Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Alliance Pharma plc Annual Report and Accounts 2022

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ALLIANCE PHARMA PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion:

- the financial statements of Alliance Pharma plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the company balance sheet;
- the consolidated statement of changes in equity;
- the company statement of changes in equity;
- the consolidated and company cash flow statements; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: › Valuation of the Amberen Cash Generating Unit ('CGU') › Recoverability of Trade Receivables for a significant distributor ('distributor')
Materiality	The materiality that we used for the Group financial statements was £1,500,000 which was determined on the basis of profit before tax adjusted for impairment.
Scoping	Our group scoping results in 82% of group revenues, 81% of group profit before tax, and 95% of group net assets being subject to full scope audit procedures.
Significant changes in approach	The valuation of the Amberen Cash Generating Unit; and the recoverability of trade receivables for a significant distributor are new key audit matters in the current year. In the prior year the key audit matters identified by the predecessor auditor included the impairment of brand assets. The predecessor auditor also identified the CMA infringement decision; the accounting treatment of costs related to cloud-based software arrangements; and the recoverability of parent company's investment in subsidiaries as additional key audit matters. We do not consider these to be key audit matters in the current year.

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- assessing the financing facilities available to the group, including the nature of available facilities, repayment terms and required covenants;
- assessing the assumptions and sensitivity scenarios used in the forecasts;
- assessing management's identified potential mitigating actions and the appropriateness of the inclusion of these in the going concern assessment;
- assessing the historical accuracy of forecasts prepared by management;
- testing the clerical accuracy and appropriateness of the model used to prepare the forecasts;
- reading analyst reports, industry data and other external information to determine if it provided corroborative or contradictory evidence in relation to assumptions used;
- evaluating the disclosures made within the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included 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 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.

5.1 Valuation of Amberen Cash Generating Unit ('CGU')

Key audit matter description	Brand intangible CGUs are valued at £282.2m and allocated goodwill is valued at £21.5m. The valuation of brand CGUs is dependent upon a number of estimates, including future growth forecasts, assumed margins, long term growth, working capital requirements and the selected discount rate. The Amberen brand CGU has a fair value of £105.4m, following an impairment recognised during the year of £12.0m in respect of allocated goodwill. Our key audit matter relates to the revenue growth and discount rate assumptions linked to the Amberen CGU, due to the significant sensitivities and judgement linked to each input, with reasonable possible changes leading to a material difference. Where budgeted growth rates are not achieved; or where interest rates continue to rise, further impairment may be required. Note 2.3 to the financial statements provides details of the key sources of estimation uncertainty in respect of intangible assets. Note 2.9 to the financial statements sets out the group's accounting policy for intangible assets acquired as part of a business combination (Brands, Patents and Distribution Rights), goodwill and impairment of assets; and outlines the key assumptions involved in the intangible asset impairment assessment. Note 11 to the financial statements outlines sensitivity analysis for reasonable possible changes in two key assumptions which could cause the carrying amount to exceed the recoverable amount.

Financial Statements

5. Key audit matters continued

5.1 Valuation of Amberen Cash Generating Unit ('CGU') continued

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over management's impairment assessment. We considered indicators of impairment including with reference to historical performance, external market data, and assessment of the group's future strategy and budgets. We challenged the revenue growth assumptions used in the cash flow forecasts through enquiries of the finance teams and commercial teams within the United States and the United Kingdom, as well as the directors of the company to understand the performance of the brand. We involved our valuations specialists to estimate an appropriate discount rate with reference to market data and compared that to the rate used by management. We tested the arithmetical accuracy of management's impairment models and checked these for consistency with approved forecasts. We assessed the accuracy of management's historical forecasts; and we evaluated the impact of these on the current year forecasts. We assessed sensitivities to calculations prepared by management for contradictory and confirmatory evidence, to determine the impact on headroom of reasonably possible changes in assumptions.
Key observations	Based on our work performed, we concur with management's assessment of the valuation of the Amberen brand CGU. We consider management's reasonable case sensitivity disclosures to be appropriate.

5.2 Recoverability of trade receivables for a significant distributor ('distributor')

Key audit matter description	A distribution agreement is held for the sale of cross-border e-commerce sales of the Kelo-Cote product to China. As at 31 December 2022, £12.1m of related trade receivables were outstanding, with extended credit terms provided to 31 March 2023. Cash receipts since the year end amount to £2.1m (received as an early settlement) with £10.0m outstanding but not overdue at the time of our report. We consider the recoverability of trade receivables of this distributor to be a key audit matter. There is a critical judgement made by management in the recoverability of the balance outstanding, given that this was made on extended credit terms to the distributor. In addition, the distributor's parent has irrevocably and unconditionally guaranteed to the group all of the distributor's obligations under the distribution agreement. Note 2.3 to the financial statements provides details of the critical accounting judgements in respect of the recoverability of trade receivables with the distributor. Note 2.13 to the financial statements sets out the group's accounting policy for trade receivables and note 15 to the financial statements discloses the ageing of trade receivables.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over trade receivables. We evaluated the contract and agreement in place with the distributor to assess the extended terms and to assess whether there are unusual terms. We obtained an independent confirmation from the distributor, regarding sales made in the financial period and the amount owing as at 31 December 2022. We inspected credit checks performed by management, together with available public records regarding the financial stability of the distributor and its parent as guarantor to the agreement. We obtained a breakdown of sales to the distributor in the year and reconciled the outstanding balance as at 31 December 2022 to the invoices raised and cash receipts in the year and post year-end. We assessed the disclosure of the recoverability of trade receivables of the distributor as a critical judgement.
Key observations	Based on our work performed, we concur with the group's assessment that the amount outstanding remains recoverable; and we consider the disclosure of this being a critical judgement as at 31 December 2022 and as at the date of reporting appropriate.

For more information visit
alliancepharmaceuticals.com

Financial Statements

6. Our application of materiality

6.1 Materiality

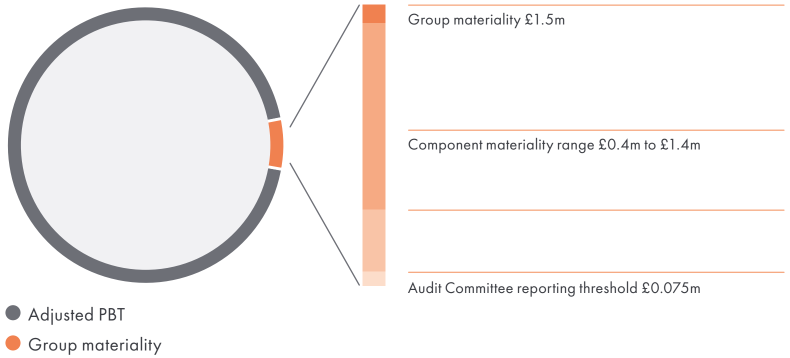
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Parent company financial statements
Materiality	£1,500,000 (2021: predecessor auditor £1,500,000)	£600,000 (2021: predecessor auditor: £900,000)
Basis for determining materiality	6.4% of profit before tax adjusted for impairment. Materiality equates to 0.9% of revenue. In the prior year, the predecessor auditor determined materiality which represented 4.7% of profit before tax, normalised to exclude the impairment of intangible assets and the CMA provision.	0.5% of net assets, capped at 40% of group materiality. In the prior year, the predecessor auditor determined materiality based on 0.5% of total assets.
Rationale for the benchmark applied	Adjusted profit before tax is a key metric for the principal users of the financial statements as it derives the prediction of future share price, the ability to pay dividends, and is therefore of particular importance to both shareholders and potential investors. Impairment of non-current assets are also excluded for banking covenant calculations.	The company is non-trading and operates primarily as a holding company. As such, we believe the net asset position is the most appropriate benchmark to use.

Profit before tax adjusted for impairment
£23.4m (2021: £32.2m)

Group materiality
£1.5m (2020: £1.5m)



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% of group materiality (2021: predecessor auditor: 75% of group materiality)	70% of parent company materiality (2021: predecessor auditor: 75% of parent company materiality)
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: › Our understanding of the group and its environment, together with changes in the business. › The overall quality of the control environment. › The nature, size and number of uncorrected misstatements identified in the prior year by the predecessor auditor.	

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

6. Our application of materiality continued

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £75,000 (2021: £75,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our audit scoping considered the significance of each component, including the nature of the group and its environment and an assessment of the risks of material misstatement across the group.

Full scope audit procedures have been completed for the following components:

- Alliance Pharma plc;
- Alliance Pharmaceuticals Limited; and
- Alliance Pharma, Inc.

A combination of specified balances and analytical procedures at a group level has been completed for the remaining components of the group.

Our group scoping, as defined as scope A below, results in 82% of group revenues, 81% of group profit before tax, and 95% of group net assets being subject to full scope audit procedures.

All of these procedures were performed by the group engagement team in the United Kingdom.

Financial Statements

7. An overview of the scope of our audit continued

7.2 Our consideration of the control environment

The group operates a diverse IT infrastructure. With the involvement of our IT specialists, we obtained an understanding of the relevant IT environment and assessed the design and implementation of key general IT controls.

For all in scope components we obtained an understanding of the relevant controls associated with the financial reporting process, key audit matters, accounting estimates and revenue recognition. We did not plan to rely on controls in any areas of the audit and instead adopted a fully substantive approach. This is due to the group being in the process of updating their controls and processes, specifically to improve documentary evidence of the operation of controls.

7.3 Our consideration of climate-related risks

The group has assessed that climate did not have a material impact on the Group's carrying value of assets and liabilities at the balance sheet date.

We assessed the climate related risk of material misstatement and concur with management's assessment. With support from our climate specialists we read the related narrative in the annual report to consider whether it is materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's 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 auditor's 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 auditor's report.

Financial Statements

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, the directors and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance, including the UK's Competition and Market Authority's infringement decision, as described within the financial review section of the annual report and note 20 of the financial statements;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team including tax, valuations, impairment, IT and forensic specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- Valuation of Amberen Cash Generating Unit
- Revenue recognised, for a significant distributor
- Recoverability of trade receivables, with a significant distributor

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the AIM rules, UK Companies Act, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. This includes the group's ability to obtain relevant approvals for the sale of products.

Financial Statements

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of Amberen Cash Generating Unit and the recoverability of trade receivables, with a significant distributor as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house/external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, and reviewing correspondence with HMRC;
- engaging with fraud specialists to consider the risk of fraud within the group and to establish appropriate and suitable substantive audit procedures;
- in relation to the potential fraud risk in revenue, we obtained a confirmation letter from the significant distributor confirming value of goods purchased in the 12 months ended 31 December 2022; obtained a breakdown of sales to the distributor in the year and traced these through to signed delivery notes and cash receipts in the year and post year-end; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Wright

Andrew Wright, FCA

(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom

21 March 2023

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

CONSOLIDATED INCOME STATEMENT

	Note	**Year ended 31 December 2022** Underlying £000s	Non-underlying £000s (Note 5)	Total £000s	Year ended 31 December 2021 Underlying £000s	Non-underlying £000s (Note 5)	Total £000s
Revenue	3,31	**167,416**	**–**	**167,416**	163,207	–	163,207
Cost of sales		**(65,733)**	**–**	**(65,733)**	(53,757)	–	(53,757)
Gross profit		**101,683**	**–**	**101,683**	109,450	–	109,450
Operating expenses							
Administration and marketing expenses	5	**(63,955)**	**369**	**(63,586)**	(60,202)	(2,843)	(63,045)
Amortisation of intangible assets	5, 11	**(1,964)**	**(7,238)**	**(9,202)**	(1,362)	(7,168)	(8,530)
Impairment of goodwill and intangible assets	5	**–**	**(18,234)**	**(18,234)**	–	(6,150)	(6,150)
CMA provision	20	**–**	**–**	**–**	–	(7,900)	(7,900)
Share-based employee remuneration	7, 24	**(92)**	**–**	**(92)**	(2,250)	–	(2,250)
Operating profit		**35,672**	**(25,103)**	**10,569**	45,636	(24,061)	21,575
Finance costs							
Interest payable and similar charges	6	**(5,433)**	**–**	**(5,433)**	(3,646)	–	(3,646)
Finance income	6	**72**	**–**	**72**	228	–	228
		(5,361)	**–**	**(5,361)**	(3,418)	–	(3,418)
Profit before taxation	4	**30,311**	**(25,103)**	**5,208**	42,218	(24,061)	18,157
Taxation	8	**(7,234)**	**2,962**	**(4,272)**	(8,033)	(2,805)	(10,838)
Profit for the period attributable to equity shareholders		**23,077**	**(22,141)**	**936**	34,185	(26,866)	7,319
Earnings per share							
Basic (pence)	10	**4.28**		**0.17**	6.39		1.37
Diluted (pence)	10	**4.23**		**0.17**	6.30		1.35

All of the activities of the Group are classed as continuing.

The accompanying accounting policies and notes form an integral part of these financial statements.

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Profit for the year	**936**	7,319
Other comprehensive income		
Items that may be reclassified to profit or loss		
Foreign exchange translation differences (gross)	**16,438**	586
Foreign exchange translation differences (deferred tax)	**(3,589)**	50
Foreign exchange forward contracts – cash flow hedge (gross)	**111**	(255)
Foreign exchange forward contracts – cash flow hedge (deferred tax)	**(28)**	64
Total comprehensive income for the year	**13,868**	7,764

Financial Statements

CONSOLIDATED BALANCE SHEET

	Note	**31 December 2022 £000s**	31 December 2021 £000s
Assets			
Non-current assets			
Goodwill and intangible assets	11	**421,630**	413,744
Property, plant and equipment	12	**5,578**	4,826
Deferred tax asset	22	**4,117**	3,526
Derivative financial instruments	21	**17**	–
Other non-current assets		**588**	371
		431,930	422,467
Current assets			
Inventories	14	**24,286**	21,075
Trade and other receivables	15	**49,324**	30,821
Derivative financial instruments	21	**157**	64
Cash and cash equivalents	16	**31,714**	29,061
		105,481	81,021
Total assets		**537,411**	503,488
Equity			
Ordinary share capital	23	**5,400**	5,382
Share premium account		**151,650**	151,328
Share option reserve		**10,141**	10,058
Other reserve		**(329)**	(329)
Cash flow hedging reserve		**131**	48
Translation reserve		**12,430**	(419)
Retained earnings		**108,238**	116,418

	Note	**31 December 2022 £000s**	31 December 2021 £000s
Total equity		**287,661**	282,486
Liabilities			
Non-current liabilities			
Loans and borrowings	18	**133,744**	116,060
Other liabilities	19	**3,415**	2,637
Deferred tax liability	22	**65,569**	61,728
		202,728	180,425
Current liabilities			
Corporation tax		**2,984**	1,178
Trade and other payables	17	**35,616**	29,930
Provisions	20	**8,422**	9,469
		47,022	40,577
Total liabilities		**249,750**	221,002
Total equity and liabilities		**537,411**	503,488

The financial statements were approved by the Board of Directors on 20 March 2023.

Peter Butterfield
Director

Andrew Franklin
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Company number 04241478

Financial Statements

COMPANY BALANCE SHEET

	Note	**31 December 2022 £000s**	31 December 2021 £000s
Assets			
Non-current assets			
Investment and loans to subsidiaries	13	**197,253**	199,348
Current assets			
Trade and other receivables	15	**93**	39
Cash and cash equivalents	16	**50**	141
		143	180
Total assets		**197,396**	199,528
Equity			
Ordinary share capital	23	**5,400**	5,382
Share premium account		**151,650**	151,328
Share option reserve		**10,214**	8,962
Retained earnings		**29,377**	33,064
Total equity		**196,641**	198,736
Liabilities			
Current liabilities			
Trade and other payables	17	**755**	368
Corporation tax		**–**	424
Total liabilities		**755**	792
Total equity and liabilities		**197,396**	199,528

The Company's profit for the year was £5,429,000 (2021: £6,756,000).

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

The financial statements were approved by the Board of Directors on 20 March 2023.

Peter Butterfield
Director

Andrew Franklin
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Company number 04241478

For more information visit
alliancepharmaceuticals.com

ALLIANCE

For more information visit
alliancepharmaceuticals.com

ALLIANCE

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £000s	Share premium account £000s	Other reserve £000s	Cash flow hedging reserve £000s	Translation reserve £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2021	5,329	150,645	(329)	239	(1,055)	8,426	117,703	280,958
Issue of shares	53	683	–	–	–	–	–	736
Dividend paid	–	–	–	–	–	–	(8,604)	(8,604)
Share options charge (including deferred tax)	–	–	–	–	–	1,632	–	1,632
Transactions with owners	53	683	–	–	–	1,632	(8,604)	(6,236)
Profit for the year	–	–	–	–	–	–	7,319	7,319
Other comprehensive income								
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	–	–	–	(191)	–	–	–	(191)
Foreign exchange translation differences (net of deferred tax)	–	–	–	–	636	–	–	636
Total comprehensive income for the year	–	–	–	(191)	636	–	7,319	7,764
Balance - 31 December 2021	5,382	151,328	(329)	48	(419)	10,058	116,418	282,486
Balance 1 January 2022	**5,382**	**151,328**	**(329)**	**48**	**(419)**	**10,058**	**116,418**	**282,486**
Issue of shares	**18**	**322**	**–**	**–**	**–**	**–**	**–**	**340**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(9,116)**	**(9,116)**
Share options charge (including deferred tax)	**–**	**–**	**–**	**–**	**–**	**83**	**–**	**83**
Transactions with owners	**18**	**322**	**–**	**–**	**–**	**83**	**(9,116)**	**(8,693)**
Profit for the year	**–**	**–**	**–**	**–**	**–**		**936**	**936**
Other comprehensive income								
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	**–**	**–**	**–**	**83**	**–**	**–**	**–**	**83**
Foreign exchange translation differences (net of deferred tax)	**–**	**–**	**–**	**–**	**12,849**	**–**	**–**	**12,849**
Total comprehensive income for the year	**–**	**–**	**–**	**83**	**12,849**	**–**	**936**	**13,868**
Balance - 31 December 2022	**5,400**	**151,650**	**(329)**	**131**	**12,430**	**10,141**	**108,238**	**287,661**

COMPANY STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £000s	Share premium account £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2021	5,329	150,645	7,955	34,912	198,841
Issue of shares	53	683	–	–	736
Dividend paid	–	–	–	(8,604)	(8,604)
Share options charge (including deferred tax)	–	–	1,007	–	1,007
Transactions with owners	53	683	1,007	(8,604)	(6,862)
Profit for the period and total comprehensive income	–	–	–	6,756	6,756
Balance 31 December 2021	5,382	151,328	8,962	33,064	198,736
Balance 1 January 2022	**5,382**	**151,328**	**8,962**	**33,064**	**198,736**
Issue of shares	**18**	**322**	**–**	**–**	**340**
Dividend paid	**–**	**–**	**–**	**(9,116)**	**(9,116)**
Share options charge (including deferred tax)	**–**	**–**	**1,252**	**–**	**1,252**
Transactions with owners	**18**	**322**	**1,252**	**(9,116)**	**(7,524)**
Profit for the period and total comprehensive income	**–**	**–**	**–**	**5,429**	**5,429**
Balance 31 December 2022	**5,400**	**151,650**	**10,214**	**29,377**	**196,641**

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

	Note	Group		Company	
		Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s	**Year ended 31 December 2022 £000s**	Year ended 31 December 2021 £000s
Cash flows from operating activities					
Cash generated from operations	25	**24,929**	44,919	**(1,385)**	(961)
Tax paid		**(3,957)**	(6,260)	**–**	–
Cash flows from/(used in) operating activities		**20,972**	38,659	**(1,385)**	(961)
Investing activities					
Dividend received		**–**	–	**–**	2,600
Acquisitions	11	**(16,618)**	183	**–**	–
Purchase of intangible assets	11	**(249)**	(4,006)	**–**	–
Purchase of property, plant and equipment	12	**(358)**	(1,526)	**–**	–
Proceeds from reimbursement of property costs	12	**200**	–	**–**	–
Contribution from subsidiary	13	**–**	–	**10,069**	6,073
Proceeds from disposal of intangibles		**–**	750	**–**	–
Net cash (used in)/from investing activities		**(17,025)**	(4,599)	**10,069**	8,673
Financing activities					
Interest paid and similar charges		**(4,804)**	(2,965)	**–**	–
Capital lease payments		**(961)**	(924)	**–**	–
Proceeds from exercise of share options		**341**	736	**341**	736
Dividend paid	9	**(9,116)**	(8,604)	**(9,116)**	(8,604)
Proceeds from borrowings	21	**14,925**	–	**–**	–
Repayment of borrowings	21	**(1,261)**	(22,587)	**–**	–
Net cash provided by/(used in) financing activities		**(876)**	(34,344)	**(8,775)**	(7,868)
Net movement in cash and cash equivalents		**3,071**	(284)	**(91)**	(156)
Cash and cash equivalents at 1 January		**29,061**	28,898	**141**	297
Exchange (gains)/losses on cash and cash equivalents		**(418)**	447	**–**	–
Cash and cash equivalents at 31 December	16	**31,714**	29,061	**50**	141

In the Company cash flow statement, the 'contribution from subsidiary' cash flows have been reclassified from financing activities to investing activities. This reclassification has been made for both the year ended 31 December 2022 and the year ended 31 December 2021. In addition, no tax was paid by the Company in the year ended 31 December 2021 and as such, the 'tax paid' cash flows of £1.5m, which did not reflect a cash outflow, have been removed from the cash flow statement. The corresponding non-cash movement was included within 'contribution from subsidiary' which has also been reduced by the same amount.

The accompanying accounting policies and notes form an integral part of these financial statements.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

1. General information

Alliance Pharma plc ('the Company') and its subsidiaries (together 'the Group') acquire, market and distribute consumer healthcare products and prescription medicines. The Company is a public limited company, limited by shares, registered, incorporated and domiciled in England and Wales in the UK. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB. The Company is listed on the AIM stock exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2023.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ('UK-adopted IFRS').

The financial statements have been prepared under the historical cost convention, with the exception of derivatives which are included at fair value.

A number of amended standards became applicable for the current reporting period. The application of these amendments has not had any material impact on the disclosures, net assets or results of the Group.

2.2 Consolidation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as 'the Group') and equity account the Group's interest in joint ventures. The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint ventures

An entity is treated as a joint venture where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint ventures are accounted for using the equity method ('equity accounted investees') and are initially recognised at cost. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

2.3 Judgements and estimates

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

The estimates and underlying assumptions are reviewed by the Directors on an ongoing basis.

Judgements

The following are the critical judgements, apart from those involving estimates (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the Group's financial statements.

These are as follows:

› Recoverability of trade receivables with a significant distributor.
› Assessment of cloud-based software costs in relation to the Group's cloud hosted ERP system.
› Identification and presentation of non-underlying items (note 5).
› Assessment of the Infringement Decision announced by the UK's Competition and Markets Authority ('CMA') (note 20).

Recoverability of trade receivables with a significant distributor

As at 31 December 2022, £12.1m of related trade receivables were outstanding with a significant distributor, with extended credit terms provided to 31 March 2023.

For more information visit
alliancepharmaceuticals.com

2. Summary of significant accounting policies continued

2.3 Judgements and estimates continued

Cash receipts since the year end amount to £2.1m (received as an early settlement) with £10.0m outstanding but not overdue at the date of this report.

The recoverability of the balance outstanding is considered a critical judgement, given the size of the balance. The distributor has no history of bad debt, and the distributor's parent has irrevocably and unconditionally guaranteed to the Group all of the distributor's obligations under the distribution agreement. Having considered these factors, the Group concludes that the amount outstanding remains recoverable.

Intangible assets – cloud-based software costs

The determination of whether a cloud-based software arrangement represents a pure Software as a Service solution, or a right to take possession of, and to use, the software requires judgement.

In the year ended 31 December 2021, in light of the IFRIC agenda decision regarding cloud-based software, the Group reviewed its service agreements in respect of its cloud-based ERP system and considered several factors to conclude on the appropriate accounting treatment. These factors include the nature and key terms of licence arrangements, ownership of intellectual property rights, ability to restrict access to systems and the feasibility of removing software applications from the cloud environment and running them within the Group's own IT environment instead, taking into account the associated costs and potential change in functionality.

Having considered these factors the Group concluded that it does have substantive control over the ERP system and has therefore recognised it as an intangible asset in line with the guidance under IAS 38. In the prior year, had the Group concluded that it does not have control, a proportion of the costs would have been expensed in the Income Statement.

Identification and presentation of non-underlying items

In 2020 the Group updated its classification policy for non-underlying items (note 5). Following the update all amortisation and impairment charges for acquired intangible assets are included as non-underlying items, in line with the majority of peer companies of the Group. Significant restructuring costs (for example, relating to office or business closures), the CMA provision and the revaluation of deferred tax balances following substantial tax legislation changes are also included as non-underlying items.

The Directors believe that this classification of underlying and non-underlying items, when considered together with total statutory results, provides investors, analysts and other stakeholders with helpful complementary information to understand better the financial performance and position of the Group from period to period, and allows the Group's performance to be more easily compared against the majority of its peer companies. These measures are also used by management for planning and reporting purposes. They may not be directly comparable with similarly described measures used by other companies.

Estimates

IAS 1 requires the disclosure of assumptions and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Directors consider these estimates to be as follows:

› Key assumptions used in discounted cash flow projections for impairment testing of certain intangible assets (note 11).
› Determination of the useful economic lives for the intangible brand and distribution rights assets (note 11).

2.4 Revenue recognition

Identification of performance obligations

Revenue comprises consideration received or receivable for the sale of goods in the ordinary course of the Group's activities, namely the distribution of pharmaceutical products. The Group has assessed the performance obligations as being each unit of good sold by the Group.

The Group receives royalties in relation to certain agreements with distributors in exchange for the licensed use of intellectual property and trademarks owned by the Group, which are generally based on sales volumes. The Group also receives product margin generated by third parties on its behalf under certain transitional arrangements. The Group has assessed the performance obligations as being each unit of good sold by the third parties.

Transaction price

The transaction price for each performance obligation comprises the stand-alone selling price for the product excluding value-added tax and net of rebates and discounts. Intra-Group sales are eliminated in the consolidated financial statements.

Royalty income and the deductions relating to rebates and discounts are based on the Group's contractual obligations. Certain of the rebate arrangements also include elements of variable consideration. The Group does not consider these elements to be significant; however, an estimate of variable consideration is included where appropriate. The IFRS 15 exemption from estimating variable consideration has been applied to the Group's sales-based royalties.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

2. Summary of significant accounting policies continued

2.4 Revenue recognition continued

The Group has considered whether it is an 'agent' or 'principal' under IFRS 15 for each commercial arrangement and accounted for these accordingly. The Group is considered the 'principal' for all key commercial relationships relating to sale of goods, except the relationship with certain supply partners as described in full under 'Specific revenue streams'. This is because the Group controls each specified good before transfer to customers.

Where consideration is payable to a customer, this is evaluated by the Group to determine whether the amount represents a reduction of the transaction price, a payment for distinct goods or services or a combination of the two. The fair value of the good or service is also evaluated to assess whether the payment should be accounted for as a payment to suppliers or a reduction in transaction price.

Timing of recognition

Under IFRS 15 an entity recognises revenue when it satisfies a performance obligation by transferring a good to a customer. An entity transfers a good to a customer when the customer obtains control of that good. Control may be transferred either at a point in time or over time. For the Group, revenue is recognised at a point in time when customers have control of the sold goods, or on an appropriate basis where royalty or other arrangements are in place with third parties. To determine the point in time control is transferred for sale of goods the Group considers all relevant indicators. Revenue is recognised net of a provision for the expected level of returns.

Specific revenue streams

The Group has the following recognition policies for different commercial arrangements:

(i) Pharmaceutical product sales – ex-works terms: Recognition at a point in time when each unit of pharmaceutical product is available to the customer for collection. At this point in time the customer has an obligation to pay for the goods, legal title and significant risks and rewards of ownership.

(ii) Pharmaceutical product sales – delivery terms and delivery at place: Recognition at a point in time when each unit of pharmaceutical product is delivered to the customer or reaches the designated place. At this point in time the customer has an obligation to pay for the goods, legal title and significant risks and rewards of ownership. This revenue recognition policy covers the cross border e-commerce stream as referred to in the Strategic Report.

(iii) Pharmaceutical product royalties receivable: Recognition at a point in time when the third party makes pharmaceutical product sales subject to a royalty agreement with the Group.

(iv) Pharmaceutical product rebates, discounts and payments to customers: Recognition as a deduction from revenue when the third party makes pharmaceutical product sales subject to a rebate agreement with the Group or when sales are made in the scope of the VPAS Voluntary Scheme.

VPAS applies to branded, licensed medicines which are available on NHS prescription. Under the scheme, a fixed percentage of measured sales is due to the Department of Health and Social Care and the rebate is calculated and paid on a quarterly basis. For medium-sized companies, the VPAS scheme includes an exemption where total measured sales are less than £5.0m per year. As the Group's total measured sales in 2022 were under this threshold, the Group was exempt from any VPAS payments and, as a result, no amounts were deducted from revenue (2021: no deduction).

For transactions with variable consideration, such as coupons, this is recognised at the point of sale to the customer.

Payments to customers are accounted for as a reduction of revenue unless they are linked to a distinct service, in which case they are classified as an operating expense.

(v) Pharmaceutical product transitional agreements: Recognition of a point in time when the third party makes pharmaceutical product sales subject to a transitional agreement with the Group.

The amounts recognised in statutory revenue represent the product margin generated by the third party on behalf of the Group. Related transitional agreement fees are recognised within administrative expenses.

This is relevant to Nizoral™ (note 31) where the Group has transitional agreements with certain supply partners. Under the terms of the agreements, the Group receives the benefit of the net profit on sales of Nizoral™ from the date of acquisition up until the product licences in the Asia-Pacific territories transfer to Alliance. The Group has determined it is an 'agent' in these relationships as it does not control the sale of goods to third party customers.

The Group does not consider that judgements made in evaluating when customers obtain control of a promised good have significantly influenced the timing of revenue recognition in the year.

Financial Statements

2. Summary of significant accounting policies continued

2.5 Foreign currency

The consolidated financial statements are presented in Sterling, which is the presentational currency of the Group and the functional currency of the Company. Foreign currency transactions by Group companies are booked at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into Sterling at the rate of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Income Statement, except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from translation of foreign operations are reported in other comprehensive income and accumulated in the translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are reported in other comprehensive income and accumulated in the translation reserve, to the extent that the hedge is effective.

2.6 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Chief Operating Decision Maker ('CODM'). The Group's Board of Directors ('the Board') is the Group's Chief Operating Decision Maker, as defined by IFRS 8, and all significant operating decisions are taken by the Board.

2.7 Property, plant and equipment

Computer equipment, fixtures, fittings and equipment, plant and machinery and motor vehicles are stated at the cost of purchase less any provisions for depreciation and impairment. Depreciation of an asset starts when the asset is available for use. The rates generally applicable are:

Computer equipment
20% – 33.3% per annum, straight line

Fixtures, fittings and equipment
20% – 25% per annum, straight line

Plant and machinery
20% – 25% per annum, straight line

2.8 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the Group's incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

2.9 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units ('CGUs') and is not amortised but is tested annually for impairment.

Acquired intangible assets

(i) Brands

Separately acquired brands are shown at cost less accumulated amortisation and impairment. Brands acquired as part of a business combination are recognised at fair value at the acquisition date, where they are separately identifiable. Brands are amortised over their useful economic life, except when their life is determined as being indefinite.

Applying indefinite lives to certain acquired brands is appropriate due to the stable long-term nature of the business and the enduring nature of the brands. Indefinite life brands are tested at least annually for impairment.

A review of the useful economic life of brands is performed annually, to ensure that these lives are still appropriate. If a brand is considered to have a finite life, its carrying value is amortised over that period.

2. Summary of significant accounting policies
continued

2.9 Intangible assets and goodwill continued

(ii) Patents

Where an acquired intangible asset includes a definite period of patent protection and the value attributed to the patent is considered material, the Group has accounted for the value of the patent separate to the underlying brand. The patent is amortised over the period to patent expiry.

(iii) Distribution rights

Payments made in respect of product registration and distribution rights are capitalised where the rights comply with the above requirements for recognition of acquired brands. If the registration or distribution rights are for a defined time period, the intangible asset is amortised over that period. If no time period is defined, the intangible asset is treated in the same way as acquired brands with an indefinite life. If the licence period can be extended the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the entity without disproportionate cost.

(iv) Computer software

Computer software comprises software purchased from third parties as well as the cost of internally developed software. Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and are probable of producing future economic benefits, are recognised as intangible assets. Direct costs of software development include employee costs and directly attributable overheads. Software integral to an item of hardware equipment is classified as property, plant and equipment. Costs associated with maintaining software programs are recognised as an expense when they are incurred. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful life from the date the software is available for use, generally eight years.

Development costs

Research expenditure is charged to the Income Statement in the period in which it is incurred. Development expenditure is capitalised when it can be reliably measured and the project it is attributable to is separately identifiable, technically feasible, demonstrates future economic benefit, and will be used or sold by the Group once completed.

The capitalised cost is amortised over the period during which the Group is expected to benefit and begins when the asset is ready for use.

Development costs are reviewed at least annually for impairment by assessing the recoverable amount of each cash-generating unit, to which the development costs relate.

The recoverable amount is the higher of fair value less costs to sell and value in use. Development costs not meeting the recognition criteria are expensed as incurred.

Impairment

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. For intangible assets with an indefinite life, assets with a finite life that show indicators of impairment, and goodwill this includes estimation of the recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'). The Directors have determined that the cash-generating units are at product-group level.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ('CGU'). For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial Statements

2. Summary of significant accounting policies
continued

2.10 Inventories

Inventories are included at the lower of cost, less any provision for impairment, or net realisable value. Inventory cost for the Group is determined on a first-in-first-out basis. Inventory provisions have been made for slow-moving and obsolete stock. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

2.11 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investment and loans to subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.12 Derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss unless designated as cash flow hedges.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the cash flow hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cash flow hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the cash flow hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Translation risk

Exchange differences arising from the translation of the net investment in foreign operations are reported in other comprehensive income and accumulated in the translation reserve. Gains and losses on those hedging instruments designated as hedges of the net investment in foreign operations, are recognised to the extent that the hedging relationship is effective; these amounts are included in exchange differences on translation of foreign operations as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the Income Statement for the period. Gains and losses accumulated in the translation reserve are reclassified to the Income Statement when the foreign investment is disposed of. Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Summary of significant accounting policies
continued

2.13 Non-derivative financial instruments

Modifications of financial instruments (including loans and borrowings) are reviewed quantitatively and qualitatively to determine if the modification is 'substantial'. Substantial modification of a financial liability results in derecognition of the original balance, and recognition of a new financial liability at fair value. The difference between the carrying amount of the original financial liability and the fair value of the new financial liability is charged to the Income Statement. A non-substantial modification of financial liability does not result in the derecognition of the original balance, however it may also result in a gain or loss recognised in the income statement.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Group's trade receivables are subject to the IFRS 9 expected credit loss model. The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance based on historic default rates. The expected credit loss rate varies depending on whether and the extent to which settlement of the trade receivables is overdue.

Accrued income represents amounts owed unconditionally to the Group which have not been invoiced at the year end. For these assets, only the passage of time is required before payment becomes due.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement. Dividends and interest received are included in investing activities. Dividends and interest paid are included in financing activities.

Investments in debt and equity securities

The Company's investment and loans to subsidiaries is stated at amortised cost less impairment.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

2.14 Employee benefits – Share-based payment transactions

Employees (including Executive Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ('equity-settled transactions') or entitlement to a future cash payment ('cash-settled transactions'), the amount of which is determined with reference to the Company's share price.

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations. The cost of equity-settled transactions is fully recharged to subsidiaries.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Income Statement.

The cost of equity-settled transactions is recognised, along with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cost of cash-settled transactions is recognised, along with a provision for expected cash settlement, over the vesting period.

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of management, will ultimately vest. Management's estimates are based on the best available information at that date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Financial Statements

2. Summary of significant accounting policies
continued

2.15 Equity

The provision of shares to satisfy certain of the Group's share option schemes can be facilitated by purchases of own shares by the Group's Employee Benefit Trust. The costs of operating the Trust is borne by the Group but is not material. To date, no shares have been purchased by the Trust for satisfaction of outstanding or future share option awards.

The Employee Benefit Trust is considered to be controlled by the Group. The activities of the Trust are conducted on behalf of the Group according to its specific business needs in order to obtain benefits from its operation and, on this basis, the assets held by the Trust are consolidated into the Group's financial statements.

'Share capital' represents the nominal value of equity shares.

'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

'Share option reserve' represents equity-settled share-based employee remuneration.

'Retained earnings' represents retained profit.

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

'Cash flow hedging reserve' represents the fair value of derivative financial instruments at the balance sheet date that are designated as cash flow hedges, net of deferred tax, less amounts reclassified through other comprehensive income.

'Translation reserve' represents gains and losses arising on translation of the net assets of overseas operations into the Group's presentation currency of Sterling.

2.16 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required for settlement and where a reliable estimate can be made of the amount of the obligation. Where material, provisions have been discounted to their present value.

Restructuring provisions are recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity

2.17 Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets and liabilities acquired are measured at fair value at acquisition date. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. The Group also engages in acquisitions of product-specific assets (such as brands – set out in note 2.9).

Where elements of the consideration paid are variable and based on future revenues, the cost of the intangible asset recognised is based on the agreed minimum payments and any additional payments are expensed as the related sales occur.

In assessing whether an acquired set of assets and activities is a business or an asset, management will first elect whether to apply an optional concentration test to simplify the assessment. Where the concentration test is applied, the acquisition will be treated as the acquisition of an asset if substantially all of the fair value of the gross assets acquired (excluding cash and cash equivalents, deferred tax assets, and related goodwill) is concentrated in a single asset or group of similar identifiable assets. Where the concentration test is not applied, or is not met, a further assessment of whether the acquired set of assets and activities is a business will be performed.

2.18 Going concern

The Group is in a net current asset position of £58.5m (2021: £40.4m). The Group's debt funding is provided by a £165m Revolving Credit Facility ('RCF'), together with a £50m accordion facility, with a syndicate of lenders. This facility is available until July 2024 and the directors have a reasonable expectation that a refinancing of the facility will be concluded in the coming months. The amount drawn as at 31 December 2022 was £134.1m (2021: £117.0m) and £134.0m as at 28 February 2023.

2. Summary of significant accounting policies continued

2.18 Going concern continued

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements (the going concern period). These indicate that the Group will have sufficient funds, given the RCF financing available, to meet its liabilities as they fall due for that period.

Also, the Directors have considered the sensitivity of cash flow forecasts to severe downside scenarios, including the impact of a potential payment of a £7.9m CMA fine. In particular, the Directors considered a reasonably possible downside scenario which models severe disruption to CBEC sales resulting in a decline in EBITDA against budget of over 30%. Even in this severe scenario, the forecasts indicate that the Group will have sufficient funds to meet its liabilities as they fall due, and will continue to comply with its loan covenants, throughout the forecast period. Only interest rate rises above current market projections would result in a breach of the interest cover covenant under this scenario. In isolation, interest rates would need to rise by over 2% (200bp) above current market projections to cause a breach in the interest cover covenant, before the impact of any mitigating actions.

The RCF is drawn in short to medium-term tranches of debt which are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including covenant compliance. All covenants have been fully complied with to date. The Group considers that it is highly unlikely it would be unable to exercise its right to roll-over the debt based on the forecast covenant compliance in the severe downside modelled above. Even in a more extreme scenario there are mitigating actions (within the control of the Group) it could take to maintain compliance with these conditions, including future covenant requirements. The Directors therefore believe that the Group has the ability and the intent to roll-over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and have therefore determined it is appropriate to adopt the going concern basis in preparing the financial statements.

2.19 Alternative performance measures

The performance of the Group is assessed using Alternative Performance Measures ('APMs'). The Group's results are presented both before and after non-underlying items. Adjusted profitability measures are presented excluding non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids effective comparison of the Group's trading performance from one period to the next and with similar businesses.

In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans. APMs are presented in note 31.

The Group does not consider adjusted profitability measures or APMs to be a substitute for, or superior to, IFRS measures.

3. Revenue and segmental information

The Group's reportable segments are the strategic business units that represent different parts of the overall product portfolio, these being Consumer Healthcare brands and Prescription Medicines. The business units are managed separately as each portfolio requires different expertise to deliver the corresponding product offering as a result of the inherently different characteristics of these product types.

Operating segments reflect the way in which information is presented to and reviewed by the CODM for the purposes of making strategic decisions and assessing Group-wide performance. The Group's Board of Directors ('the Board') is the Group's CODM. The Group evaluates performance of the operational segments on the basis of revenue and gross profit. Other than intangible assets, disclosed in note 11, assets and liabilities are reported to the Board at Group level and are not separated segmentally.

Financial Statements

3. Revenue and segmental information continued

Revenue

Revenue information by brand	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Consumer Healthcare brands:		
Kelo-Cote™ franchise	**50,039**	48,845
Amberen™	**14,909**	19,233
Nizoral™*	**17,231**	14,189
MacuShield™	**9,080**	8,829
Aloclair™	**9,272**	5,773
Vamousse™	**4,602**	4,110
Other Consumer Healthcare brands	**15,489**	14,397
Total revenue – Consumer Healthcare brands:	**120,622**	115,376
Prescription Medicines:		
Hydromol	**8,070**	7,009
Flamma Franchise	**6,548**	6,610
Forceval	**5,872**	5,685
Other prescription medicines	**26,304**	28,527
Total revenue – Prescription Medicines	**46,794**	47,831
Total revenue	**167,416**	163,207

* Nizoral™ statutory revenue includes revenue generated on an agency basis. Nizoral™ revenue presented on a see-through Income Statement basis is included as an alternative performance measure in note 31.

Classification by geography is based on customer location.

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Europe, Middle East and Africa (EMEA)	**78,920**	89,188
Asia Pacific and China (APAC)	**59,186**	48,030
Americas (AMER)	**29,310**	25,989
Total revenue	**167,416**	163,207

Operating segment results

	Year ended 31 December 2022		
	Consumer Healthcare £000s	Prescription Medicines £000s	Total £000s
Revenue	**120,622**	**46,794**	**167,416**
Cost of sales	**(43,019)**	**(22,714)**	**(65,733)**
Gross profit	**77,603**	**24,080**	**101,683**

	Year ended 31 December 2021		
	Consumer Healthcare £000s	Prescription Medicines £000s	Total £000s
Revenue	115,376	47,831	163,207
Cost of sales	(31,545)	(22,212)	(53,757)
Gross profit	83,831	25,619	109,450

Major customers

The revenues from the Group's largest customers in the year ended 31 December 2022 (customers separately comprising more than 10% of the Group's revenue) are as follows. In 2021, no customers separately comprised 10% or more of revenue.

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Major customer 1 (Consumer Healthcare sales in EMEA and APAC)	**21,461**	14,228
Major customer 2 (Consumer Healthcare sales in APAC)	**17,898**	11,064

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Profit before taxation

Profit before taxation is stated after charging/(crediting):	**Year ended 31 December 2022 £000s**	Year ended 31 December 2021 £000s
Amounts receivable by the Company's auditor and its associates in respect of:		
– The audit of these financial statements	**480**	96
– The audit of the financial statements of subsidiaries	**220**	326
– Other assurance services (covenant compliance and other regulatory compliance services)	**17**	5
Amortisation of intangible assets	**9,202**	8,530
Impairment of intangible assets	**18,234**	6,150
CMA provision	**–**	7,900
Share options charge	**92**	2,250
Depreciation of plant, property and equipment	**1,558**	1,575
Gain on foreign exchange transactions	**(56)**	(205)

5. Non-underlying items

The Group presents a number of non-IFRS measures which exclude the impact of significant non-underlying items. This is to allow investors to understand the underlying trading performance of the Group, and can exclude items such as: amortisation and impairment of acquired intangible assets; restructuring costs; significant gains or losses on disposal; remeasurement and accounting for the passage of time in respect of contingent considerations; and the revaluation of deferred tax balances following substantial tax legislation changes. This assessment requires judgement to be applied by the Directors as to which transactions are non-underlying and whether this classification enhances the understanding of the users of the financial statements.

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Amortisation of acquired intangible assets	**(7,238)**	(7,168)
Impairment of goodwill and intangible assets	**(18,234)**	(6,150)
CMA provision	**–**	(7,900)
Restructuring costs	**–**	(2,420)
Other	**369**	(423)
Total non-underlying items before taxation	**(25,103)**	(24,061)
Taxation on non-underlying items	**2,962**	2,167
Impact of UK tax rate change from 19% to 25%	**–**	(4,972)
Non-underlying taxation	**2,962**	(2,805)
Total non-underlying items after taxation	**(22,141)**	(26,866)

Amortisation of intangible assets

The amortisation costs of acquired intangible assets are a significant item considered unrelated to trading performance, and as such have been presented as non-underlying. This classification is in line with the majority of peer companies of the Group.

Impairment of goodwill and intangible assets

The impairment reviews for the Group's intangible assets resulted in impairment losses as the carrying value of certain cash-generating units exceeded estimated recoverable amounts. Further details are provided in note 11. The impairment losses are significant items resulting from changes in assumptions for future recoverable amounts. As such they are considered unrelated to 2022 trading performance, and have been presented as non-underlying.

CMA provision

The CMA provision of £7.9m recognised in the year ended 31 December 2021 relates to the CMA Infringement Decision which is detailed further in note 20. This is considered unrelated to trading performance, and as such has been presented as non-underlying.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

5. Non-underlying items continued

Restructuring costs

Costs of Group restructuring in the year ended 31 December 2021 (£2.4m) related to the closure of the Milan and Los Angeles offices. These costs are a significant item considered unrelated to 2021 trading performance, and as such have been presented as non-underlying.

Other non-underlying items

The other non-underlying items relate to capitalised professional fees in relation to the ScarAway™ acquisition which completed in March 2022. These costs were incurred in 2021 as non-underlying costs and capitalised in 2022 post-completion.

Impact of UK tax rate change from 19% to 25%

In the Budget on 3 March 2021, a change to UK corporation tax rates was announced, increasing the main rate from 19% to 25% with effect from 1 April 2023. The impact on deferred tax of this further rate increase is included in these financial statements as a non-underlying item for the year ended 31 December 2021.

6. Finance costs

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Interest payable and similar charges		
On loans and overdrafts	**(4,668)**	(2,904)
Amortised finance issue costs	**(648)**	(639)
Interest on lease liabilities	**(117)**	(103)
	(5,433)	(3,646)
Finance income		
Interest income	**16**	23
Net exchange gains	**56**	205
	72	228
Finance costs – net	**(5,361)**	(3,418)

7. Directors and employees

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

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Wages and salaries	**18,777**	18,886
Social security costs	**2,040**	2,077
Other pension costs (note 28)	**1,345**	1,306
Share-based employee remuneration (note 24)	**92**	2,250
	22,254	24,519

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

	Year ended 31 December 2022 Number	Year ended 31 December 2021 Number
Management and administration	**249**	**255**

Key management of the Group is the Board of Directors (including Non-executive Directors) and the Senior Leadership Team (SLT). Benefit expenses in respect of the key management were as follows:

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Key management remuneration	**1,699**	3,442
Pension contributions	**114**	121
	1,813	3,563

During the year contributions were paid to defined contribution schemes for two Executive Directors (2021: two).

Financial Statements

7. Directors and employees continued

Gain on share options exercised by Executive Directors during the year was £90,000 (2021: £363,000). The notional non-cash IFRS 2 share-based payment expense in respect of Directors was £461,000 (2021: £256,000).

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

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Emoluments for qualifying services	**368**	587
Pension contributions	**32**	29
	400	616

The notional non-cash IFRS 2 share-based payment expense in respect of the Director was £160,000 (2021: £177,000).

Average number of members of the Board of Directors (including Non-executive Directors) for the year ended 31 December 2022 was six (2021: six).

8. Taxation

Analysis of the charge for the period is as follows:

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Corporation tax		
In respect of current period	**5,669**	6,069
Adjustment in respect of prior periods	**110**	(65)
	5,779	6,004
Deferred tax (see note 22)		
Origination and reversal of temporary differences	**(837)**	4,471
Adjustment in respect of prior periods	**(670)**	363
Taxation	**4,272**	10,838

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Profit before taxation	**5,208**	18,157
Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 19.00% (2021: 19.00%)	**989**	3,449
Effect of:		
Non-deductible expenses	**2,583**	1,888
Non-taxable income	**–**	(4)
Adjustment in respect of prior periods	**(560)**	298
Differences between current and deferred tax rates	**(104)**	4,972
Differing tax rates on overseas earnings	**(266)**	114
Unrecognised losses	**(6)**	246
Foreign exchange	**1,427**	96
Share options	**315**	(352)
Movement in other tax provisions	**(106)**	131
Total taxation	**4,272**	10,838

A change to UK corporation tax was announced in the Budget on 3 March 2021, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The taxation charge for the year ended 31 December 2021 includes the impact on deferred tax of this increase.

The Group has calculated 'underlying effective tax rate' as an alternative performance measure in note 31.

For more information visit
alliancepharmaceuticals.com

9. Dividends

An interim dividend of 0.592p per share for the 2022 financial year was paid on 19 January 2023.

	Year ended 31 December 2022	
	Pence/share	£000s
Amounts recognised as distributions to owners in 2022		
Interim dividend for the 2021 financial year	**0.563**	**3,030**
Final dividend for the 2021 financial year	**1.128**	**6,086**
Total dividend	**1.691**	**9,116**

The interim dividend for 2021 was paid on 7 January 2022. The final dividend for 2021 was paid on 7 July 2022.

9. Dividends

	Year ended 31 December 2021	
	Pence/share	£000s
Amounts recognised as distributions to owners in 2021		
Interim dividend for the 2020 financial year	0.536	2,857
Final dividend for the 2020 financial year	1.074	5,747
Total dividend	1.610	8,604

The interim dividend for 2020 was paid on 7 January 2021. The final dividend for 2020 was paid on 8 July 2021.

10. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year. For diluted EPS, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares. There are no differences in earnings used to calculate each measure as a result of the dilutive employee share options.

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

	Year ended 31 December 2022	Year ended 31 December 2021
Basic EPS calculation	**539,480,306**	535,295,583
Employee share options	**5,800,317**	7,039,113
Diluted EPS calculation	**545,280,623**	542,334,696

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

	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s
Earnings for basic and diluted EPS	**936**	7,319
Non-underlying items (note 5)	**22,141**	26,866
Earnings for underlying basic and diluted EPS	**23,077**	34,185

The resulting EPS measures are:

	Year ended 31 December 2022 Pence	Year ended 31 December 2021 Pence
Basic EPS	**0.17**	1.37
Diluted EPS	**0.17**	1.35
Underlying basic EPS	**4.28**	6.39
Underlying diluted EPS	**4.23**	6.30

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

11. Goodwill and intangible assets

The Group	Goodwill £000s	Consumer Healthcare brands and distribution rights £000s	Prescription Medicines brands and distribution rights £000s	Computer software £000s	Total £000s
Cost					
At 1 January 2022	**32,382**	**260,080**	**151,544**	**15,043**	**459,049**
Additions	–	**16,386**	–	**249**	**16,635**
Exchange adjustments	**2,244**	**15,296**	**1,147**	–	**18,687**
At 31 December 2022	**34,626**	**291,762**	**152,691**	**15,292**	**494,371**
Amortisation and impairment					
At 1 January 2022	**1,144**	**8,185**	**34,614**	**1,362**	**45,305**
Non-underlying impairment for the year	**11,952**	**1,164**	**5,118**	–	**18,234**
Non-underlying amortisation for the year	–	**226**	**7,012**	–	**7,238**
Underlying amortisation for the year	–	–	–	**1,964**	**1,964**
At 31 December 2022	**13,096**	**9,575**	**46,744**	**3,326**	**72,741**
Net book amount					
At 31 December 2022	**21,530**	**282,187**	**105,947**	**11,966**	**421,630**
At 1 January 2022	31,238	251,895	116,930	13,681	413,744

The Group	Goodwill £000s	Consumer Healthcare brands and distribution rights £000s	Prescription Medicines brands and distribution rights £000s	Computer software £000s	Total £000s
Cost					
At 1 January 2021	32,404	258,203	152,890	–	443,497
Transfer from property, plant and equipment	–	–	–	11,037	11,037
Additions	–	–	–	4,006	4,006
Acquisition	(183)	–	–	–	(183)
Exchange adjustments	161	1,877	(1,346)	–	692
At 31 December 2021	32,382	260,080	151,544	15,043	459,049
Amortisation and impairment					
At 1 January 2021	1,144	6,459	23,022	–	30,625
Non-underlying impairment for the year	–	1,500	4,650	–	6,150
Non-underlying amortisation for the year	–	226	6,942	–	7,168
Underlying amortisation for the year	–	–	–	1,362	1,362
At 31 December 2021	1,144	8,185	34,614	1,362	45,305
Net book amount					
At 31 December 2021	31,238	251,895	116,930	13,681	413,744
At 1 January 2021	31,260	251,744	129,868	–	412,872

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

11. Goodwill and intangible assets continued

Acquisitions

Included in additions in the year is £15.2m relating to the purchase of the ScarAway™ brand asset which completed in March 2022 and £1.2m relating to the purchase of an Aloclair™ brand asset which completed in October 2022.

Useful economic lives

The Group segregates its portfolio of assets into two areas: Consumer Healthcare brands and Prescription Medicines. The Directors have considered the continuing appropriateness of the useful economic lives assigned to the assets.

For the majority of Consumer Healthcare brand assets, indefinite useful lives have been judged to remain appropriate. This is due to the expected long-term growth profile of the Consumer Healthcare business and the enduring nature of the brands, which are supported by continuing marketing spend. It is the opinion of the Directors that the indefinite life assets meet the criteria set out in IAS 38. This assessment is made on an asset-by-asset basis taking into account:

- how long the brand has been established in the market and subsequent resilience to economic and social changes;
- stability of the industry in which the brand is used;
- potential obsolescence or erosion of sales;
- barriers to entry;
- whether sufficient marketing and promotional resourcing is available; and
- dependency on other assets with defined useful economic lives.

For Prescription Medicines brand assets, finite useful lives of up to 20 years were adopted prospectively from 1 January 2020. The determination of this lifespan considered all relevant factors for each individual asset, including typical pharmaceutical asset life cycles and the potential development of alternative treatments over time and the remaining useful lives of these brands are considered to remain appropriate.

Certain brands were acquired with patent protection, which lasts for a finite period of time. It is the opinion of the Directors that these patents do not provide any incremental value to the value of the brand and therefore no separate value has been placed on these patents. This assessment is based on a view of future profitability after patent expiry and past experience with similar brands.

The Prescription Medicines brand assets have a weighted average remaining life of 17 years at 31 December 2022 (2021: 18 years).

The net book value of intangible assets and goodwill which are considered to have indefinite useful lives are allocated to CGUs in the following table. Goodwill relating to the acquisition of certain assets and businesses from Sinclair IS Pharma plc is allocated to the group of related Consumer Healthcare and Prescription Medicines product CGUs. Other goodwill amounts are allocated to the product CGU with which they were originally acquired. Intangible assets that are considered to have indefinite lives all relate to the Consumer Healthcare segment, except for Sinclair Prescription Medicines goodwill.

Financial Statements

11. Goodwill and intangible assets continued

Useful economic lives continued

	31 December 2022		
	Goodwill £000s	Consumer healthcare brands and distribution rights £000s	Total £000s
Amberen™	4,983	100,000	104,983
Nizoral™	–	60,307	60,307
Kelo-Cote™ (US rights and ScarAway™)	–	15,202	15,202
Vamousse™	–	11,596	11,596
MacuShield™	1,748	8,740	10,488
Ashton and Parsons	–	1,562	1,562
Aloclair™ (non-Sinclair)	–	1,184	1,184
Lefuzhi	–	1,009	1,009
Anbesol	–	987	987
Aiweidi	–	138	138
Opus range	1,849	–	1,849
Cambridge intangibles	598	–	598
Products acquired from Sinclair			
Kelo-Cote™ (non EU, excluding US)	–	45,567	45,567
Kelo-Cote™ (EU)	–	17,800	17,800
Aloclair™ (Sinclair)	–	14,000	14,000
Atopiclair	–	2,300	2,300
Goodwill – Sinclair Prescription Medicines	1,722	–	1,722
Goodwill – Sinclair Consumer Healthcare	10,630	–	10,630
Assets with indefinite lives	**21,530**	**280,392**	**301,922**

Impairment

As explained in note 2.9, all intangible assets are stated at cost less accumulated amortisation and impairment.

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. For intangible assets with an indefinite life, assets with a finite life that show indicators of impairment, and goodwill, this includes estimation of the recoverable amount. These assets are tested at CGU level (or at group of CGUs level in the case of goodwill relating to the acquisition of certain assets and businesses) as the Directors believe these CGUs generate largely independent cash inflows.

The impairment test involves determining the recoverable amount of the relevant CGU, which corresponds to the higher of the fair value less costs to sell or its value in use.

The value in use calculation uses cash flow projections based on financial forecasts for up to the next five years extrapolated to perpetuity. Financial forecasts for the following year are based on the approved annual budget. Financial forecasts for years two to five are based on the approved long-range plan. Margins are based on past experience and cost estimates.

As a result of the impairment review for the year ended 31 December 2022, the following impairment charges were identified:

- Goodwill relating to Amberen™ impaired by £12.0m (2021: £nil) due to a reduction in expected cash flows because of challenging market conditions and an increase in the discount rate applied to these cash flows which is the result of increasing market interest rates.
- Consumer healthcare brand and distribution rights assets impaired by £1.2m (2021: £1.5m) due to viability of future sales in the current market.
- Prescription medicine brand and distribution rights assets impaired by £5.1m (2021: £4.7m) due to viability of future sales in the current market, supply issues, and increasing costs resulting from changes in the regulatory framework.

Financial Statements

11. Goodwill and intangible assets continued

Key source of estimation uncertainty – value in use assumptions

For the year end impairment review, key assumptions on which cash flow projections depend are as follows (including our assessment of the estimation uncertainty arising):

Discount rates

- Methodology: Cash flows are discounted at an appropriate rate, based on the Group's post-tax Weighted Average Cost of Capital ('WACC') adjusted where appropriate for country-specific risks, of between 7.0%–12.4%, or pre-tax 9.4%–14.5% (2021: 6.3%–8.6%, or pre-tax 7.9%–10.8%). The Group's WACC has increased as a result of the increase in risk-free rate due to changes in government bond yields, the increase in small stock premium to recognise the Group's reduction in market capitalisation, offset to an extent by a small reduction in the equity beta based on sector market data.
- Estimation uncertainty: The assumptions included in the compilation of the CGU-specific discount rates are designed to approximate the discount rate that a potential market participant would adopt. Given the nature of the Group's business model, the discount rate necessarily includes estimation uncertainty.

Forecast cash flows

- Methodology: Approved budgets and forecasts for up to five years, based on management's best estimate of cash flows by individual CGU. These forecasts are then uplifted for the CGU's remaining useful economic life, or to perpetuity for assets with indefinite useful lives, using growth/decline rates between -5.5% to 2.0% (2021: -2.5% to 2.0%) based on the Group's long-term projections.
- Estimation uncertainty: The growth rates assumed in the Group's budgets and forecasts inherently include estimation uncertainty relating to the achievement of commercial initiatives and external factors such as competition.

Sensitivity analysis

The Group has conducted sensitivity analysis on the impairment tests. The valuations generally indicate sufficient headroom and, except for Amberen™ which is detailed below, the Group does not consider that any reasonably possible change in key assumptions could result in an impairment.

Management has identified that for the goodwill and brand and distribution rights related to Amberen™, a reasonable possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount:

1) The recoverable amount is sensitive to changes in the discount rate applied, particularly in the context of market volatility and increasing interest rates.

2) The recoverable amount is sensitive to changes in the cash flow forecasts which are dependent on key revenue growth assumptions.

The following table shows the potential impact of reasonably possible changes to individual assumptions on the estimated recoverable amount of the Amberen™ CGU. As the carrying value is equal to the recoverable amount at 31 December 2022, this would result in an increase in impairment.

		Decrease in CGU recoverable amount £000s	
	Headroom	2.0% (200bp) increase in pre-tax discount rate	20% reduction in cash flow forecasts, before the impact of mitigating actions
Amberen™	–	**(20,598)**	**(17,700)**

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Property, plant and equipment

The Group	Computer software and equipment £000s	Fixtures, fittings & equipment £000s	Plant & machinery £000s	Right-of-use lease assets £000s	Total £000s
Cost					
At 1 January 2022	**2,037**	**3,730**	**73**	**6,306**	**12,146**
Additions	**153**	**205**	**–**	**1,997**	**2,355**
Transfers	**108**	**(108)**	**–**	**–**	**–**
Effects of movements in exchange rates	**(30)**	**323**	**1**	**(172)**	**122**
Disposals	**(69)**	**(206)**	**–**	**(2,901)**	**(3,176)**
At 31 December 2022	**2,199**	**3,944**	**74**	**5,230**	**11,447**
Depreciation					
At 1 January 2022	**1,670**	**1,741**	**36**	**3,873**	**7,320**
Provided in the year	**153**	**541**	**13**	**851**	**1,558**
Transfers	**108**	**(108)**	**–**	**–**	**–**
Effect of movements in exchange rates	**(5)**	**32**	**–**	**(60)**	**(33)**
Disposals	**(69)**	**(6)**	**–**	**(2,901)**	**(2,976)**
At 31 December 2022	**1,857**	**2,200**	**49**	**1,763**	**5,869**
Net book amount					
At 31 December 2022	**342**	**1,744**	**25**	**3,467**	**5,578**
At 1 January 2022	367	1,989	37	2,433	4,826

The Group	Computer software and equipment £000s	Fixtures, fittings & equipment £000s	Plant & machinery £000s	Right-of-use lease assets £000s	Total £000s
Cost					
At 1 January 2021	13,048	2,511	32	6,739	22,330
Additions	162	1,323	41	275	1,801
Transfer to intangible assets	(11,037)	–	–	–	(11,037)
Disposals	(136)	(104)	–	(708)	(948)
At 31 December 2021	2,037	3,730	73	6,306	12,146
Depreciation					
At 1 January 2021	1,620	1,408	8	3,373	6,409
Provided in the year	186	446	28	915	1,575
Effect of movements in exchange rates	–	(9)	–	–	(9)
Disposals	(136)	(104)	–	(415)	(655)
At 31 December 2021	1,670	1,741	36	3,873	7,320
Net book amount					
At 31 December 2021	367	1,989	37	2,433	4,826
At 1 January 2021	11,428	1,103	24	3,366	15,921

Property, plant and equipment of £3.2m is located within the United Kingdom (2021: £4.1m). The remaining balance is located in France, China, Singapore, Spain, Germany and the United States of America. Right-of-use assets relate to the Group's leased offices.

Financial Statements

For more information visit
alliancepharmaceuticals.com

13. Investments

The Company	Investment and loans to subsidiary undertakings £000s
Cost	
At 1 January 2022	**199,348**
Net movements	**(2,095)**
At 31 December 2022	**197,253**
At 1 January 2021	199,776
Net movements	(428)
At 31 December 2021	199,348

The investment balance includes outstanding intercompany debt due from subsidiaries of £176.1m (note 29). The Directors do not consider that this amount will be demanded by the Company and therefore it has been classified as an investment. No provision has been recognised for estimated credit losses on loans to subsidiaries, as it is considered these would be immaterial.

The net movement for the year ended 31 December 2022 included interest charged of £8.4m (2021: £6.1m), the recharge of the share option charge of £1.3m (2021: £1.1m), the dividend received of £nil (2021: £2.6m) and payments received to reduce the loan.

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2022 are shown below:

Company	Country of registration or incorporation	% owned	Nature of business
Advanced Bio-Technologies Inc.	USA	100	Pharmaceutical sales
Alliance Pharma France SAS	France	100	Pharmaceutical sales
Alliance Pharma S.r.l.	Italy	100	Pharmaceutical sales
Alliance Pharmaceuticals Limited*	England & Wales	100	Pharmaceutical sales
Alliance Lifescience Technology (Shanghai) Co., Limited	China	100	Pharmaceutical sales
Alliance Pharmaceuticals Spain SL*	Spain	100	Pharmaceutical sales
Alliance Pharma Inc.	USA	100	Pharmaceutical sales
Alliance Pharmaceuticals (Thailand) Co., Ltd	Thailand	100	Pharmaceutical sales
Alliance Pharmaceuticals (Philippines) Corporation	Philippines	100	Pharmaceutical sales
Alliance CHC (India) Private Limited	India	100	Pharmaceutical sales
Alliance Pharma (Ireland) Limited	Republic of Ireland	100	Pharmaceutical sales
Alliance Pharmaceuticals GmbH*	Germany	100	Non-trading
Alliance Pharmaceuticals GmbH* – Swiss Branch	Switzerland	100	Non-trading
Alliance Pharmaceuticals SAS*	France	100	Non-trading
Alliance Pharma (Singapore) Private Limited*	Singapore	100	Non-trading
Alliance Pharmaceuticals (Asia) Limited*	Hong Kong	100	Non-trading
Opus Healthcare Limited	Republic of Ireland	100	Dormant
Alliance Consumer Health Limited	England & Wales	100	Dormant
Alliance Generics Limited	England & Wales	100	Dormant
Alliance Health Limited	England & Wales	100	Dormant
Alliance Healthcare Limited	England & Wales	100	Dormant
Caraderm Limited	Northern Ireland	100	Dormant
Dermapharm Limited	England & Wales	100	Dormant

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Investments continued

Company	Country of registration or incorporation	% owned	Nature of business
MacuVision Europe Limited	England & Wales	100	Dormant
Maelor Laboratories Limited	England & Wales	100	Dormant
Opus Group Holdings Limited	England & Wales	100	Dormant
Opus Healthcare Limited	England & Wales	100	Dormant

* Investments held directly by Alliance Pharma plc.

The registered address in each country is as follows:

Territory	Company	Registered Office Address
USA	Advanced Bio-Technologies Inc.	11000 Regency Pkwy, Ste 106, Cary NC 27518, United States
	Alliance Pharma Inc.	11000 Regency Pkwy, Ste 106, Cary NC 27518, United States
France	Alliance Pharmaceuticals SAS	13 rue Paul Valéry, 75016, Paris, France
	Alliance Pharma France SAS	13 rue Paul Valéry, 75016, Paris, France
China	Alliance Pharmaceuticals Lifescience Technology (Shanghai) Co.,Limited	Suite 701, NanFung Tower, No. 1568, Road Huashan, Shanghai, 200030, P.R.China
Germany	Alliance Pharmaceuticals GmbH	Niederkasseler Lohweg 175, 40547, Dusseldorf, Germany
Hong Kong	Alliance Pharmaceuticals (Asia) Limited	Room 2105, 21/F Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong
Italy	Alliance Pharma S.r.l.	Viale Francesco Restelli 5, 20124, Milano, Italy
Republic of Ireland	Alliance Pharma (Ireland) Limited	United Drug House, Magna Drive, Dublin, D24 X0CT, Ireland
	Opus Healthcare Limited	6th Floor, South Bank House, Barrow Street, Dublin 4
Singapore	Alliance Pharma (Singapore) Private Limited	1 Scotts Road, Shaw Centre 22-06, 228208, Singapore
Spain	Alliance Pharmaceuticals Spain SL	Regus Business Center Torre de Cristal, Paseo de la Casstellana, 259 C Planta 18, Cuatro Torres Business area 28046, Madrid, Spain
Switzerland (Branch)	Alliance Pharmaceuticals GmbH Düsseldorf	Bahnhofstrasse 37, Postfach 2818, CH-8021 Zürich, Switzerland
Thailand	Alliance Pharmaceuticals (Thailand) Co., Ltd	No. 444 Olympia Thai Tower, 8th Floor, Ratchadapisek Road, Samsennok Sub-district, Huaykwang District, Bangkok, Thailand
England & Wales	All Companies	Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB
Northern Ireland	Caraderm Limited	6 Trevor Hill, Newry, County Down, BT34 1DN
Philippines	Alliance Pharmaceuticals (Philippines) Corporation	30/F 88 Corporate Center Sedeno Cor.Valero STS., BEL-AIR 1209, City of Makati NCR, Fourth District, Philippines
India	Alliance CHC (India) Private Limited	314, Bhaveshwar Arcade Annexe, LBS Marg, Opp. Shreyas Cimema, Ghatkopar West Mumbai, Bandra Suburban, MH 400086 IN

Unless otherwise stated, the share capital comprises Ordinary shares and the ownership percentage is provided for each undertaking. All subsidiary undertakings prepare accounts to 31 December.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Inventories

The Group	31 December 2022 £000s	31 December 2021 £000s
Finished goods	**21,804**	20,111
Work in progress	**416**	23
Raw materials	**5,083**	4,177
Inventory provision	**(3,017)**	(3,236)
	24,286	21,075

Inventory costs expensed through the Income Statement during the year were £59,566,000 (2021: £52,932,000). During the year £993,000 (2021: £534,000) was recognised as an expense relating to the write-down of inventories to net realisable value.

15. Trade and other receivables

	The Group		The Company	
	31 December 2022 £000s	31 December 2021 £000s	31 December 2022 £000s	31 December 2021 £000s
Trade receivables	**44,764**	23,929	**–**	–
Other receivables	**2,775**	1,953	**85**	31
Prepayments	**1,094**	3,102	**8**	8
Accrued income	**691**	1,837	**–**	–
	49,324	30,821	**93**	39

Accrued income, which is all classified as not past due, represents amounts owed unconditionally to the Group which have not been invoiced at the year end. For these assets, only the passage of time is required before payment becomes due.

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

Trade receivables, net of estimated allowances for expected credit losses	31 December 2022 £000s	31 December 2021 £000s
Not past due	**41,642**	20,405
1–30 days past due	**2,514**	2,573
31–60 days past due	**432**	633
61–90 days past due	**176**	318
Past 91 days	**–**	–
	44,764	23,929

Trade receivables, gross of estimated allowances for expected credit losses	31 December 2022 £000s	31 December 2021 £000s
Not past due	**41,642**	20,405
1–30 days past due	**2,514**	2,573
31–60 days past due	**432**	633
61–90 days past due	**197**	389
Past 91 days	**390**	780
	45,175	24,780

As at 31 December 2022, trade and other receivables of £411,000 (2021: £851,000) were past due and impaired.

To manage credit risk customers are required to pay in accordance with agreed terms. Our settlement terms are generally due within 30 or 60 days from the end of the month of sale.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. Cash and cash equivalents

	The Group		The Company	
	31 December 2022 £000s	31 December 2021 £000s	**31 December 2022 £000s**	31 December 2021 £000s
Sterling	**10,556**	17,541	**50**	141
Euros	**8,214**	3,862	**–**	–
US Dollars	**3,758**	2,427	**–**	–
Thai Baht	**3,991**	3,060	**–**	–
Other currencies	**5,195**	2,171	**–**	–
Cash at bank and in hand	**31,714**	29,061	**50**	141

17. Trade and other payables

	The Group		The Company	
	31 December 2022 £000s	31 December 2021 £000s	**31 December 2022 £000s**	31 December 2021 £000s
Trade payables	**18,567**	8,341	**111**	–
Other taxes and social security costs	**1,546**	2,773	**–**	–
Accruals	**13,972**	17,512	**644**	368
Other payables	**918**	848	**–**	–
Lease liabilities	**613**	456	**–**	–
	35,616	29,930	**755**	368

18. Loans and borrowings

The Group has a £165m fully Revolving Credit Facility ('RCF'), together with a £50m Accordion Facility, with a syndicate of lenders. This facility is available until July 2024. This has been classified as a non-current liability (note 2.18). The bank facility is secured by a fixed and floating charge over the Company's and Group's assets registered with Companies House. The loan commitments are all 'investment grade' as at the balance sheet date.

	The Group		The Company	
Non-current	**31 December 2022 £000s**	31 December 2021 £000s	**31 December 2022 £000s**	31 December 2021 £000s
Bank loans:				
Secured	**134,065**	117,025	**–**	–
Finance issue costs	**(321)**	(965)	**–**	–
	133,744	116,060	**–**	–

Movement in loans and borrowings	**31 December 2022 £000s**	31 December 2021 £000s
At 1 January	**116,060**	138,328
Net (payments)/receipts from borrowing	**13,664**	(22,587)
Additional prepaid arrangement fees	**–**	–
Amortisation of prepaid arrangement fees	**648**	628
Exchange movements*	**3,372**	(309)
At 31 December	**133,744**	116,060

* Exchange movements on loans and borrowings with effective net investment hedges are reported in other comprehensive income and accumulated in the translation reserve.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

19. Other non-current liabilities

	The Group		The Company	
	31 December 2022 £000s	31 December 2021 £000s	**31 December 2022 £000s**	31 December 2021 £000s
Lease liabilities	**3,219**	2,426	–	–
Other non-current liabilities	**196**	211	–	–
	3,415	2,637	–	–

20. Provisions

	CMA provision (£000s)	Restructuring provision (£000s)	Total (£000s)
At 1 January 2022	**7,900**	**1,569**	**9,469**
Provisions utilised during the year	**–**	**(1,078)**	**(1,078)**
Exchange differences	**–**	**31**	**31**
At 31 December 2022	**7,900**	**522**	**8,422**

On 23 May 2019 the UK's Competition and Markets Authority ('CMA') issued a Statement of Objection alleging anti-competitive agreement involving the Group and certain other pharmaceutical companies in relation to the sale of prescription prochlorperazine. Prochlorperazine is one of the Group's smaller products and had peak sales in 2015 of £1.9m and sales of £0.1m in 2022 (2021: £0.7m).

On 3 February 2022, the CMA announced its finding that four companies, including Alliance, had infringed competition law (the 'Infringement Decision'). The Alliance Board fundamentally disagrees with the CMA's finding.

The Group believes that it has a strong case and has appealed the CMA's decision, and the proposed fine of £7.9m, with its appeal now fixed to be heard at the Competition Appeal Tribunal from 5 June 2023.

Despite its Appeal, the Directors believe that, as a result of the Infringement Decision, a provision of £7.9m should be recorded at 31 December 2022 (2021: £7.9m).

This reflects the maximum amount of the proposed fine communicated by the CMA, and therefore, notwithstanding the Directors' belief as to the merits of the grounds on which it is appealing the CMA decision, the Directors consider this to be the appropriate position given that, in the event that the Group's appeal proved to be unsuccessful, the ultimate level of the fine cannot be greater than this. In addition, in the event the Group's appeal were to prove to be unsuccessful, the Directors consider that there are strong grounds upon which the amount of the fine could be reduced. However, as this is a matter which cannot be predicted with certainty at this time the Directors believe that the most appropriate course of action is to include the maximum potential amount of the fine.

If the appeal is unsuccessful, the Group may also be liable for a proportion of the legal costs of the CMA relating to the appeal. The Group has not recorded a provision in relation to these potential litigation costs as their amount cannot be reliably estimated.

In accordance with IAS 37.92, the Group does not provide further information on the grounds that this could seriously prejudice the outcome of the appeal.

The restructuring provision of £0.5m at 31 December 2022 (2021: £1.6m) relates to the balance of restructuring costs in relation to the closure of the Milan office following a change to the operating model for our direct-to-market business in Italy. The remaining related outflows are expected to occur in the year ending 31 December 2023.

Financial Statements

21. Financial instruments

The Group uses financial instruments comprising borrowings, derivatives, cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, foreign currency risk and credit risk. The Board is responsible for risk management policies on managing each of these, which are summarised below, except credit risk which is detailed in note 15.

Liquidity risk

The Group's operations are financed by retained earnings and bank borrowings, with additional equity being raised on a periodic basis to finance larger acquisitions. Borrowings are denominated in Sterling, Euro and US Dollars. The purpose of Euro and US Dollar borrowings are to manage the currency exposure arising from the Group's operations.

The Group has a £165m fully Revolving Credit Facility ('RCF'), together with a £50m Accordion Facility, with a syndicate of lenders. This facility is available until July 2024.

The RCF is drawn in short to medium-term tranches of debt which are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including covenant compliance. The Group considers that it is highly unlikely it would be unable to exercise its right to roll-over the debt. This is due to mitigating actions it could take to maintain compliance with these conditions, including future covenant requirements, even in downside scenarios. The Directors therefore believe that the Group has the ability and the intent to roll-over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

The Group also has access to an overdraft facility of £2.0m.

The maturity profile of the Group's financial gross (capital and interest) liabilities, except forward foreign exchange contracts for which maturity is disclosed separately, at the year-end is as follows:

	31 December 2022				
	In one year or less £000s	**In more than one year, but not more than two £000s**	**In more than two years, but not more than five £000s**	**In more than five years £000s**	**Total £000s**
Trade and other payables	**35,003**	**–**	**–**	**–**	**35,003**
Bank loans*	**134,065**	**–**	**–**	**–**	**134,065**
Lease liabilities	**613**	**594**	**1,263**	**1,362**	**3,832**
	169,681	**594**	**1,263**	**1,362**	**172,900**

* Includes an amount of £130.1m (2021: £117.1m) in respect of gross contractual cash flows payable under the RCF; these are shown as due within one year or less to reflect the contractual maturity of the tranches drawn down at 31 December 2022. The RCF is classified as a non-current liability as the Directors have assessed that the Group has the ability and the intent to roll over the drawn RCF amounts when due.

	31 December 2021				
	In one year or less £000s	In more than one year, but not more than two £000s	In more than two years, but not more than five £000s	In more than five years £000s	Total £000s
Trade and other payables	36,166	–	–	–	36,166
Bank loans*	117,057	–	–	–	117,057
Lease liabilities	539	391	900	1,244	3,074
	153,762	391	900	1,244	156,297

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

21. Financial instruments continued

Liquidity risk continued

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

	31 December 2022 In one year or less £000s	31 December 2021 In one year or less £000s
Trade and other payables	**755**	368

Interest rate risk

The Group's debt is provided on a floating interest rate basis.

The interest rate exposure of the financial liabilities of the Group at the period end was:

Floating rate interest exposure	**31 December 2022 £000s**	31 December 2021 £000s
At 31 December 2022		
Bank loans – Sterling denominated	**96,817**	96,817
Bank loans – Euro denominated	**6,987**	7,895
Bank loans – US Dollar denominated	**30,261**	12,313
Total financial liabilities	**134,065**	117,025
Unamortised issue costs	**(321)**	(965)
Net book value of financial liabilities	**133,744**	116,060

The Sterling floating rate borrowings bear interest at a rate based on SONIA for the year ended 31 December 2022. The Euro floating rate borrowings bear interest at a rate based on EURIBOR. The US Dollar floating rate borrowings bear interest at a benchmark rate (US Dollar LIBOR).

A 0.5% increase in SONIA would have reduced pre-tax profits by approximately £0.5m in 2022. A 0.5% decrease would have the opposite effect.

Because of the size of the Euro-denominated loan, a 0.5% increase or decrease in EURIBOR would not have affected pre-tax profits in 2022.

A 0.5% increase in US LIBOR would have reduced pre-tax profits by approximately £0.1m in 2022. A 0.5% decrease would have the opposite effect.

Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily Sterling, Euro, US Dollars and Hong Kong Dollars.

Approximately 25% of the Group's sales are invoiced in Euro, 33% invoiced in US Dollars and 6% invoiced in Hong Kong Dollars. The majority of other Group sales are invoiced in Sterling.

The Group's risk management policy is to hedge up to 75% of its estimated net foreign currency exposure in respect of forecast sales and purchases for up to the next 18 months at any point in time. The Group uses forward foreign exchange contracts to hedge its currency risk. These contracts are generally designated as cash flow hedges.

After the impacts of hedging, 5% weakening or strengthening of Sterling against the Euro would have resulted in £0.3m gain or loss to EBITDA (note 31) in 2022. On the same basis, 5% weakening or strengthening of Sterling against the US Dollar would have resulted in a £0.7m gain or loss to EBITDA in 2022.

Net investment hedges

The Group uses currency-denominated borrowings to hedge the exposure of a portion of its net investment in overseas operations against changes in value due to changes in foreign exchange rates. The net investment hedge was tested for effectiveness during the year and found to be effective. As the Group repays its foreign-denominated borrowings the hedged portion of the net investment is reduced.

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

21. Financial instruments continued

Fair value measurement

The Group has adopted IFRS 13 for financial instruments that are measured in the Group balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

› quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

› inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and

› inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's financial instruments held at fair value (or for which fair value is disclosed) in the scope of IFRS 13 are as follows:

	Level	**31 December 2022 Carrying value £000s**	31 December 2021 Carrying value £000s
Forward foreign exchange contracts	2	**174**	64
		174	64

For the other financial assets and liabilities, the carrying amount is a reasonable approximation of fair value and therefore no further disclosure is provided. The valuation techniques used for instruments categorised in Level 2 are described below:

Forward foreign exchange contracts (Level 2)

The Group's currency rate swaps are not traded in active markets. These have been fair valued using observable currency rates. The effects of non-observable inputs are not significant for currency rate swaps.

Counterparty banks perform valuations of currency rate swaps for financial reporting purposes, determined by discounting the future cash flows at rates determined by year-end spot and forward rate. The valuation processes and fair value changes are discussed by the Audit and Risk Committee and the Finance team at least every half year, in line with the Group's reporting dates.

Forward foreign exchange contract assets and liabilities are presented in 'Derivative financial instruments' (either as assets or as liabilities) within the statement of financial position.

At 31 December 2022, the Group held the following forward exchange contracts to hedge exposures to changes in foreign currency rates:

	Maturity		
	1–6 months	**6–12 months**	**More than one year**
Forward exchange contracts			
Net exposure (£000s)	**117**	**40**	**17**
Average GBP:USD forward contract rate	**1.195**	**1.200**	**1.196**
Average GBP:EUR forward contract rate	**1.131**	**1.123**	**1.120**
Average GBP:HKD forward contract rate	**–**	**–**	**–**

For more information visit
alliancepharmaceuticals.com

ALLIANCE

21. Financial instruments continued

At 31 December 2021, the Group held the following forward exchange contracts to hedge exposures to changes in foreign currency rates:

	Maturity		
	1–6 months	6–12 months	More than one year
Forward exchange contracts			
Net exposure (£000s)	54	10	–
Average GBP:USD forward contract rate	1.370	1.367	–
Average GBP:EUR forward contract rate	1.138	–	–
Average GBP:HKD forward contract rate	10.508	10.488	–

Group

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

Financial assets	31 December 2022 £000s	31 December 2021 £000s
Financial assets at amortised cost		
Trade receivables	**44,764**	23,929
Accrued income	**691**	1,837
Cash and cash equivalents	**31,714**	29,061
Derivative financial instruments		
Used for hedging	**174**	64
	77,343	54,891

Financial liabilities	31 December 2022 £000s	31 December 2021 £000s
Financial liabilities at amortised cost		
Trade and other payables	**33,457**	36,166
Loans and borrowings	**134,108**	117,057
Lease liabilities	**3,832**	2,882
	171,397	156,105

Company

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

Financial assets	31 December 2022 £000s	31 December 2021 £000s
Financial assets at amortised cost		
Trade and other receivables	**–**	31

Financial liabilities	31 December 2022 £000s	31 December 2021 £000s
Financial liabilities at amortised cost		
Trade and other payables	**755**	368

Financial Statements

21. Financial instruments continued

Reconciliation to cash flow movements

		Cash flows		Non-cash changes				
	2021 £000s	Principal £000s	Interest £000s	Foreign exchange* £000s	Net additions £000s	Amortisation £000s	Interest £000s	2022 £000s
Gross loans and borrowings	117,025	**13,664**	**–**	**3,376**	**–**	**–**	**–**	**134,065**
Prepaid arrangement fees	(965)	**–**	**–**	**–**	**–**	**644**	**–**	**(321)**
Accrued interest	32	**–**	**(4,657)**	**–**	**–**	**–**	**4,668**	**43**
Lease liabilities	2,882	**(961)**	**(147)**	**(56)**	**1,997**	**–**	**117**	**3,832**

* Exchange movements on loans and borrowings with effective net investment hedges are reported in other comprehensive income and accumulated in the translation reserve.

Derivative financial instruments

	31 December 2022 Assets/(Liabilities) £000s	31 December 2021 Assets/(Liabilities) £000s
Current portion	**157**	64
Non-current portion	17	–
Forward exchange swap – cash flow hedge	174	64

The cash flow hedges were tested for effectiveness both retrospectively and prospectively as at 31 December 2022. They were found to be highly effective, with the ineffective element being immaterial. The amount recognised through the Income Statement in finance costs for interest rate swaps during the year was a charge of £nil (2021: £nil). The amounts recognised through the Income Statement in respect of the forward foreign exchange contracts during the year was a credit of £1,060,000 in revenue (2021: credit of £982,000).

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

22. Deferred tax

The Group	31 December 2022 £000s	31 December 2021 £000s
Accelerated capital allowances on tangible assets	**1,057**	(464)
Temporary differences: trading	**205**	291
Temporary differences: non-trading	**1,630**	915
Accelerated allowances on intangible assets	**(14,085)**	(13,452)
Initial recognition of intangible assets from business combination	**(51,440)**	(47,796)
Share-based payments	**167**	1,819
Foreign exchange forward contracts	**(44)**	(16)
Losses and unrelieved interest	**1,058**	501
	(61,452)	(58,202)
Recognised as:		
Deferred tax asset	**4,117**	3,526
Deferred tax liability	**(65,569)**	(61,728)

Reconciliation of deferred tax movements:

The Group	1 January 2022 £000s	Transfers £000s	Recognised in other comprehensive income/ directly in equity	Recognised in the income statement £000s	31 December 2022 £000s
Non-current assets					
Intangible assets	(61,248)	(1,435)	(4,275)	1,433	(65,525)
Property, plant and equipment	(464)	1,435	–	86	1,057
Non-current liabilities					
Derivative financial instruments	(16)	–	(28)	–	(44)
Other non-current liabilities	915	–	715	–	1,630
Equity					
Share option reserve	1,819	–	(1,169)	(483)	167
Temporary differences					
Trading	291	–	–	(86)	205
Losses	501	–	–	557	1,058
	(58,202)	–	(4,757)	1,507	(61,452)
Recognised as:					
Deferred tax asset	3,526	–	–	–	4,117
Deferred tax liability	(61,728)	–	–	–	(65,569)
	(58,202)	–	–	–	(61,452)

The Group has unrecognised deferred tax assets of £354,000 in relation to losses (2021: £246,000).

Financial Statements

22. Deferred tax continued

The Group	1 January 2021 £000s	Transfers £000s	Recognised in other comprehensive income/directly in equity	Recognised in the income statement £000s	31 December 2021 £000s
Non-current assets					
Intangible assets	(55,208)	(670)	(284)	(5,086)	(61,248)
Property, plant and equipment	(917)	670	–	(217)	(464)
Non-current liabilities					
Derivative financial instruments	(56)	–	40	–	(16)
Other non-current liabilities	623	–	292	–	915
Equity					
Share option reserve	1,024	–	626	169	1,819
Temporary differences					
Trading	492	–	–	(201)	291
Losses	–	–	–	501	501
	(54,042)	–	674	(4,834)	(58,202)
Recognised as:					
Deferred tax asset	2,139				3,526
Deferred tax liability	(56,181)				(61,728)
	(54,042)				(58,202)

23. Share capital

	Allotted, called up and fully paid No. of shares	£000s
At 1 January 2021 – Ordinary shares of 1p each	532,919,111	5,329
Issued during the year	5,306,413	53
At 31 December 2021 – Ordinary shares of 1p each	538,225,524	5,382
Issued during the year	1,769,562	18
At 31 December 2022 – Ordinary shares of 1p each	**539,995,086**	**5,400**

Between 1 January 2022 and 31 December 2022 1,769,562 shares were issued on the exercise of employee share options (2021: 5,306,413).

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Financial Statements

23. Share capital continued

Potential share options commitment

Under the Group's share option scheme for employees and Executive Directors, options have been granted to subscribe for shares in the Company at prices ranging from 0.00p to 102.80p (2021: 0.00p to 102.80p). Options are exercisable three years after date of grant, but in certain instances this can be extended to five years. Options outstanding are as follows:

Year of grant	Exercise price Pence	Exercise from	Scheme	31 December 2022 Number (000s)	31 December 2021 Number (000s)
2012	29.25	2015	CSOP	**–**	41
2013	37.25	2016	CSOP	**233**	263
2014	33.75	2017	CSOP	**281**	321
2015	43.75	2018	CSOP	**350**	719
2015	46.75	2018	CSOP	**500**	500
2016	47.50	2019	CSOP	**619**	1,077
2016	47.50	2021	CSOP	**1,400**	1,800
2017	53.00	2020	CSOP	**2,366**	2,877
2018	81.60	2021	CSOP	**3,241**	4,171
2019	76.90	2022	CSOP	**4,412**	5,422
2019	0.00	2022	LTIP	**226**	529
2020	73.70	2023	CSOP	**4,231**	5,042
2020	0.00	2023	LTIP	**542**	628
2021	102.80	2024	CSOP	**6,044**	7,012
2021	0.00	2024	LTIP	**468**	531
2022	58.20	2025	CSOP	**7,837**	–
2022	0.00	2025	LTIP	**877**	–
				33,627	30,933

The weighted average remaining contractual life at 31 December 2022 is 7.8 years (2021: 7.8 years).

The provision of shares to satisfy certain of the Group's share option schemes can be facilitated by purchases of own shares by the Group's Employee Benefit Trust. The cost of operating the Trust is borne by the Group but is not material. To date, no shares have been purchased by the Trust for satisfaction of outstanding or future share option awards.

Managing capital

Our objective in managing the business's capital structure is to ensure that the Group has the financial capacity, liquidity and flexibility to support the existing business and to fund acquisition opportunities as they arise.

The capital structure of the Group consists of net bank debt and shareholders' equity. At 31 December 2022 net debt was £ 102.0m (2021: £87.0m) (note 31), whilst shareholders' equity was £287.7m (2021: 282.5m).

The business is profitable and cash-generative. The main financial covenants applying to bank debt are that leverage (the ratio of net bank debt to EBITDA) should not exceed 3.0 times, and interest cover (the ratio of EBITDA to finance charges) should not be less than 4.0 times. The Group complied with both of these covenants in 2022 and 2021.

Smaller acquisitions are typically financed using bank debt, while larger acquisitions typically involve a combination of bank debt and additional equity. The mixture of debt and equity is varied, taking into account the desire to maximise the shareholder returns while keeping leverage at comfortable levels.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

24. Share-based payments

Under the Group's share option scheme for employees and Executive Directors, options to subscribe for shares in the Company are granted normally once each year. The contractual life of an option is ten years from date of grant. Generally, options granted become exercisable on the third anniversary of the date of grant, but in certain instances this can be extended to five years. Exercise of an option is normally subject to continued employment. Options are valued by a third-party provider using the Black-Scholes option-pricing model.

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

	2022		2021	
	Number (000s)	**Weighted average price Pence**	Number (000s)	Weighted average price Pence
Outstanding at start of year	**30,933**	**71.62**	36,583	47.02
Granted	**8,759**	**52.34**	7,674	93.94
Exercised (issued)	**(1,770)**	**50.96**	(5,306)	50.07
Exercised (withheld)	**(1,203)**	**63.21**	(4,493)	56.12
Forfeited	**(3,092)**	**75.53**	(3,525)	74.65
Outstanding at end of year	**33,627**	**67.54**	30,933	71.62
Exercisable at end of year	**13,628**	**64.71**	11,845	60.12

Share options were exercised throughout the financial year. Share options were exercised at prices of between 55.40p and 120.20p per share.

Certain options are subject to EPS or Total Shareholder Return (TSR) accretion performance criteria; those outstanding are as follows:

Year of grant	**Exercise price Pence**	**Exercise from**	**31 December 2022 Number (000s)**	31 December 2021 Number (000s)
2013	35.75	2018	**–**	–
2014	33.75	2017	**92**	92
2015	43.75	2018	**104**	104
2016	47.50	2019	**155**	155
2016	47.50	2021	**1,400**	1,800
2017	53.00	2020	**323**	323
2018	81.60	2021	**1,639**	1,639
2019	76.90	2022	**421**	911
2019	0.00	2022	**226**	529
2020	73.70	2023	**637**	837
2020	0.00	2023	**542**	628
2021	102.80	2024	**961**	1,172
2021	0.00	2024	**468**	531
2022	58.20	2025	**919**	–
2022	0.00	2025	**877**	–
			8,764	8,721

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

24. Share-based payments continued

The total expense for the year relating to share-based payment plans was £0.1m (2021: £2.3m), of which £1.1m (2021: £1.1m) related to equity-settled transactions and a credit of £1.0m (2021: debit of £1.2m) related to cash-settled transactions.

It is assumed that, on average, options will be exercised after five years. The expected volatility is based on historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. The risk-free rate of return is based on UK Government bonds of a term consistent with the assumed option life.

The cash-settled transaction expense includes provision for social security charges based on the applicable social tax rate applied to the number of share awards which are expected to vest, valued with reference to the year-end share price.

The estimated total equity-settled fair value of the share options granted on 29 September 2022 was £1,105,000. The model inputs were a market price of 58.2p, expected volatility of 31.93% and a risk-free rate of 3.96%.

25. Cash generated from operations

	Group		Company	
	Year ended 31 December 2022 £000s	Year ended 31 December 2021 £000s	**Year ended 31 December 2022 £000s**	Year ended 31 December 2021 £000s
Profit for the year	**936**	7,319	**5,429**	6,756
Taxation	**4,272**	10,838	**1,280**	945
Interest payable and similar charges	**5,433**	3,646	**–**	–
Interest income	**(16)**	(23)	**(8,427)**	(6,121)
Foreign exchange (gain)/loss	**(56)**	(205)	**–**	–
Loss on disposal of intangibles	**–**	–	**–**	–
Depreciation of property, plant and equipment	**1,558**	1,575	**–**	–
Amortisation and impairment of intangibles	**27,436**	14,680	**–**	–
Change in inventories	**(2,209)**	1,842	**–**	–
Change in trade and other receivables	**(18,720)**	(6,146)	**(54)**	(3)
Change in trade and other payables	**7,281**	(326)	**387**	62
Change in provisions	**(1,078)**	9,469	**–**	–
Share-based employee remuneration	**92**	2,250	**–**	–
Dividends received	**–**	–	**–**	(2,600)
Cash generated from/(used in) operations	**24,929**	44,919	**(1,385)**	(961)

Financial Statements

26. Capital commitments

The Group had capital commitments at 31 December 2022 totalling £22,000 (2021: £nil).

27. Contingent liabilities

Contingent liabilities are possible obligations that are not probable. The Group operates in a highly regulated sector and in markets and geographies around the world each with differing requirements. As a result, and in the normal course of business, the Group can be subject to a number of regulatory inspections, investigations and customer and other claims on an ongoing basis.

It is therefore possible that the Group may incur penalties for non-compliance. In addition, a number of the Group's brands and products are subject to pricing and other forms of legal or regulatory restrictions from both governmental and regulatory bodies and also from third parties. Assessments as to whether or not to recognise a provision in respect of these matters are judgemental, as the matters are often complex and rely on estimates and assumptions as to future events.

As at 31 December 2022 there are no contingent liabilities (2021: £nil).

28. Pensions

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

The Group	**31 December 2022 £000s**	31 December 2021 £000s
Contributions payable by the Group for the year	**1,345**	1,306

29. Related party transactions

During the year, the Company entered into the following transactions with related parties:

	The Company Transaction values for the year ended		**Amount due from related parties**	
	31 December 2022 £000s	31 December 2021 £000s	**31 December 2022 £000s**	31 December 2021 £000s
Alliance Pharmaceuticals Limited – Net funds received	**(11,814)**	(10,170)	**174,005**	176,111
Alliance Pharmaceuticals Limited – Interest received	**8,427**	6,121	**–**	–
Alliance Pharmaceuticals Limited – Share-based payment recharge	**1,281**	1,021	**–**	–
Alliance Pharmaceuticals Limited – Dividend declared and received	**–**	2,600	**–**	–

Net funds received represent net payments made against the intercompany loan by Alliance Pharmaceuticals Limited.

30. Ultimate controlling party

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

31. Alternative performance measures

The performance of the Group is assessed using Alternative Performance Measures ('APMs'). The Group's results are presented both before and after non-underlying items. Adjusted profitability measures are presented excluding non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses. In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

31. Alternative performance measures continued

These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans. APMs used to explain and monitor Group performance are as follows:

Measure	Definition	Reconciliation to GAAP measure
Underlying EBIT and EBITDA	Earnings before interest, tax and non-underlying items (EBIT, also referred to as underlying operating profit), then depreciation, amortisation and impairment (EBITDA). Calculated by taking profit before tax and financing costs, excluding non-underlying items and adding back depreciation and amortisation. EBITDA margin is calculated using see-though revenue.	Note A below
Free cash flow	Free cash flow is defined as cash generated from operations less cash payments made for interest payable and similar charges, capital expenditure and tax.	Note B below
Net debt	Net debt is defined as the Group's gross bank debt position net of finance issue costs and cash.	Note C below
Underlying effective tax rate	Underlying effective tax rate is calculated by dividing total taxation for the year less impact of tax rate changes and non-underlying charges, by the underlying profit before tax for the year.	Note D below
See-through Income Statement	Under the terms of the transitional services agreement with certain supply partners, Alliance receives the benefit of the net profit on sales of Nizoral™ from the date of acquisition up until the product licences in the Asia-Pacific territories transfer to Alliance. The net product margin is recognised as part of statutory revenue. The see-through Income Statement recognises the underlying sales and cost of sales which give rise to the net product margin, as management consider this to be a more meaningful representation of the underlying performance of the business, and to reflect the way in which it is managed.	Note E below
Constant exchange rate (CER) revenue	Like-for-like revenue, impact of acquisitions, and total see-through revenue are stated so that the portion denominated in non-Sterling currencies is retranslated using foreign exchange rates from the previous financial year.	Note F below
Like-for-like	Like-for-like figures compare financial results in one period with those for the previous period, excluding the impact of acquisitions and disposals made in either period. For 2022, like-for-like revenue excludes the impact of ScarAway™ and Kelo-Cote™ US which were acquired in March 2022.	Not needed
Operating costs	Defined as underlying administration and marketing expenses, excluding depreciation and underlying amortisation charges.	Not needed

A. Underlying EBIT and EBITDA

Reconciliation of Underlying EBIT and EBITDA	**Year ended 31 December 2022 £000s**	Year ended 31 December 2021 £000s
Profit before tax	**5,208**	18,157
Non-underlying items (note 5)	**25,103**	24,061
Underlying profit before tax	**30,311**	42,218
Finance costs (note 6)	**5,361**	3,418
Underlying EBIT	**35,672**	45,636
Depreciation (note 12)	**1,558**	1,575
Underlying amortisation (note 11)	**1,964**	1,362
Underlying EBITDA	**39,194**	48,573
Underlying EBITDA margin	**22.8%**	28.7%

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

31. Alternative performance measures continued

B. Free cash flow

Reconciliation of free cash flow	**Year ended 31 December 2022 £000s**	Year ended 31 December 2021 £000s
Cash generated from operations (note 25)	**24,929**	44,919
Interest payable and similar charges	**(4,804)**	(2,965)
Capital expenditure	**(407)**	(5,532)
Tax paid	**(3,957)**	(6,260)
Free cash flow	**15,761**	30,162

C. Net debt

Reconciliation of net debt	Note	**31 December 2022 £000s**	31 December 2021 £000s
Loans and borrowings – non-current	(18)	**(133,744)**	(116,060)
Cash and cash equivalents	(16)	**31,714**	29,061
Net debt		**(102,030)**	(86,999)

D. Underlying effective tax rate

Reconciliation of underlying effective tax rate	**Year ended 31 December 2022 £000s**	Year ended 31 December 2021 £000s
Total taxation charge for the year	**(4,272)**	(10,838)
Non-underlying tax debit/(credit) (note 5)	**(2,962)**	2,805
Underlying taxation charge for the year	**(7,234)**	(8,033)
Underlying profit before tax for the year	**30,311**	42,218
Underlying effective tax rate	**23.9%**	19.0%

E. See-through Income Statement

	2022 Statutory values £000s	**See-through adjustment £000s**	**2022 See-through values £000s**
Revenue – Consumer Healthcare brands	**120,622**	**4,594**	**125,216**
Revenue – Prescription Medicines	**46,794**	**–**	**46,794**
Total revenue	**167,416**	**4,594**	**172,010**
Cost of sales	**(65,733)**	**(4,594)**	**(70,327)**
Gross profit	**101,683**	**–**	**101,683**
Gross profit margin	**60.7%**	**–**	**59.1%**

	2021 Statutory values £000s	See-through adjustment £000s	2021 See-through values £000s
Revenue – Consumer Healthcare brands	115,376	6,443	121,819
Revenue – Prescription Medicines	47,831	–	47,831
Total revenue	163,207	6,443	169,650
Cost of sales	(53,757)	(6,443)	(60,200)
Gross profit	109,450	–	109,450
Gross profit margin	67.1%	–	64.5%

There is no impact from the see-through adjustment on Income Statement lines below gross profit.

For more information visit
alliancepharmaceuticals.com

ALLIANCE

Financial Statements

For more information visit
alliancepharmaceuticals.com

ALLIANCE

31. Alternative performance measures continued

F. Constant exchange rate revenue

	2022 AER £000s	Foreign exchange impact £000s	2022 CER £000s
LFL see-through revenue – Consumer Healthcare brands	118,883	(5,994)	112,889
LFL see-through revenue – Prescription Medicines	46,794	95	46,889
Like-for-like see-through revenue	165,677	(5,899)	159,778
Impact of acquisitions (ScarAway™ and Kelo-Cote™ US)	6,333	(774)	5,559
See-through revenue (Note E)	172,010	(6,673)	165,337

	2022 AER £000s	Foreign exchange impact £000s	2022 CER £000s
LFL statutory revenue – Consumer Healthcare brands	114,289	(5,994)	108,295
LFL statutory revenue – Prescription Medicines	46,794	95	46,889
Like-for-like statutory revenue	161,083	(5,899)	155,184
Impact of acquisitions ((ScarAway™ and Kelo-Cote™ US	6,333	(774)	5,559
Statutory revenue	167,416	(6,673)	160,743