Alliance Pharma plc Annual Report and Accounts 2018

Working together to achieve more

ALLIANCE

Alliance Pharma plc is an international healthcare group.

The Group owns or licenses the rights to more than 90 pharmaceutical and consumer healthcare products, which are managed on a portfolio basis according to their growth potential. Promotional investment is focused on a small number of brands with significant international or multi-territory reach. The remainder of the portfolio comprises products which are sold in a limited number of local markets and require little or no promotional investment.

Headquartered in the UK with affiliate offices in Europe, the Far East and the US and wide international reach through an extensive network of distributors, Alliance sells its products in more than 100 countries.

The Group's proven business model allows it to benefit both from organic growth opportunities and from enhancing its growth rate through carefully selected acquisitions.

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For more information visit
alliancepharmaceuticals.com

2018 HIGHLIGHTS

See-through Revenue*

£124.0m

(2017: £101.6m**) +22%

2018	£124.0m
2017	£101.6m
2016	£97.5m

Underlying Profit Before Tax

£28.1m

(2017: £23.9m**) +17%

2018	£28.1m
2017	£23.9m
2016	£22.2m

Underlying Adjusted Basic EPS*

4.54p

(2017: 4.05p**) +12%

2018	4.54p
2017	4.05p
2016	3.69p

Statutory Revenue

£118.2m

(2017: £101.6m**) +16%

2018	£118.2m
2017	£101.6m
2016	£97.5m

Reported Profit Before Tax

£22.8m

(2017: £28.3m**) -19%

2018	£22.8m
2017	£28.3m
2016	£22.2m

Reported Basic EPS

3.69p

(2017: 6.08p**) -39%

2018	3.69p
2017	6.08p
2016	3.85p

* Non-IFRS alternative performance measures (see note 34). 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

** 2017 comparatives restated following the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases

OVERVIEW

- Revenues on a see-through basis* up 22% at £124.0m (up 23% on a constant currency* basis), with like-for-like revenue up 4% (4% on a constant currency* basis), in line with expectations
  - Continued strong performance from International Star brands, led by Kelo-cote
  - For the first time, overseas sales exceeded those from the UK
- Statutory revenues up 16%, to £118.2m (2017 restated**: £101.6m)
- Underlying EBITDA* up 19% to £32.4m (2017 restated**: £27.2m)
- Nizoral acquired from Johnson & Johnson for the Asia Pacific region in June 2018 for £60m; revenues in line with expectations; integration progressing well
- Vamousse integration completed and Alliance subsidiary fully established in the US; Vamousse revenues up 16% year on year under Alliance management
- Xonvea, for nausea and vomiting of pregnancy where conservative management has failed, approved in the UK in July 2018 and launched in October – now starting to gain formulary inclusions
- Reorganisation of our Chinese operations, as previously announced, resulting in a net non-underlying charge to the profit and loss account of £1.0m, with the focus in China now being on our Kelo-cote, Nizoral and Nutraceuticals businesses
- As previously announced, anti-material intangibles written down in full resulting in a non-underlying charge to the profit and loss account of £4.3m
- Alliance acquired the anti-malarial products in 2012, since which time these products have generated a cumulative gross profit of £6.3m to 31 December 2018
- Continued strong cash generation, with leverage falling to 2.33x from 2.46x (2017), including £28m of new borrowings for the Nizoral acquisition
- Proposed final dividend increased 10% to 0.977p, giving a total dividend of 1.464p. Covered 3.1x by underlying earnings

AT A GLANCE

We are an alliance built for modern business.

**An inter-connected network of people and brands.
A global range of products delivering outstanding value.
Many partners working together; one team, achieving more.**

Headquartered in the UK, with affiliated offices in Europe, the Far East and the US

- Wide international reach through an extensive network of distributors
- Sales in more than 100 countries

Operating a proven business model

Organic growth

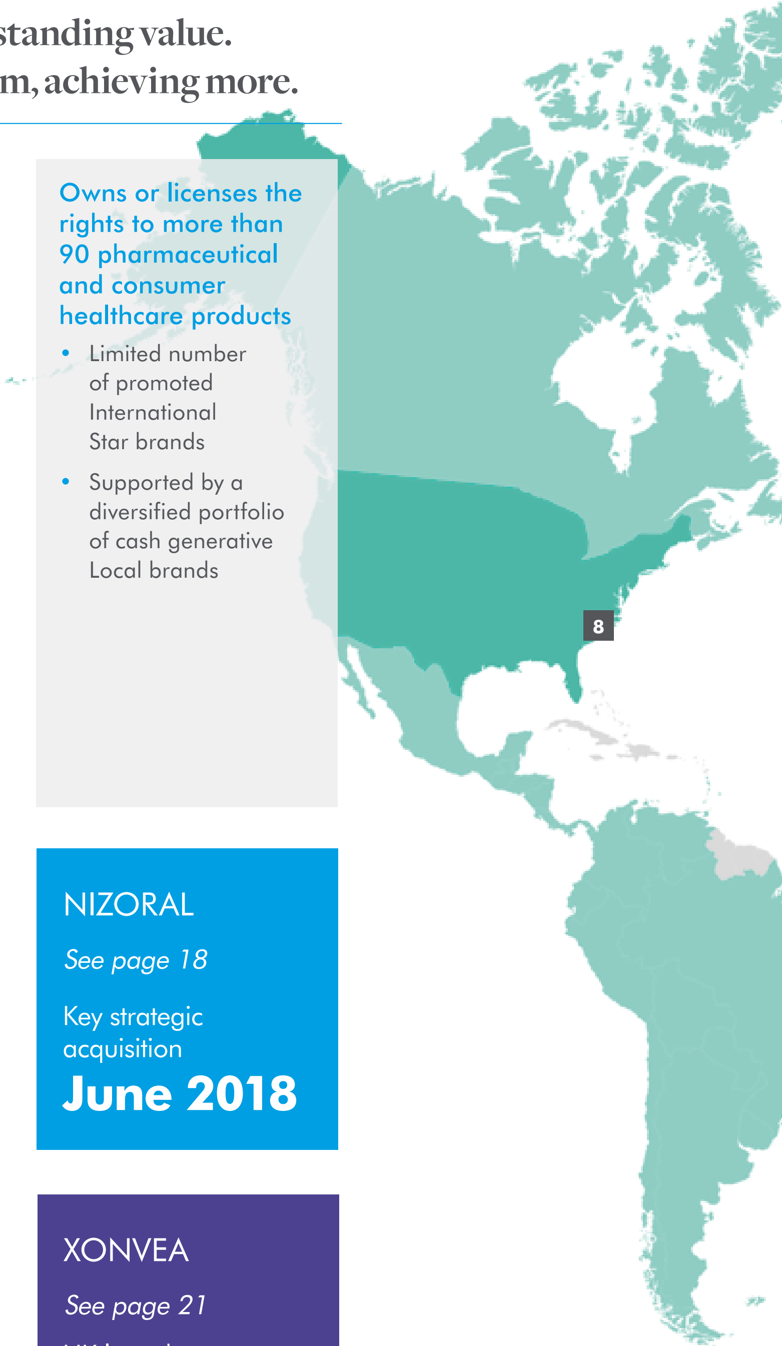
- Through our International Star brands
- Through selective promotional investment

Additional growth through acquisitions

- Selective approach
- Facilitated by strong cash generation
- Significant M&A and integration expertise
- More than 35 deals in 20 years

Owns or licenses the rights to more than 90 pharmaceutical and consumer healthcare products

- Limited number of promoted International Star brands
- Supported by a diversified portfolio of cash generative Local brands



International Star brands

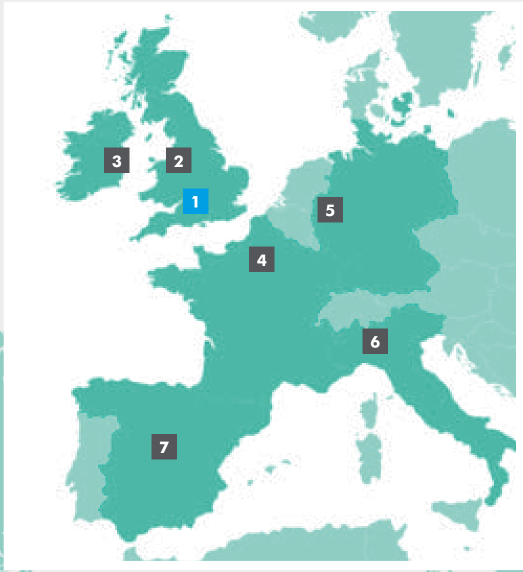
KELO-COTE
See page 17
+68%
revenue growth

NIZORAL
See page 18
Key strategic acquisition
June 2018

MACUSHIELD
See page 19
4
new territory launches in 2018

VAMOUSSE
See page 20
+16%
revenue growth

XONVEA
See page 21
UK launch
October 2018



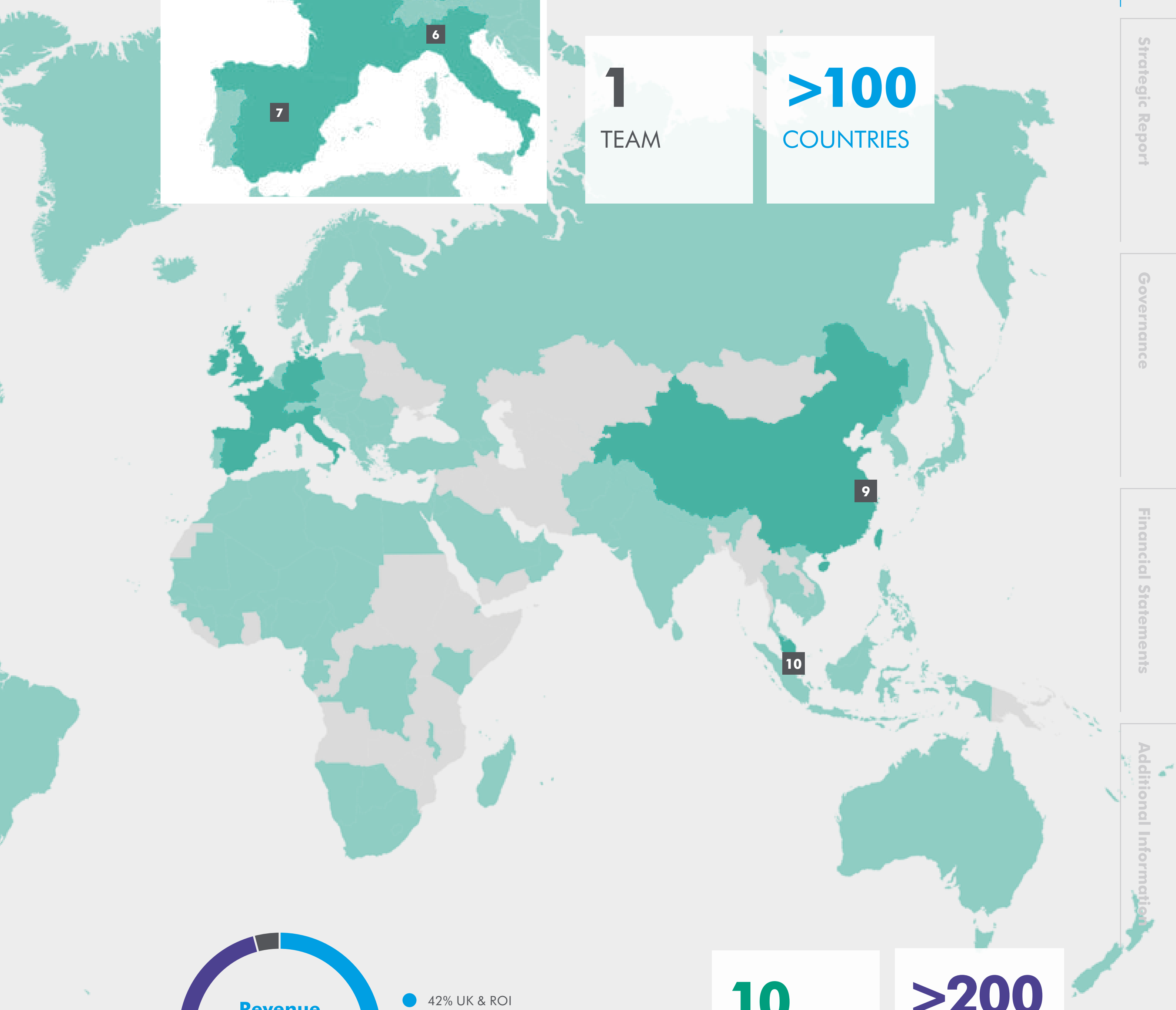
Where we are

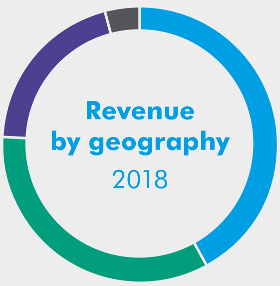
1 Chippenham (HQ)
2 Chester
3 Dublin
4 Paris
5 Düsseldorf
6 Milan
7 Madrid
8 North Carolina
9 Shanghai
10 Singapore

Distributor relationships
Country with international office

1 TEAM

>100 COUNTRIES





- 42% UK & ROI
- 34% International
- 20% Mainland Europe
- 4% US

10 OFFICES

>200 PEOPLE

Strategic Report

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.

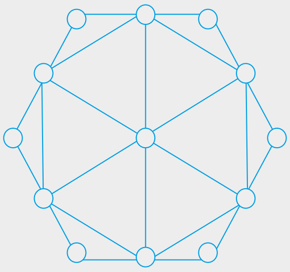
Our mission

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

INVESTMENT CASE

A successful international healthcare business, operating a proven business model and offering a significant mid-term growth opportunity.

HIGHLY CAPABLE AND SCALABLE OPERATION DEVELOPED OVER 20 YEARS



- Experienced management team
- Engaged and committed people
- Well-invested infrastructure

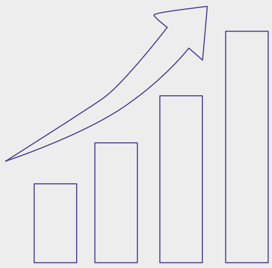
Read more on pages 22–25

PROFITABLE, CASH GENERATIVE AND DIVIDEND PAYING

- c.25% EBITDA margin
- Good cash conversion
- Progressive dividend policy
- Leverage currently 2.33 times

Read more on pages 26–28

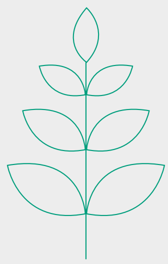
GROWTH STRATEGIES VIA A PROVEN BUSINESS MODEL



- Organic growth through selective promotion
- Additional growth through acquisitions
- Balanced portfolio
- No R&D risk

Read more on pages 12–13

ORGANIC GROWTH PRIMARILY FROM INTERNATIONAL STAR BRANDS



- Kelo-cote
- Nizoral
- MacuShield
- Vamousse
- Xonvea

Read more on pages 16–21

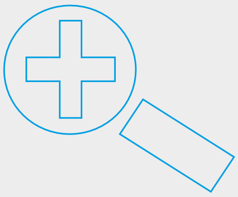
20
YEARS OF OPERATION

£16.1m
FREE CASH FLOW (2018)

22%
SEE-THROUGH REVENUE GROWTH (2018)

37%
OF REVENUE FROM INTERNATIONAL STAR BRANDS (2018)

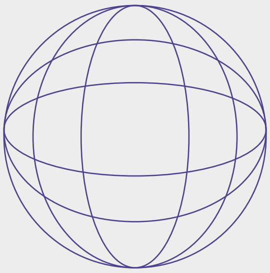
ADDITIONAL GROWTH THROUGH ACQUISITIONS



- Very experienced team behind M&A – more than 35 deals in 20 years
- Expertise in sourcing, executing and integrating acquisitions
- Strong cash generation supports deal flow

Read more on page 15

EXTENSIVE GEOGRAPHIC REACH



- Direct presence in Western Europe, the US and the Far East
- Extensive international partnering network reaching over 90 countries

Read more on pages 2–3

DIVERSIFIED PORTFOLIO SPREADS RISK

- Revenues derive from more than 90 pharmaceutical and consumer healthcare products spanning multiple therapy areas and geographies

Read more on page 16

35
ACQUISITIONS TO DATE

9
COUNTRIES WITH AN ALLIANCE OFFICE

>100
COUNTRIES WHERE ALLIANCE PRODUCTS ARE SOLD

Overview
Strategic Report
Governance
Financial Statements
Additional Information

CHIEF EXECUTIVE'S REVIEW

In 2018 we continued to deliver on our strategy, with strong sales and profit growth, led by our International Star brands and acquisitions. 2018 marked a milestone in the internationalisation of Alliance in that, for the first time, our overseas sales exceeded those in the UK.

PETER BUTTERFIELD
Chief Executive

The acquisition of Nizoral brings increased scale and opportunities for us in the Asia Pacific region and, together with the creation of a trading operation in the US, further increases our international footprint, whilst the UK approval of Xonvea offers further organic growth prospects for the Group.

2019 has started well and we look forward to continuing on our growth path in the year ahead and to deploying the Group's strong cash flow to further develop as a leading international healthcare business.

Trading performance

The Group continued to trade well in 2018 with revenues on a see-through basis up 22% to £124.0m and up 16% on a statutory basis to £118.2m (2017 restated: £101.6m). Like-for-like revenues, which exclude acquisitions in the year under review, were up 4% on the prior year (4% on a constant currency basis) and, with improving gross profit margins, gross profit increased by 23% to £72.6m (2017 restated: £59.1m). As expected, the growth in underlying EBITDA and underlying profit before tax was slightly lower as we continue with our planned investment in our International Star brands and continue to build our business in the Asia Pacific region; underlying EBITDA was up 19% to £32.4m (2017 restated: £27.2m) and underlying profit before tax up 17% to £28.1m (2017 restated: £23.9m).

Recent acquisitions, integration and disposals

During the first half of 2018, we completed the integration of Vamousse, the pesticide-free treatment for head lice, acquired in December 2017, establishing a new US subsidiary to manage the sales of this product in its largest market. We also completed the integration of Ametop, the local anaesthetic gel acquired from Smith & Nephew in December 2017, with sales of this product forming part of our Local brand sales in 2018.

March: David Cook succeeds Andrew Smith as Chairman. Opening of new affiliate office in the US

April: Disposal of 60% interest in non-core Unigreg JV in China

May: Peter Butterfield succeeds John Dawson as Chief Executive Officer. Thomas Casdagli steps down as a Non-executive Director

We have made a positive start with the integration of Nizoral, the medicated anti-dandruff shampoo acquired from Johnson & Johnson (J&J) for the Asia Pacific region in June 2018. The acquisition included product licences covering 17 Asia Pacific territories in which the brand is registered, which are expected to transfer to Alliance over time, beginning in H2 2019. Under the terms of the transitional services agreement with J&J, we receive the net profit on sales of Nizoral from the date of acquisition up until the point at which the licence in each territory transfers to Alliance.

China remains a key territory for the Group, and we have had a local presence there since 2007 when we acquired the rights to Forceval in China. As part of the strategic repositioning of our China business, to prepare for strong future organic growth in April 2018 we completed the disposal of our 60% joint venture holding in Unigreg Limited and we impaired our 20% stake in the Synthasia joint venture – the Chinese distributor of Suprememil infant milk formula.

Our Shanghai trading company will continue to market our local nutraceutical products and maintain close links to the Shanghai-based distributor of Kelo-cote. It is also well placed to manage the Triatop (Nizoral) relationship in China, a key territory for the product, following the transition from J&J.

OPERATIONAL REVIEW

International Star brands

Kelo-cote

Kelo-cote, our scar treatment product, delivered an outstanding performance in 2018, with sales up 68% to £22.5m (2017: £13.3m) due to strong growth across the Asia Pacific region and in mainland Europe.

In October we were pleased to be a leading sponsor of the first world congress of the G-Scar Society in Shanghai. Over 400 healthcare professionals attended the event which featured lectures given by prominent Key Opinion Leaders in scar treatment from around the world.

We plan to continue to support the growth of this key brand in 2019 through further range enhancement, with marketing support being maintained at a similar level to 2018.

Nizoral

Nizoral, the medicated anti-dandruff shampoo acquired from J&J in June 2018, performed in line with expectations, generating see-through sales of £10.9m in the second half of 2018. We have made a good start on integration activities, which are progressing to plan, and expect the first of the product licences to transfer to Alliance during the second half of 2019.

MacuShield

MacuShield, our eye health supplement, performed well in this period, generating sales of £7.0m, up 6% year on year (2017: £6.6m, restated following the adoption of IFRS 15). Growth came primarily from the UK, where the product was awarded 'Best Eye Health Product 2018' by Boots.

Growth was somewhat tempered by delays to the launches planned for the second half of 2018 in both European and international territories. These countries are now expected to come on stream in the first half of 2019.

Vamousse

Vamousse, for the prevention and treatment of head lice, performed in line with expectations achieving sales of £5.8m, up 16% on 2017 (when it was under previous ownership) and up 18% on a constant currency basis.

We continue to evaluate opportunities to introduce Vamousse into new markets.

Xonvea

Xonvea, for the treatment of nausea and vomiting of pregnancy where conservative management has failed, gained UK marketing approval in July 2018 and was launched in the UK in October 2018.

2018 Highlights

- Strong revenue growth, driven by an outstanding performance from Kelo-cote (+68%)
- Acquisition of Nizoral in Asia Pacific in June 2018, adding a fourth International Star brand to our portfolio and building critical mass in the important Asia Pacific region
- Approval and launch of Xonvea in the UK, adding a fifth International Star brand to our portfolio and enhancing our potential for mid-term growth
- Reorganisation of our Chinese operations completed, with the focus now on our Kelo-cote, Nizoral and Nutraceuticals businesses
- In 2018, for the first time, overseas sales exceeded those from the UK

See-through Revenue*

£124.0m

(2017: £101.6m**) +22%

2018	£124.0m
2017	£101.6m
2016	£97.5m

Statutory Revenue

£118.2m

(2017: £101.6m**) +16%

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2017	£101.6m
2016	£97.5m

* Non-IFRS alternative performance measures (see note 34). 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

** 2017 comparatives restated following the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases

Acquisition of Nizoral for the Asia Pacific region

UK Stock Market Healthcare Company of the Year award

CHIEF EXECUTIVE'S REVIEW CONTINUED

June

Early signs are encouraging, with the product having achieved its first sales and formulary inclusions.

UK approval paves the way for further licence approvals in the EU in 2019 and beyond, and as such the product is considered to offer good growth prospects in the medium term.

Local brands

Our Local brands comprise a wide portfolio of products that collectively generate significant profit and cash flow for the business and, as such, represent a key component of our business model. Most of our Local brands occupy well-established niches in their respective market segments and provide stable cash flows with little or no promotional effort. Occasionally competition may emerge in a segment, or we may be advised by a supplier that they are no longer able to manufacture the product and in 2018 we experienced this with our anti-malarials portfolio.

After a slower first half, the second half of the year saw a recovery in sales of our Local brands, as some of the timing differences in order placement we experienced in the first half of the year reversed, and most, but not all, of the manufacturing delays were resolved. Second half sales of £40.6m were up 9% on first half sales (H1 2018 £37.2m), although 2% lower than sales in the second half of 2017 (H2 2017 restated: £41.4m). Total sales for the year were £77.8m, down 5% on the previous year (2017 restated: £81.6m), £0.6m of which related to the anti-malarials portfolio. Further detail is provided in the UK and Republic of Ireland section below. Going forwards, we expect sales across this portfolio to remain broadly stable and in line with the second half 2018 sales on an annualised basis.

Performance by region

For the first time, sales generated outside of the UK exceeded those from within the UK.

International

Our international distributor business continued to perform strongly and, with the recent acquisition of Nizoral and continued growth of Kelo-cote, represents an increasing part of our revenue generation, with see-through sales increasing 59% to £41.8m in 2018 and reported sales increasing 37% to £36.0m (2017 restated: £26.3m).

The performance of our Chinese business was particularly pleasing, with sales more than doubling to £11.2m (2017 restated: £5.3m), due to strong performances from Kelo-cote and our nutraceutical products, coupled with the inclusion of second half revenues from Nizoral.

UK and Republic of Ireland

Sales in the UK and Republic of Ireland, which combined, have historically been our largest market, were down 5% on the previous year at £52.3m (2017: £54.9m) due to a slow start in the first half of the year, with only limited recovery in H2. Second half sales were £26.5m, up 3% on H1 2018 sales, but down 8% on H2 2017 (H2 2017 restated: £28.8m).

As noted above, we experienced some manufacturing and ordering delays, notably on a manufacturing transfer of Menadiol (a prescription medicine, initiated in hospitals), which we expected to normalise during the second half of 2018 to 2017 levels. However, this normalisation is now expected in the first half of 2019. UK sales were also impacted by the expected discontinuation of ImmuCyst, a fall in sales of our anti-malarial products, as outlined above, and a mandated increase in the UK NHS rebate (the Pharmaceutical Price Regulation Scheme) from 4.75% to 7.8%.

However, these challenges were partially offset by strong performances from our UK consumer products, with our key consumer brands, MacuShield, Ashton & Parsons, Aloclair, Anbesol and Vamousse all delivering good sales growth following investment, a trend which we expect to see continuing into 2019.

Mainland Europe

Our Mainland Europe business saw strong top-line growth in 2018, with sales increasing by 25% to £25.4m (2017 restated: £20.3m), largely due to growth in Kelo-cote sales, which were up by more than £5.0m across the region.

US

In the US, we were particularly encouraged by the performance of Vamousse which, compared with the same period last year under its previous ownership, saw a 10% (14% on a constant currency basis) increase in sales to £4.6m.

Operations

Falsified Medicines Directive ('FMD') and Medical Device Regulation ('MDR')

We have successfully implemented the FMD, the purpose of which is to prevent counterfeit medicines from reaching patients in Europe and have released our first individually serialised packs to the UK market.

We are also working to ensure our technical documentation and processes meet the new requirements of the MDR, which will start to apply from May 2020. The new regulation places stricter requirements on clinical information for products registered as medical devices and requires enhanced traceability and transparency.

Brexit

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 to host certain registrations; and duplicating key statutory roles in the UK and EU albeit on a limited basis.

July — UK Marketing Authorisation Approval received for Xonvea

August — Opening of new offices in Dusseldorf

October — Xonvea launched in the UK

December — Jo LeCouilliard and Richard Jones appointed as independent Non-executive Directors, with effect from 1 January 2019

Cost implications

As previously announced, we incurred a small amount of one-off costs in preparing for FMD and Brexit in 2018. Going forward, we expect to absorb the costs of operating under these new compliance regimes without any further impact on margins. We increased our stockholdings ahead of FMD and Brexit by £2m - £3m at the end of 2018, with a consequential impact on cash flow. Whilst we expect this increased holding to substantially unwind during 2019, the impact of this is likely to be balanced by the requirement for us to build stock for Nizoral as we start to exit the transitional service arrangements with J&J and by further increases in the scale of our business operations.

ERP implementation

We are making good progress with the installation of our new enterprise resource planning ('ERP') system, Microsoft Dynamics AX, and now expect this to become operational in the second half of 2019, a few months later than previously advised. The potential business benefit is significant, as we will be moving all our legacy systems onto a single platform, which can handle all our financial and supply chain planning and fulfilment activities, enabling us to streamline our processes and increase operational efficiency, whilst also providing a scalable platform to support further growth and future acquisitions.

People

During 2018 and the early part of 2019, we saw a number of changes to the composition of the Alliance Board.

On 1 March 2018, David Cook, who had been a Non-executive Director at Alliance for almost four years, succeeded Andrew Smith as Chairman. On 1 May 2018, I took over from John Dawson as the Group's Chief Executive Officer, although John continues to serve on the Board as a Non-executive Director. On 30 May 2018, Thomas Casdagli stepped down as a Non-executive Director.

On behalf of the Board, and personally, I would like to thank Andrew, John and Thomas for their invaluable contributions to the development of the Alliance business to date, particularly John who, as the Group's founder, led the business for over 20 years from start-up to a profitable, AIM-listed business with a turnover of £100m+. I was very pleased that John decided to stay on as a Non-executive Director.

On 17 December 2018, we announced the appointment of two new independent Non-executive Directors with effect from 1 January 2019. Jo LeCouilliard and Richard Jones both have substantial pharmaceutical and healthcare experience gained in listed companies and they bring further international business experience and capital markets expertise into the Group. We are delighted to welcome them both to the Alliance Board.

Alliance currently employs more than 200 people in 10 locations around the world, the majority of whom hold share options in the business. 2018 saw the highest-ever employee satisfaction results across the business as we continue to invest in our working environments and in personal development. We are currently scaling up our existing operations in Singapore and Shanghai in order to support the integration and ongoing management of Nizoral. Our resourcing requirements will continue to evolve as the business grows and diversifies, generating requirements for additional specialist or local market expertise.

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

Current trading and outlook

After a strong performance in 2018, which also saw the introduction of two new International Star brands into the Group (Nizoral and Xonvea), we start 2019 well-positioned for further growth.

Strategically, the priorities for the Group continue to be the delivery of organic growth, primarily from our International Star brands; maintaining our progress with the integration of Nizoral; and continuing to support Xonvea as it progresses through its important post-launch phase by building relationships with healthcare professionals and driving formulary inclusions and prescribing.

The acquisition of Nizoral and the continued strong performance of Kelo-cote leave us well-placed to leverage opportunities for further organic growth, particularly in the fast-growing Asia Pacific region, and we are currently scaling-up our local infrastructure and resources to facilitate this.

The UK launch of Xonvea marks an important strategic milestone and, with further EU launches planned, the product offers an opportunity for further growth in the medium term.

Trading in 2019 has started well and the Group is trading in line with expectations for the full year.

Our strong cash generation in 2019 and planned increase in debt facilities mean that, as the year progresses, we will be well-placed to continue to invest in our International Star brands to drive expected strong organic growth, supplemented by targeted acquisitions to take advantage of operational leverage and to enhance our geographical reach.

Peter Butterfield
Chief Executive

26 March 2019

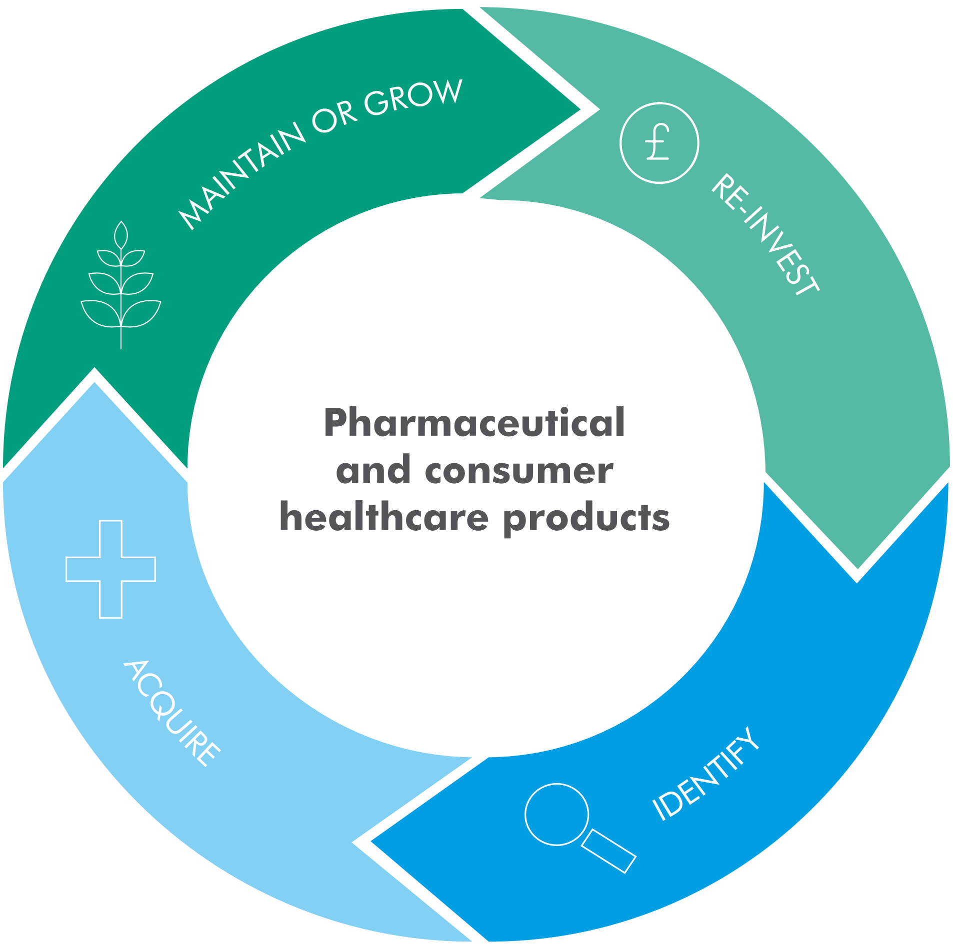
OUR BUSINESS MODEL

We have built a successful business with a strong collaborative culture. We recognise that our relevance and value is in how we work together; colleagues, partners and customers alike, we demonstrate an entrepreneurial spirit and work together to achieve more. Our values remain at the heart of how we engage with each other and conduct our business.

Resources and relationships

- Experienced management team
- Engaged and committed people
- Collaborative, values-driven culture
- Well-established contract manufacturing relationships
- Reliable network of warehousing and logistics partners
- Offices in three continents
- Strong relationships with 100+ distributors
- Strong cash flow and access to funds

Key activities



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.

How we do it

MAINTAIN OR GROW

With the labour-intensive manufacturing, storage and distribution of our products outsourced, our focus is on growing our portfolio of products through selective promotional investment, maintaining and harvesting our cash-generative Local brands, whilst investing behind our International Star brands in order to drive growth.

RE-INVEST

Our diversified portfolio of Local brands provides good cash generation for the business, enabling us to re-invest both in promoting and developing our International Star brands and in paying down debt and making selective acquisitions.

IDENTIFY

Our highly selective acquisition strategy looks to identify opportunities which align with our vision, maintain our blended model and are synergistic with our existing business, enabling us to leverage our operational and geographic footprint, channel presence and therapeutic expertise.

ACQUIRE

We have an experienced and capable acquisition team, and once a suitable acquisition has been identified, we have a good track record of securing the necessary debt, and equity funding, if required, to complete it. We also have considerable experience in post-deal integration, enabling acquired assets to be incorporated into our existing operations with minimum disruption.

Together we achieve more for...

Patients

Patients rely on us to deliver products that can help to improve their health. At Alliance, every one of our brands is in safe hands.

Together we make a real difference to the lives of millions of people around the world every day.

Healthcare providers

Healthcare providers in a range of specialties value our engagement and achieve more every day thanks to the education, information and resources we provide.

Working with key opinion leaders enables us to build on our growing global reputation as trusted experts in selected therapy areas.

Our partners

Our trusted business model creates global opportunities for working together with a wide range of specialist partners.

Our balanced strategy of organic growth and growth through acquisition makes us the compelling partner for businesses seeking to divest or out-license brands.

Investors

We have a proven, consistent track record that provides the freedom to invest for both growth and acquisition.

Our alliances enable us to deliver the sustained growth and value that institutional and private investors value.

OUR STRATEGY

We have a proven strategy of delivering organic growth through selective promotion of our brands and enhancing this growth through acquisitions.

Organic growth

Through our promoted International Star brands
Supported by selective promotional investment in our Local brands

Progress in 2018

- 2018 saw us continue our programme of planned investment behind our International Star brands, with pleasing results. Collectively, this part of our portfolio grew by 130% in 2018 (48% on a like-for-like basis). Kelo-cote delivered an exceptionally strong performance, with revenues up 68% (see page 17), through growing sales in China, additional international distribution via our European affiliates and a new distribution partner in Thailand, and the creation of a new sales channel in France.
- We also expanded our portfolio of International Star brands through the acquisition of Nizoral in Asia Pacific in June 2018 (see page 18) and the launch of Xonvea in the UK in October 2018 (see page 21), both of which will benefit from our proven ability to maximise brand potential through effective promotional investment, offering the opportunity to further enhance our medium-term growth prospects.

Focus for 2019

- To continue to deliver strong like-for-like revenue growth across our portfolio, through providing an appropriate level of marketing support to our International Star brands, whilst continuing to maintain the underlying cash generation provided by our Local brands.

Additional growth through acquisitions

Selective approach

Facilitated by strong cash generation

Leverages significant M&A and integration expertise, as a result of having completed more than 35 deals in past 20 years

Progress in 2018

- In 2018, we completed the acquisition of Nizoral, a key strategic acquisition that brought a fourth International Star brand into the Group and further enhanced our geographic footprint and scale in the fast-growing Asia Pacific region. Under the transitional services agreement we entered with J&J, they will continue to operate the business and remit the net profit to Alliance until the marketing authorisations transfer. Alliance also has a five-year manufacturing and supply agreement in place with J&J for some (but not all) territories.
- We also completed the integration of Vamousse (see page 20), establishing a trading presence in the US, the world's largest healthcare market, as part of this process, and the integration of Ametop into our Local brand portfolio, both products having been acquired at the end of 2017.

Focus for 2019

- To ensure the effective integration of Nizoral into the business.
- We will continue to evaluate prospective acquisition opportunities which meet our selective acquisition criteria and our desire to maintain a balanced product portfolio, in terms of International Stars versus Local brands, route to market, territorial and channel presence. Our strong cash generation and reducing leverage leave us well-placed to pursue suitable opportunities which align with our strategy.

OUR PRODUCTS

Alliance owns or licenses the rights to more than 90 pharmaceutical and consumer healthcare products, comprising a mixture of International Star brands and Local brands.

International Star brands

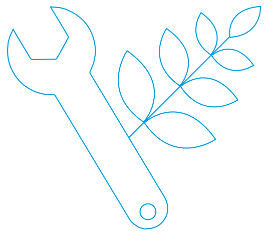
Our International Star brands are a select group of high-growth brands with international reach. The majority of these are consumer healthcare products, which offer an opportunity to promote. All have a clear USP and positioning in their target markets and are perceived as offering significant scope for growth. Marketing initiatives are tailored to local markets, with strategic oversight being provided by our global marketing team.

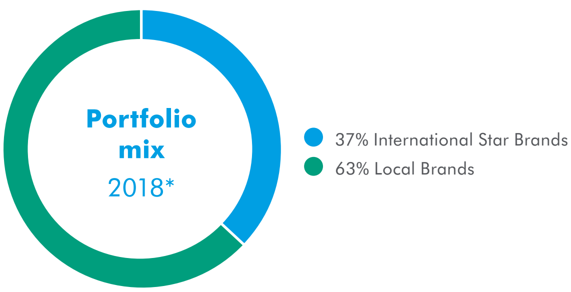
Local brands

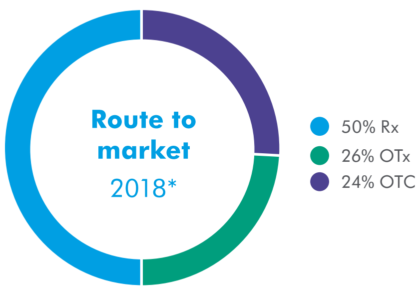
Our Local brands comprise a diversified portfolio of prescription medicines and consumer products that are sold in a limited number of local markets. Most of our Local brands occupy well-established niches in their respective market segments or have an established brand name and provide stable cash flows with little or no promotional investment. Due to their relatively small size and niche positioning, most are relatively well-protected from competitive threats. Collectively they generate significant cash flow for the business and continue to represent a key component of our business model.

INVEST AND GROW

MAINTAIN AND HARVEST







* 2018 see-through revenue

KELO-COTE	NIZORAL	MACUSHIELD	VAMOUSSE	XONVEA	LOCAL BRANDS
See page 17	See page 18	See page 19	See page 20	See page 21	
+68% revenue growth	key strategic acquisition **June 2018**	**4** new territory launches in 2018	**+16%** revenue growth	UK launch **October 2018**	**£78m** sales in 2018

KELO-COTE

A patent-protected, clinically proven, silicone gel treatment for scar reduction, currently sold in more than 65 countries around the world.

Overview

Kelo-cote is indicated for use on hypertrophic and keloid scars resulting from surgical procedures, trauma, wounds and burns, helping to soften and flatten raised scars and reduce redness and discolouration. It also reduces itching, discomfort and pain associated with scars. The efficacy of Kelo-cote has been demonstrated in over 10 published clinical trials.

International guidelines recommend silicone as the first line therapy in scar prevention and treatment and it is used extensively by healthcare professionals such as plastic surgeons and dermatologists.

Market appraisal

The global market for scar treatment products is estimated to be worth £600m, with future category growth estimated at around 10% per annum, with increasing appearance awareness due to increased use of social media, population growth in Asia, the increasing availability and convenience of online shopping and an increase in the rate of C-sections all helping to drive this growth. In a fragmented market, Kelo-cote has a strong positioning as one of the leading brands within it.

Key achievements in 2018

Kelo-cote delivered an outstanding performance in 2018, experiencing strong growth, particularly in Asia Pacific and across mainland Europe. The brand continued to benefit from a high level of planned marketing support, both at a global and local level in order to drive this growth. We launched our new global website and distributor extranet for Kelo-cote and the brand was also the lead corporate sponsor of G-Scars Society, promoting best practice in scar management globally.

Focus for 2019

In 2019, our focus will be on continuing to invest and grow Kelo-cote through the implementation of global marketing strategies aimed both at increasing penetration within our existing markets and pursuing further geographic expansion, leveraging the increasing scale and reach of our international operations and distributor network.

+68%

REVENUES

£22.5m

IN 2018 SALES OF KELO-COTE GREW BY **68%**

SOLD IN MORE THAN

65 COUNTRIES

GLOBAL MARKET SIZE

£600m

NIZORAL

A medicated anti-dandruff shampoo, acquired from Johnson & Johnson (J&J) for the Asia Pacific region in June 2018.

Overview

Nizoral is a well-known, clinically meaningful, heritage product for the treatment of dandruff. The product is currently sold in 14 territories across the Asia Pacific region, including China, Japan, Thailand and Korea. It is predominantly a consumer-focused product, with a strong clinical heritage, and is a well-known and trusted brand globally, with a 30-year history of use. The product has a loyal customer base and a well-established safety profile.

Market appraisal

Nizoral is a key brand in an attractive category: Dandruff affects around half of the adult population. In 2016, the OTC Medicated Haircare segment was worth $363m in the Asia Pacific region. The active ingredient in Nizoral is ketoconazole, an extensively prescribed ingredient for seborrheic capitis and seborrheic dermatitis (causes of dandruff).

Key achievements in 2018

Completion of this key strategic acquisition was a significant achievement for the Group in 2018, further enhancing our geographic footprint and scale in the fast-growing Asia Pacific region. Early performance indications are encouraging, with the brand performing in line with expectations in H2 2018. The transitional arrangements with J&J are operating effectively and integration planning is progressing well. A plan is now in place for transfer of the marketing authorisations, with the first markets expected to transfer in H2 2019.

Focus for 2019

Our focus in 2019 will be on continuing to progress planned integration activities, and on ensuring that the marketing authorisation transfers progress to plan. As part of this process we will continue to build our infrastructure in Singapore and Shanghai, to support the transfers and associated commercial and operational activities, including the development of new distributor relationships, across all territories in which the product is currently sold and securing supply, for those territories where the product is manufactured locally.

“A well-known, clinically meaningful, heritage brand.”

SEE-THROUGH REVENUES (H2)
£10.9m

ASIA PACIFIC MARKET SIZE
$363m

SOLD IN
14 COUNTRIES

MACUSHIELD

The most recommended eye supplement by eye experts in the UK.

Overview

MacuShield is an eye health supplement and is the number one eye supplement recommended by eye experts in the UK. All the products in the MacuShield range contain all three macular pigments – lutein, *meso*-zeaxanthin and zeaxanthin – and the product is supported by extensive scientific data.

Market appraisal

According to Persistence Market Research, the global market for eye health supplements is estimated to be worth $1,980m, with the total global carotenoid market for eye health forecast to be worth $684m in 2019. A growing sense of self-reliance among consumers is increasing the adoption of 'medical' supplements, previously reluctantly consumed under supervision of prescribed physicians, whilst innovative eye health supplements are also entering the market, predominantly in the USA, widening the consumer base and improving willingness to trial.

Key achievements in 2018

MacuShield delivered a good performance in 2018, although growth was somewhat tempered by delays to planned EU and International launches, which will now go live in 2019. In the UK, the brand's main market, growth came primarily from key high street and online retailers, with the product being awarded 'Best Eye Health Product 2018' by Boots. We successfully launched the brand in another three new territories in 2018: Singapore, Hong Kong and Poland, and work is ongoing to support launches in another seven markets in 2019. We also implemented a brand re-design and rolled this out across our network of affiliates and international distributors and launched a partner extranet to provide a greater level of support for our partners.

Focus for 2019

In 2019, our focus will be on increasing global distribution of the brand, through ensuring the successful launch of MacuShield in another seven markets, in line with our strategic plan. Alongside this, we will continue to build engagement with distributors, healthcare professionals and key opinion leaders globally and to support independent research to build brand awareness and cement the brand's positioning within its existing markets.

+6%

REVENUES

£7.0m

IN 2018 SALES OF MACUSHIELD GREW BY

6%

SOLD IN

21 COUNTRIES

GLOBAL MARKET SIZE

$684m

VAMOUSSE

A range of products for the prevention and treatment of head lice.

Overview

The lead product in the Vamousse range is a pesticide-free mousse to treat head lice infestations, which is clinically proven to kill both lice and eggs. It is designed to kill pesticide-resistant lice ('super lice') that traditional pesticide-based products are no longer as effective against. Other products in the range include a lice elimination powder, to kill lice in the environment, a daily lice defence shampoo, and a lice repellent.

Market appraisal

The market for head lice treatments was estimated at $370 million in 2017, with the US market (where the majority of Vamousse's sales are generated) historically accounting for 28% of the global OTC head lice market. Previously a significant growth category, 2018 saw this trend reversing, with the category declining around 6% in both value and volume. Not unexpected given the natural, biological fluctuations in the levels of lice infestation.

In the US, the market continues to be dominated by pesticide-based lice treatments despite the rise of pesticide-resistance rendering these products ineffective on a consistent basis, in contrast to the other countries in which Vamousse is sold – the UK and France, which are both pesticide-free markets.

Key achievements in 2018

Vamousse performed in line with expectations in 2018, with growth seen in all markets, notwithstanding the category decline in the US, its largest market. Following the acquisition of the brand in December 2017, the focus this year was on transitioning Vamousse from TyraTech, transferring the CE mark, integrating operations within Alliance, including the establishment of a new US office, and on investing in marketing and sales to kickstart growth in existing markets. We effectively transitioned Vamousse into the commercial team's portfolio in the UK and into the sales team's portfolio in France, where the number of pharmacies in which Vamousse is available more than doubled.

Focus for 2019

Our focus in 2019 will be on maximising distribution and growing market share in our existing markets (the US, UK and France), and continuing to evolve the product portfolio, to keep the brand relevant for the changing OTC market. We will also be developing a targeted expansion plan within high opportunity markets, where we can utilise our marketing expertise to build the brand and leverage our distributor network to expand Vamousse globally.

+16%

REVENUES

£5.8m

IN 2018 SALES OF VAMOUSSE GREW BY **16%**

SOLD IN

3 COUNTRIES

GLOBAL MARKET SIZE

$370m

XONVEA

A prescription medicine for the treatment of nausea and vomiting of pregnancy (NVP), where conservative management has failed.

Overview

We in-licensed Xonvea, a prescription medicine for the treatment of nausea and vomiting of pregnancy (NVP), where conservative management has failed, from Duchesnay Inc, Canada for the UK (in 2015), and for a number of EU territories (in 2016). Following the approval of the UK Marketing Authorisation for Xonvea by the Medicines and Healthcare products Regulatory Agency (MHRA) in July 2018, the product was launched in the UK in October 2018.

Market appraisal

Up to 80% of pregnant women suffer from NVP and there are approximately 33,000 hospitalisations each year in the UK for this condition. Xonvea is the only licensed treatment for NVP in the UK. The product has a well-established clinical heritage, having been used by 33 million women over the past 40 years in Canada (under the brand name Diclectin) and been approved by the FDA in the US in 2013 (under the brand name DICLEGIS).

Key achievements in 2018

We received a positive reception to the launch from both healthcare professional and the media; feedback to date from NHS payers and budget holders has been positive and Xonvea now has its first formulary inclusions. Our focus from late 2018 was on building awareness and advocacy for the brand. We attended a number of key scientific congresses, with symposia and speakers, providing reach to all relevant healthcare professionals (HCPs): GPs, Obstetricians, Midwives, Pharmacists and Payers.

Focus for 2019

Our focus in 2019 will be on continuing to build awareness with HCPs, primarily within the Primary Care community, and on pursuing formulary approvals within local health economies and positive Health Technology Appraisals in Scotland & Wales. We will continue to build HCP support and advocacy for Xonvea, with the aim of getting the product included and recommended in key professional guidelines. We are also planning to progress the EU regulatory submissions for Xonvea, with the Republic of Ireland expected to be the next territory in which the product is launched in late 2019.

POTENTIAL ANNUAL COST OF NVP TO UK NHS OF

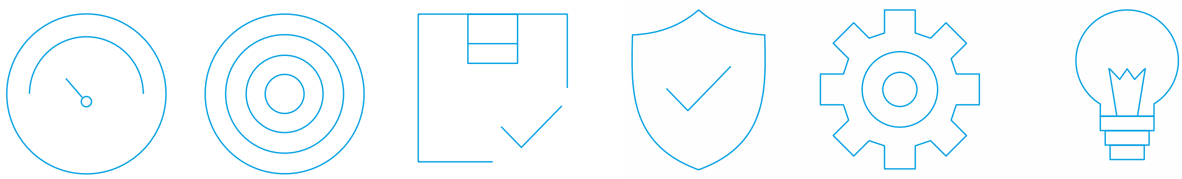
£63m

OUR PEOPLE AND CULTURE

Together we ensure that we all develop to fulfil our potential. We take pride in what we do, praise success and reward accordingly.

Culture and values

The ethos of our leadership team (see page 24), our mission and vision serve to create the culture that characterises Alliance and which is embodied in 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.

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.

Working together, we continually drive business success, through:

The recruitment of highly skilled people

2018 saw further growth in our territories and portfolio of products which required new expertise and skills to be brought into the business. In total over 30 new positions were created across all functions globally, but especially within the commercial teams worldwide. Most significantly, in the early part of the year, we established our US office – a small team of commercial, marketing, finance and supply chain experts, based in North Carolina, to manage Vamousse, which we acquired in late 2017. The launch of Xonvea in the UK in the second half of the year saw a new UK sales team structure and the creation of a new agency sales force. With the acquisition mid-year of Nizoral in Asia Pacific, we are now actively recruiting in Singapore and Shanghai to build our local capability across commercial, supply chain, sourcing, regulatory, quality and finance roles in readiness for the transition of product into the business during the second half of 2019.

Refining our skill-set, knowledge and entrepreneurial spirit

Alongside the recruitment of external talent, we encourage and support the development of our people's skills and knowledge through internal and external short courses and formal training programmes. We had several successes in achieving professional diplomas/degrees in the fields of Marketing, Accountancy, People Management and Procurement & Supply. We also focus on early career talent development, starting a second IT Apprentice, following the success of our launch of the scheme in 2017, and further graduate intake. We have built new knowledge in technical areas such as IT systems and computer system validation, regulatory changes to medical devices, food supplements and cosmetics, and legal compliance and tax changes.

Working together to achieve more

We focus not just on 'what' we are doing but 'how' we do it. Working together across the functions to meet the challenges of today's business world. The Xonvea product launch in 2018 brought together expertise from Commercial, Medical & Regulatory, HR and Finance. This network of people worked seamlessly with our external network of product launch experts to deliver a successful launch and implementation.

In a year that has seen us establish several new offices across the globe, our teams of IT and Office Management experts work with our local commercial colleagues, and local providers, to source and set up the infrastructure needed to deliver the business, often to very short timescales. For example, the US office was established in just six weeks from inception to opening.

This is where Alliance people excel; we believe that by working together we will achieve more.

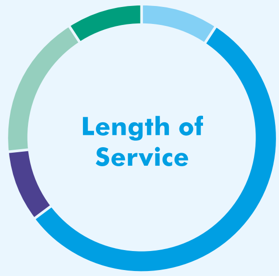
Our people and the community

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 our people are keen to give back time directly to support the charities which mean the most to them. Our US team for example, proudly gave their time to help out at a local food bank just before Christmas, while the charitable focus in the UK in 2018 was a local charity supporting the homeless and those suffering domestic violence. In addition to fundraising, our people personally donated blankets, rucksacks and groceries.

Our active and healthy workforce are frequently sharing their physical challenges such as running, walking or climbing mountains to maintain the momentum on fundraising activities, in addition to less physical activities such as cake sales, raffles and sponsored events in the office.

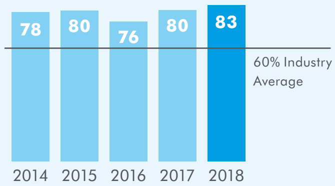
Our PRAISE awards, which reward employees for an outstanding demonstration of our values in their work, also enable our people to direct the rewards for extraordinary achievements in their role, towards to their favourite charity.

- 147 UK & ROI
- 16 Asia Pacific
- 50 Mainland Europe
- 5 US



- Under 1 year
- 1–3 years
- 4–5 years
- 6–9 years
- 10+

Employee engagement



OUR LEADERSHIP TEAM

As a leadership team, our focus is on working together, leveraging the breadth and depth of expertise that exists both within the team and across the wider business, to:

REALISE POTENTIAL

- Some people see challenges, they might even see solutions.
- We see exciting opportunities for brands to achieve more.
- Our alliances allow us to unlock potential and maximise the performance of every business and every brand. As a leadership team, our focus is on ensuring this potential is realised in the most effective way.

THINK CREATIVELY

- It's not just 'what' we do, it's 'how' we do it that makes a difference.
- We look at potential differently, which means that we think and act creatively about our business.
- We are agile, scalable and adaptable, unconstrained by convention.

GROW TOGETHER

- As a leadership team, we are constantly refining our skill set, knowledge and our entrepreneurial spirit and we surround ourselves with like-minded colleagues.
- Our purpose is to achieve more, knowing that working together brings a better outcome. We grow together as people and that, in turn, powers the growth of our business.
- We have identified a number of factors which are critical to the effective implementation of our strategy, and our focus in 2019 will be on taking the actions necessary to ensure these are progressed in furtherance of our vision and mission.

1. PETER BUTTERFIELD
Chief Executive Officer

Bio available on Board of Directors page 40

2. JANICE TIMBERLAKE
Chief Human Resources Officer

Janice is a Fellow of CIPD with over 25 years' experience in HR roles, having previously held senior roles in My Travel plc and National Environment Research Council. Janice is a Non-executive Director and Trustee of Plymouth Marine Laboratory Ltd, where she chairs the Remuneration Committee. Janice graduated in Geography from Hull University, and has been with Alliance since 2011.

3. STEPHEN KIDNER
Chief Scientific & Operations Officer

Stephen has over 20 years' sector experience in product development and supply, having previously held senior roles at Wyeth (now Pfizer) and Mundipharma International. He graduated in Chemistry from Swansea University, holds an MSc in Pharmaceutics from Manchester University and an MBA from The Open University. Stephen joined Alliance in 2013.

4. ANDREW FRANKLIN
Chief Financial Officer

Bio available on Board of Directors page 40

5. ALEX DUGGAN
Chief Commercial Officer

Alex has over 20 years' experience in pharma and business management. He founded his own consumer healthcare business in 1996 and won a Queen's Award for International Trade in 2003. He is a Board Member of the PAGB and graduated in Archaeology from Newcastle University. Alex joined Alliance in 2014.

6. DAN THOMAS
Chief Corporate Development Officer

Since joining Alliance in 2006, Dan has led Alliance's M&A and licensing activity, completing more than 20 deals. He has over 20 years' international healthcare experience, and has previously worked in Canada, Germany and France. In 2011, Dan won the Pharma Licensing Group (PLG)/Astra Zeneca BD Executive of the Year award and he is currently Vice-Chair of the Board of the UK PLG. Dan graduated in Applied Biochemistry from Brunel University.

FINANCIAL REVIEW

Another year of strong performance, which saw Group revenues on a see-through basis increase by 22%, a 19% increase in underlying EBITDA and continuing good cash generation.

ANDREW FRANKLIN
Chief Financial Officer

The Group delivered a robust financial performance in 2018, with see-through revenues increasing 22% to £124.0m and statutory revenues increasing 16% to £118.2m (2017 restated: £101.6m). The increase was largely driven by a strong performance from our International Star brands, particularly Kelo-cote, and by the inclusion of post-acquisition revenues from Nizoral. Overall underlying profit before taxation increased by 17% to £28.1m (2017 restated: £23.9m).

The Group's revenue was adversely impacted by approximately £0.6m due to the strengthening of Sterling, primarily against the US Dollar, during the first half of the year. However, the effect on operating profits was much smaller.

Gross profit increased at a slightly higher rate than revenue, up 23% to £72.6m (2017 restated: £59.1m), resulting in a 0.4% increase in gross margin, from 58.2% to 58.6% of see-through revenue, due to the increasing contribution from some of our higher margin International Star brands.

The Group continued its planned increase in sales and marketing expenditure during 2018, supporting the sales growth of our International Star brands, particularly Kelo-cote, and the UK launch of Xonvea. This, together with the transitional service fees payable to J&J for the management of Nizoral, partially offset by the release of future payments in relation to Macuhealth (see below), resulted in an increase in operating costs (excl. depreciation and amortisation of £3.5m but including the IFRS 2 share options charge of £1.8m) of £8.3m to £40.3m. Excluding the IFRS 2 share option charge of £1.8m, this represents 31.0% of see-through sales (2017 restated: 30.0%). The depreciation and amortisation charge of £3.5m includes a £1.9m non-cash write down in respect of the termination of the supply agreement with Macuhealth, for the guaranteed supply of raw materials for MacuShield. The Group has implemented alternative arrangements resulting in no interruption to the supply of MacuShield.

Taking account of the planned increase in operating costs, underlying earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 19% to £32.4m (2017 restated: £27.2m).

Finance costs

Overall, net finance costs reduced by £1.0m on the prior year to £0.9m (2017 restated: £1.9m), the interest payable, being offset by a reduction in estimated deferred consideration payable in relation to the Vamousse acquisition, together with favourable currency movements (see note 7).

The average interest charge on gross debt during the period was 2.92%.

Year ended 31 December	2018 £m	2017 (restated**) £m
Underlying profit before taxation	28.1	23.9
Non-underlying items:		
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)	
Exceptional compensation income (from Sinclair)		4.4
Total	(5.3)	4.4
Reported profit before taxation	22.8	28.3

Unigreg JV disposal

On 18 April 2018 the Group sold its 60% interest in its non-core investment in Unigreg Limited to its joint venture partner, Pacific Glory Development Limited, for a consideration of £2.9m. We received an initial payment of £2.4m at completion and a deferred payment of £0.5m is due on or before 16 April 2019. In addition, all outstanding shareholder loans made by the Group to Unigreg, totalling £1.5m, were repaid in full prior to completion.

Synthasia JV asset impairment and receivables provision

As previously announced, in May 2018 we received notification from the import licence partner of Supremenil, the infant milk formula brand in which we have a 20% interest with our joint venture partner Synthasia, that the import licence will not be renewed. The Board has therefore decided to fully impair the joint venture investment of £0.3m and to fully provide for the associated receivables balances of £2.2m. This generates a non-cash, non-underlying impairment charge and receivables provision of £2.5m.

Anti-malarial products impairment

Sales of our anti-malarial products reduced by £0.6m in 2018 to £0.7m (2017 restated: £1.3m) due to competition in the UK market. As previously announced, 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 cost of the transfer when compared with the benefit of continued sales, it is not economic to transfer the product to an alternative manufacturer and therefore it is appropriate to write down in full the value of the £4.3m intangible asset associated with these products. This write-down has been recognised as a non-cash, non-underlying impairment charge in the 2018 accounts.

Alliance acquired the anti-material products in 2012, since which time these products have generated a cumulative gross profit of £6.3m to 31 December 2018.

2018 Highlights

- Good growth in underlying EBITDA (+19%) and pre-tax profit (+17%), notwithstanding planned increase in operating costs
- Continued strong cash generation, with leverage falling to 2.33 times including the Nizoral acquisition
- Final dividend increased 10% to 0.977p, total dividend. Covered 3.1x by underlying earnings

Underlying EBITDA*

£32.4m

(2017: £27.2m**)

+19%

Leverage

2.33x

Adjusted net debt to EBITDA ratio

* Non-IFRS alternative performance measures (see note 34). 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

** 2017 comparatives restated following the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases

FINANCIAL REVIEW CONTINUED

Taxation

The total tax charge for the period was £4.4m (2017 restated: £0.5m tax credit), resulting in an effective tax rate of 19.5% (2017 restated: -1.9%). Excluding non-underlying items, which generated a tax credit of £1.0m in 2018 (2017 restated: £0.8m tax charge), the underlying tax charge was £5.5m (2017 restated: £1.3m tax credit) and the adjusted underlying tax charge was £5.5m (2017 restated: £4.8m), representing an adjusted underlying ETR of 19.6% (2017 restated: 19.9%). For a definition of adjusted underlying effective tax rate, please see note 34.

Earnings per share

Adjusted underlying basic earnings per share for 2018 was 4.54p, an increase of 12% (2017 restated; 4.05p). This measure excludes the earnings benefit from the substantive enactment of US and French tax reforms in 2017, which resulted in a reduction in the deferred tax balances relating to intangible assets held in these jurisdictions and led to a significant credit to the 2017 tax charge. Excluding the impact of these one-off tax rate changes gives a better measure of the underlying performance of the Group and is the measure used by the Board in assessing earnings performance. Including these one-off tax benefits, underlying basic earnings per share for 2017 (restated) was 5.33p.

Reported basic earnings per share was 3.69p (2017 restated: 6.08p) due to non-underlying items reducing earnings in 2018 and the Sinclair settlement income and US and French tax reform increasing earnings in 2017.

Dividend

The Board remains committed to a progressive dividend policy and is recommending a final dividend payment of 0.977p per ordinary share to give a total for the year of 1.464p, which represents an increase of 10% on 2017.

The final dividend, subject to approval at the Company's AGM on 23 May 2019, will be paid on 11 July 2019 to shareholders on the register on 14 June 2019.

The level of dividend cover in 2018 remained ample at over three times on an underlying basis. The total dividend payment for the 2018 financial year will be £7.6m, including the £2.5m interim payment (2017: £6.3m).

Balance sheet

Intangible assets increased in 2018 by £56.6m to £335.2m (2017 restated: £278.6m), primarily due to the Nizoral acquisition (£60.3m) in June 2018, and foreign exchange movements of £2.7m partially offset by impairments of £6.2m.

Working capital

Growth within the business, coupled with the planned increase in inventory in preparation for the FMD and Brexit, resulted in an increase in total inventory at 31 December 2018 of £4.5m. This increase in the scale of the Group's activities and year-end inventory build, in the preparation for the FMD and Brexit, also impacted payables, which increased by £5.1m, whilst receivables increased by £5.5m, again reflecting the increased scale of activities and the remittance arrangements which apply for Nizoral during the transition period.

Cash flow and net debt

Free cash flow (see note 34 for definition) for the year remained strong at £16.1m (2017 restated: £22.0m) after allowing for costs associated with the implementation of the FMD, Brexit (including inventory build) and UK launch costs for Xonvea.

Net debt increased by £13.5m to £85.8m at 31 December 2018 (2017: £72.3m), including the £28m of new borrowing to part-fund the Nizoral acquisition and reflects the Group's strong underlying cash generation, together with the £3.9m receipt from the Unigreg disposal and the final £1.0m cash settlement receipt from Sinclair, in relation to Kelo-stretch. Consequently, adjusted net debt/EBITDA leverage fell to 2.33x (2017: 2.46x), comfortably within our covenant limit of 3.0x.

In 2019 we expect to generate strong free cash flow, in excess of 2017 levels and, in the absence of further acquisitions, expect leverage to reduce to below 2.0 times during the second half of 2019.

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.

In June 2018, the Group extended its Revolving Credit Facility (RCF) by £35.0m and raised new equity of £34.0m (gross) to fund the £60m acquisition of Nizoral.

The Group now has total bank facilities of £135.0m which comprise a Term Loan of £65.0m and an RCF of £70.0m; borrowings are denominated in Sterling, Euro and US Dollars. As at 31 December 2018, £39.1m (2017: £50.3m) was outstanding on the Term Loan and £58.5m (2017: £34.0m) drawn under the RCF. Unutilised borrowings as at 31 December 2018 amounted to £11.5m.

The Group's current facility runs through to December 2020. The Group plans to extend both the term and size of its existing credit facility in 2019, to allow it to further develop the business.

Andrew Franklin
Chief Financial Officer

26 March 2019

RISK MANAGEMENT AND INTERNAL CONTROLS

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

This means balancing risks and opportunities to not only meet the Group's strategic objectives and deliver value to our shareholders but to do so in a sustainable and considered way. We remain focused on our values and believe that adopting responsible behaviour across our business activities plays an important part in achieving our purpose.

Risk management

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. 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 Group's process for the identification, assessment and management of risks in the business, is driven and monitored by the Senior Leadership Team with the support of the Company Secretary.

There are risk registers in place at a departmental and functional level. Risks are identified and assessed by the likelihood of them occurring and their potential impact 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 with all risk management being co-ordinated by Senior Leadership Team with the support of the Company Secretary.

Existing mitigations are considered for each risk and the residual levels of exposure assessed. 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.

Internal systems of control

The Group maintains systems of internal control appropriate to a business of this size and complexity and which take 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 listed 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:

- Setting and communicating clear strategic goals;
- Developing business plans and budgets in line with strategy, supported by intra-year forecasting;
- Regular reporting of actual performance relative to those strategic goals, plans, budgets and forecasts;
- 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;
- Creating an appropriate structure of responsibility and accountability, including segregation of duties, appropriate reporting lines for key managers and regular line management communications and 1:1 meetings where performance is discussed, supported by an appraisal proces;

RISK MANAGEMENT AND INTERNAL CONTROLS CONTINUED

Internal systems of control
continued

- Defining the Group values and a code of ethics for all employees;
- Developing clear policies and procedures for all areas of the business which take into account all aspects of legal, regulatory and ethical responsibility;
- 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; and
- 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.

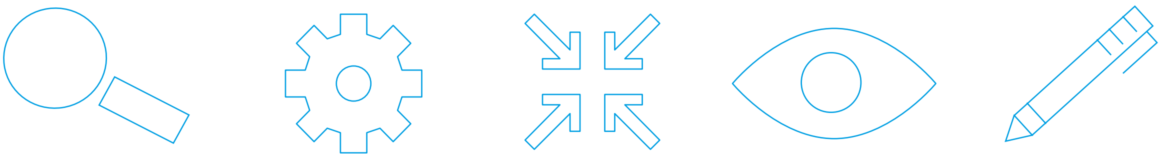
The Audit and Risk Committee reviews the systems of internal control for the Group alongside the Group's process for risk management and reports its findings to the Board.

To strengthen and further enhance the Group's systems of internal control, we expect to have successfully implemented the Microsoft Dynamics AX Enterprise Resource Planning (ERP) system in H2 2019, which will support systems of control relating to the Group's sourcing, distribution, sales and accounting processes as well as providing significantly enhanced management information and an enhanced internal control environment. The base system ensures we retain the strong control environment inherent in this market-leading product and provides the business with an opportunity to review processes and reporting practices throughout the Group and provide consistency across those processes and practices.

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 approach to risk

IDENTIFY | ASSESS | MITIGATE | REVIEW | REPORT



IDENTIFY
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. These are reported to, and reviewed by, the Audit and Risk Committee and the Board on a regular basis.

ASSESS
The likelihood and impact of each risk is assessed to calculate the potential level of exposure on the business.

MITIGATE
Actions being taken, or that should be taken, to help mitigate and reduce the potential exposure to the risks are regularly reviewed to ensure the appropriate individual 'owns' the risk and the actions being taken remain effective.

REVIEW
Risk registers are regularly reviewed to capture and identify new risks and identify opportunities to improve the mitigating actions.

REPORT
The Senior Leadership Team reviews all identified risks, and assigned actions around those risks, on a quarterly basis, with the principal risks being monitored on a 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.

OUR PRINCIPAL RISKS AND UNCERTAINTIES

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

The Board has assessed what it believes are the principal risks and uncertainties facing the Group, being those that could threaten our business model, reputation, future performance, solvency or liquidity of the business, and these have been linked to the key elements of our strategy as described on pages 14 and 15.

The risks have been assessed on a residual basis according to our current view of their potential severity (being the combination of impact and probability), assuming that existing internal controls and strategies 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 externalities that are outside of our control and which may impact on us operationally. New risks may arise, the potential impact of known risks may increase or decrease, and/or our assessment of these risks may need to change.

We have explained how each risk is being managed or mitigated. Our approach to risk management has been explained on pages 29 and 30.

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 International expansion	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. Our inability to generate profits from sales, or to convert those profits into cash flow result in insufficient cash to reinvest into the business, or to service our debt or equity 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. 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. These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.	– The Group constantly monitors that marketing campaigns deliver to support the strategy. – We continue to monitor and regularly forecast sales, costs, profits and cash flows. – We have a model for debt covenant compliance and where necessary, mitigating actions could be taken to ensure we remain within our debt covenants and are able to meet scheduled payments and therefore our liabilities.	< > This risk has not changed materially since last year.

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OUR PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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	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. 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.	– 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 have been bolstered by new 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	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. 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.	– 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.

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 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.	– 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.	This risk has not changed materially since last year.

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	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. 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. The loss of those employees could weaken the Group's management capabilities, impacting on our day-to-day operations.	– 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.	This risk has not changed materially since last year.

OUR PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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	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. 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. In addition, several 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. 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. 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.	– 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 support 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.	This risk has not changed materially since last year.

Foreign exchange risk – volatility in reported profits

Link to strategy	Risk description and impact	Management and mitigation	Trend
International expansion	The Group now earns a proportion of its profits in currencies other than sterling, but accounts for the business in sterling. The reporting of profits earned outside the UK may therefore become more volatile. In an extreme scenario, were exchange controls imposed it may become difficult or even impossible to repatriate cash earned in some markets. The risk is primarily to reported profits rather than cash, but in an extreme scenario could compromise our cash generation and liquidity position.	– 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 addition, we can use financial instruments such as forward contracts, to help manage these risks.	< > This risk has not changed materially since last year.

Product liability – defective products etc

Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	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. These risks have the potential to damage our reputation and compromise our future performance and, in an extreme scenario, liquidity position or even solvency.	– 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.	< > This risk has not changed materially since last year.

Information security and data protection

Link to strategy	Risk description and impact	Management and mitigation	Trend
Maximising and extending brand potential	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. 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. 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. 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.	– 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 has audited and implemented necessary changes to ensure compliance with GDPR.	This risk has decreased since last year due to implementation of GDPR compliance.

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	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. 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. These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.	– 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 Alliance 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.	– 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's vote to leave the EU (Brexit). The potential impact 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.	– 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 to host 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.

Governance

Patients

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.

BOARD OF DIRECTORS

			
	DAVID COOK Independent Non-executive Chairman	**PETER BUTTERFIELD** Chief Executive Officer	**ANDREW FRANKLIN** Chief Financial Officer
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.	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.	Andrew joined Alliance in September 2015 from Panasonic Europe Ltd, where he was General Manager, European Tax and Accounting.
Qualifications	David qualified as a chartered accountant with PricewaterhouseCoopers after graduating in chemistry at the University of Oxford.	Peter holds an honours degree in Pharmacology from the University of Edinburgh.	Andrew holds an honours degree in Civil Engineering from the University of Wales, Cardiff.
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.	He served eight years as a Board Member of the Association of the British Pharmaceutical Industry and was an integral part of the 2014 PPRS negotiation team with the UK Government. 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. Peter has over 20 years' experience in the life sciences sector and strong leadership experience gained in a variety of contexts.	From 2010 to 2012 Andrew was Finance Director and Company Secretary of Genzyme Therapeutics Ltd, the UK & 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
- Remuneration Committee
- Nomination Committee
- Committee Chair

JOHN DAWSON
Non-executive Director

John founded Alliance in 1996. John stepped down as Chief Executive on 1 May 2018 but remains a Non-executive Director on the Board.

John has a BSc (Pharmacy) and an MSc (Finance) from the London Business School.

He has gained multi-disciplinary experience in the pharmaceutical industry over forty years, including various senior roles at Sandoz (now Novartis AG) as Director of Finance and Administration and Deputy Managing Director.

John's long experience in building Alliance from a start-up to a well-managed and fast-growing international pharma company over 20 years now provides the Board with excellent context and continuity.

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, Procserve Holdings, Micro Focus International plc, Nokia, Symbian Software, Tertio 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.

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 and fundraisings including IPOs, M&A and fundraisings.

JO LECOUILLIARD
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.

Jo LeCouilliard 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 program 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 has recently joined the Board of Recordti S.p.a.

CORPORATE GOVERNANCE

In my first year as Chairman, it gives me great pleasure to introduce the corporate governance sections of this Annual Report.

Chairman's introduction to Governance at Alliance Pharma plc

As we move into 2019, governance continues to play an important part in the running and development of the business. As your Board, we continue to recognise that good governance can contribute to our ability as a business to create shareholder value.

Alongside this, whilst we are not required to apply it, we monitor developments in the UK Corporate Governance Code, applicable to listed companies traded on the main market, to keep abreast of matters which we feel should also be considered as best practice for an AIM company such as Alliance.

DAVID COOK
Chairman

Our governance framework promotes a culture of accountability and responsibility by actively managing the risks that we face, supported by our values and behaviours. A good governance framework can provide solid foundations from which to support leadership, accountability, transparency and disclosure. Strong systems and processes for informed decision-making ensure that the Board and its Committees are provided with clear agendas, timely information that is delivered through good quality briefing materials; and, which cover all relevant factors and that our deliberations consider the risks, as well as the opportunities, inherent in the topic before us.

2018 has seen significant changes on the Board of Alliance Pharma and, with the support of the Nomination Committee, the Board has been actively reviewing Board and Committee composition and membership.

Having a Board that consists of Directors drawn from a range of backgrounds, skills and experience ensures that we are able to continue to take decisions in the interests of all stakeholders, with good governance playing a vital part in helping support the Company's growth strategy and in turn its long-term success.

Thomas Casdagli stepped down as a Non-executive Director on 30 May 2018 after nine contributory years with Alliance having helped see the business through transformational periods. During the year, the Board, supported and guided by the Nomination Committee, undertook a careful search and recruitment process and we were delighted to announce on 17 December 2018 the Non-executive appointments of Jo LeCouilliard and Richard Jones (effective from 1 January 2019), for whom full biographical details can be found on page 40.

Like many businesses in the UK, we have been navigating the varied political and economic uncertainties which are currently being faced. We continue to focus on our systems of risk management and internal controls, including the continued implementation of our new Enterprise Resource Planning systems. Details of our principal risks and uncertainties can be found on pages 31 to 37.

The remainder of this section provides an update of our Corporate Governance, the Remuneration Report and the Directors' Report. In these reports we set out our governance structures and, along with an overview of how the Company complies with the Principles of the Code which can be found on our website at: http://investors.alliancepharmaceuticals.com/governance, explain how we have applied the Code during the year under review.

Thank you for your continued support and the Board looks forward to meeting any shareholder who can join us at our Annual General Meeting on 23 May 2019.

David Cook
Chairman

26 March 2019

Statement of Compliance with the QCA Corporate Governance Code

Following the London Stock Exchange's recent changes to the AIM Rules requiring all AIM listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the Quoted Companies Alliance (QCA) Corporate Governance Code (the 'QCA Code'). As an AIM quoted company, Alliance Pharma plc has chosen to follow the QCA's Corporate Governance Code for small and mid-size quoted companies 2018 ('the Code'). The Board believes that this Code provides an appropriate and suitable governance framework for a group of our size and complexity. A general overview of how the Company complies with the Principles of the Code can be found on our website and on pages 48 to 51 of this Annual Report.

Board and Committee balance, composition

The Board currently comprises seven Directors, being the Chairman, two Executive Directors and five (including the Chairman) Non-executive Directors. 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. The Board is comfortable with the current composition of the Board. However, it will continue, with the advice of the Nomination Committee, to consider any appropriate additions to the Board to further broaden the experience and effectiveness of the Board as the Group continues to grow. As part of this process the Board has also considered and concluded that the appointment of a Senior Independent Director is not necessary at this time, but keeps this under review.

Board support

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 and for ensuring that governance requirements are considered and implemented and for accurately recording each meeting.

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 finance, including monthly management accounts, operations, commercial activities, business development, risk management, legal and regulatory, HR and on investor relations.

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

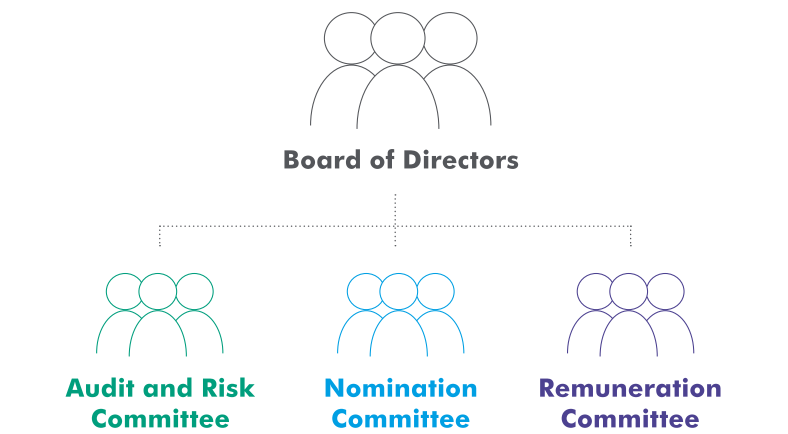
Leadership: Roles and Responsibilities

Responsibilities of the Board

The Board is responsible to the Company's shareholders for:

- Setting the Group's 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;
- Overseeing the systems of risk management and internal control; and
- Setting values and standards in corporate governance matters.

There is a formal list of matters reserved for the Board, which may only be amended by the Board.



CORPORATE GOVERNANCE CONTINUED

Leadership: Roles and Responsibilities continued

Directors' conflict of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. 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.

Chairman and Chief Executive Officer (CEO)

The respective responsibilities of the Chairman and CEO are very clearly understood. The Chairman is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the shareholders. The CEO is responsible for the leadership of the business and implementation of the strategy.

Non-executive Directors

The role of our Non-executive Directors is to:

- Challenge constructively and help develop proposals on 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 to play a key role in planning Board succession including the appointment and, if necessary, removal of Executive Directors. Details of Committee membership can be found on pages 45 to 47.

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.

Board and Committee meetings and 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. During 2018 the Board held 11 scheduled meetings, with a number of additional ad-hoc meetings to discuss specific issues or grant formal approvals of non-substantive matters.

In leading and controlling the Company, the table below sets out the total number of meetings held by the Board and its Committees and records attendance by each member eligible to attend during the year ended 31 December 2018.

Board Effectiveness Review

It is the Company's policy that a Board effectiveness review is undertaken biennially. Accordingly, the Chairman and the Company Secretary conducted a Board effectiveness review at the end of 2018 which consisted of a structured questionnaire circulated to

	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee
	No. of meetings			
Directors	11	3	5	8
Andrew Smith[1]	2	-	3	2
Peter Butterfield	11	–	–	–
Thomas Casdagli[2]	5	-	3	3
Nigel Clifford	11	3	5	8
David Cook	11	3	5	8
John Dawson	11	–	–	–
Andrew Franklin	11	–	–	–

1 Andrew Smith resigned from the Board on the 1 March 2018 and attended all scheduled meetings prior to his departure

2 Thomas Casdagli resigned from the Board on the 30 May 2018 and attended all scheduled meetings prior to his departure

all Directors, asking them to rate the Board's performance in a number of strategically important areas and provide a rationale for their view.

Results and outcomes were analysed and summarised by the Company Secretary and Chairman and any key themes were reported and discussed with the Board. Key themes and recommendation flowing from the review included: balanced focus on strategic and operational update; greater shareholder engagement; more specific discussions on key risks in the Group risk register in addition to the quarterly reviews.

The next review is scheduled for 2020.

Diversity

The Board is aware of the continued focus on diversity in relation to Board and senior management appointments, which tends to focus on gender and race. 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.

Board Committees

The Board has delegated and empowered a Remuneration Committee, Nomination Committee and an Audit and Risk Committee, each of which is accountable to the Board on all matters within its remit. Each Committee has written terms of reference, which are available on the Company's website. A summary of the responsibilities of each Committee and their work during the year follows.

The Company Secretary acts as secretary to all the Board's Committees and ensures that each Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the relevant items of business.

Nomination Committee Report

NIGEL CLIFFORD
Chairman of the Nomination Committee

Meetings held

5

Meeting attendance

The role of the Nomination Committee 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 Nomination Committee also reviews the leadership needs of the organisation and monitors succession planning for both Board and senior executive roles. The terms of reference of the Nomination Committee are available on the Company's website.

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:

Nomination Committee members:

- Nigel Clifford (Chairman of the Nomination Committee)
- David Cook
- Jo LeCouilliard (appointed 29 January 2019)
- Richard Jones (appointed 29 January 2019)

The Chief HR Officer is invited to attend certain meetings of the Nomination Committee where appropriate but particularly when succession planning is being discussed. During the financial year ended 2018, the Nomination Committee held five formal meetings. Business included: reviewing the structure, size, and composition of the Board and its Committees and making appropriate recommendations; 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; and, reviewing the outcomes from the Board performance evaluation.

CORPORATE GOVERNANCE CONTINUED

Audit and Risk Committee Report

DAVID COOK
Chairman of the Audit and Risk Committee

Meetings held

3

Meeting attendance

■■■

The role of the Audit and Risk Committee is set out in formal terms of reference, available on the Company's website, and is to:

- Consider the appointment of external auditors and the frequency of re-tendering and rotation of the audit;
- Oversee the relationship with, and the independence and objectivity of, the external auditors;
- Set policy in relation to the use of the external auditors for non-audit services;
- Review the management and reporting of financial matters including key accounting policies;
- Advise 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
- Review the Company's risk management and internal control systems and their effectiveness.

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:

- David Cook (Chairman of the Audit and Risk Committee until 1 April 2019 on which date he is replaced as Chairman by Richard Jones)
- Richard Jones (appointed 29 January 2019 and Chairman of the Audit and Risk Committee from 1 April 2019)
- Nigel Clifford (until 1 April 2019)
- Jo LeCouilliard (appointed 29 January 2019)

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.

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 auditors.

The Audit and Risk Committee held three formal meetings during the year. The key activities of the Audit and Risk Committee during these meetings was the review of the audited year-end and unaudited interim financial statements, including discussion of key accounting issues, the review of the audit scope and fees for the subsequent year-end audit, assessing the objectivity and independence of the auditor and reviewing the Group's risk register.

Remuneration Committee Report

NIGEL CLIFFORD
Chairman of the Remuneration Committee

Meetings held

8

Meeting attendance

The role of the Remuneration 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.

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 unless stated.

Remuneration Committee members:

- Nigel Clifford (Chairman of the Remuneration Committee)
- David Cook
- Jo LeCouilliard (appointed 29 January 2019)

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.

During the financial year ended 2018, the Remuneration Committee held eight formal meetings. 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.

The Company's remuneration policy and details of the amounts due to the Directors of the Company in or in respect of the year are set out in the Remuneration Report on pages 52 to 54. As the Company is not a listed company, it is not required to produce a formal remuneration policy or seek shareholder approval of that policy.

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.

Relations with 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.

Annual General Meeting ('AGM')

This year's AGM will take place at 10.00am on 23 May at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN. All Directors attend the AGM at which the Chairman presents a statement on current trading and there is an opportunity to ask questions formally. Directors are available following the meeting for informal discussions.

While voting at the AGM is on a show of hands, the proxy voting results (including any votes withheld) are announced at the meeting.

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

CORPORATE GOVERNANCE CONTINUED

Compliance with the QCA Corporate Governance Code

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

The Company has established a proven acquisition-led growth strategy, pursuant to which it now owns or licenses the rights to approximately 90 pharmaceutical and consumer healthcare products. The Group's product portfolio is a strategic mixture of bedrock products (which generate steady income with very little promotion) and growth products. We outsource capital-intensive activities such as manufacturing, warehousing and logistics to specialist providers, and focus on marketing and all the associated business and regulatory activities.

We distribute our products through wholesalers, retail pharmacies, hospitals and a well-respected international network of distributors.

Principle 2: Seek to understand and meet shareholder needs and expectations

The Company is committed to open communication with its shareholders to ensure that its shareholders 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 its analysts is the best way to ensure it understands what is expected of the Company in order to allow it to drive its business forward.

Throughout the year the CEO and CFO meet with the institutional shareholders who hold the majority of the shares and the Board is provided with feedback from all meetings and communications with shareholders. The Board is provided with an analysis of the 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 Investor Relations section of 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.

The AGM provides the main forum for face to face interaction between the Board and the Company's retail shareholders. Shareholders are given notice of the AGM at least clear 21 days before the meeting. All Directors attend the AGM at which the Chairman presents a statement on current trading and there is an opportunity to ask questions formally.

Directors are available following the meeting for informal discussions. While voting at the AGM is on a show of hands, the proxy voting results (including any votes withheld) are announced at the meeting.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board values the opinions of the stakeholders in the business and regularly seeks to ensure that the views of its shareholders, suppliers and distributors are known and where relevant to the success of our business they are acted upon.

One of our most important stakeholder groups is our employees. The Company engages regularly with its employees and monitors closely the views and concerns raised. The Company carries out and the Board assesses and acts upon the Company annual employee engagement to ensure a positive outcome to the process – the results of the last survey showed that 80% of employees are positive and motivated in their work, with some aspects of the survey achieving levels of satisfaction exceeding 90%.

Our Company values (Performance, Realism, Accountability, Integrity, Skill, Entrepreneurship 'PRAISE') remain at the forefront of our minds as we deliver our day-to-day business, and every month we celebrate with our employees great examples of our values in practice in our global briefing. The 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, or organisational infrastructure – employees who put our PRAISE values into practise are identified and recognised.

During the year we again 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 scored among the top quartile in the small business category.

In keeping with the Company's values, we oppose modern slavery. In the light of the Modern Slavery Act 2015 we regularly review our procedures to update where necessary how we operate to ensure that we can to prevent slavery and human trafficking in our businesses/supply chains. Our policy can we found on our website: https://alliancepharmaceuticals.com/en-gb/about/anti-slavery-statement.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

Audit, risk and internal control

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. 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. In 2017, the Group completed the development and introduction of a new process for the identification, assessment and management of risks in the business, which is driven and monitored by the Senior Leadership Team with the support of the Company Secretary.

There are risk registers in place at a departmental and functional level. Risks are identified and assessed by the likelihood of them occurring and their potential impact 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. Existing mitigations are considered for each risk and the residual levels of exposure assessed. 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 the risk to the Senior Leadership Team. The Senior Leadership Team reviews all identified risks on a quarterly basis, with the principal risks being monitored monthly and, in the case of principal risks and uncertainties, such risks are reported to and reviewed by the Audit and Risk Committee and the Board.

The environment in which we operate is constantly evolving and can be affected by externalities that are outside of our control and which may impact on us operationally. As new risks arise, the potential impact of known risks may increase or decrease, and/or our assessment of these risks may need to change. We continue to monitor our risk management systems and they will evolve as and when they are deemed to need refreshing.

Other internal controls

The Group maintains systems of internal control appropriate to a business of this size and complexity and which includes taking into account the applicable requirements of pharmaceutical regulators in the various markets in which the business operate. The key components of the current system of internal control are:

- Setting and communicating clear strategic goals;
- Developing business plans and budgets in line with strategy, supported by intra-year forecasting;
- Regular reporting of actual performance relative to those strategic goals, plans, budgets and forecasts;
- 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;
- Creating an appropriate structure of responsibility and accountability, including segregation of duties, appropriate reporting lines for key managers and regular line management communications and 1:1 meetings where performance is discussed, supported by an appraisal process; and
- The Audit and Risk Committee reviews the systems of internal control for the Group alongside the Group's process for risk management and reports its findings to the Board.

Standards and policies

The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies. Key examples of such standards and policies include the 'Anti-Bribery Policy' and 'Anti Modern Slavery Policy'. All of the Company's policies incorporate and work alongside, to the extent applicable, our Company values.

Approval process

All material contracts are required to be reviewed and approved by both the Head of Legal and an Executive Director of the Company.

Code of Conduct

Our Code of Conduct includes guidance on anything that could get our employees into trouble, (including business integrity, anti-bribery, gifts, intellectual property and design rights) they are sent to everyone in the Group and are visible in all workplaces. Every year senior managers and above declare compliance to this code.

Legal controls

During the last 12 months the Group has hired a Head of Legal who now heads up the internal legal and company secretarial function.

Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair

The Board currently comprises seven Directors, being the Chairman, two Executive Directors and five Non-executive Directors (including the Chairman). The Board keeps under review its current balance of 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 each of Nigel Clifford, Jo LeCoulliard and Richard Jones.

CORPORATE GOVERNANCE CONTINUED

The Board is comfortable with the current composition of the Board however it will continue, with the advice of the Nominations Committee, to consider any additions to the Board to further broaden the experience and effectiveness of the Board as the Group continues to grow. As part of this process the Board has also considered and concluded that the appointment of Senior Independent Director was not necessary at this time but keeps this issue under review.

The Board is responsible to the Company's shareholders for:

- Setting the Group's 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;
- Overseeing the systems of risk management and internal control; and
- Setting values and standards in corporate governance matters.

There is a formal list of matters reserved for the Board, which may only be amended by the Board.

Directors' conflict of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. 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.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board actively evaluated its composition and the experience, skills and capabilities which it has as part of the process which saw each of Jo LeCouilliard and Richard Jones appointed to the Board from 1 January 2019 to enhance its collective experience in pharmaceutical marketing, capital markets and equity finance. Notwithstanding, the Board is currently satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of pharmaceuticals (commercialisation and regulation), finance, international trading and marketing.

Each Director is given an opportunity of identifying where training and development could assist them in the performance of their duties. The Chairman and the Company Secretary support training needs as and when the need arises, or as part of the Board evaluation process, by identifying when updates and/or presentations should be provided to the Board to ensure skills and knowledge is kept up to date. For example, this may include meetings or updates to improve the understanding of the business or matters relating to legal and regulatory changes.

The Directors are provided with monthly information on the Group's operational and financial performance, with detailed information being provided in a timely fashion prior to each monthly Board meeting. The business reports monthly on the Group's performance against budget.

Directors contracts/appointment letters are available for inspection at the AGM. All Directors retire by rotation in accordance with the Company's Articles of Association.

Appointment, removal and re-election of Directors

The role of the Nomination Committee 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 terms of reference of the Nomination Committee are available on the Company's website. During the year, in addition to its general role, the Nomination Committee undertook and managed the succession planning process, as part of which it carried out an internal and external review of potential candidates for the position of Chair of the Board.

Company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually on rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.

Independent advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Head of Legal and Company Secretary.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

It is the Company's policy that a Board effectiveness review is undertaken biennially, with the last one having been conducted in December 2018. Generally, such review is done in the form of a structured questionnaire circulated to all Directors, asking them to rate the Board's performance in a number of strategically important areas and provide a rationale for their view. Results and outcomes are analysed by the Company Secretary and Chairman and any key themes are reported and discussed with the Board. Any recommendations arising from such review which are designed to specifically address any issues identified are implemented by the Board.

Principle 8: Promote a culture that is based on ethical values and behaviours

The Board aims to lead by example and do what is in the best interests of the Company. Our PRAISE values remain at the forefront of our minds as the Board guides the business forward.

We also drive engagement by working together to achieve more for others. In 2017 we held our biggest ever charity team challenge. Through a range of endeavours, from gym competitions to cycling from our Paris office to our Chippenham UK HQ, we raised over £30,000 for our people's chosen charity, Sands. It is this level of engagement that powers Alliance.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The respective responsibilities of the Chairman and CEO are very clearly understood. The Chairman is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the shareholders.

Committees

The Board has an Audit and Risk Committee, a Nomination Committee and a Remuneration Committee, each with written terms of reference. The terms of reference are available on the Group website: Remuneration Committee – Terms of Reference, Nominations Committee – Terms of Reference, and Audit and Risk Committee – Terms of Reference. Each Committee reports to the Board on its activities.

The CEO is responsible for the leadership of the business and implementation of the strategy.

Non-executive Directors

The role of our Non-executive Directors is to:

- Challenge constructively and help develop proposals on 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.

The Board has delegated and empowered an Audit and Risk Committee, a Nomination Committee and a Remuneration Committee, each of which is accountable to the Board on all matters within its remit. Each Committee has written terms of reference, which are available on the Company's website.

Each of the Independent Non-executive Directors sits on the Nomination and Remuneration Committees, enabling them to have a role in determining the pay and benefits of the Executive Directors and to play a key role in planning Board succession including the appointment and, if necessary, removal of Executive Directors.

In addition, each Independent Non-executive Director sits 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.

Board and Committee meetings and attendance

The Board and its Committees meet regularly on scheduled dates, including a two-day strategy meeting each year which is also attended by 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.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

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.alliancepharmaceuticlas.com.

Furthermore, analysts' notes and brokers' briefings received and considered by the Board in order to ensure, as far as possible, that a clear and up-to-date understanding of investors' views. The Company completes regular annual employee surveys to maintain an open dialogue with employee and holds a monthly breakfast briefing to all staff around the world where the Company's performance, targets and key objectives are communicated and discussed.

REMUNERATION REPORT

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.

Strategic alignment

The Remuneration Committee is satisfied that the remuneration that can be earned is appropriate for a company of comparable size and complexity, at each level of performance.

The delivery of the Group's short-term corporate goals is incentivised by offering a cash-settled bonus linked to the achievement of pre-defined levels of profit before tax, which is the key metric the Board considers in monitoring corporate performance.

Details of all Directors' shareholdings can be found in the Directors' Report on page 55. Executive Directors also hold options over the Company's shares. Certain of the options granted will only vest if targets for growth in the Company's diluted earnings per share are met over a period of five 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.

Remuneration in practice

The remuneration that the Company offers to its Executive Directors continues to be based on four principal components:

1. Basic salaries and benefits in kind – Basic salaries are determined by the Remuneration Committee bearing in mind the salaries paid in AIM-quoted and other pharmaceutical businesses of similar size and complexity. Within that frame of reference, it is intended that guaranteed pay should be at or near the median level. Benefits in kind include life assurance, healthcare and the provision of a cash allowance in lieu of a company car.

2. Pensions – The Group operates a defined contribution scheme for all Executive Directors and employees. Only basic salaries are pensionable.

3. Short-term incentives – Bonuses are payable to staff (including the Executive Directors) according to the achievement by the Group of certain pre-determined profit targets. The amount of bonus payable on achievement of the target is set at the level felt appropriate to provide the necessary incentive, with appropriate adjustments to the bonus payable in the event of over- or under-achievement against those targets. In addition, bonuses are adjusted for personal performance during the year.

4. Long-term incentives – The Company operates a share option scheme covering all permanent employees under which share options are normally granted once in each year. Options normally vest on the third anniversary of the date of grant and can then be exercised until the tenth anniversary. The exercise price of the options is set at the market value of the Company's shares at the time of grant, so that the individual only benefits if there has been share price growth. In addition, certain tranches of options can only vest if there have been pre-defined levels of growth in the Company's earnings per share, on a diluted basis. The share option scheme is overseen by the Remuneration Committee which determines the terms under which eligible individuals may be invited to participate, including the level of awards. The scheme utilises HMRC approved options to the extent possible and tax-unapproved options thereafter.

Directors' service contracts

All Executive Directors are employed under service contracts. The services of all Executive Directors may be terminated by the Company or individual giving 12 months' notice.

The Non-executive Directors are employed under letters of engagement for fixed terms of up to five years, which may be terminated by the Company by (i) giving up to 12 months' notice, or (ii) immediately, in the event that the Director is not re-elected by shareholders at an AGM.

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		Share option gains		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Peter Butterfield	238,333	206,667	11,780	10,812	25,625	20,583	53,250	54,664	328,988	292,726	–	13,984	328,988	306,710
Andrew Franklin	175,333	165,000	11,382	10,967	17,272	16,500	37,914	34,578	241,901	227,045	–	–	241,901	227,045
John Dawson[3]	287,000	244,000	5,855	13,464	–	113,899	–	62,546	292,855	433,909	–	–	292,855	433,909
Nigel Clifford	41,067	36,001	–	–	–	–	–	–	41,067	36,001	–	–	41,067	36,001
David Cook	72,336	37,668	–	–	–	–	–	–	72,336	37,668	–	–	72,336	37,668
	814,069	689,336	29,017	35,243	42,897	150,982	91,164	151,788	977,147	1,027,349	–	13,984	977,147	1,041,333
Former Directors:														
Andrew Smith[1]	85,801	72,946	–	–	–	–	–	–	85,801	72,946	–	–	85,801	72,946
Thomas Casdagli[2]	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	899,870	762,282	29,017	35,243	42,897	150,982	91,164	151,788	1,062,948	1,100,295	–	13,984	1,062,948	1,114,279

Notes:

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 has continued to serve as a Non-executive Director on the Board since 1 May 2018, for which he receives no salary or fees.

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

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.

REMUNERATION REPORT CONTINUED

Directors' share options

Details of options held under the Company's employee share schemes by the Directors who served during the year are as follows:

	2017				Changes in the year			2018		
Director	Date of Grant	Exercise price (pence)	Performance condition?	Number of shares	Granted	Exercised	Lapsed	Number of shares	Exercisable from	Exercisable to
Peter Butterfield	26-Mar-10	33.25	No	909,778	–	–	–	909,778	26-Mar-13	26-Mar-20
	29-Apr-10	34.25	No	115,000	–	–	–	115,000	29-Apr-13	29-Apr-20
	28-Apr-11	34.12	No	1,130,000	–	–	–	1,130,000	28-Apr-14	28-Apr-21
	19-Oct-12	29.25	No	140,000	–	–	–	140,000	19-Oct-15	19-Oct-22
	06-Jun-13	37.25	No	144,200	–	–	–	144,200	06-Jun-16	06-Jun-23
	23-Oct-13	35.75	EPS growth	400,000	–	–	–	400,000	23-Oct-18	23-Oct-23
	11-Apr-14	33.75	EPS growth	144,200	–	–	–	144,200	11-Apr-17	11-Apr-24
	27-May-15	43.75	EPS growth	166,625	–	–	–	166,625	27-May-18	27-May-25
	27-Oct-16	47.50	EPS growth	200,000	–	–	–	200,000	27-Oct-19	27-Oct-26
	27-Oct-16	47.50	EPS growth	1,000,000	–	–	–	1,000,000	27-Oct-21	27-Oct-26
	15-Sep-17	53.00	EPS growth	148,397	–	–	–	148,397	15-Sep-20	15-Sep-27
	15-Sep-17	53.00	EPS growth	56,603	–	–	–	56,603	15-Sep-20	15-Sep-27
	05-Oct-18	81.60	EPS growth	–	1,250,000	–	–	1,250,000	05-Oct-21	05-Oct-28
				4,554,803	1,250,000	–	–	5,804,803		
Andrew Franklin	04-Dec-15	46.75	No	2,000,000	–	–	–	2,000,000	04-Dec-18	04-Dec-25
	27-Oct-16	47.50	EPS growth	155,000	–	–	–	155,000	27-Oct-19	27-Oct-26
	27-Oct-16	47.50	EPS growth	400,000	–	–	–	400,000	27-Oct-21	27-Oct-26
	15-Sep-17	53.00	EPS growth	170,000	–	–	–	170,000	15-Sep-20	15-Sep-27
	05-Oct-18	81.60	EPS growth	–	178,000	–	–	178,000	05-Oct-21	05-Oct-28
				2,725,000	178,000	–	–	2,903,000		

The closing mid-market price of ordinary shares on 31 December 2018 (being the last dealing day in the calendar year) was 67p and the range during the year was from 62p to 102p.

DIRECTORS' REPORT

Scope of this report

The Directors' biographies on pages 40 to 41, the discussion of corporate governance matters on pages 42 to 51 and the Remuneration Report on pages 52 to 54 are hereby incorporated by reference to form part of this Directors' Report.

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 40 and 41. Andrew Smith and Thomas Casdagli served as Non-executive Directors until the 1 March 2018 and 30 May 2018 respectively.

Directors' interests

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

	At 31 December 2017			At 31 December 2018		
Director	Beneficial	Non-beneficial	Total	Beneficial	Non-beneficial	Total
Peter Butterfield	28,376	–	–	28,376	–	28,376
Nigel Clifford	180,663	–	180,663	180,663	–	180,663
David Cook	102,371	–	102,371	102,371	–	102,371
John Dawson	36,576,402	20,000,000	56,576,402	35,476,402	20,000,000	55,476,402
Andrew Franklin	–	–	–	–	–	–

Peter Butterfield and Andrew Franklin both hold options over shares of the Company through their participation in the Company's Share Option Plan, as set out in the Remuneration Report on page 54.

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' REPORT CONTINUED

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 22 and 23.

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.

Dividends

The Board declared an interim dividend in respect of the year ending 2018 of 0.487 pence per share (2017: 0.443p) which was paid on 10 January 2019. The Directors are recommending a final dividend of 0.977 pence per share (2017: 0.888p) which, subject to shareholders' approval at the annual general meeting, will be paid on 11 July 2019 to shareholders on the register at the close of business on 14 June 2019. The total dividends paid and proposed in respect of the year ended 31 December 2018 is therefore 1.464 pence per share (2017: 1.331p).

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.

Electronic communications

This year, the Company took the decision to move towards 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.

Annual General Meeting

The 2019 Annual General Meeting of the Company will be held on 23 May 2019, 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 in included with this Annual Report and is also available in the Investor Section of the Company's website at www.alliancepharmaceuticals.com.

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. Shareholders are able to vote electronically using the 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 electronically at Company general meetings or appoint a proxy to vote. You will still be able to vote in person at the AGM, and may request a hard copy proxy form directly from the Company's Registrars.

Chris Chrysanthou
Company Secretary

26 March 2019

Financial Statements and Additional Information

Additional Information

Healthcare providers

Working with key opinion leaders enables us to build on our growing global reputation as trusted experts in selected therapy areas. Healthcare providers in a range of specialties value our engagement and achieve more every day thanks to the education, information and resources we provide.

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 2018 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 2018 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	£1.1m (2017:£1.1m) 3.9% (2017: 4.7%) of normalised Group profit before tax*	
Coverage	87% (2017: 91%) of the total profits and losses that made up Group profit before tax	
Key audit matters vs 2017		
Event Driven	**New:** The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Recurring risks	Impairment of indefinite useful economic life intangible assets (excluding goodwill)	◀▶
	Recoverability of parent company's investment in subsidiaries	◀▶

* Group profit before tax is normalised to exclude:

– Impairment of Synthasia Joint Venture assets	(£2.5m)
– Impairment of Anti-malarial intangible asset	(£4.3m)
– Profit on disposal of Unigreg Joint Venture	£1.5m

These events are not considered to represent the underlying performance of the Group for the purposes of determining materiality, hence are excluded from the Group profit before tax.

2. Key audit matters: 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.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 37 (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, 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 at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, 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 (excluding 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 (excluding goodwill) and recoverability of 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

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

	The risk	Our response
Impairment of indefinite useful economic life intangible assets (including goodwill) (£332.0m; 2017: £273.3m) Refer to page 77 (accounting policy) and page 92 (financial disclosures).	**Forecast-based valuation** 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.	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 forecasted 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.
Recoverability of parent company's investment in subsidiaries (£184.4m; 2017: £145.5m) Refer to page 77 (accounting policy) and page 99 (financial disclosures).	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 99.9% (2017: 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.	**Our procedures included:** Tests of details: 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 details: 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.

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 £1.1m, 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 intangibles asset and
- £1.5m profit on disposal of Unigreg Joint Venture,

as disclosed in note 6. Materiality represents 3.9% of this normalised Group profit before tax.

Materiality for the parent company financial statements as a whole was set at £0.8m (2017: £0.8m), determined with reference to a benchmark of company total assets, of which it represents 0.5% (2017: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £55,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 19 (2017: 18) reporting components, we subjected 4 (2017: 5) to full scope audits for Group purposes. We conducted reviews of financial information (including enquiry) at a further 4 (2017: 3) non-significant components. These non-significant components are not material from a profit or net assets perspective nor do they include a significant risk. However they do include individually material revenues, costs, assets or liabilities.

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 £0.5m to £0.9m (2017: £0.1m 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 8 components (2017: 1 of the 8 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.

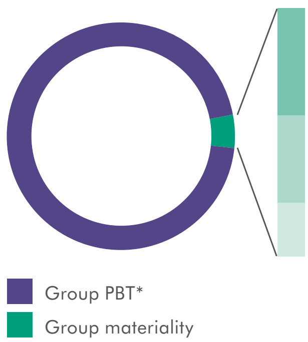
The Group team visited one (2017: one) component location in France (2017: France, same component) to assess the audit risk and strategy. Telephone conference meetings were also held with the component auditor. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Group profit before tax*

£28.1m (2017: £23.5m)

Group Materiality

£1.1m (2017: £1.1m)



£1.1 m
Whole financial statements materiality (2017: £1.1m)

£0.9 m
Range of materiality at five components (£0.5m to £0.9m) (2017: £0.1m to £0.8m)

£55,000
Misstatements reported to the audit committee (2017: £55,000)

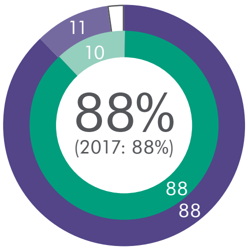
* Group profit before tax is normalised to exclude: £2.5m impairment of Synthasia Joint Venture assets, £4.3m impairment of Anti-malarial intangible asset and £1.5m profit on disposal of Unigreg joint Venture as disclosed in note 6.

The equivalent normalised Group profit before tax for 2017 is normalised to exclude £5.0m exceptional compensation income, less associated costs and impairment as disclosed in note 6.

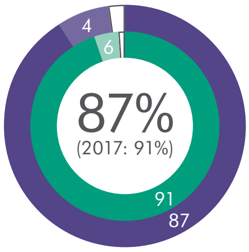
INDEPENDENT AUDITOR'S REPORT CONTINUED

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

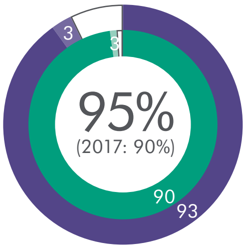
Group revenue



Total profits and losses that made up Group profit before tax



Group total assets



- Full scope for Group audit purposes 2018
- Reviews of financial information (including enquiry) 2018
- Full scope for Group audit purposes 2017
- Reviews of financial information (including enquiry) 2017
- Residual components

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 and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were

- Market competition;
- Constraints on supply chain, sourcing and logistics; and
- Product regulation – products could face risk of status being challenged or altered.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered 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.

Based on this work, 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 these respects, and we did not identify going concern as a key audit matter.

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 56, 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

Andrew Campbell-Orde

(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

26 March 2019

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December 2018			Year ended 31 December 2017		
	Note	Underlying £000s	Non-Underlying £000s (Note 6)	Total £000s	Underlying £000s restated	Non-Underlying £000s (Note 6)	Total £000s restated
Revenue	4,34	118,208	–	118,208	101,644	–	101,644
Cost of sales		(45,560)	–	(45,560)	(42,496)	–	(42,496)
Gross profit		72,648	–	72,648	59,148	–	59,148
Operating expenses							
Administration and marketing expenses		(41,934)	–	(41,934)	(31,893)	–	(31,893)
Share-based employee remuneration	8, 25	(1,790)	–	(1,790)	(1,453)	–	(1,453)
Share of Joint Venture profits	31	13	–	13	19	–	19
Profit on disposal of Unigreg Joint Venture	6	–	1,508	1,508	–	–	–
Impairment and write down of Synthasia Joint Venture assets	6	–	(2,460)	(2,460)	–	–	–
Impairment of Anti-malarial intangible asset	6	–	(4,318)	(4,318)	–	–	–
Exceptional compensation income	6	–	–	–	–	4,356	4,356
Operating profit		28,937	(5,270)	23,667	25,821	4,356	30,177
Finance costs							
Interest payable and similar charges	7	(3,457)	–	(3,457)	(3,144)	–	(3,144)
Change in deferred contingent consideration	7	1,966	–	1,966	618	–	618
Finance income	7	627		627	638	–	638
		(864)	–	(864)	(1,888)	–	(1,888)
Profit before taxation	5	28,073	(5,270)	22,803	23,933	4,356	28,289
Taxation	9	(5,491)	1,044	(4,447)	1,305	(764)	541
Profit for the period attributable to equity shareholders		22,582	(4,226)	18,356	25,238	3,592	28,830
Earnings per share							
Basic (pence)	11	4.54		3.69	5.33		6.08
Diluted (pence)	11	4.42		3.60	5.27		6.02

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 2018 £000s	Year ended 31 December 2017 £000s restated
Profit for the year	18,356	28,830
Other comprehensive income		
Items that may be reclassified to profit or loss		
Net foreign exchange gain/(loss) on investment in foreign subsidiaries (net of hedged items)	1,101	(1,718)
Interest rate swaps – cash flow hedge (net of deferred tax)	113	202
Total comprehensive income for the year	19,570	27,314

CONSOLIDATED BALANCE SHEET

	Note	31 December 2018 £000s	31 December 2017 £000s restated
Assets			
Non-current assets			
Goodwill and intangible assets	12	335,243	278,623
Property, plant and equipment	13	7,594	5,685
Joint Venture investment	31	–	1,483
Joint Venture receivable	31	–	1,462
Deferred tax	23	1,845	2,174
Other non-current assets		180	229
		344,862	289,656
Current assets			
Inventories	15	18,706	14,248
Trade and other receivables	16	29,148	23,695
Cash and cash equivalents	17	10,893	11,184
		58,747	49,127
Total assets		403,609	338,783
Equity			
Ordinary share capital	24	5,182	4,750
Share premium account		144,639	110,252
Share option reserve		6,121	5,073
Other reserve		(329)	(329)
Cash flow hedging reserve		(4)	(117)
Translation reserve		1,491	390
Retained earnings		95,099	83,089
Total equity		252,199	203,108
Liabilities			
Non-current liabilities			
Loans and borrowings	19	28,667	41,780
Other liabilities	20	2,352	5,523
Deferred tax liability	23	28,663	26,920
Derivative financial instruments	21	5	63
		59,687	74,286
Current liabilities			
Loans and borrowings	19	68,035	41,719
Corporation tax		1,457	2,436
Trade and other payables	18	22,231	17,155
Derivative financial instruments	21	–	79
		91,723	61,389
Total liabilities		151,410	135,675
Total equity and liabilities		403,609	338,783

The financial statements were approved by the Board of Directors on 26 March 2019.

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 2018 £000s	31 December 2018 £000s	31 December 2017 £000s	31 December 2017 £000s
Assets					
Non-current assets					
Investment in subsidiaries	14	184,211		145,469	
Deferred tax asset		194		314	
			184,405		145,783
Current assets					
Trade and other receivables	16	29		21	
Cash and cash equivalents	17	83		71	
			112		92
Total assets			184,517		145,875
Equity					
Ordinary share capital	24	5,182		4,750	
Share premium account		144,639		110,252	
Share option reserve		6,121		5,073	
Retained earnings		27,751		25,052	
Total equity			183,693		145,127
Liabilities					
Current liabilities					
Trade and other payables	18	221		262	
Corporation tax		603		486	
			824		748
Total liabilities			824		748
Total equity and liabilities			184,517		145,875

The company's profit for the year was £9,045,000 (2017: £8,399,000).

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 26 March 2019.

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 2017 restated	4,726	109,594	(329)	(319)	2,108	3,306	59,988	179,074
Issue of shares	24	–	–	–	–	–	–	24
Share premium	–	658	–	–	–	–	–	658
Dividend paid	–	–	–	–	–	–	(5,729)	(5,729)
Share options charge (including deferred tax)	–	–	–	–	–	1,767	–	1,767
Transactions with owners	24	658	–	–	–	1,767	(5,729)	(3,280)
Profit for the period restated	–	–	–	–	–	–	28,830	28,830
Other comprehensive income								
Interest rate swaps – cash flow hedge (net of deferred tax)	–	–	–	202	–	–	–	202
Foreign exchange translation differences	–	–	–	–	(1,718)	–	–	(1,718)
Total comprehensive income for the period	–	–	–	202	(1,718)	–	28,830	27,314
Balance 31 December 2017	4,750	110,252	(329)	(117)	390	5,073	83,089	203,108
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 period	–	–	–	–	–	–	18,356	18,356
Other comprehensive income								
Interest rate swaps – cash flow hedge (net of deferred tax)	–	–	–	113	–	–	–	113
Foreign exchange translation differences	–	–	–	–	1,101	–	–	1,101
Total comprehensive income for the period	–	–	–	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

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 2017	4,726	109,594	3,306	22,382	140,008
Issue of shares	24	–	–	–	24
Share premium	–	658	–	–	658
Dividend paid	–	–	–	(5,729)	(5,729)
Share options charge (including deferred tax)	–	–	1,767	–	1,767
Transactions with owners	24	658	1,767	(5,729)	(3,280)
Profit for the period and total comprehensive income	–	–	–	8,399	8,399
Balance 31 December 2017	4,750	110,252	5,073	25,052	145,127
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

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

	Note	Group Year ended 31 December 2018 £000s	Group Year ended 31 December 2017 £000s restated	Company Year ended 31 December 2018 £000s	Company Year ended 31 December 2017 £000s
Cash flows from operating activities					
Cash generated from operations	26	26,111	30,765	(867)	(367)
Tax paid		(3,941)	(3,728)	(686)	(51)
Cash flows from/(used in) operating activities		22,170	27,037	(1,553)	(418)
Investing activities					
Interest received		36	104	–	–
Dividend received		–	–	5,600	5,721
Investment in subsidiary	14	–	–	(32,507)	(275)
Development expenditure	12	(43)	(459)	–	–
Purchase of property, plant and equipment	13	(2,891)	(2,236)	–	–
Repayment of loan to Joint Venture on disposal	32	1,426	154	–	–
Proceeds from disposal of Joint Venture Investment	32	2,196	–	–	–
Exceptional compensation income	6	1,000	4,000	–	–
Consideration on acquisitions		(60,307)	(15,314)	–	–
Payment of deferred and contingent consideration on acquisitions		(500)	(2,161)	–	–
Net cash (used in)/from investing activities		(59,083)	(15,912)	(26,907)	5,446
Financing activities					
Interest paid and similar charges		(3,197)	(2,678)	–	–
Loan issue costs		(362)	(80)	–	–
Capital lease payments		(512)	(374)	–	–
Net proceeds from issue of shares		32,755	–	32,755	–
Proceeds from exercise of share options		2,063	682	2,063	682
Dividend paid		(6,346)	(5,729)	(6,346)	(5,729)
Proceeds from borrowings		28,000	16,000	–	–
Repayment of borrowings		(15,813)	(14,730)	–	–
Net cash received from/(used in) financing activities		36,588	(6,909)	28,472	(5,047)
Net movement in cash and cash equivalents		(325)	4,216	12	(19)
Cash and cash equivalents at 1 January		11,184	7,221	71	90
Exchange gains/(losses) on cash and cash equivalents		34	(253)	–	–
Cash and cash equivalents at 31 December	17	10,893	11,184	83	71

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 2018

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 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 26 March 2019.

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 New standards adopted by the Group

The Group has applied IFRS 15 Revenue from Contracts with Customers, IFRS 16 Leases and IFRS 9 Financial Instruments for the first time for the annual reporting period commencing 1 January 2018. The Group has made changes to its accounting policies and included certain retrospective adjustments following the adoption of IFRS 9, IFRS 15 and IFRS 16. These are disclosed in note 3.

2.3 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 31 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. Summary of significant accounting policies continued

2.4 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. Revisions to accounting estimates are recognised in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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 12);
- assessment of joint control for the Group's Joint Ventures (note 31); and
- Identification and presentation of non-underlying items (note 6)

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 12); and
- Forecasts and key assumptions used in calculation of contingent consideration (note 21)

2.5 Revenue recognition

As explained in note 2.2 above, the Group has updated its accounting policy for Revenue in line with IFRS 15 Contracts with Customers. The new policy is described below and the impact of the change in note 3.

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 either by the Group or by a distributor.

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 (including the Pharmaceutical Price Regulation Scheme (PPRS)) 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 PPRS applies to branded, licensed medicines which are available on NHS prescription. A rebate of 4.75% (2017: 7.80%) is payable to the Department of Health (DHSC) on sales in scope of the scheme.

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.

(i) 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.

(ii) Pharmaceutical product sales – dispatch terms: Recognition at a point in time when each unit of pharmaceutical product is dispatched to the customer.

(iii) 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.

(iv) Pharmaceutical product rebates payable (including PPRS): 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 PPRS.

    (i) 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 the Nizoral acquisition (note 34) 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.

2.6 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 this translation of foreign operations are reported as an item of 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 recognised directly in equity, in the translation reserve, to the extent that the hedge is effective.

2.7 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. 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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. Summary of significant accounting policies continued

2.8 Leases

The Group has early adopted IFRS 16 Leases using the retrospective approach. The impact of the change is disclosed in note 3.

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 of IT-equipment.

2.9 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.

(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. An example of a charge classified as non-underlying is the anti-malarial impairment incurred during the year (note 6).

2.10 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. Summary of significant accounting policies continued

2.11 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.

The Group has early adopted IFRIC 23 'Uncertainty over Income Tax Treatments', ahead of its effective date of 1 January 2019 and measured tax provisions under the requirements of the new standard.

2.12 Derivative financial instruments and hedging activities

Interest rate risk

Derivative financial instruments are used to manage exposure to market risk from treasury operations. The financial instrument used by the Group is interest rate swaps. The Group does not hold or issue derivative financial instruments for trading or speculative purposes. Derivative financial instruments are recognised in the balance sheet at fair value and then re-measured at subsequent reporting dates. The fair value is calculated by reference to market interest rates and supported by counterparty confirmation.

The interest rate swaps are designated as cash flow hedges. The Group has determined an economic relationship exists between the hedge instrument (interest rate swaps) and hedged item (bank loans). This is because the value of these move in opposite directions with changes to the relevant interest rate benchmark. The Group determines the hedge ratio based on the relevant quantities of the hedging instrument and hedged item.

The effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges is recognised in other comprehensive income, while the gain or loss relating to the ineffective portion is recognised immediately in the income statement. The sources of hedge ineffectiveness are differences in the key terms of the hedging instrument and hedged item, and credit risk. Changes in the fair value of derivative financial instruments that are not designated as cash flow hedges are recognised in the income statement as they arise.

Translation risk

Exchange differences arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments designated as hedges of the net investment in foreign operations, are recognised in equity 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.

2.13 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.

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.

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, less any impairment losses.

2.14 Employee benefits – Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. The entirety of the share-based payment charge is recharged to subsidiaries by the Company.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

2.15 Equity

Equity comprises the following for both the Company and Group:

'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.

Also included in Group equity is:

'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.

2.16 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, the provisions have been discounted to their present value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. Summary of significant accounting policies continued

2.17 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.

2.18 Going concern

The current rate of cash generation by the Group comfortably exceeds the capital and debt servicing needs of the business. The Board remains confident that all the bank covenants will continue to be met and the Group will be able to meet its working capital needs for at least the next 12 months from the date of approval of these financial statements.

The Group is in a net current liability position of £33.0m (2017: £12.2m) principally due to current bank loans of £68.5m (2017: £42.0m), and in particular the drawn Revolving Credit Facility ('RCF') of £58.5m (2017: £34.0m). The Group is compliant with all the terms of the RCF, including covenants and there is no reason not to expect the RCF to be rolled over on expiry.

The Board maintains regular dialogue with the Group's bank facility providers and have confidence the current bank loans can be rolled over for at least the next 12 months. It is expected the Group's bank facility will be refinanced during the course of 2019 as it is due to expire in November 2020.

After making enquiries, the Directors are confident that there is reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This included specific consideration of potential implications from Brexit, as detailed in the principal risks and uncertainties section of the Strategic Report. The Directors have therefore determined it is appropriate to adopt the going concern basis in preparing the financial statements.

2.19 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 Groups longer term strategic plans. APMs are presented in Note 34.

3. Changes in accounting policies

This is the first set of the Group's financial statements where IFRS 15 Revenue from Contracts with Customers, IFRS 16 Leases and IFRS 9 Financial Instruments have been applied. The impact of these changes in accounting policies are described below. Each of these changes has no impact on the Company's financial statements.

3.1 Impact on the financial statements

As a result of the adoption of IFRS 15 and IFRS 16 the prior year comparatives have been restated. Adoption of IFRS 9 had no impact on the prior year comparatives as described in section 3.4.

Consolidated Income Statement

	2017 before adjustments £000s	Effect of IFRS 15 adjustments £000s	Effect of IFRS 16 adjustments £000s	2017 post adjustments £000s
Revenue	103,315	(1,671)	–	101,644
Cost of sales	(44,354)	1,858	–	(42,496)
Gross profit	58,961	187	–	59,148
Operating expenses				
Administration and marketing expenses	(31,706)	(187)	–	(31,893)
Share-based employee remuneration	(1,453)	–	–	(1,453)
Share of Joint Venture profits	19	–	–	19
Exceptional compensation income	4,356	–	–	4,356
Operating profit	30,177	–	–	30,177
Finance costs				
Interest payable and similar charges	(3,064)	–	(80)	(3,144)
Change in deferred contingent consideration	618	–	–	618
Finance income	638	–	–	638
	(1,808)	–	(80)	(1,888)
Profit before taxation	28,369	–	(80)	28,289
Taxation	541	–	–	541
Profit for the period attributable to equity shareholders	28,910	–	(80)	28,830
Earnings per share				
Basic (pence)	6.10			6.08
Diluted (pence)	6.03			6.02

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

3. Changes in accounting policies continued

3.1 Impact on the financial statements continued

Summary Consolidated Balance Sheet – 31 December 2017

Adoption of IFRS 15 had no impact on the 31 December 2017 balance sheet as described in section 3.2.

	31 December 2017 before adjustments £000s	Effect of IFRS 16 adjustments £000s	31 December 2017 post adjustments £000s
Assets			
Non-current assets			
Other non-current assets	283,971	–	283,971
Property, plant and equipment	3,377	2,308	5,685
	287,348	2,308	289,656
Current assets	49,127	–	49,127
Total assets	336,475	2,308	338,783
Equity			
Other equity reserves	114,946	–	114,946
Share option reserve	5,073	–	5,073
Retained earnings	83,358	(269)	83,089
Total equity	203,377	(269)	203,108
Liabilities			
Non-current liabilities			
Other non-current liabilities	68,763	–	68,763
Other liabilities	3,525	1,998	5,523
	72,288	1,998	74,286
Current liabilities			
Other current liabilities	41,798	–	41,798
Corporation tax	2,436	–	2,436
Trade and other payables	16,576	579	17,155
	60,810	579	61,389
Total liabilities	133,098	2,577	135,675
Total equity and liabilities	336,475	2,308	338,783

Summary Consolidated Balance Sheet – 1 January 2017

Adoption of IFRS 15 had no impact on the 1 January 2017 balance sheet as described in section 3.2.

	1 January 2017 before adjustments £000s	Effect of IFRS 16 adjustments £000s	1 January 2017 post adjustments £000s
Assets			
Non-current assets			
Other non-current assets	269,648	–	269,648
Property, plant and equipment	1,806	2,672	4,478
	271,454	2,672	274,126
Current assets	49,283	–	49,283
Total assets	320,737	2,672	323,409
Equity			
Other equity reserves	115,780	–	115,780
Share option reserve	3,306	–	3,306
Retained earnings	60,177	(189)	59,988
Total equity	179,263	(189)	179,094
Liabilities			
Non-current liabilities			
Other non-current liabilities	89,380	–	89,380
Other liabilities	1,817	2,408	4,225
	91,197	2,408	93,605
Current liabilities			
Other current liabilities	25,782	–	25,782
Corporation tax	2,543	–	2,543
Trade and other payables	21,952	453	22,405
	50,277	453	50,730
Total liabilities	141,474	2,861	144,335
Total equity and liabilities	320,737	2,672	323,409

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

3. Changes in accounting policies continued

3.1 Impact on the financial statements continued

Summary Consolidated Cashflow statement

Adoption of IFRS 15 had no impact on the 2017 cashflow statement as described in section 3.2 below.

	2017 before adjustments £000s	Effect of IFRS 16 adjustments £000s	2017 post adjustments £000s
Cash flows from operating activities			
Profit after taxation	28,369	(80)	28,289
Other adjusting items	(3,232)	–	(3,232)
Interest payable and similar charges	3,064	80	3,144
Depreciation of property, plant and equipment	657	454	1,111
Share based employee remuneration	1,453	–	1,453
Cash generated from operations	30,311	454	30,765
Tax paid	(3,728)	–	(3,728)
Cash flows received from operating activities	26,583	454	27,037
Cash flows received from Investing activities	(15,912)	–	(15,912)
Financing activities			
Interest paid	(2,678)	(80)	(2,758)
Capital lease payments	–	(374)	(374)
Other financing cashflows	(3,777)	–	(3,777)
Net cash received used in financing activities	(6,455)	(454)	(6,909)
Net movement in cash and cash equivalents	4,216	–	4,216

3.2 Adoption of IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was adopted by the Group on 1 January 2018. IFRS 15 is a converged standard from the IASB and FASB on revenue recognition. The standard aims to improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. It introduces a five-step model to determine the nature, timing and amount of revenue recognised. These steps are:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognise the revenue as each performance obligation is satisfied

The Group has opted to apply the retrospective approach under IFRS 15 meaning the prior period has been restated to show the impact of adoption from 1 January 2017. During the comprehensive analysis undertaken as part of the Group's transitional review certain rebates were identified within Cost of sales. These have been reclassified against Revenue on transition to IFRS 15. In addition, certain Administration expenses were reclassified to Cost of sales.

The adjustments are shown in the column 'Effect of IFRS 15 adjustments' and are presentational within the Income Statement only. They have no effect on reported profit or equity for the Group.

3.3 Adoption of IFRS 16 Leases

IFRS 16 Leases was adopted by the Group on 1 January 2018. The new standard requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset for virtually all lease contracts, excluding certain short-term leases and leases of low-value assets. The Group has applied the retrospective approach which restates comparative information as if IFRS 16 has always applied.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The weighted average incremental borrowing rate applied to the lease liabilities is 3.0%. The associated right-of-use assets for leases have been measured on a retrospective basis.

3.4 Adoption of IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed the financial assets held by the Group and has classified these into the appropriate IFRS 9 categories. This has resulted in Cash and cash equivalents and Trade and other receivables being re-designated to 'Amortised cost' from 'Loans and receivables'.

The Group's liabilities classified under 'Other financial liabilities' remain consistently designated on adoption of IFRS 9.

Consistent with IAS 39, under IFRS 9 the effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges is recognised in other comprehensive income, while the gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

The Group's derivatives continue to qualify as cash flow hedges and no changes to classification or measurement are required under IFRS 9. The derivatives are classified under 'Derivative financial instruments'.

Impairment of financial assets

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. No additional IFRS 9 expected credit loss provision has been recognised from this change in accounting policy.

4. Revenue

Revenue information by brand

	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s restated
International Star brands:		
Kelo-cote	22,467	13,340
Nizoral*	5,037	–
MacuShield	6,982	6,580
Vamousse	5,756	125
Xonvea	204	–
	40,446	20,045
Local brands:		
Flamma Franchise	7,858	7,974
Aloclair	7,207	5,692
Hydromol	6,671	6,819
Forceval	3,874	3,543
Haemopressin	2,702	3,145
Optiflo	2,645	2,538
Oxyplastine	2,640	2,512
Ashton & Parsons	2,225	2,005
Ametop	2,181	101
Other Local brands	39,759	47,270
	77,762	81,599
Total Revenue (from contracts with customers)	118,208	101,644

* Nizoral is shown on a net profit basis in statutory revenue. Nizoral revenue presented on a see-through income statement basis is included as an alternative performance measure in Note 34.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

4. Revenue continued

Revenue information by geography

	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s restated
UK and Republic of Ireland	52,266	54,899
Mainland Europe	25,386	20,327
International including USA	40,556	26,418
Total Revenue	118,208	101,644

Major customers

The revenue from the Group's two largest customers is as follows. One customer separately comprised 10% or more of revenue (2017: two).

	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s restated
Major customer 1	22,135	22,542
Major customer 2	9,178	10,597
	31,313	33,139

5. Profit before taxation

Profit before taxation is stated after charging/(crediting):	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s restated
Amounts receivable by the Company's auditor and its associates in respect of		
– The audit of these financial statements	36	26
– The audit of the financial statements of subsidiaries	141	105
– Corporate finance services	114	57
– Other assurance services	5	5
Amortisation of intangible assets	211	276
Impairment of intangible assets	6,244	507
Share options charge	1,790	1,453
Depreciation of plant, property and equipment	1,335	1,111
Research and development	131	169
Gain on foreign exchange transactions	(575)	(534)

6. 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 2018 £000s	Year ended 31 December 2017 £000s
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)	–
Exceptional compensation income, less associated costs and impairment	–	4,356
Total non-underlying items before taxation	(5,270)	4,356
Taxation	1,044	(764)
Total non-underlying items after taxation	(4,226)	3,592

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 32).

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 has concluded to fully impair the joint venture investment of £0.3m and to fully provide for the associated receivables balances of £2.2m. This generates a non-cash, non-underlying impairment charge and receivables provision of £2.5m.

Sales of anti-malarial products fell to £0.7m in 2018 (2017: £1.3m) 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 has concluded that, due to the decline in demand, it is not economic to transfer the product to an alternative manufacturer and therefore it is appropriate to write down the value of the £4.3m intangible asset associated with these products in full. Alliance acquired the anti-malarial products in 2012, since which time they have generated a cumulative gross profit of £6.3m. This acquisition also served as our strategic entry point into Europe through the establishment of our French affiliate.

In March 2017, the Group reached a settlement agreement with Sinclair Pharma plc, in connection with the material reduction of business in Kelo-stretch, which was acquired in 2015. The terms of the agreement included a sum of £5.0m of which £4.0m was received in April 2017 and £1.0m was received in June 2018. This settlement less associated costs and impairment are shown as non-underlying items.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

7. Finance costs

	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s restated
Interest payable and similar charges		
On loans and overdrafts	(2,964)	(2,719)
Amortised finance issue costs	(384)	(303)
Unwinding of discount on deferred and contingent consideration	(35)	(42)
Interest on lease liabilities	(74)	(80)
	(3,457)	(3,144)
Change in fair value of contingent consideration	1,966	618
Finance income		
Interest income	52	104
Foreign exchange gain	575	534
	627	638
Finance costs – net	(864)	(1,888)

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

The current year decrease in contingent consideration relates to changes in the original estimated amounts payable for the acquisition of the Vamousse brand. The previous year decrease in contingent consideration relates to changes in the original estimated amounts payable for the acquisitions of MacuVision and Nutraceutical brands. These changes are caused by revisions to financial forecasts following acquisitions and are not considered to be measurement period adjustments.

The unwinding of discount and change in fair value of contingent consideration relate to liabilities held at fair value through profit and loss. All of the remaining finance costs arise from assets and liabilities held at amortised cost.

8. Directors and employees

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

	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s
Wages and salaries	12,990	11,102
Social security costs	2,453	2,100
Other pension costs (note 29)	730	766
Share-based employee remuneration (note 25)	1,790	1,453
	17,963	15,421

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

	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number
Management and administration	210	182

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 2018 £000s	Year ended 31 December 2017 £000s
Directors' remuneration	1,020	949
Pension contributions	43	151
	1,063	1,100

During the year contributions were paid to defined contribution schemes for two Directors (2017: three).

Gain on share options exercised by Directors during the year was £nil (2017: £14,000).

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

	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s
Emoluments for qualifying services	303	320
Pension contributions	26	114
	329	434

Average number of members of the Board of Directors (including Non-executive Directors) for the year ended 31 December 2018 was six (2017: seven).

9. Taxation

Analysis of the charge/(credit) for the period is as follows:

	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s
Corporation tax		
In respect of current period	3,003	3,573
Adjustment in respect of prior periods	7	44
	3,010	3,617
Deferred tax (see note 23)		
Origination and reversal of temporary differences	1,110	(5,101)
Adjustment in respect of prior periods	327	943
Taxation	4,447	(541)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

9. Taxation continued

The difference between the total tax charge/(credit) 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 2018 £000s	Year ended 31 December 2017 £000s
Profit before taxation	22,803	28,289
Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 19.00% (2017: 19.25%)	4,332	5,446
Effect of:		
Non-deductible expenses	259	145
Non-taxable income	(794)	(1,216)
Adjustment in respect of prior periods	334	987
Impact of reduction in UK tax rate on deferred tax	(142)	(101)
Impact of reduction in US and French tax rate on deferred tax	–	(5,958)
Differing tax rates on overseas earnings	310	182
Share options	(135)	(15)
Other differences and Foreign exchange	283	(11)
Total taxation	4,447	(541)

Changes to the UK corporation tax rate were announced in Finance Act (No 2) 2015 and Finance Act 2016, reducing the UK's main rate to 17% from 1 April 2020. As the change was substantively enacted at the balance sheet date the effect is included in these financial statements.

During 2017 US and French tax reform were both substantively enacted. The deferred tax rates applied to US and French timing differences have hence changed from 35.0% to 24.0% and from 33.3% to 25.0% respectively.

To exclude the impact of tax rate changes and non-underlying tax charges the Group has calculated 'adjusted underlying effective tax rate' as an alternative performance measure in note 34.

10. Dividends

	Year ended 31 December 2018		Year ended 31 December 2017	
	Pence/ share	£000s	Pence/ share	£000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	0.443	2,104	0.403	1,904
Final dividend for the prior financial year	0.888	4,242	0.807	3,825
	1.331	6,346	1.210	5,729
Interim dividend for the current financial year	0.487	2,524	0.443	2,104

The proposed final dividend of 0.977 pence per share for the current financial year was approved by the Board of Directors on 22 March 2019 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 31 December 2018 in accordance with IAS 10 Events After the Balance Sheet Date. The interim dividend for the current financial year was paid on 10 January 2019. Subject to shareholder approval, the final dividend will be paid on 11 July 2019 to shareholders on the register of members on 14 June 2019.

11. 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 2018	Year ended 31 December 2017
Basic EPS calculation	497,199,620	473,842,765
Employee share options	13,223,152	5,281,174
Diluted EPS calculation	510,422,772	479,123,939

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 2018 £000s	Year ended 31 December 2017 £000s restated
Earnings for basic EPS	18,356	28,830
Non-underlying items (note 6)	4,226	(3,592)
Earnings for underlying basic EPS	22,582	25,238

The resulting EPS measures are:

	Year ended 31 December 2018 Pence	Year ended 31 December 2017 Pence restated
Basic EPS	3.69	6.08
Diluted EPS	3.60	6.02
Underlying basic EPS	4.54	5.33
Underlying diluted EPS	4.42	5.27

To exclude the impact of tax rate changes the Group has calculated 'adjusted underlying basic EPS' as an alternative performance measure in note 34.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

12. 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 2018	16,565	263,560	725	2,500	283,350
Additions	–	60,307	43	–	60,350
Disposals	–	(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

The Group	Goodwill £000s	Brands and distribution rights £000s	Development costs £000s	Assets under development £000s	Total £000s
Cost					
At 1 January 2017	16,197	249,376	704	2,500	268,777
Additions	368	17,193	459	–	18,020
Transfer	–	438	(438)	–	–
Exchange adjustments	–	(3,447)	–	–	(3,447)
At 31 December 2017	16,565	263,560	725	2,500	283,350
Amortisation and impairment					
At 1 January 2017	–	3,944	–	–	3,944
Non-underlying impairment for the year	–	507	–	–	507
Amortisation for the year	–	276	–	–	276
At 31 December 2017	–	4,727	–	–	4,727
Net book amount					
At 31 December 2017	16,565	258,833	725	2,500	278,623
At 1 January 2017	16,197	245,432	704	2,500	264,833

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.

Brands and distribution rights

Key judgement – useful economic lives

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.

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.

Development costs

Capitalised costs relate to clinical development and regulatory plans expected to be commercialised in the future.

Assets under development

On 6 July 2018 the Medicines and Healthcare products Regulatory Agency (MHRA) approved the UK Marketing Authorisation Application for Diclectin®, a prescription product for the treatment of nausea and vomiting of pregnancy where conservative management has failed. The MHRA also approved the brand name Xonvea®, which will be used for marketing Diclectin in the UK.

Following licence approval, contingent consideration of £0.5m was paid to Duchesnay Inc. in July 2018 (note 18). The related asset under development of £1.5m was reclassified to Brands and distribution rights and is being amortised over 7 years.

The remaining £1.0m asset under development relates to Xonvea in-licences for a further nine European territories acquired from Duchesnay in 2016. In the event these licences for Xonvea are not approved, the amounts paid to Duchesnay (£0.5m) are fully refundable and the contingent consideration (£0.5m) would not fall due resulting in no net financial impact in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

12. Goodwill and intangible assets continued

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 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
Aloclair	–	14,000	14,000
Goodwill	11,223	–	11,223
	16,565	315,463	332,028

Year ended 31 December 2017	Goodwill £000s	Brands and distribution rights £000s	Total £000s
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	31,462	32,609
Products acquired from Sinclair			
Kelo-cote (non EU, excluding US)	–	40,842	40,842
Oxyplastine, Fazol & Others	–	26,158	26,158
Haemopressin, Optiflo & Others	–	25,000	25,000
Kelo-cote (EU)	–	17,800	17,800
Flamma Franchise	–	17,400	17,400
Aloclair	–	14,000	14,000
Goodwill	11,223	–	11,223
	16,565	256,747	273,312

Recent acquisitions

The following acquisition activities took place in the 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 £60.0m. 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 £34.0m (net proceeds: £32.8m after deduction of £1.2m directly attributable expenses), and by the draw-down of £28.0m from a £35.0m extension of the Group's debt facilities.

In respect of Nizoral, the amounts included in the consolidated statement of comprehensive income since 21 June 2018 are revenues of £5.0m 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.

In the prior year the following acquisition activities took place:

On 1 December 2017, the Group acquired the worldwide rights to Ametop from global medical technology business Smith & Nephew for a consideration of US$7.5m (£5.6m).

On 28 December 2017, the Group acquired the worldwide rights to Vamousse from TyraTech Inc in a business combination. This was for an initial cash consideration of US$13.0m (£9.7m) and contingent consideration of between US $nil and U$4.5m. Up to US$2.0m of this consideration is payable in 2020, and up to US$2.5m is payable in 2021, both dependent on the revenue growth of Vamousse. The Group does not currently anticipate any amounts will be payable based on the current forecasts.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

12. Goodwill and intangible assets continued

Impairment

As explained in note 2.9 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 the next year extrapolated to perpetuity. Financial forecasts for the next year are based on the approved annual budget for 2019 representing the best estimate of future performance. Margins are based on past experience and cost estimates.

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 7.9% and 10.5% (pre-tax 9.6% to 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 2019, based on management's best estimate of cash flows by individual CGU. These forecasts are then uplifted to perpetuity using the growth rates between -4.0% and 5.0% from 2020 onwards based on the Group's long-term growth projections. Growth rates at the higher end of our range 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 test. The valuations indicate sufficient headroom such that a reasonably possible change in a key assumption is unlikely to result in an impairment for all intangibles except Nu-seals as detailed below.

Development projects are reviewed as to the likelihood of their completion and valued using a discounted cash flow, using appropriate risk factors, to assess whether the project is impaired.

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	10.3
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 £1.8m. 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	15.5
Terminal margin growth rate	(3.6)

Recent impairments

The Group had a £4.3m intangible asset included within Brands and distribution rights for the anti-malarial products Paludrine, Avloclor and Savarine. The brands were acquired in 2012. These brands have been subject to recent competitor activity in the UK, its largest market, and, in August 2018, the Group was formally notified by the supplier of the anti-malarial products of their intention to terminate the supply contract.

Sales of anti-malarial products fell to £0.7m in 2018 (2017: £1.3m) due to competition in the UK market. Due to this decline in demand, the Board have concluded that it is not economic to enter a technical transfer project to an alternative manufacturer and therefore have elected to write down the value of the £4.3m intangible asset in full. Remaining inventory of £0.3m at 31 December 2018 is forecast to be sold in 2019 and 2020.

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 has been written down in full, and related deferred consideration of £1.1m released to the income statement (notes 18 and 20). The net impact on underlying profit before tax is therefore a charge of £0.8m. The Group has implemented alternative arrangements resulting in no interruption to the supply of MacuShield.

Kelo-stretch was impaired in the prior year by £0.5m. An indicator of impairment on this product was identified due to the material reduction in the business and resulting exceptional compensation income received (note 6). The value in use was compared against the carrying value of the asset to calculate the impairment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

13. Property, plant and equipment

The Group	Computer software and equipment £000s	Fixtures, fittings and equipment £000s	Plant & machinery £000s	Motor vehicles £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

The Group	Computer software and equipment £000s	Fixtures, fittings and equipment £000s	Plant & machinery £000s	Motor vehicles £000s	Right of use lease assets £000s restated	Total £000s restated
Cost						
At 1 January 2017	1,405	1,792	127	8	3,521	6,853
Additions	1,666	570	–	–	90	2,326
Transfers	(83)	(87)	170	–	–	–
Disposals	(52)	–	(104)	(8)	–	(164)
At 31 December 2017	2,936	2,275	193	–	3,611	9,015
Depreciation						
At 1 January 2017	424	1,055	40	7	849	2,375
Provided in the year	454	156	46	1	454	1,111
Transfers	(274)	101	173	–	–	–
Disposals	(44)	–	(104)	(8)		(156)
At 31 December 2017	560	1,312	155	–	1,303	3,330
Net book amount						
At 31 December 2017	2,376	963	38	–	2,308	5,685
At 1 January 2017	981	737	87	1	2,672	4,478

Following the adoption of IFRS 16 Leases (note 3.3) the Group has recognised right of use lease assets.

Non-current assets are located within the United Kingdom, France, Italy, China, Singapore, Spain, Germany and the United States of America.

14. Investments

The Company	Investment in subsidiary undertakings £000s
Cost	
At 1 January 2018	145,469
Additions	38,742
At 31 December 2018	184,211
At 1 January 2017	140,008
Additions	5,461
At 31 December 2017	145,469

£32.8m of the 2018 additions relate 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 12).

The investment balance relates to outstanding intercompany debt due from subsidiaries. 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 2018 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
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
Dermapharm 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

14. Investments continued

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 Castllana 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
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.

15. Inventories

The Group	31 December 2018 £000s	31 December 2017 £000s
Finished goods and materials	20,544	16,077
Inventory provision	(1,838)	(1,829)
	18,706	14,248

Inventory costs expensed through the income statement during the year were £44,349,000 (2017: £36,575,000). During the year £1,983,000 (2017: £442,000) was recognised as an expense relating to the write-down of inventories to net realisable value.

16. Trade and other receivables

	The Group		The Company	
	31 December 2018 £000s	31 December 2017 £000s	31 December 2018 £000s	31 December 2017 £000s
Trade receivables	23,407	17,347	–	–
Other receivables	1,083	1,759	20	12
Prepayments and accrued income	4,658	2,465	9	9
Amounts owed by Joint Venture	–	2,124	–	–
	29,148	23,695	29	21

The ageing of trade receivables of the Group at 31 December is detailed below:

	31 December 2018 £000s	31 December 2017 £000s
Not past due	20,482	15,479
Due 30-31 December	871	782
Past due 3 days to 91 days	1,459	511
Past 91 days	595	575
	23,407	17,347

Trade and other receivables are stated net of estimated allowances for doubtful debts. As at 31 December 2018, trade and other receivables of £868,000 (2017: £254,000) 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 and do not bear any effective interest rate.

At 31 December 2018 there were no contract assets or liabilities outstanding as defined under IFRS 15 (2017: £nil).

17. Cash and cash equivalents

	The Group		The Company	
	31 December 2018 £000s	31 December 2017 £000s	31 December 2018 £000s	31 December 2017 £000s
Sterling	3,345	7,060	83	71
Euros	4,769	2,692	–	–
US Dollars	1,856	720	–	–
Other currencies	923	712	–	–
Cash at bank and in hand	10,893	11,184	83	71

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

18. Trade and other payables

	The Group		The Company	
	31 December 2018 £000s	31 December 2017 £000s	31 December 2018 £000s	31 December 2017 £000s
Trade payables	8,978	6,662	29	3
Other taxes and social security costs	1,808	326	–	–
Accruals and deferred income	10,301	8,159	192	179
Other payables	197	776	–	–
Deferred consideration	–	153	–	–
Contingent consideration	500	500	–	–
Lease liabilities	447	579	–	–
Amounts owed to Group undertakings	–	–	–	80
	22,231	17,155	221	262

Deferred consideration of £nil (2017: £0.2m) related to an agreement with MacuHealth to guarantee supply of MacuShield API and secure additional territories to be able to distribute in. In September 2018 the Group was notified by Macuhealth of their intention to end this supply agreement. This resulted in the release of the balance to the income statement.

Contingent consideration of £0.5m relates to the Licence and Supply Agreement for the product Xonvea with Duchesnay Inc. and is payable in 2019 if the relevant European licensing applications are approved (note 12). This balance was transferred from non-current liabilities during the year (note 20). The 2017 balance of £0.5m was paid following UK approval in July 2018 (note 12).

19. Loans and borrowings

	The Group		The Company	
Current	31 December 2018 £000s	31 December 2017 £000s	31 December 2018 £000s	31 December 2017 £000s
Bank loans due within one year or on demand:				
Secured	68,500	42,000	–	–
Finance issue costs	(465)	(281)	–	–
	68,035	41,719	–	–

	The Group		The Company	
Non-current	31 December 2018 £000s	31 December 2017 £000s	31 December 2018 £000s	31 December 2017 £000s
Bank loans:				
Secured	29,100	42,338	–	–
Finance issue costs	(433)	(558)	–	–
	28,667	41,780	–	–

The bank facility is secured by a fixed and floating charge over the Company's and Group's assets registered with companies house.

20. Other non-current liabilities

	The Group		The Company	
	31 December 2018 £000s	31 December 2017 £000s	31 December 2018 £000s	31 December 2017 £000s
Contingent consideration	–	2,355	–	–
Deferred consideration	–	896	–	–
Lease liabilities	1,972	1,998	–	–
Other non-current liabilities	380	274	–	–
	2,352	5,523	–	–

Contingent consideration of £nil (2017: £0.5m) related to the Licence and Supply Agreement for the product Xonvea with Duchesnay Inc. This has been transferred to current liabilities and is payable during 2019 if the relevant licensing applications are approved (note 18).

Contingent consideration of £nil (2017: £1.9m) relates to the acquisition of the worldwide rights to Vamousse from TyraTech Inc. Up to US$2.0m is payable in 2020, and up to US$2.5m is payable in 2021, both dependent on the revenue growth of Vamousse. The current year decrease in deferred contingent consideration relates to changes in the original estimated amounts payable based on the latest sales forecasts.

Deferred consideration of £nil (2017: £0.9m) related to the MacuHealth agreement to guarantee supply of MacuShield API and extend the territories in which MacuShield can be sold. In September 2018 the Group was notified by Macuhealth of their intention to end this supply agreement. This resulted in the release of the balance to the income statement.

21. Financial instruments

The Group uses financial instruments comprising borrowings, derivatives, some 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 reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from the previous year. In addition to Sterling, the Group also has bank facilities denominated in Euros and US Dollars. The purpose of these facilities is to manage the currency risk arising from the Group's operations.

Liquidity Risk

The Group seeks to manage financial risk by ensuring at all times there is sufficient liquidity to meet its financial liabilities as they fall due and to invest any surplus cash safely and profitably. The Group finances its operations through a mixture of debt and equity. The Group's main source of debt is provided by a £135m committed Credit Facility maturing in November 2020 (2017: £100m). This is made up of amortising Term Debt of £65m (2017: £65m) and a Revolving Credit Facility ('RCF') of £70m (2017: £35m). In order to manage currency risk the Group has borrowed part of the Term Loans in EUR 18m (£16.2m) (2017: EUR 18m (£15.9m)) and in USD 19.5m (£15.2m) (2017: USD 19.5m (£14.4m)). The remainder is denominated in Sterling.

At year end the Group had drawn down £58.5m of the RCF (2017: £34.0m) and has access to an uncommitted overdraft facility of £4.5m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

21. Financial instruments continued

The maturity profile of the Group's financial gross liabilities (capital and interest) at the year-end is as follows:

	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	231	–	149	22,164
Bank loans	71,382	31,526	–	–	102,908
Interest rate swaps	5	–	–	–	5
Lease liabilities	447	307	987	678	2,419
	35,118	90,564	987	827	127,496

	31 December 2017				
	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	16,576	914	2,374	237	20,101
Bank loans	44,176	11,862	33,866	–	89,904
Interest rate swaps	79	–	63	–	142
Lease liabilities	579	447	986	565	2,577
	61,410	13,223	37,289	802	112,724

The maturity profile of the Company's financial gross liabilities (capital and interest) at the year end is as follows:

	31 December 2018 Trade and other payables £000s	31 December 2017 Trade and other payables £000s
In one year, or less	221	262

The Group had £4.5m (2017: £4.5m) undrawn overdraft facilities and £25.0m (2017: £25.0m) undrawn uncommitted facilities available at 31 December 2018.

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 £13m (year ended 31 December 2017: £20m) to convert the floating interest rate charge to a fixed rate interest charge maturing in November 2020.

The Group also has an EUR 12m (year ended 31 December 2017: EUR 18m) 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 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

	Fixed £000s	Floating £000s	Total £000s
At 31 December 2017			
Bank loans – Sterling denominated	–	54,000	54,000
Bank loans – Euro denominated	–	15,929	15,929
Bank loans – US Dollar denominated	–	14,409	14,409
Interest rate hedges – Sterling denominated	20,000	(20,000)	–
Interest rate hedges – Euro denominated	15,929	(15,929)	–
Total financial liabilities	35,929	48,409	84,338
Unamortised issue costs	–	(839)	(839)
Net book value of financial liabilities	35,929	47,570	83,499

	Fixed rate financial liabilities	
	Weighted average fixed rate %	Weighted average period for which rate is fixed
At 31 December 2018		
Sterling	3.20	1.91 years
Euros	2.16	1.91 years
At 31 December 2017		
Sterling	3.74	2.91 years
Euros	2.16	2.91 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.

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for the year ended 31 December 2018

21. Financial instruments continued

Currency risk

Approximately 40% of the Group's sales are invoiced in Euros. The Group also 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 result in £0.6m impact in EBITDA (note 34). A 5% weakening of Sterling against the US Dollar would result in a £0.4m increase in EBITDA, while a 5% strengthening of Sterling would have the approximate opposite effect.

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 2018 Carrying value £000s	31 December 2017 Carrying value £000s
Interest rate swaps	2	(5)	(142)
Contingent consideration	3	(500)	(2,854)
		(505)	(2,996)

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 & Risk Committee and the finance team at least every half year, in line with the Group's reporting dates.

Contingent consideration (Level 3)

The fair value of contingent consideration is estimated using a present value technique. Fair value is calculated using discounted cash flows, taking the most likely cash flows and discounting at an appropriate risk adjusted rate of 3.0%. The most likely cash flows are a source of estimation uncertainty.

During the year £2.0m contingent consideration related to acquisition of the Vamousse brands was released. This change was caused by differences in trading performance compared to acquisition forecasts.

Level 3 fair value measurements:

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

	31 December 2018 Liabilities £000s	31 December 2017 Liabilities £000s
Balance at 1 January	2,854	3,330
Acquired	–	1,855
Cash paid in the year	(500)	(1,713)
Amounts recognised in profit or loss under finance costs:		
Change in fair value of contingent consideration	(1,966)	(618)
Unwinding of discount	40	–
Foreign exchange movements	72	–
Balance at 31 December	500	2,854

Classification of financial assets and liabilities

Group

Classification of the Group's financial assets and liabilities is set out below:

Financial assets previously designated as 'loans and receivables' have been reclassified to 'amortised cost' following the adoption of IFRS 9 (note 3.4).

Financial assets	31 December 2018 £000s	31 December 2017 £000s
Financial assets at amortised cost		
Trade receivables	29,148	21,571
Cash and cash equivalents	10,893	11,184
	40,041	32,755

Financial liabilities	31 December 2018 £000s	31 December 2017 £000s
Liabilities at amortised cost		
Trade and other payables	21,284	15,923
Loans and borrowings	96,702	83,499
Other liabilities	380	274
Lease liabilities	2,419	2,578
Deferred consideration	–	1,049
Derivative financial instruments		
Used for hedging	5	142
Fair Value		
Contingent consideration	500	2,855
	121,290	106,320

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for the year ended 31 December 2018

21. Financial instruments continued

Classification of financial assets and liabilities continued

Company

Classification of the Company's financial instruments is set out below:

Financial assets previously designated as 'loans and receivables' have been reclassified to 'amortised cost' following the adoption of IFRS 9 (note 3.4).

Financial assets	31 December 2018 £000s	31 December 2017 £000s
Financial assets at amortised cost		
Trade receivables	29	21
	29	21

Financial liabilities	31 December 2018 £000s	31 December 2017 £000s
Liabilities at amortised cost		
Trade and other payables	221	262
	221	262

Cashflows arising from financing activities

		Cashflows		Non-cash changes			
	2017 £000s	Principal £000s	Interest £000s	Foreign exchange £000s	Additions £000s	Interest £000s	2018 £000s
Loans and borrowings	83,499	12,187	–	1,016	–	–	96,702
Accrued interest	244	–	(3,123)	–	2,964	–	85
Lease liabilities	2,578	(512)	(74)	(1)	354	74	2,419

Derivative financial instruments

	31 December 2018 Liabilities £000s	31 December 2017 Liabilities £000s
Current portion	–	79
Non-current portion	5	63
Interest rate swap – cash flow hedge	5	142

The cash flow hedges were tested for effectiveness both retrospectively and prospectively as at 31 December 2018. 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 3 month Sterling LIBOR. The amount recognised through the income statement in respect of interest rate swaps during the year was a charge of £123,000 (2017: £177,000).

22. 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.

23. Deferred tax

The Group	31 December 2018 £000s	31 December 2017 £000s
Accelerated capital allowances on tangible assets	(172)	(78)
Temporary differences: trading	108	202
Temporary differences: non-trading	716	601
Accelerated allowances on intangible assets	(8,735)	(7,684)
Initial recognition of intangible assets from business combination	(19,756)	(19,158)
Share based payments	735	864
Interest rate hedge	1	24
Losses	285	483
	(26,818)	(24,746)
Recognised as:		
Deferred tax asset	1,845	2,174
Deferred tax liability	(28,663)	(26,920)

Reconciliation of deferred tax movements:

The Group	1 January 2018 £000s	Recognised in other comprehensive income £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)	(626)	(1,446)	(26,818)
Recognised as:				
Deferred tax asset	2,174			1,845
Deferred tax liability	(26,920)			(28,663)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

23. Deferred tax continued

The Group	1 January 2017 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	31 December 2017 £000s
Non-current assets				
Intangible assets	(31,385)	834	3,709	(26,842)
Property, plant and equipment	(57)	–	(21)	(78)
Non-current liabilities				
Derivative financial	65	(41)	–	24
Instruments				
Other non-current liabilities	894	(292)	–	602
Equity				
Share option reserve	376	314	174	864
Temporary differences				
Trading	8	–	194	202
Losses	366	–	116	482
	(29,733)	815	4,172	(24,746)
Recognised as:				
Deferred tax asset	1,709			2,174
Deferred tax liability	(31,442)			(26,920)

The Group has no unrecognised deferred tax assets (2017: £nil).

24. Share capital

	Allotted, called and fully paid	
	No. of shares	£000s
At 1 January 2017 – ordinary shares of 1p each	472,568,462	4,726
Issued during the year	2,421,526	24
At 31 December 2017 – 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

Between 1 January 2018 and 31 December 2018 5,861,601 shares were issued on the exercise of employee share options (2017: 2,421,536).

On 21 June 2018 37,362,637 shares were issued at 91.0p in the underwritten equity placing used for the acquisition of Nizoral (note 12). This raised gross proceeds of £34.0m 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 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	31 December 2018 Number (000s)	31 December 2017 Number (000s)
2008	8.50	2011	–	39
2009	7.75	2012	44	130
2010	33.25 and 34.25	2013	1,531	1,670
2011	31.00 and 34.12	2014	1,745	2,201
2012	29.25	2015	871	2,156
2013	35.75 and 37.25	2016	1,695	2,979
2013	35.75	2018	1,683	2,501
2014	33.75	2017	907	1,750
2015	43.75 and 46.75	2018	3,936	5,260
2016	44.00 and 47.5	2019	8,638	9,222
2016	47.50	2021	4,400	4,400
2017	53.00	2020	7,329	7,590
2018	81.60	2021	7,935	–
			40,714	39,898

Managing capital

Our objective in managing the business' 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 2018, net debt was £85.8m (note 34), whilst Shareholders' equity was £252.2m.

The business is profitable and cash generative. The main financial covenants applying to bank debt are that leverage (the ratio of net bank debt to EBITDA) should not exceed 3.0 times, interest cover (the ratio of EBITDA to finance charges) should be no less than 4.0 times, and Group cash flows must remain in excess of agreed ratios to debt service cash flows. The Group complied with these covenants in 2018 and 2017.

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.

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for the year ended 31 December 2018

25. 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 10 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 accretion performance criteria, those outstanding are as follows

Year of grant	Exercise price Pence	Exercise from	31 December 2018 Number (000s)	31 December 2017 Number (000s)
2013	35.75	2016	–	500
2013	35.75	2018	1,683	2,300
2014	33.75	2017	514	770
2015	43.75	2018	581	810
2016	47.50	2019	2,557	2,557
2016	47.50	2021	4,400	4,400
2017	53.00	2020	1,804	1,804
2018	81.60	2021	2,775	–
			14,314	13,141

The total expense for the year relating to share-based payment plans was £1.8m (2017: £1.5m), of which £1.2 million (2017: £1.5 million) related to equity-settled share-based payment transactions and £0.6m (2017: £nil) as a cash-settled provision for the payment of social security charges upon exercise.

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 cost of social security charges is 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 October 2018 was £820,000. The model inputs were a market price of 73.0p, a grant price of 81.6p, expected volatility of 27.49% and a risk-free rate of 1.29%.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2018		2017	
	Number (000s)	Weighted average price Pence	Number (000s)	Weighted average price Pence
Outstanding at start of year	39,898	43.50	35,528	40.56
Granted	8,009	81.60	7,629	53.00
Exercised	(5,862)	35.27	(2,422)	27.00
Forfeited	(1,331)	49.40	(837)	45.15
Outstanding at end of year	40,714	52.10	39,898	43.50
Exercisable at end of year	12,345	37.75	9,695	33.24

Share options were exercised throughout the financial year. Share options were exercised between 7.75 and 53.0 pence per share.

26. Cash generated from operations

	Group		Company	
	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s restated	Year ended 31 December 2018 £000s	Year ended 31 December 2017 £000s
Profit for the year	18,356	28,830	9,045	8,399
Taxation	4,447	(541)	802	487
Interest payable and similar charges	3,457	3,144	–	–
Change in contingent consideration	(1,966)	(618)	–	–
Change in deferred consideration	(1,048)	–	–	–
Interest income	(52)	(104)	(5,066)	(3,732)
Foreign exchange gain	(575)	(534)	(2)	–
Profit on disposal of Unigreg Joint Venture	(1,508)	–	–	–
Net exceptional compensation income	–	(4,356)	–	–
Depreciation of property, plant and equipment	1,335	1,111	–	–
Amortisation and impairment of intangibles	6,455	276	–	–
Impairment of Synthasia Joint Venture assets	2,460	–	–	–
Change in inventories	(4,458)	1,108	–	–
Share of post-tax Joint Venture profits	(13)	(19)	–	–
Change in trade and other receivables	(7,628)	4,011	(8)	97
Change in trade and other payables	5,059	(2,996)	(38)	102
Share based employee remuneration	1,790	1,453	–	–
Dividends received	–	–	(5,600)	(5,720)
Cash generated from operations	26,111	30,765	867	(367)

27. Capital commitments

The Group had capital commitments at 31 December 2018 totalling £3,560,000 (2017: £1,940,000).

28. 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.

The Group's assessment at 31 December 2018 based on currently available information is that there are no matters for which a provision is required (2017: £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.

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for the year ended 31 December 2018

29. Pensions

The Group operates a defined contribution group personal pension scheme for the benefit of certain Directors and employees.

The Group	31 December 2018 £000s	31 December 2017 £000s
Contributions payable by the Group for the year	730	766

The Group also operates a stakeholder pension plan which is available to all employees.

30. Related party transactions

Group

During the year the Group made payments on behalf of Unigreg of £nil (2017: £67,000). Interest receivable from Unigreg was £13,000 (2017: £48,000). During the year the Group made payments on behalf of Synthasia of £5,000 (2017: £4,000). Interest receivable from Synthasia was £16,000 (2017: £40,000).

There are no transactions with Directors (other than remuneration) that fall into the scope of IAS 24.

Company

During the year the Company received funds of £1,230,000 (2017: £178,000) from its subsidiary Alliance Pharmaceuticals Limited.

Net payments of £160,000 were made by Alliance Pharma plc on behalf of Alliance Pharmaceuticals Limited (2017: £355,000 net payments by Alliance Pharmaceuticals Limited on behalf of Alliance Pharma plc).

Interest of £5,066,000 (2017: £3,732,000) was charged to Alliance Pharmaceuticals Limited on the total interest -bearing amounts included within the investment balance (note 14).

During the year the Company re-invested £33,619,000 (2017: £796,000) in Alliance Pharmaceuticals Limited.

During the year an amount of £1,169,000 (2017: £1,453,000) was charged to Alliance Pharmaceuticals Limited by the Company for the employee share based payment.

Dividends declared by Alliance Pharmaceuticals Limited due to the Company are £5,600,000 for the year ended 31 December 2018 (2017: £5,720,000). During the year dividends of £5,600,000 were paid by Alliance Pharmaceuticals Limited to the Company.

The Company had an outstanding balance of £97,000 (2017: £95,000) due from Alliance Pharmaceuticals SAS.

31. Joint Ventures

Name	Principal Activity	Country of Incorporation	% Owned
Unigreg Limited *disposed of during the year (note 32)	Distribution of pharmaceutical products to China	British Virgin Islands	60
Synthasia International Company Limited	Distribution of infant milk formula products in China	Hong Kong	20

In accordance with IFRS 11 Joint Arrangements, the Group has determined that Unigreg Limited and Synthasia International Company Limited are Joint Ventures. 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 2018 the Group disposed of its interest in Unigreg Limited (note 32). 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 May 2018 the Group was notified that the import licence partner is not going to receive 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 have concluded that the joint venture investment of £0.3m, and associated loan balances of £2.2m, 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.

In accordance with IFRS 11, the Group's investments made to date in joint arrangements are characterised as Joint Ventures in which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligation for underlying liabilities.

Movement in investments in Joint Ventures in the year:

	£000s
At 1 January 2018	1,483
Share of post-tax profits of Joint Ventures	13
Synthasia Joint Venture impairment	(300)
Unigreg Joint Venture disposal	(1,196)
At 31 December 2018	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

31. Joint Ventures continued

The carrying value of Joint Ventures is split as follows:

	31 December 2018 £000s	31 December 2017 £000s
Unigreg Limited	–	1,183
Synthasia International Company Limited	–	300
	–	1,483

Amounts owing from Joint Ventures are as follows:

Joint Venture receivable	31 December 2018 £000s	31 December 2017 £000s
Unigreg Limited	–	1,462

The Joint Venture receivable was a shareholder loan.

Trade and other receivables	31 December 2018 £000s	31 December 2017 £000s
Unigreg Limited	–	56
Synthasia International Company Limited	–	2,068
	–	2,124

The receivables from Synthasia International Company Limited are stated after a provision of £2.2m (2017 £nil).

32. Disposals

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 an outstanding deferred payment of £0.5 million due on or before 16 April 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 6).

33. 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.

34. 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 Groups 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-though revenue.	Note A below
Free cash flow	Free cash flow is defined as cash generated from operations less cash payments made for financing costs, 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 basic EPS	Adjusted underlying basic EPS is calculated by dividing underlying earnings attributable to ordinary shareholders less impact of tax rate changes, by the weighted average number of shares in issue during the year.	Note D 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 E 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, which is expected to occur during 2019 and 2020. The net product margin arising in the year ended 31 December 2018 has been 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 F 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 G below
Like-for-like revenue	Revenue stated excluding the impact of acquisitions in both the current and prior years. This therefore excludes revenue from Ametop, Vamousse and Nizoral to ensure comparability.	Note 4 includes revenue by brand

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

34. Alternative performance measures continued

A. Underlying EBIT and EBITDA

Reconciliation of Underlying EBIT and EBITDA	Year Ended 31 December 2018 £000s	Year Ended 31 December 2017 £000s restated
Profit before tax	22,803	28,289
Non-underlying items (note 6)	5,270	(4,356)
Finance costs (note 7)	864	1,888
Underlying EBIT	28,937	25,821
Depreciation (note 13)	1,335	1,111
Underlying impairment (note 12)	1,926	–
Amortisation (note 12)	211	276
Underlying EBITDA	32,409	27,208

B. Free cash flow

Reconciliation of free cash flow	Year Ended 31 December 2018 £000s	Year Ended 31 December 2017 £000s restated
Cash generated from operations (note 26)	26,111	30,765
Financing costs	(3,197)	(2,758)
Capital expenditure	(2,891)	(2,236)
Tax paid	(3,941)	(3,728)
Free cash flow	16,082	22,043

C. Net debt

Reconciliation of net debt	Note	31 December 2018 £000s	31 December 2017 £000s
Loans and borrowings – current	19	(68,035)	(41,719)
Loans and borrowings – non-current	19	(28,667)	(41,780)
Cash and cash equivalents	17	10,893	11,184
Net debt		(85,809)	(72,315)

D. Adjusted underlying basic EPS

Reconciliation of adjusted underlying basic EPS	Year Ended 31 December 2018 £000s	Year Ended 31 December 2017 £000s restated
Underlying profit after tax for the year	22,582	25,238
Impact of reduction in UK tax rate on deferred tax	–	(101)
Impact of reduction in US and French tax rate on deferred tax	–	(5,958)
Adjusted underlying profit for the year	22,582	19,179
Weighted average number of shares (note 11)	497,199,620	473,842,765
Adjusted underlying basic EPS	4.54	4.05

During 2017 US and French tax reform were both substantively enacted. The deferred tax rates applied to US and French timing differences in 2017 were hence changed from 35.0% to 24.0% and from 33.3% to 25.0% respectively. Changes to the UK corporation tax rate were announced in Finance Act (No 2) 2015 and Finance Act 2016, reducing the UK's main rate to 17% from 1 April 2020.

E. Adjusted underlying effective tax rate

Reconciliation of adjusted underlying effective tax rate	Year Ended 31 December 2018 £000s	Year Ended 31 December 2017 £000s
Total taxation (charge)/credit for the year	(4,447)	541
Impact of reduction in UK tax rate on deferred tax	–	(101)
Impact of reduction in US and French tax rate on deferred tax	–	(5,958)
Non-underlying tax (credit)/charge	(1,044)	764
Adjusted underlying taxation charge for the year	(5,491)	(4,754)
Underlying profit before tax for the year	28,073	23,933
Adjusted underlying effective tax rate	19.6%	19.9%

F. See-through income statement

	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.

G. Constant currency revenue

	2018 £000s	Foreign exchange impact £000s	2018 constant currency revenue £000s
See-through revenue (Note F)	124,042	516	124,558
Vamousse product revenue	5,756	138	5,894

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 5:30pm Monday to Friday).

Financial Calendar

Annual General Meeting	23 May 2019
Shares trade 'ex' final dividend	13 June 2019
Final dividend record date	14 June 2019
Payment of final dividend	11 July 2019
Interim results announcement	24 September 2019
Year End	31 December 2019
Preliminary announcement	Late March 2020

FIVE YEAR SUMMARY

	Year ended 31 December 2014 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2017 £m restated	Year ended 31 December 2018 £m
Revenue	43.5	48.3	97.5	101.6	118.2
Operating profit before non-underlying items	11.8	10.6	25.6	25.8	28.9
Non-underlying operating items	0.6	(6.3)	–	4.4	(5.3)
Operating profit	11.2	17.0	25.6	30.2	23.7
Profit before tax before non-underlying items	10.8	11.0	22.2	23.9	28.1
Profit before tax after non-underlying items	10.2	15.2	22.2	28.3	22.8
Intangible assets	88.9	259.9	264.8	278.6	335.2
Tangible assets	0.4	1.0	1.8	5.7	7.6
Current assets	15.7	27.8	49.3	49.1	58.7
Current liabilities	11.4	31.8	50.3	61.4	91.7
Equity	70.8	162.4	179.3	203.1	252.2
Average shares in issue (millions)	264.1	272.7	469.4	473.8	497.2
Shares in issue at period end (millions)	264.1	468.2	472.6	475.0	518.2
Earnings per share – basic (p)	3.17	4.65	3.85	6.08	3.69
Earnings per share – adjusted underlying basic (p)	3.36	3.69	3.69	4.05	4.54

ADVISORS AND KEY SERVICE PROVIDERS

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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.

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The following are registered trade marks of subsidiaries of Alliance Pharma PLC and are protected in a number of countries:

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