the licensing rights to Duchesnay.

Total receivables increased by £1.8m, which primarily related to the balance of the Xonvea milestone repayments, receivable this year, whilst payables (excluding contingent consideration) increased by £0.1m.

Cash flow and net debt

Free cash flow (see note 33 for definition) for the year was very strong at £29.1m (2018: £16.1m), due primarily to the increase in underlying operating profit in 2019.

Net debt decreased by £26.6m to £59.2m at 31 December 2019 (2018: £85.8m), a reflection of the Group's strong underlying cash generation.

Consequently, adjusted net debt/EBITDA leverage reduced to 1.48 times at 31 December 2019 (2018: 2.33 times), comfortably within our covenant limit of 3.0 times.


We expect free cash flow generation to remain good in 2020 and, in the absence of acquisitions, expect leverage to reduce to below 1.0 times during the second half of the year, excluding the impact of the coronavirus noted earlier.

Treasury and capital management

The Group's operations are financed by retained earnings and bank borrowings, with additional equity being raised on a periodic basis to finance larger acquisitions.

The Group manages its exposure to currency fluctuations on translation by managing currencies at Group level using bank accounts denominated in its primary trading currencies (Sterling, Euro and US Dollars) and foreign exchange forward contracts.

As previously reported, in July 2019, the Group agreed a new £165m fully Revolving Credit Facility, together with a £50m accordion, with an enlarged syndicate of lenders on improved terms, replacing the existing facility which ran through to December 2020. This new facility is available until July 2023, with a one-year extension option, and provides further flexibility for the Group to deliver carefully targeted acquisitions over the next few years to complement its organic growth strategy.



Andrew Franklin
Chief Financial Officer

7 April 2020

RISK MANAGEMENT AND INTERNAL CONTROLS

At a global level, Alliance Pharma recognises that it is essential that we actively manage our risks and maximise our opportunities.

We remain focused on our values and believe that adopting responsible behaviour across our business activities plays an important part in achieving our purpose. The Board ensures a healthy balance between the risks we face and harnessing the opportunities to support sustainable growth in order to help meet the Group's strategic objectives, delivering value to our shareholders.

Our approach to risk management and internal control

The Board has primary responsibility for the Group's overall approach to risk management and systems of internal control. The Board has delegated oversight of the management of risk and internal control to the Audit and Risk Committee. During the year, and in line with its responsibilities pursuant to its terms of reference, the Audit and Risk Committee reviews the identification, evaluation and management of the risks facing the business and considers the effectiveness of associated processes and controls.

The Committee reports regularly to the Board and, at least once a year, the Board carries out a formal review of risk management and the risks which have been identified by the risk management process. Those risks which the Board is not prepared to take, are avoided, mitigated as far as possible and/or transferred to insurers.

1	Oversight and reporting	The Board and the Audit and Risk Committee leads process for risk management	<ul style="list-style-type: none"> The Audit and Risk Committee reviews the framework for risk management and considered the Group's principle risks and uncertainties. The Audit and Risk Committee reports directly to the Board.
2	Identify and assess	Top down/bottom up review	<ul style="list-style-type: none"> The identification and assessment and management of risks in the business is driven and monitored by the Senior Leadership Team with the support of the Company Secretary. The existence of a risk is identified from either a 'bottom-up' process involving line management or a 'top-down' review by the Senior Leadership Team. As well as a consolidated Group Risk Register, there are risk registers in place at a functional business level. Risks are identified and assessed by the likelihood of them occurring and their potential impact on the business. This calculates the potential level of exposure on the business. These are then categorised to identify those that can be effectively managed at a functional or departmental level and those that need to be addressed at a cross-functional business level. Risk registers are regularly reviewed to capture and identify new risks and identify opportunities to improve the mitigating actions.
3	Review and mitigate	The SLT reviews progress and mitigations	<ul style="list-style-type: none"> Each risk is allocated a business owner, who is responsible for implementing the mitigating actions and reporting on progress with those improvements and the status of those risks to the Senior Leadership Team. The Senior Leadership Team reviews all risks on a quarterly basis, with the principal risks being monitored monthly and, in the case of the principal risks and uncertainties, such risks are reported to and reviewed by the Audit and Risk Committee as well as the Board. Actions being taken, or that should be taken, to help mitigate the potential exposure to the risks are regularly reviewed to ensure the appropriate individual 'owns' the risk and the actions being taken remain effective.
4	Report and review	The Audit and Risk Committee reviews and discusses key risks identified	<ul style="list-style-type: none"> The Company Secretary prepares an update report on risk and notifies the Audit and Risk Committee of key changes to the Group Risk Register. Existing mitigations are considered for each risk and the residual levels of exposure assessed.

“The Audit and Risk Committee keeps under review the Group’s internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems.”

DAVID COOK
Independent Non-executive Chairman

The responsibilities surrounding risk management and internal control systems are designed to meet the needs of the size and complexity of the business. It takes into account the applicable requirements of pharmaceutical regulators in the various markets in which the business operates and the regulatory and legal requirements as a UK AIM quoted plc.

The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The key components of the current system of internal control are:

Communicating our strategy and our values	Setting and communicating clear strategic goals to the business helps ensure all employees understand the objectives on the business and raises awareness. Defining the Group’s values and maintaining a code of ethics for all employee to encourage a culture that promotes good behaviour.
Planning	Developing clear business plans and budgets in line with strategy, supported by intra-year forecasting. This provides the business with clear points of reference.
Policies, processes and procedures	Developing clear policies and procedures for all areas of the business which consider all aspects of legal, regulatory and ethical responsibility. Final implementation of the Enterprise Resource Planning (ERP) system will further strengthen and enhance the Group’s systems of internal control. This provides the business with an opportunity to review processes and reporting practices throughout the Group and provide consistency across the same.
Reporting, management information and discussion	Regular reporting of actual performance relative to those strategic goals, plans, budgets and forecasts. This ensures the business can track and trace factors that could impact on strategy and performance.
Organisational structure, accountability and delegated authorities	Creating an appropriate structure of responsibility and accountability, including segregation of duties, appropriate reporting lines for key managers and regular line management communications and one-to-one meetings where performance is discussed, supported by an appraisal process. Working within a defined set of delegated authorities approved by the Board to the CEO, and through him, to the Senior Leadership Team and their delegates through authorisation registers managed at a departmental and functional level. This ensures and protects individuals who may not fully appreciate or understand the risk and maintains controls where most needed to prevent risks occurring.
Training and monitoring	Training and monitoring employees’ understanding of the external regulatory codes which are applicable to the Group’s business, as well as the Group’s internal policies and procedures. Management monitoring of compliance with the external regulatory codes which are applicable to the Group business, as well as the Group’s internal policies and procedures, and responding appropriately to any breaches.

Internal Audit Function

Each year, the Audit and Risk Committee and the Board separately consider the need for an internal audit function. Given the current size of the Group, the Audit and Risk Committee and the Board do not judge it appropriate to maintain a dedicated internal audit function. This position is kept under review.

OUR PRINCIPAL RISKS AND UNCERTAINTIES

As we continue to grow as a business, the risks we face continue to be carefully managed.


During the year, the Board reviewed the principal risks and uncertainties facing the Group and continues to focus on those which could threaten our business model, reputation, future performance, solvency or liquidity of the business. These have been linked to the key elements of our strategy as described on page 20.

Principal risks are assessed on a residual basis according to our current view of their potential severity (being the combination of impact and likelihood), and assuming that existing plans for mitigation are and remain effective.


The table below/overleaf is not an exhaustive list of all risks the Group faces but are the principal risks and uncertainties, which the Directors believe include all known material risks in relation to the Group and the markets and industry within which we operate.

The environment in which we operate is constantly evolving and can be affected by events that are outside of our control and which may impact on us operationally. New risks may arise, the potential impact of known risks, including how quickly they escalate, may increase or decrease, and/or our assessment of these risks may need to change. One such new risk arising since the year-end is COVID-19. The Company has mobilised its business continuity plan and continues to assess and deal with the challenges emerging as a result of the pandemic on our business and its operation, further details of which is set out on page 33.

Market competition – the products we buy/sell are subject to the market forces of supply and demand and new competition

Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	The products we sell are subject to normal market forces, so demand may fall, our products may face new or increased competition or the price we can achieve may be reduced.	<ul style="list-style-type: none"> – The Group constantly monitors that marketing campaigns deliver to support the strategy. 	 <p>This risk has not changed materially since last year.</p>
International expansion	Our inability to generate profits from sales, or to convert those profits into cash flow may result in insufficient cash to reinvest into the business, or to service our debt capital. Any inability to generate cash would impact on our liquidity and could lead to non-compliance with the covenants to which our debt facilities are subject or our ability to maintain dividend payments.	<ul style="list-style-type: none"> – We continue to monitor and regularly forecast sales, costs, profits and cash flows. 	
	Competition comes from several different sources. The Group has to ensure it has adequate resources to respond to any increased competition which includes new entrants into UK or overseas markets.	<ul style="list-style-type: none"> – The Group has implemented a Global Marketing excellence programme. 	
	These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.		

Product regulation – our products are subject to UK and overseas regulatory requirements


Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	Some of our products may not gain regulatory approval or could face the risk of having their regulatory status challenged or adversely altered. This could affect the Group's ability to launch any new products, maintain sales of its current products in current jurisdictions or expand geographically. These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.	<ul style="list-style-type: none"> – The business allocates significant and experienced resources to supporting the regulatory approval of products, including any extensions to other markets. – The business engages in regular discussions with local regulatory advisers (internal and external) to monitor any products that may be subject to challenge. 	 <p>This risk has not changed materially since last year.</p>

“New risks may arise, the potential impact of known risks, including how quickly they escalate, may increase or decrease, and or our assessment of these risks may need to change.”


RICHARD JONES

Chairman of the Audit and Risk Committee

Continued expansion and growth of the business – new markets become less attractive and potential acquisitions larger in size


Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential International expansion	<p>There can be no guarantee that the Group will be able to identify suitable targets to continue its expansion. The market for high quality products (whether bedrock or growth) is highly competitive and the Group may find itself unable to compete in such a market if the pricing of such targets proves prohibitive.</p> <p>As the Group looks to increase the size of its targets, the complexity around acquisition and integration of such targets also increases. The financial impact of such potential risks (unidentified risks during due diligence, external advisers, additional staff etc) could impact on the profitability of such targets and the Group as a whole.</p>	<ul style="list-style-type: none"> – Pipeline – We monitor the market for attractive acquisitions to develop a pipeline of opportunities that we could potentially bring into our portfolio of products thereby ensuring that we remain competitive in the industry. Our dedicated Corporate Development Team has many years’ experience in identifying and completing transactions, as well as a wide network of contacts in both medium and big pharma. – Integration – continue to ensure that we integrate acquisitions into the business in an effective and efficient manner, with an experienced due diligence and integration team within the various functions. – Business development skills and expertise are supplemented by in-house legal counsel with many years’ experience in M&A transactions. 	 This risk has not changed materially since last year.

Supply chain, sourcing and logistics – potential constraints on our ability to supply and deliver products to our customers


Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	<p>Manufacturing, sourcing or distribution issues, including an inability to increase production volumes to meet demand, impinges on our potential sales. These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.</p> <p>The products we sell could risk losing their regulatory approval in the relevant territory or could become subject to public procurement processes resulting in constraints on either our ability to supply or the prices that can be achieved.</p>	<ul style="list-style-type: none"> – We have developed forecasting systems that allow us to work with our contracted manufacturers to ensure production volumes meet our ability to supply products. – Where necessary and appropriate, we ensure that the investment in capacity or sourcing of components from within our supply chain is increased. – Generally, we ensure sufficient stock is held in the supply chain for most products. This is bolstered by the dual sourcing of our brands where it is deemed appropriate. – The diversification through selling a wide range of products, many of which do not require regulatory approval, or are not subject to public procurement processes. – Our experienced technical and regulatory staff build and maintain their knowledge of the public-sector procurement process. – Where possible, and cost effective, the potential financial impact of supply chain disruption is mitigated by insurance. 	 This risk has not changed materially since last year.

OUR PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Attraction and retention of key employees – losing good people to competitors or failing to recruit qualified people

Link to strategy	Risk description and impact	Management and mitigation	Trend
Investing in people	<p>Competitors may try to recruit some of our key employees. The business recruits and is dependent on certain key executive employees. Whilst the business has entered into employment arrangements with the view of securing their service, we cannot guarantee their retention which means we run the risk of losing good people, and with it their knowledge, skills and expertise.</p> <p>Working at an international level means we must be able to access good qualified people to support the business both from the UK and in our overseas territories. Changes in political landscapes, and local rules and regulations can have an impact on our ability to recruit foreign nationals.</p> <p>The loss of those employees could weaken the Group's management capabilities, impacting on our day-to-day operations.</p>	<ul style="list-style-type: none"> – The Group is committed to putting in place incentive and reward structures that are regularly reviewed to ensure we remain a competitive employer. – We ensure that roles and responsibilities are clearly defined and are supported by documented systems and procedures to provide a level of continuity in the event an employee moves on in their career. – We work with international and local country agencies to ensure we find and recruit good quality employees. Working with existing foreign nationals based in the UK to support their employment in the Group, as the political landscape changes. – Induction and training for new employees – the Group has a structured and wide-ranging induction process for new joiners to ensure that they understand the Group, its business and how important the role they will play is within the Group. This has helped nurture a positive team and work ethic within the Group. 	 <p>This risk has not changed materially since last year.</p>

Group-wide financial, legal and regulatory compliance – failing to meet legal or regulatory compliance

Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	<p>As we enter new territories and overseas markets, the risks we are exposed to in those overseas territories and markets means we could be subject to matters such as bribery, anti-slavery and corruption.</p> <p>The Group operates in a highly regulated sector and in markets and geographies around the world each with differing requirements. As a result, and in the normal course of business, the Group can be subject to several regulatory inspections/investigations on an ongoing basis. It is therefore possible that the Group may incur penalties for non-compliance and potentially impact on the sales of our products and cause damage to our brands and our reputation.</p> <p>In addition, several of the Group's brands and products are subject to pricing controls and other forms of legal or regulatory restrictions from both governmental/regulatory bodies and also from third parties.</p> <p>The Group has ongoing regulatory requirements (pharmacovigilance etc) which could, if not adhered to, lead to substantial fines and impact on the Group's ability to sell certain products.</p> <p>As the Group expands its operations, the VAT and general tax environment in which it operates becomes more complex and the risk to incorrectly report and pay relevant taxes increases.</p>	<ul style="list-style-type: none"> – The business carries out careful assessments with its legal, commercial and operational teams, to determine whether to recognise a provision in respect of these matters. These judgements are often complex and rely on estimates and assumptions as to future events. – In-house Company Secretarial function has been bolstered in order to increase the internal management of corporate compliance. – The Group has engaged external VAT consultants to implement control improvements using current systems. This will be further supported by the introduction of the new ERP system which will assist with supply chain management and VAT reporting. – Third party experts are engaged in our overseas territories to help us comply with local rules and regulations and ensure that our operations are monitored against them. We request training and support from service providers (UK and overseas) to widen internal knowledge for our employees for legal and regulatory issues. – Induction and training for new employees – the Group has a structured and wide-ranging induction process for new joiners to ensure that they understand their individual, and the Group's, obligations in relation to such matters as adverse event reporting. Furthermore, the Group has a programme of periodic training around legal and regulatory compliance. 	 <p>This risk has not changed materially since last year.</p>

Foreign exchange risk – volatility in reported profits

Link to strategy	Risk description and impact	Management and mitigation	Trend
International expansion	<p>The Group earns a proportion of its profits in currencies other than Sterling, but accounts for the business in Sterling. The reporting of profits is therefore subject to volatility due to changes in exchange rates.</p>	<ul style="list-style-type: none"> – The Group is funded by a combination of Sterling-, Dollar- and Euro-denominated debt, which provides a natural hedge to some of these exposures. – In 2019 the Group has implemented a new risk management policy to hedge up to 75% of its estimated future foreign currency EBITDA exposure. This for up to the next 18 months at any point in time. The Group uses forward foreign exchange contracts to implement this policy which are generally designated as cash flow hedges. At 31 December 2019 the Group has outstanding forward foreign exchange contracts to sell €10.7m and \$9.4m for fixed sterling amounts. 	<p>◀ ▶</p> <p>The unhedged portion of the Group's profits earned in currencies other than Sterling has increased in 2019, however due to implementation of the new risk management policy the residual risk is considered materially similar.</p>

Product liability – defective products etc


Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	<p>The Group produces and sells a wide range of medicines, medical devices, food supplements and cosmetics. There are inherent risks that some of these products could cause adverse reactions exposing the Group to the risk that (i) the product must be withdrawn from sale and (ii) that we may have legal liability to those injured by that product.</p> <p>These risks have the potential to damage our reputation and compromise our future performance and, in an extreme scenario, liquidity position or even solvency.</p>	<ul style="list-style-type: none"> – Dedicated in-house Quality function, supplier audits. – The Group's products are well tolerated, and many have been in existence for decades. – All products have regulatory approval in the markets we trade in. – We also carry public and products liability insurance to provide an appropriate level of protection for the Company. 	<p>◀ ▶</p> <p>This risk has not changed materially since last year.</p>

Information security and data protection


Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	<p>We hold significant amounts of confidential data on our customers and employees. Some of that data is being collected via our transaction processes, which includes financial information and other personal data. A failure to abide by data protection rules or incur a breach of data security could post a financial and reputational risk to the Group.</p> <p>We co-ordinate a complex supply chain with many contract manufacturers, logistics intermediaries and distributors, all of which rely on the availability of our IT systems. In addition, we sell some products directly through our website and therefore hold some customer data, the loss of which (whether accidental or malicious) would cause disruption and cost to the Group.</p> <p>As the Group now supplies a wider range of products and has become more geographically diverse, it is more reliant on its IT systems, so this risk is increasing.</p> <p>These risks are likely to be short-term in nature, but could affect our performance and, potentially, cash generation. There would also be a reputational impact if we suffered a major loss of personal data.</p>	<ul style="list-style-type: none"> – The Group has a range of measures in place to monitor and mitigate this risk including anti-virus software, firewalls and network segmentation that are regularly updated; regular introduction of more up to date software also provides additional in-built security; and incident management, business continuity management and IT disaster recovery plans are in place. – Appropriate physical and cyber security measures are in place to prevent unauthorised access to information. – We provide training and alerts to staff members to ensure that they are fully aware of technical data protocols. – Third parties are engaged to review and recommend ongoing improvements to enhance IT security and resilience. – The Group continues to monitor compliance with GDPR. 	<p>◀ ▶</p> <p>This risk has not changed materially since last year.</p>

OUR PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED


Business systems – ERP and other systems

Link to strategy	Risk description and impact	Management and mitigation	Trend
Integrating acquired products and companies Maximising and extending brand potential International expansion	<p>There is always a risk to our business systems that means we could lose functionality, end up with corrupted files or suffer errors in our master data systems.</p> <p>Once implemented there is a risk that the ERP system may fail to work as intended or deliver the expected benefits. In addition, while this is expected to improve the internal control environment, the transition from, and eventual removal of, legacy IT systems creates continuity risks. In addition, the design and implementation of new operating practices and culture needed to bring the ERP system into full effect creates further risk to the Group's business.</p> <p>These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.</p>	<ul style="list-style-type: none"> – The Group continues to invest in its systems generally and has also introduced an IT Steering Group to provide oversight of core systems across the business and lead on changes required as a result of systems development or regulatory changes. – We have selected an ERP system with a good track record and an experienced company to support the Group in the implementation through a structured process, developed a carefully-considered project plan, hired experienced project managers and released staff from their normal roles to focus on the project. – The project continues to have the support of the Board and the Audit and Risk Committee and is regularly reviewed by the Senior Leadership Team and reported on at Board level. – We continue to work towards successful implementation of the ERP system alongside stringent testing before retiring the legacy systems. 	 This risk has not changed materially since last year.

Business continuity – the ability to continue operating in the event of extreme events

Link to strategy	Risk description and impact	Management and mitigation	Trend
Sustained growth	As with many businesses, we are at risk of problems affecting our ability to continue operations because of extreme events. This could be an event that affects our people, operational sites, offices or equipment and systems, which would prevent our business from functioning as normal.	<ul style="list-style-type: none"> – The Group, through its experienced IT team, has implemented and continues to monitor the suitability of disaster recovery plans to ensure an ability to continue with its operations in the event of a disruption to any of its operating facilities or systems. – We use third parties to support and review resilience of our operating platforms and recommendations are implemented as appropriate. 	 This risk has not changed materially since last year.

Political uncertainty – Brexit

Link to strategy	Risk description and impact	Management and mitigation	Trend
Sustained growth	The business, its management and employees are all aware of the potential risks and uncertainties created as a result of the UK leaving the EU (Brexit). The potential impact of the eventual terms of Brexit affects aspects across our business, including product regulation, ability to trade cross-border, ability to continue to supply under existing terms, and our ability to recruit foreign nationals to work with us in the UK.	<ul style="list-style-type: none"> – The business continues to monitor the developments affecting our industry and markets and we contemplate 'what-if' strategies where we have been alerted to potential changes that could occur. – The Group has established an internal Brexit Strategy Group to actively manage this uncertainty. Only a limited amount of our business is reliant on the movement of goods between the UK and EU, however to mitigate potential risk, we have implemented our Brexit strategy, which includes: building additional inventory in order to maintain sufficient supply of key products; establishing a subsidiary company in the Republic of Ireland which now hosts certain registrations; and duplicating key statutory roles in the UK and EU albeit on a limited basis. 	 This risk has not changed materially since last year.

Pandemics and other worldwide events (COVID-19)

Link to strategy	Risk description and impact	Management and mitigation	Trend
Sustained growth	<p>The unprecedented situation around COVID-19 is creating an uncertain time. The situation is changing almost daily, and it is difficult to assess at the time the final impact of COVID-19. The Group has taken various steps early on in order to deal with the situation which it finds itself in as well as to help mitigate any potential impact to its business and people.</p> <p>Whilst supply is holding up well, demand is harder to forecast. Although the COVID-19 situation in China and across the Asia Pacific looks to be improving, we anticipate that demand in the Asia Pacific region, including China, will be lower in the first half of 2020 and then, depending on the speed with which this region returns to normality, begin to recover in H2. Sales in our UK and mainland Europe businesses are expected to be impacted, but to a lesser extent due to the higher proportion of prescription medicines sold in this region.</p> <p>Given the fast-moving nature of the pandemic, the full-year impact on trading of the COVID-19 coronavirus is very difficult to forecast but we anticipate that trading will be weighted to the second half.</p> <p>Any significant impact on the turnover of the Group could affect the Group's ability to continue to comply with its financial covenants within its borrowing facilities.</p>	<ul style="list-style-type: none"> Our priority is to ensure the safety of our people across the globe. In the UK, Republic of Ireland, mainland Europe, Singapore, and the US, our staff are now working from home in line with local government guidelines. Our investment in IT has ensured a high level of connectivity throughout the world which means we can operate remotely with minimal disruption to the business. In Asia, we are pleased that our Shanghai office has now fully reopened. The Group took action to establish a COVID-19 planning and action team early on after the events in China started to take effect. The team took early action to assess the impact on and safety of our employees and our supply chains. Distributors were also contacted early on, and the team stays in close and regular contact with every element of our supply chains (supplier, logistics and distributors) to ensure it has up to date information which allows the Group to plan any necessary response. Our supply chain is holding up well and we do not anticipate any material supply impact in the current year. For those products we sell directly, we hold typically a minimum of three months of inventory and, in some cases more, depending on the level of clinical need. Most of our international sales are generated via distributors, who typically hold three to six months of inventory. We continue to monitor our supplier base for early indications of any issues and are forward booking transport for the remainder of 2020 in order to mitigate any future capacity constraints. The Group has sufficient headroom between operating leverage (31 December 2019: 1.5 times) and its banking covenants which are set at 3.0 times net debt / EBITDA. The Group regularly reviews its on-going cashflow position and this is stress tested on a monthly basis. The Group's business is profitable and cash generative. 	 This is a new risk.

“Governance continues to focus on our ability to develop and build a sustainable and resilient strategy, centred on delivering growth, maintaining a dynamic management framework and building trust. This is embedded in our culture of supportive leadership which harnesses the skills and talents of our people.”

DAVID COOK
Independent Non-executive Chairman

GOVERNANCE

Chairman's Introduction to Governance	52
Board of Directors	54
QCA Code Compliance	56
Nomination Committee Report	62
Audit and Risk Committee Report	63
Remuneration Committee Report	65
Directors' Report	73

Chairman's introduction to governance

“ We recognise that good governance can contribute to our ability to create shared value. Our governance framework promotes a culture of accountability and responsibility by actively managing the risks that we face, supported by our values and behaviours.”

DAVID COOK
Chairman of the Board

DEAR SHAREHOLDER,

I am delighted to introduce this section on governance, which describes the activities of the Board and its Committees during 2019 and how we have ensured governance remains a pivotal part in the strategic development and day-to-day running of this business.

Maintaining our strong systems of good governance

As an AIM quoted company, our governance framework is underpinned by the Quoted Companies Alliance (QCA) Corporate Governance Code 2018 (the 'QCA Code'). In addition to the QCA Code, we monitor developments and guidance in the UK Corporate Governance Code, applicable to main market listed companies, to keep abreast of matters which we feel could also be embedded as best practice as part of a progressive approach.

Governance continues to focus on our ability to develop and build a sustainable and resilient strategy, centred on delivering growth, maintaining a dynamic management framework and building trust. This is embedded in our culture of supportive leadership which harnesses the skills and talents of our people and is coupled with regular, open dialogue with our investors at results presentations, one-to-one investor meetings and at our Annual General Meeting ('AGM'). Director changes made at the beginning of 2019 have balanced independence on the Board, and strengthened the skills and experience on the Board and its Committees. This further enhances our the ability of the Board as a whole to continue to take decisions in the interests of all stakeholders over the medium to long-term.

In the following sections, we provide an update on our compliance with Corporate Governance, the Remuneration Report and the Directors' Report. In these reports we set out our governance structures, along with overview of how the Company complies with the Principles of the QCA Code which can be found on our website at: www.alliancepharmaceuticals.com/investors/governance

Due to the unprecedented situation with COVID-19 and in line with the Government's Stay at Home measures, the Board has taken the decision to hold this year's AGM on the 18 May 2020 at the Company's offices in Chippenham, with the CEO and CFO attending in person and the rest of the Board attending via audio conference. Shareholders will not be permitted to attend the AGM in person. Your Board understands that many shareholders who would have liked to attend in person and ask questions of the Directors will not be able to. The Company has arranged for a listen-only conference facility to allow shareholders to dial in to the meeting for which details are included in the notice of AGM. It should also be noted that all voting will be conducted on a poll. Only those votes received by proxy or cast in person will count and, as such, if you are planning on dialling in to the AGM then you should cast your votes by post or online for them to be validly counted.

Thank you for your continued support and the Board would like to thank all shareholders in advance for your co-operation around the arrangements for this year's AGM.



David Cook
Chairman

7 April 2020

OUR GOVERNANCE FRAMEWORK

Shareholders

Our shareholders delegate to the Board collectively, the responsibility for the long-term success of the Company within a framework of good governance. The Board seeks to understand the investor base through regular dialogue and engagement.

The Board

The Board's role is to set the vision and strategy for the Company. By putting in place the business model, the Board aims to deliver value to its shareholders. There is a collective responsibility for the Group's corporate governance arrangements to achieve the Company's purpose. This includes taking account of the risks and opportunities and building and maintaining on healthy relationships with its stakeholders. To assist in discharging its duties, some areas of responsibility are delegated to the Committees of the Board.



More information on the activities of the Board can be found on **pages 56 to 61**

The Nomination Committee

The Nomination Committee leads on succession planning; the process for recruitment of new Board members, and evaluating composition and diversity to ensure Board effectiveness.



More information on the work of the Nomination Committee can be found on **page 62**

The Audit and Risk Committee

The Audit and Risk Committee leads on reviewing the Company's integrity of the financial results and other reporting, challenging external auditors, and has oversight of the effectiveness of risk management and systems of internal control



More information on the work of the Audit and Risk Committee can be found on **pages 63 and 64**

The Remuneration Committee

The Remuneration Committee leads on designing remuneration policy, determining Board and senior executive remuneration, and takes account of the wider Group pay and associated policies



More information on the work of the Remuneration Committee can be found on **pages 65 to 72**

Senior Leadership Team

The SLT meets on a regular basis. It is led by the Chief Executive, comprises the senior leadership who have management responsibility; and has responsibility for business operation and its support functions.

The Matters Reserved to the Board and Committee terms of reference can be viewed on the Company's website

MEMBERS AND MEETINGS AT A GLANCE

Scheduled and unscheduled meetings between 1 January 2019 and 31 December 2019

Board				Nomination Committee			Audit and Risk Committee			Remuneration Committee		
13 meetings				2 meetings			3 meetings			10 meetings		
David Cook	Chairman	Independent	13/13	Nigel Clifford	Chair	2/2	Richard Jones	Chair	3/3	Nigel Clifford	Chair	10/10
Peter Butterfield	CEO	–	13/13	David Cook	NED	2/2	David Cook	NED	3/3	David Cook	NED	10/10
Andrew Franklin	CFO	–	13/13	Jo LeCouilliard	NED	2/2	Jo LeCouilliard	NED	3/3	Jo LeCouilliard	NED	10/10
Nigel Clifford	NED	Independent	13/13	Richard Jones	NED	2/2						
Jo LeCouilliard	NED	Independent	13/13									
Richard Jones	NED	Independent	13/13									

BOARD OF DIRECTORS

Our Board is committed to maintain a high standard of governance and integrity.

DAVID COOK
Independent Non-executive
Chairman

Date joined David joined the Board of Alliance as a Non-executive Director in 2014 and was appointed Chairman of the Board on 1 March 2018

Qualifications David qualified as a Chartered Accountant with PricewaterhouseCoopers after graduating in chemistry at the University of Oxford

Experience He is currently Chief Financial Officer and an Executive Director of Ellipses Pharma, an international cancer drug development company, and was previously Chief Financial Officer and Chief Business Officer of Biotie Therapies Corp, a drug development company quoted in Helsinki and on NASDAQ. He has previously held senior financial positions with Jazz Pharmaceuticals International, EUSA Pharma and Zeneus Pharma.

David has extensive experience of financial and general business management (including the implementation of buy and build strategies) in the life sciences sector, of financing those businesses and managing investor relations across a number of stock markets globally.

PETER BUTTERFIELD
Chief Executive Officer

Peter was previously the Company's Deputy Chief Executive Officer and was appointed to his present office as Chief Executive Officer on 1 May 2018 having joined Alliance in 2010 as an Executive Director.

Peter holds an honours degree in Pharmacology from the University of Edinburgh

Peter has over 20 years' experience in the life sciences sector and strong leadership experience gained in a variety of contexts. Peter joined the Board of Alliance in 2010 with the acquisition of Cambridge Laboratories where he spent five years, latterly as UK Commercial Director. Prior to joining Cambridge Laboratories, Peter spent six years at GlaxoSmithKline in a variety of marketing and sales roles

ANDREW FRANKLIN
Chief Financial Officer

Andrew joined Alliance in September 2015 from Panasonic Europe Ltd, where he was General Manager, European Tax and Accounting.

Andrew holds an honours degree in Civil Engineering from the University of Wales, Cardiff.

From 2010 to 2012 Andrew was Finance Director and Company Secretary of Genzyme Therapeutics Ltd, the UK and Ireland subsidiary of Genzyme Corporation. Prior to that, he gained 12 years' pharmaceutical experience with Wyeth in a variety of senior financial positions.

Andrew is a Fellow of the Institute of Chartered Accountants in England and Wales with extensive experience of financial management of international businesses, including significant prior experience in life science companies.

Committee membership ■■■■

Committee membership key

 Audit and Risk Committee

 Nomination Committee

 Remuneration Committee

 Committee Chair

NIGEL CLIFFORD Independent Non-executive Director

Nigel joined the Board of Alliance as a Non-executive Director in 2015

Nigel graduated in Geography from the University of Cambridge and has an MBA from Strathclyde University.

He was appointed Deputy Chair at the UK Government's new Geospatial Commission in December 2018 and is an Operating Partner with Marlin Operations Group. Previously, he held Chief Executive and senior positions at Ordnance Survey, Proserve Holdings, Micro Focus International plc, Nokia, Symbian Software, Tertia Telecoms, Cable and Wireless plc, Glasgow Royal Infirmary NHS Trust and BT plc. He also served as a Non-executive Director of Anite plc.

He brings significant experience of the strategic and commercial management of complex global businesses, gained in a variety of industry sectors and under a variety of ownership structures.

 View the Nomination Committee report on **page 62**

 View the Remuneration Committee report on **page 65**

RICHARD JONES Independent Non-executive Director

Richard joined Alliance as a Non-executive Director on 1 January 2019.

Richard has a degree in Engineering from Newcastle University and is a Chartered Accountant.

Since the start of 2017 he has been CFO and a Board member of Mereo BioPharma Group PLC, a UK listed biopharma company developing a range of products in bone, endocrine and respiratory therapies with a focus on rare diseases.

Richard joined Mereo from UK AIM listed Shield Therapeutics plc where he was Chief Financial Officer and Company Secretary from early 2011 having initially joined the Board as a Non-executive Director in 2010. At Shield he had a leading role establishing the finance operations and guiding Shield through its 2016 IPO.

Prior to this, Richard had a career in investment banking, holding senior positions at Investec and Brewin Dolphin Securities, where he advised healthcare clients on a wide range of transactions including IPOs, M&A and fundraisings.

 View the Audit and Risk Committee report on **page 63**

JO LECOULLIARD Independent Non-executive Director

Jo joined Alliance as a Non-executive Director on 1 January 2019.





Jo graduated in Natural Sciences from Cambridge University and is a Chartered Accountant

She has 25 years' healthcare management experience gained in Europe, the US and Asia. Much of her career has been in pharmaceuticals at GlaxoSmithKline where, amongst other roles, she headed the US vaccines business and Asia Pacific Pharmaceuticals business and led a programme to modernise the commercial model. She was previously Chief Operating Officer at the BMI group of private hospitals in the UK. She was Non-executive Director at Frimley Park NHS Foundation Trust in the UK and at the Duke NUS Medical School in Singapore.

She is currently a Non-executive Director at the UK listed companies Circassia Pharmaceuticals plc, Cello Health plc and is on the Board of Recordati S.p.A, a company listed in Milan.



Compliance with the Principles of the QCA Code

QCA Principle	Explanation
1 To establish a strategy and business model which promote long-term value for shareholders	<p>The Board meets annually at a two-day strategy planning meeting to review the strategy for the Group. The strategic plan and business model are reviewed by the Senior Leadership Team on a monthly basis with relevant operational and management updates being reported to demonstrate delivery and progress. Decisions of the Board are made in line with the strategic plan and business model for the Group.</p> <p> Further information on the Group's strategy can be found on pages 20 and 21 and on its business model on pages 14 and 15</p>
2 To seek to understand and meet shareholder needs and expectations	<p>The Directors are committed to open communication with the Group's shareholders to ensure that they clearly understand its business, strategy and performance. The Board actively seeks dialogue with its shareholders via investor roadshows, capital market days, one-to-one meetings and regular reporting. The Board believes that open communication with investors and analysts is the best way to ensure it understands what is expected of the Group in order to allow it to drive its business forward.</p>
3 To take into account wider stakeholder and social responsibilities and their implications for long-term success	<p>The Board values the opinions of key stakeholders in the business and regularly seeks to ensure that the views of its employees, suppliers, customers and partners are known and where relevant to the success of our business they are acted upon. The Board continues to be mindful of environmental, social and governance representation.</p> <p> Further information about our stakeholder engagement can be found on pages 16 to 19</p>
4 To embed effective risk management, considering both opportunities and threats, throughout the organisation	<p>The Board, assisted by the Audit and Risk Committee, is ultimately responsible for overseeing management's activities in identifying, evaluating and managing the risks facing the Group and records them on the Group risk register, which is reviewed quarterly. Where these risks are not ones which the Board is prepared to take, these are avoided, eliminated as far as possible and/or transferred to insurers. The management of both risks and opportunities feeds into the decision-making process.</p> <p> A further explanation of our risk management, risks and internal controls can be found on pages 42 to 49</p>
5 To maintain the Board as a well-functioning, balanced team led by the Chair	<p>The Board keeps under review its current balance and composition, which provides a sufficiently wide range of skills and experience to enable it to pursue its strategic goals and to address anticipated issues in the foreseeable future. Led by the Chair, deliberations are not dominated by one person or any group of people.</p> <p> Further information on the board effectiveness, roles and responsibilities can be found on pages 58 to 61</p>

Key activities of the Board and its Committees

The Directors are aware and mindful of their duties and obligations under s.172 of the Companies Act 2006. The Board ensures that the decisions it takes, it does so to promote the success of the Group as a whole and having considered the likely and long-term consequences and wider stakeholder

considerations. Open and honest discussion at Board level between management and the Directors considers the impact on the Group's stakeholders when reviewing items flowing up to the Board as part of its activities, whether this is reviewing strategy, budget or a corporate development opportunity.

2019	January	February	March	April	May
Board and Committee activities	Board evaluation	Review European operations	Annual Report Final dividend	Re-financing Product review	CMA discussion Re-financing
Shareholder communications and engagement	Trading update		Preliminary results Webcast presentation Investor roadshow		Annual General Meeting

The Board believes that the QCA Code continues to provide an appropriate and suitable framework for a group of our size and complexity. The following table demonstrates how we have applied the ten principles of the QCA Code.

QCA Principle		Explanation
6	To ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	<p>The Nomination Committee reviews the balance and composition of the Board and its Committees which considers skills and experience of the Board.</p> <p>➔ Further information on the work of the Nomination Committee can be found on page 62</p>
7	To evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	<p>The Chairman evaluates the performance of the Board through a blend of questionnaires and one-to-one meetings with each Director. This process offers Directors an opportunity to discuss their contribution in terms of their skills and experience as well as identifying improvements or development to enhance the capabilities of the Board as a whole.</p> <p>➔ Further information on Board evaluation and its effectiveness can be found on page 61</p>
8	To promote a culture that is based on ethical values and behaviours	<p>The Board aims to lead by example and make decisions that are in the best interest of the Group as a whole. Our culture is underpinned by a clear set of values, which guide decision making at all levels in the business. Both the SLT and the Board reviews and approves the Group's policies which are then implemented and communicated internally and externally to those who are expected to adhere to them.</p> <p>➔ Further information on people and culture can be found on pages 34 and 35</p>
9	To maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	<p>The Board reviews its assurance and governance framework at least annually to ensure that the Group's governance structures remain appropriate and are fit for purpose. This framework sets out leadership and embeds delegated responsibilities to enable informed and confident decision-making.</p>
10	To communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	<p>The Board ensures that all stakeholders across the business are actively engaged through the relevant areas of responsibility. This includes making sure that the business as a whole upholds its values and monitors behaviour for acceptability.</p> <p>➔ Further information on our dialogues and engagement with shareholders and other stakeholders can be found on pages 16 to 19, and page 59</p>

For example, all acquisition opportunities are assessed to understand their impact on not only the potential income generation and the additional value creation for shareholders, but also how such an opportunity impacts on costs and wider resource of the business. Each meeting considers what information is needed to assist the Directors with their responsibilities.

This can take the form of written reports, market reviews and guidance, and presentations and briefings from both internal members of staff and external advisors. Further information on how the Group engages with its stakeholders is explained on [pages 16 to 19](#).

June	July	August	September	October	November	December
Strategic planning	Risk review	No Board meeting held*	Half-Year results Interim dividend Product review	2020 budget review and presentations Product review	2020 budget approval	Nominated Advisor presentation Share option awards
	Trading update Private Client Fund Manager meetings		Half-Year results Investor roadshow	Consultation on share plans		

* Although there is no scheduled meeting in August, a management pack is circulated

GOVERNANCE CONTINUED

LEADERSHIP

The role of the Board

The Board currently comprises six Directors, being the Chairman, three further independent Non-executive Directors and two Executive Directors. Together, they are responsible for providing effective leadership to promote the long-term success of the Company. There is a formal list of matters reserved for the Board, which may only be amended by the Board and is available on our website. The key responsibilities of the Board include:

- setting the Group's vision and strategy;
- maintaining the policy and decision-making process through which the strategy is implemented;
- checking that necessary financial and human resources are in place to meet strategic aims;
- providing entrepreneurial leadership within a framework of good governance and sound risk management;
- monitoring performance against key financial and non-financial indicators;
- responsibility for risk management and systems of internal control; and
- setting values and standards in corporate governance matters.

Board Committees

The Board has delegated and empowered three Committees: a Remuneration Committee, a Nomination Committee and an Audit and Risk Committee. Each Committee has written terms of reference set by the Board, which are reviewed annually and are available on the Company's website. Membership of each Committee is determined by the Board on the recommendation of the Nomination Committee. Each Committee Chair reports to the Board on the activities considered and determined by the relevant Committee. A summary of the Committees' responsibilities and their work during the year can be found in the reports from the Committees appearing later in this section.

The Company Secretary is secretary to all the Board's Committees who has the responsibility for ensuring members receive relevant and timely information to enable discussions and decision-making.

Directors' duties and decision-making

The powers and duties of the Directors are determined by legislation and the Company's Articles of Association. Directors are required to act in good faith in a way that they consider would be most likely to promote the success and having considered the views of the wider stakeholders of the Company. The Board factors the needs and concerns of the Company's stakeholders into its discussions and decisions in accordance with s.172 of the Companies Act 2006.

Where appropriate, the Board receives recommendations in relation to matters delegated to the Committees of the Board which conduct their work in accordance with their respective terms of reference.

Board activities

The Board held 11 scheduled meetings during the year at which it considered all matters of a routine nature, structured through clear agenda setting, written reports and presentations from both internal members of staff as well as external advisors and consultants. In addition, there were two ad-hoc meetings of the Board to deal with non-routine business.

Board support, meeting management and attendance

Attendance

The Board and its Committees meet regularly on scheduled dates. This includes a two-day strategy meeting in each year which is also attended by all senior executives of the Group, the purpose of which is to review progress in delivering agreed plans and to develop and settle the Group's business plans and long-term strategic targets and set the framework for the achievement of those goals.

In leading and controlling the Company, the Directors are expected to attend all meetings and their attendance for the financial year 2019 is shown on page 53.

Meeting management

The Company Secretary plays a vital role in ensuring good governance, assisting the Chairman. On behalf of the Chairman, Chris Chrysanthou is responsible for ensuring that all Board and Committee meetings are conducted properly, that the Directors are properly briefed on any item of business to be discussed. His role is also vital in relation to both legal regulatory compliance and for ensuring that governance requirements are considered and implemented and for accurately recording each meeting. He has a direct line into the Chairman on all matters relating to governance.

Procedures are in place for distributing meeting agendas and reports so that they are received in good time, with the appropriate information. Ahead of each Board meeting, the Directors each receive reports which include updates on strategy, finance, including monthly management accounts, operations, commercial activities, business development, risk management, legal and regulatory, people and infrastructure and on investor relations.

The Directors may have access to independent professional advice, where needed, at the Group's expense.

Stakeholder engagement

The Board and its Committees recognise that to meet its responsibilities to shareholders and its stakeholders, it is important to ensure effective engagement with, and encourage participation from, these parties. The Board factors the needs and concerns of the Company's stakeholders into its key activities and decisions through its reporting and throughout its discussions to ensure that the Directors' duties under s.172 of the Companies Act 2006.

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the AGM and one-to-one meetings with existing or potential new shareholders. Such reports as well as other relevant announcements and related information are all available on the Company's corporate website, www.alliancepharmaceuticals.com

A list of the Company's major shareholders can be found in the investor section of our website which is regularly updated following the formal notification of movements to the Company.

Furthermore, analysts' notes and brokers' briefings are received and considered by the Board in order to ensure, as far as possible, a clear and up-to-date understanding of investors' views.

The Company completes regular annual employee surveys to maintain an open dialogue with employees and holds a monthly breakfast briefing for all employees around the world where the Company's performance, targets and key objectives are communicated and discussed.

Engagement with our shareholders

Throughout the year the CEO and CFO meet with potential investors and existing institutional shareholders and the Board is provided with feedback from all meetings and communications with shareholders. The Board is provided with an analysis of the Company's investor base at each meeting and research notes by sell-side analysts are circulated to all Directors. Further information on investor sentiment is provided to the Board by the Company's brokers and financial PR advisors.

The Group recognises the importance of retail shareholders and the 'Investors' section on the Group's website is regularly updated with the aim of providing good information for all investors, but particularly retail shareholders. The website offers a facility to sign up for email alert notifications of Company news and regulatory announcements. In addition, the CEO and CFO regularly present at conferences attended by many potential and current retail investors and meet with specialist private client fund managers, following which feedback is given to the Board.

In addition to meetings arranged throughout the year with investors or potential investors, there were at least 60 scheduled meetings held as part of the Company's investor roadshows for the annual 2018 and half-year result 2019 results.

Annual General Meeting ('AGM')

This year's AGM will take place at 10.00am on 18 May 2020 at our offices at Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB. Due to the unprecedented events around COVID-19 this year's AGM will take a more restricted form. Only the CEO and CFO will attend in person in order to provide a quorum of shareholders. All other Directors will attend via audio conferencing, which is a listen-only facility also being made available to shareholders.

All voting will be taken on a poll and shareholders are being asked to cast their votes by post or on-line. Shareholders are not permitted to attend the AGM in person due to the Government's Stay at Home measures.

The Notice of Meeting is available on the Company's website at www.alliancepharmaceuticals.com/investors/governance/agm

Electronic communications

We wrote to all shareholders in January 2019, requesting that shareholders consider moving away from hard copy Company communications. This means that, instead of being obliged to send Annual Reports, notices of shareholder meetings and other documents to shareholders in hard copy by post, the Company can instead elect to publish them on its website at www.alliancepharmaceuticals.com. Using the website and email allows us to reduce printing and postage costs and it is better for many shareholders who can choose and access just the information they need, from the website, at any time.

Shareholders still have the right to ask for paper versions of shareholder information, but we are strongly encouraging all shareholders to consider the electronic option.

GOVERNANCE CONTINUED

DIVISION OF RESPONSIBILITIES

The responsibilities of both the Chairman and CEO are clearly defined and understood.

The Chairman

The Chairman, David Cook, has primary responsibility for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the shareholders. In addition, he maintains a strong focus on governance to ensure good practice is embedded in the day to day operations with good flows in communication and reporting. He maintains a regular dialogue with the CEO to ensure the business receives the support from the Board necessary to progress the strategy.

The Chairman also meets with the Non-executive Directors on their own together at least once a year and on their own as part of the Board evaluation process. Shareholders have an opportunity to engage with the Chairman and the Board at the Company's AGM.

The Chief Executive Officer (CEO)

The CEO, Peter Butterfield is responsible for the day-to-day running of the business which includes implementation of the strategy. He is supported by the SLT who have management responsibility for the business operations and support functions. Relevant matters are reported to the Board by the CEO and, as appropriate, the Chief Financial Officer and other members from the SLT.

Board independence

Non-executive Directors

The role of our Non-executive Directors is to:

- provide oversight and scrutiny of the performance of the Executive Directors;
- constructively challenge to help develop and execute on the agreed strategy;
- satisfy themselves as to the integrity of the financial reporting systems and the information they provide;
- satisfy themselves as to the robustness of the internal controls;
- ensure that the systems of risk management are robust and defensible; and
- review corporate performance and the reporting of such performance to shareholders.

Each of the Independent Non-executive Directors sits on at least two of the Audit and Risk, Nomination and Remuneration Committees. This ensures that the Independent Non-executive Directors between them have a role in determining the pay and benefits of the Executive Directors and play a key role in planning Board succession including the appointment and, if necessary, removal of Executive Directors. Three Independent Non-executive Directors, all of whom have an accountancy qualification, sit on the Audit and Risk Committee, enabling them to review internal control and financial reporting matters at first hand, and have a direct relationship with the external auditors.

Each Non-executive Director is appointed for an initial term of three years, subject to annual re-election by shareholders at the Company's AGM. Their appointment term may be renewed by mutual agreement. On appointment, the Non-executive Directors receive a structured induction into the business.

Senior Independent Director (SID)

Each year the Nomination Committee considered whether it is appropriate to have a SID to act as a sounding board and intermediary for the Chairman or other Board members. As part of their review in 2019, it was concluded that the appointment of a SID is not necessary at this time but will be kept under review.

External Directorships

The Chairman and Non-executive Directors hold appointments as Directors on a small number of other companies, as detailed in their biographies on pages 54 and 55. It is considered that the Chairman and Non-executive Directors allocate sufficient time and commitment to fulfil their duties to the Company.

Directors' conflicts of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. Directors are required to notify the Company of any situation that could give rise to a conflict or potential conflict thereby compromising their independence and objectivity. Each member is required to disclose any such potential conflicts at the start of every Board meeting. The Board is fully aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board. Where any such conflict arises, the Board determines whether or not a Director can vote or be a party of the item under consideration in accordance with the Company's Articles of Association.

The Board is satisfied that potential conflicts have been effectively managed throughout the year.

BOARD EFFECTIVENESS

The Chairman with the support of the Board, decided that the Company would move from holding a board effectiveness review bi-annually to holding it on an annual basis. The latest review, which took place in early 2020 consisted of one-to-one meetings between the Chairman and each Director to discuss various matters relating to Board and Committee performance and their effectiveness; each meeting was also attended by the Company Secretary, who also obtained feedback from each Director on the Chairman.

Results and outcomes were reviewed, summarised and circulated to Board members for discussion in February 2020. The reviews determined that the key themes and recommendations flowing from 2019 had largely been appropriately addressed. The key focus areas arising from the 2020 review included the following:

Areas of focus	Feedback and recommendations
Board management and strategic planning	<ul style="list-style-type: none"> Whilst there is good planning for routine matters throughout the year, enhanced planning will be carried out to ensure a higher strategic focus pulling in topics requested by Board members.
Non-executive dialogue and engagement	<ul style="list-style-type: none"> During the year there was good dialogue between the Non-executive Directors, however, as a pre-cursor to the strategy meetings, the Non-executives will meet to ensure they are able to continue to provide meaningful contribution and support to management. Enhanced engagement from the Non-executives outside of the formal Board meetings, drawing on their wider skills and experience to support senior management, will be further encouraged.

The next review is scheduled for early 2021.

Annual re-election of Directors

In accordance with the Company's Articles of Association, all Directors are subject to election or re-election by shareholders at the AGM. On the recommendation of the Nomination Committee and in line with good practice, the Board has decided to move to annual re-election of Directors. Accordingly, all six Directors, being eligible, will put themselves forward for annual re-election at the Company's AGM.

NOMINATION COMMITTEE REPORT

Reviewing the structure, size and composition of the Board, managing succession planning and considering the leadership needs of the organisation.

Meetings held

2

Meetings attendance

100%

“I am pleased to present to you the report of the work of the Nomination Committee for the year ended 31 December 2019. The Committee supports the Board by leading on appointments, succession and reviewing skills, and experience.”

NIGEL CLIFFORD

Chairman of the Nomination Committee

CHAIRMAN'S STATEMENT

The Nomination Committee's (the 'Committee') role is to review the structure, size and composition of the Board (including in terms of skills, knowledge, experience and diversity) and to identify and nominate candidates to fill Board vacancies. The Committee also reviews the leadership needs of the organisation and monitors succession planning for both Board and senior executive roles. The framework of duties is set out in its terms of reference, which are revised annually by the Committee and the Board. The terms of reference are available on the Company's website.

Committee membership and meetings

Membership and attendance

As at the date of this report, the members of the Nomination Committee, all of whom held office throughout the year and to the date of this report unless otherwise stated, are:

Member	Role	Status	Appointment date	Attendance
Nigel Clifford	Chairman	Independent	26/01/2015	2/2
David Cook	NED	Independent	01/04/2014	2/2
Jo Lecouilliard	NED	Independent	29/01/2019	2/2
Richard Jones	NED	Independent	29/01/2019	2/2

Where appropriate, the Chief People and Infrastructure Officer is invited to attend certain meetings of the Nomination Committee to support with discussion around succession planning, recruitment and the selection of candidates.

Meetings and activities of the Committee

During the year, the Committee held two scheduled meetings and reported on its activities to the Board. At both these meetings the Committee reviews the balance, size and composition of the Board and its Committees and considered this as part of succession planning.

Activities of the Committee

- Reviewing the structure, size, and composition of the Board.
- Developing strategies in support of progressive succession planning for Board and senior management.
- Supporting the process for identifying and nominating for approval candidates to fill Board vacancies and ensuring that such a process followed a careful assessment of the balance of skills, knowledge, experience and diversity on the Board.
- Reviewing the outcomes from the Board performance evaluation, as appropriate to the activities of the Committee.

Board balance and composition

The Board keeps under review its current composition, which provides a sufficiently wide range of skills and experience to enable it to pursue its strategic goals and to address anticipated issues in the foreseeable future. Its deliberations are not dominated by one person or a group of people. Having considered the guidelines on independence, on appointment as Chairman, David Cook was independent and continues to be regarded by the Board as independent alongside Nigel Clifford, Richard Jones and Jo LeCouilliard.

Board diversity

The Board is aware of the benefits of diversity on the Board and at the senior management level. It remains committed to considering diversity when discussing appointments and succession planning. The Company and the Board always seek to search for, recruit and appoint the best available person based on aptitude and ability, regardless of sex, marital or civil partnership status, race, colour, nationality, ethnic or national origins, pregnancy, disability, age, sexual orientation, religion, belief or gender reassignment.

AUDIT AND RISK COMMITTEE REPORT

Monitoring the integrity of the financial statements and supporting the Board with ongoing oversight of risk management and internal control systems.

Meetings held

3

Meetings attendance

100%

“On behalf of the Audit and Risk Committee, I am pleased to present my first Audit and Risk Committee report for the year ending 31 December 2019 since becoming Chairman earlier in 2019.”

RICHARD JONES
Chairman of the Audit and Risk Committee

CHAIRMAN'S STATEMENT

The Audit and Risk Committee (the 'Committee') assists the Board with monitoring and reviewing the Company's integrity of the financial results and other reporting and has oversight of the effectiveness of risk management and systems of internal control. The framework of its duties is set out in its terms of reference, which are reviewed periodically and can be viewed on the Company's website. The Committee reports to the Board which includes reporting on any matters where it considers action or improvement is needed, including recommendation of remedial actions.

Committee membership and meetings

Membership and attendance

During the year, the Committee held three scheduled meetings and reported on its activities to the Board.

As at the date of this report, the members of the Audit and Risk Committee, all of whom held office throughout the year and to the date of this report unless otherwise stated, are:

Member	Role	Status	Appointment date	Attendance
Richard Jones	Chairman	Independent	29/01/2019	3/3
David Cook	NED	Independent	01/04/2014	3/3
Jo Lecouilliard	NED	Independent	29/01/2019	3/3

All three members of the Committee have recent and relevant financial experience.

The CEO, Chief Financial Officer (CFO) and the Group Financial Controller are invited to attend all meetings, while other senior financial managers will attend as appropriate. The external auditors attend the meetings to discuss the planning and conclusions of their work and meet with the members of the Audit and Risk Committee without any members of the executive team present after each meeting. The Audit and Risk Committee is able to call for information from management and consults with the external auditors directly if required.

Duties of the Committee

The duties of the Committee include:

- considering the appointment of external auditors and the frequency of re-tendering and rotation of the audit;
- overseeing the relationship with, and the independence and objectivity of, the external auditors;
- setting policy in relation to the use of the external auditors for non-audit services;
- reviewing the management and reporting of financial matters including key accounting policies;
- advising the Board on the Company's appetite for and tolerance of risk and the strategy in relation to risk management and review any non-conformances with these; and
- reviewing the Company's risk management and internal control systems and their effectiveness.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Activities of the Committee

The key activities of the Committee during the year include the following:

Area of focus	Key duties and responsibilities	Activities in the year ended 31 December 2019
Financial Statements and narrative reporting	The content and integrity of financial statements and any formal announcements relating to financial performance, including review of the significant financial reporting judgements contained therein.	<ul style="list-style-type: none"> Review of the financial statements and narrative reporting in the Annual Report and Accounts for 2018 and 2019 and in the unaudited half year results to 30 June 2019, with particular reference to the reports being fair, balanced and understandable. Review of the preliminary results for the financial years ended 31 December 2018 and the unaudited half year results to 30 September 2019. Consideration of reports from the external auditor in respect of the Annual Report and Accounts for 2018 and 2019 and the half year results to 30 June 2019.
Going concern	Consider matters that have informed the Board's assessment of whether the Company is a going concern.	<ul style="list-style-type: none"> A review of the going concern including methodology, assessment in support of the going concern assumption, concluding the expectation that the Group has adequate resources to continue in operation existence for the foreseeable future.
Risk management and internal controls	Review of the Company's financial and other internal controls and risk management systems.	<ul style="list-style-type: none"> A review of risk management and the Group risk register. Review of the Group's assessment of its control framework including progress in enhancing the control environment. A review of the business and corporate governance statement relating to the audit and risk management. Monitor and consider the need for an internal audit function. A review of the Group's risk management and internal control systems is set out on pages 42 and 43.
Review of external auditor	Review and monitoring of the external auditor's independence and objectivity and the effectiveness of the audit process. Review the policy to control engagement of the external auditor to supply non-audit services.	<ul style="list-style-type: none"> Meetings with the external auditor without management to consider any potential areas of concern. Review and consideration of the external auditor's findings and recommendations and management's response from the audit of the year ended 31 December 2018 and 2019. Approve the terms of appointment, areas of responsibility and duties. Scope and strategy of the 2019 external audit set out in the engagement letter and recommend approval to the Board. Review of the external auditor's performance, independence and objectivity.
Terms of reference	Reporting to the Board on how the Committee has discharged its responsibilities.	<ul style="list-style-type: none"> The Committee reviewed its own terms of reference which are considered to be satisfactory. The Committee and Board were satisfied that the Committee and its members continue to operate effectively individually and collectively and had discharged all of the duties within its remit.

Effectiveness and independence of the external auditor

The Committee is responsible for agreeing the terms of engagement with the Company's external auditors KPMG LLP. The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations, monitoring relationships between key audit staff and the Company and tracking the level of non-audit fees payable to the external auditors.

Each year, the Committee assesses a plan for the external auditor's review of the Company's full-year financial statements, which sets out the scope of the audit, areas of significant risk of material misstatement and the timetable. KPMG LLP formally present their findings to the Committee but throughout the auditing process there is regular dialogue and engagement with management with any significant matters or risks being communicated.

REMUNERATION COMMITTEE REPORT

Reviewing and determining the pay, benefits and other terms of service of the Executive Directors and the broad pay strategy with respect to senior employees.

Meetings held

10

Meetings attendance

100%

“On behalf of the Board, I am pleased to present the 2019 Remuneration Committee report which sets out our remuneration policy and remuneration paid to the Directors of the Company.”

NIGEL CLIFFORD

Chairman of the Remuneration Committee

Overview

Strategic Report

Governance

Financial Statements

Additional Information

CHAIRMAN'S STATEMENT

The role of the Remuneration Committee (the 'Committee') is to review and determine on behalf of the Board the pay, benefits and other terms of service of the Executive Directors of the Company and the broad pay strategy with respect to other senior executives. The terms of reference of the Remuneration Committee are available on the Company's website.

Matters reviewed and considered by the Remuneration Committee included base salaries, annual performance related bonuses, pension policy, and performance related share options and awards generally under the Company's Share Option Plans. When appropriate to do so, the Remuneration Committee seeks the support of external advisers and consultants.

This year the Committee spent considerable time reviewing incentive strategies relating to the Company's Share Plans. This was done to ensure they remain aligned to the Group's strategy and have the purpose of attracting, retaining and rewarding employees across the business. Having considered external advice and guidance received from legal and financial advisers, and following a consultation with some of the Company's key shareholders, we were pleased to recommend the introduction of a Long-Term Incentive Plan for executive and senior management under which the first awards were granted in December 2019.

In line with good practice reporting for Remuneration Committees on AIM, this year's report provides readers with greater disclosure of the Board's approach to remuneration.

Committee membership

Membership and attendance

During the year, the Committee held a total of ten meetings and reported on its activities to the Board. As at the date of this report, the membership of the Remuneration Committee

comprises three Independent Non-executive Directors, who all held office throughout the year and to the date of his report. The members and their attendance is as follows:

Member	Role	Status	Appointment date	Attendance
Nigel Clifford	Chairman	Independent	24/02/2015	10/10
David Cook	NED	Independent	01/04/2014	10/10
Jo Lecouilliard	NED	Independent	29/01/2019	10/10

The CEO and the Chief HR Officer are also invited to attend certain meetings of the Remuneration Committee, when appropriate. However, no executive participates when their own remuneration is being discussed.

Remuneration policy

The objective of the Company's remuneration policy remains unchanged. Its purpose is to facilitate the recruitment and retention of executives of an appropriate calibre, to ensure that the senior executives of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

Remuneration policy tables

As the Company is not a fully listed company, it is not required to produce a formal remuneration policy or seek shareholder approval of that policy. Notwithstanding, we set out below additional information that the Committee believes will be most useful to shareholders and reflects remuneration practices that are appropriate for an AIM company of our size.

REMUNERATION COMMITTEE REPORT CONTINUED

Policy table in respect of Executive remuneration

Element	Policy and performance measures	Implementation
Base salary	<p>Base salaries are reviewed annually to ensure they remain in line with other pharmaceutical and AIM-quoted companies and reflect the size and scope of the individual's role. Within that frame of reference, the Company aims to be at or near the median level.</p> <p>Levels are set to attract and retain individuals to lead and drive forwards the agreed strategy for the Company.</p>	<p>Annual base salaries increase in line with the remuneration policy and take effect from May each year.</p> <p>Salary increases follow an annual benchmarking exercise which considers the context of comparable pharmaceutical companies. The Committee is committed to ensuring that salaries remain competitive relative to the AIM 100.</p>
Pension and other benefits	<p>Executive Directors can participate in the Company's defined contribution pension scheme. Only base salaries are pensionable. The Company contributes twice the amount contributed by the employee up to a maximum of 10%.</p> <p>Other benefits in kind include life assurance, healthcare and the provision of a cash allowance in lieu of a company car.</p>	<p>Directors receive an employer pension contribution of twice the amount contributed by the Director up to a maximum of 10%.</p>
Annual bonus	<p>The delivery of the Group's short-term corporate goals is incentivised by offering a cash-settled bonus ('Annual Bonus') linked to two factors: (i) the achievement of budgeted levels of underlying profit before tax ('Target'), which is the key metric the Board considers in monitoring corporate performance; and (ii) personal performance of each Executive.</p> <p>As part of this incentive strategy Executive Directors are eligible for an Annual Bonus and the level of that bonus is determined by first assessing whether the Target has been achieved by the business and, once this target has been achieved, applying a further multiplier which is determined by assessment of the Executive's personal performance for the relevant year.</p> <p>The Target is set at the start of each financial year – the Target is determined with the approval of the Remuneration Committee to ensure it incentivises Executives and aligns with the Group's strategy.</p> <p>Personal performance is measured on various factors including delivery of pre-set personal targets.</p>	<p>Based on a combination of Target and personal performance the Annual Bonus that each of the Executives is able to earn is as follows:</p> <p>Chief Executive Officer A Target bonus of 50% of base salary for 100% Target performance, increasing on a sliding scale up to a maximum of 100% of base salary if 200% Target over performance is achieved.</p> <p>The Target bonus can be further increased by applying a personal performance multiplier to the achieved Target bonus for over-performance. The maximum personal performance related multiplier of 1.5x (up to an additional 50%) is applied to the Target bonus.</p> <p>The CEO's potential maximum Annual Bonus reward is 150% of base salary.</p> <p>Chief Financial Officer A Target bonus of 40% of base salary for 100% OTE Target performance, increasing on a sliding scale up to a maximum of 80% of base salary if 200% OTE Target over performance is achieved.</p> <p>The bonus can be further increased by applying a personal performance multiplier to the achieved Target bonus for over-performance. The maximum personal performance related multiplier of 1.5x (up to an additional 50%) is applied to the Target bonus.</p> <p>The CFO's potential maximum Annual Bonus reward is 120% of base salary.</p> <p>Performance targets for Directors' awards granted under the LTIP and CSOP continue to be based on market benchmarked Earnings Per Share (EPS) and Total Shareholder Return (TSR).</p> <p>During the year, Executive Directors were awarded LTIPs equal to the value of 55% of base salary for the CEO and 45% of base salary for the CFO; and, one share for every £2.00 of base salary under the CSOP.</p>
Share incentive schemes	<p>The Company operates two share incentive schemes to help sustain long-term growth and performance. Executive Directors are able to participate in both the Company Share Option Plan (CSOP) and the Long-Term Incentive Scheme (LTIP).</p> <p>Any awards granted to the Executive Directors are subject to performance metrics which are reviewed regularly by the Committee; and the level of award is reviewed annually to ensure that the aggregate remuneration remains competitive.</p> <p>Further information about the Company's share incentive plans is set out on pages 67 to 71.</p>	

Policy table in respect of Non-executive remuneration

Remuneration / Benefit	Application	Measure	Implementation
Fees	<p>Non-executive Directors of the Company receive a basic fee for the services provided to the Company and are reviewed by the Company from time to time to ensure levels remain in line with comparable companies.</p> <p>Non-executive Directors who also fulfil the role of chairing of the Committees of the Board receive an additional allowance. Non-executive Directors who chaired during all or part of 2019 were David Cook, Nigel Clifford and Richard Jones.</p>	<p>There are no performance measures in relation to fees paid to Non-executive Directors.</p>	<p>Fees are increased in line with the remuneration policy and take effect from May each year.</p>

DIRECTORS' REMUNERATION

The aggregate remuneration payable to the Directors in respect of the period was as follows:

	Salary or fees		Other		Pension		Bonus		Total remuneration, excluding share options		Exercised share option gains ⁴		Total remuneration, including share options	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Peter Butterfield	266,667	238,333	14,214	11,780	24,004	25,625	206,250	53,250	511,135	328,988	1,223,558	–	1,734,693	328,988
Andrew Franklin	186,000	175,333	8,023	11,382	18,258	17,272	114,000	37,914	326,281	241,901	452,250	–	778,531	241,901
Nigel Clifford	42,848	41,067	–	–	–	–	–	–	42,848	41,067	–	–	42,848	41,067
David Cook	76,069	72,336	–	–	–	–	–	–	76,069	72,336	–	–	76,069	72,336
Richard Jones	41,598	–	–	–	–	–	–	–	41,598	–	–	–	41,598	–
Jo LeCoulliard	37,848	–	–	–	–	–	–	–	37,848	–	–	–	37,848	–
	651,030	527,069	22,237	23,162	42,262	42,897	320,250	91,164	1,035,779	684,292	1,675,808	–	2,711,587	684,292
Former Directors ¹														
Andrew Smith ¹	–	85,801	–	–	–	–	–	–	–	85,801	–	–	–	85,801
Thomas Casdagli ²	–	–	–	–	–	–	–	–	–	–	–	–	–	–
John Dawson ³	–	287,000	–	5,855	–	–	–	–	–	292,855	–	–	–	292,855
Total	651,030	899,870	22,237	29,017	42,262	42,897	320,250	91,164	1,035,779	1,062,948	1,675,808	–	2,711,587	1,062,948

1 Andrew Smith ceased to serve as a Director on 1 March 2018. The amount paid to him in 2018 included a payment of £73,544 in lieu of notice.

2 Thomas Casdagli ceased to serve as a Director on 30 May 2018.

3 John Dawson ceased to be Chief Executive Officer on 1 May 2018. The amount of salary paid to him in 2018 included a payment of £205,000 in lieu of notice. John continued to serve as a Non-executive Director on the Board since 1 May 2018, until his retirement from the Board on the 30 June 2019.

4 Details of share option exercised carried out during the year are shown in the notes to the table on share incentive awards on page 70.

No Director received any remuneration from a third party in respect of their service as a Director of the Company.

Base salary

Base salaries were reviewed in April 2019. Annual base salaries for 2019 increased from £250,000 to £275,000 for the CEO and from £178,000 to £190,000 for the CFO. These increases took effect from 1 May 2019.

Benefits

The column headed 'Other' in the table above shows the value of benefits provided to each Executive Director, including a cash allowance in lieu of a company car and healthcare. As seen from the table, only Executive Directors accrue retirement benefits, all of whom did so through defined contribution (money purchase) schemes. The Company does not operate a defined benefit scheme. No Director or former Director received any benefits from a retirement benefits scheme that were not otherwise available to all members of the scheme.

Non-executive Directors' fees

In 2019, and following an internal benchmarking review of the market, the Board approved an increase to Non-executive Director fees. The annual fee paid to the David Cook increased from £73,544 to £75,456. Fees paid to Nigel Clifford, Jo LeCoulliard and Richard Jones increased from £37,203 to £38,170 per annum. There was no increase to the additional fee for chairing one or more of the Committees of the Board.

Both Nigel Clifford and Richard Jones received a Chairman's allowance of £5,000 for their roles in chairing their Committees.

REMUNERATION COMMITTEE REPORT CONTINUED

Company Share Incentive Plans

The Company operates two share incentive schemes. During 2019, and in consultation with shareholders, the Company introduced a Long-Term Incentive Plan (LTIP).

Shareholder Consultation 2019

In 2019, the Remuneration Committee felt that it would be appropriate to consult with a selection of the Company's shareholders on long-term reward performance, current arrangements and options for the future including the design principles for a long-term incentive plan (LTIP). The Chair of the Remuneration Committee, Nigel Clifford, together with the Company's Chairman, David Cook and the Company Secretary, Chris Chrysanthou held a series of meetings with certain shareholders to discuss the key provisions relating to the LTIP as well as the proposed levels of the awards to Executive Directors. With the support of the Company's Nominated Advisor, calls were held with both fund and compliance managers to discuss the proposed plan and grant levels, focusing on the type of award, quantum, dilution and performance targets. The consultation provided the Committee with helpful insight to ensure that the LTIP remains in line with market practice and forms a healthy part of the remuneration strategy for the executive, and the views of those shareholders who took part in the consultation were taken on board in structuring the revised Executive Director compensation packages.

The Committee will continue to monitor trends and developments in the relation to remuneration and market practices, corporate governance and welcomes views from its shareholders. Maintaining a healthy dialogue in this regard helps to ensure that our remuneration strategy remains appropriate across all levels of the organisation.

The Alliance Company Share Option Plan 2015 (CSOP)

For many years the Company has operated a CSOP under which all employees are eligible to receive awards in the form of market value options. At the discretion of the Committee, awards are typically granted subject to a three-year vesting period and following maturity, participants have a seven-year exercise period.

Awards granted are based on a percentage of salary and where appropriate may attract HMRC tax advantages. Employees based outside of the UK will receive non-tax advantaged share option awards and where this is not possible the Committee considers awards in the form of share appreciation rights. In 2019, the

Committee decided to review the performance conditions attaching to awards under the CSOP which are granted to Executive Directors and Senior Management – as such awards under the CSOP to Executive Directors and Senior Management are subject to the performance conditions set out below.

The Alliance Long-Term Incentive Plan 2019 (LTIP)

In 2019, following shareholder consultation, the Company introduced the LTIP which forms part of the remuneration strategy for the Executive Directors and members of the SLT. Awards are granted in the form of nil-cost share options based on a percentage of base salary. All awards granted under the LTIP are subject to the performance conditions set out below. Subject to achieving the performance conditions set by the Committee, such awards will vest three years from the date of grant and participants will have 12-months in which to exercise any vested award.

Malus and Clawback

All awards under the LTIP are subject to standard malus and clawback provisions which allow the Company, in certain circumstances, to either (i) terminate outstanding options or (ii) seek repayment of after tax value of options which have been exercised by an Executive which has been dismissed as a result of a set of prescribed irregularities including the discovery material misstatement of results of the Company or Group; or a serious breach of the Company's code of ethics has arisen; or a serious regulatory, or health and safety issue has occurred.

Performance conditions

All options granted to Executive Directors will only vest if targets for growth in the Company's diluted Earnings Per Share (EPS) are met over a period of three years. EPS is an important metric which provides a strong incentive to drive the Group's business over that longer-term period and to mitigate downside risks that could affect the Group's profitability. Reputational risks could reasonably be expected to affect the share price, so the Executive is further incentivised to mitigate these exposures, if they wish to maximise the potential value of their options.

During the year, the Committee reviewed performance targets as part of the introduction of the LTIP and introduced a second measure, in addition to EPS, based on Total Shareholder Return (TSR). As such, all options granted in 2019 to Executives under the CSOP and LTIP are subject EPS and TSR performance conditions. 50% of the awards are subject to EPS and 50% is subject to TSR as set out below:

EPS Compound annual Growth Rate over the performance period	% of award that vests (of 50%)
< 5% CAGR	0%
5% - 10% CAGR	Calculated on a straight-line basis between 50% and 100%
> 10% CAGR	100%

CAGR: means compound annual growth rate

EPS: means the Underlying Diluted Earnings Per Share as presented in Alliance's published Annual Reports

EPS Compound Annual Growth Rate: means the percentage of increase in the EPS of the Company calculated by reference to the difference between (i) the EPS as presented in the published Annual Report for the financial year ending 31 December 2018, to (ii) the EPS as presented in the published Annual Report for the financial year ending 31 December 2021

EPS Performance Period: the period from 31 December 2018 to 31 December 2021 (inclusive)

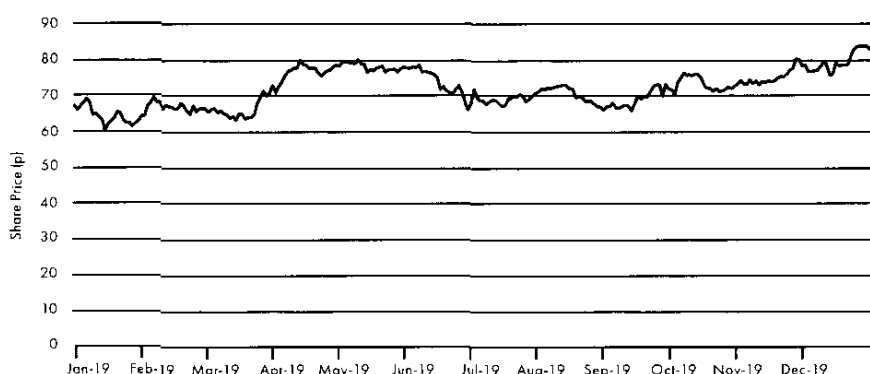
TSR against the FTSE Small Cap Index (ex-Trusts) over the performance period

	% of award that vests (of 50%)
Less than the Index	0%
Equal to the Index	50%
Between the Index but less than 15% out performance of the Index on a cumulative basis over the TSR performance period	Calculated on a straight-line basis between 50% and 100%
Equal to or greater than 15% out performance of the index on a cumulative basis over the TSR performance period	100%

Index: means the FTSE Small Cap Index, excluding investments trusts as determined by the Company's nominated adviser

TSR: means total shareholder return calculated by reference to the Company's share price appreciation plus all dividend per share paid (based on ex div date) during the TSR Performance Period, and as determined by the Company's Nominated Adviser at the end of the TSR Performance Period

TSR Performance Period: the period starting on the Grant Date and ending on the third anniversary of the Grant Date



The closing mid-market price of Ordinary shares on 31 December 2019 (being the last dealing day in the calendar year) was 84.1p and the range during the year was from 60p to 84.1p.

Employee Benefit Trust (EBT/Trust) and management of dilution

The Company manages dilution rates within the standard guidelines. In 2017 the Group established the Alliance Pharma Employee Benefit Trust to facilitate the acquisition of Ordinary shares in the Company for the purpose of satisfying awards granted under share option schemes. The Group has been operating the Trust to help manage dilution limits in line with good practice. The Trust is administered by an independent Trustee who operates the Trust independently of the Group. The EBT is a discretionary trust, the sole beneficiaries being employees (including Executive Directors) of the Group who have received applicable awards.

The Trustees must act in the best interests of the beneficiaries as a whole and will exercise their discretion in deciding whether or not to act on any recommendations proposed by the Company. Any assets held by the Trust would be consolidated into the Group's financial statements.

The Company may grant awards on the basis that it is the Company's intention to settle the exercise of awards through shares purchased in the open market on an arm's length basis. Awards granted and settled in this way are not included in the Company's headroom and dilution calculation. The Group may fund the EBT to purchase on the EBT's own account shares in the Company on the open market. This in return for the EBT agreeing to use the shares in the Company that it holds to satisfy certain outstanding awards made under the Company's share option schemes. The purchasing in the market of shares to satisfy the exercise of options places a cash requirement on the business. To date no shares have been purchased by the Trust for satisfaction of outstanding or future share option awards.

To further help manage dilution limits, and where appropriate and agreed with the Committee, share options are net settled upon exercise.

REMUNERATION COMMITTEE REPORT CONTINUED

Share Incentive Awards

Executive Directors hold options over the Company's share option and long-term incentive plans. Details of options held under the Company's employee share schemes by the Directors who served during the year are as follows:

As at 31 December 2018				Changes in the year					As at 31 December 2019		
Type of award	Date of Grant	Exercise price (p)	Performance condition	Number of options over shares	Granted	Vested	Exercised ¹	Lapsed	Number of exercisable options	Exercisable from	Exercisable to
Peter Butterfield											
CSOP											
Unapproved	26-Mar-10	33.25	No	909,778	–	–	909,778	–	–	26-Mar-13	26-Mar-20
CSOP											
Unapproved	29-Apr-10	34.25	No	115,000	–	–	115,000	–	–	29-Apr-13	29-Apr-20
CSOP											
Unapproved	28-Apr-11	34.12	No	1,130,000	–	–	1,130,000	–	–	28-Apr-14	28-Apr-21
CSOP											
Unapproved	19-Oct-12	29.25	No	140,000	–	–	140,000	–	–	19-Oct-15	19-Oct-22
CSOP											
Unapproved	06-Jun-13	37.25	No	144,200	–	–	144,200	–	–	06-Jun-16	06-Jun-23
CSOP											
Unapproved	23-Oct-13	35.75	EPS	400,000	–	–	400,000	–	–	23-Oct-18	23-Oct-23
CSOP											
Unapproved	11-Apr-14	33.75	EPS	144,200	–	–	131,943	12,257	–	11-Apr-17	11-Apr-24
CSOP											
Unapproved	27-May-15	43.75	EPS	166,625	–	–	166,625	–	–	27-May-18	27-May-25
CSOP											
Unapproved	27-Oct-16	47.50	EPS	200,000	–	200,000	–	–	200,000	27-Oct-19	27-Oct-26
CSOP											
Unapproved	27-Oct-16	47.50	EPS	1,000,000	–	1,000,000	–	–	1,000,000	27-Oct-21	27-Oct-26
CSOP											
Unapproved	15-Sep-17	53.00	EPS	148,397	–	–	–	–	–	15-Sep-20	15-Sep-27
CSOP											
Approved	15-Sep-17	53.00	EPS	56,603	–	–	–	–	–	15-Sep-20	15-Sep-27
CSOP											
Unapproved	05-Oct-18	81.60	EPS	1,250,000	–	–	–	–	–	05-Oct-21	05-Oct-28
CSOP											
Unapproved	05-Dec-19	76.90	EPS & TSR	–	137,500	–	–	–	–	05-Dec-22	05-Dec-29
LTIP											
	05-Dec-19	Nil	EPS & TSR	–	196,684	–	–	–	–	05-Dec-22	05-Dec-23
				5,804,803	334,184	1,200,000	3,137,546	12,257	1,200,000		
Andrew Franklin											
CSOP											
Approved	04-Dec-15	46.75	No	64,171	–	–	64,171	–	–	04-Dec-18	04-Dec-25
CSOP											
Unapproved	04-Dec-15	46.75	No	1,935,829	–	–	1,435,829	–	500,000	04-Dec-18	04-Dec-25
CSOP											
Unapproved	27-Oct-16	47.50	EPS	155,000	–	155,000	–	–	155,000	27-Oct-19	27-Oct-26
CSOP											
Unapproved	27-Oct-16	47.50	EPS	400,000	–	400,000	–	–	400,000	27-Oct-21	27-Oct-26
CSOP											
Unapproved	15-Sep-17	53.00	EPS	170,000	–	–	–	–	170,000	15-Sep-20	15-Sep-27
CSOP											
Unapproved	05-Oct-18	81.60	EPS	178,000	–	–	–	–	178,000	05-Oct-21	05-Oct-28
CSOP											
Approved	05-Dec-19	76.90	EPS & TSR	–	39,011	–	–	–	39,011	05-Dec-22	05-Dec-29
CSOP											
Unapproved	05-Dec-19	76.90	EPS & TSR	–	55,989	–	–	–	55,989	05-Dec-22	05-Dec-29
LTIP											
	05-Dec-19	Nil	EPS & TSR	–	111,183	–	–	–	111,183	05-Dec-22	05-Dec-23
				2,903,000	206,183	555,000	1,500,000	–	1,609,183		

¹ On the 7 October 2019, Peter Butterfield exercised 3,137,546 options over Ordinary shares of 1p each granted to him by the Company under the CSOP between 2010 and 2015. The average exercise price was 34.5p per share. 2,791,546 shares were then subsequently sold at a market price of 73.5p per share and 346,000 shares were retained in accordance with the Company's Share Ownership Policy.

On the 2 December 2019, Andrew Franklin exercised 1,500,000 options over Ordinary shares of 1p each granted to him by the Company under the CSOP in 2016. The average exercise price was 46.75p per share. Following the exercise, on the 5 December 2019, 1,371,616 Ordinary shares were sold at 76.9p per share and 128,384 shares were retained in accordance with the Company's Share Ownership Policy.

LTIP Awards 2019

In 2019, LTIP Awards were granted with a face value of 55% of base salary to the Chief Executive Officer and 45% of base salary to the Chief Financial Officer, equal to values of £151,250 and £85,500 respectively. These awards will vest on the third anniversary from the date of grant, 5 December 2022 subject to meeting the EPS and TSR performance targets.

CSOP Awards 2019

In 2019, the Committee also approved the award of market value share options to the Executive Directors under the Company's Share Option Plan 2015 equal to one share option for every £2.00 of salary. These awards were granted with an option price of 76.9p (the closing mid-market price on the 4 December 2019). Based on the exercise price of 76.9p per share, the value of the awards as at the date of grant were equal to £105,737 for the CEO and £73,055 for the CFO.

Directors' interests and shareholdings

Share ownership policy

The Company operates a share ownership policy under which the Executive Directors and certain other employees are required when exercising options to acquire and maintain an interest in Alliance Pharma shares up to a percentage of base salary. The policy requires Executive Directors when they exercise options to retain shares in the Company with a value equal to 50% of the net gain (post costs and settlement of tax liabilities) until such time as the required level of shareholding is achieved. Once an Executive Director has built a stake in the Company equal to the required levels, they are free to exercise without having to retain shares. Interests may also be maintained as a result of a Director acquiring Ordinary shares in the open market.

The Company Secretary maintains a record of individual required levels and qualifying interests based on information provided by an individual subject to this policy and reports periodically to the Remuneration Committee regarding compliance. Ordinary shares are valued at their market value at the time of any calculation carried out using the previous day's closing middle market quotation.

As at 23 March 2020, the Executive Directors held the following interests in Ordinary shares of the Company:

Director		Percentage of salary	2019 Base salary	Shareholding	Value of holdings*	% achieved
Peter Butterfield	CEO	100%	£275,000	374,376	£243,344	88%
Andrew Franklin	CFO	100%	£190,000	128,384	£83,450	44%

* at the closing market price on the 20 March 2020 65.0p

The following table shows the interests of the Directors (and their spouses and minor children) in the shares of the Company.

Director	At 31 December 2018			At 31 December 2019		
	Beneficial	Non-beneficial	Total	Beneficial	Non-beneficial	Total
Peter Butterfield	28,376	–	28,376	374,376	–	374,376
Nigel Clifford	180,663	–	180,663	180,663	–	180,663
David Cook	102,371	–	102,371	102,371	–	102,371
Richard Jones	–	–	–	15,000	–	15,000
Jo LeCouilliard	–	–	–	–	–	–
Andrew Franklin	–	–	–	128,384	–	128,384

REMUNERATION COMMITTEE REPORT CONTINUED

Directors' service contracts

All Executive Directors are employed under 12-month rolling service contracts. The services of all Executive Directors may be terminated (i) by the Company or individual giving 12 months' notice or (ii) immediately, in the event that the Director is not re-elected by shareholders at an AGM.

Executive Director		Date of appointment	Date of current contract	Unexpired term	Notice period (Company)	Notice period (Director)
Peter Butterfield	Chief Executive	22/02/2010	05/08/2010	Rolling 12 months	12 months	12 months
Andrew Franklin	Chief Financial Officer	28/09/2015	25/06/2015	Rolling 12 months	12 months	12 months

The Non-executive Directors are employed under letters of engagement for which may be terminated by the Company by (i) giving the appropriate notice, or (ii) immediately, in the event that the Director is not re-elected by shareholders at an AGM.

Non-executive Director		Date of appointment	Current term	Unexpired term
David Cook	Chair & Independent NED	01/04/2014	4 years	37 Months
Jo LeCoulliard	Independent NED	01/01/2019	5 years	45 Months
Nigel Clifford	Independent NED	26/01/2015	4 years	45 Months
Richard Jones	Independent NED	01/01/2019	5 years	45 Months

The Executive Directors' service contracts and Chairman and Non-executive Directors' letters of appointment are available for inspection by shareholders at the Company's registered office. However, due to the unprecedented events around COVID-19, and the revised format of the AGM, these will not be available at the 2020 AGM in the ordinary way.

DIRECTORS' REPORT

Scope of this report

The Directors present their Annual Report, together with the audited financial statements of the Company and the Group, for the year ended 31 December 2019. The Directors' Report required under the Companies Act 2006 comprises the Directors' biographies on pages 54 and 55, the corporate governance statement on pages 56 to 61, the Remuneration Committee report on pages 65 to 72 and the Strategic Report on pages 4 to 49. As permitted under the Companies Act, certain matters which would otherwise need to be included in this Directors' Report have instead been discussed in the Strategic Report. These matters are the discussion of the likely future developments in the business of the Company and its subsidiaries, the activities of the Company and its subsidiaries in the field of research and development, the Company's use of financial instruments and an indication of its financial risk management objectives and policies.

Principal activities

The principal activity of the Group is the acquisition, marketing and distribution of pharmaceutical products. The principal activity of the Company is to act as a holding company.

Directors

Names and biographical details of the Directors of the Company at the date of this report are shown on pages 54 and 55. John Dawson served as Non-executive Director until his retirement on 30 June 2019.

Directors' liabilities

The Company's Articles of Association contain provision for Directors to be indemnified (including the funding of defence costs) to the extent permitted by the Companies Act 2006. This indemnity would only be available if judgement was given in the individual's favour, or he or she was acquitted, or relief under the Companies Act 2006 was granted by the court.

There were no qualifying pension scheme indemnity provisions in force during the year.

Directors' obligations to the auditor

The Directors confirm that:

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

Our employees

The Group places great importance on attracting and retaining high quality employees and aligning the success of the Group with their rewards. As such the Group operates a share option plan which aims to ensure that each employee has a direct benefit from the growth of the business as it translates to the Company's share price. Further information about our values and our people can be found on pages 34 and 35.

Employee share ownership and share dealing

The Group has put in place a share dealing code appropriate to an AIM quoted company, and the Group has in place procedures to ensure that the Directors, and all employees of the Group, are aware of and understand the code and the importance of compliance.

DIRECTORS' REPORT CONTINUED

Dividends

The Board declared an interim dividend in respect of the year ending 2019 of 0.536 pence per share (2018: 0.487p) which was paid on 10 January 2020.

Financial instruments and risks

Details of the Group's financial instruments and financial risk management disclosures are included in note 20 of the financial statements.

Branches

There are no branches of the Company outside the UK. Alliance Pharmaceuticals GmbH, a company within the Alliance Group, has a Swiss branch which operates under the name Alliance Pharmaceuticals GmbH Düsseldorf, Zweigniederlassung Uster.

Political donations

No political donations were made, or political expenditure incurred during the period.

Auditor

Our auditor, KPMG LLP, has expressed its willingness to continue in office and a resolution to re-appoint KPMG LLP as auditor for the next year will be proposed at the Annual General Meeting.

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period.

In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

Annual General Meeting

This year's Annual General Meeting of the Company will be held on 18 May 2020, the business of which is set out in the Notice of Meeting. A circular containing the Notice of Meeting together with an explanatory letter from the Chairman is included with this Annual Report and is also available in the Investor Section of the Company's website at www.alliancepharmaceuticals.com

Your attention is specifically drawn to the revised format of the 2020 AGM due to COVID-19 and the Government's Stay at Home measures.

Please also note that following the Company's move towards electronic communications, we are no longer producing hard copy forms of proxy for any shareholder meetings. You may, however, request a hard copy proxy form directly from the Company's Registrars. Shareholders are able to vote electronically using the following link, www.signalshares.com. Registering your details on the Link share portal also gives shareholders easy access to information about their shareholdings and the ability to vote at general meetings or appoint a proxy to vote. You will not be able to vote in person at this year's AGM as shareholders are not permitted to attend in person.



Chris Chrysanthou
Company Secretary

7 April 2020

Financial Statements

FINANCIAL STATEMENTS

Independent Auditor's Report	78
Consolidated Income Statement	84
Consolidated Statement of Comprehensive Income	85
Consolidated Balance Sheet	86
Company Balance Sheet	87
Consolidated Statement of Changes in Equity	88
Company Statement of Changes in Equity	89
Consolidated and Company Cash Flow Statements	90
Notes to the Financial Statements	91

ADDITIONAL INFORMATION

Unaudited Information	132
Five Year Summary	133
Advisors and Key Service Providers	134
Cautionary Statement	135
Glossary	136

Independent auditor's report

to the members of Alliance Pharma plc

1. Our opinion is unmodified

We have audited the financial statements of Alliance Pharma plc ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated and Company Cash Flow Statements, and the related notes, including the accounting policies in Note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: group financial statements as a whole	£1.4m (2018: £1.1m) 4.3% (2018: 3.9%) of normalised Group profit before tax
--	--

Coverage	88% (2018: 87%) of total profits and losses that made up Group profit before tax
-----------------	--

Key audit matters vs 2018

Recurring risks	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
	Impairment of indefinite useful economic life intangible assets (including goodwill)	◀▶
	Recoverability of parent company's investment in subsidiaries	◀▶
Event driven	New: Going concern	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2018):

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 48 (principal risks)

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of indefinite useful economic life intangible assets (including goodwill) and recoverability of parent company's investment in subsidiaries below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- **Sensitivity analysis:** When addressing impairment of indefinite useful economic life intangible assets (including goodwill), recoverability of parent company's investment in subsidiaries and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impairment of indefinite useful economic life intangible assets (including goodwill) and recoverability of the parent company's investment in subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Intangible assets and goodwill

(£328.7m; 2018: £332m)

Refer to page 93 (accounting policy) and page 105 (financial disclosures).

Impairment of indefinite useful economic life intangible assets (including goodwill)

The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

This assessment is based on assumptions (such as forecast cash flows, discount rates and growth rates), which are inherently highly judgemental.

Given the quantum of the balance in relation to our materiality and the inherent estimation uncertainty associated with these judgements, we concluded this to be our most significant Key Audit Matter.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use across the portfolio has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 11) disclose the range/sensitivity estimated by the Group.

We applied the procedures below to higher risk CGUs for detailed testing based on historic headroom levels, sensitivities, historic forecasting accuracy, issues identified from discussions with commercial, regulatory and financial management and information about the products available in the public domain.

- **Benchmarking assumptions:** Using our own valuations specialist, we challenged the Group's selection of discount and growth rates by comparing those used to externally derived data (including competitor analysis). In addition, we assessed whether the forecasts (including growth rate) were consistent with current business strategies in place;
- **Sensitivity analysis:** We performed our own analysis to assess the sensitivity of the impairment reviews to changes in the key assumptions, including the discount rate, growth rate and the forecast cash flows;
- **Historical comparisons:** We compared the previously forecast cash flows to actual results to assess the historical accuracy of forecasting;
- **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the sensitivity to changes in key assumptions.
- For the remaining population of CGUs, we performed historical comparisons, sensitivity analysis and held discussions with the directors.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Investments in subsidiaries

(£194.6m; 2018: £184.2m)

Refer to page 94 (accounting policy) and page 110 (financial disclosures).

Recoverability of parent company's investment in subsidiaries

The carrying amount of the parent company's investments in subsidiaries represents 99.9% (2018: 99.9%) of the company's total assets.

Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Going concern

Refer to page 97 (accounting policy) and page 131 (financial disclosures).

Disclosure Quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent company.

That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risks most likely to adversely affect the Group's and Company's available financial resources over this period are the impact of Covid-19 on customer confidence, constraints on supply chain, sourcing and logistics as well as product regulation.

There are also less predictable but realistic second order impacts, such as the impact of Brexit on the industry specific regulations underlying the Group's and its suppliers' operations which could result in a reduction of available financial resources.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our procedures included:

- **Tests of detail:** We compared the carrying amount of 100% of the investments with the net assets value of the respective subsidiary, being an approximation of their minimum recoverable amount, to identify whether the net asset values were in excess of the carrying amounts and assessed whether those subsidiaries have historically been profit-making. The Group audit team performs the statutory audit of all material investments;
- **Test of detail:** Where the carrying value of the investment exceeded the net assets of the subsidiary we obtained the forecasts used by the directors' in their assessment of the recoverability of their investments. We challenged and assessed the underlying assumptions used in these forecasts, taking into consideration the assumptions used by the directors in testing the recoverability of the intangible assets at a Group level and the sensitivity of impairment of the parent company's investment in subsidiaries to these assumptions.

Our procedures included:

- **Funding assessment:** We obtained confirmation of committed level of financing.
- **Historical comparisons:** We compared previously forecast cash flows against actual cash flows to assess the historical accuracy of forecasting.
- **Our sector experience:** We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used in the cash flow forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities.
- **Key dependency assessment:** We assessed cash flow and covenant forecasts to identify key dependencies on individual future transactions or events.
- **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts, taking account of the severe, but plausible adverse effects that could arise from the identified risks individually or collectively and the potential impact on the Group's borrowing covenants.
- **Evaluating directors' intent:** We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.
- **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £1.4m, determined with reference to a benchmark of group profit before tax, normalised to exclude costs relating to the return of Xonvea Licensing Rights as disclosed in note 5, of £1.7m.

In the prior year, materiality for the group financial statements as a whole was set at £1.1m, determined with reference to a benchmark of group profit before tax, normalised to exclude £2.5m impairment of Synthasia Joint Venture assets, £4.3m impairment of Anti-malarial intangible asset and £1.5m profit on disposal of Unigreg Joint Venture, see note 5.

Materiality represents 4.3% (2018: 3.9%) of this normalised Group profit before tax.

Materiality for the parent company financial statements as a whole was set at £1.3m (2018: £0.8m), determined with reference to a benchmark of company total assets, of which it represents 0.7% (2018: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £70,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 18 (2018: 19) reporting components, we subjected 4 (2018: 4) to full scope audits for Group purposes. The components within the scope of our work accounted for the percentages illustrated opposite.

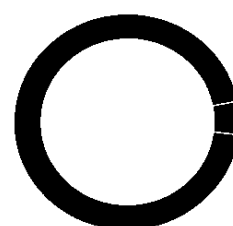
For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.6m to £0.9m (2018: £0.5m to £0.9m), having regard to the mix of size and risk profile of the Group across the components. The work on 1 of the 4 components (2018: 1 of the 4 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised Group profit before tax.

The Group team visited one (2018: one) component location in France (2018: France, same component) to assess the audit risk and strategy. Telephone conference meetings were also held with the component auditor. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Normalised Group profit before tax
£32.9m (2018: £28.1m)

Group Materiality
£1.4m (2018: £1.1m)



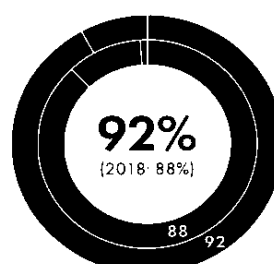
■ Normalised Group PBT
■ Group materiality

£1.4m
Whole financial statements materiality (2018: £1.1m)

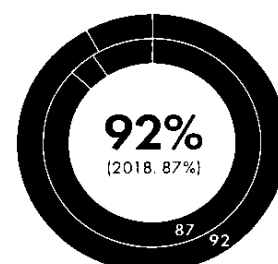
£0.9m
Range of materiality at five components (£0.6m to £0.9m) (2018: £0.5m to £0.9m)

£70,000
Misstatements reported to the audit committee (2018: £55,000)

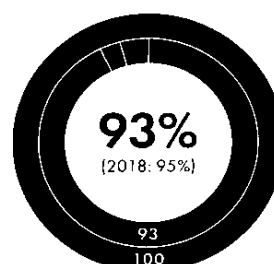
Group revenue



Group profit before tax



Group total assets



■ Full scope for group audit purposes 2019
■ Specified risk-focused audit procedures 2019
■ Full scope for group audit purposes 2018
■ Specified risk-focused audit procedures 2018
■ Residual components

INDEPENDENT AUDITOR'S REPORT CONTINUED

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in this respect.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 74, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

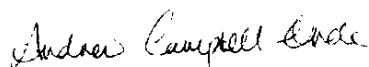
Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

8. The purpose of our audit work and to whom we owe our responsibilities

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



Andrew Campbell-Orde
(Senior Statutory Auditor) for and on
behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

7 April 2020

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2019			Year ended 31 December 2018		
		Underlying £000s	Non- Underlying £000s (Note 5)	Total £000s	Underlying £000s	Non- Underlying £000s (Note 5)	Total £000s
Revenue	3,33	135,637	–	135,637	118,208	–	118,208
Cost of sales		(49,561)	–	(49,561)	(45,560)	–	(45,560)
Gross profit		86,076	–	86,076	72,648	–	72,648
Operating expenses							
Administration and marketing expenses		(46,814)	–	(46,814)	(41,934)	–	(41,934)
Share-based employee remuneration	7, 24	(1,816)	–	(1,816)	(1,790)	–	(1,790)
Share of Joint Venture profits	30	–	–	–	13	–	13
Return of Xonvea Licensing Rights	5	–	(1,672)	(1,672)	–	–	–
Disposal of Flammacerium	5	–	(145)	(145)	–	–	–
Profit on disposal of Unigreg Joint Venture	5	–	–	–	–	1,508	1,508
Impairment and write down of Synthasia Joint Venture assets	5	–	–	–	–	(2,460)	(2,460)
Impairment of Anti-malarial intangible asset	5	–	–	–	–	(4,318)	(4,318)
Operating profit		37,446	(1,817)	35,629	28,937	(5,270)	23,667
Finance costs							
Interest payable and similar charges	6	(3,777)	–	(3,777)	(3,457)	–	(3,457)
Change in deferred contingent consideration	6	–	–	–	1,966	–	1,966
Finance (costs)/income	6	(776)	–	(776)	627	–	627
		(4,553)	–	(4,553)	(864)	–	(864)
Profit before taxation	4	32,893	(1,817)	31,076	28,073	(5,270)	22,803
Taxation	8	(6,414)	348	(6,066)	(5,491)	1,044	(4,447)
Profit for the period attributable to equity shareholders		26,479	(1,469)	25,010	22,582	(4,226)	18,356
Earnings per share							
Basic (pence)	10	5.09		4.80	4.54		3.69
Diluted (pence)	10	4.99		4.72	4.42		3.60

All of the activities of the Group are classed as continuing.

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Profit for the year	25,010	18,356
Other comprehensive income		
Items that may be reclassified to profit or loss		
Foreign exchange translation differences (net of deferred tax)	(1,495)	1,101
Forward exchange forward contracts – cash flow hedge (net of deferred tax)	489	–
Interest rate swaps – cash flow hedge (net of deferred tax)	(23)	113
Total comprehensive income for the year	23,981	19,570

CONSOLIDATED BALANCE SHEET

	Note	31 December 2019 £000s	31 December 2018 £000s
Assets			
Non-current assets			
Goodwill and intangible assets	11	328,660	335,243
Property, plant and equipment	12	11,554	7,594
Deferred tax	22	1,710	1,845
Other non-current assets		676	180
		342,600	344,862
Current assets			
Inventories	14	15,518	18,706
Trade and other receivables	15	30,992	29,148
Derivative financial instruments	20	697	–
Cash and cash equivalents	16	17,830	10,893
		65,037	58,747
Total assets		407,637	403,609
Equity			
Ordinary share capital	23	5,294	5,182
Share premium account		149,036	144,639
Share option reserve		7,208	6,121
Other reserve		(329)	(329)
Cash flow hedging reserve		462	(4)
Translation reserve		(4)	1,491
Retained earnings		112,513	95,099
Total equity		274,180	252,199
Liabilities			
Non-current liabilities			
Loans and borrowings	18	77,040	28,667
Other liabilities	19	2,401	2,352
Deferred tax liability	22	29,810	28,663
Derivative financial instruments	20	–	5
		109,251	59,687
Current liabilities			
Loans and borrowings	18	–	68,035
Corporation tax		2,344	1,457
Trade and other payables	17	21,815	22,231
Derivative financial instruments	20	47	–
		24,206	91,723
Total liabilities		133,457	151,410
Total equity and liabilities		407,637	403,609

The financial statements were approved by the Board of Directors on 7 April 2020.

Peter Butterfield
Director

Andrew Franklin
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Company number 04241478

COMPANY BALANCE SHEET

	Note	31 December 2019 £000s	31 December 2018 £000s
Assets			
Non-current assets			
Investment in subsidiaries	13	194,630	184,211
Deferred tax asset		–	194
		194,630	184,405
Current assets			
Trade and other receivables	15	24	29
Cash and cash equivalents	16	97	83
		121	112
Total assets		194,751	184,517
Equity			
Ordinary share capital	23	5,294	5,182
Share premium account		149,036	144,639
Share option reserve		6,846	6,121
Retained earnings		32,316	27,751
Total equity		193,492	183,693
Liabilities			
Current liabilities			
Trade and other payables	17	225	221
Corporation tax		1,034	603
Total liabilities		1,259	824
Total equity and liabilities		194,751	184,517

The Company's profit for the year was £12,161,000 (2018: £9,045,000).

As permitted by section 408 of the Companies Act 2006, no separate Income Statement is presented in respect of the Parent Company.

The financial statements were approved by the Board of Directors on 7 April 2020.

Peter Butterfield
Director

Andrew Franklin
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Company number 04241478

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £000s	Share premium account £000s	Other reserve £000s	Cash flow hedging reserve £000s	Translation reserve £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2018	4,750	110,252	(329)	(117)	390	5,073	83,089	203,108
Issue of shares	432	-	-	-	-	-	-	432
Share premium	-	34,387	-	-	-	-	-	34,387
Dividend paid	-	-	-	-	-	-	(6,346)	(6,346)
Share options charge (including deferred tax)	-	-	-	-	-	1,048	-	1,048
Transactions with owners	432	34,387	-	-	-	1,048	(6,346)	29,521
Profit for the year	-	-	-	-	-	-	18,356	18,356
Other comprehensive income								
Interest rate swaps – cash flow hedge (net of deferred tax)	-	-	-	113	-	-	-	113
Foreign exchange translation differences (net of deferred tax)	-	-	-	-	1,101	-	-	1,101
Total comprehensive income for the year	-	-	-	113	1,101	-	18,356	19,570
Balance 31 December 2018	5,182	144,639	(329)	(4)	1,491	6,121	95,099	252,199
Balance 1 January 2019	5,182	144,639	(329)	(4)	1,491	6,121	95,099	252,199
Issue of shares	112	-	-	-	-	-	-	112
Share premium	-	4,397	-	-	-	-	-	4,397
Dividend paid	-	-	-	-	-	-	(7,596)	(7,596)
Share options charge (including deferred tax)	-	-	-	-	-	1,087	-	1,087
Transactions with owners	112	4,397	-	-	-	1,087	(7,596)	(2,000)
Profit for the year	-	-	-	-	-	-	25,010	25,010
Other comprehensive income								
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	-	-	-	489	-	-	-	489
Interest rate swaps – cash flow hedge (net of deferred tax)	-	-	-	(23)	-	-	-	(23)
Foreign exchange translation differences (net of deferred tax)	-	-	-	-	(1,495)	-	-	(1,495)
Total comprehensive income for the year	-	-	-	466	(1,495)	-	25,010	23,981
Balance 31 December 2019	5,294	149,036	(329)	462	(4)	7,208	112,513	274,180

COMPANY STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £000s	Share premium account £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2018	4,750	110,252	5,073	25,052	145,127
Issue of shares	432	-	-	-	432
Share premium	-	34,387	-	-	34,387
Dividend paid	-	-	-	(6,346)	(6,346)
Share options charge (including deferred tax)	-	-	1,048	-	1,048
Transactions with owners	432	34,387	1,048	(6,346)	29,521
Profit for the period and total comprehensive income	-	-	-	9,045	9,045
Balance 31 December 2018	5,182	144,639	6,121	27,751	183,693
Balance 1 January 2019	5,182	144,639	6,121	27,751	183,693
Issue of shares	112	-	-	-	112
Share premium	-	4,397	-	-	4,397
Dividend paid	-	-	-	(7,596)	(7,596)
Share options charge (including deferred tax)	-	-	725	-	725
Transactions with owners	112	4,397	725	(7,596)	(2,362)
Profit for the period and total comprehensive income	-	-	-	12,161	12,161
Balance 31 December 2019	5,294	149,036	6,846	32,316	193,492

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

		Group		Company	
		Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Note					
Cash flows from operating activities					
Cash generated from operations	25	38,958	26,111	(773)	(867)
Tax paid		(3,200)	(3,941)	(445)	(686)
Cash flows from/(used in) operating activities		35,758	22,170	(1,218)	(1,553)
Investing activities					
Interest received		23	36	–	–
Dividend received		–	–	7,596	5,600
Investment in subsidiary	13	–	–	(3,277)	(32,507)
Development expenditure	11	(12)	(43)	–	–
Purchase of property, plant and equipment	12	(4,145)	(2,891)	–	–
Repayment of loan to Joint Venture on disposal	31	–	1,426	–	–
Proceeds from disposal of Joint Venture Investment	31	500	2,196	–	–
Proceeds from disposal of intangibles	31	350	–	–	–
Exceptional compensation income		–	1,000	–	–
Consideration on acquisitions		–	(60,307)	–	–
Payment of contingent consideration on acquisition		–	(500)	–	–
Net cash (used in)/from investing activities		(3,284)	(59,083)	4,319	(26,907)
Financing activities					
Interest paid and similar charges		(2,505)	(3,197)	–	–
Loan issue costs		(1,401)	(362)	–	–
Capital lease payments		(726)	(512)	–	–
Net proceeds from issue of shares		–	32,755	–	32,755
Proceeds from exercise of share options		4,509	2,063	4,509	2,063
Dividend paid	10	(7,596)	(6,346)	(7,596)	(6,346)
Proceeds from borrowings	20	1,054	28,000	–	–
Repayment of borrowings	20	(18,533)	(15,813)	–	–
Net cash (used in)/from financing activities		(25,198)	36,588	(3,087)	28,472
Net movement in cash and cash equivalents		7,276	(325)	14	12
Cash and cash equivalents at 1 January		10,893	11,184	83	71
Exchange (losses)/gains on cash and cash equivalents		(339)	34	–	–
Cash and cash equivalents at 31 December	16	17,830	10,893	97	83

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. General information

Alliance Pharma plc ('the Company') and its subsidiaries (together 'the Group') acquire, market and distribute pharmaceutical and other medical products. The Company is a public limited company, limited by shares, registered, incorporated and domiciled in England and Wales in the UK. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB. The Company is listed on the AIM stock exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 7 April 2020.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'). The financial statements have been prepared under the historical cost convention, with the exception of derivatives and contingent consideration which are included at fair value.

2.2 Consolidation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in Joint Ventures. The parent Company financial statements present information about the Company as a separate entity and not about the Group.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint Ventures

An entity is treated as a Joint Venture where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint Ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases. See note 30 for details of Joint Ventures.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

2.3 Judgements and estimates

The preparation of the consolidated financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the relevant circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the Directors on an on-going basis.

Judgements

The following are the critical judgements, apart from those involving estimates (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the Group's financial statements.

These are as follows:

- Selection of indefinite useful economic lives for certain intangible assets (note 11).
- Identification and presentation of non-underlying items (note 5).
- Assessment of the Statement of Objection issued by the UK's Competition and Markets Authority ('CMA') (note 27).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Summary of significant accounting policies continued

2.3 Judgements and estimates continued

Estimates

IAS 1 requires the disclosure of assumptions and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Directors consider these estimates to be as follows:

- Key assumptions used in discounted cash flow projections for impairment testing of certain intangible assets (note 11).

2.4 Revenue recognition

Identification of performance obligations

Revenue comprises consideration received or receivable for the sale of goods in the ordinary course of the Group's activities, namely the distribution of pharmaceutical products. The Group also receives royalties in relation to certain agreements with distributors in exchange for the licensed use of intellectual property and trademarks owned by the Group, which are generally based on sales volumes. The Group has assessed the performance obligations as being each unit of good sold by the Group.

Transaction price

The transaction price for each performance obligation comprises the stand-alone selling price for the product excluding value-added tax and net of rebates and discounts. Intra-Group sales are eliminated in the consolidated financial statements.

Royalty income and the deductions relating to rebates and discounts are based on the Group's contractual obligations. Certain of the royalty and rebate arrangements also include elements of variable consideration. The Group does not consider these elements to be significant, however an estimate of variable consideration is included where appropriate.

The Group has considered whether it is an 'agent' or 'principal' under IFRS 15 for each commercial arrangement and accounted for these accordingly.

Timing of recognition

Under IFRS 15 an entity recognises revenue when it satisfies a performance obligation by transferring a good to a customer. An entity transfers a good to a customer when the customer obtains control of that good. Control may be transferred either at a point in time or over time. For the Group, revenue is recognised at a point in time when customers have control of the sold goods, or on an appropriate basis where royalty or other arrangements are in place with third parties.

Specific revenue streams

The Group has the following recognition policies for different commercial arrangements.

- Pharmaceutical product sales – ex-works terms: Recognition at a point in time when each unit of pharmaceutical product is available to the customer for collection.
- Pharmaceutical product sales – dispatch terms: Recognition at a point in time when each unit of pharmaceutical product is dispatched to the customer.
- Pharmaceutical product royalties receivable: Recognition at a point in time when the third-party makes pharmaceutical product sales subject to a royalty agreement with the Group.
- Pharmaceutical product rebates payable (including VPAS): Recognition as a deduction from revenue when the third-party makes pharmaceutical product sales subject to a rebate agreement with the Group or when sales are made in the scope of the VPAS Voluntary Scheme. VPAS applies to branded, licensed medicines which are available on NHS prescription.
- Pharmaceutical product transitional agreements: Recognition a point in time when the third party makes pharmaceutical product sales subject to a transitional agreement with the Group.

The amount recognised represents the product margin generated by the third party on behalf of the Group. Related transitional agreement fees are recognised within administrative expenses. This is relevant to Nizoral (note 33) where the Group is an 'agent' in the relationship with J&J.

The Group does not consider that judgements made in evaluating when customers obtain control of a promised good to have significantly influenced the timing of revenue recognition in the year.

2.5 Foreign currency

The consolidated financial statements are presented in Sterling, which is the presentational currency of the Group and the functional currency of the Company. Foreign currency transactions by Group companies are booked at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into Sterling at the rate of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from translation of foreign operations are reported in other comprehensive income and accumulated in the translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are reported in other comprehensive income and accumulated in the translation reserve, to the extent that the hedge is effective.

2.6 Property, plant and equipment

Computer software and equipment, fixtures, fittings and equipment, plant and machinery and motor vehicles are stated at the cost of purchase less any provisions for depreciation and impairment. Depreciation of an asset starts when the asset is available for use. The rates generally applicable are:

Computer software and equipment	20% – 33.3% per annum, straight line
Fixtures, fittings and equipment	20% – 25% per annum, straight line
Plant and machinery	20% – 25% per annum, straight line
Motor vehicles	20% per annum, straight line

2.7 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the Group's incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

2.8 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Acquired intangible assets

(i) Brands

Separately acquired brands are shown at cost less accumulated amortisation and impairment. Brands acquired as part of a business combination are recognised at fair value at the acquisition date, where they are separately identifiable. Brands are amortised over their useful economic life, except when their life is determined as being indefinite.

Applying indefinite lives to certain acquired brands is appropriate due to the stable long-term nature of the business and the enduring nature of the brands. Indefinite life brands are tested at least annually for impairment.

A review of the useful economic life of brands is performed annually, to ensure that these lives are still appropriate. If a brand is considered to have a finite life, its carrying value is amortised over that period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Summary of significant accounting policies continued

2.8 Intangible assets and goodwill continued

(ii) Patents

Where an acquired intangible includes a definite period of patent protection and the value attributed to the patent is considered material, the Group has accounted for the value of the patent separate to the underlying brand. The patent is amortised over the period to patent expiry.

(iii) Distribution rights

Payments made in respect of product registration and distribution rights are capitalised where the rights comply with the above requirements for recognition of acquired brands. If the registration or distribution rights are for a defined time period, the intangible asset is amortised over that period. If no time period is defined, the intangible asset is treated in the same way as acquired brands with an indefinite life. If the licence period can be extended the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the entity without disproportionate cost.

Development costs

Research expenditure is charged to the Income Statement in the period in which it is incurred. Development expenditure is capitalised when it can be reliably measured and the project it is attributable to is separately identifiable, is technically feasible, demonstrates future economic benefit, and will be used or sold by the Group once completed.

The capitalised cost is amortised over the period during which the Group is expected to benefit and begins when the asset is ready for use.

Development costs are reviewed at least annually for impairment by assessing the recoverable amount of each cash-generating unit, to which the development costs relate. The recoverable amount is the higher of fair value less costs to sell and value in use.

Development costs not meeting the recognition criteria are expensed as incurred.

Impairment

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'). The Directors have determined that the cash-generating units are at product-group level.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ('CGU'). For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairments are classified as underlying when they relate to the normal trading activities of the Group. This would include impairments resulting from general decline in long term forecasts due to commercial factors. Impairments are classified as non-underlying when they are significant and one-off in nature, which may be due to factors outside the Group's control, and therefore do not reflect normal trading performance.

2.9 Inventories

Inventories are included at the lower of cost, less any provision for impairment, or net realisable value. Cost is determined on a first-in-first-out basis. Inventory provisions have been made for slow moving and obsolete stock. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

2.10 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.11 Derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss unless designated as cashflow hedges.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cashflow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the cashflow hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cashflow hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the cashflow hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Translation risk

Exchange differences arising from the translation of the net investment in foreign operations are reported in other comprehensive income and accumulated in the translation reserve. Gains and losses on those hedging instruments designated as hedges of the net investment in foreign operations, are recognised to the extent that the hedging relationship is effective; these amounts are included in exchange differences on translation of foreign operations as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the translation reserve are reclassified to the income statement when the foreign investment is disposed of.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Summary of significant accounting policies continued

2.12 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Modifications of financial instruments (including loans and borrowings) are reviewed quantitatively and qualitatively to determine if the modification is 'substantial'. Substantial modification of a financial liability results in de-recognition of the original balance, and recognition of a new financial liability at fair value. The difference between the carrying amount of the original financial liability and the fair value of the new financial liability is charged to the income statement. A non-substantial modification of financial liability does not result in the de-recognition of the original balance, however may also result in a gain or loss recognised in the income statement.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Group's trade receivables are subject to the IFRS 9 expected credit loss model. The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance based on historic default rates. The expected credit loss rate varies depending on whether and the extent to which settlement of the trade receivables is overdue.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement. Dividends and interest received are included in investing activities. Dividends and interest paid are included in financing activities.

Investments in debt and equity securities

The Company's investment in subsidiaries is stated at amortised cost less impairment.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

2.13 Employee benefits – Share-based payment transactions

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ('equity-settled transactions') or entitlement to a future cash payment ('cash-settled transactions'), the amount of which is determined with reference to the Company's share price.

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations. The cost of equity-settled transactions is fully recharged to subsidiaries.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the income statement.

The cost of equity-settled transactions is recognised, along with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cost of cash-settled transactions is recognised, along with a provision for expected cash settlement, over the vesting period.

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of management, will ultimately vest. Management's estimates are based on the best available information at that date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The provision of shares to satisfy certain of the Group's share option schemes can be facilitated by purchases of own shares by the Group's Employee Benefit Trust. The costs of operating the Trust is borne by the Group but is not material. To date, no shares have been purchased by the Trust for satisfaction of outstanding or future share option awards.

The Employee Benefit Trust is considered to be controlled by the Group. The activities of the Trust are conducted on behalf of the Group according to its specific business needs in order to obtain benefits from its operation and, on this basis, the assets held by the Trust are consolidated into the Group's financial statements.

2.14 Equity

'Share capital' represents the nominal value of equity shares.

'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

'Share option reserve' represents equity-settled share-based employee remuneration.

'Retained earnings' represents retained profit.

'Other reserve' represents the difference between the fair value and nominal value of shares issued on a reverse takeover.

'Cash flow hedging reserve' represents the fair value of derivative financial instruments at the balance sheet date that are designated as cash flow hedges, net of deferred tax, less amounts reclassified through other comprehensive income.

'Translation reserve' represents gains and losses arising on translation of the net assets of overseas operations into the Group's presentation currency of Sterling.

2.15 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. Where material, provisions have been discounted to their present value.

2.16 Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets and liabilities acquired are measured at fair value at acquisition date. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. The Group also engages in acquisitions of product specific assets (such as brands - set out in Note 2.8). Where elements of the consideration paid are variable and based on future revenues, the cost of the intangible asset recognised is based on the agreed minimum payments and any additional payments are expensed as the related sales occur.

2.17 Going Concern

The Group is in a net current asset position of £41.8m. This contrasts to the 2018 position where the Group was in a net current liability position of £33m, principally due to current bank loans of £68.5m. On 2 July 2019, the Group agreed a new £165m fully Revolving Credit Facility ('RCF'), together with a £50m accordion, with an enlarged syndicate of lenders on improved terms, replacing the previous facility which ran through to December 2020.

The directors have prepared cashflow forecasts for a period of 12 months from the date of approval of these financial statements (the forecast period). These indicate that the Group will have sufficient funds, given the RCF financing available, to meet its liabilities as they fall due for that period.

The cashflow forecasts include the current estimated impact of COVID-19 coronavirus. Also, the Directors have considered further potential implications of COVID-19 coronavirus by modelling severe but plausible downside scenarios. In particular, the Directors considered a scenario involving a 25% decline in revenue from April to December 2020. Trading across the Group's balanced portfolio has remained relatively stable in the first three months of 2020 and the Group has sufficient stock to mitigate supply issues that may arise. Therefore, the Directors are confident that this scenario reflects the worst reasonably possible outcome. In this scenario, the forecasts indicate that the Group will have sufficient funds to meet its liabilities as they fall due, and will continue to comply with its loan covenants, throughout the forecast period.

Additionally, given the unprecedented situation, the Directors have modelled a further stress scenario involving the cessation of sales for a period of three months from April 2020. Even in this scenario, the forecasts indicate that the Group will have sufficient funds to meet its liabilities as they fall due, and will continue to comply with its loan covenants (albeit with significantly reduced headroom), throughout the forecast period. The Directors consider the above scenario to be unlikely. However, if even more severe scenarios were to be realised, the Group would take mitigating actions and the Directors are confident that loan covenant compliance would be maintained.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Summary of significant accounting policies continued

2.17 Going Concern continued

The RCF is drawn in short to medium-term tranches of debt which are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including covenant compliance. The Group considers that it is highly unlikely it would be unable to exercise its right to roll-over the debt. This due to mitigating actions it could take to maintain compliance with these conditions, including future covenant requirements, even in downside scenarios. The Directors therefore believe that the Group has the ability and the intent to roll-over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and have therefore determined it is appropriate to adopt the going concern basis in preparing the financial statements.

2.18 Alternative Performance Measures

The performance of the Group is assessed using Alternative Performance Measures ('APMs'). The Group's results are presented both before and after non-underlying items. Adjusted profitability measures are presented excluding non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses.

In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter term budgets and forecasts but also against the Group's longer term strategic plans. APMs are presented in note 33.

3. Revenue

Revenue information By Brand	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
International Star brands:		
Kelo-cote	31,039	22,467
Nizoral*	11,528	5,037
MacuShield	8,236	6,982
Vamousse	6,538	5,756
	57,341	40,242
Local brands:		
Flamma Franchise	7,647	7,858
Alocclair	8,057	7,207
Hydromol	6,732	6,671
Forceval	4,409	3,874
Haemopressin	2,081	2,702
Optiflo	2,921	2,645
Oxyplastine	3,458	2,640
Ashton & Parsons	2,676	2,225
Ametop	2,272	2,181
Other Local brands	38,043	39,963
	78,296	77,966
Total Revenue	135,637	118,208

* Nizoral is shown on an agency basis in statutory revenue. Nizoral revenue presented on a see-through income statement basis is included as an alternative performance measure in note 33.

Xonvea Revenue is included in Other Local brands following the return of licensing rights (note 31).

Revenue information By Geography	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
UK and Republic of Ireland	51,404	52,266
Mainland Europe	32,496	25,386
International	45,644	35,077
USA	6,093	5,479
Total Revenue	135,637	118,208

Major customers

The revenue from the Group's largest customer is as follows. One customer separately comprised 10% or more of revenue (2018: one).

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Major customer 1	24,036	22,135

4. Profit before taxation

Profit before taxation is stated after charging/(crediting):	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Amounts receivable by the Company's auditor and its associates in respect of		
– The audit of these financial statements	40	36
– The audit of the financial statements of subsidiaries	161	141
– Corporate finance services	–	114
– Other assurance services	5	5
Amortisation of intangible assets	179	211
Impairment of intangible assets	284	6,244
Non-underlying (losses)/profit on disposal	(1,817)	1,508
Share options charge	1,816	1,790
Depreciation of plant, property and equipment	1,496	1,335
Research and development expense	74	131
Loss/(gain) on foreign exchange transactions	799	(575)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

5. Non-underlying items

Non-underlying items are those significant items which the Directors have judged, by their nature, are not related to the normal trading activities of the Group. They are therefore separately disclosed as their significant, non-recurring nature does not allow a true understanding of the Group's underlying financial performance. This assessment requires judgement to be applied by the Directors as to which transactions are non-underlying and whether this classification enhances the understanding of the users of the financial statements.

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Return of Xonvea Licensing Rights	(1,672)	–
Disposal of Flammacerium	(145)	–
Unigreg Joint Venture profit on disposal	–	1,508
Impairment and write down of Synthasia Joint Venture assets	–	(2,460)
Impairment of Anti-malarial intangible asset	–	(4,318)
Total non-underlying items before taxation	(1,817)	(5,270)
Taxation	348	1,044
Total non-underlying items after taxation	(1,469)	(4,226)

In November 2019, the Group reached an agreement with Duchesnay Inc. of Canada ('Duchesnay') to return the UK and EU licensing rights to Xonvea, a prescription medicine for the treatment of nausea and vomiting of pregnancy where conservative management has failed. Under the terms of the agreement, £2m in milestone payments made to date will be repaid to the Group, £0.25m having been paid in 2019 with the balance due in 2020. Additionally, the remaining £0.5m due on initial acquisition of Xonvea previously held as contingent consideration has been waived as part of the agreement. This resulted in the release of the contingent consideration (note 17) and the disposal of the corresponding £0.5m asset under development (note 11). Both the release and disposal have been included within the loss on disposal, resulting in no net impact on the income statement.

The Group incurred non-underlying inventory provisions and associated restructuring costs in connection with the return of the Xonvea rights of £1.9m. The total non-underlying loss on disposal was £1.7m (note 31).

In December 2019, the Group sold the global rights to the brand Flammacerium for gross cash consideration of £0.75m payable over six years, £0.10m having been paid in 2019. Flammacerium is used for the prevention and treatment of infections in severe burn wounds. The total non-underlying loss on disposal was £0.1m (note 31).

The disposals of Xonvea and Flammacerium do not relate to the normal trading activities of the Group hence have been separately disclosed as non-underlying items.

In April 2018 the Group sold its 60% interest in Unigreg Limited to its joint venture partner, Pacific Glory Development Limited, for a consideration of £2.9m. The Group profit on disposal was £1.5m net of fees (note 31).

In May 2018 the Group was notified that the import licence partner was not going to receive the required approval to import Suprememil, the infant milk formula brand owned by Synthasia. Following subsequent discussions with the import licence partner and Synthasia management, the Board concluded to fully impair the joint venture investment of £0.3m and to fully provide for the associated receivables balances of £2.2m. This generated a non-cash, non-underlying impairment charge and receivables provision of £2.5m.

Sales of anti-malarial products fell significantly in 2018 due to competition in the UK market. In mid-August 2018, Alliance was notified by the manufacturer of these products of its intention to cease supply due to lower volumes. After due consideration, the Board concluded that, due to the decline in demand, it was not economic to transfer the product to an alternative manufacturer and therefore it was appropriate to write down the value of the £4.3m intangible asset associated with these products in full.

6. Finance costs

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Interest payable and similar charges		
On loans and overdrafts	(3,191)	(2,964)
Amortised finance issue costs	(491)	(384)
Unwinding of discount on deferred and contingent consideration	–	(35)
Interest on lease liabilities	(95)	(74)
	(3,777)	(3,457)
Change in fair value of contingent consideration	–	1,966
Finance income		
Interest income	23	52
Net exchange (loss)/gains	(799)	575
	(776)	627
Finance costs – net	(4,553)	(864)

Unwinding of discount on deferred and contingent consideration was in respect of amounts payable from the Macuhealth and Vamousse acquisitions.

The prior year decrease in contingent consideration related to changes in the original estimated amounts payable for the acquisition of the Vamousse brand. This change in fair value was caused by revisions to financial forecasts following acquisitions and is not considered to be a measurement period adjustment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

7. Directors and employees

Employee benefit expenses for the Group (including Directors) during the year were as follows:

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Wages and salaries	15,432	12,990
Social security costs	2,443	2,453
Other pension costs (note 28)	812	730
Share-based employee remuneration (note 24)	1,816	1,790
	20,503	17,963

The average number of employees of the Group (including Directors) during the year was:

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Management and administration	219	210

Key management of the Group are the Board of Directors (including Non-executive Directors). Benefit expenses in respect of the key management was as follows:

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Directors' remuneration	991	1,020
Pension contributions	43	43
	1,034	1,063

During the year contributions were paid to defined contribution schemes for two Directors (2018: two).

Gain on share options exercised by Directors during the year was £1,676,000 (2018: £nil). The notional non-cash IFRS 2 share based payment expense in respect of directors was £156,000 (2018: £232,000).

The amounts set out above include remuneration in respect of the highest-paid Director as follows:

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Emoluments for qualifying services	485	303
Pension contributions	26	26
	511	329

Average number of members of the Board of Directors (including Non-executive Directors) for the year ended 31 December 2019 was six (2018: six).

8. Taxation

Analysis of the charge for the period is as follows:

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Corporation tax		
In respect of current period	4,373	3,003
Adjustment in respect of prior periods	(227)	7
	4,146	3,010
Deferred tax (see note 22)		
Origination and reversal of temporary differences	1,804	1,110
Adjustment in respect of prior periods	116	327
Taxation	6,066	4,447

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Profit before taxation	31,076	22,803
Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 19.00% (2018: 19.00%)	5,904	4,332
Effect of:		
Non-deductible expenses	166	259
Non-taxable income	–	(794)
Adjustment in respect of prior periods	(111)	334
Differences between current and deferred tax rates	(226)	(142)
Differing tax rates on overseas earnings	277	310
Share options	(241)	(135)
Movement in other tax provisions	297	283
Total taxation	6,066	4,447

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016, reducing the main rate from 19% to 17% from 1 April 2020. This commitment was abandoned in the Budget on 11 March 2020. As this change was not substantively enacted at the balance sheet date, the effect is not included in these financial statements and UK timing differences have continued to be recognised at 17% for deferred tax purposes. The overall effect of this change in policy, if it had applied to the deferred tax balance at the balance sheet date, would be to increase the overall net deferred tax liability by £1,698,000. The income tax expense for the period would have increased by £1,854,000, with a charge of £287,000 to the revaluation reserve, and a £444,000 credit to other comprehensive income.

The Group has calculated 'adjusted underlying effective tax rate' as an alternative performance measure in note 33.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

9. Dividends

	Year ended 31 December 2019		Year ended 31 December 2018	
	Pence/share	£000s	Pence/share	£000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	0.487	2,524	0.443	2,104
Final dividend for the prior financial year	0.977	5,072	0.888	4,242
	1.464	7,596	1.331	6,346
Interim dividend for the current financial year	0.536	2,837	0.487	2,524

The interim dividend for the current financial year was paid on 10 January 2020.

10. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year. For diluted EPS, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares. There are no differences in earnings used to calculate each measure as a result of the dilutive employee share options.

A reconciliation of the weighted average number of Ordinary shares used in the measures is given below:

	Year ended 31 December 2019	Year ended 31 December 2018
Basic EPS calculation	520,687,101	497,199,620
Employee share options	9,471,693	13,223,152
Diluted EPS calculation	530,158,794	510,422,772

The underlying basic EPS is intended to demonstrate recurring elements of the results of the Group before non-underlying items.

A reconciliation of the earnings used in the different measures is given below:

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Earnings for basic EPS	25,010	18,356
Non-underlying items (note 5)	1,469	4,226
Earnings for underlying basic EPS	26,479	22,582

The resulting EPS measures are:

	Year ended 31 December 2019 Pence	Year ended 31 December 2018 Pence
Basic EPS	4.80	3.69
Diluted EPS	4.72	3.60
Underlying basic EPS	5.09	4.54
Underlying diluted EPS	4.99	4.42

11. Goodwill and intangible assets

The Group	Goodwill £000s	Brands and distribution rights £000s	Development costs £000s	Assets under development £000s	Total £000s
Cost					
At 1 January 2019	16,565	328,092	768	1,000	346,425
Additions	–	–	12	–	12
Disposals (note 31)	(33)	(1,500)	(780)	(1,000)	(2,813)
Exchange adjustments	–	(3,051)	–	–	(3,051)
At 31 December 2019	16,532	323,541	–	–	340,073
Amortisation and impairment					
At 1 January 2019	–	11,182	–	–	11,182
Underlying impairment for the year	–	284	–	–	284
Amortisation for the year	–	179	–	–	179
Disposal (Note 31)	–	(232)	–	–	(232)
At 31 December 2019	–	11,413	–	–	11,413
Net book amount					
At 31 December 2019	16,532	312,128	–	–	328,660
At 1 January 2019	16,565	316,910	768	1,000	335,243

The Group	Goodwill £000s	Brands and distribution rights £000s	Development costs £000s	Assets under development £000s	Total £000s
Cost					
At 1 January 2018	16,565	263,560	725	2,500	283,350
Additions	–	60,307	43	–	60,350
Disposal	–	(18)	–	–	(18)
Transfer	–	1,500	–	(1,500)	–
Exchange adjustments	–	2,743	–	–	2,743
At 31 December 2018	16,565	328,092	768	1,000	346,425
Amortisation and impairment					
At 1 January 2018	–	4,727	–	–	4,727
Underlying impairment for the year	–	1,926	–	–	1,926
Non-underlying impairment for the year	–	4,318	–	–	4,318
Amortisation for the year	–	211	–	–	211
At 31 December 2018	–	11,182	–	–	11,182
Net book amount					
At 31 December 2018	16,565	316,910	768	1,000	335,243
At 1 January 2018	16,565	258,833	725	2,500	278,623

Goodwill and the majority of brands and distribution rights are considered to have indefinite useful economic lives and are therefore subject to an impairment review at least annually.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

11. Goodwill and intangible assets continued

Brands and distribution rights

Key judgement – useful economic lives

Certain brands were acquired with patent protection, which lasts for a finite period of time. It is the opinion of the Directors that these patents do not provide any incremental value to the value of the brand and therefore no separate value has been placed on these patents. This assessment is based on a view of future profitability after patent expiry and past experience with similar brands.

The Directors believe applying indefinite lives to certain acquired brands is appropriate due to the stable long-term nature of the business and the enduring nature of the brands. These brands are assessed on acquisition to ensure they meet set criteria including an established and stable sales history.

Where distribution rights are deemed to have a finite life they are amortised accordingly. Amortisation is included in administration and marketing expenses. The remainder of the distribution rights have no defined time period or there is evidence to support the renewal of distribution rights without disproportionate cost. These assets are therefore treated the same as acquired brands.

It is the opinion of the Directors that the indefinite life assets meet the criteria set out in IAS 38. This assessment is made on an asset by asset basis taking into account:

- how long the brand has been established in the market and subsequent resilience to economic and social changes;
- stability of the industry in which the brand is used;
- potential obsolescence or erosion of sales;
- barriers to entry;
- whether sufficient marketing promotional resourcing is available; and
- dependency on other assets with defined useful economic lives.

Goodwill

The net book value of brand and distribution rights and goodwill which are considered to have indefinite useful lives are allocated to CGUs in the following table. Goodwill relating to the acquisition of certain assets and businesses from Sinclair IS Pharma plc is allocated to the group of related product CGUs. Other Goodwill amounts are allocated to the product CGU with which they were originally acquired.

Year ended 31 December 2019	Goodwill £000s	Brands and distribution rights £000s	Total £000s
Nizoral	–	60,307	60,307
Menadiol, Vitamin E & Others	598	12,876	13,474
Forceval, Amantadine & Others	–	12,931	12,931
Vamousse	–	11,596	11,596
MacuShield	1,748	8,740	10,488
Nu-Seals	–	9,100	9,100
SkinSafe, Dansac & Others	1,849	8,043	9,892
Timodine & Buccastem	–	7,697	7,697
Syntometrine (excluding UK)	–	7,527	7,527
Ametop	–	5,575	5,575
Others	1,147	26,882	28,029
Products acquired from Sinclair			
Kelo-cote (non EU, excluding US)	–	41,456	41,456
Oxyplastine, Fazol & Others	–	25,198	25,198
Haemopressin, Optiflo & Others	–	25,000	25,000
Kelo-cote (EU)	–	17,800	17,800
Flamma Franchise	–	17,400	17,400
Alocclair	–	14,000	14,000
Goodwill	11,190	–	11,190
	16,532	312,128	328,660

Year ended 31 December 2018	Goodwill £000s	Brands and distribution rights £000s	Total £000s
Nizoral	–	60,307	60,307
Menadiol, Vitamin E & Others	598	12,876	13,474
Forceval, Amantadine & Others	–	12,931	12,931
Vamousse	–	11,596	11,596
MacuShield	1,748	8,740	10,488
Nu-Seals	–	9,100	9,100
SkinSafe, Dansac & Others	1,849	8,043	9,892
Timodine & Buccastem	–	7,697	7,697
Syntometrine (excluding UK)	–	7,527	7,527
Ametop	–	5,575	5,575
Others	1,147	27,229	28,376
Products acquired from Sinclair			
Kelo-cote (non EU, excluding US)	–	43,075	43,075
Oxyplastine, Fazol & Others	–	26,567	26,567
Haemopressin, Optiflo & Others	–	25,000	25,000
Kelo-cote (EU)	–	17,800	17,800
Flamma Franchise	–	17,400	17,400
Alocclair	–	14,000	14,000
Goodwill	11,223	–	11,223
	16,565	315,463	332,028

Recent acquisitions

The following acquisition activities took place in the prior year:

On 21 June 2018, the Group acquired the exclusive marketing rights to Nizoral, a medical anti-dandruff shampoo, in Asia-Pacific from Janssen Pharmaceutica NV (a member of the Johnson & Johnson group of companies) for a total consideration of £60m. Associated legal and due diligence costs were £0.3m. The acquisition was funded by an underwritten equity placing of new Ordinary shares in the capital of the Company to raise gross proceeds of £34m (net proceeds: £32.8m after deduction of £1.2m directly attributable expenses), and by the draw-down of £28m from a £35m extension of the Group's debt facilities.

In respect of Nizoral, the amounts included in the income statement since 21 June 2018 were revenues of £m and net profit of £3.6m. Had the transaction occurred on 1 January 2018 estimated contribution to Group revenues would have been £10.7m and net profit of £7.6m.

Impairment

As explained in note 2.8 all intangible assets are stated at the lower of cost less accumulated amortisation and impairment or the recoverable amount.

Assets with indefinite useful economic lives and those that are not yet available for use are tested for impairment at least annually, or more frequently if there are indicators that amounts might be impaired. These assets are tested at CGU level (or at group of CGUs level in the case of goodwill relating to the acquisition of certain assets and businesses from Sinclair IS Pharma plc) as the Directors believe these CGUs generate largely independent cash inflows.

The impairment test involves determining the recoverable amount of the relevant cash-generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use.

The value in use calculation uses cash flow projections based on financial forecasts for up to the next five years extrapolated to perpetuity. Financial forecasts for 2020 are based on the approved annual budget. Financial forecasts for 2021-24 are based on the approved long range plan. Margins are based on past experience and cost estimates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

11. Goodwill and intangible assets continued

Goodwill continued

Key source of estimation uncertainty – value in use assumptions

The key assumptions on which cash flow projections are made are as follows (including our assessment of the estimation uncertainty arising):

Discount rates

- **Methodology:** Cash flows are discounted at an appropriate rate, based on the Group's post-tax Weighted Average Cost of Capital (WACC) adjusted where appropriate for country specific risks, of between 7.7%–12.0%, or pre-tax 9.6%–15.0% (2018: between 7.9%–10.5%, or pre-tax 9.6%–12.8%).
- **Estimation uncertainty:** The assumptions included in the compilation of the CGU specific discount rates are designed to approximate the discount rate that a potential market participant would adopt. Given the nature of the Group's business model, the discount rate necessarily includes estimation uncertainty.

Forecast cash-flows

- **Methodology:** Approved budgets and forecasts for up to five years, based on management's best estimate of cash flows by individual CGU. These forecasts are then uplifted to perpetuity using growth rates between -2.8% and 2.0% based on the Group's long-term projections. Higher growth rates have been applied to certain International Star brands in order to reflect the Group's view of the strong long-term growth prospects of these products, taking into account the growth since acquisition and intended marketing investment.
- **Estimation uncertainty:** The growth rates assumed in the Group's budgets and forecasts inherently include estimation uncertainty relating to the achievement of commercial initiatives and external factors such as competition.

The Group has conducted sensitivity analysis on the impairment tests. The valuations indicate sufficient headroom, the Group does not consider that any reasonably possible change in key assumptions could result in an impairment for all intangibles except Nu-seals as detailed below.

Nu-seals

Nu-seals is a low dose aspirin sold mainly in Ireland. In recent years it has seen significant competition from generic alternatives. The recoverable amount of this CGU is based on a value in use calculation with the following key assumptions:

	%
Pre-tax discount rate	10.0
Terminal margin growth rate	(1.0)

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term prospects for Nu-seals.

The estimated recoverable amount of the CGU exceeded its carrying amount of £9.1m by £0.2m. Management has identified that a reasonably possible change in the two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the individual assumptions required for the estimated recoverable amount to be equal to the carrying amount whilst other assumptions are held constant.

	%
Pre-tax discount rate	10.3
Terminal margin growth rate	(1.3)

The following table shows the potential impact of reasonably possible changes to individual assumptions on the estimated recoverable amount of the CGU, whilst other assumptions are held constant.

	Decrease in CGU recoverable amount £000s
1.0% increase in pre-tax discount rate	(810)
1.0% reduction in terminal margin growth rate	(610)

Recent significant impairments

Sales of anti-malarial products fell significantly in 2018 due to competition in the UK market. In mid-August 2018, Alliance was notified by the manufacturer of these products of its intention to cease supply due to lower volumes. After due consideration, the Board concluded that, due to the decline in demand, it was not economic to transfer the product to an alternative manufacturer and therefore it was appropriate to write down the value of the £4.3m intangible asset associated with these products in full in 2018.

The Group had a £1.9m intangible asset within Brands and distribution rights representing the value of the agreement with Macuhealth to guarantee supply of MacuShield API. In September 2018 the Group was notified by Macuhealth of their intention to end this supply agreement. As a result of the notification the £1.9m intangible asset was written down in full, and related deferred consideration of £1.1m released to the income statement. The net impact on underlying profit before tax was therefore a charge of £0.8m.

12. Property, plant and equipment

The Group	Computer software and equipment £000s	Fixtures, fittings & equipment £000s	Plant & machinery £000s	Right of use lease assets £000s	Total £000s
Cost					
At 1 January 2019	5,327	2,036	14	3,964	11,341
Additions	3,461	684	–	1,329	5,474
Effect of movements in exchange rates	(9)	(14)	–	–	(23)
Disposals	(268)	(7)	–	–	(275)
At 31 December 2019	8,511	2,699	14	5,293	16,517
Depreciation					
At 1 January 2019	1,074	836	–	1,837	3,747
Provided in the year	367	375	4	750	1,496
Effect of movements in exchange rates	(1)	(4)	–	–	(5)
Disposals	(268)	(7)	–	–	(275)
At 31 December 2019	1,172	1,200	4	2,587	4,963
Net book amount					
At 31 December 2019	7,339	1,499	10	2,706	11,554
At 1 January 2019	4,253	1,200	14	2,127	7,594

The Group	Computer software and equipment £000s	Fixtures, fittings & equipment £000s	Plant & machinery £000s	Right of use lease assets £000s	Total £000s
Cost					
At 1 January 2018	2,936	2,275	193	3,611	9,015
Additions	2,406	470	15	353	3,244
Disposals	(15)	(709)	(194)	–	(918)
At 31 December 2018	5,327	2,036	14	3,964	11,341
Depreciation					
At 1 January 2018	560	1,312	155	1,303	3,330
Provided in the year	529	233	39	534	1,335
Disposals	(15)	(709)	(194)	–	(918)
At 31 December 2018	1,074	836	–	1,837	3,747
Net book amount					
At 31 December 2018	4,253	1,200	14	2,127	7,594
At 1 January 2018	2,376	963	38	2,308	5,685

Property, plant and equipment of £9.7m is located within the United Kingdom (2018: £6.6m) The balance is located in France, Italy, China, Singapore, Spain, Germany and the United States of America.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

13. Investments

The Company	Investment in subsidiary undertakings £000s
Cost	
At 1 January 2019	184,211
Additions	10,419
At 31 December 2019	194,630
At 1 January 2018	145,469
Additions	38,742
At 31 December 2018	184,211

£32.8m of the 2018 additions related to funds from the equity placing of new Ordinary shares in the capital of the Company. These were distributed to Alliance Pharmaceuticals Limited for use in the acquisition of Nizoral (note 11). The investment balance includes outstanding intercompany debt due from subsidiaries (note 29). The Directors do not consider that this amount will be demanded by the Company and therefore it has been classified as an investment.

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2019 are shown below:

Company	Country of registration or incorporation	% owned	Nature of business
Advanced Bio-Technologies Inc.	USA	100	Pharmaceutical sales
Alliance Pharma France SAS	France	100	Pharmaceutical sales
Alliance Pharma (Singapore) Private Limited*	Singapore	100	Pharmaceutical sales
Alliance Pharma S.r.l.	Italy	100	Pharmaceutical sales
Alliance Pharmaceuticals Limited*	England & Wales	100	Pharmaceutical sales
Alliance Pharmaceuticals (Asia) Limited*	Hong Kong	100	Pharmaceutical sales
Alliance Pharmaceuticals (Shanghai) Limited	China	100	Pharmaceutical sales
Alliance Pharmaceuticals Spain SL*	Spain	100	Pharmaceutical sales
Alliance Pharma Inc.	USA	100	Pharmaceutical sales
Alliance Pharmaceuticals (Thailand) Co., Ltd	Thailand	100	Pharmaceutical sales
Synthasia International Company Limited	Hong Kong	20	Pharmaceutical sales
Synthasia Shanghai Co. Limited	China	20	Pharmaceutical sales
Maelor Laboratories Limited	England & Wales	100	Non-trading
Alliance Pharmaceuticals GmbH*	Germany	100	Non-trading
Alliance Pharmaceuticals GmbH* – Swiss Branch	Switzerland	100	Non-trading
Alliance Pharmaceuticals SAS*	France	100	Non-trading
Opus Healthcare Limited	Republic of Ireland	100	Non-trading
Alliance Pharma (Ireland) Limited	Republic of Ireland	100	Non-trading
Alliance Consumer Health Limited	England & Wales	100	Dormant
Alliance Generics Limited	England & Wales	100	Dormant
Alliance Health Limited	England & Wales	100	Dormant
Alliance Healthcare Limited	England & Wales	100	Dormant
Caraderm Limited	Northern Ireland	100	Dormant
Dermopharm Limited	England & Wales	100	Dormant
MacuVision Europe Limited	England & Wales	100	Dormant
Opus Group Holdings Limited	England & Wales	100	Dormant
Opus Healthcare Limited	England & Wales	100	Dormant

* Investments held directly by Alliance Pharma plc

The registered address in each country is as follows:

Territory	Company	Registered Office Address
USA	Advanced Bio-Technologies Inc.	100 N. Tampa Street, Suite 2700, Tampa, FL 33602, United States
	Alliance Pharma Inc.	Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801-1120
France	Alliance Pharmaceuticals SAS	69, avenue Franklin D. Roosevelt, 75008 Paris, France
	Alliance Pharma France SAS	69, avenue Franklin D. Roosevelt, 75008 Paris, France
China	Alliance Pharmaceuticals (Shanghai) Limited	Room 103, 1st Floor, 56 Meisheng Road, Shanghai Free-Trade-Zone, P.R.C
	Synthasia Shanghai Company Limited	Suite 806, Silva Bay Tower, Tower C, 469 Wusong Road, Hongkou District, Shanghai 200080, P.R. China
Germany	Alliance Pharmaceuticals GmbH	Hanseatic Trade Center, Am Sandtorkai 41, D-20457 Hamburg, Germany
Hong Kong	Alliance Pharmaceuticals (Asia) Limited	Room 2105, 21/F Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon
	Synthasia International Company Limited	Unit 2402, 24/F, Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong
Italy	Alliance Pharma S.r.l.	Via Brera 6, 20121 Milan, Italy
Republic of Ireland	Alliance Pharma (Ireland) Limited	6th Floor, South Bank House, Barrow Street, Dublin 4
	Opus Healthcare Limited	6th Floor, South Bank House, Barrow Street, Dublin 4
Singapore	Alliance Pharma (Singapore) Private Limited	6 Battery Road, #10-01, Singapore (049909)
Spain	Alliance Pharmaceuticals Spain SL	Paseo de la Castellana 259 C – 18th Floor, Regus Business Center, Torre de Cristal, Madrid, ZIP Code 28046, Spain
Switzerland (Branch)	Alliance Pharmaceuticals GmbH Düsseldorf	Bahnhofstrasse 37, Postfach 2818, CH-8021 Zürich
Thailand	Alliance Pharmaceuticals (Thailand) Co., Ltd	The Ninth Tower 35th floor, 33/4, Tower A Rama 9 Road, Huaykwang Subdistrict, Huaykwang district, Bangkok, Thailand 10310
England & Wales	All Companies	Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB
Northern Ireland	Caraderm Limited	6 Trevor Hill, Newry, County Down, BT34 1DN

Unless otherwise stated, the share capital comprises Ordinary shares and the ownership percentage is provided for each undertaking. All subsidiary undertakings prepare accounts to 31 December.

Maelor Laboratories Limited is exempt from the Companies Act 2006 requirement relating to the audit of its individual accounts by virtue of Section 479A of the Act as this company has guaranteed the subsidiary company under Section 479C of the Act.

14. Inventories

The Group	31 December 2019 £000s	31 December 2018 £000s
Finished goods and materials	19,089	20,544
Inventory provision	(3,571)	(1,838)
	15,518	18,706

Inventory costs expensed through the income statement during the year were £47,926,000 (2018: £44,349,000). During the year £2,673,000 (2018: £1,983,000) was recognised as an expense relating to the write-down of inventories to net realisable value, including £1,152,000 related to the return of Xonvea licensing rights and included within non-underlying items (note 31).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

15. Trade and other receivables

	The Group		The Company	
	31 December 2019 £000s	31 December 2018 £000s	31 December 2019 £000s	31 December 2018 £000s
Trade receivables	23,987	23,407	-	-
Other receivables	2,522	1,083	9	20
Prepayments	703	1,216	15	9
Accrued income	3,780	3,442	-	-
	30,992	29,148	24	29

The ageing of trade receivables of the Group at 31 December is detailed below:

	31 December 2019 £000s	31 December 2018 £000s
Trade and receivables, net estimated allowances for expected credit losses		
Not past due	19,640	20,482
1-30 days past due	3,253	1,794
31-60 days past due	278	391
61-90 days past due	320	145
Past 91 days	496	595
	23,987	23,407

	31 December 2019 £000s	31 December 2018 £000s
Trade and receivables, gross of estimated allowances for expected credit losses		
Not past due	19,640	20,482
1-30 days past due	3,253	1,794
31-60 days past due	278	391
61-90 days past due	320	145
Past 91 days	1,495	1,463
	24,986	24,275

As at 31 December 2019, trade and other receivables of £999,000 (2018: £868,000) were past due and impaired.

Our policy requires customers to pay us in accordance with agreed payment terms. Depending on the geographical location, our settlement terms are generally due within 30 or 60 days from the end of the month of sale.

16. Cash and cash equivalents

	The Group		The Company	
	31 December 2019 £000s	31 December 2018 £000s	31 December 2019 £000s	31 December 2018 £000s
Sterling	6,275	3,345	97	83
Euros	6,563	4,769	-	-
US Dollars	2,071	1,856	-	-
Other currencies	2,921	923	-	-
Cash at bank and in hand	17,830	10,893	97	83

17. Trade and other payables

	The Group		The Company	
	31 December 2019 £000s	31 December 2018 £000s	31 December 2019 £000s	31 December 2018 £000s
Trade payables	6,970	8,978	-	29
Other taxes and social security costs	3,247	1,808	-	-
Accruals	10,114	10,301	225	192
Other payables	459	197	-	-
Contingent consideration	-	500	-	-
Lease liabilities	1,025	447	-	-
	21,815	22,231	225	221

Contingent consideration of £0.5m related to the Licence and Supply Agreement for the product Xonvea with Duchesnay Inc. Following return of the UK and EU licensing rights to Xonvea (note 5), this has been waived. The waiver resulted in the release of the contingent consideration (note 17) and the disposal of the corresponding £0.5m asset under development (note 11). Both the release and disposal have been included within the loss on disposal, resulting in no net impact on the income statement.

18. Loans and borrowings

On 2 July 2019, the Group agreed a new £165m fully Revolving Credit Facility ('RCF'), together with a £50m accordion facility, with an enlarged syndicate of lenders on improved terms, replacing the previous facility which ran through to December 2020. This has been classified as a non-current liability (note 2.17). The bank facility is secured by a fixed and floating charge over the Company's and Group's assets registered with Companies House.

	The Group		The Company	
	31 December 2019 £000s	31 December 2018 £000s	31 December 2019 £000s	31 December 2018 £000s
Current				
Bank loans due within one year or on demand:				
Secured	-	68,500	-	-
Finance issue costs	-	(465)	-	-
	-	68,035	-	-

	The Group		The Company	
	31 December 2019 £000s	31 December 2018 £000s	31 December 2019 £000s	31 December 2018 £000s
Non-current				
Bank loans:				
Secured	78,848	29,100	-	-
Finance issue costs	(1,808)	(433)	-	-
	77,040	28,667	-	-

Movement in loans and borrowings	31 December 2019 £000s	31 December 2018 £000s
At 1 January	96,702	83,499
Net (payments)/receipts from borrowing	(17,479)	12,187
Additional prepaid arrangement fees	(1,401)	(362)
Amortisation of prepaid arrangement fees	491	384
Exchange movements*	(1,273)	994
At 31 December	77,040	96,702

* Exchange movements on loans and borrowings are reported in other comprehensive income and accumulated in the translation reserve

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

19. Other non-current liabilities

	The Group		The Company	
	31 December 2019 £000s	31 December 2018 £000s	31 December 2019 £000s	31 December 2018 £000s
Lease liabilities	1,997	1,972	–	–
Other non-current liabilities	404	380	–	–
	2,401	2,352	–	–

20. Financial instruments

The Group uses financial instruments comprising borrowings, derivatives, cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The Board is responsible for risk management policies on managing each of these which are summarised below

Liquidity Risk

The Group's operations are financed by retained earnings and bank borrowings, with additional equity being raised on a periodic basis to finance larger acquisitions. Borrowings are denominated in Sterling, Euro and US Dollars. The purpose of Euro and US Dollar borrowings are to manage the currency exposure arising from the Group's operations.

On 2 July 2019, the Group agreed a new £165m fully Revolving Credit Facility ('RCF'), together with a £50m accordion facility, with an enlarged syndicate of lenders on improved terms, replacing the previous facility which ran through to December 2020. This new facility is available until July 2023, with a one-year extension option, and provides flexibility for the Group to deliver carefully targeted acquisitions over the next few years to complement its organic growth strategy.

The RCF is drawn in short to medium-term tranches of debt which are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including covenant compliance. The Group considers that it is highly unlikely it would be unable to exercise its right to roll-over the debt. This due to mitigating actions it could take to maintain compliance with these conditions, including future covenant requirements, even in downside scenarios. The Directors therefore believe that the Group has the ability and the intent to roll-over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

The Group also has access to an overdraft facility of £4.5m.

The maturity profile of the Group's financial gross liabilities (capital and interest) at the year-end is as follows:

	31 December 2019				Total £000s
	In one year or less £000s	In more than one year, but not more than two £000s	In more than two years, but not more than five £000s	In more than five years £000s	
Trade and other payables	20,790	–	–	–	20,790
Bank loans*	79,852	–	–	–	79,852
Interest rate swaps	47	–	–	–	47
Lease liabilities	1,025	717	1,339	164	3,245
	101,714	717	1,339	164	103,934

* Includes an amount of £78.8m in respect of gross contractual cash flows payable under the RCF these are shown as due within one year or less to reflect the contractual maturity of the tranches drawn down at 31 December 2019. As explained above, the RCF is classified as a non-current liability as the directors have assessed that the Group has the ability and the intent to roll-over the drawn RCF amounts when due

31 December 2018					
	In one year or less £000s	In more than one year, but not more than two £000s	In more than two years, but not more than five £000s	In more than five years £000s	Total £000s
Trade and other payables	21,784	–	–	–	21,784
Bank loans	71,382	31,526	–	–	102,908
Interest rate swaps	5	–	–	–	5
Lease liabilities	447	307	987	678	2,419
	93,618	31,833	987	678	127,116

The maturity profile of the Company's financial gross liabilities (capital and interest) at the year end is as follows:

	31 December 2019 In one year or less £000s	31 December 2018 In one year or less £000s
Trade and other payables	225	221

Interest rate risk

The Group's debt is provided on a floating interest rate basis. The Group uses interest rate swaps to fix the rates paid on a portion of its debt in order to mitigate against the risks of increasing interest rates. These swaps are re-measured to fair value at each period end.

The Group has in place interest rate swaps with a nominal value of £8m (2018: £13m) to convert the floating interest rate charge to a fixed rate interest charge maturing in November 2020.

The Group also has a EUR 12m (2018: EUR 12m) interest rate swap to convert the floating interest rate charge to a fixed rate interest charge maturing in November 2020.

The interest rate exposure of the financial liabilities of the Group at the period end was:

	Fixed £000s	Floating £000s	Total £000s
At 31 December 2019			
Bank loans – Sterling denominated	–	54,792	54,792
Bank loans – Euro denominated	–	13,559	13,559
Bank loans – US Dollar denominated	–	10,497	10,497
Interest rate hedges – Sterling denominated	8,000	(8,000)	–
Interest rate hedges – Euro denominated	10,169	(10,169)	–
Total financial liabilities	18,169	60,679	78,848
Unamortised issue costs	–	(1,808)	(1,808)
Net book value of financial liabilities	18,169	58,871	77,040
At 31 December 2018			
Bank loans – Sterling denominated	–	66,187	66,187
Bank loans – Euro denominated	–	16,216	16,216
Bank loans – US Dollar denominated	–	15,197	15,197
Interest rate hedges – Sterling denominated	13,000	(13,000)	–
Interest rate hedges – Euro denominated	10,810	(10,810)	–
Total financial liabilities	23,810	73,790	97,600
Unamortised issue costs	–	(898)	(898)
Net book value of financial liabilities	23,810	72,892	96,702

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

20. Financial instruments continued

Interest rate risk continued

	Fixed rate financial liabilities	
	Weighted average fixed rate %	Weighted average period for which rate is fixed
At 31 December 2019		
Sterling	3.20	0.91 years
Euros	2.16	0.91 years
At 31 December 2018		
Sterling	3.20	1.91 years
Euros	2.16	1.91 years

The Sterling floating rate borrowings bear interest at a rate based on LIBOR. The Euro floating rate borrowings bear interest at a rate based on EURIBOR. The US Dollar floating rate borrowings bear interest at a benchmark rate (US Dollar LIBOR).

A 0.5% increase in LIBOR would reduce pre-tax profits by approximately £0.4m in 2019. A 0.5% decrease would have the opposite effect. A 0.5% increase or decrease in EURIBOR would have no material impact on pre-tax profits due to the majority of the Euro denominated debt being hedged to fixed rates. A 0.5% increase in US LIBOR would reduce pre-tax profits by approximately £0.1m in 2019. A 0.5% decrease would have the opposite effect.

Currency risk

Approximately 48% of the Group's sales are invoiced in Euros. The Group has a level of Euro expense that naturally offsets a high portion of the Euro sales. Approximately 16% of the Group's sales are invoiced in US Dollar, a portion of which will be used to service the US Dollar denominated debt. The majority of other Group sales, and the majority of other Group expenses, are denominated in Sterling.

A 5% weakening or strengthening of Sterling against the Euro would have resulted in £1m gain or loss to EBITDA (note 33) in 2019. A 5% weakening or strengthening of Sterling against the US Dollar would have resulted in a £0.6m gain or loss to EBITDA in 2019.

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily Sterling, Euro and US Dollars.

The Group's risk management policy is to hedge up to 75% of its estimated net foreign currency exposure in respect of forecast sales and purchases for up to the next 18 months at any point in time. The Group uses forward foreign exchange contracts to hedge its currency risk. These contracts are generally designated as cash flow hedges.

Net investment hedges

The Group uses currency denominated borrowings to hedge the exposure of a portion of its net investment in overseas operations against changes in value due to changes in foreign exchange rates. The net investment hedge was tested for effectiveness during the year and found to be effective. As the Group repays its foreign denominated borrowings the hedged portion of the net investment is reduced.

Fair value measurement

The Group has adopted IFRS 13 for financial instruments that are measured in the Group balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's financial instruments held at fair value (or for which fair value is disclosed) in the scope of IFRS 13 are as follows:

	Level	31 December 2019 Carrying value £000s	31 December 2018 Carrying value £000s
Interest rate swaps	2	(47)	(5)
Forward foreign exchange contracts	2	697	–
Contingent consideration	3	–	(500)
		650	(505)

For the other financial assets and liabilities, the carrying amount is a reasonable approximation of fair value and therefore no further disclosure is provided. The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

Interest rate swaps (Level 2)

The Group's interest rate swaps are not traded in active markets. These have been fair valued using observable interest rates. The effects of non-observable inputs are not significant for interest rate swaps.

Counterparty banks perform valuations of interest rate swaps for financial reporting purposes, determined by discounting the future cash flows at rates determined by year end yield curves. The valuation processes and fair value changes are discussed by the Audit and Risk Committee and the finance team at least every half year, in line with the Group's reporting dates.

Forward foreign exchange contracts (Level 2)

The Group's currency rate swaps are not traded in active markets. These have been fair valued using observable currency rates. The effects of non-observable inputs are not significant for currency rate swaps.

Counterparty banks perform valuations of currency rate swaps for financial reporting purposes, determined by discounting the future cash flows at rates determined by year end spot and forward rate. The valuation processes and fair value changes are discussed by the Audit and Risk Committee and the finance team at least every half year, in line with the Group's reporting dates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

20. Financial instruments continued

Forward foreign exchange contracts (Level 2) continued

The following table details the foreign currency forward contracts outstanding at the end of the reporting period. Forward foreign exchange contract assets and liabilities are presented in 'Derivative financial instruments' (either as asset or as liabilities) within the statement of financial position:

	Average forward rate		Notional value: Foreign currency				Carrying amount of the hedging instruments assets/(liabilities)	
	2019 rate	2018 rate	2019		2018		2019 £000s	2018 £000s
			\$000s	€000s	\$000s	€000s		
Sell Dollars								
Less than 3 months	1.282	-	2,025	-	-	-	68	-
3 to 6 months	1.283	-	2,225	-	-	-	80	-
6 to 12 months	1.272	-	5,125	-	-	-	232	-
	1.278	-	9,375	-	-	-	380	-
Sell Euros								
Less than 3 months	1.153	-	-	3,350	-	-	42	-
3 to 6 months	1.144	-	-	2,800	-	-	102	-
6 to 12 months	1.131	-	-	4,550	-	-	173	-
	1.143	-	-	10,700	-	-	317	-
			9,375	10,700	-	-	697	-

Contingent consideration (Level 3)

During the year £0.5m contingent consideration related to Xonvea was cancelled following the return of the UK and EU licensing rights (note 17).

During the prior year £2m contingent consideration related to acquisition of the Vamousse brands was released.

Level 3 fair value measurements:

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

	31 December 2019 Liabilities £000s	31 December 2018 Liabilities £000s
Balance at 1 January	500	2,854
Cash paid in the year	-	(500)
Amounts recognised in profit or loss under finance costs:		
Change in fair value of contingent consideration	-	(1,966)
Unwinding of discount	-	40
Foreign exchange movements	-	72
Xonvea contingent consideration waived	(500)	-
Balance at 31 December	-	500

Classification of financial assets and liabilities

Group

Classification of the Group's financial assets and liabilities is set out below:

	31 December 2019 £000s	31 December 2018 £000s
Financial assets		
Financial assets at amortised cost		
Trade receivables	23,987	23,407
Cash and cash equivalents	17,830	10,893
Derivative financial instruments		
Used for hedging	697	-
	42,514	34,300
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	20,790	21,284
Loans and borrowings	77,040	96,702
Other liabilities	404	380
Lease liabilities	3,022	2,419
Derivative financial instruments		
Used for hedging	47	5
Fair Value		
Contingent consideration	-	500
	101,303	121,290

for the year ended 31 December 2019

Company

Classification of the Company's financial instruments is set out below:

	31 December 2019	31 December 2018
Financial liabilities	£000s	£000s
Financial liabilities at amortised cost		
Trade and other payables	225	221

Reconciliation to cashflow movements

		Cashflows			Non-cash changes			
	2018 £000s	Principal £000s	Interest £000s	Foreign exchange* £000s	Net additions £000s	Amortisation £000s	Interest £000s	2019 £000s
Gross loans and borrowings	97,600	(17,479)	-	(1,273)	-	-	-	78,848
Prepaid arrangement fees	(898)	(1,401)	-	-	-	491	-	(1,808)
Accrued interest	85	-	(2,410)	-	-	-	3,191	866
Lease liabilities	2,419	(726)	(95)	-	1,329	-	95	3,022

* Exchange movements on loans and borrowings are reported in other comprehensive income and accumulated in the translation reserve

Derivative financial instruments

	31 December 2019 (Assets)/Liabilities £000s	31 December 2018 (Assets)/Liabilities £000s
Current portion	47	-
Non-current portion	-	5
Interest rate swap – cash flow hedge	47	5
Current portion	(697)	-
Forward exchange swap – cash flow hedge	(697)	-

The cash flow hedges were tested for effectiveness both retrospectively and prospectively as at 31 December 2019. They were found to be highly effective, with the ineffective element being immaterial. The hedge and interest on the bank debt are settled on a quarterly basis on the same date and measured against the same benchmark, namely three month Sterling LIBOR. The amount recognised through the income statement in respect of interest rate swaps during the year was a charge of £103,000 (2018: £123,000). The amount recognised through the income statement in respect of the outstanding forward foreign exchange contracts during the year was £109,000 (2018: £nil).

21. Operating Segments

The Group is engaged in a single business activity of pharmaceuticals. The Group's pharmaceutical business consists of the marketing and sales of acquired products. The Group's Board of Directors ('the Board') is the Group's Chief Operating Decision Maker ('CODM'), as defined by IFRS 8, and all significant operating decisions are taken by the Board. In assessing performance, the Board reviews financial information on an integrated basis for the Group, substantially in the form of, and on the same basis as, the Group's IFRS financial statements.

22. Deferred tax

The Group	31 December 2019 £000s	31 December 2018 £000s
Accelerated capital allowances on tangible assets	(468)	(172)
Temporary differences: trading	234	108
Temporary differences: non-trading	662	716
Accelerated allowances on intangible assets	(10,081)	(8,735)
Initial recognition of intangible assets from business combination	(19,161)	(19,756)
Share based payments	806	735
Interest rate hedge	8	1
Foreign exchange forward contracts	(100)	–
Losses	–	285
	(28,100)	(26,818)
Recognised as:		
Deferred tax asset	1,710	1,845
Deferred tax liability	(29,810)	(28,663)

Reconciliation of deferred tax movements:

The Group	1 January 2019 £000s	Recognised in other comprehensive income £000s	Recognised directly in equity £000s	Recognised in the income statement £000s	31 December 2019 £000s
Non-current assets					
Intangible assets	(28,491)	–	606	(1,357)	(29,242)
Property, plant and equipment	(172)	–	–	(296)	(468)
Non-current liabilities					
Derivative financial Instruments	1	(93)	–	–	(92)
Other non-current liabilities	715	(53)	–	–	662
Equity					
Share option reserve	735	–	179	(108)	806
Temporary differences					
Trading	108	–	–	126	234
Losses	286	–	–	(286)	–
	(26,818)	(146)	785	(1,921)	(28,100)
Recognised as:					
Deferred tax asset	1,845				1,710
Deferred tax liability	(28,663)				(29,810)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

22. Deferred tax continued

The Group	1 January 2018 £000s	Recognised in other comprehensive income £000s	Recognised directly in equity £000s	Recognised in the income statement £000s	31 December 2018 £000s
Non-current assets					
Intangible assets	(26,842)	–	(598)	(1,051)	(28,491)
Property, plant and equipment	(78)	–	–	(94)	(172)
Non-current liabilities					
Derivative financial Instruments	24	(23)	–	–	1
Other non-current liabilities	601	114	–	–	716
Equity					
Share option reserve	864	–	(119)	(10)	735
Temporary differences					
Trading	202	–	–	(94)	108
Losses	483	–	–	(197)	285
	(24,746)	91	(717)	(1,446)	(26,818)
Recognised as:					
Deferred tax asset	2,174				1,845
Deferred tax liability	(26,920)				(28,663)

The Group has no unrecognised deferred tax assets (2018: £nil).

23. Share capital

	Allotted, called up and fully paid	
	No. of shares	£000s
At 1 January 2018 – Ordinary shares of 1p each	474,989,988	4,750
Issued during the year	43,224,238	432
At 31 December 2018 – Ordinary shares of 1p each	518,214,226	5,182
Issued during the year	11,188,393	112
At 31 December 2019 – Ordinary shares of 1p each	529,402,619	5,294

Between 1 January 2019 and 31 December 2019 11,188,393 shares were issued on the exercise of employee share options (2018: 5,861,601).

On 21 June 2018 37,362,637 shares were issued at 91.0p in the underwritten equity placing used for the acquisition of Nizoral. This raised gross proceeds of £34m before expenses. The net addition to equity was £32.8m after the deduction of £1.2m directly attributable expenses.

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Potential share options commitment

Under the Group's share option scheme for employees and Directors, options have been granted to subscribe for shares in the Company at prices ranging from 29.25p to 81.60p (2018: 7.75p to 81.60p). Options are exercisable three years after date of grant, but in certain instances this can be extended to five years. Options outstanding are as follows:

Year of grant	Exercise price pence	Exercise from	Scheme	31 December 2019 Number (000s)	31 December 2018 Number (000s)
2009	7.75	2012	CSOP	–	44
2010	33.25 and 34.25	2013	CSOP	79	1,531
2011	31.00 and 34.12	2014	CSOP	401	1,745
2012	29.25	2015	CSOP	126	871
2013	35.75 and 37.25	2016	CSOP	1,211	1,695
2013	35.75	2018	CSOP	450	1,683
2014	33.75	2017	CSOP	581	907
2015	43.75 and 46.75	2018	CSOP	2,066	3,936
2016	44.00 and 47.5	2019	CSOP	5,114	8,638
2016	47.50	2021	CSOP	3,500	4,400
2017	53.00	2020	CSOP	6,260	7,329
2018	81.60	2021	CSOP	6,769	7,935
2019	76.90	2022	CSOP	7,331	–
2019	0.00	2022	LTIP	596	–
				34,484	40,714

The provision of shares to satisfy certain of the Group's share option schemes can be facilitated by purchases of own shares by the Group's Employee Benefit Trust. The costs of operating the Trust is borne by the Group but is not material. To date, no shares have been purchased by the Trust for satisfaction of outstanding or future share option awards.

Managing Capital

Our objective in managing the business's capital structure is to ensure that the Group has the financial capacity, liquidity and flexibility to support the existing business and to fund acquisition opportunities as they arise.

The capital structure of the Group consists of net bank debt and shareholders' equity. At 31 December 2019, net debt was £59.2m (2018: £85.8m) (note 33), whilst shareholders' equity was £274.2m (2018: £252.2m).

The business is profitable and cash generative. The main financial covenant applying to bank debt are that leverage (the ratio of net bank debt to EBITDA) should not exceed 3.0 times. The Group complied with this covenant in 2019 and 2018.

Smaller acquisitions are typically financed using bank debt, while larger acquisitions typically involve a combination of bank debt and additional equity. The mixture of debt and equity is varied, taking into account the desire to maximise the shareholder returns while keeping leverage at comfortable levels.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

24. Share based payments

Under the Group's share option scheme for employees and Directors, options to subscribe for shares in the Company are granted normally once each year. The contractual life of an option is ten years from date of grant. Generally, options granted become exercisable on the third anniversary of the date of grant, but in certain instances this can be extended to five years. Exercise of an option is normally subject to continued employment. Options are valued by a third-party provider using the Black-Scholes option-pricing model.

Certain options are subject to EPS or Total Shareholder Return (TSR) accretion performance criteria, those outstanding are as follows

Year of grant	Exercise price pence	Exercise from	31 December 2019 Number (000s)	31 December 2018 Number (000s)
2013	35.75	2018	450	1,683
2014	33.75	2017	204	514
2015	43.75	2018	317	581
2016	47.50	2019	875	2,557
2016	47.50	2021	3,500	4,400
2017	53.00	2020	1,358	1,804
2018	81.60	2021	2,411	2,775
2019	76.90	2022	1,127	–
2019	0.00	2022	596	–
			10,838	14,314

The total expense for the year relating to share-based payment plans was £1.8m (2018: £1.8m), of which £1m (2018: £1.2m) related to equity-settled transactions and £0.8m (2018: £0.6m) related to cash-settled transactions.

It is assumed that on average options will be exercised after five years. The expected volatility is based on historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. The risk-free rate of return is based on UK Government bonds of a term consistent with the assumed option life.

The cash-settled transaction expense includes provision for social security charges based on the applicable social tax rate applied to the number of share awards which are expected to vest, valued with reference to the year-end share price.

The estimated total equity-settled fair value of the share options granted on 5 December 2019 was £1,237,000. The model inputs were a market price of 76.9p, expected volatility of 30.37% and a risk-free rate of 0.58%.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2019		2018	
	Number (000s)	Weighted average price Pence	Number (000s)	Weighted average price Pence
Outstanding at start of year	40,714	52.10	39,898	43.50
Granted	7,928	76.90	8,009	81.60
Exercised	(11,188)	40.30	(5,862)	35.27
Forfeited	(2,970)	62.89	(1,331)	49.40
Outstanding at end of year	34,484	59.40	40,714	52.10
Exercisable at end of year	10,030	43.32	12,345	37.75

Share options were exercised throughout the financial year. Share options were exercised at prices of between 7.75 and 53.0 pence per share.

25. Cash generated from operations

	Group		Company	
	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Profit for the year	25,010	18,356	12,161	9,045
Taxation	6,066	4,447	877	802
Interest payable and similar charges	3,777	3,457	-	-
Change in contingent consideration	-	(1,966)	-	-
Change in deferred consideration	-	(1,048)	-	-
Interest income	(23)	(52)	(6,225)	(5,066)
Foreign exchange loss/(gain)	799	(575)	-	(2)
Profit on disposal of Unigreg Joint Venture	-	(1,508)	-	-
Return of Xonvea licensing Rights	1,672	-	-	-
Disposal of Flammacerium	145	-	-	-
Depreciation of property, plant and equipment	1,496	1,335	-	-
Amortisation and impairment of intangibles	463	6,455	-	-
Impairment of Synthasia Joint Venture assets	-	2,460	-	-
Change in inventories	2,036	(4,458)	-	-
Share of post-tax Joint Venture profits	-	(13)	-	-
Change in trade and other receivables	(498)	(7,628)	5	(8)
Change in trade and other payables	(3,801)	5,059	5	(38)
Share based employee remuneration	1,816	1,790	-	-
Dividends received	-	-	(7,596)	(5,600)
Cash generated from/(used in) operations	38,958	26,111	(773)	(867)

26. Capital commitments

The Group had capital commitments at 31 December 2019 totalling £3,900,000 (2018: £3,560,000).

27. Contingent liabilities

Contingent liabilities are possible obligations that are not probable. The Group operates in a highly regulated sector and in markets and geographies around the world each with differing requirements. As a result, and in the normal course of business, the Group can be subject to a number of regulatory inspections/investigations on an ongoing basis. It is therefore possible that the Group may incur penalties for non-compliance. In addition, a number of the Group's brands and products are subject to pricing and other forms of legal or regulatory restrictions from both governmental/regulatory bodies and also from third parties. Assessments as to whether or not to recognise a provision in respect of these matters are judgemental as the matters are often complex and rely on estimates and assumptions as to future events.

On 23 May 2019 the UK's Competition and Markets Authority ('CMA') issued a Statement of Objection alleging anti-competitive agreements against the Group and certain other pharmaceutical companies in relation to the sale of prescription prochlorperazine. Prochlorperazine is one of the Group's smaller products and had peak sales in 2015 of £1.9m and sales of less than £0.1m in 2019.

The Group confirms that it has had no involvement in the pricing or distribution of prochlorperazine since 2013, when it was out-licensed by the Group. Prior to 2013, prochlorperazine was marketed directly by the Group.

The Group has reviewed the CMA Statement of Objection in detail and is working with the CMA to resolve its alleged objections.

The Group's assessment as at the date of this report, based on currently available information, is that there are no matters for which a provision is required (31 December 2018: £nil). However, given the inherent uncertainties involved in assessing the outcomes of such matters there can be no assurance regarding the outcome of any ongoing inspections/investigations and the position could change over time as a result of the factors referred to above.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

28. Pensions

The Group operates a defined contribution pension scheme for the benefit of certain Directors and employees.

The Group	31 December 2019 £000s	31 December 2018 £000s
Contributions payable by the Group for the year	812	730

29. Related party transactions

During the year, the Group entered into the following transactions with related parties:

- (i) Interest receivable from Unigreg was £nil (2018: £13,000).
- (ii) Interest receivable from Synthasia International Company Limited was £nil (2018: £16,000).
- (iii) Payments on behalf of Synthasia International Company Limited of £nil (2018: £5,000).

During the year, the Company entered into the following transactions with related parties:

	The Company Transaction values for the year ended		Amount due from related parties	
	31 December 2019 £000s	31 December 2018 £000s	31 December 2019 £000s	31 December 2018 £000s
Alliance Pharmaceuticals Limited – Net funds received	974	1,070	170,056	159,568
Alliance Pharmaceuticals Limited – Interest received	6,225	5,066	–	–
Alliance Pharmaceuticals Limited – Investments during the year	(4,167)	(33,619)	–	–
Alliance Pharmaceuticals Limited – Share based payment recharge	(1,025)	(1,169)	–	–
Alliance Pharmaceuticals Limited – Dividend declared and received	7,596	5,600	–	–
Alliance Pharmaceuticals SAS	–	–	–	97

30. Joint Ventures

Name	Principal Activity	Country of Incorporation	% Owned
Unigreg Limited *disposed of in the prior year (note 31)	Distribution of pharmaceutical products to China	British Virgin Islands	0
Synthasia International Company Limited	Distribution of infant milk formula products in China	Hong Kong	20

In 2018 the Group disposed of its interest in Unigreg Limited (note 31). Previously the Group owned 60% of the issued share capital of Unigreg Limited. The Group considered the existence of substantive participating rights held by the minority shareholder which provide that shareholder with a veto right over the significant financial and operating policies of Unigreg Ltd and determined that, as a result of these rights, the Group did not have control over the financial and operating policies of Unigreg Ltd, despite the Group's 60% ownership interests. Consequently the Company was accounted for as a Joint Venture.

The Group owns 20% of the issued share capital of Synthasia International Company Limited ('Synthasia'). The Group considered the existence of substantive participating rights held by both the Group and another shareholder which provide both parties with a veto right over the significant financial and operating policies of Synthasia and has determined that, as a result of these rights and by exercise of judgement, Synthasia is accounted for as a Joint Venture. In accordance with IFRS 11 Joint Arrangements, a Joint Venturer shall recognise its interest in a Joint Venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.

In May 2018 the Group was notified that the import licence partner was not going to receive the required approval to import Suprememil, the infant milk formula brand owned by Synthasia. Following subsequent discussions with the import licence partner and Synthasia management, the Board concluded that the joint venture investment of £0.3m, and associated loan balances of £2.2m, was to be written down in full.

Following the impairment further losses from the Synthasia Joint Venture have not been recognised. This is due to the Group having no obligation to fund such losses.

The carrying value of Joint Ventures is as follows:

	31 December 2019 £000s	31 December 2018 £000s
Synthasia International Company Limited	-	-
Trade and other receivables	31 December 2019 £000s	31 December 2018 £000s
Synthasia International Company Limited	-	-

The receivables from Synthasia International Company Limited are stated after a provision of £2.2m (2018 £2.2m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

31. Disposals

Return of Xonvea Licensing Rights

In November 2019, the Group reached an agreement with Duchesnay Inc. of Canada ('Duchesnay') to return the UK and EU licensing rights to Xonvea, a prescription medicine for the treatment of nausea and vomiting of pregnancy where conservative management has failed. Under the terms of the agreement, £2m in milestone payments made to date will be paid to the Group, £0.25m having been paid in 2019 with the balance due in 2020. Additionally, the remaining £0.5m due on initial acquisition of Xonvea previously held as contingent consideration has been waived as part of the agreement. This has resulted in the release of the contingent consideration (note 17) and the disposal of the corresponding £0.5m asset under development (note 11). Both the release and disposal have been included within the loss on disposal, resulting in no net impact on the income statement.

The Group incurred non-underlying inventory provisions and associated restructuring costs in connection with the return of the Xonvea rights of £1.9m. The total non-underlying loss on disposal was £1.7m as follows:

Return of Xonvea Licensing Rights	£000s
Milestone repayments	2,000
Net book amount – intangible asset brand (note 11)	(1,268)
Net book amount – intangible asset under development (note 11)	(1,000)
Release of contingent consideration (Note 17)	500
Inventory provisions	(1,152)
Associated restructuring costs	(752)
Non-underlying loss	(1,672)

Xonvea was not considered to represent a separate major line of business at the date of disposal. Therefore it has not been disaggregated as a specific discontinued operation.

Disposal of Flammacerium

In December 2019, the Group sold the global rights to the brand Flammacerium for gross cash consideration of £0.75m payable over six years, £0.10m having been paid in 2019. Flammacerium is used for the prevention and treatment of infections in severe burn wounds. The total non-underlying loss on disposal was £0.1m as follows:

Disposal of Flammacerium	£000s
Gross cash consideration	750
Impact of discounting on cash consideration	(57)
Net book amount – intangible asset development costs (note 11)	(780)
Net book amount – goodwill (note 11)	(33)
Associated transaction costs	(25)
Non-underlying loss	(145)

Disposal of Unigreg Joint Venture

On 18 April 2018 the Group sold its 60% interest in Unigreg Limited to its joint venture partner, Pacific Glory Development Limited, for a consideration of £2.9 million.

The consideration of £2.9 million for the Unigreg shareholding was settled with an initial payment of £2.4 million cash at completion and a deferred payment of £0.5 million settled in 2019. In addition, all outstanding shareholder loans made by the Group to Unigreg, totalling £1.5 million, were repaid in full prior to completion.

As at 18 April 2018 the Alliance Pharma Group's investment in Unigreg was £1.2 million, representing the initial investment of £0.5 million, together with unremitted profits of £0.7 million. The Group profit on disposal was £1.5 million (net of fees). The profit on disposal is disclosed as a non-underlying item (note 5).

32. Ultimate controlling party

The Company's shares are listed on the Alternative Investment Market ('AIM') and are held widely. There is no single ultimate controlling party.

33. Alternative performance measures

The performance of the Group is assessed using Alternative Performance Measures ('APMs'). The Group's results are presented both before and after non-underlying items. Adjusted profitability measures are presented excluding non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses.

In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter term budgets and forecasts but also against the Group's longer term strategic plans. APMs used to explain and monitor Group performance:

Measure	Definition	Reconciliation to GAAP measure
Underlying EBIT and EBITDA	Earnings before interest, tax and non-underlying items (EBIT), then depreciation, amortisation and underlying impairment (EBITDA). Calculated by taking profit before tax and financing costs, excluding non-underlying items and adding back depreciation and amortisation. EBITDA margin is calculated using see-through revenue.	Note A below
Free cash flow	Free cash flow is defined as cash generated from operations less cash payments made for interest payable and similar charges, capital expenditure and tax.	Note B below
Net debt	Net debt is defined as the group's gross bank debt position net of finance issue costs and cash.	Note C below
Adjusted underlying effective tax rate	Adjusted underlying effective tax rate is calculated by dividing total taxation for the year less impact of tax rate changes and non-underlying charges, by the underlying profit before tax for the year.	Note D below
See-through income statement	Under the terms of the transitional services agreement with J&J, Alliance receives the benefit of the net profit on sales of Nizoral from the date of acquisition up until the product licences in the Asia-Pacific territories transfer from J&J to Alliance. The net product margin is recognised as part of statutory revenue. The see-through income statement recognises the underlying sales and cost of sales which give rise to the net product margin, as management consider this to be a more meaningful representation of the underlying performance of the business, and to reflect the way in which it is managed.	Note E below
Constant currency basis revenue	Revenue stated so that the portion denominated in non-sterling currencies is retranslated using foreign exchange rates from the previous financial year.	Note F below
Like-for-like Revenue	Revenue stated excluding the impact of acquisitions in both the current and prior years. This therefore excludes revenue from Nizoral to ensure comparability.	Note 3 includes revenue by brand

A. Underlying EBIT and EBITDA

Reconciliation of Underlying EBIT and EBITDA	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Profit before tax	31,076	22,803
Non-underlying items (note 5)	1,817	5,270
Finance costs (note 6)	4,553	864
Underlying EBIT	37,446	28,937
Depreciation (note 12)	1,496	1,335
Underlying impairment (note 11)	284	1,926
Amortisation (note 11)	179	211
Underlying EBITDA	39,405	32,409

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

33. Alternative performance measures continued

B. Free cash flow

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Reconciliation of free cash flow		
Cash generated from operations (note 25)	38,958	26,111
Interest payable and similar charges	(2,505)	(3,197)
Capital expenditure	(4,145)	(2,891)
Tax paid	(3,200)	(3,941)
Free cash flow	29,108	16,082

C. Net debt

	Note	31 December 2019 £000s	31 December 2018 £000s
Reconciliation of net debt			
Loans and borrowings – current	18	–	(68,035)
Loans and borrowings – non-current	18	(77,040)	(28,667)
Cash and cash equivalents	16	17,830	10,893
Net debt		(59,210)	(85,809)

D. Adjusted underlying effective tax rate

	Year ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Reconciliation of adjusted underlying effective tax rate		
Total taxation charge for the year	(6,066)	(4,447)
Non-underlying tax credit	(348)	(1,044)
Adjusted underlying taxation charge for the year	(6,414)	(5,491)
Underlying profit before tax for the year	32,893	28,073
Adjusted underlying effective tax rate	19.5%	19.6%

E. See-through income statement

	2019 statutory values £000s	See-through adjustment £000s	2019 see-through values £000s
Revenue	135,637	8,641	144,278
Cost of sales	(49,561)	(8,641)	(58,202)
Gross profit	86,076	–	86,076
Gross profit margin	63.5%		59.7%

	2018 statutory values £000s	See-through adjustment £000s	2018 see-through values £000s
Revenue	118,208	5,834	124,042
Cost of sales	(45,560)	(5,834)	(51,394)
Gross profit	72,648	–	72,648
Gross profit margin	61.5%		58.6%

There is no impact from the see-through adjustment on income statement lines below gross profit.

F. Constant currency revenue

	2019 £000s	Foreign exchange impact £000s	2019 constant currency revenue £000s
See-through revenue (Note E)	144,278	(767)	143,511
Vamousse product revenue	6,538	(237)	6,301

	2018 £000s	Foreign exchange impact £000s	2018 constant currency revenue £000s
See-through revenue (Note E)	124,042	516	124,558
Vamousse product revenue	5,756	138	5,894

34. Post balance sheet events

Impact of COVID-19 coronavirus

As highlighted and discussed in the Chief Executive's Review, the Group notes the developing situation regarding the outbreak of the, COVID-19 coronavirus. The Group is actively assessing and monitoring this pandemic and will continue to keep the impact on the business, and the opportunities for us to minimise the economic impact on our business, under review. At the date of this report we are not yet able to quantify the potential financial impact, however a range of reasonably possible scenarios have been modelled for the purpose of covenant compliance. Under these scenarios we are forecast to maintain compliance with future covenant requirements.

UNAUDITED INFORMATION

Shareholder Information

Shareholder enquiries

The Company's share register is maintained by Link Asset Services ('Link') who are responsible for updating the register, including changes to shareholders' names or addresses and processing off-market transfers of the Company's shares. If you have any questions about your shareholding in the Company or need to notify any changes to your personal details you should write to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF or telephone 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 9.00am to 5.0pm Monday to Friday).

Financial Calendar

Annual General Meeting	18 May 2020
Interim results announcement	22 September 2020
Year End	31 December 2020
Preliminary announcement	23 March 2021

FIVE YEAR SUMMARY

	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2017 £m	Year ended 31 December 2018 £m	Year ended 31 December 2019 £m
Revenue	48.3	97.5	101.6	118.2	135.6
Operating profit before non-underlying items	10.6	25.6	25.8	28.9	37.4
Non-underlying operating items	(6.3)	–	4.4	(5.3)	(1.8)
Operating profit	17.0	25.6	30.2	23.7	35.6
Profit before tax before non-underlying items	11.0	22.2	23.9	28.1	32.9
Profit before tax after non-underlying items	15.2	22.2	28.3	22.8	31.1
Intangible assets	259.9	264.8	278.6	335.2	328.7
Tangible assets	1.0	1.8	5.7	7.6	11.6
Current assets	27.8	49.3	49.1	58.7	65.0
Current liabilities	31.8	50.3	61.4	91.7	24.2
Equity	162.4	179.3	203.1	252.2	274.2
Average shares in issue (millions)	272.7	469.4	473.8	497.2	520.7
Shares in issue at period end (millions)	468.2	472.6	475.0	518.2	529.4
Earnings per share – basic (p)	4.65	3.85	6.08	3.69	4.80
Earnings per share – adjusted underlying basic (p)	3.69	3.69	4.05	4.54	5.09

ADVISORS AND KEY SERVICE PROVIDERS

Registered Office

Avonbridge House
Bath Road
Chippenham
Wiltshire
SN15 2BB

Company number

04241478

AUDITOR

KPMG LLP

66 Queen Square
Bristol
BS1 4BE

FINANCIAL PR

Buchanan Communications

107 Cheapside
London
EC2V 6DN

REGISTRARS

Link Asset Services

PXS 1
34 Beckenham Road
Beckenham
Kent
BR3 4ZF

NOMAD AND JOINT BROKER

Numis Securities Limited

10 Paternoster Square
London
EC4M 7LT

JOINT BROKER

Investec Bank plc

2 Gresham Street
London
EC2V7QP

BANKERS

Bank of Ireland

Bows Bells House
1 Bread Street
London EC4M 9BE

Citi Bank

Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Lloyds Bank Corporate Markets PLC

25 Gresham Street
London EC2V 7HN

National Westminster Bank PLC

250 Bishopsgate
London EC2M 4AA

Silicon Valley Bank

14–18 Finsbury Square
London EC2A 1BR

CAUTIONARY STATEMENT

Cautionary statement regarding forward-looking statements

This Annual Report has been prepared for the members of the Company and no one else. The Company, its Directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed.

This Annual Report contains certain forward-looking statements with respect to the principal risks and uncertainties facing Alliance. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

The Report of the Directors in this Annual Report has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

In particular, Directors would be liable to the Company (but not to any third party) if the Report of the Directors contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

GLOSSARY

ABPI	Association of the British Pharmaceutical Industry
AGM	Annual General Meeting
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CMO	Contract Manufacturer
ERP	Enterprise Resource Planning
FDA	US Food and Drug Administration
EHP	Essential Health Pack
IHP	International Health Partners
IPHA	Irish Pharmaceutical Healthcare Association
J&J	<i>Johnson and Johnson</i>
LRQA	Lloyds Register Quality Assurance
LSAS	Labour Standard Assurance System
MDR	Medical Device Regulation
MHRA	Medicines and Healthcare products Regulatory Agency
NPI	New Product Introduction
OTC	Over the Counter
SECR	Streamlined Energy and Carbon Reporting regulations
S&OP	Sales and Operations Planning
VPAS	Voluntary Pricing and Access Scheme



Alliance Pharma plc

Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB, United Kingdom
T: +44 (0)1249 466966 **F:** +44 (0)1249 466977 **E:** ir@alliancepharmaceuticals.com
www.alliancepharmaceuticals.com