Acacia Pharma Group plc
Annual Report and
Consolidated Financial Statements
for the year ended 31 December 2018

Registered number 09759376

Directors and advisers

Directors

Dr Julian Gilbert
Christine Soden
Dr Patrick Vink
Edward Borkowski
Dr John Brown
Scott Byrd
Dr Johan Kördel
Pieter van der Meer

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Chairman's introduction

Our vision is to become a leading US hospital pharmaceutical company

Our initial strategy is to develop and sell new nausea and vomiting treatments directly in the US. The key elements of this strategy are:

- Complete the registration of our lead product BARHEMSYS™ (amisulpride injection) for the prophylaxis and treatment of post-operative nausea and vomiting (PONV)
- Directly commercialise BARHEMSYS in the US through our own sales channel, seeking strategic partners where commercially viable for ex-US markets
- Complete the development of APD403 for the management of chemotherapy induced nausea and vomiting (CINV) and leverage our commercial infrastructure to sell APD403 to hospital and office-based oncologists
- Review opportunities to identify, acquire or in-license complementary products.

We took important steps towards achieving our vision in 2018. In March we successfully completed the IPO of the Group on Euronext Brussels, raising €40m before costs. Subsequently we began the rapid growth of our US commercial and medical infrastructure, recruiting some 35 highly experienced industry professionals, and undertaking multiple pre-launch activities and building processes and resources to support our future growth plans.

While we continue to develop and embed a strong governance framework across the culture of our organisation, we also take a balanced approach to ensure that our processes are efficient and support our growth strategy.

Business performance

We monitor our operating performance at regular Board meetings and, through an annual strategy review, we concentrate on forward planning to support long-term sustainable growth.

Dividends

The Directors intend to retain future earnings, if any, to finance the operations of the Group's business and do not anticipate paying any cash dividends in the foreseeable future. In general, any future dividend will be subject to determination by the Board based on the Group's results of operations and financial condition, its future business prospects, any applicable legal or contractual restrictions and any other factors that the Board considers relevant.

Leadership & people

We invest in the development of our people to ensure we have the capabilities to succeed. Our business standards and ways of working are guided by our Code of Conduct and are embodied in day-to-day behaviours.

Internal control & risk

The Group's risk management framework is based on the UK Corporate Governance Code. Our internal processes and controls provide us with a clear understanding of the principal risks inherent in our business operations and strategy, and give us confidence in the appropriateness of the actions we take to mitigate them. These risks and the manner in which they are mitigated are summarised in the risk management and principal risks section on pages 26 to 27.

Stakeholder engagement

Ensuring good communication with our shareholders and employees is important to us. We meet with shareholders throughout the year, and we regularly engage with, and seek input from, our employees.

Board changes

Strong corporate governance and leadership is an essential part of Acacia Pharma's strategy. We brought two highly experienced industry professionals onto our Board in 2018, John Brown and Edward Borkowski, and continue to assess the effectiveness and make-up of the Board as the Group evolves.

Outlook

In the year ahead we anticipate launching BARHEMSYS onto the US market and delivering first revenues. We are working closely with our suppliers and believe them capable of delivering the GMP compliant product we need. We are highly encouraged by the interest shown by healthcare professionals in better managing PONV and patient outcomes.

I am excited by Acacia Pharma's prospects. We believe we can deliver differentiated, effective products to our chosen markets. As clearly stated at our IPO, we will require additional capital in order to build our sales force and achieve our vision. With the right financial resources, I am confident our strategy will create long-term value for all our stakeholders and deliver a real difference to our future customers and to their patients' lives. This is a fundamental motivation for colleagues throughout the Group.

I would like to welcome all our new employees and to thank all of our employees for their dedication and professionalism, and to thank our existing and new shareholders for their belief in our business.

Dr Patrick Vink
Chairman

27 February 2019

CEO's Strategic report

Implementing our strategy

Healthcare systems around the world are focusing on patient outcomes and enhancing recovery after surgery

Mobilising patients as quickly as possible improves the rate at which they recover, reduces the incidence of secondary complications and hospital readmittances and improves healthcare economics. Effective management of PONV is a key factor in achieving these goals, since PONV prevents patients moving through the hospital or day-surgery centres to home and can impair the clinical progress post-surgery in certain procedures, including for example bariatric surgery, upper GI surgery or wired-jaws.

Our strategy

PONV remains poorly managed in many patients. It is caused by the stimulation of one or more biological pathways. The prevention of PONV is, therefore, managed by prescribing one or more antiemetics from different mechanistic classes that can inhibit this stimulation. Current practice in the US is that moderate to high risk patients are likely to receive a backbone of a $5HT_3$ antagonist (eg ondansetron) and possibly a steroid (eg dexamethasone). Despite this, many patients (around one third) still suffer PONV. It is not possible to treat these patients with a drug class they have previously received before surgery and that has not proved to be effective and other well characterised safe and effective options are limited.

The Group sees an opportunity to add an important treatment to the armamentarium of anaesthetists and surgeons, delivering an effective dopamine antagonist, BARHEMSYS. BARHEMSYS has been shown, in an extensive and robust Phase 3 clinical trial programme, to treat patients who suffer PONV despite having received prophylaxis treatment with antiemetic drugs from other classes, and can be also used in combination with these other antiemetics to prevent PONV in the higher risk patients and procedures.

A scalable platform

During 2018, we built the capabilities and infrastructure to support a targeted hospital sales force and US launch of a PONV product in the US. We believe this infrastructure will support a planned field force of an initial 60 representatives, sufficient to launch BARHEMSYS once approved, and to expand to 100 as demand justifies. Once in place, this platform could support the sale of other products in the hospital, such as APD403, which has already successfully completed two Phase 2 studies for CINV. We will also look to add additional products if and when opportunities arise.

Operational progress

The Group submitted the BARHEMSYS new drug application (NDA) to the US Food and Drug Administration (FDA) in October 2017. On 5 October 2018 the FDA issued a Complete Response Letter (CRL) to the Company, indicating that the NDA could not yet be approved until deficiencies reported during a recent pre-approval FDA inspection of the contract manufacturer supplying of amisulpride, the active pharmaceutical ingredient of BARHEMSYS, had been resolved. No inadequacies were noted regarding the purity or stability of the active ingredient, or the manufacturing process or quality of the finished product.

Importantly, no concerns were raised by FDA on any of the clinical or non-clinical data in the application and no further studies or data analyses will be required for approval. The Group worked closely with the contract manufacturer in the preparation of a Corrective and Preventive Action (CAPA) plan to address the deficiencies at the facility and the manufacturer subsequently submitted the CAPA to the FDA, whereupon the Group resubmitted its NDA application.

On 5 December 2018, the FDA confirmed it had accepted the Group's resubmission of the NDA for BARHEMSYS as a complete response, addressing the deficiencies identified in the CRL issued by the FDA. The resubmission was classified as Class 2 and the FDA has given a Prescription Drug User Fee Act (PDUFA) goal of reviewing and acting on it no later than 5 May 2019.

The BARHEMSYS product label sought by the Group is for the

(i) treatment of PONV in patients who have received antiemetic prophylaxis with an agent of a different class or who have not received prophylaxis (at a dose of 10 mg); and
(ii) prevention of PONV, either alone or in combination with an antiemetic of a different class (at a dose of 5 mg).

The planned label would include rescue treatment in patients who have failed prior prophylaxis, and combination prophylaxis with other antiemetics in higher risk patients, the two key commercial unmet needs. The Directors believe that such a label for BARHEMSYS would provide it with a strong competitive position once approved by the FDA.

The Group expanded rapidly during 2018, rising from six full-time employees at IPO to 40 by the year-end, including building its US commercialisation and administration team to approximately 35 full-time employees. This US team, which includes highly experienced sales, marketing, regulatory and operations professionals, is expected to rise to around 40 as BARHEMSYS nears or reaches approval and by a further 60 once the Group is in a position to bring on its direct field staff.

Future drivers of growth

As we near our expected launch of BARHEMSYS, we have built a solid commercial platform capable of supporting a specialist hospital salesforce and driving forward to meet the large opportunity we see in the treatment of PONV, CINV and related areas.

Dr Julian Gilbert
Chief Executive Officer

27 February 2019

Market overview

Where does our strategy fit in today's healthcare market?

Growing demand for high-quality treatment and visibility of performance

In recent years, there have been fundamental shifts in consumer empowerment particularly in the US healthcare sector and particularly with respect to elective surgery. Consumers now have more choice and understanding and a greater say in who delivers their treatment and where. Moreover, US Government initiatives have recognised the need to improve standards, with patient satisfaction ratings having a bearing on hospital profitability. Patients have rated PONV as the most feared side-effect of surgery, worse even than pain, and so better management of PONV should both improve a patient's outcomes, their perception of their overall hospital experience and thus benefit hospitals and surgeons through enhanced ratings and reputation.

Enhanced recovery after surgery (ERAS)

ERAS is a multimodal perioperative care pathway designed to achieve early recovery for patients undergoing major surgery. ERAS represents a paradigm shift in perioperative care in two ways. First, it re-examines traditional practices, replacing them with evidence-based best practices when necessary. Second, it is comprehensive in its scope, covering all areas of the patient's journey through the surgical process.

The key factors that keep patients in the hospital after surgery include PONV, the need for parenteral analgesia, the need for intravenous fluids secondary to gut dysfunction, and bed rest caused by lack of mobility.

The central elements of the ERAS pathway address these key factors, helping to clarify how they interact to affect patient recovery. In addition, the ERAS pathway provides guidance to all involved in perioperative care, helping them to work as a well-coordinated team to provide the best care.

Markets and competition

The healthcare industry is highly competitive. Companies compete to attract and retain technical and commercial talent, to develop and acquire products, and to gain share in their chosen markets and geographies. We focus on medical areas where we can develop market-leading positions through our capability and resources to undertake product innovation, clinical development and commercial expansion.

Pricing and reimbursement

Pricing and reimbursement remain challenging in many markets with governments, insurers and other private payers continuing to implement strict controls on cost.

PONV management is typically covered as part of the DRG (diagnosis related group) system in the US, whereby hospitals receive a defined amount for a defined procedure and must pay all the costs of delivering the procedure from that sum. This includes the cost of patient care, medical staff, drugs, equipment and any costs relating to patient readmission. As such, our task will be to convince each hospital of the pharmaco-economic benefit of using BARHEMSYS for the treatment of patients with PONV having failed prophylaxis, or in the prophylaxis of higher-risk patients. Our clinical study results demonstrated significant reductions in time spent in expensive post-anaesthesia care units post-surgery and in overall hospital stay, thus reducing the costs to a hospital and improving patient flow through the system.

We are also building our market access capabilities so that we can work with hospital buying groups, policy makers and regulators to ensure that our products represent value for money and thus gain market acceptance and appropriate pricing.

Regulation

The healthcare industry is highly regulated by governments, with strict rules overseeing research, clinical development, manufacturing and commercial activity. We are developing appropriate quality, pharmacovigilance and compliance systems and procedures to ensure we meet the strictest regulatory requirements.

Our business model

Strategic priorities

We intend to monitor our longer-term performance against three strategic priorities: (1) delivering products that meet the needs of our customers and their patients; (2) recruiting and retaining high-calibre individuals, ensuring our people have the right capabilities and that our practices are fit for purpose and are scalable; and (3) financial key performance indicators (KPIs).

Progress against objectives set for 2018

Our key objectives for 2018 were:

Complete the IPO of the Group and its listing on Euronext Brussels and raise at least €30 million

We met this objective, completing the IPO on 6 March and raising €40 million.

Gain FDA approval of the NDA for BARHEMSYS

We did not meet this objective, receiving a CRL from the FDA on 5 October 2018. However, our NDA application received no adverse comments with respect to the safety or clinical efficacy of the drug. Our NDA resubmission was made within four weeks of the CRL and accepted by the FDA in December 2018.

Secure additional debt or equity finance

We met this objective in part. We secured a new $30 million venture debt facility with Hercules Technology Growth Capital, of which $10 million has been drawn. A second tranche of $10 million is available upon the NDA approval of BARHEMSYS.

Build the infrastructure to support a listed company and to support the planned US launch of BARHEMSYS in H1 2019

We aim to ensure that our organisational structure, capabilities and systems are scalable and can support our growth strategy. We grew our organisation from 6 people in March 2018 to 40 by the year-end, putting in place virtually all of the sales and marketing, medical, regulatory and operational leadership required to support a national hospital salesforce and product launch.

Priorities for 2019

Our key objectives for 2019 are:

Gain FDA approval of the NDA for BARHEMSYS with the required prescribing label

Our revised PDUFA date for the approval of the NDA for BARHEMSYS is 5 May 2019 and we aim to secure approval on or before that date.

Secure additional debt or equity finance

We hope to draw the second $10 million tranche from the $30 million venture debt facility with Hercules Technology Growth Capital which is triggered by the NDA of BARHEMSYS and to meet a further requirement that will open up the remaining $10 million of the facility, relating to obtaining additional equity capital.

In order to finance the full launch of BARHEMSYS we will need to secure additional debt or equity capital in mid-2019.

Recruit a 60-strong, highly skilled and experienced US hospital salesforce and launch BARHEMSYS

We have identified the hospitals in the US with the greatest potential for fast adoption of BARHEMSYS and grouped them into appropriately sized territories. Our Regional Business Directors are working to identify suitable candidates for the sales team in those territories. Our preparations for a successful launch are well underway, with contacts being made through our Medical Science Liaisons with key opinion leaders, anaesthetists, surgeons and specialist nursing groups to reinforce the need to better manage PONV. We are working through our National Accounts team to educate key buying groups, integrated healthcare delivery networks and other centralised administrators of healthcare delivery.

Distribution arrangements are also under way with logistics and wholesaler vendors to ensure efficient delivery of our product once approved.

Secure acceptance of BARHEMSYS on as many major hospitals' pharmacy lists as possible and deliver product sales

BARHEMSYS, once approved, will typically be paid for by hospitals through the fixed DRG payments received in respect of any single surgery. The success of the product is geared to gaining acceptance on the relevant hospital's formulary and embedding its use into "standing orders" relating to management of PONV within that institution. Typically, access to formulary is managed through the pharmacy and therapeutics (P&T) committee comprised of representatives from various departments including pharmacy (responsible for managing the cost of delivering optimal patient treatments), subject matter experts (in this case, anaesthetists) and specialist advocates (surgeons, theatre and post-surgery nurses).

Once BARHEMSYS is launched we will measure progress against the number of P&T committees for which BARHEMSYS is up for review, the number of formulary approvals we receive and, eventually product sales.

We will build additional pharmaco-economic data and evidence to support our arguments to gain formulary access.

Determine the optimum development pathway for APD403 in CINV and advance the remaining clinical studies

Discussions are underway with the FDA to agree the most efficient way to bring APD403 to approval and market. Provided sufficient finance is available, we target commencing pivotal clinical studies in 2019.

Ways of working

Building our culture

As we grow, building and maintaining a strong, effective, commercial culture will be an essential component of our success. Regular Group-wide meetings, led by the CEO and featuring news, stories and major developments, help to keep employees informed and to reinforce our ways of working. Our cultural hallmarks define a set of behaviours that provide consistent ways of working as the Group grows. This year, we put particular emphasis on encouraging communication, an appropriate appetite for risk, critical thinking, efficiency, and accountability.

Diversity

Our employees come from many different backgrounds and represent a diverse range of race, religion, gender, sexual orientation and age, although as we plan to deliver a highly effective launch with a relatively small commercial team, we have focused heavily on recruiting highly experienced staff. Importantly, our employees offer a diversity of opinions and perspective and have the confidence to express them. We foster an open and inclusive culture that allows employees to understand and trust each other, and to listen and learn from each other's experiences. We believe this leads us to better business decisions and more innovative solutions to problems. The Group has an Equal Treatment, Equal Opportunities and Diversity policy. This provides that the Group will take all reasonable steps to employ and promote employees on the basis of their abilities and qualifications without regard to age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (including colour, nationality and ethnic or national origins), religion or belief, sex and/or sexual orientation. The Group appoints, trains, develops and promotes on the basis of merit and ability alone.

The Group is also a supporter of diversity in the boardroom and is supportive of the Financial Reporting Council's aims to encourage such diversity, although the Group remains of the opinion that appointments to the Board should be made relative to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise.

The following table sets out a breakdown by gender as at 31 December 2018 of (i) the number of persons who were Directors of the Company; (ii) the number of senior managers; and (iii) the number of persons who were employees of the Group (excluding those persons included in (i) and (ii)):

Category	Male	Female
(i) Directors (including non-executive directors)	7	1
(ii) Senior managers	3	1
(iii) Employees, in the Group as a whole	23	17

Health and well-being and the environment

The physical and mental well-being of our employees is a high priority for Acacia Pharma. We operate in a relatively low-risk, office-based environment, but as our business expands, we will have more field-based employees. We will instigate policies and training to ensure employee safety. Our direct environmental impact is low, with only small office facilities. Wherever possible we will encourage reductions in the use of electricity, reductions in air and road travel through the use of video-conferencing and similar communications, and recycling.

Our code of conduct

We operate in a highly regulated industry, and accordingly our employees are trained and regularly reminded of the ethical behaviours expected of them. We are building a Code of Conduct and intend to train every employee annually, and contractors and other third parties we work with are expected to adhere to the same standards. The principles and procedures described in the Code of Conduct, along with supporting policies, ensure that we operate in line with applicable industry codes of practice (eg ABPI, PhRMA), and the specific laws and regulations of the countries in which we do business. We encourage employee incident reporting and are committed to investigating and dealing with all concerns in an open and honest manner, and in protecting those raising concerns. Employees can report concerns in a variety of ways, including via a confidential whistleblowing helpline.

Anti-bribery and corruption

Bribery is considered illegal in all countries in which Acacia Pharma conducts business. Our anti-bribery and corruption policy prohibits employees, and those acting on their behalf, from offering anything of value as a bribe or inducement to others to make decisions that favour Acacia Pharma's interests. These policies are designed to promote compliance with the UK Bribery Act, the US Foreign Corrupt Practices Act (FCPA), and other local law equivalents.

We are committed to respecting international standards such as the United Nations Universal Declaration of Human Rights. All appropriate staff will be provided with information, instruction and training to raise awareness of the responsibilities under the Modern Slavery Act (the Act), and those directly responsible for the selection of new suppliers and on-going management of existing supplier relations are required to act in accordance with the Act's requirements.

Transparency

Acacia Pharma will be subject to the data collection and reporting requirements of the US Physician Payment Sunshine Act. Systems are being installed to collect, track, and report payments to healthcare professionals and organisations.

Risk management

Our risk management systems and processes enable us to identify, assess, manage and mitigate the key existing and newly emerging risks facing the business. Acacia Pharma's Board of Directors is responsible for the Group's risk management and internal control systems, and for regularly and robustly assessing these systems.

We believe the most significant risks that could materially affect the Group's ability to achieve its financial goals and its operating and strategic objectives are: obtaining/maintaining product regulatory approvals; obtaining sufficient capital; recruiting an experienced field sales force; gaining acceptance on hospital formularies at the major surgery centres; ensuring continuity of product supplies; and healthcare law compliance.

Financial review

Strengthened balance sheet

Operating loss

The operating loss increased by £12.0m to £15.0m (2017: £3.0m), reflecting increased R&D activities surrounding the NDA and product development, the costs of building and running our US commercial infrastructure and launch preparations, and the costs of the IPO.

R&D expenditure was £3.8m (2017: £1.5m), up £2.3m, reflecting activities surrounding the management of the NDA submission, product development and study DP10022 which delivered additional data with respect to the cardiac safety of BARHEMSYS.

Sales and marketing expenses were £6.9m (2017: £nil) in the year, driven by the costs of recruiting and running our new commercial team and significant pre-launch marketing, education, training, distribution, regulatory and other activities.

General and administrative costs rose £2.8m to £4.3m (2017: £1.5m), reflecting the costs conducting its IPO and listing on Euronext Brussels and the additional costs of being a public company.

Finance income and expense

Finance income rose to £0.9m, comprising the interest earned on the proceeds of the IPO and exchange gains on cash and other balances held.

Finance expense fell £1.4m in the year to £2.1m (2017: £3.5m) primarily as a result of the conversion of the preferred shares and the convertible loan note into ordinary shares upon the IPO.

Taxation

The tax credit for 2018 was £0.7m (2017: £0.3m) relating to R&D credits to be claimed on certain R&D activities.

Loss for the financial year and loss per share

The post-tax loss for 2018 was £15.5m (2017: £6.2m) with the increase of £12.0m in the operating loss offset by reduced net finance expense and the increased tax credit. The loss per share was 35p (2017: 232p) with the increase in losses offset by the increase in the number of ordinary shares following the conversion of the preferred shares and convertible loan notes to ordinary shares and the issue of 11.1m new ordinary shares upon the IPO.

Balance sheet

Current assets

Current assets increased by £26.8m to £30.4m, dominated by the increase in cash and cash equivalents to £29.4m (2017: £3.1m).

Liabilities

Non-current liabilities of £7.0m represent the long-term proportion of the new debt facility of up to $30m entered into with Hercules Technology Growth Capital of which $10m was drawn down on 30 June 2018. The loan is interest only until January 2020 at the earliest, and a further $10m can be drawn upon the approval of the NDA for BARHEMSYS when the interest-only period will extend by three months.

Current liabilities reduced significantly to £4.1m (2017: £21.4m) with an increase in trade and other payables of £2.7m to £3.7m offset by the reduction of £11.1m in the liability component of convertible shares and £4.0m in convertible loan notes, each upon their conversion into ordinary shares upon the IPO. Furthermore, the debt facility with Silicon Valley Bank (2017: £5.2m) was repaid in full in June 2018.

Share capital and total equity

Total equity at the 31 December 2018 was £19.3m compared to a deficit of £17.8m at the previous year end.

The Company issued 11,111,111 new ordinary shares for €3.60 per share in cash at its IPO on Euronext Brussels on 6 March 2018, raising proceeds of £35.7m gross and delivering net proceeds of £34.1m after payment of issue costs of £1.7m. In addition, the Company issued 39,143,288 ordinary shares in satisfaction of liabilities upon the conversion of S ordinary, P shares, A ordinary and B, C and D preferred shares and of the convertible loan notes into ordinary shares, enhancing equity by £16.5m.

A further 410,144 ordinary shares were issued upon the exercise of share options, raising proceeds of £0.1m. Share-based payments charges of £0.7m and unrealised exchange gains on translation of the balance sheet of Acacia Pharma Inc of £1.2m further enhanced total equity, being offset by the losses for the year of £15.5m.

Viability statement

The Directors have assessed the prospects of the Group. The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, through to June 2020, being the end of its current business projection model.

The activities of the Group, together with factors likely to affect its future development and performance, its financial position, its cash flows, liquidity position and borrowing facilities are described in this Strategic Report on pages 2 to 11. The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These risks and the manner in which they are mitigated are summarised in the risk management and principal risks section on pages 26 to 27.

Taking account of the Group's financial position and principal risks, the Directors assess the prospects of the Group by reviewing at least annually the annual budget, quarterly reforecasts, the three-year strategic plan and the Group's risk framework. The Directors review the potential impact of each principal risk as well as the risk impact of any major events or transactions.

The major risks facing Acacia Pharma are those surrounding gaining US regulatory approval for its lead asset BARHEMSYS, obtaining sufficient additional debt or equity capital and the timing of both of these events. The Directors have a reasonable expectation that the Group will obtain regulatory approval for BARHEMSYS at some stage, meaning the business will own a valuable asset. The ability to raise capital in the near term will depend on wider financial market influences, and cannot be certain, and could adversely influence the ability to launch BARHEMSYS in the time frame and in the manner anticipated. The Group has significant cash reserves as at the date of this report, and the Directors believe they can manage resources such that value can be delivered from BARHEMSYS either through its planned commercialisation strategy or through partnering, thus ensuring the Group's viability.

Presentation in US Dollars (USD)

Acacia Pharma's activities will be predominantly delivered in US dollars and as such the Group will in future present in US dollars, starting with its Interim Results for the six months ending 30 June 2019.

Summary and outlook for 2019

Acacia Pharma is pleased with the progress made in the year towards bringing BARHEMSYS to US regulatory approval and in building an effective US commercial operation. Detailed work undertaken over the last year has only enhanced the Directors' belief in the commercial and medical value of delivering a new solution to better manage PONV and of the commercial prospects for BARHEMSYS.

This should enable the business to deliver significant long-term value for shareholders.

Christine Soden
Chief Financial Officer

Approval of the strategic report

This strategic report is approved by the Board and signed on its behalf by:

Dr Julian Gilbert
Chief Executive Officer

Letter from the Chairman

Dear Shareholder,

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2018 which outlines the leadership of the Group, the governance arrangements that are in place and explain how we have reviewed their effectiveness.

High standards of corporate governance are fundamental to our business and are implemented and supported through appropriate internal policies and procedures. The responsibility for ensuring this framework is effective lies with the Board, and we are constantly striving to improve standards while building a successful company.

The Directors recognise the importance of sound corporate governance. As a company incorporated in the European Union, the shares of which are admitted to trading on the regulated market of Euronext Brussels, the Directors are aware that the Company should at least apply the corporate governance code applicable in the member state of its registered office, or of its listing, and that it has the freedom to choose which of the two potentially applicable codes it wishes to apply if the codes are different.

Since the 2009 Belgian Code on Corporate Governance, dated 12 March 2009, applies to Belgian companies admitted to trading on a regulated market, the Board has resolved not to apply the Belgian Code on Corporate Governance, but to apply the UK Corporate Governance Code issued by the Financial Reporting Council in April 2016 (the "Code") as it is deemed more appropriate in view of the fact that the Company was incorporated in England and Wales. The Code contains broad principles and specific provisions that set out standards of good practice. Our Corporate Governance Report, which includes reports from the Nomination and Audit Committees and the Directors' Remuneration Report, is structured to report against these key areas and sets out how we have applied the Code's main principles and whether we complied with its provisions.

We recognise the benefits of diversity in the workforce and, whilst we will continue to make all appointments based on the best candidate for the role, we acknowledge that it is not just gender diversity that supports the strength and future success of the business and we remain focused on achieving the right level of diversity whether related to ethnicity, gender, creed or culture.

Each year, I lead an internal review and evaluation of the Board's performance and the performance of individual Directors. John Brown, as Senior Independent Director, leads the process for the evaluation of my performance. The review conducted in early 2019 concluded that the performance of the Board, its Committees, the individual directors and myself, as Chairman, was found to be effective. Further details of this most recent review are set out on page 19.

Maintaining good communication with our Shareholders is extremely important to us. During the year, Julian Gilbert and Christine Soden, our executive directors, have held regular meetings with investors and attended relevant investor conferences. We aim to disseminate information on a regular basis in order to keep shareholders abreast with progress. I, together with other members of the Board, will be present at our Annual General Meeting on [date] and I would encourage all Shareholders to participate.

Dr Patrick Vink
Chairman
27 February 2019

Board of Directors

Our Board is formed of eight accomplished members, two Executive and six Non-Executive Directors. Together, they bring highly valuable experience across a variety of relevant disciplines to the running of the Company.

Dr Patrick Vink
Non-Executive Chairman

Patrick joined the Board in 2016 as Non-Executive Chairman. He also chairs the Nomination Committee.

Other directorships:
Patrick serves as a member of the board of directors of several companies including Targovax, Santhera, NMD Pharma and Spero Therapeutics.

Expertise and experience:
Patrick spent over three years at Cubist Pharmaceuticals, which he joined in 2012 as SVP and head of international business operations, and where afterwards he served as EVP and COO. Prior to joining Cubist, Patrick served as SVP, global head of hospital business and global head of biologics at Mylan Inc., which he joined in 2008, helping to establish the company's operations in Switzerland. Patrick has held several leadership positions across the pharmaceutical industry, including head of global business franchise biopharmaceuticals for Novartis Sandoz; vice president for international business for Biogen; and head of worldwide marketing, cardiovascular and thrombosis for Sanofi-Synthelabo. Patrick served as a member of the executive committee of the European Federation of Pharmaceutical Industries and Associations (EFPIA) between 2013 and 2015. He is currently active as an advisor to the Life Sciences sector.

Dr Julian Gilbert
Chief Executive Officer and Co-Founder

Julian was appointed to the Board in September 2015 on incorporation of the Company, and has been an executive director of Acacia Pharma Limited since 2006. He is the Chief Executive Officer & Co-Founder of Acacia Pharma.

Other directorships: None.

Expertise and experience: Julian has more than 30 years of commercial and technical experience in the pharmaceutical industry gained at a number of companies including Chiroscience, Mundipharma, British Technology Group (BTG) and Smith Kline & French (now GlaxoSmithKline). Prior to co-founding Acacia Pharma, he was co-founder and commercial director of Arakis which was sold to Sosei in 2005 for £107 million. Arakis successfully developed a pipeline of clinical opportunities and out-licensed its lead project to Novartis (repurposed glycopyrronium for chronic obstructive pulmonary disease (COPD) - now branded Seebri® and Ultibro® Breezhalers®). Julian is one of the inventors on the new use glycopyrronium patent and led the commercialisation to Novartis. He also led the commercialisation of AD923 (sub-lingual fentanyl spray) for cancer breakthrough pain to Mundipharma. He has a degree in pharmacy and a PhD in pharmaceutics both from the University of Nottingham.

Christine Soden
Chief Financial Officer and Company Secretary

Christine was appointed to the Board in September 2015 as Chief Financial Officer and Company Secretary.

Other directorships: Christine is a non-executive director of e-therapeutics plc, Fertility Focus Limited and Futurenova Limited.

Expertise and experience: Christine is a chartered accountant and has substantial experience with technology and commercialisation-stage companies. Most recently, Christine served as CFO of AIM-listed medical device company, Electrical Geodesics, Inc. and was subsequently a non-executive director. Previously she was CFO of UK-listed companies Optos plc, BTG plc and Celltech-Chiroscience plc, each of which had significant US operations. She was involved in the transition of BTG from a development/technology transfer group to a commercial, specialty pharmaceutical organisation. She also held senior finance roles with Oxagen Limited and Medeva plc.

Dr John Brown CBE FRSE
Senior Independent Director

John joined the Board of Acacia Pharma in March 2018. He is Chairman of the Remuneration Committee and is also a member of the Audit and Nomination Committees.

Other directorships: John is Chairman of Synpromics Ltd,and the Cell and Gene Therapy Catapult, and is Senior Investment Director of BioCity Group.

Expertise and experience: John has extensive experience in the life sciences sector. Previously he was Chairman of Kyowa Kirin International plc, BTG plc, Axis-Shield plc, Touch Bionics Ltd and CXR Biosciences Ltd and a Non-Executive Director of Quantum Pharma plc. In the public sector, he is Chairman of the Roslin Foundation, a Fellow, Trustee and Treasurer of the Royal Society of Edinburgh, a Member of MRC Council and an Honorary Professor of the University of Edinburgh. He was made CBE in 2011.

Edward Borkowski
Non-Executive Director

Ed joined the Board of Acacia Pharma in March 2018. He is Chairman of the Audit Committee and is also a member of the Remuneration and Nomination Committees.

Other directorships: He is currently Chairman of AsurRx BioPharma, Inc. and a Non-Executive Director of Codiagnostics, Inc. and is currently Executive Vice President and Interim CFO of Mimetix Inc.

Expertise and experience: Ed is a Certified Public Accountant with significant experience in senior roles in a number of healthcare companies. He has served as the Chief Financial Officer of Concordia International, Amerigen Pharmaceuticals, ConvaTec Healthcare, CareFusion Corporation and Mylan and in a variety of finance positions at Pharmacia, American Home Products, Cyanamid and at Arthur Andersen. Ed holds a Bachelor of Science in Economics and Political Science from Allegheny College and a Masters in Business Administration in Finance and Accounting from Rutgers University.

Scott Byrd
Non-Executive Director

Scott joined the Board of Acacia Pharma in December 2017 and is a member of the Remuneration Committee.

Other directorships: Scott is the CEO and director of Outpost Medicine Limited.

Expertise and experience: He has more than 25 years of experience in the pharmaceutical industry. Scott was formerly the Chief Operating Officer of Acacia Pharma. He was the Chief Commercial Officer & Senior Vice President of Cadence Pharmaceuticals, Inc. from June 2009 until its acquisition by Mallinckrodt Pharmaceuticals plc in March 2014. In this role, Scott was responsible for all of Cadence's commercial activities, in particular building and leading the group's US sales and marketing infrastructure for Ofirmev®, a post-operative pain control product promoted to anaesthetists and surgical teams. Previously, Scott served in a variety of US and global roles in sales, marketing, finance, manufacturing and strategic planning at Eli Lilly and Company starting in January 1992. Scott holds a BS in mechanical engineering from Bradley University and an MBA from Harvard Business School.

Pieter van der Meer
Non-Executive Director

Pieter joined the Board of Acacia Pharma in September 2015. Pieter is a member of the Nomination and Remuneration Committees.

Other directorships: Pieter is currently on the board of Agendia B.V. and Gilde Healthcare Partners B.V.

Expertise and experience: Pieter is Managing Director at Gilde Healthcare Partners B.V., where he has focused on investments in pharmaceutical and biotechnology based companies. Pieter joined Gilde in 1998 after several years working with KPMG Management Consulting where he led due diligence projects in the pharmaceutical and environmental sector. Pieter holds an MSc in chemistry from Leiden University, where he specialised in bio-organic synthesis and molecular modelling and also holds a degree in commercial economics. Pieter led investments in Ablynx NV, Agendia B.V., BG Medicine Inc., CropDesign NV and Inpharmatica. He represented Gilde on the boards of Ablynx, BG Medicine, CropDesign and Inpharmatica Ltd.

Professor Johan Kördel
Non-Executive Director

Johan joined the Board of Acacia Pharma in September 2015 and is a member of the Audit Committee.

Other directorships: Johan is a director of Amplyx Inc., Athera AB, Enterome SA, Reneo Inc., Saromics AB and VH Squared Ltd.

Expertise and experience: Johan is Senior Partner at Lundbeckfonden Ventures. Previously he was co-founder and chief executive officer of Sound Biotech ApS and co-founder and senior vice president of research and business development of Biovitrum AB. Prior to these positions he worked for almost a decade in the pharmaceutical company Pharmacia with management, research, early development, portfolio management, business development and alliance management. He is an associate professor in Physical Chemistry at the University of Lund, Sweden.

Statement of Compliance with the 2016 UK Corporate Governance Code (the "Code")

The Directors support high standards of corporate governance. Whilst the Group did not comply with the Code prior to the IPO in various respects, the Board considers that with effect from the IPO on 6 March 2018 and up to the date of this report, the Group has applied, and complied with, the Code, with the exception that the constitution of the Remuneration Committee and Audit Committee are not yet in compliance with the Code, as explained below.

The members of the committees include two Independent Non-Executive Directors, and the Committees are chaired by independent Non-Executive Directors, who carry a casting vote if there is deadlock. However, Pieter van der Meer and Scott Byrd, who are not independent, served on the Remuneration Committee, and Johan Kördel, who is not independent, served on the Audit Committee during the year. Pieter and Johan bring significant experience having been involved in the Group for some years and Scott brings recent and relevant knowledge of sales and marketing businesses in the US.

The Nomination Committee is working to bring the Group into compliance after the 2019 AGM.

The role of the Board and its Committees

The Board is responsible for the leadership and long-term success of the business. It has a schedule of matters which are specifically reserved for its decision, a copy of which schedule can be found on the Company's website, www.acaciapharma.com. These matters include:

- setting the Company's values and standards;
- approval of long-term objectives and strategy;
- approval of revenue, expense and capital budgets and plans;
- oversight of operations ensuring adequate systems of internal controls and risk management are in place, ensuring maintenance of accounting and other records and compliance with statutory and regulatory obligations;
- review of performance in light of strategy and budgets, ensuring any necessary corrective actions are taken;
- approval of the annual report and financial statements, material contracts and major projects;
- approval of interim financial results;
- changes to structure, size and composition of the Board;
- determining remuneration policy for the Directors and approval of the remuneration of the Non-Executive Directors;
- appointment and removal of the Company Secretary; and
- approval of communications with Shareholders and the market.

At each of its meetings, the Board assesses the progress of the Group when measured against its objectives, and reviews financial performance against the budget.

The Board holds approximately six scheduled meetings per year, with additional meetings and Board calls arranged when circumstances and urgent business dictate. In the year ended 31 December 2018, in view of the additional meetings which were required to facilitate the IPO, there were 12 scheduled meetings.

Attendance by individual directors at Board and Committee meetings during 2018 is set out in the following table:

	Committee memberships	Independent	Board meetings	Nomination Committee	Audit Committee	Remuneration Committee
Total number of meetings held			12	1	3	2
Number of meetings attended						
Executive Directors						
Julian Gilbert	n/a	No	12/12	n/a	n/a	n/a
Christine Soden	n/a	No	12/12	n/a	n/a	n/a
Non-Executive Directors						
Patrick Vink	Nom[1]	Yes	12/12	1/1	n/a	n/a
John Brown[3]	Aud, Rem[1], Nom	Yes	9/9	1/1	2/2	2/2
Ed Borkowski[3]	Aud[1], Rem, Nom	Yes	7/9	1/1	2/2	2/2
Scott Byrd	Rem	No	12/12	n/a	n/a	2/2
Pieter van der Meer	Rem, Nom	No	12/12	1/1	n/a	1/1
Johan Kördel	Aud	No	12/12	n/a	3/3	n/a
Martin Edwards[2]	Rem	No	3/3	n/a	n/a	1/1[4]
Alexander Pasteur[2]	Aud	No	3/3	n/a	1/1[5]	n/a

1. Committee Chairman
2. Resigned 6 March 2018. Attendance reflects meetings prior to resignation
3. Appointed 6 March 2018. Attendance reflects meetings following appointment
4. Martin Edwards was a member of the Remuneration Committee until 6 March 2018.
5. Alexander Pasteur was a member of the Audit Committee until 6 March 2018.

Division of responsibilities

The Code states that there should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. The following table sets out how the Company complies with this provision so as to ensure that no one individual has unfettered powers of decision:

Chairman	• leadership of the Board and primarily responsible for the working and effectiveness of the Board • setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items • ensuring the Board plays a full and constructive role in shaping the strategy of the Group • facilitating an effective contribution from the Non-Executive Directors and a constructive relationship with the Executive Directors • ensuring the balance of membership of the Board is appropriate • ensuring that the Board is in full control of the Company's affairs and has an effective dialogue with its Shareholders • ensuring that the Board complies with the appropriate standards of corporate governance
Chief Executive Officer	• senior executive responsible for operational management of the Group • development, preparation and implementation of the Group's strategy as approved by the Board • communication of the Group's culture and values • communicating the Group's financial performance to investors in conjunction with the Chief Financial Officer • keeping the Board fully informed of all material issues
Senior Independent Director	• to be available to Shareholders when concerns have not been resolved through normal channels • to lead the annual appraisal of the Chairman • to develop a balanced understanding of the issues and concerns of major shareholders • to provide a sounding board for the Chairman
Non-Executive Directors	• to bring an independent and objective judgement to bear on issues of strategy, performance and resources of the Group • to challenge constructively and scrutinise management performance
Board Committees	• The Board has three Committees: the Audit Committee; the Nomination Committee; and the Remuneration Committee, to which it delegates specific responsibilities. The reports of these Committees and details of their composition form part of the Corporate Governance Report. • Each Committee has full terms of reference which have been approved by the Board and can be found on the Company's website at www.acaciapharma.com.

Board activities in 2018

The Board's main activities during the course of the year included:

- Preparation for, and oversight of, the Company's successful IPO and listing of its shares on Euronext Brussels;
- Working towards completing registration for the Group's lead product candidate BARHEMSYS;
- Reviews of the progress of the Group's clinical trials;
- Reviews of and updates to the Group's risk register;
- Reviews of the progress of business and corporate development activity and opportunities;
- Assessment of the financial performance against the budget for FY 2018;
- Approval of the budget for FY 2019-2020; and
- Approval of terms of reference for the Board Committees.

Independence

The Code recommends that smaller companies should have at least two members of the board, excluding the chairman, who are independent non-executive directors. The Board reviews the independence of its Non-Executive Directors each year. For the period 1 January to 5 March 2018, none of the eight Board members were Non-Executive Directors who were considered by the Board to be independent, excluding the Chairman. For the period 6 March to 31 December 2018, two out of the eight Directors, excluding the Chairman, were considered to be independent in character and judgement and the Board is satisfied that the Group meets the relevant requirements of the Code from 6 March 2018.

The Chairman, Patrick Vink has participated in the Company's unapproved share scheme in the past. However, this scheme is unrelated to performance, such participation was historic, with all options vested at the time of the IPO, and no further share options will be granted. The Board has, therefore, determined that it regards Patrick Vink as independent within the meaning of "independent" as defined in the Code for the period 6 March 2018 to 31 December 2018. The Chairman's other commitments are described on page 13.

The Board also carefully reviews any actual or potential conflicts of interest that may arise due to the commercial interests of Non-Executive Directors and they are required to make a declaration in respect of any such situations. The Board can confirm that no such conflicts of interest arose in the year. As is noted in their respective biographies, Pieter van der Meer is a director of Gilde Healthcare Partners B.V. and Johan Kördel is Senior Partner at Lundbeckfonden Ventures. Scott Byrd was an executive director of Acacia Pharma Limited until December 2017. For these reasons, Pieter van der Meer, Johan Kördel and Scott Byrd are considered by the Board not to be independent. Both the Audit Committee and the Remuneration Committee therefore have non-independent Non-Executive Directors as members, in addition to the required number of Independent Non-Executive Directors.

The Code indicates that a tenure of more than nine years as a Non-Executive Director could be relevant to a determination of independence. It is confirmed that none of the Independent Non-Executive Directors have served for more than nine years.

Appointments to the Board

The procedure for appointment of new Directors to the Board is formal, rigorous and transparent. The process is led by the Nomination Committee which comprises four members, the majority of whom are independent Non-Executive Directors. Shortlisted candidates are interviewed by members of the Nomination Committee before a recommendation is made to the Board.

On joining the Board, Non-Executive Directors receive a formal appointment letter, which identifies the terms and conditions of their appointment and, in particular, the time commitment expected of them. A potential Director candidate (whether an Executive Director or Non-Executive Director) is required to disclose all significant outside commitments prior to their appointment. The terms and conditions of the letters of appointment of Non-Executive Directors are available to Shareholders for inspection at the Company's registered office during normal business hours and at the Company's Annual General Meeting (for 15 minutes prior to the meeting and during the meeting).

Executive Directors are permitted to accept external board or committee appointments provided they do not interfere with the Executive Directors' obligations to the Company.

With regard to the re-election of Directors, the Company is governed by its Articles of Association (the "Articles"). Under the Articles, the Board has the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting. Any Director who has been a Director at each preceding two Annual General Meetings and has not been re-appointed since, must retire from office at the next Annual General Meeting. The Director is then eligible to stand for re-appointment by the Shareholders. In accordance with the 2018 Corporate Governance Code, all directors will stand for election at the 2019 Annual General Meeting..

As stated at the time of the IPO, Pieter van der Meer and Johan Kördel have indicated that they will step down from the Board at the 2019 Annual General Meeting.

Diversity

The Board recognises the value of diversity at all levels of the Group. The Group has an Equal Treatment, Equal Opportunities and Diversity policy which extends to the Board. This provides that the Group will take all reasonable steps to employ and promote employees on the basis of their abilities and qualifications without regard to age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (including colour, nationality and ethnic or national origins), religion or belief, sex and/or sexual orientation. The Group appoints, trains, develops and promotes on the basis of merit and ability alone.

Induction and training

Upon appointment, each Director receives a comprehensive induction package which includes written materials relevant to their responsibilities. In addition, meetings are organised with other Board members and with members of the Company's management team. All Directors have direct access to the advice of the Company Secretary, who is responsible for ensuring that Board procedures are complied with. Whenever it is considered necessary, the Company Secretary can arrange the appointment of professional advisers at the Group's expense to assist Board members in their roles. Directors receive frequent updates on commercial developments affecting the business as well as regulatory and legislative changes. Directors are invited, during the annual evaluation procedure, to identify any training which they feel might benefit them.

Information

All Directors receive the agenda and Board papers in a timely manner in advance of Board meetings to enable them to make an effective contribution. Between Board meetings, the Executive Directors maintain regular informal contact with Non-Executive Directors. The Board meets on a regular basis in order to review progress and agree strategy. Senior employees of the business regularly attend Board meetings in order to enhance the Non-Executive Directors' understanding of current issues and give them the opportunity to ask detailed questions.

Board effectiveness

The Board is drawn from a range of backgrounds, with a cumulatively wide range of relevant skills and experiences. This helps the Board to take decisions in the interests of all Shareholders and which take into account the interests of a wide range of stakeholders. The Non-Executive Directors come from diverse business backgrounds and each has specific and relevant expertise, which, in the opinion of the Board as a whole, materially enhances the judgment and overall performance of the Board. The Board believes that good corporate governance depends principally on high-calibre individuals with deep experience of the Group and industry, who have a clear understanding of their roles and responsibilities and the tools necessary to discharge those responsibilities.

The Board has a majority of Non-Executive Directors, consisting of six Non-Executive Directors – (including the Chairman), three of whom are considered independent, and two Executive Directors. The Board's composition is geared towards its current stage of development and priorities. The skill set of the Board includes extensive knowledge of the pharmaceutical and biotechnology industries, strategic consultancy and corporate finance. Details of each of the Directors' experience and background are given in their biographies on pages 13 to 15.

Formal Board and Committee evaluations are carried out once a year, and informal evaluations are carried out on a continuing basis throughout the year. The formal evaluation commences with the circulation of a written questionnaire which has been prepared by the Company Secretary. This invites Directors to rate and comment on the performance of the Board in a number of areas, including the conduct of Board meetings; the standard and timeliness of information; the balance of skills of the members of the Board; the roles and responsibilities of individual Directors; and compliance with good corporate governance practices. A detailed, anonymised analysis of these responses is then prepared by the Company Secretary and reviewed and discussed by the Board. The Board will annually review the merits of subjecting itself to an external review.

In addition, on an annual basis, the Chairman is evaluated on his effective leadership of the Board; his management of relationships and communications with shareholders; the identification of development needs of individual Directors with a view to enhancing the overall effectiveness of the Board as a team; the promotion of the highest standards of corporate governance; his management of Board meetings and ensuring effective implementation of Board decisions. The process for the evaluation of the Chairman's performance is led by the Senior Independent Director, taking into account the views of the Executive Directors.

Following the evaluation process conducted in early 2019, the Company considers that the Board, its Committees and its individual members continue to perform effectively, that the Chairman performs his role appropriately and that the process for evaluation of his performance has been conducted in a professional and rigorous manner.

Relations with shareholders

The Board maintains regular communication with Shareholders. Meetings between existing and potential shareholders and the Executive Directors take place throughout the year. The Chairman and Senior Independent Director and other Directors are available to meet with major Shareholders on request. All meetings with Shareholders are held in a manner which ensures price sensitive information which has not been made available to Shareholders generally, is protected from disclosure.

The Chief Executive Officer and the Chief Financial Officer give annual and six-monthly presentations to institutional investors, analysts, and the media. These presentations are available on the website www.acaciapharma.com. Annual and Interim reports and all press releases are also published on the website as are the terms of reference of the three Board Committees. Paper copies of the report and financial statements are mailed to those Shareholders who have elected to receive them in hard copy.

The Directors receive a report from the Corporate Communications department at each Board Meeting giving information on material changes in shareholdings and collating feedback from the Company's brokers and investors.

Annual General Meeting

The Annual General Meeting provides an opportunity for all Shareholders to meet Board members and have the opportunity to ask about the proposed resolutions and the business in general. Notice of the Annual General Meeting is posted to Shareholders not less than 20 working days prior to the date of the Annual General Meeting and is also available to Shareholders on the website at www.acaciapharma.com. The letter accompanying the Notice will include details of the proposed resolutions and an explanation of their content. At the Annual General Meeting the number of proxy votes cast for, against, or abstaining from each resolution will be disclosed. Results of voting are announced to the market and posted on the website as soon as possible after the Annual General Meeting. The Group does not currently consider it appropriate to introduce mandatory poll voting on all resolutions put to the Shareholders but will keep this position under review.

Accountability

Audit Committee Report

Dear Shareholder,

On behalf of the Board I am pleased to present the report of the Audit Committee for the year ended 31 December 2018. The Audit Committee is the key independent oversight committee at Acacia Pharma. It monitors and reviews the effectiveness of the Group's risk management framework and internal controls.

This report sets out how the Audit Committee has discharged its responsibilities under the UK Corporate Governance Code (the "Code"). It also contains a summary of the activities of the Audit Committee throughout the year.

Edward Borkowski
Chair of the Audit Committee
27 February 2019

Responsibilities and membership

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and financial statements and the half-yearly reports remains with the Board. The Audit Committee normally meets at least three times a year at the appropriate times in the reporting and audit cycle.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with requirements of any quorum for, and the right to attend, meetings. The responsibilities of the Audit Committee covered in its terms of reference include the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities. The full terms of reference of the Audit Committee can be found on the website www.acaciapharma.com.

The Code recommends that the Audit Committee comprises at least three members (or two, in the case of smaller companies) who are all independent non-executive directors and includes one member with recent and relevant financial experience. The Audit Committee is comprised of three Non-Executive Directors, two of whom are independent, namely Ed Borkowski and Dr John Brown. The other member is Professor Johan Kördel. The Audit Committee is chaired by Ed Borkowski who is considered to have recent and relevant financial experience.

The Company Secretary, who is also the Chief Financial Officer, acts as the Secretary to the Audit Committee. The Chief Executive Officer attends Audit Committee meetings at the invitation of the Chairman. The Audit Committee meets with the external auditor at least once a year in the absence of management.

A summary of the matters considered by the Audit Committee in the year to 31 December 2018 is shown in the table below and explained in further detail in the subsequent text.

Area of review	Activities undertaken
Financial reporting	• Review of the interim and full year results • Consideration of whether the annual report is fair, balanced and understandable • Review of the external auditor's report of the full year results • Review of operational updates • Review of significant accounting issues • Review of anticipated changes in accounting standards and their impact • Review of the going concern basis of preparation
External auditor	• Review of external auditor's independence • Review of auditor's compliance with ethical and professional guidance on audit partner rotation • Assessment of effectiveness of audit process • Recommendation of re-appointment of auditor • Approval of remuneration and non-audit services
Area of review	**Activities undertaken**
Risk management and internal control	• Review of risk management systems, internal controls and anti-corruption and anti-bribery procedures • Review of internal compliance monitoring • Review of the Whistleblowing policy
Governance	• Review of the Audit Committee's terms of reference

Financial reporting and significant judgements

As part of their monitoring of the integrity of the financial statements, the Audit Committee assesses whether suitable accounting policies have been adopted and considers particular areas where management has had to exercise judgement or make estimates. The main areas which were reviewed in the year ended 31 December 2018, together with a summary of the Audit Committee's work, are set out below:

- *Treatment of development expenditure*

The Group expends considerable sums on its development projects, with its total research and development costs for 2018 amounting to £3,766,000 (2017: £1,479,000). The Board has considered the criteria under IAS 38 to determine whether costs can be capitalised, concluding that it would not be able to prove reliably that such costs could be recovered due to the risk factors involved. Therefore, all such costs have been treated as expenses as they were incurred. Any decision to treat part of those costs as capital items could have a significant impact on the Group's results and balance sheet.

- *Carrying value of the Company's investment in and loans to its subsidiaries*

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the parent Company. These investments are carried in the books of the parent Company at cost less provisions for impairment. The carrying value of the investment at 31 December 2018 is £107,894,000 (2017: £107,338,000). The carrying value of the loan at 31 December 2018 is £37,556,000. The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the research and development programmes, in particular the approval, marketing and sale of BARHEMSYS. The Director's assessment of the value of the underlying programmes, supported by valuations by independent research analysts and the valuation of the Group at its IPO, indicate that no impairment provisions are required. As noted in the principal risks and uncertainties set out on pages 26 to 27, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment and receivables shown in the financial statements of the Company.

- *Accounting treatment of the intercompany loan between Acacia Pharma Limited and Acacia Pharma Inc*

During the year, Acacia Pharma Inc took out a $40m loan facility with Acacia Pharma Limited, its immediate parent. The loan, which is for an initial three year term, is expected to be renewed on maturity, and is considered to be as permanent as equity. Accordingly, foreign exchange gains and losses are recorded in equity. The impact of this treatment is to increase the current year Group loss by £1,504,000, being the foreign exchange gain currently recorded in equity.

Other activities

Review of presentational currency

In addition to the above, the Audit Committee has recommended to the Board that as the majority of the Group's operations are now denominated in US Dollars, with effect from 1 January 2019 the Group will change its presentational currency to US Dollars. The Audit Committee reviewed the implications of this change, including a review of historical financial information restated to the US Dollar, together with the implications of the change on financial systems and external communications.

External audit

The Group's external auditor, PricewaterhouseCoopers LLP (PwC), is engaged to express its opinion on the Group's financial statements. At its meetings in September 2018, October 2018 and February 2019, the Audit Committee discussed the 2018 audit process, more specifically as set out below:

	Outcome/action taken by the Audit Committee
September 2018	
Introduction of the new audit partner, Matthew Mullins, following the mandatory rotation of Simon Ormiston	
Discussion of the half year results and outlook for the year	
October 2018	
PwC audit plan	Challenged and agreed by the Audit Committee
PwC's audit risk assessment	Discussed with PwC (including the approach to identified risks)
Materiality level for the audit	Agreed with PwC (using the same basis as in 2017)
PwC's resources and staffing	Reviewed and discussed with PwC
Audit fee and terms of engagement	Reviewed, challenged and approved by the Audit Committee
February 2019 (post period)	
Confirmation of PwC's audit plan	PwC confirmed the only change was to include going concern as a significant risk, as a result of the delay in the PDUFA date.
Audit findings, significant issues and other accounting judgements	Discussed with PwC and management
Management representation letter	Reviewed and approved by the Audit Committee
PwC's independence and objectivity and quality control procedures	Independence and objectivity confirmed; quality control procedures reviewed.

Auditor objectivity and independence and non-audit services

The Audit Committee has a formal policy for approving the use of the auditor for non-audit work, detailing areas where the auditor may not be used, areas where they may be used subject to the agreement of the Audit Committee, and areas where prior approval is not required. The external auditor is precluded from engaging in non-audit services that would compromise their independence or violate any laws or regulations affecting their appointment as external auditor. During the year, no approval was granted for any non-audit services which were not in full accordance with these standards.

PwC undertook non-audit services of the Group in the course of the year to 31 December 2018 which are summarised in the table below. These services were provided in compliance with the policy outlined above and no conflicts of interest were considered to have arisen.

Audit Committee approval required?	Nature of work	Fees £'000
Yes	Other assurance services	188

The total fees paid to the external auditor are shown in note 5 of the financial statements. The other assurance services during the year related to procedures performed as reporting accountant on historical financial information and in re-registration of the Company in advance of the IPO. The Audit Committee believes that the use of PwC was appropriate in the circumstances and that independence was preserved as the nature of the non-audit services was such that the external auditor was best placed to perform this work due to their skills and experience, and the fees paid were insignificant in the context of the overall revenues earned by PwC. In summary, the Audit Committee confirms that the Group has received an independent audit service in the year to 31 December 2018 and up to the date of this report.

Evaluation of the external audit

During the year, the Audit Committee evaluated the performance and effectiveness of the external auditor. During the year, the Audit Committee and senior members of the finance team evaluated the external auditor's performance, reviewing the strength of the audit team, its expertise and experience, the completion of the approved audit plan, communication and reporting. Feedback was obtained from staff members involved in the external audit and the Audit Committee also considered the Audit Quality Review findings for PwC.
Following its review, the Audit Committee deemed the performance of the external auditor satisfactory, the audit process was effective, and PwC remained independent and objective.

Tendering

PwC has been the Company's auditor since its incorporation in 2015, and the auditor of Acacia Pharma Limited since its incorporation in 2006. In view of the changes to the regulatory requirements relating to mandatory audit tendering, the Audit Committee expects to conduct an audit tender at the latest prior to contracting the 2028 year- end audit.

Re-appointment of the auditor

Having assessed the effectiveness of the external audit referred to above and the independence of PwC, the Audit Committee recommends the re-appointment of PwC at the 2019 Annual General Meeting.

Risk management and internal control committee considerations

The Board has overall responsibility for the review of the Group's risk management framework and the level of risk which is acceptable in order to achieve its strategic objectives. The Audit Committee, on behalf of the Board, undertakes the detailed monitoring of the risk management framework and system of internal controls and reports to the Board on their suitability and efficacy annually. In order to discharge its duties in this respect, the Audit Committee receives and reviews reports from the Group's management team. The Audit Committee continues to assess what is an acceptable level of risk in key areas, and the best strategy for mitigating those risks given the cost and time constraints which exist. The Audit Committee focused on those risks considered to be of the greatest significance to delivery of the Company's strategy, as well as the effect of external healthcare and macro-economic risk. Further explanation of the risk management process and work undertaken by the Audit Committee in this area during the year can be found on pages 22 and 26 to 27.

Whistleblowing

A confidential whistleblowing procedure has been put in place to enable employees to raise concerns regarding possible improprieties in relation to financial or other matters. This procedure has been communicated to all staff. The Audit Committee has reviewed these arrangements and is satisfied that the current procedure allows for proportionate and independent investigation of such disclosures, and for appropriate follow up actions to be taken. In accordance with the current policy, concerned employees may raise matters directly with the Chairman of the Audit Committee.

UK Bribery Act

The Group has an anti-corruption and anti-bribery policy which has been communicated to all staff. This policy ensures full compliance with the UK Bribery Act 2010. The policy extends to carrying out due diligence on new key business partners who are judged to be acting on behalf of the Group in high risk areas.

Internal audit

This year the Audit Committee considered whether there is a need for an internal audit function and concluded that, given the scale of operations at this time, it is not currently necessary. The Board accepted this recommendation. This decision will be kept under review.

Audit Committee performance evaluation and future focus

The Audit Committee addressed the areas of development for 2018 as planned and reviewed the risk appetite as part of a wider programme of risk reviews. In early 2019, the Audit Committee undertook an evaluation of its own performance using an internal questionnaire process, the outcome of which was reviewed by the Board. The feedback was positive about the Audit Committee's progress in overseeing and challenging the systems of risk management and supportive of continuing to develop this in 2019.

Edward Borkowski
Chairman of the Audit Committee
27 February 2019

Risk management and principal risks

Accountability for oversight of risk

The goal of the Board is to ensure that the Company is able to identify, assess and effectively manage or mitigate existing, changing and newly-emerging risks. The Board also assesses the likelihood and potential impact of plausible risks and seeks to ensure that the overall risk profile of the Group is appropriate in light of its strategy.
With direct support from the Audit Committee, the Board believes it has taken all reasonable steps to satisfy itself that the risk management process is effective and fit for purpose. As with all risk management processes, there remains a degree of uncertainty, planned mitigations may not be effective and unpredicted risks may arise. Accordingly, it can only provide a reasonable, and not an absolute, assurance against material misstatement or loss.

Risk review process and output

The corporate goals as set out in the Strategic Report have been built into the risk management process, and form one of the bases on which business risks are measured. Senior management and the Board specifically consider risks that, in their opinion, could cause the Group's future results, financial condition and prospects to differ materially from current expectations, including the ability to meet the objectives outlined in the Strategic Report. The Executive Committee, with the support of senior management, conduct a comprehensive assessment of the principal risks at Group level and record them in a risk register. The Board reviews and approves the Group risk register.
Based on that analysis, the Board believes it has taken into account material and plausible risks and can confirm the viability of the Company as set out in the Viability Statement required by the UK Corporate Governance Code (see page 11).

Assessment of principal risks

The main risks relevant to the Group have been identified below, together with an explanation of how they are managed and controlled. Some risks are common across the pharmaceutical industry, while others reflect the Group's specific strategy. The Company considers all of these risks relevant to any decision to invest in it.

Area	Risk	Mitigating activities
Regulatory *FDA approval*	**FDA approval of BARHEMSYS** The Group's success is dependent upon receiving and maintaining regulatory approval for BARHEMSYS. Any approval from the FDA or other relevant regulatory authorities might be for fewer or more limited indications than requested, be for a label that does not include the labelling claims necessary or desirable for the successful commercialisation of that product candidate, contain significant limitations related to use for certain age groups, warnings, precautions or contraindications, or be contingent upon onerous or costly post-marketing clinical trials, approval studies or risk management requirements, any of which could require further work for the Group with additional expenditure and associated delays to secure the desired label.	• Manufacturing and Quality Assurance team monitoring • Internal quality inspection of API manufacturer planned for early 2019 • Quality policy being established between Company and suppliers to regulate future operations
Regulatory *Healthcare law compliance*	The Group must comply with complex regulations in relation to the marketing of its device and drug products. These regulations are strictly enforced. Failure by the Group (or its commercial partners) to comply with the US False Claims Act, Anti-Kickback Statute and the US Foreign and Corrupt Practices Act and regulations relating to data privacy (amongst others) and similar legislation in countries outside the US may result in criminal and civil proceedings against the Group.	• Global Head of Regulatory hired. • Review of all external materials by Head of Regulatory • Thorough training of sales staff • 3rd party contract to audit interactions (requirement of FDA)

Area	Risk	Mitigating activities
Commercialisation	**Commercialisation of BARHEMSYS** The Group's ability to generate future revenues and become profitable will depend upon its ability to successfully commercialise BARHEMSYS or APD403. The Group has no experience of manufacturing its product candidates on a commercial scale and is dependent on third-party manufacturers for the manufacture of all product candidates. The Group's strategy is dependent on gaining acceptance on hospital formularies at the major surgery centres	• Highly experienced CCO and commercial team in place • Projects underway to understand and optimise market • National accounts team planning and implementing strategy • Hired experienced Director of Commercial Manufacturing and Supply Chain • Outsourced distribution to experienced third-party logistics provider (DLSS) • Obtained required State licences
Product supply	**Single source supply chain** The Group has single suppliers for both its active ingredient and production of finished product.	• Buffer stocks will be produced and held in order to avoid the risk of product shortages. • Second API supply sources being assessed.
Corporate *Financing*	**Availability of additional financing** Inability to replenish cash balances weaken the Group's strategic ambitions. For example, failure to obtain additional funding to take BARHEMSYS through to profitability.	• Planning is well-progressed, for additional equity and debt raise but on hold - dependent on outcome of FDA approval, which is not certain

Nomination Committee report

Dear Shareholder

On behalf of the Board, I am pleased to present Acacia Pharma's Nomination Committee report for the year ended 31 December 2018. The key objective of the Nomination Committee is to ensure the Board is made up of a range of individuals who together have the appropriate mixture of skills and experience to lead the Group.

In the course of the year, Martin Edwards and Alexander Pasteur resigned from the Board. Their contributions have been greatly appreciated. The Board decided that it should seek to appoint additional independent Non-Executive Directors to the Board, and that search resulted in the appointments of Edward Borkowski and John Brown in March 2018, in order to meet the corporate governance requirements for a listed company.

A summary of the activities of the Nomination Committee is set out below.

Dr Patrick Vink
Chair of the Nomination Committee
27 February 2019

Responsibilities

The Nomination Committee must review the size, structure, and composition of the Board and its Committees evaluating the balance of skills, experience, independence, and diversity of the Board as a whole. On the basis of this evaluation it will then make recommendations to the Board on any appointments. As part of this process, the Nomination Committee will prepare a description of the skills, experience and other characteristics required, and identify through a transparent procedure, individuals who are capable of filling those roles.

The Nomination Committee also plans for the orderly succession of Directors to the Board and recommends to the Board the membership and chairmanship of the Audit and Remuneration Committees. The full terms of reference of the Nomination Committee can be found on the website www.acaciapharma.com.

The Company Secretary acts as Secretary to the Nomination Committee. The Chief Executive Officer may attend meetings by invitation. The Nomination Committee is empowered to obtain external professional advice to assist in the performance of its duties. However, during the year the Nomination Committee did not require any external services except for the search activities which are described below.

Activities

The principal activities during the year were:

- Review of the structure, size and composition of the Board (including skills, experience, independence, knowledge and diversity);
- Managing the process for the appointment of Ed Borkowski and John Brown as independent Non-Executive Directors; and
- Review of senior management succession planning.

In the search for suitable Non-Executive Director candidates, the Group relied on the extensive network of its directors and shareholders to bring together a shortlist of candidates. Ed Borkowski and John Brown were included in such shortlist and they were proposed as candidates to the full Board. The Board reviewed their candidacy against that of other candidates and concluded that both Ed Borkowski and John Brown fulfilled the key requirements and approved their appointment.

Post period, the Nomination Committee assisted with the annual performance evaluation of the Board, its members and its Committees and reviewed the results of the Board's performance evaluations that relate to the composition of the Board. The Committee is also working to ensure compliance with the Code on the composition of the Audit and Remuneration Committees.

Patrick Vink
Chairman of the Nomination Committee
27 February 2019

Remuneration Report

Annual Statement from the Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018, which will be subject to an advisory vote, and our Directors' Remuneration Policy, which will be subject to a binding vote under resolutions to be proposed at the 2019 Annual General Meeting. The outcome of these votes will also be considered carefully by the Remuneration Committee in the formulation and approval of the Company's future Remuneration Policy. The report includes full details of remuneration earned by the Directors and information on key decisions taken by the Remuneration Committee during the year.

The Company has undergone significant change in 2018, transitioning from a privately-owned UK-centred drug development company with only 6 full-time employees to a listed Group with over 40 employees, the majority of whom are in the US. The Group's strategy is to obtain FDA approval of its lead products and to build a specialist US hospital sales organisation to commercialise those products once approved and to secure the finance necessary to support the product launches. In setting our Remuneration decisions, we sought to align our pay and reward structure with this strategy. Given the significant changes in the Company's size, structure and position, percentage changes in pay compared to prior years are of little relevance although this will be reviewed as the Company's development stabilises.

To help Shareholders understand our remuneration structure and its link to the Company's strategy and performance we have included a 'Remuneration at a glance' section, which can be found on page 31. This is followed by the Annual Report on Remuneration on pages 32 to 39, and by the Directors' Remuneration Policy on pages 40 to 42.

Directors' Remuneration Policy

Following Listing, this is the first year that the Company has been required to put the Remuneration Policy ('the Policy') to shareholders for approval. The Policy is set out in full within the Directors' Remuneration Report and will be proposed as a resolution at the 2019 Annual General Meeting of the Company.

Key decisions and activities in the year ended 31 December 2018

Since 16 February 2018 (the date of the establishment of the Remuneration Committee), the Remuneration Committee has undertaken the following key decisions and activities, with these key decisions set out in the Listing Prospectus:

- Conducted a thorough benchmarking exercise of the remuneration structure and overall compensation of the Company's Chief Executive Officer, Chief Financial Officer and other senior management using a comparator group of listed companies, a number of which are at a similar stage of clinical development and complexity and a similar market capitalisation or net assets. Shortly prior to the IPO, the Remuneration Committee reviewed the salaries of the Executive Directors in light of the increased responsibilities and complexity resulting from listing and determined that these should be set at £310,000 and £240,000 respectively;

- Adopted new incentive award plans, the Acacia Pharma Group Performance Share Plan (the "2018 'PSP'"), under which we may grant cash and equity-based incentive awards to eligible employees in order to attract, incentivise and retain the skilled and talented individuals we need to operate our business; the Acacia Pharma Group Company Share Option Plan (the "CSOP"), which allows for the grant of approved share options to eligible employees; and the Acacia Pharma Group Deferred Annual Bonus Plan (the "DABP"), in which all or part of an Executive Directors' bonus may be deferred into shares at the discretion of the Remuneration Committee (together the "2018 Share Incentive Plans");

- Awarded under the 2018 Share Incentive Plans share options and / or Performance Share Awards ("PSAs") to the Company's employees;

- Reviewed the remuneration of the Chairman and Non-Executive Directors using the comparator group of listed companies referred to above, taking into account the additional work load and responsibilities of certain Non-Executive Directors who chair the Company's Board Committees. This review led to a recommendation to the Board, which was accepted, to set the Chairman's annual fee at £110,000, with an additional fee of £5,000 awarded as the Chair of the Nomination Committee. In addition, the fees for serving as a Non-Executive Director were set at £42,000 per annum, with additional fees of £5,000 awarded to the Chairs of the Audit and Remuneration Committees and an additional fee of £3,000 per annum to the Senior Independent Director. We set and approved the Remuneration Policy set out on pages 40 to 42.

- Recommended to the Board that the Executive Directors be entitled to receive an annual bonus of up to 100% of salary and receive an annual award under the Performance Share Plan of shares 100% of salary and set the performance conditions for both. The immediate aims of the business were determined as being: (1) to complete a successfully IPO of the Group on Euronext Brussels, raising a minimum of €30million; (2) to advance the FDA review of BARHEMSYS and obtain approval of the NDA in 2018; (3) to obtain additional debt or equity financing in order to fund the launch of BARHEMSYS and (4) to build the commercial and operational infrastructure of the Group in preparation for a launch of BARHEMSYS in H12019. The bonus objectives were set around these aims. On a medium-term basis, the Committee determined the aims of the business should be to deliver above-average returns to shareholders and successfully commercialise BARHEMSYS, measured by acceptance of the product on the formularies of target hospitals and deliver product revenues once launched. The targets for the PSP awards were set around these measures.

- Assessed actual performance against the annual bonus objectives following completion of the financial year ended 31 December 2018 and recommended to the Board the level of bonuses to be paid to the Executive Directors and members of the senior management team in respect of that financial year. The IPO and corporate organisation objectives were deemed met in full, whilst NDA approval and additional finance measures were deemed partially met, resulting in a recommendation that a bonus of 40% of the maximum 100% of salary be awarded for 2018. The Board has accepted this recommendation and such amounts have been included within this 2018 annual report and financial statements;

- Recommended to the Board the annual bonus objectives for the financial year ending 31 December 2019 for the Executive Directors. Performance against these objectives will be assessed and disclosed by the Remuneration Committee following completion of that financial year; and

- Undertook benchmarking work in the US to ensure the key operational goals of building and maintaining a highly competitive US hospital sales and marketing organisation could be met, seeking to balance the remuneration norms and expectations of the US market with the expectations of a UK company with a Euronext Brussels listing.

Having grown its workforce in the US from one employee at the time of the IPO to some 35 today, and with the expectation for that to increase to around 100 at the launch of the Company's product, BARHEMSYS, the Company continuously reviews its remuneration policies and procedures to ensure they meet the operating objectives. As the Group develops, the Remuneration committee will consult with both the wider workforce and shareholders to ensure the Remuneration Policy aligns with the expectations of both stakeholder groups. We strive to ensure our remuneration policy addresses the FRC Corporate Governance Code remuneration principles of supporting the strategy of the business and promoting long-term sustainable success, aligning executive remuneration with the Group's purpose and values with a clear link to long-term strategy. We believe our remuneration arrangements are transparent and straightforward, the range of rewards clearly identified, they are proportional and will drive behaviours consistent with our strategy and culture. We seek to mitigate the risk that remuneration arrangements are not excessive and will not reward behaviour that might damage the business.

I hope that you remain supportive of our remuneration approach and will vote in favour of both resolutions.

Yours faithfully,

Dr John Brown
Chair of the Remuneration Committee
27 February 2019

Remuneration at a glance

2018 outcomes:

- Salaries for Executive Directors and Non-Executive directors increased at the IPO to reflect the increased responsibilities and complexity involved in the roles as a public company.
- Annual bonus targets partially met (40% of maximum)
- New Long-Term Performance Share Plan ("PSP") and Deferred Annual Bonus Plan ("DABP") adopted

Directors' Remuneration – Policy principles

Acacia Pharma's remuneration strategy is to provide a remuneration framework that:

- promotes the long-term success of the business
- attracts, retains and motivates executives and senior management in order to deliver the Company's strategic goals and business outputs promotes the long-term success of the business
- provides an appropriate balance between fixed and performance related pay supporting a high performance culture promotes the long-term success of the business
- provides a simple remuneration structure which is easily understood by all stakeholders
- adheres to the principles of good corporate governance and appropriate risk management
- aligns employees with the interests of Shareholders and other external stakeholders
- considers the wider pay environment both internally and externally; and
- encourages widespread equity ownership across the Group.

In setting Executive Directors' remuneration, the Committee takes account of pay and conditions throughout the Company. The Committee also considers corporate governance requirements and best practice in terms of remuneration structures and the process of setting executive remuneration.

The Committee reviews performance targets regularly to ensure that they do not encourage or motivate inappropriate risk taking. Furthermore, the Committee will, when necessary, take into account any reputational, environmental, social and governance (ESG) events and the Audit Committee's reviews of the effectiveness of internal controls and risk management when assessing performance. This is reinforced by the recovery withholding provisions in the DABP and PSP.

The following diagram provides an overview of the key elements of reward for Executive Directors and the performance measures used.

Key elements of reward – 2018 outcomes

Base salary

Pension & benefits

Annual bonus

% of salary awarded:
25%
Successful IPO
2.5%
Obtain NDA approval
7.5%
Secure additional financing
5%
Corporate organisation

Performance Share Plan

2018 awards:
100% of salary:
25% TSR growth
37.5% revenue target
37.5% strategic measures

Structure of the report

The report is divided into three parts: (i) the 'Annual Statement' (above), summarising the business context in which the Remuneration Committee has operated; (ii) the 'Annual Report on Remuneration' which provides details of the major decisions made by the Remuneration Committee and the remuneration actually delivered to the Group's directors during the 2018 financial year; and (iii) the 'Directors' Remuneration Policy report'.

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

The Annual Report on Remuneration and Annual Statement will be put to an advisory shareholder vote at the 2019 Annual General Meeting.

About the Remuneration Committee and its advisers

The Remuneration Committee has been established by the Board and is responsible for executive remuneration.

Members	Position	Appointment date	Number of meetings attended
Dr John Brown	Chair and senior independent Non-Executive Director	6 March 2018	2/2
Ed Borkowski	Independent Non-Executive Director	16 February 2018	2/2
Pieter van der Meer	Non-Executive Director	16 February 2018	1/1
Scott Byrd	Non-Executive Director	6 March 2018	2/2
Martin Edwards	Non-Executive Director	Resigned 6 March 2018	1/1
Other attendees	The Company Secretary		
Corporate governance	The constitution of the Remuneration Committee is not yet in compliance with the provisions of the 2016 UK Corporate Governance Code (the "Code". Whilst the members of the committee include two Independent Non-Executive Directors, and the Committee is chaired by Dr John Brown who is independent and carries a casting vote if required, Pieter van der Meer and Scott Byrd, who are not independent, also served on the Committee during the year. Pieter brings significant experience having been involved in the Group for some years and Scott brings recent and relevant knowledge of sales and marketing businesses in the US. The Nomination Committee is working to bring the Group into compliance after the 2019 AGM.		
Approach to remuneration matters	The Remuneration Committee's approach to remuneration matters is to enable the Company to attract and retain talent, incentivise long-term shareholder value generation and effectively manage compensation costs. It is the belief of the Remuneration Committee that this is best achieved through balancing the mix of variable and fixed remuneration, (base salary and benefits), with the flexibility to appropriately reward and incentivise with variable pay and longer term incentives, as set out in the Directors' Remuneration Policy.		
Terms of reference	The terms of reference of the Remuneration Committee can be found on our website at www.acaciapharma.com or from the Group Company Secretary on request.		
Committee evaluation	During the year the Committee carried out a review of its effectiveness. The Committee was seen to be effective in its operations, although steps would be taken to address the membership of the committee to ensure compliance with the Corporate Governance Code in the near term.		
Committee advisers	The Remuneration Committee appoints advisers. During the year, it appointed Aon as advisers to the Committee. The Committee uses its advisers to advise on remuneration in general and the implementation of employee share schemes. Fees of £48,000 were paid in the year, principally in respect IPO-related changes. The Committee also used Radford surveys as part of its compensation benchmarking exercise.		

Single figure for total remuneration (audited)

		Salary / fees	Benefits[1]	Total annual bonus[2]	Share options[3]	Long-term incentives[4]	Pension[5]	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors								
Julian Gilbert	2018	291	4	124	12	-	29	460
	2017	*189*	*2*	*32*	*285*	-	*16*	*524*
Christine Soden	2018	231	-	96	462	-	20	811
	2017	*175*	-	*25*	-	-	*12*	*212*
Non-Executive Directors								
Patrick Vink	2018	104	-	-	61	-	-	165
	2017	*48*	-	-	-[6]	-	-	*48*
Ed Borkowski[7]	2018	42	-	-		-	-	42
John Brown[7]	2018	42	-	-	-	-	-	42
Pieter van der Meer	2018	-	-	-	-	-	-	-
	2017	-	-	-	-	-	-	-
Johan Kördel	2018	-	-	-	-	-	-	-
	2017	-	-	-	-	-	-	-
Scott Byrd[8]	2018	40	-	-	476	-	-	516
	2017	*195*	*20*	-	-	-	-	*215*
Alexander Pasteur[9]	2018	-	-	-	-	-	-	-
	2017	-	-	-	-	-	-	-
Martin Edwards[9]	2018	-	-	-	-	-	-	-
	2017	-	-	-	-	-	-	-

1. Benefits shown above relate primarily to the provision of private medical benefits, travel and life insurance.
2. Julian Gilbert received £101,000 in cash bonus, while £23,000 will be deferred into the DAPB. Christine Soden received £78,000 in cash bonus, with £18,000 being deferred into the DAPB. All bonuses granted in 2017 were paid in cash.
3. For 2018 and 2017, the amount relates to the intrinsic value (being the difference between exercise price and share price on vesting) of share options granted under the legacy Enterprise Management Incentive ("EMI") and Unapproved schemes, and vesting in each year. Options were granted in 2008 – 2017 and vested from 2011 - 2018. All options vested on IPO, if the original vesting date had not been reached. Julian Gilbert exercised 139,370 share options on 2 November 2018, resulting in a gain of £222,450.
4. Long-term incentives are set out on page 35. The first vesting date of awards made under the 2018 PSP is 18 March 2021.
5. Pension consists of a cash supplement in lieu of employer pension contributions following the changes to pension legislation.
6. Options awarded to Patrick Vink under the Unapproved Scheme. At the time of vesting in 2017, the share price was valued below the exercise price and consequently the share options had no intrinsic value.
7. Fees paid to John Brown and Ed Borkowski are stated for the period from their appointment on 6 March 2018.
8. Scott Byrd resigned as an Executive Director of Acacia Pharma Limited and was appointed as Non-Executive Director of Acacia Pharma Group plc on 18 December 2017. The remuneration shown for 2017 relates to remuneration from Acacia Pharma Limited.
9. Alexander Pasteur and Martin Edwards both resigned on 6 March 2018

Annual bonus for the year to 31 December 2018 (audited)

For the year ended 31 December 2018, there was a bonus opportunity maximum of 100% of base salary for Executive Directors, and up to 100% for other senior staff.

Bonus targets were set at the beginning of the year for both Julian Gilbert and Christine Soden based on the achievement of the following: successful IPO of the Company and raising a minimum of €30 million; achieving the approval of the NDA for BARHEMSYS; securing additional financing; and meeting the corporate organisational changes necessary to meet business goals. The Remuneration Committee set threshold, target and stretch performance levels for each of these measures. The bonus is calculated on base salary with a percentage payout (against a maximum of 100%) of between 25% on achieving threshold, 50% at on-target and 100% of the maximum at stretch.

The performance achieved against the bonus targets is summarised as follows:

Measure	As a percentage of maximum bonus opportunity	Performance required			Julian Gilbert	Christine Soden
		Threshold	Target	Stretch	% of maximum awarded	% of maximum awarded
IPO	25%	Raise €30m	Raise €30m	Raise €30m	25%[1]	25%[1]
NDA approval	35%	By year end Rescue indication only Restrictions impact market opportunity by <15%	November 2018 Rescue and Phx Restrictions impact market opportunity by <10%	October 2018 Rescue and Phx No material restrictions in label	2.5%[2]	2.5%[2]
Secure additional financing	35%	Raise €20m	Raise €30m	Raise €60m	7.5%[3]	7.5%[3]
Corporate organisation	5%	1 month behind IPO plan Adequate compliance with best practice	On IPO plan Satisfactory compliance with best practice	Ahead of IPO plan Compliance with best practice	5%[4]	5%[4]
Total	**100%**				**40%**	**40%**
Total awarded					**£124,000**	**£96,000**

1. IPO raised €40m so met in full
2. Whilst the NDA approval was not received as expected, the review work was completed by the FDA on the earliest date in October 2018 and no issues arose around the safety or efficacy of the product, being the items over which the management team exercised most influence. Moreover, the NDA was resubmitted within a month and the resubmission accepted. Some reward for this effort was deemed appropriate.
3. A $30 million debt facility was secured of which $10 million was drawn and a further $10 million is available on receipt of the NDA. The Committee deemed this work sufficient to award some part of the bonus.
4. The corporate organisation plans were advanced ahead of the expectations at the IPO.

2018 PSP (audited)

In accordance with the Remuneration Policy, the vesting of awards was set by the Remuneration Committee with the objective of aligning long-term employee interests with those of Shareholders and providing a competitive remuneration structure that attracts, incentivizes and retains all employees in the key markets in which the Company operates.

The awards made on 19 March 2018 to Julian Gilbert and Christine Soden were as follows:

Executive Directors	Scheme	Basis of award	Share price at grant date (p)	Number of shares	Face value	Performance period	Vesting date
Julian Gilbert	2018 PSP	100% of salary	320p	96,875	310,000	19 March 2018 – 31 December 2020	18 March 2021
Christine Soden	2018 PSP	100% of salary	320p	75,000	240,000		

The number of shares awarded under the PSP were calculated by reference to the market share price at the time of the IPO.

The number of awards under the 2018 PSP that will vest will be determined according to the satisfaction of the following performance conditions.

Percentage of vesting of portion of an award	Total Shareholder Return ("TSR") growth (25% weighting)	Hospital Formulary Acceptance (37.5% weighting)	Revenue targets for the year ending 31 December 2020 (37.5% weighting)
Nil	<7.5% p.a.	Below 500	Below $10 million
25%	7.5% p.a.	500	$15m million
Pro-rata between 25% and 100%	Between 7.5% and 25% p.a.	Between 500 and 900	Between $10 million and $25 million[1]
100%	>25% p.a.	900	>$25 million

1. For the revenue targets, the percentage vesting is pro-rata between the thresholds, for revenue targets achieved above $10 million.

The Remuneration Committee may vary, or waive and replace, the performance conditions applying to existing awards if an event has occurred, or series of related or connected events occurs, which causes the Remuneration Committee to consider that it would be appropriate to amend or replace the performance conditions, provided the Remuneration Committee considers the varied or replacement conditions to be fair and reasonable and at least as demanding as the current conditions. Any waiver of performance conditions would only be used in exceptional circumstances.

Outstanding share awards (audited)

The tables below sets out details of Executive Directors outstanding share awards (which will vest in future years subject to performance and / or continued service). All options have a life of 10 years from the grant date.

Julian Gilbert

Date of grant / award	Exercise price (p)	At 1 January 2018	Granted in year	Exercised / vested	Lapsed	At 31 December 2018	Exercise period / vesting date	Share price on exercise / vesting (p)
Share options								
30 December 2016	2	4,000	-	(4,000)	-	-	5 March 2018	320
2018 PSP awards								
6 March 2018	2	-	96,875	-	-	96,875	31 December 2020	
Total awards		**4,000**	**96,875**	**(4,000)**		**96,875**		

Christine Soden

Date of grant / award	Exercise price (p)	At 1 January 2018	Granted in year	Exercised / vested	Lapsed	At 31 December 2018	Exercise period / vesting date	Share price on exercise / vesting (p)
Share options								
28 August 2015	2	111,000	-	(111,000)	-	-	5 March 2018	320
28 August 2015	200	116,000	-	(116,000)	-	-	5 March 2018	320
21 December 2016	2	123,000	-	(123,000)	-	-	5 March 2018	320
30 December 2016	2	3,000	-	(3,000)	-	-	5 March 2018	320
2018 PSP awards								
6 March 2018	2	-	75,000	-	-	75,000	31 December 2020	
Total awards		**353,000**	**75,000**	**(353,000)**		**75,000**		

Two Non-Executive Directors, Patrick Vink and Scott Byrd, hold vested but not exercised share options as set out below. These options are a result of participation in the Company's unapproved share scheme in the past. However, this scheme is unrelated to performance, such participation was historic, with all options vested at the time of the IPO, and no further share options will be granted.

Patrick Vink holds 77,768 share options, granted under the Unapproved Scheme on 23 February 2016, and which vested on 6 March 2018, immediately prior to the IPO. These have an exercise price of £2 and have a life of 10 years from the date of grant.

Scott Byrd holds 111,000 share options, granted under the Unapproved Scheme on 28 August 2015, and which vested on 6 March 2018, immediately prior to the IPO. These have an exercise price of £0.02 and a life of 10 years from the date of grant. He further holds 139,000 share options, granted under the Unapproved Scheme on 28 August 2015, and which vested on 6 March 2018, immediately prior to the IPO. These have an exercise price of £2 and a life of 10 years from the date of grant.

Directors' pensions (audited)

Julian Gilbert and Christine Soden receive a cash payment in lieu of pension contributions of 10% of base salary.

Directors' shareholdings and share interests (audited)

Directors' holdings of Company shares

	Beneficially owned at 31 December 2018	Guideline met?	Vested unexercised share options	Subject to performance conditions
			Options	PSP
Julian Gilbert	840,955	Yes	1,075,632	96,875
Christine Soden[1]	50,575	No	353,000	75,000
Patrick Vink	50,893	N/A	188,904	-
Scott Byrd	-	N/A	250,000	-

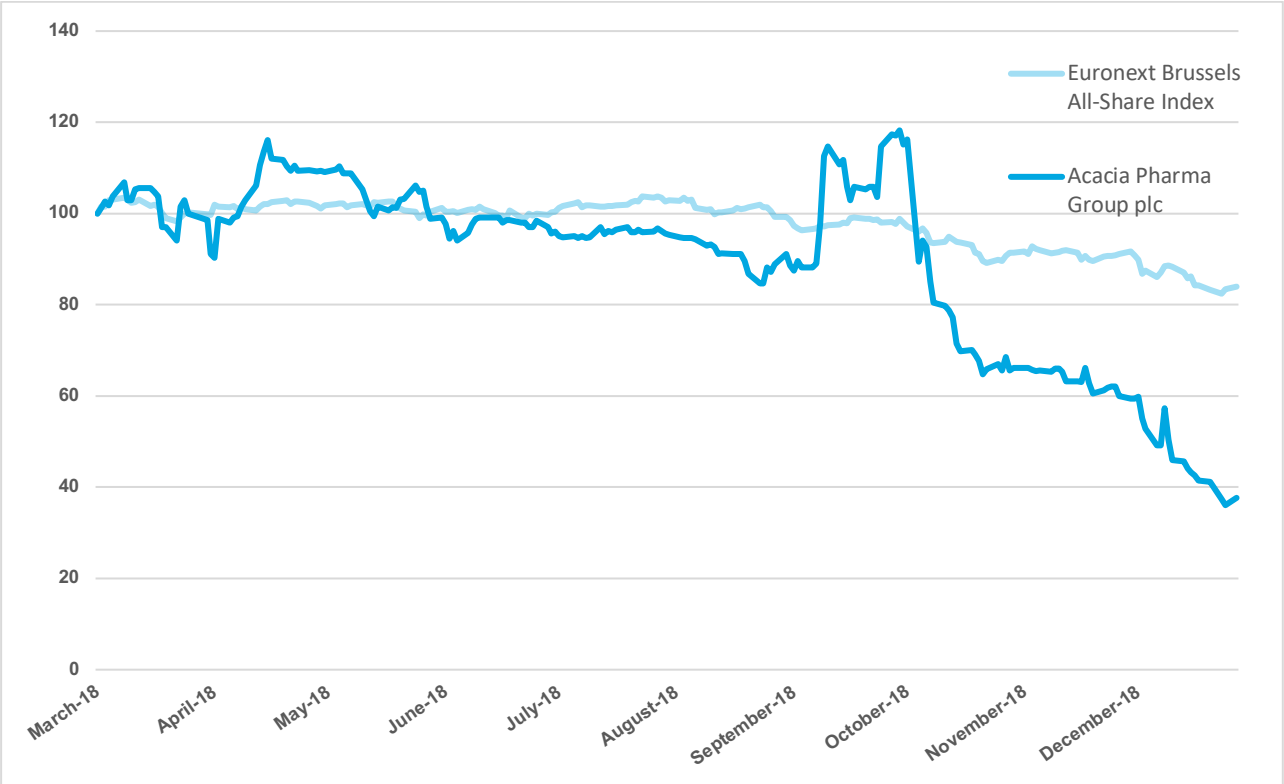
1. Christine Soden will be required to retain at least half of the net of tax shares awarded under any post-IPO incentive plan until the guideline as set out in the Remuneration Policy is met.

The following information is unaudited.

Total Shareholder Return

The performance of the Company's Ordinary shares compared with the Euronext Brussels All-Shares Index (the "Index") for the period from Admission on 6 March 2018 to 31 December 2018, which is considered to be the most appropriate index against which to make a comparison, is shown in the graph below.

The mid-market price of an Ordinary share on 31 December 2018 was €1.28. From 6 March 2018 to 31 December 2018 the share price ranged from a high of €4.02 to a low of €1.23.



Chief Executive Officer Total Remuneration History

	2014	2015	2016	2017	2018
Chief executive total single figure of remuneration (£'000)[1]	207	216	240	524	460
Bonus as a % of maximum[2]	-	-	-	-	40%
LTIPs[3]	-	-	-	-	-
Intrinsic value of shares options vesting	5	-	18	285	12

1. Included in the total single figure of remuneration is the intrinsic value of share options vesting in each period. Prior to 6 March 2018, the Company was not listed, and therefore a market price for the shares has been estimated. The same market price has been used in the calculation of intrinsic value as was used in each year for the calculation of options granted in that same year.
2. Prior to 2018, bonuses were entirely discretional and there was no contractual bonus range. Accordingly, no percentage of maximum can be disclosed.
3. Share options awarded prior to the IPO under the EMI and Unapproved Schemes held no performance related conditions. We have therefore separately disclosed the intrinsic value of share options vesting in each year.

Percentage change of Chief Executive Officer Total Remuneration

The table below shows the percentage change in remuneration of the Chief Executive Officer and the Group's employees as a whole set out below between the year ended 31 December 2017 and the year ended 31 December 2018. The percentage changes are not particularly meaningful, given the significant levels of change in the organisation, its listing on Euronext Brussels and the growth in employee numbers from 6 in 2017 to 40 in 2018.

	% change from 2017 to 2018	
	Chief Executive Officer	Average per employee
Base salary	54%	(18%)
Bonus	288%	26%
Taxable benefits	33%	362%

Relative importance of spend on pay

The Remuneration Committee currently considers the Group's overall expenditure relative to salary expenditure for all employees, to be the most appropriate metric for assessing overall spend on pay due to the nature and stage of the Group's business. However, as the Group launches its product and becomes driven by sales revenues, this metric will become of much greater importance. Dividend distribution and share buy-back comparators have not been included as the company has no history of such transactions.

The table below illustrates the gross pay to all employees per year as compared to total expenditure and illustrates the year-on-year change:

	2018 £'000	2017 £'000	Increase %
Total employee remuneration	4,389	1,502	192%
Total expenditure	15,035	3,013	399%

Application of the Remuneration Policy for the Year Ending 31 December 2019

The specific remuneration arrangements for 2019 are described below

Base salary	3% increase in line with RPI/Cost-of living changes, applied Group-wide, including the Executive Directors
Pension and benefits	No changes. Executive Directors receive a cash allowance in lieu of pension contributions and private health insurance.
Annual bonus	For 2019, performance under the annual bonus will be measured on the following basis: • 20% in respect of obtaining the NDA for BARHEMSYS with a label for use in both rescue treatment and prophylaxis and without material restrictions in its use • 30% in relation to obtaining further debt and equity finance sufficient to support the Group's commercial plans during 2019 and 2020 • 20% in respect of achieving certain revenue targets for 2019 • 20% for securing formulary access on a number of targeted accounts • 10% with respect to advancing the development of APD403 in CINV There will be no change in the maximum bonus award opportunity in 2019, which will remain at 100%
Performance share plan	The Company anticipates that long-term incentives for 2019 will be awarded at the earliest practicable opportunity but may await the approval of BARHEMSYS. The Company has historically awarded share options to all employees in order to align long-term employee interests with those of Shareholders. Details of the awards to the Executive Directors will be disclosed in the necessary Regulatory Information Service announcement, and in the Annual Report on Remuneration for the year ending 31 December 2019. It is anticipated that each Executive Director will receive an award under the PSP of 100% of salary, subject to meeting the following performance conditions:

Percentage of vesting of portion of an award	Total Shareholder Return ("TSR") growth (33% weighting)	Cumulative net revenue targets from launch to 31 December 2021 (33% weighting)	Cumulative funding targets in the 3 years to 31 December 2021 (33% weighting)
Nil	<7.5% p.a.	Below $50 million	Below $120 million
25%	7.5% p.a.	$65 million	$130 million
Pro-rata between 25% and 100%	Between 7.5% and 25% p.a.	Between $65million and $80 million	Between $130 million and $180 million
100%	>25% p.a.	>$80 million	>$180 million

Shareholding guidelines	Requirement to build and maintain a shareholding in the Company equivalent to 200% of base salary. Executives who do not meet the shareholding guidelines will be expected to retain at least half of the net of tax shares vesting under any incentive plan until the guideline is met.

Chairman and Non-Executive Director fees

Chairman fees

The Chairman is paid a flat fee to include attendance at meetings, committee memberships, and all other related activities. The current chairman fee was reviewed in 2018 having regard to the peer group of listed companies referred to above.

Non-Executive Director cash fees

Non-Executive Directors are paid a basic fee. In addition to the basic fee, committee fees may be paid for chairmanship or membership of a Board committee. Non-Executive Director fees were reviewed in 2018 having regard to the peer group of listed companies referred to above.

The table on page 33 shows the annual fees currently payable to our Chairman and Non-Executive Directors. These fees will be maintained at the same level for the year ending 31 December 2019. In addition, there will be no share option awards to the Chairman or Non-Executive directors.

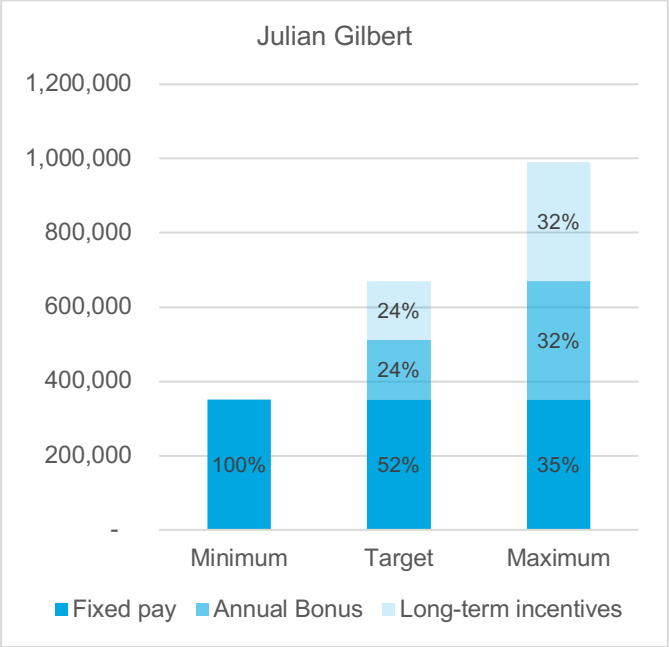
Directors' Remuneration Policy

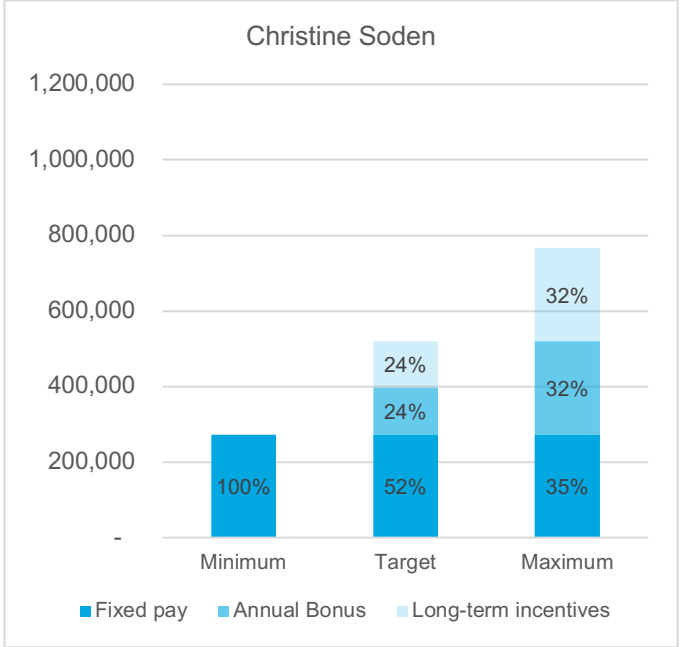
The Policy will be subject to a binding Shareholder vote at the 2019 AGM and, if approved, would be expected to remain in force until the AGM in 2022 with no requirement to vote again on the Policy in the intervening years provided that no changes are proposed.

The potential levels of remuneration should be set so that they are competitive against those comparator companies from which the Group will compete for talented individuals.

The Remuneration Committee's goal has been to design and implement a remuneration policy which will support and reward Executive Directors and senior management for delivering the Group's strategic objectives and ultimately creating value to shareholders, whilst adhering to good corporate governance and reflecting best practice. To achieve this, the balance of remuneration is focused on variable performance-related pay. In particular, to reflect the long-term nature of the Group's development pipeline, variable pay is more heavily weighted towards long-term sustainable value creation through the use of share incentive plans. When combined with significant levels of share ownership guidelines, this creates an alignment between Executive Directors and shareholders persisting for the longer-term.

The balance of pay at different performance levels is:





The total remuneration for each Executive Director is made up of the following elements: salary, benefits; annual bonus; long-term incentive awards; and pension. Recovery and withholding provisions will apply to the bonus and long-term incentive arrangements in specific circumstances as determined appropriate by the Remuneration Committee. The policy sets out the link between each element with the strategy, the manner in which it will be operated, the maximum potential values and performance metrics.

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Salary	Provides fixed remuneration in-line with market rates that reflects the responsibilities of the role undertaken and the experience of the individual.	Set at an approximately mid-market level and reviewed annually taking into account individual responsibilities, performance, inflation, and market rates. The Remuneration Committee will also consider the pay and employment conditions in the wider workforce when determining Executive Directors' salaries. Salary increases are normally effective from 1 January each year. Salaries are periodically benchmarked against a relevant peer group of UK listed companies with similar market capitalisations and operations.	The current base salaries are set out in the Annual report on Remuneration. There is no formal maximum limit, but increases are generally in line with those of the wider workforce. Larger increases will only be permitted to reflect a change in responsibilities or a significant increase in the scale or complexity of the role.	The overall performance of the individual and Company is a key determinant for salary increases.
Benefits	Provides market competitive, yet cost-effective employment benefits.	For Executive Directors this includes private medical insurance, travel and life insurance. Other employment benefits may be provided from time to time on similar terms as those of other employees. If the Company introduces an all-employee share plan, Executive Directors will be eligible to participate on the same terms as other employees. If an Executive Director is based outside the UK additional benefits and assistance with relocation may be provided which reflect local market norms or legislation.	Benefits will be based on market practice. The value of insured benefits will vary from year to year based on the cost from third-party providers.	None.
Annual Bonus	To incentivise and recognise execution of the business strategy and personal objectives on an annual basis.	Annual bonus performance targets are set at the start of the year by the Board and performance against objectives is assessed by the Remuneration Committee. Bonuses will be delivered as a mix of cash and deferred shares. Until the share ownership guidelines are reached, the bonus will be deliverable as 50% cash and 50% shares except that in the current year, the bonus relating to the IPO was paid wholly in cash. Thereafter, the bonus will be deliverable as 75% cash and 25% shares. Bonus shares are deferred for three years from the date of the award and are subject to forfeiture. Recovery and withholding provisions will apply in the event of mis-statement of results, error in performance calculation or gross misconduct A dividend equivalent, if payable, will be payable in shares when the underlying shares vest.	The maximum bonus opportunity for each Executive Director is 100% of salary.	Research and development, business development, financial and operational targets are set at the start of the year by the Board. The weighting for each performance measure is determined by the Remuneration Committee and may vary for each Executive Director according to their role and reflecting their objectives for the year. Details of the performance measures for the current year are provided in the Annual report on remuneration.

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Long-term Incentives: 2018 PSP	To align the interests of management with shareholder interests and to enhance retention of staff. To incentivise and recognise achievement of longer-term business objectives and sustained superior Shareholder value creation.	Conditional awards or nil or nominal cost options from the 2018 PSP are granted annually. The awards vest provided certain performance conditions, which have been approved by the Board, are achieved over a period of at least three years. Performance targets are set at the start of each performance period. Recovery and withholding provisions apply for reasons of mis-statement of results, error in performance calculation or gross misconduct.	The maximum PSP opportunity of up to 100% salary each year may be granted to each Executive Director. In special circumstances (such as a recruitment) an award of up to 300% of salary is permitted. Dividend equivalents may be payable on vested awards.	Awards are currently subject to a combination of relative TSR and clinical and commercial progression timelines for Executive Directors. No more than 25% of the maximum award will vest for achieving the threshold performance level. The weighting of these performance measures, the choice of comparators for TSR if a relative measure is applied and/or the inclusion of additional performance measures will be reviewed annually by the Remuneration Committee, reflecting the strategic objectives and priorities of the following three-year performance period. If the Remuneration Committee determines a material change to the performance measures used for future awards is required to reflect a change in strategy, this would only be made following appropriate dialogue with the Company's major Shareholders.
Pension	To provide a competitive and cost-effective level of retirement provision.	Executive Directors are eligible to join a defined contribution pension scheme. Alternatively, a cash supplement (or a combination of contribution and cash) can be made.	The maximum contribution, cash supplement (or combination thereof) payable by the Company is 10% of salary, in line with all UK-based employees.	None.
Share ownership guidelines	To align Executives with shareholders and provide an ongoing incentive for continued performance.	Only shares which are fully owned with no outstanding vesting criteria count towards the shareholding guideline. Executive Directors will be required to retain half of any post-tax awards which vest under deferred bonus or long-term incentive plans, until the share ownership guideline has been satisfied. Furthermore, they will be required to retain half of any such post-tax awards for two years post-vesting or for two years post-employment if sooner.	Executive Directors are required to build and maintain a minimum level of shareholding of 200% of base salary.	None

Remuneration Committee Powers

The Remuneration Committee operates the annual bonus and 2018 PSP, in accordance with their rules, and where relevant, the Listing Rules. To maintain an efficient administrative process, the Remuneration Committee retains the following powers to apply its judgement in setting remuneration:

a. the eligibility to participate in the plans;
b. the timing of grant of awards and any payments;
c. the size of awards and payments (subject to the maximum limits set out in the policy table above and the respective plan rules);
d. the determination of whether the performance conditions have been met;
e. determining a good or bad leaver under the terms of the plan;
f. dealing with a change of control or restructuring of the Group;
g. adjustments required in certain capital events such as rights issues, corporate restructuring, events and special dividends; and
h. the annual review of performance conditions for the annual bonus plan and 2018 PSP.

In certain exceptional circumstances, such as a material acquisition/divestment of a Group business, which mean the original performance conditions are no longer appropriate, the Remuneration Committee may adjust the targets, alter weightings or set different measures as necessary, to ensure the conditions achieve their original purpose and are not materially less difficult to satisfy.

Remuneration on recruitment

The remuneration package for a new director will be set in accordance with the terms of Acacia's approved remuneration policy in force at the time of appointment but focusing on the objective of appointing the most appropriate incumbent in the right geography.

The salary for a new executive will be set to reflect their skills and experience, the Group's target pay positioning and the market rate for the role in the relevant location, subject to the overall goal of attracting the right candidate. Where it is appropriate to do so, salaries may be set below the normal market rate, with phased increases over the first few years as the executive gains experience in their new role.

Benefits and pensions will be in line with those offered to other executive directors, taking account of local market practice with relocation expenses provided if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with the Group. Legal fees and other costs incurred by the individual may also be met by the Group.

The ongoing incentive opportunity offered to new recruits will be in line with that offered to existing directors. Different measures and targets under the bonus plan or the PSP may be set initially taking account of the responsibilities of the individual and the point in the financial year at which they join. A new employee may be granted normal annual PSP awards in the first year of employment in addition to any awards made with respect to prior employment being forfeited.

To enable the recruitment of exceptional talent, the Remuneration Committee may determine that the buy-out of remuneration forfeit from a prior employer is necessary. Where possible, any replacement remuneration will be offered on a like-for-like basis with the forfeited awards and may be in the form of cash or shares and depending whether the award forgone has similar performance conditions, may or may not be subject to performance conditions. The value of any buy-out will be limited to the value of remuneration forfeit. Where appropriate, such awards will be granted under existing share plans, however, the Remuneration Committee will have discretion to make use of the flexibility to make awards under exemptions in the Listing Rules.

For an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

For the appointment of a new Chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

Exit payment policy

Service contracts

Termination by notice	Redundancy	Retirement, death and ill-health, injury or disability
12 months - Chief Executive Officer 9 months – Chief Financial Officer	12 months - Chief Executive Officer 9 months – Chief Financial Officer Annual salary payable (reduced accordingly if part of the notice period is worked)	No termination payment.

Annual Bonus

Termination by notice by individual	Redundancy, retirement, death and ill-health, or any other reason the Remuneration Committee determines	Termination by notice
If an individual serves notice and the termination date falls before 31 December, the bonus is forfeited. If notice is served between 1 January following the year in which the bonus was earned and the payment date, the employee may (as determined by the Remuneration Committee) receive the entire bonus payable in cash, subject to malus and clawback provisions.	If the termination date falls during the financial year, pro-rated for service rendered and subject to performance. If it falls after the end of the financial year the bonus is payable in cash based on actual results on the normal bonus payment date with standard deferment being applied where appropriate.	Not normally paid, however, at the Remuneration Committee's discretion, if the termination date falls during the financial year, a bonus may be paid pro-rata for service rendered and subject to performance over the full financial year and normally paid on the normal payment date. If it falls after the end of the financial year bonus is payable based on actual results on the normal bonus payment date. There will be no payment for failure to perform.

PSP awards

Long-term incentives and deferred bonuses PSP awards are governed by the respective plan rules as approved by Shareholders. Likewise, the deferred bonus awards are subject to the same leaver provisions. These are summarised below.

Termination by notice	Redundancy, retirement, ill health, injury or disability, transfer of employment outside of the Group or change of control, or any other reason the Remuneration Committee determines	Death	Change of control
Unvested awards lapse on cessation.	Unvested awards will vest either on the normal vesting date or if the Board decides, immediately on the participant ceasing to be in employment. Awards will vest subject to the extent the performance condition has been met, as determined by the Remuneration Committee. Awards will be pro-rated for time, unless the Remuneration Committee determines otherwise.	Unvested awards will vest on the date of death. Awards will be pro-rated for time, unless the Remuneration Committee determines otherwise.	Unvested awards will vest on the date of the takeover. Awards will vest subject to the extent the performance condition has been met, as determined by the Remuneration Committee. Awards will be pro-rated for time, unless the Remuneration Committee determines otherwise.

Additional payments:

The Remuneration Committee will make payment of any statutory entitlements as necessary. In addition, the Remuneration Committee will retain the discretion to make settlement or to compromise a claim in connection with a termination of any Executive Directors as necessary.

Reasonable legal and outplacement costs will be met if deemed necessary.

Statement of consideration of employees' pay and remuneration conditions elsewhere in the Group

The Company does not formally consult with employees on the matters of Executive Director remuneration. However, the Remuneration Committee is made aware of employment conditions in the wider Group. The same broad principles apply to the remuneration policy for both Executive Directors and the wider employee population. However, the remuneration for Executive Directors has a stronger emphasis on performance-related pay than for other employees. Salaries, benefits and pensions are compared to appropriate market rates and set at approximately mid-market level with allowance for role, responsibilities and experience.

Remuneration policy for Non-Executive Directors

The Remuneration Committee is responsible for evaluating and making recommendations to the Board on fees payable to the Chairman. The Chairman does not participate in discussions in respect of fees. The Chairman and Chief Executive Officer are responsible for evaluating and making recommendations to the Board on the fees payable to the Company's Non-Executive Directors.

The current fee levels are set out in the Annual Report on Remuneration. There is no formal maximum, but fee levels will be aligned to the market. Fees are reviewed on a periodic basis against those in similar sized companies to ensure they remain competitive and adequately reflect the time commitments and scope of the role.

A Board fee is paid to each Non-Executive Director. Supplemental fees are paid to the Senior Independent Director and for the Chairing and membership of Committees to recognise the additional time commitments and responsibilities of these roles. Any increase in fee levels may be above that of the wider workforce in a particular year to reflect the periodic nature of any review and/or any change in responsibilities/time commitments.

Statement of consideration of Shareholders' views

The Remuneration Committee will consider any Shareholder feedback received at the Annual General Meeting and at meetings throughout the year, when reviewing the overall remuneration policy each year. The guidance from shareholder representative bodies is also considered on an ongoing basis.

More specifically the Remuneration Committee will consult with major Shareholders when proposing any significant changes to the policy in the future.

This report was approved by the Board of Directors on 27 February 2019 and signed on its behalf by:

Dr John Brown
Chairman of the Remuneration Committee

27 February 2019

Directors' Report

The Directors present their Report and the audited consolidated financial statements for the year ended 31 December 2018. The Directors' Report comprises pages 46 to 49 and the following sections of the Annual Report which are incorporated by reference:

Item	Location in Annual Report
Statement of Directors' Responsibilities	Page 49
Financial instruments and financial risk management	Financial Statements - note 10
Present membership of the Board	Pages 13 to 16
Corporate Governance Report	Pages 16 to 45
Strategic Report	Pages 2 to 11
Directors' Remuneration Report	Pages 29 to 46
Share capital	Financial Statements – note 13

Results and dividends

The results for the year and the financial position as at 31 December 2018 are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position. The results of the Group are explained in more detail in the Financial Review. The Directors do not recommend the payment of a dividend for the year to 31 December 2018 (2017: £nil).

Research and development

During the year ended 31 December 2018 the Group's expenditure on research and development was £3,766,000 (2017: £1,479,000).

Review of business and future developments

The Chairman's Statement on page 2, the Chief Executive Officer's Report on page 4 and the Strategic Report on pages 2 to 11 provide a review of the business, the Group's trading for the year ended 31 December 2018, key performance indicators, risk and an indication of likely future developments in the business of the Group.

Directors and Directors' interests

The Directors of the Company at the date of this report, together with their biographical details and dates of appointment are set out in the Corporate Governance Report and the Board of Directors section. All the current Directors served throughout the year, with the exception of John Brown and Ed Borkowski, who were appointed on 6 March 2018; and Martin Edwards and Alexander Pasteur, who resigned on 6 March 2018.

The Board confirms that each of the Directors who served during the year has been formally appraised during this year. In accordance with the 2016 UK Corporate Governance Code, all Directors of the Company will stand for re-election on an annual basis.

Information on the Directors' remuneration and their interests in the share capital of the Company are set out in the Directors' Remuneration Report. None of the Directors has a commercial interest in any material contract entered into by the Company.

Director indemnity provisions

As is permitted by sections 232 to 235 Companies Act 2006, and consistent with the Company's Articles of Association, the Company has maintained insurance cover for its Directors and Officers under a Directors and Officers Liability Policy. Further, the Company has granted an indemnity to its Directors against liability which arises due to claims brought by third parties. The Directors may exercise their powers pursuant to the Articles of Association, the Companies Act 2006 and related legislation, and any resolution of the Shareholders. The Articles are available for review at the Company's registered office or can be downloaded from the Company's website www.acaciapharmagroup.com.

Share capital and control

At 1 January 2018 the Company had a total of 2,664,662 ordinary shares in issue. During the year the share capital of the Company increased by 50,254,399 ordinary shares as a result of the IPO, and conversion of preference shares and convertible debt which took place on 6 March 2018, and by a further 410,144 ordinary shares due to the vesting and exercise of share awards. Details of the movements in the Company's share capital are shown in note 13 to the financial statements.

As at 31 December 2018, the Company had 53,329,205 ordinary shares in issue.

Following the conversion of preference shares which occurred immediately prior to the IPO, the Company has only one class of shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions on voting rights or on the holding or transfer of these securities. Details of employee share schemes are set out in note 7. Shares held by the Acacia Pharma Group plc Employee Benefit Trust abstain from voting. No shares were held in the Employee Benefit Trust during the year (2017: Nil).

Major shareholdings

Other than the shareholdings disclosed as Directors' interests in the Directors' Remuneration Report as at 27 February 2019, being the latest practicable date prior to the publication of this Report, the Company had been notified under Section 5 of the Disclosure and Transparency Rules of the UK Listing Authority of the following significant holdings of voting rights in its ordinary shares:

	Ordinary shares (number)	Percentage of ordinary shares in issue	Nature of holding
Gilde Healthcare II Management BV	16,943,822	31.77%	Direct
Lundbeckfond Invest A/S	12,468,955	23.38%	Direct
Novo Holdings A/S	5,319,903	9.98%	Direct
FMR LLC	4,998,786	9.37%	Indirect
AXA Investment Managers	2,650,846	4.97%	Direct

Employment policies and Employee involvement

The Group gives every consideration to applications for employment from disabled persons. Employees who become disabled are given every opportunity to continue employment under normal terms and conditions with appropriate training, career development and promotion wherever possible. The Group seeks to achieve equal opportunities in employment through recruitment and training policies.

The Group encourages employee involvement in its affairs and makes use of an intranet system to promote such involvement and to aid communication with employees. Group-wide meetings are held to bring senior management together to share ideas and develop policy, values and behaviours. Dialogue takes place regularly with employees to make them aware of the financial and economic factors affecting the performance of the Group. Performance related bonus schemes are in operation throughout the Group.

Greenhouse gas emissions

The Strategic Report and Directors' Report Regulations 2013 require all quoted companies to disclose their annual greenhouse gas emissions for Scope 1 and 2.
The Group currently utilises managed office space in its operations in the UK and the US. There is no direct relationship between rental payments and utilities usage, nor is the utilities usage of Acacia Pharma Group entities separable from unrelated businesses which occupy other offices in the same buildings. The Group owns no motor vehicles.

Accordingly, there are no greenhouse gas emissions for Scope 1 or 2 that can be disclosed. Our overall environmental impact is considered to be low, with only small office facilities. Wherever possible we encourage reductions in the use of electricity, reductions in air and road travel through the use of video-conferencing and similar communications, and recycling.

Political donations

No political donations were made in the year (2017: none).

Subsidiaries

All the Group's subsidiaries, joint ventures and related undertakings are listed on page 86.

Significant agreements and change of control

The Company is not party to any significant agreement which takes effect, alters or terminates upon a change of control of the Company other than the Directors' service contracts, details of which are set out in the Directors' Remuneration Report.

All of the Company's share option schemes contain provisions relating to a change of control. Outstanding options normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Post period events

There were no events after the year end which would have a material impact on these financial statements.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will be able to meet their liabilities as they fall due for the foreseeable future.

Based on their current forecasts and plans, and taking into account existing cash and debt facilities, the Group and Company will need to raise additional debt or equity financing in order to have sufficient funds to meet their cash requirements for at least the next 12 months. Planning is well progressed for an additional equity or debt raise but on hold, pending the outcome of the FDA approval for BARHEMSYS. However, FDA approval is not a necessarily a pre-requisite for raising the additional funds. There is, however, no guarantee that attempts to raise adequate additional financing on a timely basis will be successful.

The Directors are confident that it is appropriate to prepare these financial statements on the going concern basis. However, the ability to secure additional financing represents a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's auditor will be proposed at the 2019 Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held in London on 3 June 2019 at 10.30am.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of 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' confirmations

The directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Corporate Governance Report confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Chairman's Introduction and the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to the auditor

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Group and Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information.

By order of the Board

Christine Soden
Company Secretary
27 February 2019

Independent auditors' report to the members of Acacia Pharma Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Acacia Pharma Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Material uncertainty relating to going concern

In forming our opinion on the Group and Company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and Company's ability to continue as a going concern. Based on their current forecasts and plans, and taking into account existing cash and debt facilities, the Group and Company will need to raise additional debt or equity financing in order to have sufficient funds to meet their cash requirements for at least the next 12 months. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The Group and Company financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Our audit approach

Overview

- Overall group materiality: £809,000 (2017: £326,000), based on 5% of loss before tax.
- Overall company materiality: £228,000 (2017: £154,000), based on 5% of loss before tax.

- We performed audits of the complete financial information of all three reporting units (Acacia Pharma Group plc, Acacia Pharma Limited and Acacia Pharma Inc).
- The Group engagement team performed all audit procedures.
- Our scope provided us with coverage of 100% of Group loss before tax and 100% of group net assets.

- Going concern (Group and parent).
- Carrying value of the company's investment in and receivables due from Acacia Pharma Limited (Parent).
- Accounting for the changes in the capital structure as a result of the admission of shares onto the regulated market of Euronext Brussels (Group and parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

We considered those laws and regulations to which the company is subject and in particular those that may have an impact on the financial statements and the extent to which non-compliance might have a material effect on the financial statements, such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to misappropriate cash. Audit procedures performed included:

- Discussions with management of known or suspected instances of non-compliance with laws and regulation and fraud;

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

• *Key audit matter*	• *How our audit addressed the key audit matter*
Going concern Group and parent At 31 December 2018, the Group had cash and cash equivalents of £29,353,000 (Company: £20,000). The company is reliant on the cash inflows generated by its subsidiaries to fund its operations and those of the Group. The Group continues to have cash outflows from operating activities. As set out in note 1 of the consolidated and company financial statements, it is the Directors' intention to raise additional debt or equity financing following the FDA approval of the NDA for BARHEMSYS. The directors have prepared monthly cash flow forecasts for the group, under various scenarios, which show that: • the planned additional debt or equity financing should be sufficient to meet the Group's and Company's working capital requirements for at least twelve months from the date of approval of the financial statements; or • should the approval by the FDA of the NDA for BARHEMSYS be delayed or not received or the plans to raise additional debt or equity financing not be successful, the directors would take actions to reduce the ongoing cost base of the group, such that the Group and Company will have sufficient funds to meet their cash requirements for at least twelve months from the date of approval of the financial statements, albeit with a reduced level of activity.	We reviewed the Directors' model supporting the going concern assumption, tested mathematical accuracy and considered the reasonableness of the assumptions made, including expected launch date, pricing, volume of sales and the forecast costs, and the available headroom throughout the twelve month period from the date of approval of the financial statements. Our procedures included: • Understanding and evaluating the drivers for the revenue and level of costs included in the model; • Challenging the Directors on the timing of when the actions, to reduce the ongoing cost base of the Group, would need to be taken, compared to the FDA's PDUFA date; • Applying sensitivities to the model, including timing and quantum of revenue forecast in the period; and • Considering whether the covenants set out in the bank loan are met throughout the forecast period. Our conclusion on management's use of the going concern basis of preparation is included in the 'conclusions relating to going concern' section below.
Carrying value of the company's investment in and receivables due from Acacia Pharma Limited Parent As at 31 December 2018, the company's investment in Acacia Pharma Limited was £107,371,000 and the receivable due from Acacia Pharma Limited was £37,556,000 (see notes 5 and 6 of the company's financial statements respectively) amounting to a combined interest of £144,927,000. We focussed on this area because the determination of whether Acacia Pharma Group plc's investment in and receivables due from Acacia Pharma Limited were impaired involved significant estimates by management about the future results of the business. In addition the market capitalisation of the group, and therefore the associated value that could be attributed to Acacia Pharma Limited given it owns the group's IP, at 31 December 2018 at €68m (£60m) was lower than the company's combined interest in Acacia Pharma Limited. Management's impairment assessment is based on a value in use model, using projected future cash flows from its two products - BARHEMSYS and APD403. Whilst an NDA has been submitted for BARHEMSYS it has not yet received approval from the FDA to be marketed, and APD403 is still in the clinical trial phase.	We considered whether the market capitalisation of the group at the year end indicated a permanent reduction in the value of the group by taking into account the market capitalisation of the group, at the time of the IPO and the factors which may have contributed to the decline in the value by the year end. We challenged the appropriateness of the key assumptions underpinning the Directors' impairment assessment, including expected launch date, pricing, volume of sales and the forecast costs. We also evaluated the appropriateness of the discount rate used. We performed sensitivity analysis on certain key assumptions. We considered the carrying value of the investment to be supported.

• Key audit matter	• How our audit addressed the key audit matter
Accounting for the changes in the capital structure as a result of the admission of shares onto the regulated market of Euronext Brussels (the "IPO") Group and parent As explained in note 13 of the consolidated financial statements, immediately prior to the admission of shares onto the regulated market of Euronext Brussels (the "IPO"), all of the S ordinary, A ordinary, B preferred, C preferred and D preferred shares were converted into Ordinary Shares on a one-for-one basis. In addition, Ordinary Shares were issued upon the conversion of the Convertible Loan Notes and in settlement of the accrued finance charges on the A ordinary, B preferred, C preferred and D preferred shares and the loan notes. The P shares were also converted into Ordinary shares. There is a risk that the accounting and disclosure implications of these transactions have not been correctly reflected in the financial statements.	We have examined the underlying documentation and associated accounting treatment for the transactions as follows: • We agreed the conversion of the various share classes and convertible loan notes into Ordinary shares and in settlement of the accrued finance charges on the various shares and the loan notes, to board minutes and the prospectus issued at the time of the IPO; • We agreed the increase in Ordinary shares to Companies House fillings; • The appropriate split between share capital and share premium was recalculated and confirmed as appropriate. Based on the procedures performed we agreed with management's classification, disclosure and presentation of the revised capital structure.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group has three reporting units (Acacia Pharma Group plc, Acacia Pharma Limited and Acacia Pharma Inc), we performed audits of the complete financial information of all three reporting units. Our scope provided us with coverage of 100% of Group loss before tax and 100% of group net assets. The Group engagement team performed all audit procedures.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	• Group financial statements	• Company financial statements
• Overall materiality	£809,000 (2017: £326,000).	£228,000 (2017: £154,000).
• How we determined it	5% of loss before tax.	5% of loss before tax.
• Rationale for benchmark applied	Loss before tax is the metric that, we believe is the most commonly used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that loss before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £228,000 and £768,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £40,000 (Group audit) (2017: £16,300) and £11,000 (Company audit) (2017: £7,600) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

• ***Reporting obligation***	• ***Outcome***
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to other than the material uncertainty we have described in the material uncertainty relating to going concern section above. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

• ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

• ***The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group***

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 11 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 11 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

- ***Other Code Provisions***

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 49, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 22 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

- ***Directors' Remuneration***

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 49, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors in September 2015 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the periods ended 31 December 2016 to 31 December 2018.

Other voluntary reporting

Going concern

The directors have requested that we review the statement on page 11 in relation to going concern as if the company were a UK premium listed company. We have nothing to report having performed our review.

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the company were a UK premium listed company. We have nothing to report in respect of the requirement for the auditors of UK premium listed companies to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the UK Listing Rules, for review by the auditors.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
27 February 2019

Consolidated Income Statement

	Note	2018 £'000	2017 £'000
Research and development expenses		**(3,766)**	(1,479)
Sales and marketing expenses		**(6,943)**	-
General and administrative expenses		**(4,326)**	(1,534)
Operating loss		**(15,035)**	(3,013)
Finance income	3	**926**	2
Finance expense	4	**(2,069)**	(3,510)
Loss before income tax	5	**(16,178)**	(6,521)
Taxation credit	8	**660**	349
Loss for the financial year		**(15,518)**	(6,172)
Basic and diluted losses per Ordinary Share	9	**(35)p**	(232)p

Consolidated statement of comprehensive income

	Note	2018 £'000	2017 £'000
Loss for the financial year		**(15,518)**	(6,172)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**1,169**	17
Other comprehensive expense for the financial year		**1,169**	17
Total comprehensive expense for the financial year		**(14,349)**	(6,155)

The notes on pages 61 to 79 form an integral part of these Consolidated Financial Statements

Consolidated Statement of Financial Position

	Note	2018 £'000	2017 £'000
Assets			
Current Assets			
Other receivables	11	**312**	154
Current income tax assets		**686**	349
Cash and cash equivalents	12	**29,353**	3,070
Total Current Assets		**30,351**	3,573
Total Assets		**30,351**	3,573
Equity and Liabilities			
Equity attributable to equity holders			
Share capital	13	**1,067**	701
Share premium	13	**54,858**	4,513
Profit and loss account		**31,537**	45,886
Share-based payments reserve		**997**	253
Merger reserve		**(69,136)**	(69,136)
Total Equity		**19,323**	(17,783)
Liabilities			
Non-current liabilities			
Term bank loan, amounts payable after one year	15	**6,968**	-
		6,968	-
Current liabilities			
Trade and other payables	14	**3,726**	1,000
Liability component of convertible shares	15	**-**	11,140
Term loans, amounts payable within one year	15	**334**	5,185
Convertible loan notes	15	**-**	4,031
		4,060	21,356
Total Liabilities		**11,028**	21,356
Total Equity and Liabilities		**30,351**	3,573

The notes on pages 61 to 79 form an integral part of these Consolidated Financial Statements

The Consolidated Financial Statements on pages 57 to 79 were approved and authorised for issue by the board of Directors on 27 February 2019 and were signed on its behalf by:

Christine Soden
Director

Consolidated Cash Flow Statement

	Note	2018 £'000	2017 £'000
Cash flows from operating activities:			
Cash used in operations	17	**(11,972)**	(6,542)
Income tax credit received		**323**	2,793
Net cash used in operating activities		**(11,649)**	(3,749)
Cash flows from investing activities:			
Interest received		**202**	2
Net cash generated from investing activities		**202**	2
Cash flows from financing activities:			
Proceeds of issuance of convertible loan	15	**-**	3,400
Proceeds of issuance of Ordinary Shares	13	**35,832**	-
Issue costs of Ordinary Shares	13	**(1,652)**	-
Amounts borrowed under term loan	15	**7,671**	-
Costs of securing term loan	15	**(494)**	-
Principal repaid under term loan	15	**(4,500)**	(3,000)
Interest and fees paid on loans	15	**(1,193)**	(368)
Net cash generated from financing activities		**35,664**	32
Net increase / (decrease) in cash and cash equivalents		**24,217**	(3,715)
Cash and cash equivalents at beginning of the year		**3,070**	6,884
Effect of exchange rate movements on cash held		**2,066**	(99)
Cash and cash equivalents at end of the year	12	**29,353**	3,070

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Issued Share Capital £'000	Share Premium £'000	Profit and Loss account £'000	Merger reserve £'000	Share based payment reserve £'000	Total Equity £'000
Balance at 1 January 2018	**701**	**4,513**	**45,886**	**(69,136)**	**253**	**(17,783)**
Loss for the year	-	-	(15,518)	-	-	(15,518)
Other comprehensive income	-	-	1,169	-	-	1,169
Total comprehensive expense for the year	-	-	(14,349)	-	-	(14,349)
Warrants issued	-	-	-	-	249	249
Transactions with Owners						
Issue of Ordinary shares	366	51,997	-	-	-	52,363
Costs of issue of Ordinary Shares	-	(1,652)	-	-	-	(1,652)
Employee share option scheme	-	-	-	-	495	495
Balance at 31 December 2018	**1,067**	**54,858**	**31,537**	**(69,136)**	**997**	**19,323**

For the year ended 31 December 2017

	Issued Share Capital £'000	Share Premium £'000	Profit and Loss account £'000	Merger reserve	Share based payment reserve £'000	Total Equity £'000
Balance at 1 January 2017	**701**	**4,513**	**52,041**	**(69,136)**	**144**	**(11,737)**
Loss for the financial year	-	-	(6,172)	-	-	(6,172)
Other comprehensive expense	-	-	17	-	-	17
Total comprehensive expense for the year	-	-	(6,155)	-	-	(6,155)
Transactions with Owners						
Employee share option scheme	-	-	-	-	109	109
Balance at 31 December 2017	**701**	**4,513**	**45,886**	**(69,136)**	**253**	**(17,783)**

Notes to the Financial Statements

1. Summary of significant accounting policies

General information

Acacia Pharma Group plc is a public limited company incorporated and domiciled in England and Wales with registered number 09759376. The Company's registered office is The Officers' Mess, Royston Road, Duxford, Cambridge CB22 4QH.

The principal activity of the Company and its subsidiaries (together "the Group") is that of a pharmaceutical group which discovers, develops and commercialises lower risk pharmaceutical product opportunities within its therapeutic areas of interest.

The Group's Consolidated Financial Statements are presented as at and for the year ended 31 December 2018 and 31 December 2017.

Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with the requirements of the International Financial Reporting Standards as endorsed by the EU (IFRSs), the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Following careful consideration by the directors, as set out in the Going Concern section of note 1 below, the Consolidated Financial Statements have been prepared on a going concern basis and under the historical cost convention. The principal accounting policies set out in the 2017 Annual Report have been consistently applied to all periods presented with the exception of IFRS9, discussed below.

Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations adopted by the group

IFRS 15 'Revenue from contracts with customers', was issued by the IASB in May 2014 and has been implemented by the Group from 1 January 2018. The Standard contains a new set of principles on when and how to recognise and measure revenue as well as new requirements related to disclosures. There is no impact of adoption, as the Group is not revenue-generating in the current or prior year.

IFRS 9 'Financial instruments' was issued by the IASB in July 2014, and has been implemented by the Group from 1 January 2018. As disclosed in note 10, the Group's only financial assets are cash and cash equivalents and other receivables, which will continue to be held at amortised cost. There has been no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as fair value through profit or loss, and the Group does not have any such liabilities. The impact of adoption is immaterial.

1. Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted
Below is a list of standards/interpretations that have been issued and are not effective for periods starting on 1 January 2018, but will be effective for later periods:

IFRS 16 'Leases' was issued by the IASB in January 2016, and will be implemented by the Group from 1 January 2019. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group expects to recognise right-of use assets of approximately £228,000, and lease liabilities of approximately £360,000. Net assets will be approximately £11,000 lower, and net current assets will be approximately £66,000 lower due to the presentation of a portion of the liability as a current liability.

Operating cash flows will increase and financing cash flows will decrease by approximately £109,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Basis of Consolidation

All of the subsidiaries of the Group are 100% owned within the Group and have been included in the consolidated financial information from the date of incorporation. The subsidiaries included are:

Acacia Pharma Limited (incorporated in England and Wales); and
Acacia Pharma Inc (incorporated in the United States of America)

The insertion of Acacia Pharma Group plc as the holding company of Acacia Pharma Limited on 15 September 2015 did not meet the definition of a business combination in accordance with IFRS3 "Business Combinations" as Acacia Pharma Group Limited, subsequently re-registered as Acacia Pharma Group plc, was a shell company and did not meet the definition of a business. Accordingly, upon consolidation, the transaction was accounted for as a reorganisation of Acacia Pharma Limited without any fair value uplift and a merger reserve of £69,136,000 was created. The consolidated financial statements are presented using the historical carrying values from the financial statements of the acquired entity, Acacia Pharma Limited, but reflecting the share capital of Acacia Pharma Group plc.

Subsidiary undertakings are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiary undertakings are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation, being intra-group balances, any unrealised gains and losses and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1. Summary of significant accounting policies (continued)

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will be able to meet their liabilities as they fall due for the foreseeable future.

Based on their current forecasts and plans, and taking into account existing cash and debt facilities, the Group and Company will need to raise additional debt or equity financing in order to have sufficient funds to meet their cash requirements for at least the next 12 months. Planning is well progressed for an additional equity or debt raise but on hold, pending the outcome of the FDA approval for BARHEMSYS. However, FDA approval is not a necessarily a pre-requisite for raising the additional funds. There is, however, no guarantee that attempts to raise adequate additional financing on a timely basis will be successful.

The Directors are confident that it is appropriate to prepare these financial statements on the going concern basis. However, the ability to secure additional financing represents a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

Foreign currency translation

The Financial Statements are presented in pounds sterling, which is the Group's functional and presentational currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within administrative expenses.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities presented in foreign currencies are translated at the closing rate of exchange ruling at the end date of the financial year;
- income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks, other short–term highly liquid investments with original maturities of less than three months and bank overdrafts.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. The Group's Ordinary, S ordinary, non-voting S ordinary, P and D preferred share classes of share capital are classified as equity.

Any equity component of the Group's compound financial instruments is also included within share capital and share premium.

1. Summary of significant accounting policies (continued)
Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

(i) Classification
From 1 January 2018, the Group classifies its financial assets as those to be measured at amortised cost. No assets are held by the Group at fair value through profit or loss.

(ii) Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

(iv) Impairment
From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(v) Accounting policies applied until 31 December 2017
The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. No changes to recognition, measurement or derecognition were caused by the adoption of IFRS9.

Financial liabilities

i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs and warrants issued) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

1. Summary of significant accounting policies (continued)

Financial instruments (continued)

ii) Compound financial instruments

In the prior year, the compound financial instruments issued by the Group comprised convertible shares that could be converted to share capital at the option of the holder, and the number of shares to be issued did not vary with changes in their fair value. The Group's A Ordinary shares and B Preferred shares and C Preferred shares are classified as compound financial instruments

The liability component of the compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequently to initial recognition except on conversion or expiry.

Where the terms of financial instruments are amended such that there is a substantial change in expected future cash flows, the financial instrument is treated as extinguished and re-issued giving rise to a gain or loss on extinguishment. The gain or loss on extinguishment is calculated as the difference between the fair value of the instrument immediately prior to the extinguishment and the fair value of the replaced instrument. The gain or loss is allocated to equity in the year of extinguishment.

All convertible shares were converted to Ordinary shares immediately before completion of the IPO on 6 March 2018.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less . If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Research and development

Research costs are expensed in the Income statement in the year in which they are incurred. All research costs are included within research and development expenditure on the face of the Income statement.

All development expenditure is currently expensed in the year in which it is incurred. Due to the regulatory and other uncertainties inherent in the development of the Group's programmes, the criteria for development costs to be recognised as an asset, as prescribed by IAS 38, "Intangible assets", are not met until the product has been submitted for regulatory approval, such approval has been received and it is probable that future economic benefits will flow to the Group. The Group does not currently have any such internal development costs that qualify for capitalisation as intangible assets.

Pensions

The Group makes payments to defined contribution personal pension schemes. The assets of the schemes are held separately from the Group in independently administered funds. Contributions made by the Group are charged to the Statement of Comprehensive Income in the year to which they relate.

1. Summary of significant accounting policies (continued)

Share–based payments

a) Employee share schemes

Employees (including Directors) receive remuneration in the form of equity-settled share-based payments, whereby employees render services in exchange for shares or for rights over shares (e.g. share options). The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense. The total amount to be expensed on a straight-line basis over the vesting period is determined by reference to the fair value of the options or shares granted: excluding the impact of any non-market performance vesting conditions (for example, continuation of employment and performance targets).

The share options are valued using a Black-Scholes option pricing model. Non-market based vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each year end date to allow for forecast leaving employees and the difference is charged or credited to the Statement of Comprehensive Income, with a corresponding adjustment to the share-based payments reserve.

b) Loan warrants

Warrants over 201,330 shares in Acacia Pharma Group plc were issued with an exercise price of €3.22 under the loan agreement taken out in the current year. As these warrants cannot be separated from the loan, they have been fair-valued using a Black-Scholes option pricing model and offset against the amortised cost of the loan.

Current and deferred income tax

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Tax receivable arises from the UK legislation regarding the treatment of certain qualifying research and development costs, allowing for the surrender of tax losses attributable to such costs in return for a tax rebate.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the period of the lease.

1. Summary of significant accounting policies (continued)

Critical Accounting Estimates and Judgements

The preparation of the Financial Statements in conformity with IFRS as endorsed by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are the following, which are all judgements:

Accounting treatment of intercompany loan between Acacia Pharma Limited and Acacia Pharma Inc

During the year, Acacia Pharma Inc took out a $40m loan facility with Acacia Pharma Limited, its immediate parent. The loan, which is for an initial three-year term, is expected to be renewed on maturity, and is considered to be as permanent as equity. Accordingly, foreign exchange gains and losses are recorded in equity through Other Comprehensive Income. The impact of this treatment is to increase the current year loss by £1,504,000, being the foreign exchange gain currently recorded in equity.

Treatment of development expenditure

The Group expends considerable sums on its development projects, with its total research and development costs for 2018 amounting to £3,766,000 (2017: £1,479,000). The Board has considered the criteria under IAS 38 to determine whether costs can be capitalised, concluding that it would not be able to prove reliably that such costs could be recovered due to the risk factors involved. Therefore, all such costs have been treated as expenses as they were incurred. Any decision to treat part of those costs as capital items could have a significant impact on the Group's results and balance sheet.

2. Segmental reporting

The Group has adopted IFRS 8, "Operating Segments". IFRS 8 defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Board of Directors.

The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being the development and commercialisation of intellectual property through direct sale of the protected products in the US and long-term licensing income elsewhere. The Board of Directors assess the performance of the operating segment using financial information which is measured and presented in a manner consistent with that in the financial information. The Group has no reportable operating segments separate from the Income Statement presented in this Financial Information.

3. Finance income

	2018 £'000	2017 £'000
Bank account interest	**4**	2
Interest on short-term deposits	**241**	-
Foreign exchange gains	**681**	99
	926	2

4. Finance expense

	2018 £'000	2017 £'000
Finance charge on preference shares	**209**	2,006
Finance charge on term loan	**709**	873
Finance charge on convertible loan	**1,151**	631
	2,069	3,510

5. Loss before income tax

Loss before income tax is stated after charging/(crediting):

	2018 £'000	2017 £'000
Operating lease costs (land and buildings)	**139**	55
Auditors' remuneration:		
Fees payable to the Group's auditors for the audit of the financial statements	**98**	51
Fees payable to the Group's auditors for other services – other assurance services	**188**	50
Foreign exchange (gains) / losses	**(681)**	99

The other assurance services during the year related to procedures performed as reporting accountant on historical financial information and in re-registration of the Company in advance of the IPO.

6. Employees and Directors

Analysis of payroll costs by category:

	2018 £'000	2017 £'000
Wages and salaries	**3,538**	1,200
Social security costs	**299**	116
Other pension costs (Note 18)	**57**	77
Share-based payments	**495**	109
	4,389	1,502

Average monthly number of persons (including Executive Directors) employed:

	2018 Number	2017 Number
Research and development	**4**	4
Sales and marketing	**10**	-
General and administration	**8**	3
	22	7

6. Employees and Directors (continued)

Key Management Compensation

	2018 £'000	2017 £'000
Salaries and short–term employee benefits	**1,426**	857
Post-employment benefits	**64**	23
Share-based payments	**279**	103
	1,769	983

The Group considers all Executive Directors to be key management, as well as the Chief Medical Officer and Chief Commercial Officer.

Directors' emoluments are disclosed in the Directors' Remuneration Report on pages 29 to 45.

7. Share–based payments

Awards made under long–term incentive and other arrangements

Share options are granted to directors and employees over ordinary shares in Acacia Pharma Group plc. Prior to the Initial Global Offering (the "IPO"), options were awarded under the Acacia Pharma EMI Share Option Scheme (the EMI Scheme) and the Acacia Pharma Unapproved Share Option Scheme (the Unapproved Scheme). Following the IPO, new share options schemes were arranged, being the Acacia Pharma Group Performance Share Plan (the 'PSP') and the Company Share Option Plan (the 'CSOP').

Options granted under the Unapproved Scheme, the EMI Scheme and the CSOP have a fixed exercise price based on the market value of shares at the date of grant. Options granted under the PSP have a minimal or nil exercise price.

Options are usually conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from the grant date.

	Performance Share Plan		Company Share Option Plan		EMI plan		Unapproved		Total	
	Options number	Weighted average exercise price (£)	Options number	Weighted average exercise price (£)	Options number	Weighted average exercise price (£)	Options number	Weighted average exercise price (£)	Options number	Weighted average exercise price (£)
Outstanding at 1 January	**-**	**-**	**-**	**-**	**3,247,616**	**0.11**	**977,497**	**1.25**	**4,225,113**	**0.38**
Granted in the year	1,397,875	0.00	44,444	1.35	-	-	-	-	1,442,319	0.05
Exercised during the year	-	-	-	-	(410,144)	0.29	-	-	(410,144)	0.29
Outstanding at 31 December	**1,397,875**	**0.00**	**44,444**	**1.35**	**2,837,472**	**0.09**	**977,497**	**1.25**	**5,257,288**	**0.29**
Exercisable at 31 December	-	-	-	-	2,837,472	0.09	977,497	1.25	3,814,969	0.39
Weighted average life remaining - 2018	9.41		9.97		4.00		6.48		5.95	

7. Share–based payments (continued)

Awards granted under the Performance Share Plan (PSP) consist of 291,875 Long-Term Incentive Plan share option awards made to executive directors and other senior management, which contain performance related conditions and have an exercise price of £0.02; and 1,106,000 Performance Share Awards (PSA) issued to US staff.

Of the 5,257,288 outstanding options (2017: 4,225,113 options), 3,814,969 options (2017: 3,205,023 options) were exercisable.

Options exercised in 2018 resulted in 410,144 shares (2017: nil), being issued at a weighted average exercise price of £0.29 each. The related weighted average share price at the time of exercise was £2.44 per share.

Share options and PSP awards outstanding at the end of the year have the following expiry date and exercise prices

				Outstanding at 31 December	
Grant date	Vesting date	Expiry date	Exercise price (£)	2018 (number)	2017 (number)
01/07/2008	30/06/2011	30/06/2018	0.19	**-**	200,000
05/11/2008	04/11/2011	04/11/2018	0.38	**-**	210,144
01/10/2009	29/09/2012	30/09/2019	0.15	**405,371**	405,371
04/07/2011	02/07/2014	02/07/2021	0.1	**710,543**	710,543
07/03/2012	06/03/2015	06/03/2022	0.1	**180,515**	180,515
22/10/2013	20/10/2016	21/10/2023	0.1	**887,135**	887,135
04/09/2014	02/09/2017	03/09/2024	0.02	**611,315**	611,315
28/08/2015	05/03/2018	27/08/2025	0.02	**277,900**	277,900
28/08/2015	05/03/2018	27/08/2025	2	**305,000**	305,000
23/02/2016	05/03/2018	22/02/2026	2	**200,000**	200,000
21/12/2016	05/03/2018	20/12/2026	0.02	**123,000**	123,000
30/12/2016	05/03/2018	29/12/2026	0.02	**14,190**	14,190
31/10/2017	05/03/2018	30/10/2027	2	**100,000**	100,000
01/03/2018	28/02/2021	28/02/2028	0.02	**291,875**[1]	-
18/12/2018	17/12/2021	17/12/2028	-	**1,106,000**[1]	-
19/12/2018	18/12/2021	18/12/2028	1.35	**44,444**	-
				5,257,288	4,225,113

1. PSP awards

The weighted average fair value of share options and PSP share option awards granted in the year determined using the Black Scholes valuation model was £2.12 per option (2017: £0.71). PSP awards which were awarded as PSAs were valued using the share price at the date of grant.

7. Share–based payments (continued)

The significant inputs into the Black-Scholes model were:

	2018	2017
Share price at grant	**£1.35 - £3.15 dependent on grant date**	1.35
Exercise price	**As shown above**	2.00
Expected option life	**10 years**	10 years
Dividend yield	**0%**	0%
Annual risk-free rate	**1.27% - 1.45% dependent on grant date**	1.98%
Share price volatility	**50%**	50%

See note 6 for the total expense recognised in the income statement for share options and PSP awards granted to directors and employees.

8. Income tax

	2018 £'000	2017 £'000
Current tax		
Current year tax credit	**686**	349
Prior year adjustments	**(26)**	-
Total tax credit	**660**	349

Analysis of taxation credit in the year

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements includes the credit receivable by the Group for the year. The 2018 amounts have not yet been agreed with the relevant tax authorities.

There is no current tax charge in the year as the Group has losses brought forward and is entitled to a cash tax credit in the United Kingdom for certain research and development expenditure. The repayable tax credit for each year is lower than the credit that would be repayable at the standard rate of corporation tax in the UK applicable of 19% (2017: 19.25%). The differences are explained in the following table:

8. Income tax (continued)

Tax reconciliation

	2018 £'000	2017 £'000
Loss before income tax	**(16,178)**	(6,521)
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**(3,074)**	(1,255)
Tax effect of:		
Expenses not deductible for tax purposes	**451**	582
Additional deduction for R&D expenditure	**(508)**	(262)
Surrendered losses for R&D tax credit	**391**	201
Items for which no deferred tax asset was recognised	**2,076**	385
Adjustment for foreign tax rates	**(1)**	-
Utilisation of brought forward tax losses	**(21)**	-
Prior year adjustments	**26**	-
	(660)	(349)

Changes to the UK corporation tax rates were enacted as part of the Finance Act 2016. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the year end date have been measured using these enacted tax rates and reflected in these financial statements.

As at 31 December 2018, the unrecognised deferred tax assets relating to operating losses amounted to £5,435,000 (2017: £2,940,000).

These have not been recognised due to the uncertainty over the utilisation of the losses.

9. Basic and diluted losses per Ordinary Share

Basic and diluted losses per Ordinary Share is calculated by dividing the loss for the financial year by the weighted average number of Ordinary Shares in issue during the year. The losses and weighted average number of shares used in the calculations are set out below:

	2018 £'000	2017 £'000
Losses per Ordinary Share		
Loss for the financial year	**(15,518)**	(6,172)
Weighted average number of Ordinary Shares (basic) (thousands)	**44,094**	2,655
Losses per Ordinary Share basic (pence)	**(35)p**	(232)p

Share option and convertible instruments are anti-dilutive in both 2018 and 2017 for the purposes of the losses per share calculation and their effect is therefore not considered.

For the avoidance of doubt, this calculation is based on Ordinary shares only. Other classes of shares, along with preference shares have been excluded in this calculation.

10. Financial instruments and financial risk management

General objectives, policies and processes

The Group's activities expose it to a variety of financial risks including market risk (including currency risk), credit risk, liquidity risk and interest rate cash flow risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the financial statements. The significant accounting policies regarding financial instruments are disclosed in note 1.

Principal financial instruments

The principal financial instruments used by the Group, from which financial risk arises, are set out below:

	2018 £'000	2017 £'000
Financial assets as per balance sheet		
Other receivables	**43**	150
Cash and cash equivalents	**29,353**	3,070
Total	**29,396**	3,220

	2018 £'000	2017 £'000
Financial liabilities as per balance sheet		
Borrowings	**7,302**	20,356
Trade and other payables	**3,726**	1,000
Total	**11,028**	21,356

All financial assets are loans and receivables. All financial liabilities are held at amortised cost.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the amount of funding required for the drug development programme and launch of BARHEMSYS. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The principal liabilities of the Group are the term loan and trade and other payables in respect of the development programme and provision of research services including purchase of laboratory supplies, consumables and related scientific services, as well as sales and marketing costs and administrative costs associated with the Group's business. Trade and other payables are all payable within one month. The Board receives cash flow projections on a regular basis as well as information on cash balances.

10. Financial instruments and financial risk management (continued)

Credit risk

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings. The majority of the Group's cash assets are held in AAA rated instruments or institutions.

	2018 £'000	2017 £'000
Other receivables		
AAA	**43**	-
Total unimpaired receivables	**43**	-
Cash at bank and short-term deposits		
AAA	**28,242**	500
A	**1,111**	2,570
Total cash and cash equivalents	**29,353**	3,070

Credit risk arises primarily from cash and cash equivalents and deposits with banks and financial institutions, as the Group has not yet generated any revenue and so has no trade receivables. Credit risk is managed by ensuring all cash and cash equivalents are deposited with established UK and US banking institutions of high repute and at least an A credit rating.

Interest rate cash flow risk

The Group is exposed to interest rate cash flow risk in respect of surplus funds held on deposit. The directors do not consider this risk to be significant.

The Group is also exposed to some interest rate cash flow in respect of the term loan as the interest rate is based on the greater of 9.25% or the US prime rate plus 4.5% The directors do not consider this risk to be significant.

Currency risk

Prior to the IPO, the Group conducted substantially all its business in pounds sterling. Since the IPO, the greater proportion of costs have been incurred in US dollars and going forward the Group expects its revenues and costs to be predominantly US dollar-based. To this end, the Group intends to report its results in US dollars from 2019 onwards. The IPO proceeds were transferred into US dollar, sterling and Euro accounts in proportion to the expected currency in which costs would be incurred in 2018 and 2019. Accordingly, the Group has not been exposed to material transactional currency risk, although some translational risks arose upon consolidation of the results of Acacia Pharma Inc.

Capital risk management

The Group's objectives, when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure. Total capital, which is the Group's primary source of funding, is calculated as "Total equity" as shown in the Statement of Financial Position. In order to maintain or adjust the capital structure, the Group may issue new shares or in future adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Group had no undrawn committed borrowing facilities available during either of 2018 or 2017.

11. Other receivables

	2018 £'000	2017 £'000
Other receivables	**283**	150
Prepayments and accrued income	**29**	4
	312	154

The fair value of other receivables is considered equal to their carrying value.

12. Cash and cash equivalents

The Group retains all cash on instant access accounts in Sterling, Euros and US dollars.

	2018 £'000	2017 £'000
Sterling accounts	**282**	2,819
Euro accounts	**296**	3
US Dollar accounts	**28,775**	248
	29,353	3,070

13. Share capital and premium

Share capital and premium	Ordinary shares Number	Preference shares Number	Ordinary shares £'000	Preference shares £'000	Share premium £'000
At 1 January and 31 December 2017	**2,664,662**	**40,948,964**	**53**	**648**	**4,513**
Issue of Ordinary Shares in settlement of liabilities and anti-dilution and preference rights on A, B, C & D shares	5,171,495	-	103	-	11,246
Conversion of S, A, B, C & D shares to Ordinary shares	32,337,899	(32,337,899)	647	(647)	-
Cancellation of P shares	-	(8,611,065)	-	(1)	-
Issue of Ordinary Shares to holders of P shares on consolidation and conversion	270	-	-	-	-
Issue of Ordinary Shares on conversion of loan notes	1,633,624	-	34	-	5,149
Issue of Ordinary Shares for cash	11,111,111	-	222	-	35,492
Issue of Ordinary Shares upon exercise of share options	410,144	-	8	-	110
Issue costs	-	-	-	-	(1,652)
At 31 December 2018	**53,329,205**	**-**	**1,067**	**-**	**54,858**

On 6 March 2018 the Company completed an IPO and was admitted to trading on Euronext Brussels. Immediately before the completion of the IPO, all of the existing S ordinary, A ordinary, B preferred, C preferred and D preferred shares were converted into Ordinary Shares on a one-for-one basis. In addition, Ordinary Shares were issued upon the conversion of the Convertible Loan Notes and in settlement of the accrued finance charges on the A, B, C and D shares and the loan notes. The P shares were converted into 270 Ordinary shares.

13. Share capital and premium (continued)

Upon the completion of the IPO, 11,111,111 Ordinary Shares were issued for cash at €3.60 per share, raising gross proceeds of €40 million or £35,714,000. Costs directly associated with the issue of shares of £1,652,000 were incurred. On 29 June 200,000 shares were issued upon the exercise of share options, resulting in proceeds of £38,000. On 2 November 210,144 shares were issued upon the exercise of share options, resulting in proceeds of £79,855.

A ordinary shares, B preferred shares, and C preferred shares were compound financial instruments. The equity element of these compound financial instruments was included in other reserves. The liability component of the P shares was immaterial and therefore the P shares were classified as equity in their entirety.

14. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	**890**	647
Other tax and social security	**-**	33
Accruals and other creditors	**2,836**	320
	3,726	1,000

15. Borrowings

	2018 £'000	2017 £'000
Non-current		
Bank borrowings	**6,968**	-
	6,968	-
Current		
Bank borrowings	**334**	5,185
Convertible loan	**-**	4,031
Convertible preference shares	**-**	11,140
	334	20,356
Total borrowings	**7,302**	20,356

The convertible loan and convertible preferences shares were converted to Ordinary Shares on 6 March 2018, immediately prior to the IPO.

The term bank loan with Silicon Valley Bank was repaid in full on 27 June 2018.

A new term loan facility with Hercules Technology Growth Capital was drawn on 29 June 2018.The initial tranche drawn was $10,000,000 (£7,671,000) and costs of $645,000 (£494,000) were incurred. A second tranche of $10,000,000 is available on or before 31 July 2019, upon the receipt of the FDA approval of BARHEMSYS. The loan bears interest which is the higher of 9.5% or Wall Street Journal prime rate plus 4.5%, bears a final payment charge of 3.95% of the principal and is interest only until January 2020 (April 2020 if the second tranche is drawn). Thereafter the principal and interest on the loan will be repayable in 25 equal instalments, or 22 equal instalments if the second tranche is drawn down. Warrants over 201,330 Ordinary Shares, exercisable at €3.22 per share, were issued to Hercules as part of the terms of the loan facility. Additional warrants will be issued should further tranches of the loan be drawn. The warrants have been fair valued and are being amortised over the term of the loan.

15. Borrowings (continued)

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2018 £'000	2017 £'000
UK pound	-	15,171
US dollar	7,302	5,185
	7,302	20,356

The fair value of non-current borrowings is £8,138,000, based on cash flows discounted using a rate based on the borrowing rate of 9.75%. The fair values of current borrowings are considered to equal their carrying value, as the impact of discounting is not significant.

16. Reconciliation of movement in liabilities from financing activities

	Term Loans	Convertible loan note	Compound instruments	Total
	£'000	£'000	£'000	£'000
As at 1 January 2018	**5,185**	**4,031**	**11,140**	**20,356**
Finance expense and exchange movements	882	1,152	209	2,243
Warrants issued	(249)	-	-	(249)
Conversion to ordinary shares	-	(5,183)	(11,349)	(16,532)
Net cashflows	1,484	-	-	1,484
As at 31 December 2018	**7,302**	**-**	**-**	**7,302**

	Term Loan	Convertible loan note	Compound instruments	Total
	£'000	£'000	£'000	£'000
As at 1 January 2017	**7,680**	**-**	**9,134**	**16,814**
Finance expense and exchange movements	873	631	2,006	3,510
Net cashflows	(3,368)	3,400	-	32
As at 31 December 2017	**5,185**	**4,031**	**11,140**	**20,356**

17. Cash used in operations

	2018 £'000	2017 £'000
Loss before income tax	**(16,178)**	(6,521)
Adjustments for:		
Share-based payments	**495**	109
Foreign exchange (gain)/loss	**(681)**	115
Finance expense	**2,069**	3,510
Finance income	**(245)**	(2)
Changes in working capital		
- (Increase) / decrease in other receivables	**(158)**	385
- Increase / (decrease) in trade and other payables	**2,726**	(4,138)
Cash used in operations	**(11,972)**	(6,542)

Significant non-cash movements

The principal non-cash transaction is the issue of shares on the conversion of preference shares and convertible loan immediately prior to the IPO, as discussed in note 13.

18. Pensions:

The Group contributes to a money purchase pension scheme for employees (including Directors). The assets of the scheme are held separately from those of the Group in an independently administered fund.

	2018 £'000	2017 £'000
Amount paid during the year	**57**	77
Amount outstanding at the year end	**-**	-

19. Commitments and contingencies

a) *Commitments on expenditure*

Expenditure contracted for at the year end but not yet incurred is as follows:

	2018 £'000	2017 £'000
Inventory	**166**	-
Research and development expenditure	**230**	-
Total	**396**	-

b) *Operating lease commitments*

Lease payments represent amounts payable by the Group for its office property. The future aggregate minimum lease payments under non–cancellable operating leases at the balance sheet date were as follows:

	2018 £'000	2017 £'000
Payments under operating leases which fall due:		
Within 1 year	**88**	13
Between 1 and 5 years	**368**	-
Total	**456**	13

21. Related party disclosures

The Group's Chief Medical Officer, Gabriel Fox's spouse is a director of Comedica Ltd, which during year to 31 December 2018 provided consulting services to the Group. The cost of these services was £18,500 (2017: £30,000). £2,900 was outstanding at the year end (2017: £1,000).

22. Post balance sheet events

At the date of signing these financial statements there have been no events subsequent to 31 December 2018 that would impact the financial statements.

23. Ultimate controlling party

The Group has a number of different shareholders and the directors consider that the Group does not have a single controlling party.

Company Financial statements

Company Financial Statements for the year ended 31 December 2018

Statement of Financial Position as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Fixed assets			
Investments in subsidiaries	5	**107,894**	107,338
Total fixed assets		**107,894**	107,338
Current Assets			
Other receivables	6	**37,556**	7,910
Cash and cash equivalents		**20**	-
Total Current Assets		**37,576**	7,910
Total Assets		**145,470**	115,248
Equity and Liabilities			
Called-up Share capital	7	**1,067**	701
Share premium account		**54,858**	4,513
Profit and loss account		**88,039**	92,581
Share-based payments reserve		**997**	252
Total Equity		**144,961**	98,047
Liabilities			
Current liabilities			
Trade and other payables	8	**509**	2,030
Liability component of convertible shares		**-**	11,140
Convertible loan notes		**-**	4,031
		509	17,201
Total Equity and Liabilities		**145,470**	115,248

The loss of the Company attributable to the equity shareholders for the year was £4.5 million (2017: £3.1 million)

As permitted by Section 408 of the Companies Act 2006 no profit and loss account is presented for Acacia Pharma Group plc.

The notes on pages 83 to 87 form an integral part of these Financial Statements.

The Financial Statements on pages 81 to 87 were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Christine Soden
Director

Company Financial Statements
Statement of Changes in Equity

For the year ended 31 December 2018

	Issued Share Capital £'000	Share Premium £'000	Share-based payment reserve £'000	Profit and Loss account £'000	Total Equity £'000
Balance at 1 January 2018	701	4,513	252	92,581	98,047
Comprehensive expense					
Total comprehensive expense for the year	-	-	-	(4,542)	(4,542)
Transactions with Owners					
Issue of ordinary shares	366	51,997	-	-	52,363
Costs of issue of ordinary shares	-	(1,652)	-	-	(1,652)
Capital contribution arising on share-based payments	-	-	556	-	556
Share-based payments charge	-	-	189	-	189
Balance at 31 December 2018	**1,067**	**54,858**	**997**	**88,039**	**144,961**

For the year ended 31 December 2017

	Issued Share Capital £'000	Share Premium £'000	Share-based payment reserve £'000	Profit and Loss account £'000	Total Equity £'000
Balance at 1 January 2017	701	4,513	144	95,654	101,012
Comprehensive expense					
Total comprehensive expense for the year	-	-	-	(3,073)	(3,073)
Transactions with Owners					
Capital contribution arising on share based payments	-	-	63	-	63
Share based payments charge	-	-	45	-	45
Balance at 31 December 2017	**701**	**4,513**	**252**	**92,581**	**98,047**

Notes to the Company Financial Statements

1. Summary of significant accounting policies

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

General information

Acacia Pharma Group plc is a limited company incorporated and domiciled in England and Wales with registered number 09759376. The Company's registered office is The Officers' Mess, Royston Road, Duxford, CB22 4QH.

The principal activity of the Company is that of a holding company of a group which through its subsidiaries discovers develops and commercialises lower risk pharmaceutical product opportunities within its therapeutic areas of interest.

The Company's Financial Statements presented are as at and for the year to 31 December 2018.

Basis of preparation

The Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting standard applicable in the United Kingdom and Republic of Ireland" ("FRS102") and Companies Act 2006. These Financial Statements have been prepared on a going concern basis and under the historical cost convention. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 from disclosing its individual profit and loss account.

In a share-for-share exchange, where the Company acquired greater than 90% of each class of share in Acacia Pharma Limited, the Company applied merger relief in accordance with s612 of the Companies Act 2006. As a result, the Company did not record any share premium. Under s615 of the Companies Act 2006, the Company recorded its investment in Acacia Pharma Limited at an amount equal to the nominal value of shares issued plus the value of the liability component of the convertible shares acquired.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company shareholders.

The Company has taken advantage of the following exemptions:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company cash flows;
- from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A as the information is provided in the consolidated financial statements disclosures;
- from disclosing share-based payment arrangements, required under FRS 102 paragraphs 26.18(c), 26.19 to 26.21 and 26.23, concerning its own equity instruments. The Company financial statements are presented with the consolidated financial statements and the relevant disclosures are included therein;
- from disclosing transactions with other wholly owned Group companies as stated in paragraph 33.1A of FRS102: Related party disclosures.

Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities (including trade and other payables) are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, to the net carrying amount on initial recognition.

Compound Financial Instruments

In the prior year, compound financial instruments issued by the Company comprised convertible shares that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The Group's A Ordinary shares and B Preferred shares and C Preferred shares are classified as compound financial instruments.

1. Summary of significant accounting policies (continued)

Compound Financial Instruments (continued)

The liability component of the compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequently to initial recognition except on conversion or expiry.

Where the terms of financial instruments are amended such that there is a substantial change in expected future cash flows, the financial instrument is treated as extinguished and re-issued giving rise to a gain or loss on extinguishment. The gain or loss on extinguishment is calculated as the difference between the fair value of the instrument immediately prior to the extinguishment and the fair value of the replaced instrument. The gain or loss is allocated to equity in the year of extinguishment.

Term Loans and Convertible Loan Notes

In 2017, the Company entered into a term loan and issued convertible loan notes. These were measured at amortised cost using the effective interest rate method.

The convertible loan notes and convertible shares were converted into ordinary shares in the Company immediately prior to the IPO on 6 March 2018.

The term loan was repaid in full on 27 June 2018.

Going concern

The directors believe that, based on existing cash and debt facilities and on their current forecasts and plans for raising additional debt or equity financing, the Company will have sufficient funds to meet its cash requirements for at least the next 12 months. However, there is no guarantee that attempts to raise additional financing will be successful. The Company incurred a loss of £4.5 million in the year to 31 December 2018 (2017: £3.1 million).

Investment in Subsidiary Company

The investment in subsidiary company is held at cost (being the nominal value of the shares issued, plus the value of the liability component) less accumulated impairment losses.

Intercompany

Intercompany balances are shown gross unless a right of set off exists. Balances are valued at fair value at inception and are repayable on demand.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income within administrative expenses.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Company's Ordinary, S ordinary, D preferred and P share classes of share capital are classified as equity.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

1. Summary of significant accounting policies (continued)

Share–based payments
Employees (including Directors) receive remuneration in the form of equity–settled share–based payments, whereby employees render services in exchange for shares or for rights over shares (e.g. share options). The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense. The total amount to be expensed on a straight line basis over the vesting period is determined by reference to the fair value of the options or shares granted: excluding the impact of any non–market performance vesting conditions (for example, continuation of employment and performance targets).

The share options are valued using a Black-Scholes option pricing model. Non–market based vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each Balance Sheet date to allow for forecast leaving employees and the difference is charged or credited to the Statement of Comprehensive Income, with a corresponding adjustment to reserves.

Capital contributions
In accordance with FRS 102 section 26: Share-based payment, as the Company has granted rights over its equity instruments to the employees of Acacia Pharma Limited and Acacia Pharma Inc, there is a corresponding increase recognised in the investment in the subsidiaries.

Current and deferred income tax
Income tax on the result for the financial year comprises current and deferred tax. Income tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Bank Term Loans
In February 2016 the Company, together with its subsidiary companies Acacia Pharma Limited and Acacia Pharma Inc. entered into an £8,500,000 loan arrangement with Silicon Valley Bank**,** secured upon all of the assets of the Acacia Group. The loan was drawn in three tranches being £3,000,000 on closing, £2,500,000 on 31 March 2016 and £3,000,000 on 31 August 2016. Since all the loan proceeds were received by Acacia Pharma Limited, held in its bank accounts and used in support of that entity's operations, the Directors accounted for the loan liabilities and costs with in Acacia Pharma Limited's financial statements. The loan was repaid in full on 27 June 2018.

Critical Accounting Estimates and Judgements
The preparation of the Financial Statements in conformity with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are as follows:

Carrying value of the Company's investment in its subsidiaries
The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the parent Company. These investments are carried in the books of the Company at cost less provisions for impairment. The carrying value at 31 December 2018 is £107,894,000 (2017: £107,338,000). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the research and development programmes, in particular the approval, marketing and sale of BARHEMSYS. As noted in the principal risks and uncertainties set out on pages 26 to 27, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment shown in the financial statements of the Company.

2. Auditors' Remuneration

The audit fee of Acacia Pharma Group plc amounted to £5,000 (2017: £5,000).

3. Share Options and Share–based payments

For details of share-based payments please refer to note 7 to the consolidated financial statements on pages 69 to 71.

4. Employee numbers

Average monthly number of persons (including Executive Directors) employed:

	2018 Number	2017 Number
Administration	**4**	3
	4	3

The only employees receiving remuneration in the year were directors. Their remuneration is disclosed in the Directors' Remuneration report on pages 29 to 45.

5. Investments

As a result of share based payment transactions relating to share options over shares in Acacia Pharma Group plc being awarded to employees of Acacia Pharma Inc and Acacia Pharma Limited, and warrants over shares in Acacia Pharma Group plc issued as part of a loan agreement taken out by Acacia Pharma Inc, a capital contribution is recognised in the financial statements of Acacia Pharma Group plc in respect of these amounts.

Acacia Pharma Inc is 100% owned by Acacia Pharma Limited.

Investment in Acacia Pharma Limited

	2018 £'000	2017 £'000
At beginning of year	**107,338**	107,275
Capital contribution	**33**	63
	107,371	107,338

Investment in Acacia Pharma Inc

	2018 £'000	2017 £'000
At beginning of year	**-**	-
Capital contribution	**523**	-
	523	-
Total investments	**107,894**	107,388

Name of undertaking	Registered or Principal Office	Proportion ownership interest (%)	Principal activity
Acacia Pharma Limited	The Officers' Mess, Royston Road, Duxford CB22 4QH	100%	Development and commercialisation of pharmaceuticals
Acacia Pharma, Inc	Allison Pointe Indianapolis, IN	100%	Sale and marketing of pharmaceuticals

No provision for impairment has been made given the continued progress in developing the product pipeline made by Acacia Pharma Limited in the financial year and assessments of the expected value of the underlying products. During the year share-based payment charges of £33,000 (2012: £63,000) arose in respect of the share options granted over shares in the Company to employees of Acacia Pharma Limited, and charges of £274,000 in respect of the share options granted over shares in the Company to employees of Acacia Pharma Inc.

6. Other receivables

	2018 £'000	2017 £'000
Amounts owed by Acacia Pharma Limited	**37,556**	7,910
	37,556	7,910

Amounts owed by group undertakings are unsecured, interest-free and repayable on demand.

7. Share capital

Details of the Company's share capital and outstanding share options are shown in note 13 of the consolidated financial statements on page 75 to 76.

8. Trade and other payables

	2018 £'000	2017 £'000
Owed to group undertakings	**-**	2,001
Accruals	**509**	29
	509	2,030

9. Financial instruments

Details of the Company's financial instruments are included in note 10 of the consolidated financial statements on pages 73 to 74.

10. Ultimate controlling party

Acacia Pharma Group plc has a number of different shareholders and the directors consider that Acacia Pharma Group plc does not have a single controlling party.

11. Related party transactions

The Company has elected to take the exemption available in FRS 102 to not disclose transactions with wholly-owned subsidiaries.