

For immediate release

9 September 2009

ALLIANCE PHARMA PLC
(“Alliance Pharma” or “Alliance” or “the Company”)

Interim results for the six months ended 30 June 2009

Alliance Pharma plc (AIM: APH), the speciality pharmaceutical company, is pleased to announce its interim results for the six months ended 30 June 2009.

Highlights in the year to date

- Half-year sales up 34% to £13.2m (H1 2008: £9.9m)
- Half-year operating profit up 45% to £4.1m (H1 2008: £2.8m)
- Half-year profit before tax up nearly three-fold to £2.9m (H1 2008: £1.0m)
- Adjusted earnings per share for the half year doubled to 1.28p (H1 2008: 0.63p)
- Maiden interim dividend of 0.07p per share, reflecting confidence in the future
- Reduction in net bank debt of £2.1m in the six months ended 30 June 2009
- Acquisition of Buccastem[®] and Timodine[®] in August 2009 for £7.5m, part-funded by successful £3.9m placing

Commenting on the results, Michael Gatenby, Alliance Pharma’s Chairman, said:

“We are delighted to announce another set of strong results and the commencement of dividends. We now have a business generating sufficient profitability and cash flow to support both steady debt reductions and growing dividend payments.

“Following the period end, we were delighted to announce the acquisition of Buccastem[®] and Timodine[®], which we expect to be significantly earnings enhancing in the first full year of our ownership. We are continuing to seek acquisition opportunities to further build our portfolio.”

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Chairman's and Chief Executive's Statement

Despite the economic conditions, 2009 promises to be a landmark year for Alliance Pharma. Pre-tax profit in the first half comfortably exceeded the result for the whole of last year – which was itself a record.

The largest single driver of growth was Deltacortril[®] / enteric coated prednisolone tablets, with sales growing substantially following production constraints in prior years. In addition, the rest of the portfolio as a whole performed strongly, increasing sales and profit.

We expect our performance in the second half to be strong – not least because in August we acquired two significant products, Buccastem[®] and Timodine[®], which complement our existing portfolio. The deal was funded by a combination of debt and an oversubscribed share placing, which represents an encouraging vote of confidence from lender and investors alike.

We share their confidence, and are delighted to announce the start of dividend payments – fulfilling the expectations we expressed in our last report.

Financial performance

Compared with the same period last year, sales in the first half of the year were up by 34% to £13.2m (H1 2008: £9.9m). This excellent performance was led by Deltacortril[®] and Nu-Seals[®].

Average gross margin rates continued to increase. This resulted mainly from product mix effects.

Operating costs have remained well controlled since the restructuring two years ago. Although there was a modest rise in the first half, this was largely due to our decision to increase marketing support for Hydromol[®] – our main promotional investment.

Finance costs fell by more than a third as continuing debt repayments and falling interest rates further reduced our interest payments. We also saw some benefit from exchange movements, as some of our loans are denominated in euros. To lock-in the lower interest rates that are now available, since late 2008 we have increased our interest rate hedging from 60% to 80% of total debt.

All these favourable developments combined to produce a sharp increase in pre-tax profit – up nearly three-fold to £2.9m (H1 2008: £1.0m).

During the period we were able to reduce debt by a further £2.1m and the bank debt/operating profit ratio improved sharply from 3.9 times at December 2008 to 3.0 times at June 2009. To fund the acquisition of Buccastem[®] and Timodine[®] in August we increased borrowing by £2m and drew a similar amount from internally generated cash; but we expect to cover these sums from cash flow during the year, so that net debt should not be significantly higher at the end of the year than at the start.

Dividend

Our decision to begin modest dividend payments reflects confidence that the strategy we have been pursuing since 2007 is delivering sustainable performance improvement and that our product portfolio can generate the cash flows required to support continued growth and investment. Strong cash generation and reducing debt should give the capacity to grow dividends.

We intend to pay around one third of the annual dividend at the interim stage and two thirds as a final dividend. We are recommending a maiden interim dividend of 0.07p per ordinary share.

The interim dividend will be payable on 15 January 2010 to shareholders on the register at 4 December 2009.

Trading

Strong product performances by Deltacortril[®] and Nu-Seals[®] were the main factors behind the 34% sales growth. Excluding these, the growth achieved by the rest of the portfolio was 7%. This was an encouraging performance, given that we selected the products in our portfolio for their ability to deliver steady, consistent sales with minimal marketing support. Typically, these products maintain modest sales growth because of a gradual increase in the number of patients requiring treatment.

The success of the Deltacortril[®] product results from improvements in production capacity. After we acquired the brand from Pfizer in 2006 (along with Atarax and Terracortril for a total of £1m), the contract manufacturer to whom we moved production was not initially able to manufacture the full volumes we required. Since then the manufacturer has been steadily increasing production capacity. Deltacortril[®] is one of the few products in our portfolio that face generic competition, so shortfalls in supply meant that it lost both sales and market share. As supply volumes have recovered, we have been regaining market share, but we expect the brand's recent rapid growth to begin levelling-off in the second half of the year. As reported in our AGM statement on 21 May 2009, we remain cautious that the prednisolone market may become more competitive over time.

The growth of Nu-Seals[®] sales in the first half results from continuing success in Ireland, its principal market, augmented by some favourable foreign exchange movements.

After very strong growth last year, sales of Hydromol[®] rose more modestly in the first half of 2009. Hydromol[®] competes in the emollient market for dry skin conditions such as eczema, in which it has about a 2% market share. This is a competitive and growing market in which sales are significantly affected by marketing investment, albeit with a distinct time lag. We have stepped up investment this year and expect to reap the benefit in the year ahead.

We continue to make progress in China, where sales of Forceval[®] advanced by a further 8%.

Sales in the first half of 2009 have also benefited from a £0.2m contribution from Pavacol-D[®], the sugar-free cough suppressant which we acquired in August 2008. The brand is now being promoted by the sales organisation Pharmexx, which is also working on the over-the-counter marketing of Forceval[®] and Hydromol[®].

Strategy

Our strategy of focusing on steady, cash-generative brands – supported by marketing investment and promotion only where this will clearly deliver strong returns – has delivered steadily improving sales and profits through the worst economic downturn in recent times.

The two brands we acquired in August match our strategy very well. Both have maintained stable sales despite minimal promotion over recent years. Buccastem[®] is a patent protected treatment for nausea and vomiting; Timodine[®] is a broad-spectrum antifungal and antibacterial skin cream that should benefit from synergy with our existing dermatology promotion. We have acquired worldwide rights from their previous owner, Reckitt Benckiser, and there is scope to grow both brands internationally, particularly into Ireland. Production of Buccastem[®] will remain with the existing contract manufacturer, and Reckitt Benckiser will continue to produce Timodine[®] for at least two years while production is transferred to a third-party manufacturer.

We continue to seek new acquisition opportunities. Current market conditions are favourable to buyers such as Alliance who are able to raise funds. We are helped by our increasing recognition in the industry, having completed 17 deals in the past eleven years involving total investment of £45m. Alliance is now seen as a significant player in this market.

Development projects

We are continuing to seek partners to help us take Isprelor[®] and Posidorm[®] through the last stages of development. In particular, we are finalising protocols and preparation for the additional Phase III trial work requested by the regulator to complete the approval of Isprelor[®] for induction of labour. As we are restricting our investment in development to very modest levels, we do not propose to continue trials of either product without third-party support.

People

Given the reduction in our development activity, our Medical Director, Dr Mark Tomlinson, decided to leave the business in July. We thank him for his contribution over his 2½ years with us.

At the start of the year we were pleased to welcome Thomas Casdagli as a non-executive director. Thomas is a partner in MVM Life Science Partners, which has become a significant investor in the business during the year. He is a biochemist as well as a Chartered Accountant and brings substantial experience in both financing and healthcare.

Charitable donations

As a successful business, we accept a responsibility to make a wider contribution to society. As announced last year, we have committed to donate products to International Health Partners, a charity that makes packs of commonly needed drugs for distribution to doctors in the world's neediest areas. We made our first donations of Deltacortril[®] and Alphadern[®] at the turn of the year and made another shipment in June as part of a £20,000 annual commitment.

Outlook

We believe the good progress we have made over the past two years is likely to be sustained in the second half of 2009. We are experiencing growth across a number of brands and we will have the benefit of the new products acquired in August.

Looking further ahead, the pace of growth within the existing portfolio is likely to moderate as the Deltacortril[®] competitive situation develops. We continue to seek new acquisition opportunities and there can be no doubt that Alliance has now established a successful formula for long-term growth, based on a proven and sustainable business model.

Consolidated Income Statement

For the six months ended 30 June 2009

	Note	6 months to 30 June 2009 £ 000s	6 months to 30 June 2008 £ 000s	Year to 31 December 2008 £ 000s
Revenue		13,226	9,898	21,757
Cost of sales		(6,188)	(4,726)	(10,612)
Gross profit		7,038	5,172	11,145
Operating expenses				
Administration and marketing expense		(2,969)	(2,358)	(4,740)
Share-based employee remuneration		(17)	(15)	(36)
		(2,986)	(2,373)	(4,776)
Operating profit		4,052	2,799	6,369
Finance costs				
Interest paid		(1,372)	(1,610)	(3,088)
Interest received		27	75	21
Other finance costs		178	(225)	(861)
Change in fair value of derivative financial instruments		-	(17)	(17)
		(1,167)	(1,777)	(3,945)
Profit on ordinary activities before taxation		2,885	1,022	2,424
Taxation	4	(808)	440	87
Profit for the period attributable to equity shareholders		2,077	1,462	2,511
Earnings per share				
Basic (pence)	7	1.28	0.90	1.55
Diluted (pence)	7	1.16	0.90	1.49

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

Note	6 months to 30 June 2009 £ 000s	6 months to 30 June 2008 £ 000s	Year to 31 December 2008 £ 000s
Profit for the period	2,077	1,462	2,511
Interest rate swaps – cash flow hedge	121	492	(835)
Deferred tax on interest rate swap	(34)	-	387
Other comprehensive income for the period, net of tax	2,164	1,954	2,063
Total comprehensive income for the period	2,164	1,954	2,063

Consolidated balance sheet
At 30 June 2009

	Note	30 June 2009 £ 000s	30 June 2008 £ 000s	31 December 2008 £ 000s
Assets				
Non-current assets				
Intangible fixed assets				
- Product licences		37,237	36,615	37,237
- Development costs		2,777	2,630	2,713
Property, plant and equipment		135	205	161
Deferred tax		70	-	70
		40,219	39,450	40,181
Current assets				
Inventories		2,298	2,563	2,265
Trade and other receivables	5	6,258	4,651	6,382
Cash and cash equivalents		203	106	4
		8,759	7,320	8,651
Total assets		48,978	46,770	48,832
Equity				
Ordinary share capital		1,621	1,621	1,621
Share premium account		11,275	11,275	11,275
Share option reserve		108	89	91
Reverse takeover reserve		(329)	(329)	(329)
Other reserve		(907)	(54)	(994)
Retained earnings		(822)	(3,948)	(2,899)
Total equity		10,946	8,654	8,765
Liabilities				
Non-current liabilities				
Long-term financial liabilities		19,038	20,901	20,487
Convertible debt		7,313	7,271	7,292
Other liabilities		81	503	100
Derivative financial instruments		870	41	1,012
Deferred tax liability		816	-	34
		28,118	28,716	28,925
Current liabilities				
Cash and cash equivalents		1,665	2,439	2,451
Financial liabilities		2,389	1,906	2,295
Corporation tax		241	-	178
Trade and other payables and provisions	6	5,229	5,042	5,849
Derivative financial instruments		390	13	369
		9,914	9,400	11,142
Total liabilities		38,032	38,116	40,067
Total equity and liabilities		48,978	46,770	48,832

Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	6 months to 30 June 2009 £ 000s	6 months to 30 June 2008 £ 000s	Year to 31 December 2008 £ 000s
Operating activities			
Result for the period before tax	2,885	1,022	2,424
Interest paid	1,372	1,610	3,088
Interest income	(27)	(75)	(21)
Other finance costs	(178)	225	861
Change in fair value of derivative financial instruments	-	17	17
Depreciation of property, plant and equipment	68	66	131
Change in inventories	(33)	(682)	(384)
Change in trade and other receivables	(45)	(212)	(1,768)
Change in trade and other payables	(513)	141	872
Profit on disposal of property, plant and equipment	-	(3)	-
Profit on disposal of intangible assets	-	-	(45)
Tax received	170	440	441
Share options charge	17	34	36
Cash flows from operating activities	3,716	2,583	5,652
Investing activities			
Interest received	27	75	21
Payment of deferred consideration	(20)	(20)	(420)
Development costs capitalised	(64)	(71)	(98)
Purchase of tangible assets	(42)	(14)	(38)
Proceeds from sales of property, plant and equipment	-	3	-
Proceeds from sale of intangible assets	-	-	45
Purchase of other intangible assets	-	(14)	(636)
Net cash used in investing activities	(99)	(41)	(1,126)
Financing activities			
Interest paid and similar charges	(1,478)	(1,582)	(3,036)
Net receipt from borrowings	-	-	400
Repayment of borrowings	(1,130)	(938)	(1,947)
Net cash used in financing activities	(2,608)	(2,520)	(4,583)
Net movement in cash and cash equivalents	1,009	22	(57)
Cash and cash equivalents at beginning of period	(2,447)	(2,390)	(2,390)
Exchange gains on cash and cash equivalents	(24)	35	-
Cash and cash equivalents at end of period	(1,462)	(2,333)	(2,447)

Consolidated Statement of Changes in Equity

At 30 June 2009

	Share capital £ 000s	Share premium £ 000s	Shares to be issued £ 000s	Reserves £ 000s	Other Reserve £ 000s	Retained earnings £ 000s	Total equity £ 000s
Balance 1 January 2008	1,621	11,275	55	(329)	(546)	(5,410)	6,666
Employee benefits	-	-	34	-	-	-	34
Transactions with owners	-	-	34	-	-	-	34
Profit for the period	-	-	-	-	-	1,462	1,462
Other comprehensive income							
Interest rate swaps – cash flow hedge	-	-	-	-	492	-	492
Total comprehensive income for the period	-	-	-	-	492	1,462	1,954
Balance 30 June 2008	1,621	11,275	89	(329)	(54)	(3,948)	8,654
Balance 1 January 2008	1,621	11,275	55	(329)	(546)	(5,410)	6,666
Employee benefits	-	-	36	-	-	-	36
Transactions with owners	-	-	36	-	-	-	36
Profit for the period	-	-	-	-	-	2,511	2,511
Other comprehensive income							
Interest rate swaps – cash flow hedge	-	-	-	-	(835)	-	(835)
Deferred tax on interest rate swap	-	-	-	-	387	-	387
Total comprehensive income for the period	-	-	-	-	(448)	2,511	2,063
Balance 31 December 2008	1,621	11,275	91	(329)	(994)	(2,899)	8,765
Balance 1 January 2009	1,621	11,275	91	(329)	(994)	(2,899)	8,765
Employee benefits	-	-	17	-	-	-	17
Transactions with owners	-	-	17	-	-	-	17
Profit for the period	-	-	-	-	-	2,077	2,077
Other comprehensive income							
Interest rate swaps – cash flow hedge	-	-	-	-	121	-	121
Deferred tax on interest rate swap	-	-	-	-	(34)	-	(34)
Total comprehensive income for the period	-	-	-	-	87	2,077	2,164
Balance 30 June 2009	1,621	11,275	108	(329)	(907)	(822)	10,946

Notes to the interim report

For the six months ended 30 June 2009

1 Nature of operations

Alliance Pharma plc ("the Company") and its subsidiaries (together "the Group") develop, market and distribute pharmaceutical products. The Company is a public limited company incorporated and domiciled in England. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB.

The Company is listed on the London Stock Exchange, Alternative Investment Market (AIM).

2 General information

The information in these financial statements does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for the period ended 31 December 2008, prepared under International Financial Reporting Standards, has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified.

The interim financial report for the six month period ended 30 June 2009 (including comparatives for the six months ended 30 June 2008) were approved by the Board of Directors on 8 September 2009.

3 Accounting policies

The same accounting policies and methods of computation are followed in the interim financial report as published by the company in its 31 December 2008 Annual Report except IAS 1 Presentation of Financial Statement (Revised 2007) has been adopted. This has resulted in the inclusion of a Statement of Comprehensive Income and formatting of the Consolidated Statement of Changes in Equity. The Annual report is available on the company's website at www.alliancepharma.co.uk.

4 Taxation

Analysis of charge in period.

	30 June 2009	30 June 2008	31 December 2008
	£ 000s	£ 000s	£ 000s
United Kingdom corporation tax at 28%			
In respect of current period	63	-	178
Adjustment in respect of prior periods	-	(440)	(616)
Current tax	63	(440)	(438)
Deferred tax	745	-	351
Taxation	808	(440)	(87)

5 Trade and other receivables

	30 June 2009	30 June 2008	31 December 2008
	£ 000s	£ 000s	£ 000s
Trade receivables	5,833	4,252	5,868
Amounts owed by joint venture	85	-	70
Other receivables	103	174	258
Prepayments and accrued income	237	225	186
	6,258	4,651	6,382

Notes to the interim report (continued)

For the six months ended 30 June 2009

6 Trade and other payables

	30 June 2009	30 June 2008	31 December 2008
	£ 000s	£ 000s	£ 000s
Trade payables	1,287	1,718	2,553
Other taxes and social security costs	815	450	653
Accruals and deferred income	2,584	2,400	2,223
Amount owed to Joint Venture	123	54	-
Other payables	420	420	420
	5,229	5,042	5,849

7 Earnings per share

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

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

	6 months to 30 June 2009	6 months to 30 June 2008	Year ended 31 December 2008
	Weighted average number of shares 000s	Weighted average number of shares 000s	Weighted average number of shares 000s
For basic earnings per share	162,062	162,062	162,062
Share options	725	-	-
Conversion of Convertible Unsecured Loan Stock (CULS)	35,714	-	35,714
For diluted earnings per share	198,501	162,062	197,776

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

	6 months to 30 June 2009	6 months to 30 June 2008	Year ended 31 December 2008
	£ 000s	£ 000s	£ 000s
Earnings for basic	2,077	1,462	2,511
Research and development tax credit	-	(440)	(616)
Earnings for adjusted EPS	2,077	1,022	1,895

	6 months to 30 June 2009	6 months to 30 June 2008	Year ended 31 December 2008
	£ 000s	£ 000s	£ 000s
Earnings for basic	2,077	1,462	2,511
Interest saving on conversion of CULS	300	-	600
Tax effect of interest saving on conversion of CULS	(84)	-	(168)
Earnings for diluted EPS	2,293	1,022	2,943

Notes to the interim report (continued)

For the six months ended 30 June 2009

7 Earnings per share (continued)

The resulting EPS measures are:

	6 months to 30 June 2009	6 months to 30 June 2008	Year ended 31 December 2008
	Pence	Pence	Pence
Basic earnings per share (pence)	1.28	0.90	1.55
Diluted earnings per share (pence)	1.16	0.90	1.49
Adjusted earnings per share (pence)	1.28	0.63	1.17

8 Post balance sheet events

On 24 August the Group acquired the worldwide rights to the Buccastem® and Timodine® brands from various subsidiaries of Reckitt Benckiser Group plc for a total consideration of £7.5m. In the year ended 31 December 2008, total sales of the two brands were £2.6m (of which £1.6m were sales of Buccastem® and £1.0m were sales of Timodine®) and the total gross margin of the two brands was £2.2m. The majority of the sales of both brands were within the United Kingdom. The acquisition is expected to significantly enhance earnings in the first full year of ownership.

The consideration was satisfied by £3.8m in cash and £3.7m by way of a vendor share placing by the Company. The Company raised a further £0.2m by way of a cash placing to settle the costs and expenses in relation to the vendor placing and acquisition. In total, 31,200,000 new ordinary shares of 1 pence each in the Company were issued at a price of 12.5 pence per share.

To fund the cash element of the acquisition, Lloyds Banking Group provided an additional £2m term loan and increased the existing £3m working capital facility to £5m.