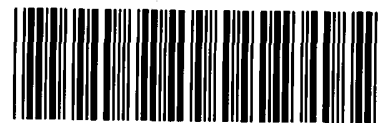


Company number 04241478

A transformational year

Alliance Pharma plc
Annual Report & Accounts 2016

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Alliance Pharma plc is an AIM quoted specialty pharmaceutical company

Alliance, commencing trading in 1998, is an international specialty pharma company headquartered in Chippenham, Wiltshire, UK.

Our core presence is in Western Europe, but our products reach more than 100 countries via joint ventures or distributors.

Our expertise lies in marketing, and all the associated business and regulatory activities. We outsource capital-intensive processes such as manufacturing and distribution to specialist providers.

By acquisition, we have built up a portfolio of over 90 pharmaceutical and consumer healthcare products, specialising in dermatology, mother and child and ophthalmology.

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Highlights

Revenue

£97.5^m
+102%

Financial Statements –
pages 42 to 83

Profit before tax

£22.2^m

Reported
+46%

Underlying
+103%*

Governance – pages 30 to 41

Free cash flow**

£13.0^m
+110%

Dividend

1.21^p
+10%

Diluted EPS

3.82^p
+11%***

Operational highlights

- > Achieved strong growth with Kelo-cote and MacuShield, our key international growth brands
- > Successfully integrated 27 products from the Sinclair acquisition, effectively doubling the size of the Group
- > Added to our pan-EU footprint, now with operational presence in UK, Ireland, Germany, France, Italy and Spain
- > Completed the successful in-licensing of Diclectin – a unique opportunity for nausea and vomiting of pregnancy – across a further nine EU territories

Strategic Report – pages 06 to 29

- * Before non-underlying items in 2015, being primarily compensation from Sanofi and acquisition costs for Sinclair
- ** See note 25 for the definition of free cash flow
- *** The 2015 comparative being underlying Diluted EPS as per Note 10

For more information visit
alliancepharmaceuticals.com

Alliance Pharma at a Glance

We sell our specialty pharmaceutical and consumer healthcare products in more than 100 countries.

Our portfolio

We own or license the rights to approximately 90 pharmaceutical and consumer healthcare products.

Three international growth brands...

Kelo-cote

 see pages 12 and 13

MacuShield

 see pages 14 and 15

Diclectin

 see pages 16 and 17

...our local hero brands

...and a bedrock of non-promoted brands

Our geographic footprint
We have offices in eight countries and a broad international base of distributors.

International offices

- 1** Chippenham
 - 2** Chester
 - 3** Dublin
 - 4** Paris
 - 5** Düsseldorf
 - 6** Milan
 - 7** Madrid
 - 8** Shanghai
 - 9** Singapore
- Distributor relationships

Team 1	Countries >100
Offices 9	People 175

**Our portfolio
of products**



Growth

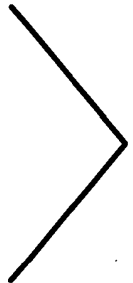
Profitability

**Customer
preference**

Market research

Sales potential

**Return on
investment**



Strategic Report

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Our international growth brands



Identifying transformational growth opportunities

Investment Case

We have a robust record of performance, and our strengths and capabilities position us for further growth.

Successful Buy & Grow strategy

Acquisition of products that are already established

We can be opportunistic across a range of product areas, as unencumbered by commitment to R&D programmes

Skillful networking assures pipeline of opportunities

33

Acquisitions
in 19 years

Track record of performance

Pan-European footprint for acquisitions and launches

Licensing in products for launch and marketing

Direct presence in the UK, Germany, France, Italy, Spain and Ireland, as well as in China and Singapore

Other countries served via distribution partners

75% of sales in Western Europe

75%

of sales in
Western Europe

* The 2015 comparative being underlying Diluted EPS as per Note 10

Diversified portfolio in attractive markets

Three international growth brands

Ten local hero brands

>70 stable, non-promoted 'bedrock' brands

Participation in growing markets, underpinned by long-term fundamentals



Asset-light model

Outsourced manufacturing, warehousing and logistics

Highly cash-generative model

Entrepreneurial management team

Streamlined management team that is committed, experienced and fleet of foot

Short lines of communication and a 'can do' culture

Our Business Model

Our business model, built upon our sources of competitive advantage, delivers sustainable growth and value to all of our stakeholders.

1

We utilise our resources and sources of competitive advantage...

- Portfolio management skills, from specialist secondary care to OTC products
- Extensive networking delivering a rich pipeline of opportunities
- *Strong due diligence team to evaluate acquisitions*
- Integration of new assets and businesses
- Successful record of securing ready access to finance
- Pan-European footprint
- Established medicines in niches, typically with no direct competition
- Fleet of foot and ability to be opportunistic, as not locked into R&D programmes

1

We utilise our resources and sources of competitive advantage...

Underpinned by:
PERFORMANCE REALISM ACCOUNTABILITY

**Reinvestment
(organic growth
and M&A)**

...and add value for our stakeholders

4

...and add value for our stakeholders.

Employees

- Rewarding careers for our staff
- Active participation in the ownership of the business as all employees hold share options

Patients

- Improved quality of life

Healthcare providers

- Efficacious and cost-effective therapies

Business partners

- Attractive and growing business for our manufacturing and distribution partners, and all the other businesses we interact with

Shareholders

- Ownership of a stronger business
- Growing dividend

2

...in our chosen businesses and markets...

Diversified portfolio

- Balanced split between reimbursed and consumer-driven products
- Focused use of promotional investment:
 - 50% allocated to three international growth brands
 - 50% to more than ten 'Local Hero' brands
- >70 stable, non-promoted 'Bedrock' brands (30% of sales)

Buy & Build strategy

- Acquisition of products that are already established (33 acquisitions in 19 years)
- In-licensing of products for launch and marketing

Asset-light model

- Capital-intensive activities, such as manufacturing and logistics, are outsourced: this results in high cash conversion

Strong routes to market

- Via wholesalers, direct to hospitals and also national grocery chains

Sales in more than 100 countries

- 75% in Western Europe (50% UK), direct presence in UK, Germany, France, Italy, Spain and Ireland
- 12% in Far East, direct presence in Shanghai for China and Singapore for SE Asia
- Other countries direct to distribution partners

2

...in our chosen businesses and markets...

INTEGRITY SKILL ENTREPRENEURSHIP

4

...to generate returns...

3

3

...to generate returns...

Revenue

£97.5^m

PBT

£22.2^m

Free cash flow

£13.0^m

EBITDA

£26.0^m

Diluted EPS

3.82^p

Our Vision and Growth Strategy

Our vision

Our vision for Alliance is to breathe life into medicines around the world. We will remain dedicated to patients and continue to serve all our stakeholders by remaining true to our core values.

Our growth strategy

Buy

Acquiring...

...selective products and companies, fitting our overall strategy, at the right price to increase our corporate value

Following the transformative acquisition of Sinclair's Healthcare Products business in December 2015, 2016 was a year driven by integration. However, our Corporate Development team continued to network and gather intelligence on future acquisition opportunities.

Investment per annum over the last 10 years

33
Deals
in 19 years

Integrating...

...acquired products and companies into our organisation smoothly and effectively using our significant experience

Expanding the organisation and integrating the Sinclair acquisition, involving over 300 individual product-market presentations, was a major feat achieved in 2016.

Strategy in action

Grow

Maximising & extending brand potential...

...by skilled portfolio management and creative promotional programmes delivered by dedicated experienced teams

2016 saw us effectively organise our enlarged portfolio of over 90 products into international growth brands, local hero brands and bedrock brands that are stable in the absence of promotion.

Kelo-cote, our leading scar reduction product acquired from Sinclair, grew to over £10m.

MacuShield, for age-related macular degeneration, and the most recommended eye supplement by UK ophthalmologists and optometrists, grew to £5.3m (2015: £3.5m).

Strategy in action

International expansion...

...to widen the target markets for our specialist products

In 2016 we expanded or opened new offices in Düsseldorf, Paris, Milan, Madrid, Singapore and Shanghai to facilitate our geographic expansion.

We quickly established relationships with around 70 new distributor partners, introduced via the Sinclair acquisition.

Our sales outside the UK grew to 50% (2015: 20%) providing much enhanced diversification.

Strategy in action

2017 Growth Brand Focus

Kelo-cote

Based on a patented silicone formulation, our Kelo-cote scar treatment range is sold in 65 markets around the world.

Growth Strategy

- Optimise route to market and rate of sale by replacing underperforming distributors, increasing support to existing markets and developing targeted new markets.
- Develop OTx strategy to educate healthcare professionals of the benefits of recommending to consumers that they purchase Kelo-cote. Effort is focused particularly on dermatologists, plastic surgeons, maxillo-facial specialists, obstetricians and gynaecologists.
- Build on growing global influence with opinion leaders (such as high profile dermatologists, plastic surgeons, Scar Club, congresses, global Advisory Board, etc.).
- Develop links with national patient associations and charities.
- Update global communications for local adaptation and use, built on an integrated social purpose to benefit society and to align brand image with healthcare professionals.
- Develop product range with selected innovation.

Overview

Kelo-cote is a range of quick-drying silicone gels for the management and prevention of hypertrophic and keloid scars. By supporting the normalisation of collagen production, it helps to relieve the itching, discomfort and redness associated with scars, as well as helping to flatten and soften raised scars.

Once applied, Kelo-cote forms an invisible and odourless layer over the skin and can be used underneath make-up or sun cream. As well as gel formats, Kelo-cote is available as a spray, which allows the gel to be applied without the need for rubbing or touching, making it particularly useful for large, painful and sensitive scars, or those in hard to reach places.

The brand has seen robust growth, with sales exceeding £10m in 2016. The success of Kelo-cote is founded on strong intellectual property; with the exception of the USA, Alliance owns the global rights to the Kelo-cote trademark. The formulation is patented to 2023 and its performance validated in clinical trials.

Market

The global market for scar treatment products is estimated to be worth \$800m. The category is expected to grow at around 10% per year¹, driven by increasing awareness and cultural change. There is an increasing desire for perfect skin, use of aesthetic surgery, elective C-sections, etc, particularly in Asia Pacific and Latin America. The market is fragmented, and Kelo-cote is among the leading brands in its chosen geographical markets. There is an opportunity both to grow the category and to gain share.

The brand is sold in 65 markets. China is Kelo-cote's largest individual territory, and a distribution contract re-newed in November 2016 provides further opportunities for growth. South-east Asia and Brazil are also rapidly growing markets.



¹ Source: Technavio

Kelo-cote became our first £10m brand

The brand is sold in 65 markets. China is Kelo-cote's largest individual territory, and a distribution contract re-newed in November 2016 provides further opportunities for growth.

Case study

Kelo-cote is a unique topical silicone gel for the prevention and management of abnormal scars. Its patented technology uses a volatile silicone that evaporates across a temperature gradient when applied to the skin forming an ultra thin, robust, breathable, membrane. Its efficacy has been proven for the improvement of scar redness and itchiness as well as reduction of scar height in numerous clinical trials. Based on the solid study data and the great patient satisfaction with the product we nowadays recommend it as an aftercare for most immature scars to our patients.

Priv.-Doz. Dr. med. Gerd Gauglitz, MMS (HFA)

2017 Growth Brand Focus continued

MacuShield

Prescribed by ophthalmologists for slowing the progression of age-related macular degeneration (AMD), MacuShield is the most recommended food supplement for general eye health in the UK and Ireland.

Growth Strategy

- Develop OTx strategy to educate ophthalmologists of the benefits of recommending to consumers that they purchase MacuShield.
- Build on growing global influence with opinion leaders (ophthalmologists and optometrists), and develop global Scientific Advisory Board.
- Develop links with national patient associations and charities.
- Provide focussed marketing support to existing markets and develop targeted new markets.
- Develop product range with selected innovation.
- Develop global communication materials for local adaptation and use, including international website and training materials.
- Leverage scientific research into MacuShield's influence on visual performance, glaucoma, diabetic retinopathy, etc.

Overview

MacuShield is a once-a-day, easy to take, food supplement containing the three macular carotenoids, lutein, meso-zeaxanthin and zeaxanthin (LMZ). These nutrients are found at the back of the eye, where they form the macular pigment. The MacuShield Gold variant also contains zinc, which helps to maintain normal vision, as well as vitamin C, vitamin E and copper, which help to protect cells from oxidative stress.

Backed by more scientific data than any other product in the category, sales grew by more than 40% in 2016, boosted by being featured in the BBC TV programme Trust Me, I'm a Doctor, which highlighted MacuShield's benefits.

Market

The global market for eye health supplements is estimated by Euromonitor to be worth \$1.1 billion². AMD is the most common form of blindness in the Western world, with over 500,000 cases in the UK alone. The total market grew by 4% in the year to 2016, but the superior qualities of LMZ-based products saw a higher rate of growth for that sub-category.

Alliance has the rights to sell the globally owned MacuShield trademark in any market outside of the Americas. The product is currently sold in 16 markets, and has potential for further expansion.



MacuShield grew by over 40%

The global market for
eye health supplements is
estimated by Euromonitor
to be worth \$1.1 billion.

Case study

The progressive deterioration of central vision that is typical of this disease generally incapacitates the elderly, hindering daily activities and, consequently, their quality of life. Williams et al. applied evaluation instruments on patients with AMD in order to establish scores related to emotional and quality of life aspects and obtained results similar to those found in diseases such as AIDS, chronic obstructive pulmonary disease, cardiac disorders, melanoma and leukemia. Furthermore, it was shown that most individuals with AMD reported the ocular disease as being their main limiting factor.

Williams RA, Brody BL, Thomas RG, Kaplan RM, Brown SI. The psychosocial impact of macular degeneration. Arch Ophthalmol 1998;116:514-20.

2017 Growth Brand Focus continued

Diclectin

Marketed for over 40 years in Canada, and launched in 2013 in the US following FDA approval, Diclectin is a treatment for nausea and vomiting of pregnancy (NVP).

Growth Strategy

- Build on successful pre-launch activities undertaken in 2016.
- UK approval anticipated Q3 2017.
- Execute promotional strategy to GPs, obstetricians, and midwives.
- Launch in EU territories from Q3 2018.
- Build on growing global acceptance by opinion leaders.
- Develop global communications for local adaptation and use.

Following the in-licensing of Diclectin for the UK market in 2015, we were pleased to sign agreements for a further nine EU territories (including Germany, France and Italy) in 2016 – achievable due to the establishment of our pan European footprint.

Overview

Diclectin is the most studied medicine in pregnancy and consists of a fixed combination of 10mg of doxylamine succinate (an antihistamine) and 10mg of pyridoxine hydrochloride (vitamin B6) in a delayed-release formulation.

Nausea and vomiting of pregnancy is commonly known as "morning sickness", but this term is misleading as the symptoms can occur at any time throughout the day and night. Diclectin employs a delayed-release action, which means taking it the night before will lead to an effective concentration in the blood in the morning when pregnant women often need it most. If the symptoms extend into the afternoon then a further delayed-release tablet taken in the morning can be expected to maintain the concentration in the blood during the early afternoon. Similarly another tablet can be taken mid-afternoon, to prolong the action of the product into the evening if needed.

Market

There is currently no licensed treatment for this condition in the UK or in the nine European territories for which Alliance has agreements. Up to 80% of pregnant women suffer from nausea and vomiting of pregnancy, and approximately 30% have severe symptoms. These can pose both a physical and emotional challenge for a pregnant woman, such as disruption to work, household tasks or social activities and also lead to anxiety and depression.

Diclegis (Diclectin) was approved by the US FDA with Category A safety status in 2013 and since its launch, uptake has been strong. Within three years the brand has already achieved a 12% penetration of all patients suffering NVP, achieving sales of \$160m per annum.

<p>10 EU territories signed</p>	<p>Anticipated UK approval Q3 2017</p>
<p>Over \$160m annual sales in the US since launch</p>	<p>Marketing Exclusivity for 10 yrs post UK launch</p>

Dicloctin was our first pan-European in-licensing deal

Following the in-licensing of Dicloctin for the UK market in 2015, we were pleased to sign agreements for a further nine EU territories.

Case study

As part of our detailed pre-launch preparations, we commissioned a review on the burden of Nausea and Vomiting of Pregnancy in a typical NHS Health Economy in the North East of England. This was the first study of its kind and has provided a detailed understanding of the NHS resources used for pregnant women who seek assistance and treatment when presenting with NVP. Of significance, in this one health economy alone, an emergency ambulance is dispatched once every other day for women who call NHS emergency and urgent telephone numbers with NVP symptoms. This study suggests that there is a clear unmet need for clear guidelines and consistency when treating this condition.

Chairman's and Chief Executive's Review

With the successful integration of our transformational acquisition we are pleased to report a year of significant progress for the Group.

2016 Highlights

- > **Integrating** the Sinclair business into Alliance, while at the same time hitting our **growth targets**
- > Endorsement of new pan-European footprint with **in-licensing of Diclectin**
- > More than **£10m** cash generated in H2
- > **Kelo-cote** becoming our first £10m brand
- > New offices in **Milan, Madrid, and Singapore**



33
Deals
in 19 years

A decade of growth and continuing...

2007
Forceval
China
£1.95m

2008
Pavacol D
£0.6m

2009
Buccastem
Timodine
£7.5m

2010
Cambridge
£16.4m

We are pleased to report a year of significant progress for the Group, including the successful integration of our transformational acquisition announced in December 2015.

Significant achievements in the year

We successfully integrated the ex-Sinclair products into Alliance – effectively doubling our size – while at the same time achieving our growth targets. One of the successes of the acquisition has been the establishment of a meaningful infrastructure across the 'big 5' EU markets. An early example of the value of this is the signing of an in-licensing agreement for Diclectin for the EU. This is our first pan-European deal, and would not have been possible prior to the acquisition of the Sinclair products. Our new offices in Milan, Madrid, and Singapore, along with the enlargement of our Düsseldorf office, the major refurbishment of our Paris office and the significant broadening of our distributor base, give us a strong platform for further international growth.

In relation to our portfolio, particular highlights are the performance of the following brands:

Kelo-cote, our scar reduction product, passed a milestone to become our first £10m brand. MacuShield, our nutritional supplement product for age-related macular degeneration (AMD) also performed strongly, growing by 40% to achieve sales of £5.3m. Hydromol, our emollient range, achieved sales of £7.0m in a competitive market (+6% vs. 2015). We also saw strong growth from our UK consumer health products as a result of marketing and distribution initiatives, including Ashton & Parsons Infants' Powders, whose sales grew by 34% to £2.0m (2015: £1.5m).

These achievements, and more, are testament to the calibre and hard work of our 175 colleagues, who are now part of stronger, more capable teams working to a common set of values. We are proud of our 'can do' culture and progressive approach to employment practices, and our enlarged business and international footprint provide greater opportunities for development and growth.



Delivery of such growth performance is only possible with a supply chain that is robust and flexible, for which we wish to thank our partners with whom we work closely.

Financial results

Group revenue more than doubled to £97.5m (2015: £48.3m). This was driven by the transformational acquisition of the ex-Sinclair products and the continued strong performance of the legacy Alliance portfolio, which grew by 13% to £53.8m (2015: £47.5m). Profit before tax was £22.2m, in line with our expectations (2015: £11.0m, underlying).

Group sales were enhanced by approximately £4.2m due to the weakening of Sterling, primarily against the Euro and US Dollar. However, the effect on

profits was much lower due to the natural Euro hedge that exists, whereby currency-induced movements in sales are matched by corresponding movements in Euro-denominated cost of goods and operating costs.

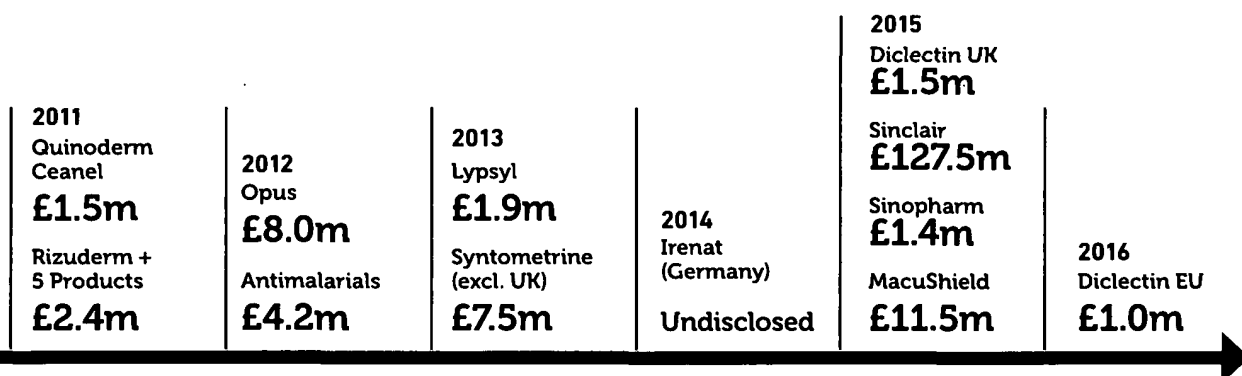
At £13.0m, free cash flow more than doubled relative to the prior year (2015: £6.2m). Following the uptake of working capital in the first half of the year, arising from the acquisition of the ex-Sinclair products, cash conversion was particularly strong in the second half, with generation of £10.9m of free cash flow.

Net debt was £71.5m as at 31 December 2015, £79.0m as at 30 June 2016 and reducing from £79.0m at 30 June 2016 to £76.1m as at 31 December 2016. This is despite the adverse translational effects on the conversion of US Dollar and Euro debt following the weakening of Sterling. Expressed at 31 December 2015 currency rates, net debt would have been £69.1m.

Market context

We operate in the international market for healthcare products, of which global prescribed medicines had estimated sales of €853 billion in 2015, up 29% from 2013. Healthcare is set to remain an attractively growing market, underpinned by longstanding factors such as on-going medical advances and aging populations in many developed markets in which we operate.

There has been a theme of budgetary control from the funders of prescription healthcare in several of our markets. In the UK, Clinical Commissioning Groups are exerting strong budgetary influences on the prescribing of general practitioners. Similarly in Germany, the Krankenkassen health insurance funds are employing price control measures. Despite such cash constraints in European healthcare, the sector remains attractive.



Chairman's and Chief Executive's Review continued

Grow

Maximising and extending brand potential

Our portfolio has grown considerably to more than 90 products. Naturally we focus our brand-building efforts where we see the greatest potential.

Our key international growth brands are Kelo-cote, MacuShield and Diclectin (to be launched). Kelo-cote grew by 32% to become our first £10m brand with China being its largest market and we were delighted last year to sign a new agreement with our distributor there. Additionally we were also pleased to see good performance in other territories of the Asia Pacific region, where the market for advanced personal care products is strong and growing. MacuShield also performed well growing from £3.5m in 2015 (11 months) to £5.3m in 2016. A feature common to both Kelo-cote and MacuShield is the two-pronged approach to promotion. We promote the advantages of the products to clinicians who give a recommendation to their patients to purchase the product from a retailer, where our consumer marketing ensures distribution and availability on the shelf.

At the national level, key products that are a focus for brand-building include: Hydromol for eczema (2016 sales £7.0m mainly in the UK, vs £6.6m in 2015), Aloclair for mouth ulcers where the major markets are Italy and Spain (2016 total brand sales of £6.3m), Oxyplastine for nappy rash/eczema where the major markets are France and N. Africa (2016 total brand sales £2.8m) and Ashton & Parsons for teething infants in the UK (2016 sales £2.0m vs £1.5m in 2015).

Finally, completing our portfolio is a bedrock of over 70 products that deliver stable and reliable sales without any significant promotional expenditure. These products are predominantly prescription medicines, occupying niche positions and are engrained into prescribing practice.

Significant distribution gains for Ashton and Parsons

The diversity of our portfolio (with a balance between consumer and prescription products) and our international footprint together position us well to benefit from trends in specific segments and geographies and equally to reduce risk.

Strategy

Our vision is to be the rising star of European specialty pharma, and with the establishment of our pan-European infrastructure we have laid down a strong foundation to achieve this ambition.

Our growth strategy comprises two key strands, outlined on pages 10 and 11:

- Buy (acquisitions and in-licensing); and
- Grow (maximising and extending brand potential, and international expansion).

Buy

Acquisitions

Our focus in 2016 was on the integration of the very large acquisition of Sinclair Pharma's Healthcare Products business, which was approximately equivalent in size to Alliance Pharma at the time. For that reason we did not make any acquisitions in 2016, although we kept in touch with the market through our networking activities, and have a pipeline of opportunities to evaluate in 2017.

In-licensing

The principal in-licensing opportunity was the *European rights for Diclectin*, and we expect to submit for regulatory approval for nine EU territories later in 2017, following the anticipated UK approval in Q3 2017. We are excited about the opportunity to serve this unmet market, as there is no licensed treatment for nausea and vomiting of pregnancy in the UK, nor in most European markets. Extensive market research points to the large unmet need for such a treatment.

International expansion

We have greatly expanded the number of territories to which we distribute. Our teams are now exploring opportunities in countries where our brands are not currently sold, within the constraints of the regulatory environment, clinical practice and the competitive backdrop in those markets.

Delivering efficiency gains

Efficiency and operational capabilities are further core elements of our strategy to build value. As part of the integration of the acquired Sinclair products we have taken the opportunity to develop our internal structures to manage the expanded and more international business, and have brought in new functions and capabilities such as treasury and international tax management. The refurbishment of several of our offices will ensure we continue to provide an attractive working environment for our valued colleagues.

We are also embarking on the implementation of an ERP system, having evaluated the options with a highly skilled project team that included third party specialists. The ERP system will cover all of the Group's financial, and supply chain planning and fulfilment activities, and we expect this to be operational in 2018.

Charity

We continued our charitable contributions in 2016 with our ongoing support of International Health Partners, which distributes medicines to doctors in the world's neediest areas. Through a variety of fundraising activities we were able to donate to our local charities, Wiltshire Air Ambulance Service, the CALM Trust and national charity, Sands. Our major fundraising initiative for 2017 is May250, where in the month of May our people, participating in various teams and by various means, will raise money by completing 250 miles under their own steam.

Dividend

In light of the strong performance of the business and our progressive dividend policy, we are recommending a final payment of 0.807p per ordinary share, to give a total for the year of 1.210p. The final dividend will be paid on 12 July 2017 to shareholders on the register on 16 June 2017. The total dividend payment for 2016 will be £5.7m, including the £1.9m interim payment.

Outlook

We anticipate continued growth from our key international growth brands, Kelo-cote and MacuShield, where we have been

strengthening our brand strategies and distribution arrangements. This will be supplemented by various growth initiatives that are being implemented for our key local brands in many territories.

The Group continues to generate good levels of free cash flow, as demonstrated by the £10.9m generated in H2 2016. The net debt/EBITDA ratio has reduced in Q1 and we project the downward progression to continue in 2017. This has been assisted by the funds to be received from Sinclair in relation to the Kelo-stretch settlement.

A major growth initiative is the launch of Diclectin to meet the unmet need for an approved treatment of nausea and vomiting of pregnancy. This depends on regulatory approval which is anticipated to be in Q3 2017 for the UK and approximately one year later for our other EU territories.

We look forward to building on our foundations: an attractive, balanced portfolio, an expanded geographical footprint and a strong team.

Andrew Smith
Chairman

John Dawson
Chief Executive

28 March 2017

We refurbished our Chippenham Corporate Head Quarters and Paris offices in 2016



Organisation and People

2016 saw the Alliance organisation transformed into an international business of over 175 people across 8 countries.

Our values

Explicit

PERFORMANCE

Our high performing people continually drive business success

Strategy and Achievements

Our strategy has been, and continues to be, to build strength in the EU's 5 largest markets. We have attracted high quality talent into key positions and specialist roles, often promoting from within and have created a strong, positive, dynamic environment and culture.

Our organisation now spans over 30 areas of expertise covering medical, regulatory, technical and operations, sales & marketing, Finance, IT, HR, Legal and Corporate Development. In the last 12 months we successfully transferred and integrated 41 people from the Sinclair business in Chester, Paris and Milan and brought on board over

Engagement

Length of Service

Measured

REALISM

We set stretching goals and targets we believe are achievable

50 new recruits. These new colleagues have brought us new skills, experience and approaches.

To complement this inward investment of people, we have promoted our internal talent into new and expanded positions. Of the total number of newly created positions in our larger structure, 30% were filled internally as promotions.

We are able to attract people with diverse backgrounds from major pharma, consumer and wider industry who bring with them the knowledge of many therapy areas, markets and professions vital to our new business, and to help us shape the next stage in our growth.

Employee Survey – Average Score %

Recognised

ACCOUNTABILITY

We take responsibility and deliver what we promise

Our people are located in 9 offices internationally; our largest being in Chippenham, Paris and Milan, complemented by smaller offices in Chester, Madrid, Düsseldorf, Dublin, Singapore and Shanghai. All have been, or are in the process of being, refurbished to ensure we have attractive accommodation with supporting technology. Communicating effectively across the world is a high priority, and through 'virtual' meetings and monthly briefings we ensure that whatever the location, our people are informed and involved in the wider business performance.

This breadth of disciplines and geographical reach gives us a strong platform upon which to build.

Learning and Development

As an organisation, and as individuals, we never stop learning and developing; through our experiences gained from acquisitions, the experiences of our new recruits, as well as planned development within roles. Our business growth has presented exciting opportunities for our people to develop their careers with us, and we encourage our people to stretch themselves personally by taking on fresh challenges.

We run a number of partnered development programmes, and ensure that internal development is supplemented with external programmes. We sponsor professional qualifications such as CIMA/ACCA and CIPS, and have a successful commercial graduate programme.

INTEGRITY

We build trust in all our relationships through openness and fairness

Having promoted much of our internal talent into enlarged roles during this transition year, we are actively focussed on building our talent pipeline for future growth.

Culture

Alliance has a strong culture built on our PRAISE values; the behaviours that have proven to be successful in building our business so far.

Bringing a significant number of new people into the business has required us to harness the enthusiasm around these values, while being sensitive to local cultures. We have done this by ensuring that our values are well communicated, recognised and built into performance measures, as we have done successfully in previous years.

Ensuring our people are motivated and engaged is an important ingredient in our success – our people want to be part of an exciting story. Annual employee engagement scores from our survey consistently achieve 75–80%, and we have been able to maintain these high levels during this past year, despite the level of change our people have experienced.

We now have a good balance of fresh thinking and long Alliance experience, and turnover remains low at an average 8%.

Our peoples' rewards are linked to our business success, through bonuses and share option schemes, which help to drive a focus on results and delivery of our strategy.

SKILL

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

In 2016 we have created the enlarged EU infrastructure, built the right organisation and now have the right people and culture in place to move from a company in transition to one that can perform in 2017 to its full new potential.

ENTREPRENEURSHIP

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

"There is always something new to try my hand at as we grow and expand."

**Karen Hampshire
Senior Brand Manager**

Financial Review

Group revenue for 2016 is more than double the prior year at **£97.5m** (2015: £48.3m). This has been driven by the transformational acquisition of the ex-Sinclair products in December 2015 and the continued strong performance of the original Alliance portfolio.

2016 Highlights

- > **Revenue: £97.5m** (2015: £48.3m)
- > **EBITDA: up 102%** to £26.0m (see note 4)
- > **Profit before tax: up 103%***
to £22.2m (2015: £11.0m (underlying),
£15.2m (reported))
- > **Diluted EPS: 3.82p**
(2015: 3.44p (adjusted))
- > **Strong cash generation:**
Free cash flow of £13.0m,
£10.9m generated in H2
(2015: £6.2m for the year)

* On an underlying basis

EBITDA up 102%	Profit before tax £22.2m
--------------------------	------------------------------------

£97.5m
Revenue

3.82p
Diluted EPS

Group performance

Group revenue for 2016 is more than double the prior year at £97.5m (2015: £48.3m). The ex-Sinclair products delivered sales of £43.8m and represented 45% of total sales, with the remaining Alliance portfolio performing strongly and delivering a sales increase of 13% to £53.7m for the year (2015: £47.5m).

Group sales were enhanced by approximately £4.2m due to the weakening of Sterling that occurred over the year, primarily against the Euro and US Dollar. However, the effect on operating profits was much lower at approximately £0.6m due to the natural Euro hedge that exists, whereby Euro-denominated movements in sales are matched by corresponding movements in Euro-denominated cost of goods and operating costs.

Gross profit was up 90% to £54.8m (2015: £28.7m), giving a gross margin for the year of 56.3% (2015: 59.4%). The reduction to the margin on the rate achieved in 2015 was due to the change in sales mix in the expanded portfolio. We expect to maintain an average gross margin in the range of 55–60% of sales.

EBITDA increased to £26.0m from £12.9m (see note 4) representing a 102% increase. Operating expenses were £29.2m in 2016 against £16.3m (underlying) in 2015. The increase resulted from the full-year effect of the ex-Sinclair products' cost base and increased promotional support given to our key growth brands

The tax charge for the year of £4.1m is based upon the prevailing tax rates in the relevant countries, after taking into account the impact of the planned reduction in the UK corporation tax rate on our deferred tax balances, and equates to an effective rate of 18.6%. The Group's underlying effective tax rate for 2016, in the absence of the UK tax rate reduction impact on deferred tax, was 22.0% which better reflects our effective tax rate forecast.

Diluted earnings per share grew by 11% to 3.82p (2015: 3.44p (adjusted)).

Dividend

The Directors propose to maintain a progressive dividend policy and are recommending a final payment of 0.807p per ordinary share to give a total for the year of 1.21p. This represents an increase of 10% on 2015.

The final dividend will, subject to approval at the Company's AGM on 25 May 2017, be paid on 12 July 2017 to shareholders on the register on 16 June 2017.

The level of dividend cover in 2016 remained ample at over three times. The total dividend

payment for 2016 will be £5.7m including the £1.9m interim payment.

Intangible assets

Intangible assets increased by £15.0m to a total of £264.8m (2015: £249.8m). Diclectin EU and additional territories for MacuShield added £3.3m, with non-Sterling denominated assets appreciating from the weakening of Sterling adding £11.2m.

Working capital

The build-up of trade receivables and trade payables in 2016 was a result of the acquisition of the Sinclair Healthcare Products Business.

As such, trade receivables increased from £11.6m to £26.7m and trade payables increased from £13.9m to £22.0m. These increases primarily occurred in the first half of 2016 and have now stabilised.

Inventories increased over the period from £12.9m to £15.4m as a result of strategic builds on key products whilst they were transferred to new manufacturing partners.

Cash flow and net debt

The increase in cash and cash equivalents over the year was £4.0m.

The first half of 2016 was affected by the normalisation of working capital movements. Full year free cash flow (cash generation from operating activities less interest, tax and capital expenditure) was up 110% increasing to £13.0m (2015: £6.2m). Cash conversion was particularly good in the second half of the year with the generation of more than £10m of free cash flow.

Net debt was £71.5m as at 31 December 2015, £79.0m as at 30 June 2016 and reducing from £79.0m at 30 June 2016 to £76.1m as at 31 December 2016. This is despite the adverse translational effects on the conversion of US Dollar and Euro debt following the weakening of Sterling. Expressed at 31 December 2015 currency rates, net debt would have been £69.1m.

At the year-end, the adjusted net debt/EBITDA ratio was 2.8 times and comfortably below our banking covenant of 3.0 times.

We expect net debt and leverage to progressively reduce during 2017 driven by the Group's strong underlying cash generation, including utilising our surplus US Dollar position to service debt repayments.

In addition, as announced on 21 March 2017, the Group reached a settlement with Sinclair, in connection with the material reduction of business in Kelo-stretch, which was acquired in the prior year. The result of the settlement is a £5.0m cash payment to Alliance (£4.0m to be received before 30 April 2017 and £1m

on or before 30 June 2018) and also the retained rights to Flammacerium (US) to be relinquished, with immediate effect. This will be treated as exceptional income in the 2017 financial statements and the cash element of the compensation will be used to reduce the Group's current bank loans.

The Group has a total bank facility of £100.0m of which £66.5m (2015: £65.0m) remains drawn on the Term Loan and £18.0m (2015: £10.0m) utilised from the Revolving Credit Facility (RCF) as at 31 December 2016.

In addition to this facility, the Group also has access to a £4.5m overdraft which was undrawn at 31 December 2016.

External factors

Future currency movements are clearly an unknown. However, the Group is broadly naturally hedged against movements in the Euro as our sales and costs are largely balanced, but we have some exposure to the US Dollar, which we monitor closely. We also keep a close eye on the possible implications of the UK leaving the EU. The balance of our business in both the UK and EU spreads our exposure, and it is important to note that our licences to trade are local to each member state. As previously mentioned, there is a trend that funders of prescription products are becoming increasingly budget-conscious. This is mitigated, to a certain degree, by the breadth of our portfolio, which includes a large and growing proportion of consumer products where pricing can move with the market. Read more about our risks on page 27.

Going concern

As described above, 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.

After making enquiries, the Directors have formed a judgement that there is reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

This Strategic Report, containing all of the disclosures from page 6 to 29 inclusive, was approved by the Board on 28 March 2017.



Andrew Franklin
Chief Financial Officer

28 March 2017

Risk Management and Internal Control

All businesses choose to take considered risks in the expectation of earning a return for their shareholders.

Risk management

The Board is responsible for overseeing management's activities in identifying, evaluating and managing the risks facing the Group. Where the risks are not ones which the Board is prepared to take, these are avoided or eliminated as far as possible and/or transferred to insurers.

During the year the Company developed a new process for the identification, assessment and management of risk

which, following a formal review by the Audit Committee, is expected to be fully implemented during H1 2017. Risks are identified by line management, and the likelihood and impact of the risk is assessed in its gross or raw state. Existing mitigations are then identified for each risk and the residual levels of exposure are assessed. Opportunities to improve the mitigating steps or the management of risk more

generally are considered, a target level of risk identified and an action plan developed. 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 and, in the case of principal risks, through them to the Board.

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 or the Board

Assess

The likelihood and impact of each risk is assessed to calculate the risk exposure at gross (raw), residual and target levels

Mitigate

Existing mitigations are identified and their effectiveness checked

Improve

Opportunities to improve the mitigating actions are identified

Report

Status of risks and progress with improving mitigations is reported to the Senior Leadership Team or the Board

Internal control

The Company has implemented and maintains systems of internal control appropriate to a business of this size and complexity and which takes into account the applicable requirements of pharmaceutical regulators in the various markets in which we operate.

The key components of the current system of internal control are:

- Setting strategic goals, business plans and budgets, supported by intra-year forecasting
- Regular reporting of actual performance relative to those goals, plans, budgets and forecasts
- Delegation of authorities from the Board to the CEO and through him to various members of the Senior Leadership Team and their delegates
- 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

- The Audit Committee reviews the system of internal control, both generally and in relation to specific focus areas. In addition, the Audit Committee also monitors the Group's risk management system and the Group-wide risk register

Following the acquisition of the former Sinclair healthcare products business in December 2015, the scale and complexity of the Group has increased considerably, especially with regard to sales and profits achieved outside the UK. In addition, while management of these activities has been integrated and rationalised under a single management team, the Group is currently operating two legacy IT systems.

As a result, the Board has decided to implement the Microsoft Dynamics AX enterprise resource planning system, which is expected to be implemented in the first half of 2018. The installation is intended

to cover all of the Company's sourcing, distribution, sales and accounting processes and will provide significantly enhanced management information and an enhanced internal control environment.

The Company does not intend to customise the base system, thus retaining the strong control environment inherent in this market-leading product. The implementation of the ERP system also provides an opportunity to review processes and reporting practices throughout the Group.

Given its current size, the Company does not judge it appropriate to maintain a dedicated internal audit function, though this is kept under review.

Principal Risks and Uncertainties

The business faces a wide range of risks on a daily basis.

The Board has assessed what it believes are the principal risks facing the Company, being those that could threaten its business model, future performance, solvency or liquidity, and these have been linked to the key elements of business strategy described on pages 10 and 11. 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 controls are effective.

The table below is not an exhaustive list of all risks the Company faces. The environment in which we operate is constantly evolving; new risks may arise, the potential impact of known risks may increase or decrease and/or our assessment of these risks may change. We have explained how each risk is being managed or mitigated.

External Risks

Sales volumes being affected by changes in demand

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Maximising and extending brand potential International expansion	The products we sell are subject to normal market forces, so demand may fall, our product may face new or increased competition or the price we can achieve may be reduced.	These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.	Diversification through selling a wide range of products and marketing support where appropriate.	This risk has not changed materially year-on-year.

Impact on price or ability to supply from regulatory action or changes in government policy

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Maximising and extending brand potential	The products we sell lose their regulatory approval, or are subject to public procurement processes which result in either constraints on our ability to supply or the selling prices that can be achieved.	These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.	Diversification through selling a wide range of products, many of which do not require regulatory approval or are subject to public procurement processes; our experienced staff build and maintain their knowledge of the public sector procurement process.	This risk has not changed materially year-on-year.

Foreign exchange exposures

Link to strategy	Risk	Nature of threat	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 increased in the year as a consequence of volatility in sterling exchange rates following the UK's vote to leave the EU.

Principal Risks and Uncertainties continued

External Risks continued

Diclectin fails to gain UK and European regulatory approval

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Maximising and extending brand potential	Diclectin fails to obtain MHRA approval or the equivalent EU authorisations, either within the intended timescale or at all.	These risks have the potential to compromise our future performance and, in an extreme scenario, cash generation.	Diclectin first obtained regulatory approval in Canada more than 40 years ago and gained FDA approval in the USA in 2013. The product has been in widespread use in those markets. The Company has allocated significant and experienced resources to supporting the UK regulatory approval of this product (and the consequent extension to other EU markets), and regulatory approval is expected in Q3 2017.	This risk has not changed materially year-on-year.

Operational Risks

Sales volumes being affected by supply side constraints

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Maximising and extending brand potential International expansion	Manufacturing or distribution issues, or 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.	Forecasting systems to enable our contract manufacturers to plan their production volumes well ahead of time including, where necessary, investment in increased capacity or sourcing of components from upstream suppliers. Stocks are held in the supply chain for most products.	This risk has not changed materially year-on-year.

Failure to generate cash from operations

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Acquiring selective products and companies	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.	The Group monitors and regularly forecasts its sales, costs, profits and cash flows and has a model for debt covenant compliance. Where necessary, mitigating actions could be taken to remain within the debt covenants and to meet scheduled debt payments.	The Group is cash-generative and the business is more diverse and therefore more robust, so this risk is reducing.

Operational Risks continued

Product liability

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Maximising and extending brand potential	The Group produces 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 compromise our future performance and, in an extreme scenario, liquidity position or even solvency.	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 a level of protection for the Company.	This risk has not changed materially year-on-year.

Failure of IT systems (including cyber risk)

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Maximising and extending brand potential	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 following hacking) would cause disruption and cost to the Group. In addition, the Group's own data on employees is exposed to the same risks of loss.	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.	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.

ERP system implementation

Link to strategy	Risk	Nature of threat	Mitigation	Trend
Integrating acquired products and companies Maximising and extending brand potential International expansion	The ERP system is not implemented on time, fails 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.	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 has Board-level executive sponsorship and is regularly reviewed by the Senior Leadership Team and reported on at Board level.	We intend to implement the ERP system and retire the legacy systems, so this risk is increasing.

**Transforming a £1 million
brand to a +£7 million brand**

Governance

Governance

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Board of Directors

Biographical details of the Directors in office at the date of this report, all of whom held office throughout the year, are set out below.

Andrew Smith

Independent Non-Executive Chairman

Andrew joined the Board as a Non-Executive Director in 2006 and became Chairman in 2014. He has held various senior positions in the pharmaceutical industry in the UK and USA having been managing director and Senior Vice-President of SmithKline Beecham Pharmaceuticals (now GSK), Chief Executive Officer of start-up biotech Cerebrus plc and President of Parexel International's medical marketing services business. He is a founder of Navitas BioPharma Consulting. Andrew has an MA in Natural Sciences (Genetics) from the University of Cambridge and is a Fellow of the Institute of Directors.

Andrew provides the Board with a wealth of experience in the strategic management of life sciences businesses, the marketing of pharmaceuticals and related products, and in navigating the regulatory environment around these activities.

Peter Butterfield

Executive Director, Deputy Chief Executive Officer

Peter joined the Board of Alliance in 2010 with the acquisition of Cambridge Laboratories where he spent five years, latterly as UK Commercial Director. Peter was previously the Company's Chief Commercial Officer and was appointed to his present office in October 2016. 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 negotiating team. Prior to joining Cambridge Laboratories, Peter spent six years at GlaxoSmithKline. He holds an honours degree in Pharmacology from the University of Edinburgh.

Peter has significant commercial experience in the life sciences sector and strong leadership experience gained in a variety of contexts.

John Dawson

Executive Director, Chief Executive Officer

John founded Alliance in 1996. He gained multi-disciplinary experience in the pharmaceutical industry over thirty years, including various senior roles at Sandoz (now Novartis AG) as Director of Finance and Administration and Deputy Managing Director. John has a BSc (Pharmacy) and an MSc (Finance) from the London Business School.

John's vast industry and managerial experience has equipped him to provide the leadership that has enabled Alliance to transform from an entrepreneurial start-up to a well-managed and growing international pharma company.

Andrew Franklin

Executive Director, Chief Financial Officer

Andrew joined Alliance in September 2015 from Panasonic Europe, where he was General Manager, European Tax and Accounting. From 2010 to 2012 Andrew was Finance Director and Company Secretary of Genzyme Therapeutics Ltd, the UK & Ireland subsidiary of Genzyme Corporation, the biotechnology company acquired by Sanofi. Prior to that, he gained 12 years pharmaceutical experience with Wyeth in a variety of senior financial positions. Andrew holds an honours degree in Civil Engineering from the University of Wales, Cardiff.

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



Thomas Casdagli

Non-Executive Director

Thomas joined the Board of Alliance as a Non-Executive Director in 2009. He is a partner at MVM Life Science Partners LLP, a life science venture capital fund, and has been an active investor in the sector since 2002. Before joining MVM, Thomas worked at PricewaterhouseCoopers LLP where he qualified as a Chartered Accountant. Thomas graduated in Molecular and Cellular Biochemistry from the University of Oxford.

N R

Thomas brings extensive experience in the evaluation and financing of life sciences businesses and in the investment management sector to the Board. He was nominated as a director by MVM under an agreement entered into in 2009 and, provided he remains connected with MVM, will continue to hold office while they hold more than 9% of the company's equity.

A N R

Nigel Clifford

Independent Non-Executive Director

Nigel joined the Board of Alliance as a Non-Executive Director in 2015. He is currently chief executive officer of Ordnance Survey and formerly a non-executive director of Anite plc. He has previously held Chief Executive and senior roles at Proserve Holdings, Micro Focus International plc, Nokia, Symbian Software, Tertio Telecoms, Cable and Wireless plc, Glasgow Royal Infirmary NHS Trust and BT plc. Nigel graduated in Geography from the University of Cambridge and has an MBA from Strathclyde University.

Nigel 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.

David Cook

Independent Non-Executive Director

David joined the Board of Alliance as a Non-Executive Director in 2014. 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 qualified as a chartered accountant with PricewaterhouseCoopers after graduating in chemistry at the University of Oxford.

A N R

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.

Committee membership key

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- Committee Chairman

Corporate Governance

Chairman's introduction

I am pleased to introduce this section of the annual report as it is a topic which I regard as crucial to any company's future development. Alliance Pharma plc is an AIM quoted company and we have chosen to follow the QCA's Corporate Governance Code for small and mid-size quoted companies (the 'Code'), as we believe that this provides an appropriate governance framework for a group of our size. We monitor developments in the UK Corporate Governance Code, applicable to listed companies traded on the main market, to keep abreast of best practice.

Corporate governance plays a crucial role in helping to preserve value for shareholders by providing a process for decision-making which should ensure that all major decisions are considered in good time, that the Board is provided with good quality briefing materials which cover all relevant factors and that our deliberations consider the risks, as well as the opportunities, inherent in the topic before us. Having Directors drawn from a range of backgrounds, with a cumulatively wide range of relevant skills and experiences, helps us to take decisions in the interests of all shareholders and which take into account the interests of a wide range of stakeholders. It is for these reasons that the Board is committed to achieving high standards of corporate governance.

As a result, good corporate governance is vital in supporting the Company's growth strategy and in turn its long-term success. The remainder of this report explains how we have applied the Code during the year under review.

Andrew Smith

Chairman

Board composition and support

The Board currently comprises seven Directors, being the Chairman, three Executive Directors and three Non-Executive Directors. The Board believes that its current composition 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.

The Chairman was independent on appointment and continues to be regarded by the Board as independent, and Nigel Clifford and David Cook are also regarded as being independent. While Thomas Casdagli fulfils his duties to the Company in an exemplary way and demonstrates independence of character and judgement, since he was nominated as a Director by a significant shareholder, the Board does not regard him as independent.

The respective responsibilities of the Chairman and Chief Executive Officer (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.

The Board has not felt that the appointment of Senior Independent Director was necessary, but keeps this issue under review.

The Company Secretary is responsible, on behalf of the Chairman, for ensuring that all Board and Committee meetings

are conducted properly, that the Directors receive the appropriate information prior to the meeting, for ensuring that governance requirements are considered and implemented and for accurately recording each meeting. The Directors may have access to independent professional advice, where needed, at the Group's expense.

The Directors are provided with good quality information on a timely basis including monthly management accounts, regular updates on commercial, business development, regulatory, HR and investor relations issues and detailed briefing papers on all substantive matters to be discussed at Board meetings.

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
- 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.

Non-Executive Directors

The role of the 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
- Review corporate performance and the reporting of such performance to shareholders.

Each of the 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 Committee, enabling them to review internal control and financial reporting matters at first hand, and have a direct relationship with the external auditors.

Attendance records

The participation of the individual Directors at the meetings of the Board and its committees they were eligible to attend during the year ended 31 December 2016 was as follows:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Andrew Smith	11 of 11	3 of 3	1 of 1	5 of 5
Anthony Booley	5 of 6	–	–	–
Peter Butterfield	11 of 11	–	–	–
Thomas Casdagli	11 of 11	–	1 of 1	5 of 5
Nigel Clifford	10 of 11	3 of 3	1 of 1	5 of 5
David Cook	10 of 11	3 of 3	1 of 1	5 of 5
John Dawson	11 of 11	–	1 of 1	–
Andrew Franklin	11 of 11	–	–	–

Board meetings

The Board meets regularly on scheduled dates, including 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 2016 the Board held eleven scheduled meetings, with a number of additional ad-hoc meetings to discuss specific issues or grant formal approvals of non-substantive matters.

Committees

The Board has delegated and empowered an Audit Committee, a Nominations 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. A summary of the responsibilities of each committee and their work during the year is given below.

Board Effectiveness Review

In line with its policy of undertaking a review biennially, the Board has undertaken a review of its effectiveness. This took 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. The results were analysed by the Company Secretary and Chairman, key themes identified and the results, using the comments in unattributed form, were presented to the Board together with suggested improvement actions.

The Board concluded that it functions efficiently and had sufficient members, drawn from a range of backgrounds and with a wide range of skills and experience, to do so effectively. The incremental improvement opportunities identified are being pursued.

Diversity

The Board is aware of the current 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 seeks to search for, recruit and appoint the best available person on the basis of 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.

Relations with shareholders

Throughout the year the CEO and Chief Financial Officer (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.

All Directors attend the Annual General Meeting 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. Voting results are announced to the market and published on the website.

Corporate Governance continued

Board Committees

As noted above, the Board has delegated certain of its responsibilities to Board committees:

Remuneration Committee

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.

The members of the Remuneration Committee, all of whom held office throughout the year and to the date of this report, are:

- Andrew Smith (Chairman of the Remuneration Committee)
- Thomas Casdagli
- David Cook
- Nigel Clifford

The Company Secretary acts as secretary to the Remuneration Committee. The CEO, the Deputy CEO (since appointment) and the Chief HR Officer are also invited to attend certain meetings of the Remuneration Committee. However, no executive participates when their own remuneration is being discussed.

The committee held five formal meetings during the year, four of which dealt with routine matters. The fifth was a one-off meeting to settle the remuneration to be offered to Peter Butterfield on promotion to Deputy CEO.

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 37 to 39. As the Company is not listed, it is not required to produce a formal remuneration policy or seek shareholder approval of that policy.

Nominations Committee

The role of the Nominations 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 Nominations Committee are available on the Company's website.

The members of the Nominations Committee, all of whom held office throughout the year and to the date of this report, are:

- Andrew Smith (Chairman of the Nominations Committee)
- John Dawson
- Thomas Casdagli
- Nigel Clifford
- David Cook

The Company Secretary acts as secretary to the Nominations Committee. In addition, the Chief HR Officer may also attend certain meetings of the Committee, particularly when succession planning is being discussed.

Following the significant changes to Board composition during 2014 and 2015, the committee only met once during the year, to recommend to the Board the appointment of Peter Butterfield as Deputy CEO.

Audit Committee

The role of the Audit 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
- review the Company's risk management and internal control systems and their effectiveness

The members of the Audit Committee, all of whom held office throughout the year and to the date of this report, are:

- David Cook (Chairman of the Audit Committee)
- Nigel Clifford
- Andrew Smith

The Company Secretary acts as secretary to the Audit Committee. The CEO, the Deputy CEO (since appointment), the CFO and the Group Financial Controller attend all meetings, while other senior financial managers will attend as necessary. The external auditors attend the meetings to discuss the planning and conclusions of their work and meet with the members of the Committee without any members of the executive team present after each meeting. The 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 Committee held three formal meetings during the year. Aside from routine matters, the Committee has reviewed the proposed system by which the Company will identify and assess risk and suggested certain improvements and, at its meeting in September 2016, reviewed the results of a tender process and decided to recommend to the Board the appointment of KPMG LLP as external auditors. This recommendation was subsequently accepted by the Board and KPMG LLP has provided an audit opinion on the accounts for the year ended 31 December 2016.

Remuneration Report

Remuneration Policy

The objective of the Company's remuneration policy 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 Company.

Strategic alignment

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

The delivery of the Company'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.

All of the Executive Directors have significant exposure to the Company's share price: John Dawson has a significant personal shareholding in the Company and the other Executive Directors 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 Company's business over that longer-term period and also to mitigate downside risks that could affect the Company'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.

The Board has been considering alternative forms of long-term incentive arrangements which would be less dilutive and also result in a lower expense being charged to the Company's accounts. This thinking is well advanced and it is likely that a new plan will be implemented during 2017.

Remuneration in practice

The remuneration that the Company offers to its Executive Directors has 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 Company operates a defined contribution scheme for all Executive Directors and employees. Only basic salaries are pensionable although, historically, Anthony Booley also received pension contributions in respect of bonus payments.
- 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 and the amount of bonus paid can also reflect any substantial periods of absence or unavailability of the employee.

- 4. Long-term incentives** – The Company operates a share option scheme covering all permanent employees (including the Executive Directors, other than John Dawson) 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 has 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 (i) giving 12 months' notice or (ii) immediately, in the event that the Director is not re-elected by shareholders at an AGM. A sample Non-Executive Director engagement letter is available on the Company's website.

Remuneration Report continued

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 ⁴		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Anthony Booley ¹	106,766	195,301	-	370,291	-	-	-	62,131	106,766	627,723	-	-	106,766	627,723
Peter Butterfield	199,667	175,065	11,111	537	20,000	16,553	82,500	92,438	313,278	284,593	-	-	313,278	284,593
Thomas Casdagli	-	-	-	-	-	-	-	-	-	-	-	-	-	-
John Dawson	240,886	219,614	13,495	1,922	10,000	10,000	59,400	96,680	323,781	328,216	-	-	323,781	328,216
Andrew Franklin ²	150,000	38,802	10,441	-	15,000	2,333	42,624	9,807	218,065	50,942	-	-	218,065	50,942
Andrew Smith	71,750	74,003	-	-	-	-	-	-	71,750	74,003	-	-	71,750	74,003
David Cook	35,411	37,474	-	657	-	-	-	-	35,411	38,131	-	-	35,411	38,131
Nigel Clifford	35,411	33,997	-	562	-	-	-	-	35,411	34,559	-	-	35,411	34,559
	839,891	774,256	35,047	373,969	45,000	28,886	184,524	261,056	1,104,462	1,438,167	-	-	1,104,462	1,438,167
Former Director:														
Richard Wright ³	-	65,389	-	147,353	-	6,114	-	-	-	218,856	-	14,466	-	233,322
Total ⁴	839,891	839,645	35,047	521,322	45,000	35,000	184,524	261,056	1,104,462	1,657,023	-	14,466	1,104,462	1,671,489

Notes:

- Anthony Booley ceased to serve as a Director on 30 June 2016.
- Andrew Franklin was appointed as a Director on 28 September 2015. The 2015 comparator therefore relates to a period of approximately three months.
- Richard Wright ceased to serve as a Director on 29 May 2015.
- The column titled 'Share option gains' has been restated for the prior year to show the gross gains made on the exercise of share options by employees whilst serving as a Director of the Company. The figures stated in previous years' annual reports were the accounting charge for options subsisting for each Director, which are not sums to which they would ever become entitled, nor the number required to be disclosed under the Companies Act. No options were exercised by Directors of the Company during 2016.

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

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. For Richard Wright and Anthony Booley these figures also include payments of £146,100 and £362,000 (respectively) in lieu of notice on leaving the Company's employment. The latter amount was accrued and reported in respect of the 2015 financial year, though only paid following the termination of Mr Booley's employment.

As seen from the table, three Directors are accruing retirement benefits, all of whom do so through defined contribution (money purchase) schemes. The Company does not operate a defined benefits 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.

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:

Director	Date of Grant	2015			Changes in the year			2016 ²		
		Exercise price (pence)	Performance condition?	Number of shares	Granted	Exercised	Lapsed	Number of shares	Exercisable from	Exercisable to ³
Anthony Booley ¹	13-Apr-09	7.75	No	110,000	-	-	-	110,000	13-Apr-12	13-Apr-19
	29-Apr-10	34.25	No	116,500	-	-	-	116,500	29-Apr-13	29-Apr-20
	28-Apr-11	34.12	No	130,000	-	-	-	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	-	-	184,987	215,013	23-Oct-18	23-Oct-23
	11-Apr-14	33.75	No	144,200	-	-	37,400	106,800	11-Apr-17	11-Apr-24
	27-May-15	43.75	No	149,653	-	-	94,986	54,667	27-May-18	27-May-25
				1,334,553	-	-	317,373	1,017,180		
Peter Butterfield	26-Mar-10	33.25	No	1,000,000	-	-	-	1,000,000	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	No	144,200	-	-	-	144,200	11-Apr-17	11-Apr-24
	27-May-15	43.75	No	166,625	-	-	-	166,625	27-May-18	27-May-25
	27-Oct-16	47.50	No	-	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	
				3,240,025	1,200,000	-	-	4,440,025		
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	No	-	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
				2,000,000	555,000	-	-	2,555,000		

Notes:

1. Anthony Booley ceased to serve as a Director on 30 June 2016.
2. At year-end or the earlier date of ceasing to hold office.
3. The 'exercisable to' date assumes that shareholders approve the changes to the rules of the relevant plans to be proposed for approval at the 2017 AGM.

The closing mid-market price of ordinary shares on 30 December 2016 (being the last dealing day in the calendar year) was 47.38p and the range during the year was from 41.75p to 55.00p.

Directors' Report

Scope of this report

The Directors' biographies on pages 32 and 33, the discussion of corporate governance matters on pages 34 to 36 and the remuneration report on page 37 to 39 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 32 to 33. In addition, Anthony Booley served as an executive Director until 30 June 2016.

Directors' interests

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

Director	At 31 December 2015			At 31 December 2016 (or earlier date of leaving)		
	Beneficial	Non- beneficial	Total	Beneficial	Non- beneficial	Total
Anthony Booley ¹	2,055,723	–	2,055,723	2,055,723	–	2,055,723
Peter Butterfield	–	–	–	–	–	–
Tom Casdagli	78,518	55,483,382	55,561,900	78,518	55,483,382	55,561,900
Nigel Clifford	180,663	–	180,663	180,663	–	180,663
David Cook	–	–	–	102,371	–	102,371
John Dawson	39,576,402	20,000,000	59,576,402	36,576,402	20,000,000	56,576,402
Andrew Franklin	–	–	–	–	–	–
Andrew Smith	275,000	–	275,000	275,000	–	275,000

Notes:

1. Anthony Booley ceased to serve as a Director on 30 June 2016.

In addition, Peter Butterfield and Andrew Franklin hold options over shares of the Company through their participation in the Company's employee share schemes, which are detailed in the remuneration report on page 39.

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 Act was granted by the court.

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

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 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.

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 of 0.403 pence per share (2015: 0.366p) which was paid on 12 January 2017. The Directors are recommending a final dividend of 0.807 pence per share (2015: 0.734p) which, subject to shareholders' approval at the annual general meeting, will be paid on 12 July 2017 to shareholders on the register at the close of business on 16 June 2017. The total dividends paid and proposed in respect of the year ended 31 December 2016 is therefore 1.210 pence per share (2015: 1.100p).

Branches

There are no branches of the Company outside the UK.

Political donations

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

Auditor

As explained in the Corporate Governance report, KPMG LLP were appointed as auditor during the year following a tender process. A resolution to re-appoint KPMG LLP as auditor for the next year will be proposed at the annual general meeting.

Post-balance sheet events

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 the prior year. The terms of the agreement are the sum of £5.0m of which £4.0m is payable on or before 30 April 2017 and £1m on or before 30 June 2018, and all rights to Flammacerium (US) with immediate effect.

Annual General Meeting

The 2017 Annual General Meeting of the Company will be held on 25 May 2017, the business of which is set out in the notice of meeting. A circular containing the notice of meeting and an explanatory letter from the Chairman is being posted to shareholders and is also available on the Company's website.

On behalf of the Board



Andrew Franklin
Chief Financial Officer

28 March 2017

Rising star in European specialty pharma

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Independent Auditor's Report to the Members of Alliance Pharma plc

We have audited the financial statements of Alliance Pharma plc for the year ended 31 December 2016 set out on pages 45 to 83. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 41, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

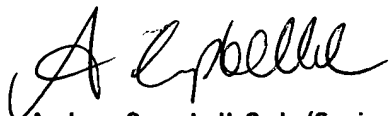
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Andrew Campbell-Orde (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

28 March 2017

Consolidated Income Statement

	Note	Year ended 31 December 2016			Year ended 31 December 2015		
		Underlying £000s	Non- Underlying (note 5) £000s	Total £000s	Underlying £000s	Non- Underlying (note 5) £000s	Total £000s
Revenue	3	97,492	–	97,492	48,344	–	48,344
Cost of sales		(42,643)	–	(42,643)	(19,614)	–	(19,614)
Gross profit		54,849	–	54,849	28,730	–	28,730
Operating expenses							
Administration and marketing expenses		(28,842)	–	(28,842)	(15,833)	(1,846)	(17,679)
Share-based employee remuneration	7	(696)	–	(696)	(615)	–	(615)
Share of Joint Venture profits		299	–	299	194	–	194
		(29,239)	–	(29,239)	(16,254)	(1,846)	(18,100)
Operating profit/(loss) excluding exceptional item		25,610	–	25,610	12,476	(1,846)	10,630
Exceptional compensation income	5	–	–	–	–	6,332	6,332
Operating profit		25,610	–	25,610	12,476	4,486	16,962
Finance costs							
Interest payable and similar charges	6	(4,195)	–	(4,195)	(1,698)	(273)	(1,971)
Finance income	6	804	–	804	191	–	191
		(3,391)	–	(3,391)	(1,507)	(273)	(1,780)
Profit before taxation	4	22,219	–	22,219	10,969	4,213	15,182
Taxation	8	(4,127)	–	(4,127)	(1,375)	(1,115)	(2,490)
Profit for the year attributable to equity shareholders		18,092	–	18,092	9,594	3,098	12,692
Earnings per share							
Basic (pence)	10	3.85		3.85	3.52		4.65
Diluted (pence)	10	3.82		3.82	3.44		4.55

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 2016 £000s	Year ended 31 December 2015 £000s
Profit for the period	18,092	12,692
Other comprehensive income		
Items that may be reclassified to profit or loss		
Net foreign exchange gain on investment in foreign subsidiaries (net of hedged items)	2,076	32
Interest rate swaps – cash flow hedge (net of deferred tax)	(221)	5
Total comprehensive income for the period	19,947	12,729

Consolidated Balance Sheet

	Note	31 December 2016 £000s	31 December 2015 £000s
Assets			
Non-current assets			
Goodwill and intangible assets	11	264,833	249,832
Property, plant and equipment	12	1,806	1,013
Joint Venture investment	31	1,464	1,465
Joint Venture receivable	31	1,462	1,462
Deferred tax asset	22	1,709	956
Other non-current assets		180	122
		271,454	254,850
Current assets			
Inventories	14	15,356	12,910
Trade and other receivables	15	26,706	11,630
Cash and cash equivalents	16	7,221	3,229
		49,283	27,769
Total assets		320,737	282,619
Equity			
Ordinary share capital	23	4,726	4,682
Share premium account		109,594	108,308
Share option reserve		3,306	2,610
Reverse takeover reserve		(329)	(329)
Other reserve		(319)	(98)
Translation reserve		2,108	32
Retained earnings		60,177	47,237
Total equity		179,263	162,442
Liabilities			
Non-current liabilities			
Loans and borrowings	18	57,554	58,968
Other liabilities	19	1,817	1,496
Deferred tax liability	22	31,442	27,838
Derivative financial instruments	21	384	120
		91,197	88,422
Current liabilities			
Bank overdraft	16	-	31
Loans and borrowings	18	25,782	15,776
Corporation tax		2,543	2,075
Trade and other payables	17	21,952	13,873
		50,277	31,755
Total liabilities		141,474	120,177
Total equity and liabilities		320,737	282,619

The financial statements were approved by the Board of Directors on 28 March 2017.


John Dawson
 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 2016		31 December 2015	
		£000s	£000s	£000s	£000s
Assets					
Non-current assets					
Investment in subsidiaries	13	140,008		138,569	
			140,008		138,569
Current assets					
Trade and other receivables	15	119		26	
Cash and cash equivalents	16	90		-	
			209		26
Total assets			140,217		138,595
Equity					
Ordinary share capital	23	4,726		4,682	
Share premium account		109,594		108,308	
Share option reserve		3,306		2,610	
Retained earnings		22,382		22,394	
Total equity			140,008		137,994
Liabilities					
Current liabilities					
Trade and other payables	17	159		571	
Corporation tax		50		-	
Cash and cash equivalents	16	-		30	
			209		601
Total liabilities			209		601
Total equity and liabilities			140,217		138,595

The financial statements were approved by the Board of Directors on 28 March 2017.


John Dawson
 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	Share option reserve £000s	Reverse takeover reserve £000s	Other reserve £000s	Translation reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2015	2,641	29,388	1,995	(329)	(103)	-	37,188	70,780
Issue of shares	2,041	-	-	-	-	-	-	2,041
Share premium	-	78,920	-	-	-	-	-	78,920
Dividend paid	-	-	-	-	-	-	(2,643)	(2,643)
Share options charge	-	-	615	-	-	-	-	615
Transactions with owners	2,041	78,920	615	-	-	-	(2,643)	78,933
Profit for the period	-	-	-	-	-	-	12,692	12,692
Other comprehensive income								
Interest rate swaps – cash flow hedge (net of deferred tax)	-	-	-	-	5	-	-	5
Foreign exchange translation differences	-	-	-	-	-	32	-	32
Total comprehensive income for the period	-	-	-	-	5	32	12,692	12,729
Balance 31 December 2015	4,682	108,308	2,610	(329)	(98)	32	47,237	162,442
Balance 1 January 2016	4,682	108,308	2,610	(329)	(98)	32	47,237	162,442
Issue of shares	44	-	-	-	-	-	-	44
Share premium	-	1,286	-	-	-	-	-	1,286
Dividend paid	-	-	-	-	-	-	(5,152)	(5,152)
Share options charge	-	-	696	-	-	-	-	696
Transactions with owners	44	1,286	696	-	-	-	(5,152)	(3,126)
Profit for the period	-	-	-	-	-	-	18,092	18,092
Other comprehensive income								
Interest rate swaps – cash flow hedge (net of deferred tax)	-	-	-	-	(221)	-	-	(221)
Foreign exchange translation differences	-	-	-	-	-	2,076	-	2,076
Total comprehensive income for the period	-	-	-	-	(221)	2,076	18,092	19,947
Balance 31 December 2016	4,726	109,594	3,306	(329)	(319)	2,108	60,177	179,263

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 2015	2,641	29,388	1,995	17,766	51,790
Issue of shares	2,041	-	-	-	2,041
Share premium	-	78,920	-	-	78,920
Dividend paid	-	-	-	(2,643)	(2,643)
Share options charge	-	-	615	-	615
Transactions with owners	2,041	78,920	615	(2,643)	78,933
Profit for the period and total comprehensive income	-	-	-	7,271	7,271
Balance 31 December 2015	4,682	108,308	2,610	22,394	137,994
Balance 1 January 2016	4,682	108,308	2,610	22,394	137,994
Issue of shares	44	-	-	-	44
Share premium	-	1,286	-	-	1,286
Dividend paid	-	-	-	(5,152)	(5,152)
Share options charge	-	-	696	-	696
Transactions with owners	44	1,286	696	(5,152)	(3,126)
Profit for the period and total comprehensive income	-	-	-	5,140	5,140
Balance 31 December 2016	4,726	109,594	3,306	22,382	140,008

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

Consolidated and Company Cash Flow Statements

	Note	Group		Company	
		Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
		£000s	£000s	£000s	£000s
Cash flows from operating activities					
Cash generated from operations	25	19,957	9,836	(333)	476
Tax paid		(3,032)	(1,860)	-	-
Cash flows received from operating activities		16,925	7,976	(333)	476
Investing activities					
Interest received		111	139	3,983	2,097
Dividend received		300	-	1,731	5,700
Investment in subsidiary	13	-	-	(1,439)	(86,632)
Development costs capitalised	11	(266)	(7)	-	-
Purchase of property, plant and equipment	12	(1,130)	(647)	-	-
Net assets acquired on acquisition		-	(221)	-	-
Loan to Joint Venture		(1,018)	-	-	-
Consideration on acquisitions		(1,289)	(133,629)	-	-
Deferred contingent consideration on acquisitions		(4,737)	-	-	-
Net cash (used in)/received from investing activities		(8,029)	(134,365)	4,275	(78,835)
Financing activities					
Interest paid and similar charges		(2,822)	(1,163)	-	-
Loan issue costs		(326)	(1,174)	-	-
Proceeds from issue of shares		-	83,500	-	83,500
Costs incurred on issue of shares		-	(2,661)	-	(2,661)
Proceeds from exercise of share options		1,330	121	1,330	121
Dividend paid		(5,152)	(2,643)	(5,152)	(2,643)
Receipt from borrowings		8,000	80,500	-	-
Repayment of borrowings		(6,495)	(28,000)	-	-
Net cash received (used in)/from financing activities		(5,465)	128,480	(3,822)	78,317
Net movement in cash and cash equivalents		3,431	2,091	120	(42)
Cash and cash equivalents at the beginning of the period		3,198	1,020	(30)	12
Exchange gains on cash and cash equivalents		592	87	-	-
Cash and cash equivalents at the end of the period	16	7,221	3,198	90	(30)

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

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, incorporated and domiciled in England. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB. The Company is listed on the AIM stock exchange.

In the prior year, the Group completed the acquisition of certain assets and businesses from Sinclair IS Pharma plc, and acquired 100% of the share capital of MacuVision Europe Limited ('MacuVision'). This is the first set of consolidated accounts prepared which incorporate a full financial year's contribution from these acquired businesses.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2017.

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.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, with the exception of derivatives which are included at fair value.

2.2 Consolidation

The consolidated balance sheet includes the assets and liabilities of the Company and its subsidiaries which are made up to 31 December 2016. Entities over which the Group has the ability to exercise control are accounted for as subsidiaries. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal. Balances between Group companies are eliminated; no profit is taken on sales between Group companies. Goodwill arising on the acquisition of interests in subsidiaries, representing the excess of consideration transferred over the Group's share of the fair values of identifiable assets, liabilities and contingent liabilities acquired, is capitalised as a separate item.

An entity is treated as a Joint Venture where the Group holds a long-term interest and shares control under a contractual agreement. The Company accounts for its investment in Joint Ventures under IFRS 11 using the equity method in accordance with IAS 28. See note 31 for details of Joint Ventures. The consolidated income statement includes the Group's share of the Joint Ventures' profit.

2.3 Judgements and estimates

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

- determination of useful economic lives for intangible assets (note 11);
- key assumptions used in discounted cash flow projections for impairment testing of goodwill and intangible assets (note 11);
- assessment of joint control for the Group's Joint Ventures (note 31);
- assumptions underlying the inventory obsolescence provision (note 14); and
- measurement of consideration and assets and liabilities acquired as part of business combinations (note 33).

2.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, estimated returns, rebates, including the Pharmaceutical Price Regulation Scheme, and discounts and after eliminating sales within the Group and represents amounts invoiced to third parties in relation to the Group's sole activity, namely the distribution of pharmaceutical products. Revenue is recognised at the point when substantially all of the risks and rewards of ownership are transferred to the customer; normally this is on dispatch.

2.5 Foreign currency transactions

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. Differences on exchange resulting from the translation of overseas assets and liabilities are recognised directly in equity. Gains and losses arising on currency borrowings used to hedge the foreign currency exposure on the net assets of the foreign operations are accounted for directly in equity, to the extent that hedge accounting criteria are met and are included in the consolidated statement of comprehensive income and expense.

2.6 Property, plant and equipment

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

2.7 Leases

Leasing agreements which transfer substantially all the benefits and risks of ownership to the Group are treated as finance leases, as if the asset had been purchased outright. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. All other leases are considered operating leases and the annual rentals are included in the income statement on a straight line basis over the lease term.

2.8 Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of the single cash-generating unit. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash-generating unit is less than the carrying amount an impairment loss is recognised. Any impairment is recognised immediately in the Group Income Statement and is not subsequently reversed.

2.9 Other intangible assets

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, acquired and reacquired 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.

Notes to the Financial Statements continued

for the year ended 31 December

2. Summary of significant accounting policies continued

2.9 Other intangible assets continued

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

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.

2.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit reported in the income statement because the former excludes items of income or expense that are either taxable or deductible in other years or that are never taxable or deductible, and it includes tax reliefs that are not included in the income statement. The Group's liability for current tax is calculated using tax rates prevailing for the year.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are provided in full on temporary differences, and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided using the rates of tax that are expected to apply in the period when the liability is settled or the asset is realised, based on rates that have been substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted. The Group jointly controls the sharing of profits in the Joint Ventures and as such no deferred tax has been recognised on temporary differences.

Deferred tax is recognised on any fair value adjustment recognised on a business combination to the extent that the fair value adjustment has no corresponding tax base cost. The rate of tax applied in the calculation of the deferred tax asset or liability is the rate substantially enacted at the balance sheet date relating to the country in which any fair value adjustment occurs.

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 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. 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 Debt instruments

Debt instruments are initially stated at their fair value net of issue costs, and subsequently measured at amortised cost using the effective interest rate method.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.15 Financial assets – loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

2.16 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables.

2.17 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments, available with no penalty, with original maturities of three months or less, bank overdrafts and working capital facilities.

2.18 Employee benefits – share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the Group Income Statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The Company accounts for share-based compensation on the same basis as the Group, however it then recharges the IFRS 2 charge to other group companies.

2.19 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 until such share options are exercised.

"Retained earnings" represents retained profit.

Also included in Group equity is:

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

"Other reserves" 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 Sterling.

2.20 Investments

Investments in subsidiaries included in the Company's balance sheet are stated at cost less any provision for impairment.

2.21 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.

2.22 Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 3 in the income statement.

Notes to the Financial Statements continued

for the year ended 31 December

2. Summary of significant accounting policies continued

2.23 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker ('CODM'). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors ('the Board'). In the prior year, five operating segments were aggregated into one reporting segment. Following the Sinclair acquisition, the level of reporting reviewed by the CODM is now consistent with a single operating segment.

2.24 New standards not yet applied

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016 and have not been applied in preparing these financial statements. The following list is not comprehensive but includes the most significant to these financial statements:

- IFRS 9 'Financial Instruments' (2014), representing the completion of the IASB project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.
- IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.
- IFRS 16 'Leases' replaces IAS 17 'Leases'. 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 new standard is required to be applied for annual reporting periods beginning on or after 1 January 2019.

The Group are currently assessing the impact of the new standards on the financial position or consolidated results of the Group and continually reviews amendments to the standards made under the IASB's annual improvements project.

3. Segmental reporting

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 '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 as a whole, substantially in the form of, and on the same basis as, the Group's IFRS financial statements. During the financial year, one of the key activities undertaken has been the integration of the brands and companies acquired from Sinclair IS Pharma plc (see note 33). The form of reporting provided to the Board has necessarily evolved as required while this integration process was ongoing.

Geographical information

The following revenue information is based on the geographical location of the customer:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
United Kingdom	49,411	39,444
Rest of Europe	29,006	3,240
Rest of the World	19,075	5,660
	97,492	48,344

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

Major customers

During the year there was one customer who separately comprised 10% or more of revenue (year ended 31 December 2015: two).

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Major customer 1	12,926	13,470
Major customer 2	9,406	10,420
	22,332	23,890

4. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	25	–
Fees payable by the Group to the Company's auditor for other services:		
– The audit of the financial statements of subsidiaries	103	–
Fees payable to the Company's previous auditor for the audit of the Company's annual accounts	–	63
Fees payable by the Group to the Company's previous auditor for other services:		
– The audit of the financial statements of subsidiaries	–	50
– Audit-related assurance services	–	9
– All other taxation advisory services	–	67
– All services relating to corporate finance transactions (either proposed or entered into) by or on behalf of the Company or any of its associates	–	356
Amortisation of intangible assets	92	199
Share options charge	696	615
Depreciation of tangible assets	337	239
Operating lease rentals – land and buildings	383	100
Research and development	91	12
Gain on foreign exchange transactions	(693)	(52)

As referred to elsewhere in the Annual Report, "EBITDA" is defined by the CODM as:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Reconciliation of EBITDA		
Profit before tax	22,219	15,182
Non-underlying items (note 5)	–	(4,213)
Financing costs (note 6)	3,391	1,507
Depreciation	337	239
Amortisation	92	199
Total	26,039	12,914

Notes to the Financial Statements continued

for the year ended 31 December

5. Non-underlying and exceptional items

Non-underlying items are those significant items which the Directors consider, 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. One-off items relating to acquisitions e.g. acquisition costs and the costs of restructuring post-acquisition are shown as non-underlying. Exceptional items, including settlements are also shown as non-underlying items.

The non-underlying and exceptional items relate to the following:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
a) Acquisition costs	-	1,846
b) Exceptional compensation income	-	(6,332)
c) Charge in respect of loan settlement	-	273
	-	(4,213)

a) Costs related to the acquisition of the Healthcare Products Business from Sinclair IS Pharma plc in December 2015 amounted to £1.8m. The main costs included legal and professional fees of £1.2m and staffing costs of £0.5m.

b) The exceptional income related to £6.7m compensation received from Sanofi Pasteur, net of £0.4m associated costs, for the suspension of ImmuCyst production.

c) The charge in respect of the loan settlement related to the release of £0.3m prepaid loan issue costs on the £18m loan repaid on 17 December 2015.

In the prior year Annual Report, the unwinding/fair value movement in relation to deferred consideration was treated as non-underlying. It is considered to be an underlying activity, and has therefore been treated as such in the current year and comparative.

6. Finance costs

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Interest payable and similar charges		
On loans and overdrafts	(2,868)	(1,116)
Amortised finance issue costs	(358)	(378)
Notional interest	(969)	(477)
	(4,195)	(1,971)
Interest income	111	139
Other finance income – Foreign exchange movements	693	52
Finance costs – net	(3,391)	(1,780)

Notional interest relates to the unwinding of the deferred consideration on the MacuVision acquisition.

7. Directors and employees

Employee benefit expenses for the Group during the period were as follows:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Wages and salaries	9,481	6,604
Social security costs	1,375	819
Other pension costs (note 28)	644	362
Share-based employee remuneration (note 24)	696	615
	12,196	8,400

The average number of employees of the Group during the period was:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Management and administration	143	86

Remuneration in respect of Directors (including pension) was as follows:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Emoluments	1,104	1,671
	1,104	1,671

Gain on share options exercised by Directors during the year was £134,000 (2015: £14,000).

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

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Emoluments for qualifying services	314	628
Pension contributions	10	–
	324	628

During the period contributions were paid to defined contribution schemes for three Directors (year ended 31 December 2015: four).

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 2016 £000s	Year ended 31 December 2015 £000s
Short-term employee benefits	1,059	1,636
Post-employment benefits	45	35
	1,104	1,671

Average number of members of the Board of Directors (including Non-Executive Directors) for the year ended 31 December 2016 was seven (year ended 31 December 2015: eight).

Notes to the Financial Statements continued

for the year ended 31 December

8. Taxation

Analysis of the charge for the period is as follows:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Corporation tax		
In respect of current period	3,552	2,977
Adjustment in respect of prior periods	32	-
	3,584	2,977
Deferred tax (see note 22)		
Origination and reversal of temporary differences	539	(398)
Adjustment in respect of prior periods	4	(89)
Taxation	4,127	2,490

The difference between the total current tax 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 2016 £000s	Year ended 31 December 2015 £000s
Profit before taxation	22,219	15,182
Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 20% (2015: 20.25%)	4,444	3,074
Effect of:		
Non-deductible expenses	376	429
Non-taxable income	(60)	(39)
Adjustment in respect of prior periods	36	(89)
Impact of reduction in UK tax rate on deferred tax liability	(755)	(827)
Differing tax rates on overseas earnings	205	54
Share options	(133)	(175)
Other differences	14	63
Total taxation	4,127	2,490

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.

9. Dividends

	Year ended 31 December 2016		Year ended 31 December 2015	
	Pence/share	£000s	Pence/share	£000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	0.366	1,714	0.333	880
Final dividend for the prior financial year	0.734	3,438	0.667	1,763
	1.100	5,152	1.000	2,643
Interim dividend for the current financial year	0.403	1,904	0.366	1,714

The proposed final dividend of 0.807 pence per share for the current financial year was approved by the Board of Directors on 28 March 2017 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 2016 in accordance with IAS 10 'Events After the Balance Sheet Date'. The interim dividend for the current financial year was paid on 12 January 2017. Subject to shareholder approval, the final dividend will be paid on 12 July 2017 to shareholders on the register of members on 16 June 2017.

10. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

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

	Year ended 31 December 2016 Number of shares	Year ended 31 December 2015 Number of shares
Basic EPS calculation	469,423,814	272,729,247
Employee share options	4,824,605	6,322,550
Diluted EPS calculation	474,248,419	279,051,797

The adjusted basic EPS is intended to demonstrate recurring elements of the results of the Group before exceptional items. A reconciliation of the earnings used in the different measures is given below:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Earnings for basic EPS	18,092	12,692
Non-underlying: Exceptional items	-	(6,332)
Other non-underlying items	-	2,119
Tax effect of non-underlying items	-	1,115
Adjusted EPS	18,092	9,594

The resulting EPS measures are:

	Year ended 31 December 2016 Pence	Year ended 31 December 2015 Pence
Basic EPS	3.85	4.65
Diluted EPS	3.82	4.55
Adjusted basic EPS	3.85	3.52
Adjusted diluted EPS	3.82	3.44

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11. Goodwill and intangible assets

The Group	Goodwill £000s	Brands and distribution rights £000s	Development costs £000s	Assets under development £000s	Total £000s
Cost					
At 1 January 2016	15,922	235,824	438	1,500	253,684
Additions	-	2,339	266	1,000	3,605
Fair value adjustments (note 33)	275	-	-	-	275
Exchange adjustments	-	11,213	-	-	11,213
At 31 December 2016	16,197	249,376	704	2,500	268,777
Amortisation and impairment					
At 1 January 2016	-	3,852	-	-	3,852
Amortisation for the year	-	92	-	-	92
At 31 December 2016	-	3,944	-	-	3,944
Net book amount					
At 31 December 2016	16,197	245,432	704	2,500	264,833
At 1 January 2016	15,922	231,972	438	1,500	249,832

The Group	Goodwill £000s	Brands and distribution rights £000s	Development costs £000s	Assets under development £000s	Total £000s
Cost					
At 1 January 2015	3,593	88,504	431	-	92,528
Additions	-	15,425	7	1,500	16,932
Additions due to acquisition	12,329	130,565	-	-	142,894
Exchange adjustments	-	1,330	-	-	1,330
At 31 December 2015	15,922	235,824	438	1,500	253,684
Amortisation and impairment					
At 1 January 2015	-	3,653	-	-	3,653
Amortisation for the year	-	199	-	-	199
At 31 December 2015	-	3,852	-	-	3,852
Net book amount					
At 31 December 2015	15,922	231,972	438	1,500	249,832
At 1 January 2015	3,593	84,851	431	-	88,875

Goodwill

Goodwill is deemed to have an indefinite life and relates to the Group's single cash-generating unit. Goodwill is reviewed at least annually for impairment as described below.

Brands and distribution rights (including Assets under development)

Key judgement – useful economic lives

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

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 – often over a number of generations.

Where distribution rights are deemed to have a finite life they are amortised accordingly. 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 of the brands acquired from Sinclair IS Pharma plc (see acquisitions below) were acquired with patent protection, which lasts for a finite period of time. It is the opinion of the Directors that these patents do not provide any incremental value to the value of the brand and therefore no separate value has been placed on these patents. This assessment is based on a view of future profitability after patent expiry and past experience with similar brands.

The net book value of intangible assets which are considered to have an indefinite useful life is £243.3m (2015: £231.9m). The book value of the major brands and distribution rights are as follows:

Assets	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Kelo-cote (non EU, excluding US)	44,826	37,203
Oxyplastine, Fazol & Others	25,384	22,326
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
Menadiol, Vitamin E & Others	13,474	13,474
Forceval, Amantadine & Others	12,931	12,931
MacuShield	9,480	9,480
Nu-Seals	9,100	9,100
SkinSafe, Dansac & Others	8,043	8,043
Timodine & Buccastem	7,697	7,697
Syntometrine (excluding UK)	7,527	7,527
Others	30,622	29,899
Net book value	243,284	231,880

Notes to the Financial Statements continued

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11. Goodwill and intangible assets continued

Recent acquisitions

The following acquisition activities took place in the year:

- On 12 September 2016, the Group entered a further Licence and Supply Agreement for the product Diclectin with Duchesnay Inc. Alliance acquired UK rights to Diclectin in January 2015 and this additional agreement secures rights to launch the product in a further nine EU countries including Germany, France and Italy. The consideration recognised in relation to this is £1.0m. This amount is included within assets under development and will be amortised when the product is ready for launch. UK approval is pending with the UK's regulatory body, the Medicines and Healthcare products Regulatory Agency, with this anticipated to be in Q3 2017. Following UK approval, certain other EU territories are forecast for approval in 2018.
- On 27 October 2016, the Group secured the distribution rights on additional territories for MacuShield. The consideration recognised in relation to this is £2.3m and the distribution rights are for a period of ten years which the balance will therefore be amortised over.

In the prior year the following acquisition activities took place:

- On 2 February 2015, the Group completed the acquisition of MacuVision Europe Limited ('MacuVision') for initial consideration of £5.5m plus the net asset value of MacuVision at completion (£0.5m) and deferred contingent consideration of up to £6.0m (estimated at acquisition to be £3.2m). MacuVision sells MacuShield, an eye care treatment designed to be taken by sufferers of dry age-related macular degeneration and other eye conditions. The fair value of the intangible asset acquired was £8.8m included within brands and distribution rights.
- On 29 January 2015, the Group entered a Licence and Supply Agreement for the product Diclectin with Duchesnay Inc. The consideration recognised in relation to this is £1.5m. Diclectin is a product to treat nausea and vomiting of pregnancy and is anticipated to launch in Q3 2017. This amount is included within assets under development and will be amortised when the product is ready for launch.
- On 16 September 2015 the Group acquired the rights to five Nutraceutical brands from Sinopharm Nutraceuticals (Shanghai) Co Ltd for an estimated total consideration of RMB 13.7m (£1.4m). Rujiali (Calcium), Lefuzhi (DHA capsules), Aiweidi (Vitamin D drops), Manlun Junshe and Changmin (probiotic powder drink) are marketed in China. The consideration was payable in four instalments including a final instalment payable based on 2016 sales.
- On 17 December 2015, the Group completed the acquisition of certain assets and businesses from Sinclair IS Pharma plc (see note 33).

Impairment

As explained in notes 2.8 and 2.9 all intangible assets are stated at the lower of cost less provision for amortisation and impairment, or the recoverable amount.

Indefinite life assets (excluding Goodwill) and Assets under development are tested for impairment at least annually, or more frequently if there are indications that amounts might be impaired. These assets are tested at individual asset level as the Directors believe these assets generate largely independent cash inflows.

Goodwill is tested for impairment at least annually at a Group level, which includes all CGUs of the Group.

The impairment test involves determining the recoverable amount of the relevant asset or 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 two years extrapolated to perpetuity. Financial forecasts for the next two years are based on the approved annual budget for 2017 and strategic projections in 2018 representing the best estimate of future performance. Margins are based on past experience and cost estimates.

Key judgement – value in use assumptions

The key assumptions on which cash flow projections are made are:

- There will be no growth beyond 2018; and
- Cash flows are discounted at an appropriate rate. The discount rates consider market information and specific circumstances of each asset or CGU. A pre-tax rate of 10%, based on the Group's weighted average cost of capital, is considered appropriate for all assets, including goodwill.

In respect of Goodwill, the estimated recoverable amount of the CGU exceeded its carrying amount by approximately £51m.

The Group has conducted sensitivity analysis on the impairment test of the CGU's carrying values. The valuations indicate sufficient headroom such that a reasonably possible change in a key assumption is unlikely to result in an impairment.

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.

12. Property, plant and equipment

The Group	Computer equipment £000s	Fixtures, fittings and equipment £000s	Plant & machinery £000s	Motor vehicles £000s	Total £000s
Cost					
At 1 January 2016	998	1,320	109	8	2,435
Additions	615	497	18	–	1,130
Disposals	(208)	(25)	–	–	(233)
At 31 December 2016	1,405	1,792	127	8	3,332
Depreciation					
At 1 January 2016	438	981	–	3	1,422
Provided in the year	194	99	40	4	337
Disposals	(208)	(25)	–	–	(233)
At 31 December 2016	424	1,055	40	7	1,526
Net book amount					
At 31 December 2016	981	737	87	1	1,806
At 1 January 2016	560	339	109	5	1,013

The Group	Computer equipment £000s	Fixtures, fittings and equipment £000s	Plant & machinery £000s	Motor vehicles £000s	Total £000s
Cost					
At 1 January 2015	584	995	–	–	1,579
Additions	414	223	–	–	637
Additions due to acquisition	–	102	109	8	219
At 31 December 2015	998	1,320	109	8	2,435
Depreciation					
At 1 January 2015	322	861	–	–	1,183
Provided in the year	116	120	–	3	239
At 31 December 2015	438	981	–	3	1,422
Net book amount					
At 31 December 2015	560	339	109	5	1,013
At 1 January 2015	262	134	–	–	396

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13. Investments

The Company	Investment in subsidiary undertakings £000s
Cost	
At 1 January 2016	138,569
Additions	1,439
At 31 December 2016	140,008
At 1 January 2015	51,936
Additions	86,633
At 31 December 2015	138,569

The additions in the year relate to the increased investment the Company made in Alliance Pharmaceuticals Limited to support the acquisition of new brands and distribution rights.

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2016 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
Maelor Laboratories Limited	England & Wales	100	Pharmaceutical sales
Synthasia International Company Limited	Hong Kong	20	Pharmaceutical sales
Synthasia Shanghai Co. Limited	China	20	Pharmaceutical sales
Unigreg Limited	British Virgin Islands	60	Pharmaceutical sales
Alliance Pharmaceuticals GmbH*	Germany	100	Non-trading
Alliance Pharmaceuticals SAS*	France	100	Non-trading
Opus Healthcare 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
Unigreg Worldwide Limited	England & Wales	60	Dormant

* Investments held directly by Alliance Pharma plc.

The registered address in each country is as follows:

Country / Company	Address
Alliance Pharma France SAS	35 rue d'Artois, 75008, Paris
Alliance Pharmaceuticals SAS	70 rue Cortambert, 75116, Paris
Alliance Pharmaceuticals (Shanghai) Limited	Room 103, 1st Floor, 56 Meisheng Road, Shanghai Free-Trade-Zone, P.R.C
British Virgin Islands	Flemming House, P.O. Box 662, Wickhams Cay, Road Town, Tortola, VG1110
England & Wales	Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB
Germany	Prinzenallee 7, 40549, Düsseldorf
Hong Kong	Room 2105, 21/F Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon
Italy	Viale Restelli Francesco, 5 CAP, 20124, Milan
Northern Ireland	6 Trevor Hill, Newry, County Down, BT34 1DN
Republic of Ireland	6th Floor, South Bank House, Barrow Street, Dublin 4
Singapore	6 Battery Road, # 10-01, Singapore, 049909
Spain	Regus Business Center, Torre de Cristal, Paseo de la Castellana 259 C Planta 18, Cuatro Torres Business área, Madrid
Synthasia Shanghai Company Limited	Suite 806, 8/F, Silva Bay Tower, Block C, No 469 Wusong Road, Hongkou, Shanghai, 200080
USA	Corporation Service Company, 1201 Hays Street, Tallahassee, Florida, FL 32301

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, except Opus Healthcare Limited (Republic of Ireland) which prepares accounts to 28 February and Unigreg Worldwide Limited which prepares accounts to 31 May.

All other investments are held by Alliance Pharmaceuticals Limited with the exception of Opus subsidiaries which are held by Opus Group Holdings Limited, Unigreg Worldwide Limited which is held by Unigreg Limited, Synthasia Shanghai Co. Ltd which is held by Synthasia International Company Ltd, Alliance Pharmaceuticals Shanghai Limited which is held by Alliance Pharmaceuticals (Asia) Limited, and Alliance Pharma France SAS which is held by Alliance Pharmaceuticals SAS.

14. Inventories

The Group	31 December	31 December
	2016	2015
	£000s	£000s
Finished goods and materials	17,632	14,196
Inventory provision	(2,276)	(1,286)
	15,356	12,910

Inventory costs expensed through the income statement during the year were £35,897,000 (2015: £15,693,000). During the year £792,000 (2015: £265,000) was recognised as an expense relating to the write-down of stock to net realisable value.

15. Trade and other receivables

	The Group		The Company	
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	£000s	£000s	£000s	£000s
Trade receivables	20,530	8,783	-	-
Other receivables	1,788	1,062	114	16
Prepayments and accrued income	2,110	525	5	10
Amounts owed by Joint Venture	2,278	1,260	-	-
	26,706	11,630	119	26

Notes to the Financial Statements continued

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15. Trade and other receivables continued

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

	31 December 2016 £000s	31 December 2015 £000s
Not past due	13,948	5,965
Due 30–31 December	3,465	1,403
Past due 3 days to 91 days	1,947	1,228
Past 91 days	1,170	187
	20,530	8,783

Trade and other receivables are stated net of estimated allowances for doubtful debts. As at 31 December 2016, trade and other receivables of £nil (2015: £nil) 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.

16. Cash and cash equivalents

	The Group		The Company	
	31 December 2016 £000s	31 December 2015 £000s	31 December 2016 £000s	31 December 2015 £000s
Cash at bank and in hand	7,221	3,229	90	–
Bank overdraft	–	(31)	–	(30)
	7,221	3,198	90	(30)

17. Trade and other payables – current

	The Group		The Company	
	31 December 2016 £000s	31 December 2015 £000s	31 December 2016 £000s	31 December 2015 £000s
Trade payables	5,655	1,153	–	–
Other taxes and social security costs	1,030	905	–	–
Accruals and deferred income	11,125	5,663	159	571
Other payables	1,120	728	–	–
Deferred consideration for acquisitions	3,022	5,026	–	–
Amounts due to Joint Ventures	–	398	–	–
	21,952	13,873	159	571

Deferred contingent consideration of £1.8m (2015: £2.8m) relates to the acquisition of MacuVision Europe Limited which took place on 2 February 2015 and is payable in 2017. Deferred consideration of £0.2m (2015: £0.4m) relates to the acquisition of the rights to five Nutraceutical brands from Sinopharm Nutraceuticals (Shanghai) Co Ltd which took place on 16 September 2015 and is payable during 2017. Deferred consideration of £0.5m relates to an agreement with MacuHealth to guarantee supply of MacuShield API and secure additional territories to be able to distribute in (2015: £nil). Deferred consideration of £nil (2015: £1.8m) relates to the acquisition of certain assets and businesses from Sinclair IS Pharma plc which took place on the 17 December 2015. Deferred consideration of £0.5m (2015: £nil) relates to the Licence and Supply Agreement for the product Diclectin with Duchesnay Inc. and is payable in 2017.

18. Loans and borrowings

	The Group		The Company	
	31 December 2016 £000s	31 December 2015 £000s	31 December 2016 £000s	31 December 2015 £000s
Current				
Bank loans due within one year or on demand:				
Secured	26,000	16,000	-	-
Finance issue costs	(218)	(224)	-	-
	25,782	15,776	-	-

	The Group		The Company	
	31 December 2016 £000s	31 December 2015 £000s	31 December 2016 £000s	31 December 2015 £000s
Non-current				
Bank loans:				
Secured	58,478	59,918	-	-
Finance issue costs	(924)	(950)	-	-
	57,554	58,968	-	-

The Group has a total committed bank facility of £100.0m (31 December 2015: £100.0m) maturing in November 2020 of which £65m is drawn as term loan and £35m is available to draw down through a Revolving Credit Facility ('RCF'). The RCF is repayable within one to three months and therefore included within current liabilities.

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

19. Other non-current liabilities

	The Group		The Company	
	31 December 2016 £000s	31 December 2015 £000s	31 December 2016 £000s	31 December 2015 £000s
Deferred consideration for acquisitions	1,609	1,383	-	-
Other non-current liabilities	208	113	-	-
	1,817	1,496	-	-

Deferred contingent consideration of £nil (2015: £0.9m) relates to the acquisition of MacuVision Europe Limited which took place on 2 February 2015. Deferred consideration of £0.5m (2015: £0.5m) relates to the Licence and Supply Agreement for the product Diclectin with Duchesnay Inc. and is payable during 2019. Deferred consideration of £1.1m (2015: £nil) relates to a MacuHealth agreement to guarantee supply of MacuShield API (2015: £nil) and extend the territories in which MacuShield can be sold, and is payable over 8 years.

20. 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.

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20. Financial instruments continued

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 £100m committed Credit Facility maturing in November 2020 (2015: £100m). This is made up of amortising Term Debt of £65m (2015: £65m) and a Revolving Credit Facility ('RCF') of £35m (2015: £35m). In order to manage currency risk the Group has borrowed part of the Term Loans in Euros and US Dollars as follows: EUR 18m (£15.4m) (2015: EUR 18m (£13.2m)) and USD 32.7m (£26.6m) (2015: USD 36m (£24.3m)); the remainder is denominated in Sterling.

At year end the Group had also drawn down £18m of the RCF (2015: £10m). The Group also has access to an uncommitted overdraft facility of £4.5m.

The Group balance sheet also includes financial assets in the form of cash at bank and in hand totalling £7.2 million (2015: £3.2 million). Of this £4.2 million was held in Sterling, £2.0 million in Euro and the balance in other currencies.

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

	31 December 2016				
	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	21,952	1,817	–	–	23,769
Bank loans	27,805	9,551	52,673	–	90,029
Interest rate swaps	–	–	384	–	384
	49,757	11,368	53,057	–	114,182

	31 December 2015				
	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	13,873	1,496	–	–	15,369
Working capital facility	31	–	–	–	31
Bank loans	17,946	9,658	55,310	–	82,914
Interest rate swaps	–	–	120	–	120
	31,850	11,154	55,430	–	98,434

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

	31 December 2016		31 December 2015	
	Trade payables and other £000s	Bank borrowings and other loans £000s	Trade payables and other £000s	Bank borrowings and other loans £000s
In one year, or less	159	–	571	31
	159	–	571	31

The Group had £17.0m (2015: £25.0m) undrawn committed borrowing facilities available and £4.5m of undrawn uncommitted facility available at 31 December 2016.

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 £20m (2015: £20m) to convert the floating interest rate charge to a fixed rate interest charge maturing in April 2018. Replacing this, a forward dated interest rate swap with nominal value £16m commences in April 2018 maturing in November 2020.

The Group also has an EUR 18m (2015: EUR Nil) 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 2016			
Bank loans – Sterling denominated	–	42,508	42,508
Bank loans – Euro denominated	–	15,385	15,385
Bank loans – US Dollar denominated	–	26,585	26,585
Interest rate hedges – Sterling denominated	20,000	(20,000)	–
Interest rate hedges – Euro denominated	15,385	(15,385)	–
Total financial liabilities	35,385	49,093	84,478
Unamortised issue costs	–	(1,142)	(1,142)
Net book value of financial liabilities	35,385	47,951	83,336

	Fixed £000s	Floating £000s	Total £000s
At 31 December 2015			
Bank loans – Sterling denominated	–	38,359	38,359
Bank loans – Euro denominated	–	13,235	13,235
Bank loans – US Dollar denominated	–	24,324	24,324
Interest rate hedges – Sterling denominated	20,000	(20,000)	–
Total financial liabilities	20,000	55,918	75,918
Unamortised issue costs	–	(1,174)	(1,174)
Net book value of financial liabilities	20,000	54,744	74,744

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20. Financial instruments continued

	Fixed rate financial liabilities	
	Weighted average fixed rate %	Weighted average period for which rate is fixed
At 31 December 2016		
Sterling	3.74	3.91 years
Euros	2.46	3.91 years
At 31 December 2015		
Sterling	3.74	4.91 years
Euros	2.46	4.91 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 or US LIBOR would reduce pre-tax profits by approximately £0.1m in 2017 in each respectively. A 0.5% decrease would have the opposite effect in each respectively.

Currency risk

Approximately 30% 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 10% 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 all but a small proportion of other Group expenses, are denominated in Sterling.

A 5% weakening or strengthening of Sterling against the Euro would result in minimal impact in predicted pre-tax profits. A 5% weakening of Sterling against the US Dollar would result in a £0.1m increase in predicted pre-tax profits, 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 highly effective.

Fair value measurement

Effective from 1 January 2013, the Group adopted the amendments to IFRS13 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 2016 Carrying value £000s	31 December 2015 Carrying value £000s
Interest rate swaps	2	(384)	(120)
Deferred contingent consideration	3	(2,510)	(3,674)
		(3,194)	(3,794)

For the other financial assets and liabilities in the scope of IFRS 7, 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.

Lloyds Bank 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 Committee and the finance team at least every year, in line with the Group's reporting dates.

Contingent consideration (Level 3)

The fair value of deferred contingent consideration related to the acquisition of MacuVision Europe Limited and Diclectin are estimated using a present value technique. The £2.8 million fair value is calculated using the discounted cash flow, taking the most likely cash flows and discounting at a risk adjusted rate of 10% (see note 11).

Level 3 fair value measurements:

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

	31 December 2016 Liabilities £000s	31 December 2015 Liabilities £000s
Balance at 1 January 2016	4,174	–
Acquired	500	3,697
Cash paid in the year	(2,833)	–
Amount recognised in profit or loss under finance costs	969	477
Balance at 31 December 2016	2,810	4,174

Classification of financial assets and liabilities

Group

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

	Loans and receivables £000s	Non-financial assets £000s	Total £000s
At 31 December 2016			
Financial assets			
Cash and cash equivalents	7,221	–	7,221
Trade and other receivables	25,612	1,094	26,706
	32,833	1,094	33,927

	Other financial liabilities £000s	Liabilities not within the scope of IAS39 £000s	Total £000s
At 31 December 2016			
Financial liabilities			
Loans and borrowings	83,336	–	83,336
Trade and other payables	20,922	1,030	21,952
Other liabilities	1,817	–	1,817
Corporation tax	–	2,543	2,543
	106,075	3,573	109,648

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for the year ended 31 December

20. Financial instruments continued

At 31 December 2015	Loans and receivables £000s	Non-financial assets £000s	Total £000s
Financial assets			
Cash and cash equivalents	3,229	–	3,229
Trade and other receivables	10,705	925	11,630
	13,934	925	14,859

At 31 December 2015	Other financial liabilities £000s	Liabilities not within the scope of IAS39 £000s	Total £000s
Financial liabilities			
Working capital facility	31	–	31
Loans and borrowings	74,744	–	74,744
Trade and other payables	12,968	905	13,873
Other liabilities	1,496	–	1,496
Corporation tax	–	2,075	2,075
	89,239	2,980	92,219

The Group has issued the following terms for borrowings made to its Joint Ventures:

	31 December 2016 Interest rate	31 December 2015 Interest rate
Joint venture loans	2.75% – 7.00%	2.75% – 7.00%

Company

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

At 31 December 2016	Loans and receivables £000s	Non-financial assets £000s	Total £000s
Financial assets			
Trade and other receivables	119	–	119
	119	–	119

At 31 December 2016	Other financial liabilities £000s	Liabilities not within the scope of IAS39 £000s	Total £000s
Financial liabilities			
Trade and other payables	159	–	159
	159	–	159

At 31 December 2015	Loans and receivables £000s	Non- financial assets £000s	Total £000s
Financial assets			
Trade and other receivables	26	–	26
	26	–	26

At 31 December 2015	Other financial liabilities £000s	Liabilities not within the scope of IAS39 £000s	Total £000s
Financial liabilities			
Cash and cash equivalents	30	–	30
Trade and other payables	571	–	571
	601	–	601

21. Derivative financial instruments

	31 December 2016 Liabilities £000s	31 December 2015 Liabilities £000s
Interest rate swap – cash flow hedge	384	120
Non-current portion	384	120

The cash flow hedges were tested for effectiveness during the year and were found to be highly effective. The ineffective element was 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 £175,000 (2015: £133,000).

22. Deferred tax

The Group	31 December 2016 £000s	31 December 2015 £000s
Accelerated capital allowances on tangible assets	(57)	(51)
Temporary differences: trading	8	7
Temporary differences: non-trading	959	21
Accelerated allowances on intangible assets	(5,428)	(4,726)
Initial recognition of intangible assets from business combination	(25,957)	(23,061)
Share based payments	376	390
Losses	366	538
	(29,733)	(26,882)
Recognised as:		
Deferred tax asset	1,709	956
Deferred tax liability	(31,442)	(27,838)

Notes to the Financial Statements continued

for the year ended 31 December

22. Deferred tax continued

Reconciliation of deferred tax movements:

The Group	31 December 2015 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	Recognised on business combination £000s	31 December 2016 £000s
Non-current assets					
Intangible assets	(27,787)	(3,246)	(352)	-	(31,385)
Property, plant and equipment	(51)	-	(6)	-	(57)
Non-current liabilities					
Derivative financial instruments	21	44	-	-	65
Other non-current liabilities	-	894	-	-	894
Equity					
Share option reserve	390	-	(14)	-	376
Temporary differences					
Trading	7	-	1	-	8
Losses	538	-	(172)	-	366
	(26,882)	(2,308)	(543)	-	(29,733)
Recognised as:					
Deferred tax asset	956				1,709
Deferred tax liability	(27,838)				(31,442)

The Group	31 December 2014 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	Recognised on business combination £000s	31 December 2015 £000s
Non-current assets					
Intangible assets	(4,699)	-	(27)	-	(4,726)
Initial recognition of intangible from business combination	(1,610)	-	162	(21,613)	(23,061)
Property, plant and equipment	6	-	(57)	-	(51)
Non-current liabilities					
Derivative financial instruments	26	(5)	-	-	21
Equity					
Share option reserve	162	-	228	-	390
Temporary differences					
Trading	-	-	7	-	7
Losses	-	-	-	538	538
	(6,115)	(5)	313	(21,075)	(26,882)
Recognised as:					
Deferred tax asset	194				956
Deferred tax liability	(6,309)				(27,838)

23. Share capital

	Allotted, called and fully paid No. of shares	Allotted, called and fully paid £000s
At 1 January 2015 – ordinary shares of 1p each	264,148,365	2,641
Issued during the year	204,030,792	2,041
At 31 December 2015 – ordinary shares of 1p each	468,179,157	4,682
Issued during the year	4,389,305	44
At 31 December 2016 – ordinary shares of 1p each	472,568,462	4,726

Between 1 January 2016 and 31 December 2016, 4,389,305 shares were issued on the exercise of employee share options (2015: 372,245).

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 47.50p. 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 2016 Number 000s	31 December 2015 Number 000s
2006	18.75	2009	–	27
2007	9.25	2010	19	19
2008	8.50	2011	610	630
2009	7.75	2012	153	680
2010	33.25 and 34.25	2013	1,871	2,168
2011	31.00 and 34.12	2014	2,422	3,697
2012	29.25	2015	2,333	2,861
2013	35.75 and 37.25	2016	3,613	4,812
2013	35.75	2018	2,600	3,300
2014	33.75	2017	2,014	2,408
2015	43.75 and 46.75	2018	5,415	5,841
2016	44.00 and 47.5	2019	10,078	–
2016	47.5	2021	4,400	–
			35,528	26,443

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 2016, net bank debt was £76.1m, whilst Shareholders' equity was £179.3m.

Reconciliation of net debt	Note	31 December 2016 £000s	31 December 2015 £000s
Loans and borrowings – current	18	(25,782)	(15,776)
Loans and borrowings – non-current	18	(57,554)	(58,968)
Cash and cash equivalents	16	7,221	3,229
Bank overdraft	16	–	(31)
		(76,115)	(71,546)

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 operating cash flows must exceed debt service cash flows. The Group complied with these covenants in 2016 and 2015.

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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24. Share based payments

Under the Group's share option scheme for employees and Directors, options to subscribe for shares in the Company are granted normally once each year. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. 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. All share-based employee remuneration is settled in equity. Options are valued using the Black-Scholes option-pricing model. There are generally no performance conditions attached to the options, but 4 million of the options granted on 23 October 2013 and 4.4 million options granted on 27 October 2016 are subject to EPS accretion performance criteria and have the extension to five years before they can be exercised. The assumptions used in the calculation are as follows:

Grant date	Share price at issue	Exercise price	Number of options granted 000s	Number of options remaining at 31 December 2016 000s	Expected volatility	Risk free rate
02/05/07	9.25p	9.25p	1,402	19	20.4%	4.62%
23/04/08	8.50p	8.50p	5,420	610	18.6%	4.90%
14/04/09	7.75p	7.75p	2,308	153	25.5%	4.08%
26/03/10	33.25p	33.25p	1,300	1,300	43.5%	3.90%
29/04/10	34.25p	34.25p	1,503	571	45.7%	3.90%
28/04/11	34.12p	34.12p	3,982	2,422	43.9%	4.10%
19/10/12	29.25p	29.25p	3,495	2,333	49.7%	1.70%
06/06/13	37.25p	37.25p	3,371	2,397	49.8%	2.40%
23/10/13	35.75p	35.75p	5,900	3,816	49.5%	2.60%
11/04/14	33.75p	33.75p	2,727	2,014	49.0%	2.70%
27/05/15	43.75p	43.75p	3,840	3,414	47.6%	2.00%
04/12/15	46.75p	46.75p	2,000	2,000	45.3%	2.00%
10/05/16	44.00p	44.00p	1,000	1,000	51.6%	1.68%
27/10/16	47.50p	47.50p	9,078	9,078	51.7%	1.27%
27/10/16	47.50p	47.50p	4,400	4,400	51.7%	1.27%

In each case, it is assumed the majority of options will be exercised at the earliest opportunity and that on average they are exercised after four years. The expected volatility is based on historical volatility from 23 December 2003. The risk free rate of return is based on UK government bonds of a term consistent with the assumed option life.

The estimated fair value of the share options granted during the year was £3,187,000 (2015: £987,000). The charge is spread evenly over the vesting period of the options.

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

	2016		2015	
	Number 000s	Weighted average exercise price Pence	Number 000s	Weighted average exercise price Pence
Outstanding at start of year	26,443	35.18	22,053	32.56
Granted	14,503	47.25	5,840	44.78
Exercised	(4,389)	30.83	(372)	32.58
Forfeited	(1,029)	38.17	(1,078)	34.98
Outstanding at end of year	35,528	40.56	26,443	35.18
Exercisable at end of year	12,406	32.44	10,082	35.18

Share options were exercised throughout the financial year. Share options were exercised between 7.75 and 43.75 pence per share.

25. Cash generated from operations

	Group		Company	
	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Profit before taxation	22,219	15,182	3,459	1,571
Interest payable and similar charges	4,195	1,971	-	-
Interest income	(111)	(139)	(3,983)	(2,097)
Other finance costs	(693)	(52)	-	-
Depreciation of property, plant and equipment	337	239	-	-
Amortisation of intangibles	92	199	-	-
Change in inventories	(2,446)	(6,996)	-	-
Share of post-tax Joint Venture profits	(299)	(194)	-	-
Change in trade and other receivables	(14,116)	(3,308)	(93)	(1)
Change in trade and other payables	10,083	2,319	(412)	388
Share based employee remuneration	696	615	696	615
Cash generated from operations	19,957	9,836	(333)	476

As referred to elsewhere in the Annual Report, 'free cash flow' is defined by the CODM as:

	31 December 2016 £000s	31 December 2015 £000s
Reconciliation of free cash flow		
Cash generated from operations	19,957	9,836
Financing costs	(2,822)	(1,163)
Capital expenditure	(1,130)	(647)
Tax paid	(3,032)	(1,860)
	12,973	6,166

26. Capital commitments

The Group had capital commitments at 31 December 2016 totalling £569,000 (2015: £nil).

27. Contingent liabilities

Contingent liabilities are possible obligations that are not probable. The Group operates in a highly regulated sector and in markets and geographies around the world each with differing requirements. As a result, and in the normal course of business, the Group can be subject to a number of regulatory inspections/investigations on an ongoing basis. It is therefore possible that the Group may incur penalties for non-compliance. In addition, a number of the Group's brands and products are subject to pricing and other forms of legal or regulatory restrictions from both governmental/regulatory bodies and also from third parties. Assessments as to whether or not to recognise a provision in respect of these matters are judgemental as the matters are often complex and rely on estimates and assumptions as to future events.

The Group's assessment at 31 December 2016 based on currently available information is that there are no matters for which a provision is required (2015: £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

28. Pensions

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

The Group	31 December 2016 £000s	31 December 2015 £000s
Contributions payable by the Group for the year	644	362

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

29. Leasing commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2016 Land and buildings £000s	31 December 2015 Land and buildings £000s
No later than one year	500	148
Later than one year and no later than five years	1,066	415
Later than five years	1,082	-
	2,648	563

During the year, the Group entered into an extended and enlarged lease agreement in respect of its UK registered office, based in Chippenham.

30. Related party transactions

During the year the Company received funds of £697,000 (2015: £300,000) from its subsidiary Alliance Pharmaceuticals Limited. Net payments of £60,000 (2015: £54,000) were made by Alliance Pharmaceuticals Limited on behalf of Alliance Pharma plc. Interest of £3,983,000 (2015: £2,064,000) was charged to Alliance Pharmaceuticals Limited on the total outstanding debt. During the year the Company re-invested £2,128,000 (2015: £64,010,000) in Alliance Pharmaceuticals Limited. During the year an amount of £696,000 (2015: £615,000) was charged to Alliance Pharmaceuticals Limited by the Company for the employee share based payment. During the year the Company charged interest of £49,000 (2015: £33,000) to Alliance Pharmaceuticals SAS on the total outstanding debt.

Dividends declared by Alliance Pharmaceuticals Limited due to the Company are £1,731,000 for the year ended 31 December 2016 (2015: £5,700,000). During the year dividends of £1,731,000 were paid by Alliance Pharmaceuticals Limited to the Company.

During the year the Group made payments on behalf of Unigreg of £105,000 (2015: £719,000). Interest receivable from Unigreg was £48,000 (2015: £48,000). During the year the Group made payments on behalf of Synthasia of £399,000 (2015: £353,000). Interest receivable from Synthasia was £42,000 (2015: £37,000).

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

31. Joint Ventures

Name	Principal Activity	Country of Incorporation	% Owned
Unigreg Limited	Distribution of pharmaceutical products to China	British Virgin Islands	60
Synthasia International Company Ltd	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'.

The Group owns 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 does not have control over the financial and operating policies of Unigreg Ltd, despite the Group's 60% ownership interests. Consequently the Company is 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 determined that, as a result of these rights, Synthasia is accounted for as a Joint Venture.

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 2016	1,465
Share of post-tax profits of Joint Ventures	299
Dividends received	(300)
At 31 December 2016	1,464

The carrying value of Joint Ventures is split as follows:

	31 December 2016 £000s	31 December 2015 £000s
Unigreg Limited	1,027	1,003
Synthasia International Company Limited	437	462
	1,464	1,465

Amounts owing from Joint Ventures are as follows:

	31 December 2016 £000s	31 December 2015 £000s
Unigreg Limited	1,462	1,462
	1,462	1,462

The Group's principal Joint Venture is Unigreg Limited.

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for the year ended 31 December

31. Joint Ventures continued

The total assets, liabilities, revenue and profits of the Group's principal Joint Venture, Unigreg Limited, which are included in the Group's financial statements, are as follows:

	31 December 2016 £000s	31 December 2015 £000s
Intangible fixed assets	3,250	3,250
Current assets	800	1,393
Current liabilities	(99)	(533)
Non-current liabilities	(2,437)	(2,437)
Net assets	1,514	1,673

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Income	2,068	1,523
Cost of sales	(1,061)	(781)
Administration and marketing expenses	(352)	(274)
Finance charges	(115)	(115)
Profit before taxation	540	353

The share of losses of the Group's individually immaterial Joint Ventures which are included in the Group's financial statements, are as follows:

	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Loss from continuing operations	(26)	(18)

32. Ultimate controlling party

The Company's shares are listed on the Alternative Investment Market ('AIM') and are held widely. There is no single ultimate controlling party.

33. Acquisitions

On 17 December 2015 the Company completed the acquisition of certain assets and businesses from Sinclair IS Pharma plc. The acquisition included 27 products including four key growth brands (Kelo-cote, Flammacerium, Aloclair and Atopiclair).

The total consideration for the acquisition was £127.5m, plus £5.3m for inventory. Total consideration of £131.0m was satisfied on completion, being £126.3m plus the estimated stock value of £4.7m. A further £1.2m was paid in January 2016 and the remaining £0.6m paid during 2016. These amounts were satisfied wholly in cash, funded partly by way of new loans, and partly by the issue and allotment of additional shares.

Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. In particular, the fair value of contingent consideration is dependent on the outcome of many variables including the acquirees' future sales (see note 20). In the 2015 Annual Report provisional fair values were assigned to identified assets and liabilities. During 2016, these fair values have been finalised and new information about facts and circumstances that existed at the date of acquisition has been used to adjust the acquisition accounting.

The adjusted fair values of the assets acquired, as at 17 December 2015, are as follows:

	Provisional fair value of assets and liabilities acquired £000s	Fair value adjustments £000s	Finalised fair value of assets and liabilities acquired £000s
Intangible fixed assets	135,800	–	135,800
Tangible fixed assets	209	–	209
Other non-current assets	122	–	122
Current assets (excluding cash and cash equivalents)	5,255	(175)	5,080
Non-Current liabilities	(109)	(100)	(209)
Net assets (note 11)	141,277	(275)	141,002
Deferred tax liability (note 22)	(29,200)	10,113	(19,087)
Goodwill	20,694	(9,838)	10,856
Fair value of net assets acquired	132,771	–	132,771
Cash paid			131,000
Cash payable			1,771
Total Consideration			132,771

The fair value review of intangibles acquired as a result of the Sinclair business combination on 17 December 2015 identified a fair value adjustment of £128.4m. In the prior year it was estimated that none of this fair value adjustment would be reflected in the fiscal accounts of any group companies and so would not attract any tax relief. During management's final review of the Sinclair business combination, it has become apparent that £53.2m of this fair value adjustment will in fact be reflected in the fiscal accounts of a UK group company and will be qualifying for intangibles tax relief. Accordingly, the £29.2m deferred tax liability arising on the total fair value adjustments of the Sinclair business combination disclosed in the 2015 consolidated accounts has been revised to £19.1m with the goodwill arising on acquisition being reduced accordingly by £10.1m.

The other fair values adjustments identified of £0.3m have been adjusted in the current financial year.

The goodwill fair value adjustment in relation to deferred tax has been adjusted in the comparative, as a measurement period adjustment, which is consistent with the guidance in IFRS 3.

34. Post balance sheet events

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 the prior year. The terms of the agreement are the sum of £5.0m of which £4.0m is payable on or before 30 April 2017 and £1m on or before 30 June 2018, and all rights to Flammacerium (US) with immediate effect. This will be treated as exceptional income in the 2017 financial statements, and the cash element of the compensation will be used to reduce the Group's current bank loans.

Shareholder Information

(Unaudited information)

Shareholder enquiries

The Company's share register is maintained on our behalf by Capita Asset Services, who are responsible for updating the register, including details of changes to shareholders' addresses and purchases and sales 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 Capita 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).

Annual General Meeting

The Company's next Annual General Meeting will be held at 10:00am on Thursday 25 May 2017 at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN.

Financial Calendar

Annual General Meeting	25 May 2017
Shares trade 'ex' final dividend	15 June 2017
Final dividend record date	16 June 2017
Payment of final dividend	12 July 2017
Interim results announcement	13 September 2017
Year end	31 December 2017
Preliminary announcement	late March 2018

Beware of side-effects...

Private investors sometimes receive unsolicited approaches, often by phone, inviting them to undertake a transaction in shares they own. These are often fraudulent and can begin with the offer of a free research report into a company in which you hold shares, a free gift or discount on their dealing charges. You will often be told that you need to make a quick decision or miss out on the deal. A common scam is for fraudsters to cold-call investors offering them worthless, overpriced or even non-existent shares, with the promise of high returns. Those who invest usually end up losing their money and the Financial Conduct Authority (FCA) found that victims of share fraud lose an average of £20,000, with the biggest individual loss recorded by the police being £6m.

If you do not know the source of the call, check the details against the FCA website below and, if you have any specific information, report it to the FCA using the Consumer Helpline or the Online Reporting Form. If you have any concerns whatsoever, do not take any action and do not part with any money without being certain that:

- you fully understand the transaction
- you know who you are dealing with and that they are registered with and authorised by the FCA; and
- you have consulted a financial adviser if you have any doubts

Remember, if it sounds too good to be true, it almost certainly is. You run the risk of losing any money you part with.

If you are worried that you may already have been a victim of fraud, report the facts immediately using the Action Fraud Helpline. Should you want any more information about 'boiler room' and other investment-based fraud, here are some useful official sources:

Action Fraud Helpline

0300 123 2040

FCA Consumer Helpline

0800 111 6768

Action Fraud websitewww.actionfraud.police.uk**FCA Scams & Swindles website**www.fca.org.uk/scams

Five Year Summary

	Year ended 31 December 2012*	Year ended 31 December 2013*	Year ended 31 December 2014*	Year ended 31 December 2015	Year ended 31 December 2016
	£m	£m	£m	£m	£m
Revenue	42.4	45.3	43.5	48.3	97.5
Operating profit before exceptional items	12.3	13.3	11.8	10.6	25.6
Exceptional operating items	–	–	0.6	(6.3)	–
Operating profit after exceptional items	12.3	13.3	11.2	17.0	25.6
Profit before tax before exceptional items	10.8	12.0	10.8	8.9	22.2
Profit before tax after exceptional items	10.8	12.0	10.2	15.2	22.2
Intangible assets	77.9	87.1	88.9	259.9	264.8
Tangible assets	0.6	0.6	0.4	1.0	1.8
Current assets	19.5	16.8	15.7	27.8	49.3
Current liabilities	21.9	14.9	11.4	31.8	50.3
Equity	51.8	64.7	70.8	162.4	179.3
Average shares in issue (millions)	240.9	250.8	264.1	272.7	469.4
Shares in issue at period end (millions)	243.0	264.1	264.1	468.2	472.6
Earnings per share – basic (p)	3.61	3.82	3.17	4.65	3.85
Earnings per share – adjusted basic (p)	3.61	3.82	3.36	3.69	3.82

*Restated for impact of IFRS 11

Advisors and Key Service Providers

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London EC4M 7LT

Financial PR**Buchanan Communications**

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Registrars**Capita Asset Services**

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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.

Trade marks

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

Absorbagel™, Acnival™, Actidose Aqua™, Affina-Lift™, Alliance™, Alliance and Logo, Alliance Generics, Aloclair™, Alnostop™, Anhesol™, Aquadrate™, Ashton & Parsons™, Ashton & Parsons Infant Powder™, Atarax™, Atopiclair™, Avloclor™, Biocorneum™, Biorphen™, Biotaches™, Biotanoid™, Broflex™, Buccastem™, Buccastem M™, Canker-X™, Ceanel™, Clearway™, Clearway Stoma Bridge™, Contisol™, Decapinol™, Deltacortril™, Deogel™, Dermachronic™, Dermacide™, Dermamist™, Distamine™, Effadiane™, Emezine™, Energieyes™, Fadiamone™, Fazol™, Flammacerium™, Flammaclair™, Flammasun™, Flammazine™, Forceval™, Forceval Junior™, Fractar Fractar 5™, Gen-ongles™, Gregovite C™, Hemopressin™, Herpclair™, Hydrobath™, Hydromol™, Irenat™, ISIB™, Isprelor™, Jonctum™, Kelo-cote™, Kelo-stretch™, Lift™, Lift Medical Adhesive Remover™, Lift Plus/ Lift +™, Lypsyl™, Lypsyl- It's on everyone's lips™, Lypsyl Kissables™, Lypsyl Shimmer™, Lysovir™, MacuShield™, MacuShield Gold™, Meted™, MolluDab™, Naseptin™, Natulan™, NaturCare™, NaturCare Breeze™, NaturCare Fragrant™, NaturCare IPD™, NaturCare Zest™, NuSeals™, Occlusal™, Ondemet™, Opus™, Oxyplastine™, Paludrine™, Papclair™, Papuduo™, Papustil™, Pavacol™, Pavacol-D™, Pentrax™, Peptavlon™, Periocycline™, Periostan™, Periostand™, Periostat™, Periostatus™, Permitabs™, Posidorm™, PS20™, Q Device™, Quinocort™, Quinoderm™, Quinosept™, Reloxyl™, Reticus™, Rincinol™, Rizotret™, Rizuderm™, Roman in Chariot Device™, Rympa™, Savarine™, Sebclair™, Skinsafe/Skinsafe™, Skinsafe Non Sting Protective Film™, Stemflova™, Stylised O Device (in orange)™, Syntomet™, Syntometrin™, Syntometrine™, Terra-Cortril™, T-Go™, Thwart™, Thyrogard™, Timocort™, Timocreme™, Timodine™, Tridesonit™, Trust the science™, Uniflu™, Unigreg™, Unisomnia™, Variquel™, Verucide™, Vibramycine™, Vita-Dermacide™.

The following marks are all used under licence by Alliance Pharmaceuticals Limited:

Xenazine™ is a registered trade mark of Biovail Laboratories International (Barbados)

Gelclair™ is a registered trade mark of Helsinn Healthcare S.A.

ImmuCyst™ is a registered trade mark of Sanofi Pasteur Limited

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