Acacia Pharma Group plc
Annual Report and
Financial Statements
for the year ended 31 December 2019

Registered number 09759376

Directors and advisers

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Chairman's introduction

Our vision remains to become a leading US hospital pharmaceutical company

Our strategy is to build an effective specialised hospital-based sales and marketing business in the US focused on selling pharmaceutical products that can help healthcare providers reduce procedure and recovery times and help deliver the enhanced recovery after surgery that is seen to improve patient outcomes and reduce morbidity.

Our growth will be led by BARHEMSYS® (amisulpride injection) for the prophylaxis and treatment of post-operative nausea and vomiting (PONV) the New Drug Application ("NDA") for which was approved by the US Food and Drug Administration ("FDA") on 26 February 2020. We were disappointed not to have received our approval in 2019 and to launch BARHEMSYS sooner but are delighted we can now move towards a full US launch.

Whilst the delays we experienced as a result of receiving a second complete response letter from the FDA were unfortunate, we are extremely pleased to have retained our core US commercial and medical employees, who have been invaluable in building the internal processes and resources to support our future launch plans and in furthering the understanding of the treatment and management of post-operative nausea and vomiting amongst the medical community.

If funding permits, we also plan to 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.

In our strategy set last year, we stated we would review opportunities to identify, acquire or in-license complementary products. We are pleased to have acquired from Cosmo Pharmaceuticals NV ("Cosmo) the US rights to Byfavo™ (remimazolam), a short-acting sedative targeting sedation in invasive procedures such as colonoscopies and bronchoscopies. The PDUFA date, being the date when we anticipate approval of the NDA for Byfavo by the FDA, is 5 April 2020 which, if successful, would allow us to launch the product later this year through the sales force we will have put in place for BARHEMSYS.

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 and financial 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 2018 UK Corporate Governance Code, which we have elected to follow. 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 30 to 31.

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 were sorry to lose Julian Gilbert who stepped down as CEO on 31 July 2019. Julian was the founder of Acacia Pharma and drove BARHEMSYS from a concept to delivering what is now a valuable FDA-approved product. In his successor, Mike Bolinder, who has worked with the Group for the last 4 years building our US infrastructure, we are lucky to have a highly experienced industry professional who is driving our US sales and marketing channel. Christine Soden, our CFO for the last 5 years, who has guided the Company through several financing rounds and its IPO, will step down in the coming days with Gary Gemignani taking the helm as CFO as our business becomes more heavily weighted to US operations. A representative from Cosmo Pharmaceuticals will join our Board in the coming weeks as a non-executive director and we will continue to assess the effectiveness and make-up of the Board as the Group evolves.

Outlook

We remain highly encouraged by the interest shown by healthcare professionals in better managing PONV and patient outcomes. In the months ahead we look forward to the prospect of launching both BARHEMSYS and Byfavo (assuming FDA approval) onto the US market and expect to deliver our first revenues as we believe both products address important unmet needs in the treatment and care of patients undergoing invasive medical procedures.

Your Board is extremely excited by Acacia Pharma's prospects. We believe we can deliver differentiated, effective products to our chosen markets. The equity and contingent debt financing we have secured from our alliance with Cosmo is extremely supportive and will allow us to move forward with our launch plans. However, as clearly stated at our IPO, we will still require additional capital in order to finance the product launches 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 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

28 February 2020

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 can improve the rate at which they recover, reduce the incidence of secondary complications and hospital readmittances and improve healthcare economics. Our product and product candidates are well-placed to meet the needs of hospitals and healthcare professionals in achieving better patient outcomes and enhancing their recovery.

We believe BARHEMSYS will prove an effective tool in the improved management of PONV which is a key factor in achieving these goals, since PONV can prevent patients from 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-jaw surgeries.

Our newly in-licensed product, Byfavo, an ultra-short-acting and reversible intravenous sedative/anaesthetic designed for use during invasive medical procedures, offers the potential for patients to recover more rapidly from sedation (for procedures such as bronchoscopies and colonoscopies) than with current sedation agents.

Our strategy

We believe we can deliver effective new treatments to improve the outcomes and recovery for surgical patients in the US through a targeted specialist sales and marketing organisation. Our initial focus has been on better management of PONV and we are now following that with a product geared at improving procedural sedation and then look to expand our product base with APD403 in CINV.

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 prophylaxis involving a backbone of a $5HT_3$ antagonist (e.g. ondansetron), often supplemented by a corticosteroid (e.g. dexamethasone). Despite this prophylaxis, approximately one third of patients still suffer PONV. Treating these patients with a drug from a class they have already received before surgery prophylactically has been shown not to be effective. Currently 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 (intravenous amisulpride). BARHEMSYS has been shown, in an extensive and robust Phase 3 clinical trial programme, to be a safe and effective treatment for patients who suffer PONV including those who failed standard prophylaxis, as well as safe and effective for prophylaxis, alone or in combination with other antiemetics in higher risk patients and procedures.

Byfavo (intravenous remimazolam) is an ultra-short-acting and reversible IV sedative/anaesthetic designed for use during invasive medical procedures, such as colonoscopy and bronchoscopy, which may help to improve patient recovery times after such procedures. Rapid onset and offset are seen as important attributes for products in this area, as are good safety-profiles and lack of post-sedation drowsiness. Quick recovery and early mobilisation after these procedures are likely to be beneficial to patients and can provide economic benefits for healthcare providers and institutions.

Once our first two products are established, and once we complete the remaining development work, we intend to further exploit our sales and marketing channel to promote APD403 for the management of CINV, where delayed-phase nausea is a real unmet medical need.

A scalable platform

During 2018, we started to build the capabilities and infrastructure to support a targeted hospital sales force and launch of a PONV product in the US. The work we undertook over the last year has given us the confidence to believe we can launch effectively with an initial field force of 30 representatives rather than the 60 we originally planned, targeting the major surgical centres. We plan to expand this field force to 60 to 80 as demand justifies. Once in place, this platform can support the sale of other products in the hospital, such as Byfavo, if approved, and eventually APD403, which has already successfully completed two Phase 2 studies for CINV. We will continue to look to add additional complementary products to our portfolio as opportunities arise.

Operational progress

In May 2019 the FDA issued a second Complete Response Letter (CRL) to the Company, indicating that the NDA could not yet be approved until deficiencies reported during a second pre-approval FDA inspection of the contract manufacturer supplying amisulpride, the active pharmaceutical ingredient of BARHEMSYS, had been resolved. As with the first Complete Response Letter, no inadequacies were noted regarding the purity or stability of the active ingredient, or the manufacturing process or quality of the finished product, and no concerns were raised by the FDA on any of the clinical or non-clinical data in the application and no further studies or data analyses were 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 26 February the FDA approved the NDA for BARHEMSYS.

The BARHEMSYS product label achieved 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 label includes 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. Initially, we will focus our commercial efforts on patients who have failed prior prophylaxis and are in need of “rescue” treatment. The Directors believe this label for BARHEMSYS provides it with a strong competitive position that addresses the key unmet medical needs in PONV and provides compelling pharmacoeconomic benefits to hospitals.

On 10 January 2020, we announced we had entered into a strategic in-licensing transaction with Cosmo. The transaction granted to the Group exclusive US commercialisation rights to Byfavo™ (intravenous remimazolam) as well as an equity investment and debt facility by Cosmo to finance the commercialisation efforts of both BARHEMSYS and Byfavo.

Byfavo is an ultra-short-acting and reversible intravenous sedative/anaesthetic and a New Drug Application (“NDA”) is currently under review by the US Food & Drug Administration (“FDA”) with a target review (“PDUFA”) date of 5 April 2020.

Under the principal terms of the in-license agreement, Cosmo became eligible for:

- an upfront payment of €10 million satisfied through the issue of 4,646,841 new ordinary shares of 2p in the Company at €2.152 per share, being the 15-day volume weighted average share price up to 8 January 2020
- a €30 million payment upon US approval of Byfavo, consisting of €15 million payable in cash and €15 million payable in new ordinary shares
- a €5 million payment upon first commercial sale of Byfavo in the US payable in new ordinary shares
- sales-related milestones of up to €105 million, payable in cash upon achieving pre-specified annual sales targets, and
- tiered double-digit royalties on US sales.

Under the terms of the agreement, Cosmo has also made a strategic equity investment in the Company of €10 million by agreeing to subscribe for 4,347,826 new ordinary shares at a price of €2.30 per share, based on the closing price on 8 January 2020. Following this investment, together with the shares issued in respect of the licensing agreement, Cosmo own 8,994,667 ordinary shares of 2p in the Company, representing 14.08% of its enlarged share capital.

In addition, Cosmo has made available to Acacia Pharma a new loan facility of up to €35 million, conditional on the achievement of certain specified milestones and in two tranches:

- €10 million became available on the US approval of BARHEMSYS, and
- €25 million will become available upon the US approval of Byfavo.
- The loans will be interest-only until January 2023 and repayable over the ensuing 24 months. Until such time as the Group’s existing loan facility with Hercules Growth Capital is repaid in full, the Cosmo facility will be unsecured and bear interest at 11% per annum. Thereafter, the loan will be secured upon assets of the Group and bear interest at 9%.

Cosmo is entitled to appoint one director to the Acacia Pharma Board of Directors.

Byfavo is an ultra-short-acting and reversible intravenous benzodiazepine sedative/anaesthetic designed for use during invasive medical procedures, such as during colonoscopy and bronchoscopy. Approximately 24.5 million such procedures take place annually in the US, of which around 90% use moderate sedation. Byfavo has demonstrated efficacy and safety in an extensive clinical trial programme involving around 2,400 volunteers and patients. Data so far indicate that remimazolam has a rapid onset and offset of action combined with a good cardio-respiratory safety profile. Byfavo is designed to act more quickly than the available alternatives of the same pharmaceutical class for the same indication (e.g. midazolam) and can be reversed with flumazenil to rapidly terminate sedation or anaesthesia if necessary. Cosmo in-licensed the US rights to Byfavo from Paion AG in 2016 and together they have progressed the product candidate through to registration. The NDA for Byfavo, was submitted to the US FDA in April 2019 and has a target review (PDUFA) date of 5 April 2020.

During 2019, despite the delay in our launch plans, we were able to maintain the core of our US team, which includes highly experienced sales, marketing, medical, regulatory and operations professionals, ending the year with 33 full-time employees. We expect to add the needed headcount to the team in order to effectively launch BARHEMSYS and Byfavo (upon FDA approval) and currently anticipate initially adding 30 hospital territory managers to the Group and then additional territory managers as demand and resources dictate.

Future drivers of growth

As we near our launch of BARHEMSYS and expected launch of Byfavo, 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, procedural sedation, CINV and related areas.

Mike Bolinder
Chief Executive Officer

28 February 2020

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. As an example, 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. Byfavo is also expected to fall under this same payment system. 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 and outpatient surgical centre of the pharmaco-economic benefits of using BARHEMSYS and Byfavo for their patients. Our clinical study results for BARHEMSYS demonstrated clinically meaningful 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. Data so far indicate that Byfavo has a rapid onset and offset of action combined with a good cardio-respiratory safety profile. Byfavo is designed to act more quickly than the available alternatives of the same pharmaceutical class for the same indication (e.g. midazolam) and therefore can improve patient recovery times after procedural sedation and increase patient throughput, allowing surgical centres to perform more procedures per day.

We continue to build and leverage our market access capabilities to 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 continue to develop and implement 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) which focus on securing debt or equity finance and revenues, once the products are launched.

Progress against objectives set for 2019

Our key objectives for 2019 were:

To 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 was 5 May 2019 but, unfortunately, we received a second Complete Response Letter from the FDA. We did address the issues raised, worked with the original manufacturer to improve their processes, resubmit the NDA and are delighted it was eventually approved on 26 February 2020.

Secure additional debt or equity finance

Failure to gain the NDA as planned meant we were unable to draw the second $10 million tranche from the $30 million venture debt facility with Hercules Technology Growth. We chose not to seek a broad equity financing until the NDA was approved, although we did undertake significant preparatory work with potential investors which we hope will stand us in good stead in 2020, . and secured equity and debt finance early in January 2020 with the Cosmo/Byfavo transaction.

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 have identified 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 in place with logistics and wholesaler vendors to ensure efficient delivery of our products once approved.

We now believe we can launch with a smaller, 30-strong salesforce targeting the major accounts and early-adopters and add to our field team as demand and resources dictate. This will mean our cash needs are significantly reduced.

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

Since the NDA was not approved in 2019, we were unable to achieve this goal, although our core team of senior sales, medical and national accounts experts have been able to undertake significant ground-work and education which we believe will hold us in good stead for 2020.

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

We held discussions with the FDA which gives us confidence we can bring APD403 to approval with one further pivotal study. Provided sufficient finance is available, we target commencing the final pivotal clinical study during 2020.

Priorities for 2020

Our key objectives for 2020 are:

Recruit a 30-strong, highly skilled and experienced US hospital salesforce

Now we have the NDA approval we will focus on delivering final packaged product to the market to support a full launch at the beginning of H2 2020. To the extent product is available earlier, we may see early sales from certain key customers and sites. We have identified many of the sales representatives we wish to recruit. We plan to bring the full team on board in July 2020 to support a full launch of the products in H2 2020. We will assess the need to supplement this team as we gain more knowledge of the Byfavo opportunity and as demand for our products and available resources dictate.

Secure additional debt or equity finance

The approval of BARHEMSYS means we can now draw the first, €10million, tranche of the Cosmo debt facility. Gaining approval of Byfavo would further strengthen cash resources by a net €10m. However, in order to finance the full launches of BARHEMSYS and Byfavo we will need to secure additional debt or equity capital during 2020.

Gain FDA approval of the NDA for Byfavo with the required prescribing label and launch in H2 2020

The current PDUFA date for the approval of the NDA for Byfavo is 5 April 2020 and we aim to secure approval on, or no later than three months after, that date. We will work closely with Cosmo Pharmaceuticals and Paion AG, the original licensor of Byfavo to transfer all relevant knowledge in order to secure an effective launch.

Secure acceptance of BARHEMSYS and Byfavo on as many hospital pharmacy formulary lists as possible and deliver product sales

The products will typically be paid for by hospitals through the fixed DRG payments received in respect of any single surgery or invasive medical procedure.

The success of a hospital product is geared to gaining acceptance on the relevant hospital's formulary and embedding its use into "standing orders" relating to management of the procedure 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 and invasive proceduralists).

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 establish similar metrics for the success of the Byfavo launch.

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

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. 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 2019 of (i) the number of persons who were Directors of the Company; (ii) the number of senior managers; (iii) the number of direct reports to senior managers and (iv) the number of persons who were employees of the Group (excluding those persons included in (i), (ii) and (iii)):

Category	Female	Male
(i) Directors (including non-executive directors)	1	7
(ii) Senior managers	1	2
(iii) Direct reports to senior managers	4	7
(iv) Employees, in the Group as a whole	8	11

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 amalgamating our policies on ways of working into 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, are intended to ensure that we operate in line with applicable industry codes of practice (e.g. 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

Presentation in US Dollars (USD)

With effect from 1 January 2019, the Group's presentation currency changed from Pounds Sterling to US Dollars, given that a significant majority of Group expenses are denominated in US Dollars. Future revenues and costs are expected to arise predominantly in US dollars, and the Directors believe that the presentation currency change will give investors and other stakeholders a clearer understanding of the Group's performance over time.

Operating loss

The operating loss increased by $2.3m to $22.4m (2018: $20.1m), reflecting the costs of building and running our US commercial infrastructure and launch preparations.

R&D expenditure was $3.9m (2018: $5.0m), down $1.1m, reflecting a reduction in activities surrounding the management of the NDA submission and product development.

Sales and marketing expenses were $14.0m (2018: $9.3m) 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 fell $1.3m to $4.4m (2018: $5.7m), largely as a result of the costs incurred in 2018 in conducting the IPO and listing on Euronext Brussels.

Following the receipt of the complete response letter from the FDA in May 2019, sales and marketing activities were curtailed and costs significantly reduced although costs are now expected to increase from March 2020 with the approval of BARHEMSYS.

Finance income and expense

Finance income fell to $0.4m, reflecting the lower cash balances held and a foreign exchange loss of $0.1m in comparison to a gain of $0.9m in 2018.

Finance expense fell $1.3m in the year to $1.5m (2018: $2.8m) primarily as a result of the conversion of the preferred shares and the convertible loan note into ordinary shares upon the IPO, and therefore incurring no finance expense in relation to these in 2019, but offset by loan interest and foreign exchange losses in 2019.

Taxation

The tax credit for 2018 was $0.7m (2018: $0.9m) 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 2019 was $22.8m (2018: $20.7m) largely as a result of the increase of $2.3m in the operating loss, offset by reduced net finance expense. The loss per share was $0.43 (2018: $0.47) mainly as a result of the increase in the weighted average number of shares, following the IPO part way through 2018.

Balance sheet

Current assets

Current assets decreased by $20.4m to $18.3m, dominated by the decrease in cash and cash equivalents to $17.0m (2018: $37.4m) as a result of funding the Group's operations in the year.

Liabilities

Non-current liabilities of $4.7m represent the long-term proportion of the debt facility entered into with Hercules Technology Growth Capital of which $10m was drawn down on 30 June 2018, plus $0.3m in respect of the long-term lease liability now held on balance sheet under IFRS16. The loan was interest only until January 2020.

Current liabilities increased significantly to $9.6m (2018: $5.2m), primarily amounts due under the Hercules loan facility in 2020, offset by a reduction in trade and other payables of $0.5m to $4.2m.

Share capital and total equity

Total equity at 31 December 2019 was $4.3m compared to $24.7m at the previous year end, reflecting the loss in the year.

1,558,993 ordinary shares were issued upon the exercise of share options, raising proceeds of $0.2m. Share-based payments charges of $2.4m further enhanced total equity, being offset by the losses for the year of $22.8m.

In-licensing transaction

On 10 January 2020, the Group announced a strategic in-licensing, investment and loan transaction with Cosmo Pharmaceuticals N.V., bringing to the Group the US rights to the short-acting sedative, Byfavo, the NDA for which has a PDUFA review date of 5 April 2020. The Directors believe that having a second product which shares the same attractive commercial message as BARHEMSYS will allow for significant synergies in sales and marketing operations and allow for more efficient investment in commercial operations. The concomitant debt and equity funding strengthens the Group's balance sheet.

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, and continue its planned activities through the first half of 2021.

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 13. The Directors have carried out a robust assessment of the principal and emerging 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 30 to 31.

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 the successful launch of BARHEMSYS gaining US regulatory approval for Byfavo, obtaining sufficient additional debt or equity capital to take the Group through to cashflow positivity and the timing of both of these events. The Directors have a reasonable expectation that the Group will obtain regulatory approval for Byfavo, while BARHEMSYS was approved on 26 February 2020, meaning the business owns valuable assets. 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 and Byfavo 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 and Byfavo through its planned commercialisation strategy, thus ensuring the Group's viability.

Summary and outlook for 2020

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. The addition of the rights to Byfavo, related equity investment and debt availability has significantly enhanced the Group's resources and ability to deliver significant long-term value for shareholders, however, as was made clear at our IPO in 2018, the Group will need to secure additional debt or equity finance in order to meet its planned operations from H1 2021 forward.

Directors' duties in relation to s172 Companies Act 2006

The Directors consider, both individually and together, that they have acted in the way they believe, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have regard (amongst other matters) to:

- the likely consequences of any decisions in the long-term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between the shareholders and stakeholders of the company.

As part of their induction, a Director is briefed on their duties, and they can access professional advice on these, either from the Company Secretary, or, if they judge it necessary, from an independent provider.

Risk management
As we grow, our business and our risk environment each become more complex. It is therefore critical that we effectively identify, evaluate, manage and mitigate the risks we face, and that we continue to evolve our approach to risk management. For details of our principal and emerging risks, and how we manage our risk environment, please see pages 30 to 31 and our Audit Committee report on page 25.

Our people
Being a relatively small group with some 40 employees operating in only two locations, there is a high level of visibility of the Board by employees and vice versa. For further details, please see pages 21 to 22.

Business relationships
The Board is aware of the need to maintain good working relationships with key suppliers whilst safeguarding the Group's resources and receives regular updates from the Executive Directors on key supply agreements. For further details, please see pages 21 to 22.

Shareholders
Two of our major Shareholders are represented on our Board, providing regular feedback on Shareholder views on events and decisions.

The Board ensures Shareholder communications, be they through press releases or the interim and annual reports, are timely, comprehensive, fair and comprehensible. For further details, please see pages 21 to 22.

Community and Environment
The Board seeks to support as many interactions with the medical community as possible through medical meetings, meetings with group purchasing organisations and integrated delivery networks and others to better understand the needs of patients and healthcare providers, and to deliver education and solutions to help healthcare providers deliver better patient care. For further details, please see pages 21 to 22.

Christine Soden
Chief Financial Officer

Approval of the strategic report

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

Mike Bolinder
Chief Executive Officer
28 February 2020

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 2019 which outlines the leadership of the Group, the governance arrangements that are in place and explains 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 whilst 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.

Following the issue of the updated 2020 Belgian Code on Corporate Governance, the Board is considering whether to apply the Belgian Code henceforward rather than to continue to apply the UK Corporate Governance Code as issued by the Financial Reporting Council in July 2018 (the "Code"). Both the Belgian Code and the Code contain broad principles and specific provisions that set out standards of good practice.

Our Corporate Governance Report herein, 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 that of its Committees, and also 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 2020 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 pages 23 and 24.

Maintaining good communication with our Shareholders is extremely important to us. During the year, the 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 7 April 2020 and I would encourage all Shareholders to participate.

Dr Patrick Vink
Chairman
28 February 2020

Board of Directors

Our Board is currently formed of eight members, two Executive and six Non-Executive Directors. With effect from 1 March 2020, the Board will comprise seven members, being one Executive and six Non-Executive Directors. Together, the Directors 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 and is a member of the Audit Committee. Patrick will not be standing for re-election at the 2020 AGM.

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.

Mike Bolinder
Chief Executive Officer

Mike Bolinder was appointed as Chief Executive Officer of the Group on 1 August 2019 upon Julian Gilbert stepping down. Mike joined Acacia Pharma in August 2015 as Vice President of Marketing and was subsequently promoted to Chief Commercial Officer.

Other directorships: None.

Expertise and experience: Mike has more than 17 years of experience in the pharmaceutical industry. Prior to Acacia Pharma, Mike served as the Head of Marketing and Commercial Strategy for the Hospital Division at Mallinckrodt Pharmaceuticals (via the Cadence Pharmaceuticals, Inc. acquisition) which commercialised Ofirmev®, a post-operative pain control product promoted to anaesthetists and surgical teams. Prior to joining Cadence Pharmaceuticals, Inc., he worked at Eli Lilly and Company for 11 years in various sales and marketing roles of increasing responsibility across multiple therapeutic areas and successful product launches. Mike graduated from Florida State University with double majors of International Business and Spanish.

Christine Soden
Chief Financial Officer and Company Secretary

Christine was appointed to the Board in September 2015 as Chief Financial Officer and Company Secretary. She will step down from these offices and as a Director on 29 February 2020 and will be succeeded as Chief Financial Officer by Gary Gemignani.

Other directorships: Christine is a non-executive director of 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 the Cell and Gene Therapy Catapult, and is Senior Independent Director of BioCity Group and a non-executive director of Yourgene Health plc.

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 AzurRx BioPharma, Inc. and a Non-Executive Director of Codiagnostics, 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. It is proposed that Scott will become Chairman of Acacia Pharma Group following the 2020 AGM.

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. Pieter will not be standing for re-election at the 2020 AGM.

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 was a member of the Audit Committee until 3 June 2019. Johan will not be standing for re-election at the 2020 AGM.

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 2018 UK Corporate Governance Code (the "Code")

The Directors support high standards of corporate governance. The Group has applied, and complied with, the Code throughout 2019, with the exception that the constitution of the Board, Remuneration Committee and Audit Committee was not in compliance with the Code for the entire period, as explained below.

During the year, the Board of Directors consisted of eight Directors, and at the year end, three Directors were considered to be independent, excluding the Chairman. As a result, the Group does not comply with the provision that at least half the Board, excluding the chair, should be independent non-executive directors (Provision 11). Recruitment for additional non-executive directors was delayed following the receipt of the CRL in May 2019.

The membership of the Committees now includes at least 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 were both not deemed to be independent for the entire reporting period, served on the Remuneration Committee, and Johan Kördel, who is also not independent, served on the Audit Committee during the year, and was replaced by the Non-Executive Chairman, Patrick Vink, on 3 June 2019. As a result, the Group does not comply with the provisions that the Remuneration Committee should be composed of independent non-executive directors (Provision 32), and that the Chairman should not be a member of the Audit Committee (Provision 24). Patrick, Pieter and Johan do, however, bring significant experience having been involved in the Group for some years. The Nomination Committee is working towards bringing the Group into full compliance during 2020.

A review of Director independence was conducted at the end of 2019 and, consequently, Scott Byrd is now deemed by the Board to be independent. For further details, please see page 22.

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 2019 there were six scheduled meetings and a further four ad-hoc meetings.

Attendance by individual Directors at Board and Committee meetings during 2019 is set out in the following table:

	Committee memberships	Independent	Board meetings	Nomination Committee	Audit Committee	Remuneration Committee
Executive Directors						
Michael Bolinder[1]	n/a	No	4/4	n/a	n/a	n/a
Julian Gilbert[1]	n/a	No	6/6	n/a	n/a	n/a
Christine Soden	n/a	No	10/10	n/a	n/a	n/a
Non-Executive Directors						
Patrick Vink	Aud[3], Nom[2]	Yes	10/10	3/3	2/2	n/a
John Brown[3]	Aud, Rem[2], Nom	Yes	10/10	3/3	3/3	3/3
Ed Borkowski[3]	Aud[2], Rem, Nom	Yes	9/10	3/3	3/3	3/3
Scott Byrd	Rem	No	10/10	n/a	n/a	3/3
Pieter van der Meer	Rem, Nom	No	10/10	2/3	n/a	3/3
Johan Kördel	Aud[3]	No	10/10	n/a	1/1	n/a

1. Julian Gilbert stepped down as Chief Executive Officer on 31 July 2019 and was succeeded by Michael Bolinder with effect from 1 August 2019
2. Committee Chairman
3. Johan Kördel stepped down from the Audit Committee on 3 June 2019 and Patrick Vink was then appointed

Attendance is expressed as the number of meetings attended/number eligible to attend. Directors' attendance by invitation at meetings of Committees of which they are not a member is not reflected in the above table.

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 during 2019

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

- Reviewing and considering regular updates from management in relation to the work being undertaken towards completing registration for the Group's lead product candidate BARHEMSYS;
- Overseeing management's selection of a second API manufacturer for BARHEMSYS;
- Considering and approving management's proposals for managing finances and operations following receipt of a second complete response letter for BARHEMSYS;
- Reviews of financing options;
- Assessing new product opportunities;
- 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 2019;
- Approval of the budget for FY 2020 and the three-year strategic plan; and
- Post-period end, reviewing, assessing and approving the transaction with Cosmo Pharmaceuticals as more fully described in the Strategic Report on page 5.

Stakeholder engagement

The Board seeks to understand and consider the views of the Group's key stakeholders in Board discussions and decision-making.

Key Stakeholders and Concerns	Board Considerations	Key Actions/Outcomes
Employees **Our present and future employees are vital to the future success of the business**	We ensure that the Executive Directors hold monthly all-Company meetings to disseminate progress and hear any employee concerns. We consider this an effective means of engaging with the workforce, given the current size of the Group. The operating updates to the Board include details of employee changes and concerns, together with updates on recruitment prospects for the planned sales and marketing team. We seek to provide an open and collaborative working environment and attractive remuneration packages aligning employees' goals with those of our shareholders.	The Remuneration Committee and the Board authorised the issue of share-based incentives to encourage certain members of staff to reduce their compensation and forego bonus opportunities with the aim of seeking to ensure the retention of the maximum number of staff whilst managing restricted cash resources as we work towards the approval of BARHEMSYS. Staff turnover has been extremely low. All our employees have share-based incentives.
Shareholders **Our Shareholders have been highly supportive and we seek to encourage existing Shareholders to retain their investment whilst attracting new Shareholders and finance**	Two of our major Shareholders are represented on our Board, providing feedback on Shareholder views on events. Cosmo also has the right to appoint a director to the Board, which will happen in 2020. The Board ensures Shareholder communications, be they through press releases or the interim and annual reports, are timely, comprehensive, fair and understandable.	Our share price has performed reasonably well in the year given the delay in launching BARHEMSYS, rising to €2.11 at the year end, having fallen to €1.31 upon the receipt of the second complete response letter from the FDA..
Business partners **We have worked closely with our existing and contract manufacturers to move BARHEMSYS to approval**	The Board is aware of the need to maintain good working relationships with key suppliers whilst safeguarding the Group's resources and receives regular updates from the Executive Directors on key supply agreements.	Particular attention was paid to the supply of the API for BARHEMSYS. The Board closely monitored the quality improvement work of its original API supplier and ensured that the Group provided reasonable support with the aim of maintaining a secure supply chain and maximising the likelihood of the approval of BARHEMSYS.
Medical community **Improving patient care and recovery is at the heart of our business**	The Board seeks to support as many interactions with the medical community as possible through medical meetings, meetings with group purchasing organisations and integrated delivery networks and others to better understand the needs of patients and healthcare providers, and to deliver education and solutions to help healthcare providers deliver better patient care.	Within very limited budgets, the Board prioritised medical community interactions in order to meet these aims.

Environment		
The Group is conscious of the need to protect the environment and minimise its harmful impact thereon	The Group's operations are relatively low in their impact on the environment, but the Board does review this area and seeks to minimise environmental damage.	In the year, the Board implemented a significant reduction in travel, using video conferencing wherever reasonably possible and practicable in running its business.
Reputation		
Maintaining a strong reputation for acting fairly and within all relevant laws and regulations impacts the Group's interactions with all its stakeholders	Policies and procedures approved by the Board focus on maintaining the reputation of the Group with employees, Shareholders, suppliers, regulators, healthcare providers and other key stakeholders.	In particular, the improved risk management procedures implemented in the year focus heavily on full compliance with required regulations, reporting, practices and disclosures, together with an assessment of emerging risks and consideration of the longer-term impact of decisions.

Independence

The Code recommends that half of the board, excluding the chairman should be independent non-executive directors. During the majority of the reporting period, only two out of the eight Directors, excluding the Chairman, were considered to be independent in character and judgement and therefore, as described above, the Group did not meet the relevant requirements of the Code.

As noted in the Directors' Remuneration Report, certain Non-Executive Directors were awarded share options under the Company's Performance Share Plan ("PSP") in compensation for reducing their fees, following the decision to reduce cash expenditure. These share options vest on FDA approval of BARHEMSYS, and obtaining sufficient finance to recruit the planned salesforce. The value of the options at the date of grant was equivalent to around 50% of the Director fees which were foregone. Given the relatively low value of these awards, the Board does not consider these to have an impact on independence.

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 historical, with all options vested at the time of the IPO, and no further share options will be granted under that scheme. Patrick was also awarded share options under the PSP as explained above. The Board has, therefore, determined that it regards Patrick Vink as independent within the meaning of "independent" as defined in the Code for the year. The Chairman's other commitments are described on page 16.

At the end of 2019, the Board, in consultation with the Nomination Committee, conducted a review of Director independence. With regard to Scott Byrd, the Board considered that sufficient time had now elapsed since Scott had ceased to be employed as Chief Operating Officer of Acacia Pharma Limited, and that he was now deemed by the Board to be independent, having not been involved in the Company's day-to-day operations since stepping down from that role in December 2017. In reaching this decision, the Board also took into account the fact that Scott held pre-Admission share options, concluding that this did not in any way impact upon his independence of character and judgement. The Board also acknowledged that Scott Byrd brought recent and relevant knowledge of sales and marketing businesses in the US.

Accordingly, at year-end the Board comprised of eight Directors, three of whom were considered to be independent, excluding the Chairman. However, as noted in the Chairman's Statement on page 2, Christine Soden will be stepping down from her role as a Director, Chief Financial Officer and Company Secretary on 29 February 2020. With effect from that date, the Board will comprise of seven Directors, being the Chairman, one Executive Director, three independent Non-Executive Directors and two non-independent Non-Executive Directors.

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. For these reasons, Pieter van der Meer and Johan Kördel are considered by the Board not to be independent. The Remuneration Committee therefore has one non-independent Non-Executive Director as a member, 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. However, in compliance with the 2018 Corporate Governance Code, all Directors stood for re-election at the 2019 Annual General Meeting and will do so at the 2020 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, currently consisting of six Non-Executive Directors, three of whom are considered independent (excluding the Chairman) and two Executive Directors. As noted above, with effect from 1 March 2020, the number of Executive Directors on the Board will be reduced to one. 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 16 to 18.

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 2020, 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 and ad-hoc presentations around major transactions or news items. 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 includes 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 is 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 2019.

Our core remit is assessing the integrity of the Group financial reporting, internal controls and risk management systems, and overseeing the work of the external audit function. The Committee has also continued to focus on our oversight of the Group's internal control and risk management processes. This is particularly important as we evolve from a small UK research and development company to a US-focused revenue-generating group.

During 2019, as part of the Committee's oversight of risk management processes, senior management met with us to present how they embed the Group's risk management approach and mitigating controls across all functions. We asked for regular updates, and more detailed analysis on particular aspects, for example product supply, compliance risk and internal financial controls. The risk register was reviewed and discussed at two separate meetings.

In 2020, the Committee will continue to focus on the Group's internal controls and risk management processes as we move towards first product sales, as well as reviewing the implications to our risks and processes of our recent in-licensing deal with Cosmo Pharmaceuticals.

We set out further details of our work in the following pages.

I am happy to answer any questions the shareholders may have at any time, and look forward to meeting those who attend the Annual General Meeting.

Edward Borkowski
Chair of the Audit Committee
28 February 2020

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 Code also states that the Chairman should not be a member of the Audit Committee. The Audit Committee is comprised of three Non-Executive Directors, two of whom are independent, namely Ed Borkowski and Dr John Brown and the Chairman of Acacia Pharma, Patrick Vink. As noted on page 19, the Group therefore does not comply with the provision that the Chairman should not be a member of the Audit Committee. 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. In order to address our remit effectively, I believe it is important to have those with the requisite business or technical knowledge in our meetings, and I am pleased that the Chief Executive Officer and the Chief Financial Officer both attend our meetings, as well as other members of the Board, and senior management at our request. PricewaterhouseCoopers LLC ("PwC"), led by Matthew Mullins, also regularly attend our meetings.

In addition, outside of the formal meetings, I will meet regularly on a one-to-one basis with the Chief Executive Officer and Chief Financial Officer to gain an update on operational matters, develop the Committee's programme of work and review progress on actions agreed by the Committee.

A summary of the matters considered by the Audit Committee in the year to 31 December 2019 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 impact of the change in presentation currency • Review of the going concern basis of preparation and viability statement • Update on new accounting standards • Fair, balanced and understandable statement • Challenge the management team on each of the above
External auditors	• Review and challenge of external auditors' independence • Review and challenge of auditors' compliance with ethical and professional guidance on audit partner rotation • Assessment of effectiveness of audit process • Recommendation of re-appointment of auditors • Approval of remuneration and non-audit services
Risk management and internal control	• Review and challenge of risk management systems, internal controls and anti-corruption and anti-bribery procedures • Deep-dive review of risk review • Review of internal compliance monitoring
Governance	• Review of the Audit Committee's terms of reference • Audit Committee evaluation and actions arising.

Addressing our remit

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 2019, together with a summary of the Audit Committee's work, are set out below:

- *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 Company. These investments are carried in the statement of financial position of the Company at cost less provisions for impairment. The carrying value of the investments at 31 December 2019 is £109,494,000 (2018: £107,894,000). The carrying value of the loan at 31 December 2019 is £36,187,000. 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 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 current valuation of the Group, indicate that no impairment provisions are required. As noted in the principal risks and uncertainties set out on pages 30 to 31, 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 2018 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. This treatment was reviewed during 2019, with no changes proposed. Accordingly, foreign exchange gains and losses are recorded in equity. The impact of this treatment is to reduce the current year Group loss by $1,067,000, being the foreign exchange gain currently recorded in equity, offset in the statement of other comprehensive income by exchange differences on consolidation of $1,145,000.

Review of presentational currency

With effect from 1 January 2019 the Group changed its presentational currency for its consolidated results 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.

Updates to accounting standards

During the year, we had updates on the likely impact of new accounting standards. IFRS16 (Leases) was adopted on 1 January 2019 using the simplified approach which was deemed the most appropriate and the required disclosure is contained in the notes to the financial statements.

Fair, balanced and understandable

The work undertaken by management (and reviewed by the Committee) to support the Board's statement included:

- Establishing a working group of key individuals, who are appropriately qualified, within the Group to oversee the drafting of the Annual Report;
- The Chief Executive Officer and Chief Financial Officer confirming that in their opinion, the drafting of the Annual Report was 'fair, balanced and understandable';
- An audit trail was completed by the Group Financial Controller for material data underpinning the non-financial information in the Annual Report;
- Circulating drafts of the Annual Report to the Committee and the Board for review; and
- Discussing material disclosure items at a meeting of the Committee held on 28 February 2020.

The Committee discussed the 'fair, balanced and understandable' statement at a meeting on 28 February 2020 in light of the above, and, having done so, recommend that the Board provide it in the form set out on page 54.

Viability

The Board has chosen to consider the prospects of the Group over a 3 year period, consistent with the Strategic Plan of the Group, as they consider it to be a period over which the Group will be focussing on the launch, sales and marketing of existing product candidates BARHEMSYS and Byfavo.

Based on the Directors' current forecasts and plans, which assumes the recruitment of a salesforce and the successful commercialisation of BARHEMSYS and Byfavo (upon FDA approval) and, considering the existing cash and debt facilities, the Group and Company have sufficient funding to continue their operations until the first half of 2021, such that during the first half of 2021, the Group and Company will need to raise additional funding in order to meet their cash requirements for the subsequent months.

The Committee's assessment of the principal risks facing the Group included a review of the potential impact of severe but plausible scenarios that could threaten the viability of the Group and the potential mitigations that management believe would be available. These scenarios include a delayed approval of Byfavo, slow launch of BARHEMSYS or Byfavo, and difficulties in obtaining additional debt or equity financing. The Committee discussed the viability statement at a meeting on 28 February 2020 and, having done so, recommended that the Board provide it in the form set out on page 13.

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 2019, and February 2020, the Audit Committee discussed the 2019 audit process, more specifically as set out below:

	Outcome/action taken by the Audit Committee
September 2019	
Discussion of the half year results and outlook for the year	
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 for the consolidated financial statements (using the same basis as in 2018)
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 2020 (post period)	
Confirmation of PwC's audit plan	PwC confirmed there were no changes to the audit plan presented to the Audit Committee.
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 2019 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	63

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 as part of a potential fundraising. 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 and below the level of audit fees. In addition, such services remain allowable under the new FRC ethical standard. In summary, the Audit Committee confirms that the Group has received an independent audit service in the year to 31 December 2019 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 auditors

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 2020 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 30 to 31.

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 2019 as planned and reviewed the risk appetite as part of a wider programme of risk reviews. In early 2020, 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 2020.

Edward Borkowski
Chairman of the Audit Committee

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, comprising the Chief Executive Officer, the Chief Financial Officer and Chief Medical Officer, with the support of senior management, conduct a comprehensive assessment of the principal and emerging risks at Group level through a Quality and Risk Management Group (comprising of senior heads of function) 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 13).

Assessment of principal and emerging 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 *Obtaining and maintaining FDA approval*	**FDA approval of BARHEMSYS and Byfavo** The Group's success is dependent upon maintaining regulatory approval for its lead product BARHEMSYS and upon receiving and maintaining regulatory approval for its product candidate Byfavo. 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 inspections of API manufacturers performed in the year • Quality policy 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 and Byfavo** The Group's ability to generate future revenues and become profitable will depend upon its ability to successfully commercialise BARHEMSYS, Byfavo and APD403. The Group has limited 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 **Recruitment** In order to successfully launch BARHEMSYS and Byfavo, the Group will have to recruit an experienced sales force	• Highly experienced commercial team in place • Projects underway to understand and optimise market • National accounts team planning and implementing strategy • Outsourced distribution to experienced third-party logistics provider (Eversana) • Obtained required State licences • Recruitment is well underway, with conditional offers in place for the majority of field sales positions
Product supply	**Supply chain** The Group has single suppliers for its production of finished products. There are currently shortages of certain components, specifically glass vials.	• Buffer stocks will be produced and held in order to avoid the risk of product shortages.
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 and Byfavo through to profitability.	• The recent in-licensing and funding deal with Cosmo Pharmaceuticals has improved the short-term outlook, however additional funds will need to be raised to take the Group through to cash flow positivity.

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 2019. 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.

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

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.

Activities

The Nomination Committee met three times during the period covered by this report and the principal activities undertaken were:

- Review of the structure, size and composition of the Board (including skills, experience, independence, knowledge and diversity);
- Review of the composition of the Audit Committee
- Senior management succession planning and execution, including the appointment of Mike Bolinder as a Director and Chief Executive Officer, and of Gary Gemignani as Chief Financial Officer.

In view of Julian Gilbert's decision to step down from his role of Chief Executive Officer, the Nomination Committee, having conducted a limited external search, consulted with Julian and the Chief Financial Officer, considered the performance of Mike Bolinder during the period since he had joined the Group in August 2015, initially as Vice President of Marketing and subsequently as Chief Commercial Officer. and concluded that he had been diligent in the execution of his duties, that his performance had been of the required standard and that he had now gained the appropriate experience to fulfil the key requirements necessary to undertake the role of Chief Executive Officer to the Group. Accordingly, the Nomination Committee recommended to the Board that Mike be offered the role of Chief Executive Officer, and also that he be appointed as an Executive Director of the Board of Acacia Pharma Group plc. After due consideration, the Board approved the Nomination Committee's recommendation and Mike was appointed as the Group's Chief Executive Officer and an Executive Director of Acacia Pharma Group plc with effect from 1 August 2019.

In the search for suitable candidates for the role of Chief Financial Officer, the Group relied on the extensive network of its Directors to bring together a shortlist of candidates. The Board reviewed Gary Gemignani's candidacy against that of other candidates and concluded that he fulfilled the key requirements of the role and approved his appointment.

In February 2020 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
28 February 2020

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 2019, which will be subject to an advisory vote at the 2020 Annual General Meeting, and our Directors' Remuneration Policy, which was subject to a binding vote at the 2019 Annual General Meeting together with any proposed changes thereto to be put to Shareholders for a binding vote at the 2020 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 Group encountered some significant changes in the year.

Firstly, in May 2019, the FDA issued a second complete response letter to the Group's new drug application for BARHEMSYS, resulting in a significant delay to the approval of the drug and with consequent impact on available cash resources. In order to conserve cash the Remuneration Committee, having consulted with Shareholders owning some 54% of the issued shares in the Group, approved the award of some special share awards under the Performance Share Plan in recognition of a number of employees and directors volunteering to reduce their salary and forego any bonus opportunity until such time as BARHEMSYS was approved. Secondly, Julian Gilbert stepped down as CEO on 31 July 2019 and was replaced as CEO by Mike Bolinder who has served as the Group's US-based Chief Commercial Officer for the previous 4 years. As the Group's activities become more heavily focussed on US sales and marketing activities, the Remuneration Committee will continue to benchmark its remuneration structure and has made, and will, in the future, make recommendations to reflect the different approach to remuneration that is standard practice in the US market.

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 35. This is followed by the Annual Report on Remuneration on pages 36 to 43 and by the Directors' Remuneration Policy on pages 44 to 49.

Directors' Remuneration Policy

Following Listing, 2018 was the first year that the Company was 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 was proposed and passed as a resolution at the 2019 Annual General Meeting of the Company. A revised Remuneration Policy will be put to the 2020 Annual General Meeting including changes to the vesting conditions of share-based incentives, reflecting standard practice in the US, where the CEO, incoming CFO and majority of employees are located and employed, in order that the Group can remain competitive in recruiting and retaining employees. Approval will also be sought for the special award to certain Directors in 2019 as described above. The incoming CFO will not be a Director of the Company and as such his remuneration is not restrained by the remuneration policy.

Key decisions and activities in the year ended 31 December 2019

The Remuneration Committee has undertaken the following key decisions and activities:

- Granted share awards under the Acacia Pharma Group Performance Share Plan (the "2018 PSP"), under which the Company 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 and the Acacia Pharma Group Company Share Option Plan (the "CSOP"), which allows for the grant of approved share options to eligible employees. The Committee also approved that the element of the 2018 bonus agreed to be deferred into shares should be dealt with through the directors and managers investing the relevant after-tax amount of the bonus in shares in the Group subject to an undertaking to retain such shares until 31 December 2020;

- Following receipt of the Complete Response Letter from the FDA and its subsequent impact on the Group's cash resources, in order to conserve cash, minimise any redundancies and retain key staff, negotiated with key employees and directors to take a temporary voluntary reduction in salary and forego any entitlement to cash bonuses for 2019 in return for the award of additional shares under the 2018 PSP, such awards to vest if and only if the NDA for BARHEMSYS were approved by the FDA on or before 30 June 2020 and when the Company has sufficient funds to recruit a planned sales force in the US of at least 30 representatives. Executive Director salaries were reduced to 40% of their contractual amount and non-executive director fees to 50% of their contractual amount from 1 August 2019 (1 June 2019 for Christine Soden) such salaries and fees will be reinstated to their previous levels from 1 March 2020, following the FDA approval;

- The awards were made on the basis of a notional value per share of €3.60 ($4.10) (representing approximately an 100% uplift in the price from the date of the award) and with salary foregone compensated in full and based on a notional achievement of bonus criteria for the year of 33% of maximum opportunity. The Committee determined these awards balanced the risks accepted by the employees around (a) meeting the vesting criteria and (b) achieving a share price equivalent to the notional value;

- The annual awards of shares under the PSP over shares valued at 100% of salary as set out in the Remuneration Policy were made in August 2019, having been delayed pending receipt of the FDA response in May 2019. The Committee noted the fact that the majority of the Executive Directors efforts were focused on establishing US-based commercial operations and determined in granting the awards that whilst certain of the awards should be subject to the performance criteria outlined in the 2018 Remuneration Policy, that a portion of them should be subject to time-based service over three years in line with US practice;

- On a medium-term basis, the Committee determined the aims of the business should be to deliver above-average returns to shareholders, secure additional funding and successfully commercialise BARHEMSYS, measured by product revenues once launched. The targets for the performance-based element of the share awards were set around these measures;

  Recommended to the Board that the salary for Mike Bolinder should increase to $400,000 following his appointment as CEO, with a further review to $500,000 in 2020 following NDA approval. Furthermore, the Committee recommended an additional award of shares under the PSP to reflect his increased responsibilities as CEO and as a director of the Group;

- Negotiated and recommended to the Board termination arrangements with Julian Gilbert whereby his 12 month notice period and any payment therefor were waived and the awards over 96,875 shares made to him under the PSP in 2018 were cancelled and that he would not be granted an annual PSP award in 2019. The Committee determined it was in the best interests of the Group to retain Dr Gilbert on a 12 month consultancy arrangement at a salary of £5,000 per month to assist in the handover to Mike Bolinder and grant an award of 150,000 shares under the PSP that would lapse if the FDA approval of BARHEMSYS did not occur on or before 31 March 2020; and

- Recommended to the Board the annual bonus objectives for the financial year ending 31 December 2020 for the Executive Directors. Performance against these objectives will be assessed and disclosed by the Remuneration Committee following completion of that financial year.

Having grown its workforce in the US from one employee at the time of the IPO to some 40 today, and with the expectation for that to increase to around 75 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, noting the fact that the majority of the employees are US-based requiring the policy to be competitive in that market. 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
28 February 2020

Remuneration at a glance

2019 outcomes:

- Salaries for Executive Directors and Non-Executive directors were voluntarily temporarily reduced from 1 August 2019 (1 June 2019 for Christine Soden) to preserve cash following receipt of the CRL in May 2019.
- No cash bonuses awarded. Share awards were made in compensation for the loss of cash bonus and reduction in salaries from 1 August 2019
- Termination arrangement agreed with Julian Gilbert
- Compensation arrangements agreed with Mike Bolinder on his promotion to CEO
- Share options awarded under the 2018 PSP.

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 in the markets in which the Group operates and recruits 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 – 2019 outcomes

Base salary	Pension & benefits	Annual bonus	Performance Share Plan
2019: 3% increase effective 1/1/2019 Salaries voluntarily reduced mid-year to 40% in order to improve cash management		**No cash bonus awarded** Conditional share awards amounting to approximately 10% of salary were awarded	**2019 awards:** **50% of salary:** *Performance-based* 33.3% TSR growth 33.3% revenue target 33.3% cumulative funding **Up to 50% of salary:** Vesting after three years' service

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 2019 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 2020 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	3/3
Ed Borkowski	Independent Non-Executive Director	16 February 2018	3/3
Pieter van der Meer	Non-Executive Director	16 February 2018	3/3
Scott Byrd	Non-Executive Director	6 March 2018	3/3
Other attendees	The Company Secretary		
Corporate governance	The constitution of the Remuneration Committee is not yet in compliance with the provisions of the 2018 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.		
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 from time to time. None were employed in 2019. The Committee used Radford surveys as part of its compensation benchmarking exercise.		

Single figure for total remuneration (audited)

		Salary / fees	Benefits[2]	Total annual bonus[3]	Share options[4]	Long-term incentives[5]	Pension[6]	Total[7]
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive Directors								
Mike Bolinder[1]	2019	67	11	-	-	-	-	78
Julian Gilbert[1]	2019	239	4	-	-	-	24	267
	2018	*387*	*5*	*158*	*16*	-	*38*	*604*
Christine Soden[1]	2019	209	-	-	-	-	21	230
	2018	*309*	-	*122*	*617*	-	*29*	*1,077*
Non-Executive Directors								
Patrick Vink	2019	117	-	-	-	-	-	117
	2018	*138*	-	-	*82[4]*	-	-	*220*
Ed Borkowski[8]	2019	48	-	-	-	-	-	48
	2018	*54*	-	-	-	-	-	*54*
John Brown[8]	2019	51	-	-	-	-	-	51
	2018	*55*	-	-	-	-	-	*55*
Pieter van der Meer	2019	-	-	-	-	-	-	-
	2018	-	-	-	-	-	-	-
Johan Kördel	2019	-	-	-	-	-	-	-
	2018	-	-	-	-	-	-	-
Scott Byrd	2019	43	-	-	-	-	-	43
	2018	*53*	-	-	*636*	-	-	*689*
Alexander Pasteur[9]	2018	-	-	-	-	-	-	-
Martin Edwards[9]	2018	-	-	-	-	-	-	-

1. Remuneration shown for Mike Bolinder is from 1 August 2019, the date of his appointment as CEO. Remuneration for Julian Gilbert is shown to 31 July 2019, the date he stepped down as CEO. To improve cash flow management while waiting for BARHEMSYS approval, Christine Soden and Mike Bolinder reduced their salary to 40% from 1 June and 1 August respectively.
2. Benefits shown above relate primarily to the provision of private medical benefits, travel and life insurance.
3. No cash bonuses were awarded in 2019. Instead, share awards were granted in lieu of bonus opportunity foregone under the 2018 PSP as described on page 38.
4. For 2018, 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 Share Option schemes and vesting in the 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.
5. Long-term incentive awards under the PSP are detailed and set out on page 38. The first vesting date of awards made under the 2018 PSP is 18 March 2021.
6. Pension consists of a cash supplement in lieu of employer pension contributions in accordance with the relevant service contracts.
7. Not included in the single figure table are share awards made to directors following the decision to reduce cash expenditure. These are summarised below and included in the disclosures on page 38.
    a. Mike Bolinder. Share awards were granted upon on his promotion to CEO and in lieu of salary and bonus opportunity foregone.
    b. Christine Soden. Share awards were granted in lieu of salary and bonus opportunity foregone.
    c. Julian Gilbert. Share awards were granted in respect of his continued post-employment advisory services to the Group.
    d. Non-executive directors. As part of cash flow management, the non-executive directors agreed to reduce their director fees by 50% from 1 August 2019, and to receive share awards under the PSP in lieu of a cash fee.
8. 2018 Fees paid to John Brown and Ed Borkowski are stated for the period from their appointment on 6 March 2018. As noted in 7c above, from 1 August 2019, the non-executive directors reduced their director fees by 50%.
9. Alexander Pasteur and Martin Edwards both resigned on 6 March 2018

Annual bonus for the year to 31 December 2019 (audited)

For the year ended 31 December 2019, as a consequence of the receipt of the Complete Response Letter from the FDA, no cash bonuses were awarded. However, share options under the PSP were awarded as set out below.

2018 PSP (audited)

Awards vesting on approval of BARHEMSYS

As a result of the decision that no bonuses be awarded for 2019, that Directors and certain employees voluntarily reduced their salaries pending certainty around the future of the NDA for BARHEMSYS, and in consideration of the need to provide retention incentives during a difficult year, share awards under the PSP, the vesting of which is dependent upon approval of the awards at the 2020 AGM, upon the Company receiving FDA approval of the NDA for BARHEMSYS on or before 30 June 2020 and the Company having sufficient cash or debt resources to proceed with planned recruitment of a 30-strong sales force, were awarded to most employees and to the Executive Directors on 4 September 2019 as follows.

Executive Directors	Scheme	Basis of award	Share price at award date ($)	Number of shares	Face value	Vesting date
Julian Gilbert	2018 PSP	~ 60% of salary	$2.05	150,000	$307,500	26 February 2020
Mike Bolinder	2018 PSP	Actual salary foregone plus ~ 16% bonus opportunity foregone	$2.05	75,000	$153,750	
Christine Soden	2018 PSP	Actual salary foregone plus ~ 16% bonus opportunity foregone	$2.05	70,000	$143,500	

The awards made to Julian Gilbert were made upon waiving any rights under the PSP award made in 2018 over 96,875 shares and any already approved 2019 award and in agreeing to continue to provide services to the Group, and vested when the NDA approval for BARHEMSYS was achieved on 26 February 2020 and will become exercisable once the Board determines it has sufficient finance to recruit the planned salesforce. Similar awards were made to 4 non-executive directors who agreed to reduce fees by 50% for a 6-month period, such awards totalling 37,040 shares with an aggregate face value of $76,000 (see Non-Executive Directors below). In the cases of each of the continuing Directors, the face value of the award was lower than the value of contractual remuneration to be foregone by the BARHEMSYS PDUFA date.

Annual Service-Based Awards

In addition to the awards above, annual awards under the PSP were made to all employees, including the Executive Directors. These awards have only service-based vesting conditions in line with usual practice in the USA, the market in which the Company is seeking to compete, and were awarded as set out below:

Executive Directors	Scheme	Basis of award	Share price at grant date	Number of shares	Face value	Vesting date
Mike Bolinder	2018 PSP	~ 75,000 being 38% of salary plus promotion award of 100,000	$2.05	175,000	$358,750	30 July 2022[1]
Christine Soden	2018 PSP	~ 33% of salary	$2.05	50,000	$102,500	

1. These options vest over the three year term but are not usually exercisable until the end of the term
2. The above awards are subject to approval at the 2020 AGM .

Long-Term Incentive Plan

In accordance with the Remuneration Policy, the performance conditions were 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, incentivises and retains employees

Executive Directors	Scheme	Basis of award	Share price at award date	Number of shares	Face value	Performance period	Vesting date
Mike Bolinder	2018 PSP	~50% of salary	$2.05	100,000	$205,000	1 January 2019 – 31 December 2021	Issue of 2021 Annual Report
Christine Soden	2018 PSP	~50% of salary	$2.05	75,000	$153,750		

The number of shares awarded under the PSP were calculated by reference to the share price at date of grant.

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 (33.33% weighting)	Cumulative funding in the years to 31 December 2021 (33.33% weighting)	Cumulative revenue targets for the period 1 January 2019 to 31 December 2021 (33.33% weighting)
Nil	<7.5% p.a.	Below $90 million	Below $50 million
25%	7.5% p.a.	$90 million	$50 million
Pro-rata between 25% and 100%	Between 7.5% and 25% p.a.	Between $90 million and $120 million	Between $50 million and $70 million
100%	>25% p.a.	$120 million	>$70 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)

Executive directors

The tables below set 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.

Mike Bolinder

Date of grant / award	Exercise price (p)	At 1 August 2019	Awarded in year	Exercised / vested	Lapsed	At 31 December 2019	Exercise period / vesting date
Share options – Unapproved scheme							
31 October 2017	260	75,000	-	-	-	75,000	30 October 2020
2018 PSP awards							
6 March 2018	2	60,000	-	-	-	60,000	31 December 2020
4 September 2019	2	-	75,000	-	-	75,000	26 February 2020
4 September 2019	2	-	175,000	-	-	175,000	30 July 2022
4 September 2019	2	-	100,000	-	-	100,000	31 December 2021
Total awards		**135,000**	**350,000**	**-**	**-**	**485,000**	

Christine Soden

Date of grant / award	Exercise price (p)	At 1 January 2019	Awarded in year	Exercised / vested	Lapsed	At 31 December 2019	Exercise period / vesting date
2018 PSP awards							
6 March 2018	2	75,000	-	-	-	75,000	31 December 2020
4 September 2019	2	-	70,000	-	-	70,000	26 February 2020
4 September 2019	2	-	50,000	-	-	50,000	30 July 2022
4 September 2019	2	-	75,000	-	-	75,000	31 December 2021
Total awards		**75,000**	**195,000**	**-**	**-**	**270,000**	

Non-executive directors

From 1 August 2019, the non-executive directors agreed to forgo 50% of their director fees until approval of BARHEMSYS, and were awarded compensatory share options in return. All share awards vested upon the NDA for BARHEMSYS receiving approval and are exercisable once the Board determines it is able to recruit the planned US salesforce. The share awards are not related to performance, but are a compensatory mechanism for the loss of cash director fees. Details of the awards are set out below.

Name	Date of grant / award	Exercise price (p)	At 1 January 2019	Awarded in year	Exercised / vested /lapsed	At 31 December 2019	Exercise period / vesting date
Patrick Vink	4 September 2019	2	-	16,770	-	16,770	26 February 2020
John Brown		2	-	7,290	-	7,290	
Scott Byrd		2	-	6,125	-	6,125	
Edward Borkowski		2	-	6,855	-	6,855	
	Total awards		**-**	**37,040**	**-**	**37,040**	

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 historical, with all options vested at the time of the IPO.

Patrick Vink holds 200,000 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 had an entitlement to 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 2019	Guideline met?	Vested unexercised share options	Subject to performance conditions	Subject to service/other conditions
			Options	PSP	PSP
Mike Bolinder[1]	-	No	51,500	100,000	385,000
Christine Soden[2]	56,175	No	353,000	150,000	120,000
Patrick Vink	50,893	N/A	200,000	-	16,770
John Brown	-	N/A	-	-	7,290
Scott Byrd	-	N/A	250,000	-	6,125
Edward Borkowski	-	N/A	-	-	6,855

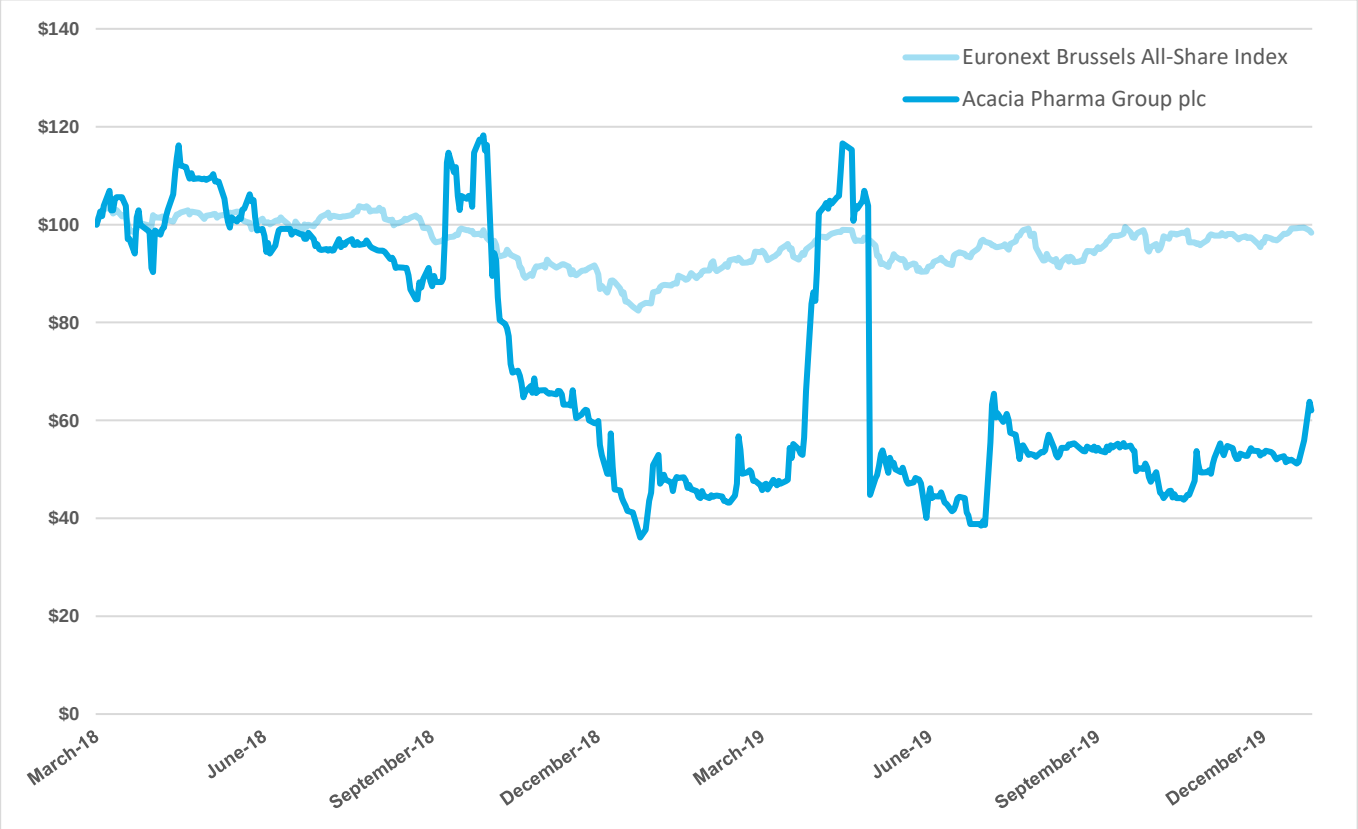
1. Mike Bolinder will be required to retain at least half of the net of tax shares awarded under any incentive plan until the guideline as set out in the Remuneration Policy is met.
2. Christine Soden holds vested options over 353,000 shares. If exercised, the guideline would be met

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 2019, 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 2019 was €1.28. From 6 March 2018 to 31 December 2019 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	2019	
Chief executive total single figure of remuneration ($'000)[3]	317	330	323	675	604	267[1]	67[2]
Bonus as a % of maximum	-	-	-	-	40%	-	-[4]
LTIPs[3]	-	-	-	-	-	-	-
Intrinsic value of shares options vesting[5]	8	-	24	367	16	-	-

1. This column relates to Julian Gilbert's remuneration up to 31 July 2019, when he stepped down as CEO. Not included in this figure is $308,000 which represents the face value of share options awarded upon waiving any rights under the PSP award made in 2018 over 96,875 shares and any approved 2019 award and in agreeing to continue to provide services to the Group.
2. This column relates to Mike Bolinder's remuneration from 1 August 2019, when he was appointed as CEO. Not included in this figure is $205,000 which represents the face value of share options awarded as a promotion bonus.
3. 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.
4. No cash bonuses were awarded in the year

5. 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 2018 and the year ended 31 December 2019. The percentage changes are not particularly meaningful, given the significant levels of change in the organisation, the change in CEO from 1 August 2019, and the cash saving initiatives in the year following receipt of the CRL

	% change from 2018 to 2019	
	Chief Executive Officer	Average per employee
Base salary	(21%)	(12%)
Bonus	(100%)	(100%)
Taxable benefits	161%	71%

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.

	2019 $'000	2018 $'000	Increase %
Total employee remuneration	10,633	5,863	81%
Total expenditure	22,394	20,046	12%

Application of the Remuneration Policy for the Year Ending 31 December 2020

The specific remuneration arrangements for 2020 are described below.

Base salary	3% increase in line with RPI/Cost-of living changes, applied Group-wide CEO to increase to $500,000 effective 1 March 2020 in line with market
Pension and benefits	No changes. Mike Bolinder to receive benefits standard to all Group employees in US, including private health insurance.
Annual bonus	For 2020, performance under the annual bonus will be measured on the following basis, with specific targets against which the underperformance, on target performance and out-performance will be measured **Successfully launch BARHEMSYS in the US (40%)** • Gain the NDA for BARHEMSYS with a commercially favourable prescribing label; • Get the product into the US supply chain for commercial launch before the end of 2020; and • Achieve formulary acceptance rates in line with internal plan to achieve forecast sales ramp **Raise additional capital needed to support the launches of BARHEMSYS and (if approved) Byfavo (40%)** • Sufficient to recruit 30-strong sales force by July 2020 and ensure • funding of at least 12 months of operations thereafter. **Successfully launch Byfavo in the US, if approved (20%)** • Support obtaining NDA approval for Byfavo • Finalize manufacturing and supply agreements to ensure product is efficiently available in US supply chain • Begin commercialization within 90 days after obtaining FDA approval There will be no change in the maximum bonus award opportunity in 2020, which will remain at 100%
Performance share plan	The Company anticipates that long-term incentives for 2020 will be awarded at the earliest practicable opportunity following publication of this Annual Report. 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 2020. It is anticipated that the CEO will receive an award under the PSP, part of which shall be subject to continued service over a 3 year period, and the remainder subject to the following performance conditions: **Total Shareholder Return ("TSR") growth (33% weighting)** • 25% of this element will vest for threshold performance • 100% vesting for upper-quartile performance • Vesting on a straight-line basis between these points **Cumulative net revenue targets from launch to 31 December 2022 (33% weighting)** • 25% of this element will vest for threshold performance • 100% vesting for upper-quartile performance • Vesting on a straight-line basis between these points **Cumulative funding targets in the 3 years to 31 December 2022 (33% weighting)** • 25% of this element will vest for threshold performance • 100% vesting for upper-quartile performance • Vesting on a straight-line basis between these points The target ranges were set following consideration of the long-term strategy and the outlook for the markets in which we operate. The targets for these measures, and the level of performance achieved, will be disclosed following the end of the performance period.
Shareholding guidelines	Requirement to build and maintain a shareholding in the Company equivalent to 200% of base salary. Executive Directors 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, other than Pieter van der Meer and Johan Kördel, who receive no fees, 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 37 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 2020.

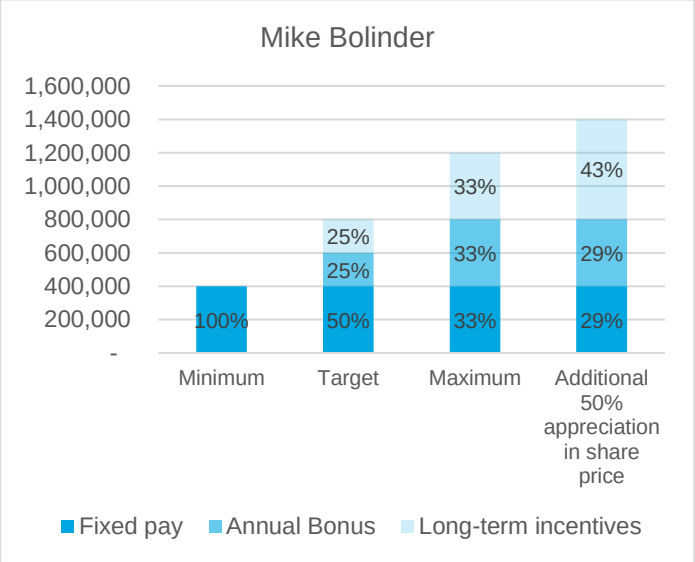
Directors' Remuneration Policy

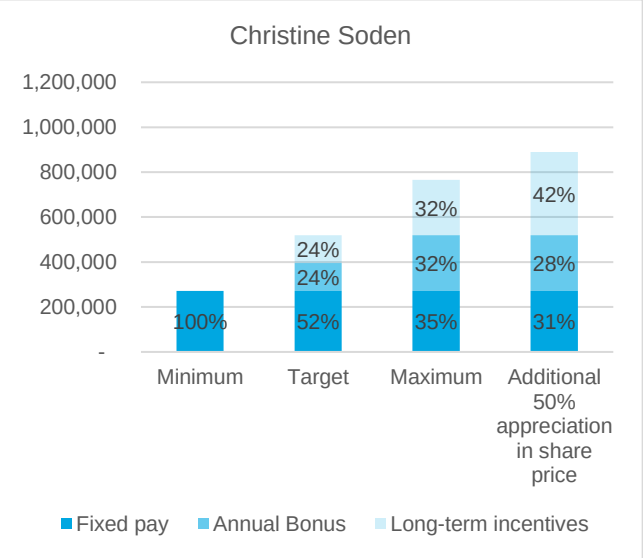
The Company's initial Remuneration Policy was subject to a binding Shareholder vote at the 2019 AGM and approved. Given the significant shift in the focus of the Company on the US market and the need to be competitive in recruiting and incentivising senior US staff, the policy has been slightly amended, and as such the policy below will be put to a binding Shareholder vote at the 2020 AGM.

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 is 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 was and 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 in 2019 was:





The total remuneration for each Executive Director is made up of the following elements: salary, benefit (including pension) ; annual bonus and long-term incentive awards. Recovery and withholding provisions will apply to elements of 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 an Executive Directors' salary. Salary increases are normally effective from 1 January each year. Salaries are periodically benchmarked against a relevant peer group of 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, life assurance and similar benefits. The benefits package available will generally be that which is available to all Group employees based in the same country as the Executive	Benefits will be based on market practice.	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 usually be delivered in cash although the Committee will review from time to time whether part of the bonus should be delivered in deferred shares and be subject to recovery and withholding provisions in the event of mis-statement of results, error in performance calculation or gross misconduct	The maximum bonus opportunity for each Executive Director is 100% of salary.	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.
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	Conditional awards or nil or nominal cost options from the 2018 PSP are granted, usually annually. The awards vest provided the Executive remains employed by the Company for at least 3 years. In line with competitive practice in the US, a proportion of each award will be subject only to the employee remaining in service for 3 years, with the remainder subject to certain performance conditions, which have been approved by the Board, being achieved over a period of at least three financial years. Performance targets are set at the start of each performance period. Recovery and	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

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
	Shareholder value creation.	withholding provisions may apply for reasons of mis-statement of results, error in performance calculation or gross misconduct.		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.
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, other than Pieter van der Meer and Johan Kördel. 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 28 February 2020 and signed on its behalf by:

Dr John Brown
Chairman of the Remuneration Committee
28 February 2020

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 31 December 2019. The Directors' Report comprises pages 50 to 54 and the following sections of the Annual Report which are incorporated by reference:

Item	Location in Annual Report
Statement of Directors' Responsibilities in respect of the financial statements	Page 53
Financial instruments and financial risk management	Financial Statements - note 10
Present membership of the Board	Pages 16 to 18
Corporate Governance Report	Pages 15 to 49
Strategic Report	Pages 2 to 14
Directors' Remuneration Report	Pages 33 to 49
Share capital	Financial Statements – note 14

Results and dividends

The results for the year and the financial position as at 31 December 2019 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 2019 (2018: $nil).

Research and development

During the year ended 31 December 2019 the Group's expenditure on research and development was $3,928,000 (2018: $5,031,000).

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 14 provide a review of the business, the Group's trading for the year ended 31 December 2019, key performance indicators, risk and an indication of likely future developments in the business of the Group.

Post period events

On 10 January 2020, the Group entered into a strategic in-licensing, investment and loan transaction with Cosmo Pharmaceuticals N.V. Under the principal terms of the in-license agreement, Cosmo became eligible for:

- an upfront payment of €10 million satisfied through the issue of 4,646,841 new ordinary shares of 2p in the Company at €2.152 per share, being the 15-day volume weighted average share price up to 8 January 2020
- a €30 million payment upon US approval of Byfavo, consisting of €15 million payable in cash and €15 million payable in new ordinary shares in the Company
- a €5 million payment upon first commercial sale of Byfavo in the US payable in new ordinary shares in the Company
- sales-related milestones of up to €105 million upon achieving pre-specified annual sales targets, payable in cash, and
- tiered double-digit royalties on US sales.

Under the terms of the agreement, Cosmo has also made a strategic equity investment in the Company of €10 million by agreeing to subscribe for 4,347,826 new ordinary shares of 2p in the Company at a price of €2.30 per share, based on the closing price on 8 January 2020. Following this investment, together with the shares issued in respect of the licensing agreement, Cosmo own 8,994,667 ordinary shares of 2p in the Company, representing 14.08% of its enlarged share capital.

Post period events (continued)

In addition, Cosmo will make available to the Group a new loan facility of up to €35 million, conditional on the achievement of certain specified milestones and in two tranches:

- €10 million became available on the US approval of BARHEMSYS, and
- €25 million will become available upon the US approval of Byfavo.

The loans will be interest-only until January 2023 and repayable over the ensuing 24 months. Until such time as the group's existing loan facility with Hercules Growth Capital is repaid in full, the Cosmo facility will be unsecured and bear interest at 11% per annum. Thereafter, the loan will be secured upon assets of the Group and bear interest at 9%.

Cosmo is entitled to appoint one director to the Acacia Pharma Board of Directors.

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 Mike Bolinder, who was appointed on 1 August 2019. Julian Gilbert was an executive Director until his resignation on 31 July 2019.

The Board confirms that each of the Directors who served during the year has been formally appraised during this year. In accordance with the 2018 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 2019 the Company had a total of 56,329,205 ordinary shares in issue. During the year the share capital of the Company increased by 1,558,993 ordinary shares as a result of the vesting and exercise of share awards. Details of the movements in the Company's share capital are shown in note 14 to the financial statements.

As at 31 December 2019, the Company had 54,888,198 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 (2018: Nil).

Major shareholdings

Other than the shareholdings disclosed as Directors' interests in the Directors' Remuneration Report, as at 27 February 2020, 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	26.52%	Direct
Lundbeckfond Invest A/S	12,468,955	19.52%	Direct
Cosmo Pharmaceuticals N.V	8,994,667	14.08%	Direct
FMR LLC	4,998,786	7.82%	Indirect
AXA Investment Managers	2,650,846	4.15%	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 (2018: none).

Subsidiaries

All the Group's subsidiaries, joint ventures and related undertakings are listed on page 95.

Significant agreements and change of control

The Company is party to the following agreements which takes effect, alters or terminates upon a change of control of the Company:

- the Directors' service contracts, details of which are set out in the Directors' Remuneration Report;
- the Hercules loan agreement, which terminates on a change of control; and
- the Cosmo deal as set out above.

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.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and Company will continue in operational existence for the foreseeable future.

Based on the Directors' current forecasts and plans, which assumes the recruitment of a salesforce and the successful commercialisation of BARHEMSYS and Byfavo (upon FDA approval) and, considering the existing cash and debt facilities, the Group and Company have sufficient funding to continue their operations until the first half of 2021, such that during the first half of 2021, the Group and Company will need to raise additional funding in order to meet their cash requirements for the subsequent months.

The Directors are confident that it is appropriate to prepare these financial statements on the going concern basis. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful and therefore this 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 auditors will be proposed at the 2020 Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held in London on 7 April 2020 at 11.00am.

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, are 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
28 February 2020

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 2019 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 2019; the consolidated income statement, 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 2019 to 31 December 2019.

Material uncertainty related to going concern - group and company

In forming our opinion on the 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 the Directors' 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 during the first half of 2021 in order to meet its cash requirements for the subsequent months. This condition, along with the other matters explained in note 1 to the financial statements, indicates 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 financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

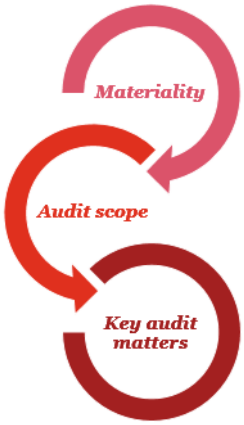
Audit procedures performed

In concluding that there was a material uncertainty, we reviewed the Directors' model supporting their going concern assumption, tested its mathematical accuracy and considered the reasonableness of the revenue and cost assumptions made and the available headroom throughout a period of at least twelve months 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 and checking that they were consistent with the assumptions used in the impairment analysis performed to support the carrying value of the company's investment in and receivable from Acacia Pharma Limited.
- Considering whether judgements/estimates are appropriately disclosed within the financial statements.
- Applying sensitivities to the model, including timing and quantum of revenue forecast in the period.

Our audit approach

Overview



Overall group materiality: $1,175,000 (2018: £809,000), based on 5% of loss before tax.

Overall company materiality: £728,000 (2018: £228,000), based on 0.5% of total assets (2018: 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.

- Carrying value of the company's investment in and receivables due from Acacia Pharma Limited
- Going concern

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to good clinical practice regulations, Euronext listing requirements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK and US tax legislation. 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 reduce expenditure and management bias in accounting estimates. Audit procedures performed by the group engagement team included:

- Discussions with management, including considerations of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Identifying and testing journal entries, in particular any journal entries to defer expenditure to the statement of financial position.

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. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matter described below to be the key audit matter to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Carrying value of the company's investment in and receivables due from Acacia Pharma Limited As at 31 December 2019, the company's investment in Acacia Pharma Limited was £107,514,000 and the receivable due from Acacia Pharma Limited was £36,187,000 (see notes 5 and 6 of the company's financial statements respectively) amounting to a combined interest of £143,693,000. 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 2019 at €116m (£99m) was lower than the company's combined interest in Acacia Pharma Limited.	We obtained the Directors' impairment analysis which is based on a value in use model, using projected future cash flows from the two products it had rights to as at 31 December 2019 – BARHEMSYS and APD403. Approval to market BARHEMSYS was received from the FDA in February 2020. APD403 is still in the clinical trial phase. We assessed the appropriateness of the methodology applied and tested the mathematical accuracy of the model, with no exceptions noted. We assessed the appropriateness of the key assumptions, including: Sales volume – assessed management's assessment of volume by reference to third party research; and growth shown by other products in the market; Sales price- agreed to third party research and assessed the reasonableness of the forecast growth rates by comparison to industry rates; Costs – assessed the costs for reasonableness and completeness and where possible agreed to supporting evidence; Discount rate – recalculated the expected discount rate using publicly available information, and compared to the rate used by the directors. We also performed our own sensitivities reflecting what we believed to be a range of reasonably individually possible alternative outcomes over the forecast cash flows and discount rates, the results of which did not indicate an impairment to the investment. We read external business research which indicated a valuation of the group exceeding the parent's combined interest in the subsidiary. We considered the carrying value of the investment to be supported.

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. 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	$1,175,000 (2018: £809,000).	£728,000 (2018: £228,000).
How we determined it	5% of loss before tax.	0.5% of total assets (2018: 5% of loss before tax).
Rationale for benchmark applied	Based on the benchmarks used in the annual report, loss before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We used total assets as a basis for materiality in the current year given the significantly reduced level of activity in the company and the fact that total assets is a generally accepted auditing benchmark for holding companies. As such, we changed our benchmark from loss before tax to total assets.

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 $737,000 and $1,117,000. 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 $59,000 (Group audit) (2018: £40,000) and £36,000 (Company audit) (2018: £11,000) 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 related 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 of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group'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 2019 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

Other than the material uncertainty relating to going concern referred to above, we have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 13 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 13 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.

Other Code Provisions

As a result of the directors' 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 54, 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 pages 25 to 29 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, 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

We were first appointed as auditors of Acacia Pharma Limited by its directors for the audit of the financial statements for the period ended 31 December 2007. Following the reorganisation of the group and the formation of Acacia Pharma Group plc, we were appointed by the directors of Acacia Pharma Group plc in September 2015 to audit the financial statements for the period ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the periods ended 31 December 2007 to 31 December 2019.

Other voluntary reporting

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the company were a premium listed company subject to UK Listing Rules. We have nothing to report in respect of the requirement for the auditors of 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 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

28 February 2020

Consolidated Income Statement for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Research and development expenses		**(3,928)**	(5,031)
Sales and marketing expenses		**(14,019)**	(9,336)
General and administrative expenses		**(4,447)**	(5,679)
Operating loss		**(22,394)**	(20,046)
Finance income	3	**432**	1,237
Finance expense	4	**(1,545)**	(2,764)
Loss before income tax	5	**(23,507)**	(21,573)
Taxation credit	8	**668**	881
Loss for the financial year		**(22,839)**	(20,692)
Basic and diluted losses per Ordinary Share	9	**(0.43)**	(0.47)

Consolidated statement of comprehensive income for the year ended 31 December 2019

	2019 $'000	2018 $'000
Loss for the financial year	**(22,839)**	(20,692)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(78)**	(2,023)
Other comprehensive expense for the financial year	**(78)**	(2,023)
Total comprehensive expense for the financial year	**(22,917)**	(22,715)

The notes on pages 65 to 87 form an integral part of these Group Financial Statements.

Consolidated Statement of Financial Position as at 31 December 2019

	Note	2019 $'000	2018 $'000	2017 $'000
Assets				
Non-Current Assets				
Right-of-use asset	11	**372**	-	-
Total Non-Current Assets		**372**	-	-
Current Assets				
Other receivables	12	**609**	397	208
Current income tax assets		**679**	874	471
Cash and cash equivalents	13	**17,009**	37,443	4,142
Total Current Assets		**18,297**	38,714	4,821
Total Assets		**18,669**	38,714	4,821
Equity and Liabilities				
Equity attributable to equity holders				
Called up share capital	14	**1,619**	1,581	1,074
Share premium account	14	**75,588**	75,454	5,575
Profit and loss account		**31,225**	54,078	74,770
Share based payment reserve		**3,791**	1,354	358
Merger reserve		**(106,625)**	(106,625)	(106,625)
Foreign currency translation reserve		**(1,250)**	(1,172)	851
Total Equity		**4,348**	24,670	(23,997)
Liabilities				
Non-current liabilities				
Loans and other borrowings	16	**4,701**	8,867	-
Current liabilities				
Trade and other payables	15	**4,167**	4,727	1,354
Loans and other borrowings	16	**5,453**	450	27,464
		9,620	5,177	28,818
Total Liabilities		**14,321**	14,044	28,818
Total Equity and Liabilities		**18,669**	38,714	4,821

The notes on pages 65 to 87 form an integral part of these Group Financial Statements

The Group Financial Statements on pages 61 to 87 were approved and authorised for issue by the board of Directors on 28 February 2020 and were signed on its behalf by:

Christine Soden
Director

Consolidated Cash Flow Statement for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities:			
Cash used in operations	18	**(20,665)**	(15,863)
Income tax credit received		**834**	432
Net cash used in operating activities		**(19,831)**	(15,431)
Cash flows from investing activities:			
Interest received		**432**	246
Net cash generated from investing activities		**432**	246
Cash flows from financing activities:			
Proceeds of issuance of Ordinary Shares	14	**180**	49,379
Issue costs of Ordinary Shares	14	**(8)**	(2,296)
Repayments of lease liabilities – principal and interest		**(101)**	-
Loan proceeds	17	**-**	10,000
Costs of securing term loan	17	**-**	(644)
Loan repayments	17	**-**	(6,215)
Interest and fees paid on loans	17	**(998)**	(1,324)
Net cash (used in) / generated from financing activities		**(927)**	48,900
Net (decrease) / increase in cash and cash equivalents		**(20,326)**	33,715
Cash and cash equivalents at beginning of the period		**37,443**	4,142
Effect of exchange rate movements on cash held		**(108)**	(414)
Cash and cash equivalents at end of the period	13	**17,009**	37,443

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

	Issued Share Capital $'000	Share Premium $'000	Profit and Loss account $'000	Merger reserve $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Total Equity $'000
Balance at 1 January 2018	**1,074**	**5,575**	**74,770**	**(106,625)**	**358**	**851**	**(23,997)**
Loss for the period	-	-	(20,692)	-	-	-	(20,692)
Exchange differences	-	-	-	-	-	(2,023)	(2,023)
Total comprehensive expense for the period	-	-	(20,692)	-	-	(2,023)	(22,715)
Warrants issued	-	-	-	-	327	-	327
Transactions with Owners							
Issue of Ordinary Shares	507	72,175	-	-	-	-	72,682
Costs of issue of Ordinary Shares	-	(2,296)	-	-	-	-	(2,296)
Employee share option scheme	-	-	-	-	669	-	669
Balance at 31 December 2018	**1,581**	**75,454**	**54,078**	**(106,625)**	**1,354**	**(1,172)**	**24,670**
Balance at 1 January 2019 as previously stated	**1,581**	**75,454**	**54,078**	**(106,625)**	**1,354**	**(1,172)**	**24,670**
IFRS16 adjustment	-	-	(14)	-	-	-	(14)
Adjusted balance at 1 January 2019	**1,581**	**75,454**	**54,064**	**(106,625)**	**1,354**	**(1,172)**	**24,656**
Loss for the period	-	-	(22,839)	-	-	-	(22,839)
Exchange differences	-	-	-	-	-	(78)	(78)
Total comprehensive expense for the period	-	-	(22,839)	-	-	(78)	(22,917)
Transactions with Owners							
Issue of Ordinary Shares	38	142	-	-	-	-	180
Costs of issue of Ordinary Shares	-	(8)	-	-	-	-	(8)
Employee share option scheme	-	-	-	-	2,437	-	2,437
Balance at 31 December 2019	**1,619**	**75,588**	**31,225**	**(106,625)**	**3,791**	**(1,250)**	**4,348**

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 business which discovers, develops and commercialises lower risk pharmaceutical product opportunities within its therapeutic areas of interest.

The Group's Financial Statements are presented as at and for the year ended 31 December 2019.

Basis of preparation

The Group 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 Group Financial Statements have been prepared on a going concern basis and under the historical cost convention. The principal accounting policies set out in the 2018 Annual Report have been consistently applied to all periods presented with the exception of IFRS16, discussed below.

Changes in accounting policy and disclosures

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

IFRS 16 'Leases' was issued by the IASB in January 2016, and was implemented by the Group from 1 January 2019. It resulted 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.

- IFRS 16 'Leases' was issued by the IASB in January 2016, and was implemented by the Group from 1 January 2019. The impact is set out in note 23.
- IFRIC 23 'Uncertainty over income tax treatments' was issued by the IASB in July 2017 and was implemented by the Group from 1 January 2019. The effect was immaterial.

The Group applied the simplified transition approach and has not restated comparative amounts for the year prior to first adoption. Right-of-use assets for property leases were measured on transition as if the new rules had always been applied. All other right-of-use assets were measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Adoption of IFRS16 (Leases)

The Group adopted IFRS16 (Leases) from 1 January 2019. Payments made under short-term leases (where the lease term is less than one year) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Where the lease term is greater than one year, the lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

1. Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

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

Assets and liabilities arising from a lease are initially measured on a present value basis. The Group's lease liabilities include the net present value of fixed lease payments (including in-substance fixed payments), less any lease incentives receivable. The Group currently holds one fixed-term lease, with no variable consideration or purchase options.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the group, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Change in the Group's presentation currency

With effect from 1 January 2019, the Group's presentation currency changed from Pounds Sterling to US Dollars, given that a significant majority of Group expenses are denominated in US Dollars. Future revenues and costs are expected to arise predominantly in US dollars, and the Directors believe that the presentation currency change will give investors and other stakeholders a clearer understanding of the Group's performance over time. Further information can be found in note 23.

(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 2019, but will be effective for later periods:

There are no 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.

1. Summary of significant accounting policies (continued)

Basis of Consolidation

All of the subsidiaries of the Group are 100% owned within the Group and have been included in the Group financial statements 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 $106,525,000 was created. The Group 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 Group financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation, being intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the Group financial statements.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and Company will continue in operational existence for the foreseeable future.

Based on the Directors’ current forecasts and plans, which assumes the recruitment of a salesforce and the successful commercialisation of BARHEMSYS and Byfavo (upon FDA approval) and, considering the existing cash and debt facilities, the Group and Company have sufficient funding to continue their operations until the first half of 2021, such that during the first half of 2021, the Group and Company will need to raise additional funding in order to meet their cash requirements for the subsequent months.

The Directors are confident that it is appropriate to prepare these financial statements on the going concern basis. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful and therefore this 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 US dollars, which is the Group’s 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 income statement within ‘finance income or expense’. All other foreign exchange gains and losses are presented in the income statement within administrative expenses.

1. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

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 were classified as equity.

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

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
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.

1. Summary of significant accounting policies (continued)

Financial instruments (continued)

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.

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.

1. Summary of significant accounting policies (continued)

Inventory
Inventories are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

As at the 31 December 2019, given that FDA approval for BARHEMSYS had not been received, all inventories were fully provided against, with the resulting expense of $0.9m for 2019 being recognised within research and development expenditure. Certain of these provisions are expected to be released during 2020, with a consequent credit to research and development expenses and increase to inventory values.

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 Income Statement in the year to which they relate.

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 and adjusted for the expected level of vesting of non-market performance conditions and employees leaving the Group.

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 Income Statement, 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 prior 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 Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income 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.

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

In 2018, 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 (31 December 2020), 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 $1.1m, being the foreign exchange gain currently recorded in equity.

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

	2019 $'000	2018 $'000
Bank account interest	**6**	6
Interest on short-term deposits	**426**	239
Foreign exchange gains	**-**	992
	432	1,237

4. Finance expense

	2019 $'000	2018 $'000
Foreign exchange losses	**57**	-
Finance charges on convertible instruments	**-**	1,817
Finance charges on term loan	**1,446**	947
Interest expense on lease liabilities	**42**	-
	1,545	2,764

5. Loss before income tax

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

	2019 $'000	2018 $'000
Auditors' remuneration:		
Fees payable to the Group's auditors for the audit of the financial statements	**115**	131
Fees payable to the Group's auditors for other services – other assurance services	**63**	251
Foreign exchange losses / (gains)	**57**	(910)

The other assurance services during the year related to procedures performed as reporting accountant on historical financial information.

6. Employees and Directors

Analysis of payroll costs by category:

	2019 $'000	2018 $'000
Wages and salaries	**7,494**	4,727
Social security costs	**581**	400
Other pension costs (Note 19)	**121**	76
Share-based payments	**2,437**	660
	10,633	5,863

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

	2019 Number	2018 Number
Research and development	**4**	4
Sales and marketing	**34**	10
General and administration	**3**	8
	41	22

Key Management Compensation

	2019 $'000	2018 $'000
Salaries and short–term employee benefits	**1,066**	1,905
Post-employment benefits	**69**	86
Share-based payments	**742**	391
	1,877	2,382

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

6. Employees and Directors (continued)

Directors' remuneration in the year ended 31 December 2019 totalled $874,000 (2018: $1,344,000), comprising:

- $829,000 for aggregate emoluments (2018: $1,276,000)
- $45,000 for employer pension contributions (2018: $67,000)

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	**1,752,875**[1]	**0.02**	**44,444**	**1.35**	**2,837,472**	**0.09**	**977,497**	**1.25**	**5,612,288**	**0.27**
Granted in the year	2,215,352	0.02	-	-	-	-	-	-	2,215,352	0.02
Exercised during the year	(29,000)	0.02	-	-	(1,319,996)	0.10	(209,997)	0.06	(1,558,993)	0.09
Lapsed / forfeited during the year	(279,375)	0.02							(279,375)	0.02
Outstanding at 31 December	**3,659,852**	**0.02**	**44,444**	**1.35**	**1,517,476**	**0.07**	**767,500**	**1.58**	**5,989,272**	**0.05**
Exercisable at 31 December	-	-	-	-	1,517,476	0.07	767,500	1.58	2,284,976	0.58
Weighted average life remaining - 2019	9.86		8.97		5.67		6.48		5.95	

1. During the year it was noted that the number of options disclosed as granted during the year to 31 December 2018 had been understated by 355,000. This has been revised in the balance of outstanding options at 1 January 2019 and in the number of options granted during the year to 31 December 2018. The IFRS 2 charge relating to such options in the year to 31 December 2018 has not been revised as the impact was immaterial.

7. Share–based payments (continued)

Awards granted under the Performance Share Plan (PSP) consist of 245,000 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 1,970,352 Performance Share Awards (PSA) issued to staff, including non-executive directors as set out in the Directors' Remuneration Report.

Of the 5,989,272 outstanding options (2018: 5,612,288 options), 2,284,976 options (2018: 3,814,969 options) were exercisable at the balance sheet date.

Options exercised in 2019 resulted in 1,558,993 shares (2018: 410,144), being issued at a weighted average exercise price of £0.09 each. The related weighted average share price at the time of exercise was €1.82 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 (£)	2019 (number)	2018 (number)
01/10/2009	29/09/2012	30/09/2019	0.15	**-**	405,371
04/07/2011	02/07/2014	02/07/2021	0.1	**430,829**	710,543
07/03/2012	06/03/2015	06/03/2022	0.1	**151,515**	180,515
22/10/2013	20/10/2016	21/10/2023	0.1	**410,770**	887,135
04/09/2014	02/09/2017	03/09/2024	0.02	**281,987**	611,315
28/08/2015	05/03/2018	27/08/2025	0.02	**272,000**	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	**9,875**	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	**195,000**	291,875
18/12/2018	17/12/2021	17/12/2028	-	**894,500**	1,106,000
18/12/2021	17/12/2021	31/12/2028	0.02	**355,000**	355,000
19/12/2018	18/12/2021	18/12/2028	1.35	**44,444**	44,444
02/01/2019	01/01/2022	01/01/2029	0.02	**42,000**	-
01/03/2019	28/02/2022	28/02/2029	0.02	**40,000**	-
28/03/2019	27/03/2022	27/03/2029	0.02	**42,000**	-
01/04/2019	31/03/2022	31/03/2029	0.01	**45,000**	-
04/09/2019	31/07/2022	30/07/2029	0.02	**892,000**	-
04/09/2019	26/02/2020	30/07/2029	0.02	**909,352**	-
04/09/2019	31/12/2021	30/07/2029	0.02	**245,000**	-
				5,989,272	5,612,288

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 $1.88 per option (2018: $2.82).

7. Share–based payments (continued)

The significant inputs into the Black-Scholes model were:

	2019	2018
Share price at grant	**$1.71 - $3.20 dependent on grant date**	$1.89 - $4.43 dependent on grant date
Exercise price	**As shown above**	As shown above
Expected option life	**10 years**	10 years
Dividend yield	**0%**	0%
Annual risk-free rate	**0.57% - 1.29% dependent on grant date**	1.27% - 1.45% dependent on grant date
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

	2019 $'000	2018 $'000
Current tax		
Current year tax credit	**666**	916
Prior year adjustments	**2**	(35)
Total tax credit	**668**	881

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 under the SME scheme. The amount included in the financial statements includes the credit receivable by the Group for the year. The 2019 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% (2018: 19%). The differences are explained in the following table:

8. Income tax (continued)

Tax reconciliation

	2019 $'000	2018 $'000
Loss before income tax	**(23,507)**	**(21,572)**
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**(4,466)**	**(4,099)**
Tax effect of:		
Expenses not deductible for tax purposes	**157**	**478**
Temporary differences	**508**	**124**
Additional deduction for R&D expenditure	**(492)**	**(679)**
Surrendered losses for R&D tax credit	**379**	**522**
Items for which no deferred tax asset was recognised	**3,248**	**2,767**
Adjustment for foreign tax rates	**-**	**(1)**
Utilisation of brought forward tax losses	**-**	**(28)**
Prior year adjustments	**(2)**	**35**
	(668)	**(881)**

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 2019, the unrecognised deferred tax assets relating to operating losses amounted to $7,885,000 (2018: $4,977,000).

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:

	2019	2018
Losses per Ordinary Share		
Loss for the financial year ($'000)	**(22,839)**	(20,692)
Weighted average number of Ordinary Shares (basic) (thousands)	**53,680**	44,094
Losses per Ordinary Share basic ($)	**(0.43)**	(0.47)

Share options and convertible instruments are anti-dilutive in both 2019 and 2018 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.

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:

	2019 $'000	2018 $'000	2017 $'000
Financial assets as per balance sheet			
Other receivables	**-**	55	-
Cash and cash equivalents	**17,009**	37,443	4,142
Total	**17,009**	**37,498**	4,142

	2019 $'000	**2018 $'000**	2017 $'000
Financial liabilities as per balance sheet			
Loans and other borrowings	**10,154**	9,317	27,464
Trade and other payables	**4,167**	4,727	1,356
Total	**14,321**	**14,044**	**28,820**

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.

	2019 $'000	2018 $'000	2017 $'000
Other receivables			
AAA	**-**	55	-
Total unimpaired receivables	**-**	55	-
Cash at bank and short-term deposits			
AAA	**15,879**	36,028	675
A	**1,130**	1,415	3,467
Total cash and cash equivalents	**17,009**	37,443	4,142

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 Wall Street Journal 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 changed its presentational currency from 1 January 2019. 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.

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 2019 or 2018.

11. Leases

This note provides information for leases where the group is a lessee.

i) Amounts recognised in the balance sheet

	2019 $'000	1 January 2019* $'000	2017 $'000
Right of use assets			
Buildings	**372**	459	-
	372	459	-

	2019 $'000	1 January 2019* $'000	2017 $'000
Lease liabilities			
Current	**116**	113	-
Non-current	**273**	335	-
	389	448	-

*For adjustments recognised on adoption of IFRS16 on 1 January 2019, please refer to note 23

ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2019 $'000	2018 $'000	2017 $'000
Depreciation charge of right of use assets	**95**	-	-
Interest expense (included in finance cost)	**42**	-	-
Expense relating to short-term leases (included in general and administrative expenses)	**83**	-	-

The total cash outflow for leases in 2019 was $184,000

12. Other receivables

	2019 $'000	2018 $'000	2017 $'000
Other receivables	**581**	**360**	202
Prepayments and accrued income	**28**	**37**	6
	609	**397**	208

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

13. Cash and cash equivalents

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

	2019 $'000	2018 $'000	2017 $'000
Sterling accounts	**918**	359	3,803
Euro accounts	**229**	377	4
US Dollar accounts	**15,862**	36,707	335
	17,009	37,443	4,142

14. 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 2018	**2,664,662**	**40,948,964**	**82**	**992**	**5,575**
Issue of Ordinary Shares in settlement of liabilities and anti-dilution and preference rights on A, B, C & D shares	5,171,495	-	143	-	15,612
Conversion of S, A, B, C & D shares to Ordinary shares	32,337,899	(32,337,899)	992	(992)	-
Cancellation of P shares	-	(8,611,065)	-	-	-
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	-	45	-	7,148
Issue of Ordinary Shares for cash	11,111,111	-	308	-	49,271
Issue of Ordinary Shares upon exercise of share options	410,144	-	11	-	144
Issue costs	-	-	-	-	(2,296)
At 31 December 2018 and 1 January 2019	**53,329,205**	**-**	**1,581**	**-**	**75,454**
Issue of Ordinary Shares upon exercise of share options	1,558,993		38		142
Issue costs					(8)
At 31 December 2019	**54,888,198**		**1,619**		**75,588**

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. 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 $49,579,000. Costs directly associated with the issue of shares of $2,296,000 were incurred.

14. Share capital and premium (continued)

Share option exercises

In 2018, 410,144 shares were issued upon the exercise of share options, resulting in proceeds of $154,000. Shares issued in 2019 upon the exercise of share options are set out in the table below:

Date of issue	Number of shares issued	Proceeds $'000
10 June 2019	6,215	-
16 August 2019	106,997	15
16 September 2019	192,498	16
30 September 2019	303,841	55
21 October 2019	9,000	-
29 October 2019	940,442	94
	1,558,993	180

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.

15. Trade and other payables

	2019 $'000	2018 $'000	2017 $'000
Trade payables	**2,653**	940	743
Other tax and social security	**266**	-	44
Accruals and other creditors	**1,248**	3,787	567
	4,167	4,727	1,354

16. Loans and other borrowings

Term bank loan

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

A new term loan facility with Hercules Capital was drawn on 29 June 2018. The initial tranche drawn was $10 million and costs of $644k were incurred. The loan bears interest at the higher of 9.5% or the 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. Thereafter the principal and interest on the loan will be repayable in 25 equal instalments. Warrants over 201,330 Ordinary Shares, exercisable at €3.22 per share, were issued to Hercules Capital as part of the terms of the loan facility.

Lease liability

Lease payments represent amounts payable by the Company for its office property held under long-term leases, discounted at 9.75%. For further information see notes 11 and 23.

16. Loans and other borrowings (continued)

	31 Dec 2019 $'000	31 Dec 2018 $'000	31 Dec 2017 $'000
Loans and other borrowings payable within one year			
Term bank loan, amounts payable within one year	**5,337**	450	6,995
Convertible loan notes	**-**	-	5,439
Liability component of convertible shares	**-**	-	15,030
Lease liability, amounts payable within one year	**116**	-	-
Total Loans and other borrowings payable within one year	**5,453**	450	27,464
Loans and other borrowings payable after one year			
Term bank loan, amounts payable after one year	**4,428**	8,867	-
Lease liability, amounts payable after one year	**273**	-	-
Total Loans and other borrowings payable after one year	**4,701**	8,867	-

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

	2019 $'000	2018 $'000	2017 $'000
UK pound		-	20,469
US dollar	**10,154**	9,317	6,995
	10,154	9,317	27,464

The fair value of non-current borrowings is $5.8 million, 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.

17. Reconciliation of movement in liabilities from financing activities

	Term Loans $'000	Lease liability $'000	Total $'000
As at 31 December 2018	**9,317**	**-**	**9,317**
Recognition on adoption of IFRS16		**448**	**448**
As at 1 January 2019 - adjusted	**9,317**	**448**	**9,765**
Finance expense and exchange movements	1,446	42	1,488
Net cashflows	(998)	(101)	(1,099)
As at 31 December 2019	**9,765**	**389**	**10,154**

17. Reconciliation of movement in liabilities from financing activities (continued)

	Term Loans	Convertible loan note	Compound instruments	Total
	$'000	$'000	$'000	$'000
As at 1 January 2018	**6,995**	**5,439**	**15,030**	**27,464**
Finance expense and exchange movements	832	1,754	266	2,852
Warrants issued	(327)	-	-	(327)
Conversion to ordinary shares	-	(7,193)	(15,296)	(22,489)
Net cashflows	1,817	-	-	1,817
As at 31 December 2018	**9,317**	**-**	**-**	**9,317**

18. Cash used in operations

	2019 $'000	2018 $'000
Loss before income tax	**(23,507)**	(21,572)
Adjustments for:		
Share-based payments	**2,437**	647
Foreign exchange (gain)/loss	**57**	(910)
Finance expense	**1,488**	2,764
Finance income	**(432)**	(328)
Depreciation	**95**	-
Changes in working capital		
- (Increase) in other receivables	**(369)**	(199)
- (Decrease) / increase in trade and other payables	**(434)**	3,735
Cash used in operations	**(20,665)**	(15,863)

19. 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.

	2019 $'000	2018 $'000
Amount paid during the year	**121**	76
Amount outstanding at the year end		-

20. Commitments and contingencies

a) Commitments on expenditure

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

	2019 $'000	2018 $'000	2017 $'000
Inventory	**166**	211	-
Research and development expenditure	**230**	293	-
Total	**396**	504	-

b) Short-term lease commitments

Lease payments represent amounts payable by the Group for its office property held under short-term (< 1 year) leases. The future aggregate minimum lease payments under non–cancellable short-term operating leases at the balance sheet date were as follows:

	2019 $'000	**2018 $'000**	2017 $'000
Payments under operating leases which fall due:			
Within 1 year	28	**27**	18
Total	28	**27**	18

21. Related party disclosures

The Company's Chief Medical Officer, Gabriel Fox, is connected to a director of Comedica Ltd, which during the year provided consulting services to the Company. The cost of these services was $5,909 (31 December 2018: $28,680). The amount outstanding at the period end was $nil (31 December 2018: $3,712).

22. 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.

23. Changes in accounting policies

Change in presentation currency

Following the change in accounting policy in relation to presentation currency, the comparatives in the Group financial statements are represented in US Dollars using the procedures outlined below:

- Assets and liabilities were translated into US Dollars at closing rates of exchange. Trading results were translated into US Dollars at the rates of exchange prevailing at the dates of transaction or average rates where these are a suitable proxy. Differences resulting from the retranslation on the opening net assets and the results for the period have been taken to foreign currency translation reserve, a component within shareholders' equity.
- Share capital, share premiums and other reserves were translated at historic rates prevailing at the dates of transactions.
- All exchanges rates used were extracted from the Group's underlying financial records.

Foreign currency translation reserve was set to zero as of 1 January 2015, the transition date to IFRS. Cumulative currency translation adjustments are presented as if the Group had used US Dollars as the presentation currency of its Group financial statements since that date.

The exchange rates used were as follows:

GBP / USD	FY2018	HY2018	FY2017	FY2016	FY2015	FY2014
Average rate	1.336056	1.381137	1.287513	1.350331	1.58022	-
Closing rate	1.273723	1.320829	1.349164	1.234100	1.482140	1.556723

IFRS16 - Leases

As indicated in note 1 above, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 1.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.75%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

23. Changes in accounting policies (continued)

IFRS16 – Leases (continued)

(ii) Measurement of lease liabilities

	2019 $'000
Operating lease commitments disclosed at 31 December 2018	608
Less: (short-term leases not recognised as a liability)	(27)
	581
Discounted using the lessee's incremental borrowing rate at the date of initial application of 9.75%	448
Lease liability recognised at 1 January 2019	**448**

of which:

Current lease liabilities	113
Non-current lease liabilities	335
	448

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets: increased by $459,000
- Prepayments and other receivables: decreased by $168,000
- Lease liabilities – increased by $448,000
- Accruals – decreased by $143,000

The net impact on retained earnings on 1 January 2019 was a decrease of $14,000.

24. Post period events

On 10 January 2020, the Group entered into a strategic in-licensing, investment and loan transaction with Cosmo Pharmaceuticals N.V. Under the principal terms of the in-license agreement, Cosmo became eligible for:

- an upfront payment of €10 million to be satisfied through the issue of 4,646,841 new ordinary shares of 2p in the Company at €2.152 per share, being the 15-day volume weighted average share price up to 8 January 2020
- a €30 million payment upon US approval of Byfavo, consisting of €15 million payable in cash and €15 million payable new ordinary shares in the Company
- a €5 million payment upon first commercial sale of Byfavo in the US payable in new ordinary shares in the Company
- sales-related milestones of up to €105 million, payable in cash, upon achieving pre-specified annual sales targets, and
- tiered double-digit royalties on US sales.

Under the terms of the agreement, Cosmo has also made a strategic equity investment in the Company of €10 million by agreeing to subscribe for 4,347,826 new ordinary shares of 2p in the Company at a price of €2.30 per share, based on the closing price on 8 January 2020. Following this investment, together with the shares issued in respect of the licensing agreement, Cosmo own 8,994,667 ordinary shares of 2p in the Company, representing 14.08% of its enlarged share capital.

In addition, Cosmo has made available to the Group a new loan facility of up to €35 million, conditional on the achievement of certain specified milestones and in two tranches:

- €10 million became available on the US approval of BARHEMSYS, and
- €25 million will become available upon the US approval of Byfavo.

The loans will be interest-only until January 2023 and repayable over the ensuing 24 months. Until such time as the group's existing loan facility with Hercules Growth Capital is repaid in full, the Cosmo facility will be unsecured and bear interest at 11% per annum. Thereafter, the loan will be secured upon assets of the Group and bear interest at 9%.

Cosmo is entitled to appoint one Director to the Acacia Pharma Board of Directors.

The Group has determined that the agreement represents the acquisition of an asset, rather than a business. The Group has chosen to account for the acquisition of the license and contingent consideration under the cost-accumulation model available in IAS38 (Intangibles). As a result an intangible asset of €10m was recognised on conclusion of the deal, being the fair value of the equity instruments issued.

Company Financial Statements

Company Financial Statements for the year ended 31 December 2019

Statement of Financial Position as at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Fixed assets			
Investments	5	**109,494**	107,894
Total fixed assets		**109,494**	107,894
Current Assets			
Other receivables	6	**36,187**	37,556
Cash and cash equivalents		**17**	20
Total Current Assets		**36,204**	37,576
Total Assets		**145,698**	145,470
Equity and Liabilities			
Called-up Share capital	7	**1,098**	1,067
Share premium account		**54,967**	54,858
Profit and loss account		**86,527**	88,039
Share-based payments reserve		**2,881**	997
Total Equity		**145,473**	144,961
Liabilities			
Current liabilities			
Trade and other payables	8	**225**	509
		225	509
Total Equity and Liabilities		**145,698**	145,470

The loss of the Company attributable to the equity shareholders for the year was £1.5 million (2018: £4.5 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 91 to 96 form an integral part of these Financial Statements.

The Financial Statements on pages 89 to 96 were approved by the Board of Directors on 28 February and were signed on its behalf by:

Christine Soden
Director
28 February 2020

Company Financial Statements
Statement of Changes in Equity

For the year ended 31 December 2019

	Issued Share Capital £'000	Share Premium £'000	Share-based payment reserve £'000	Profit and Loss account £'000	Total Equity £'000
Balance at 1 January 2019	1,067	54,858	997	88,039	144,961
Comprehensive expense					
Total comprehensive expense for the year	-	-	-	(1,512)	(1,512)
Transactions with Owners					
Issue of ordinary shares	31	116	-	-	147
Costs of issue of ordinary shares	-	(7)	-	-	(7)
Capital contribution arising on share-based payments	-	-	1,600	-	1,600
Share-based payments charge	-	-	284	-	284
Balance at 31 December 2019	**1,098**	**54,967**	**2,881**	**86,527**	**145,473**

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**

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 2019.

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 group 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 group 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.

1. Summary of significant accounting policies (continued)

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 were 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.

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 18 months. However, there is no guarantee that attempts to raise additional financing will be successful.

The Company incurred a loss of £1.5 million in the year to 31 December 2019 (2018: £4.5 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.

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 were classified as equity.

1. Summary of significant accounting policies (continued)

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.

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 reporting date to allow for forecast leaving employees and the difference is charged or credited to profit or loss, 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 Profit and Loss account 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.

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 and receivables from its subsidiaries
The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the Company. These investments are carried in the books of the Company at cost less provisions for impairment. The carrying value at 31 December 2019 is £109,494,000 (2018: £107,894,000). The Company also holds a receivable from Acacia Pharma Limited of £36,187,000, for a combined interest in subsidiaries of £145,681,000. 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 marketing and sale of BARHEMSYS. As noted in the principal risks and uncertainties set out on pages 30 to 31, 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 (2018: £5,000).

3. Share Options and Share–based payments

For details of share-based payments please refer to note 7 to the group financial statements on pages 73 to 75.

4. Employee numbers

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

	2019 Number	2018 Number
Administration	**4**	4
	4	4

The only employees receiving remuneration in the year were Directors. Their remuneration is disclosed in the Directors' Remuneration report on pages 33 to 49. The share option charge in relation to Directors in the year was £284,000 (2018: £190,000)

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

	2019 £'000	2018 £'000
At beginning of year	**107,371**	107,338
Capital contribution	**143**	33
	107,514	107,371

Investment in Acacia Pharma Inc

	2019 £'000	2018 £'000
At beginning of year	**523**	-
Capital contribution	**1,457**	523
	1,980	523
Total investments	**109,494**	107,894

5. Investments (continued)

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 £143,000 (2018: £33,000) arose in respect of the share options granted over shares in the Company to employees of Acacia Pharma Limited, and charges of £1,457,000 (2018: £274,000) in respect of the share options granted over shares in the Company to employees of Acacia Pharma Inc.

6. Other receivables

	2019 £'000	2018 £'000
Amounts owed by Acacia Pharma Limited	**36,187**	37,556
	36,187	37,556

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 14 of the Group Financial Statements on page 80 to 81.

8. Trade and other payables

	2019 £'000	2018 £'000
Amounts owed to Group undertakings	**-**	-
Accruals and deferred income	**225**	509
	225	509

9. Financial instruments

Details of the Company's financial instruments are included in note 10 of the Group Financial Statements on pages 77 to 78.

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.

12. Post period events

On 10 January 2020, the Company entered into a strategic in-licensing, investment and loan transaction with Cosmo Pharmaceuticals N.V. Under the principal terms of the in-license agreement, Cosmo will be eligible for:

- an upfront payment of €10 million to be satisfied through the issue of 4,646,841 new ordinary shares of 2p in the Company at €2.152 per share, being the 15-day volume weighted average share price up to 8 January 2020
- a €30 million payment upon US approval of Byfavo, consisting of €15 million payable in cash and €15 million payable new ordinary shares in the Company
- a €5 million payment upon first commercial sale of Byfavo in the US payable in new ordinary shares in the Company
- sales-related milestones of up to €105 million, payable in cash, upon achieving pre-specified annual sales targets, and
- tiered double-digit royalties on US sales.

Under the terms of the agreement, Cosmo has also made a strategic equity investment in the Company of €10 million subscribing for 4,347,826 new ordinary shares of 2p in the Company at a price of €2.30 per share, based on the closing price on 8 January 2020. Following this investment, together with the shares issued in respect of the licensing agreement, Cosmo own 8,994,667 ordinary shares of 2p in the Company, representing 14.08% of its enlarged share capital.

In addition, Cosmo has made available to the Group a new loan facility of up to €35 million, conditional on the achievement of certain specified milestones and in two tranches:

- €10 million became available on the US approval of BARHEMSYS, and
- €25 million will become available upon the US approval of Byfavo.

The loans will be interest-only until January 2023 and repayable over the ensuing 24 months. Until such time as the Group's existing loan facility with Hercules Growth Capital is repaid in full, the Cosmo facility will be unsecured and bear interest at 11% per annum. Thereafter, the loan will be secured upon assets of the Group and bear interest at 9%.

Cosmo is entitled to appoint one director to the Acacia Pharma Board of Directors.

The Group has chosen to account for the acquisition of the license and contingent consideration under the cost-accumulation model available in IAS38 (Intangibles). As a result, an intangible asset of €10m was recognised in Acacia Pharma Limited on conclusion of the deal, being the fair value of the equity instruments issued, with a corresponding increase in the Company's investment in Acacia Pharma Limited and equity.