Financial statements

We deliver accurate, high-quality and timely information to all stakeholders with the utmost integrity and efficiency.

Independent auditors' report to the members of Hikma Pharmaceuticals PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Hikma Pharmaceuticals PLC's Group financial statements and Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit and cash flows for the year then ended
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law)
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

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

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

Independent auditors' report to the members of Hikma Pharmaceuticals PLC continued

Our audit approach

Overview

- Overall Group materiality: $17 million (2017: $14 million), based on 5% of profit before tax after adding back the following exceptional and other items: research and development costs relating to generic Advair Diskus®, restructuring costs as a result of the closure of the Eatontown, New Jersey manufacturing plant and the re-measurement of acquisition-related liabilities.
- Overall Company materiality: capped at $10 million (2017: $10 million), but calculated based on 1% of total assets.
- Our audit included full scope audits of seven components, audit procedures on specific financial statement line items of one component and audit procedures performed centrally over specific material balances at other locations around the world. Taken together the above procedures account for 84% of consolidated revenue, 75% of consolidated profit before tax and 83% of consolidated total assets.
- Recoverability of the carrying value of intangible assets and goodwill (Group).
- Recognition and measurement of accruals for chargebacks, rebates and returns in the US (Group).
- Recognition and measurement of uncertain tax positions and recoverability of deferred tax assets (Group).
- No key audit matters specific to the Hikma Pharmaceuticals PLC parent Company financial statements were identified.

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to regulations set out by the United States Food and Drug Administration (the FDA) and other industry regulators, defence of products, pricing and practices legislation, taxation and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with management and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud
- assessment of matters reported on the Group's whistleblowing helpline and results of management's investigation of such matters
- challenging assumptions made by management in their significant accounting estimates in particular in relation to estimation of rebate and return accruals, impairment of intangible assets, and the recognition and measurement of litigation and contingent liabilities and uncertain tax provisions (see related key audit matters below)
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals posted by senior management, journals posted and reviewed by the same individual and consolidation journals

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

Key audit matters

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

Recoverability of the carrying value of intangible assets and goodwill (Group)

Key audit matter	How our audit addressed the key audit matter
At 31 December 2018, the Group had goodwill of $279 million and intangible assets of $487 million (31 December 2017: $282 million and $503 million, respectively) comprising customer relationships, product-related intangible assets, software and other identified intangible assets. This is contained within three cash generating units (CGUs). For the year ended 31 December 2017, the Group recorded $1,105 million as an exceptional impairment charge primarily as a result of uncertainty in the generics market and the delay in approval of its application for its generic version of Advair Diskus®. All CGUs containing goodwill and indefinite-lived intangible assets must be tested for impairment annually. The Group is also required to complete an impairment review of its portfolio of finite-lived intangible assets where there are indicators of impairment. Additionally, the Group must consider whether there are indicators of impairment reversal at each reporting date. The determination of carrying values requires judgement on the part of management in identifying and then estimating the higher of the value in use and a fair value less costs to dispose for the relevant CGUs. These amounts are based on management's view of future cash flow forecasts and external market conditions such as future pricing, probability of technical and regulatory success and the most appropriate discount rate. There is a risk that the carrying value of intangible assets may be higher than the recoverable amount. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods as IAS 36 states that impairment losses are reversed if there has been an event or trigger that indicates a significant, discrete and sustained change. We focused on the intangible assets in the Generics CGU, to assess if there were any significant changes in estimates relating to the external market conditions. We further focused specifically on the business plan cash flows and assumptions in the current financial year. No impairment charges or reversals of previously recognised impairment charges were recorded in the year. *Refer to notes 3 and 16 in the Group financial statements and the Audit Committee review of areas of significant judgement on page 74.*	We assessed the determination of the CGUs identified for the impairment calculation by considering the CGUs previously used as well as from our understanding of the business and how it is monitored. With support from our valuations specialists, we obtained the Group's impairment analyses and tested the integrity of the calculations, reasonableness of key assumptions, including product profit and cash flow growth or decline, terminal values and discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry forecasts. We performed the following procedures on the Group's impairment analyses, with significant involvement from senior engagement team members: – corroborated the information to Board reviewed budgets and forecasts – understood management's process for forecasting cash flows, which is underpinned by models that include a product-by-product analysis. We challenged management's market and pricing assumptions by comparing them to historical and third party market data. We also utilised our valuations specialists to identify any anomalies or trends that warranted further investigation and corroboration – for the Group's In Process Research & Development (IPRD) in 2018 we corroborated products included in the valuation model to minutes from the Product Review Committee meetings, where decisions on pipeline and IPRD opportunities are made – in respect of costs and resulting profit margins in management's model, we challenged management on forecasted trends and assumed cost savings in the context of the Group's plans for ongoing product development, maintenance of its manufacturing facilities via capital expenditure and other investment and plans for organic growth – performed look back testing to understand how accurate management had been in its previous forecasting – we recalculated the weighted average cost of capital and considered if the amount was within a reasonable range We consider management's key assumptions to be within a reasonable range. For those intangible assets including goodwill where management determined that no impairment was required, we found that these judgements were supportable. We also obtained management's sensitivity analyses which showed the impact of reasonably possible changes to key assumptions. We considered whether these were the key sensitivities and performed our own sensitivity analyses. We considered management's policy around impairment reversal given the size of the impairment loss recognised in 2017. We considered both the conditions in the US generics market and factors relating to generic Advair Diskus®. Based on our procedures, we concluded that reversing any of the prior year impairment charge was currently not appropriate. This will continue to be monitored closely during 2019. We also validated the appropriateness of the related disclosures in note 16 of the financial statements.

Recognition and measurement of accruals for chargebacks, rebates and returns in the US (Group)

Key audit matter	How our audit addressed the key audit matter
Management is required to make certain judgements and estimates in respect of revenue recognition and specifically the level of chargebacks, returns and other revenue deductions that will be realised against the Group's revenue. These estimates are material to the financial statements and involve judgement, hence the reason for inclusion as an area of focus. The largest of these estimates relates to revenue recognition, chargebacks, rebates and returns in the US for which the Group recorded revenue deductions for the year ended 31 December 2018 of $2,057 million (2017: $1,933 million). We focused on this area as rebates, discounts, allowances and returns arrangements and the deductions from gross revenue are complex and because establishing an appropriate accrual requires significant estimation by the Directors. This judgement is complex in a US healthcare environment in which competitive pricing pressure and product discounting are trends. The Directors have determined an accrual of $409 million to be necessary at 31 December 2018 (2017: $388 million). *Refer to the Audit Committee review of areas of significant judgement page 74, significant accounting policies note 2, trade and other receivables note 21 and other current liabilities note 28.*	We considered the Group's processes for making judgements in this area and performed the following procedures: — we assessed applicable controls in place around this process, tested the nature of the pricing arrangements and the accuracy of calculations and agreed the rates in customer agreements with those used in management's calculations of the required reserves and deductions — we obtained management's calculations for accruals under applicable schemes and validated the assumptions used by reference to the Group's stated commercial policies, the terms of the applicable contracts and historical levels of product returns — we compared the assumptions to contracted prices, historical rebates, discounts, allowances and returns levels (where relevant) and to current payment trends. We also considered the historical accuracy of the Group's estimates in previous years and the impact of competitive pricing pressures and greater discounting in the US market more generally — we formed an independent expectation of the largest elements of the reserve at 31 December 2018 using third party data and compared this expectation to the actual accrual recognised by the Group Based on the procedures performed, we did not identify any material differences between our independent expectations and the accrual recorded.

Recognition and measurement of uncertain tax positions and recoverability of deferred tax assets (Group)

Key audit matter	How our audit addressed the key audit matter
The Group operates across a large number of jurisdictions due to its geographic spread, resulting in complex cross-border tax arrangements. As a result, it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business including transaction related tax matters and transfer pricing arrangements. Judgement is required in assessing the level of provisions required in respect of uncertain tax positions. At 31 December 2018, the Group has recorded provisions of $53 million in respect of uncertain tax positions (2017: $61 million). In 2018 management has recorded an exceptional deferred tax credit of $43 million relating to the 2017 impairment charge on US intangible assets. This credit was not recognised in 2017 due to insufficient forecast taxable profits in the US to meet the recognition criteria in IAS 12. At 31 December 2018, the total deferred tax asset was $125 million (2017: $135 million). *Refer to notes 12 and 13 in the Group financial statements.*	In conjunction with our UK, US, international tax and transfer pricing specialists, we evaluated and challenged management's judgements in respect of estimates involved in the determination of uncertain tax provisions and judgements taken in the measurement of deferred tax assets. In understanding and evaluating management's judgement relating to the level of provisioning for uncertain tax positions, we considered the status of ongoing tax authority audits, the outcome of previous tax authority audits, developments in the tax environment and external tax advice received by the Group, where relevant, to satisfy ourselves that the tax provisions had been appropriately recorded or adjusted to reflect the latest developments. In respect of deferred tax we considered whether deferred tax assets were recoverable with reference to Board reviewed forecasts. We ensured that these forecasts were consistent with those used for impairment testing (see above). We also challenged management on whether it is appropriate to now recognise deferred tax assets in respect of the 2017 impairment charge. We concur with management that, as a result of changes to the US business model due to an internal reorganisation, which increased US taxable profits principally in relation to the Injectables business, it is now sufficiently probable that future taxable profit will be available against which the tax relief arising on the 2017 impairment loss can be utilised. Consequently we believe it is now appropriate to recognise a deferred tax asset. We also considered the appropriateness of the related disclosures in notes 12 and 13 to the financial statements. Based on the procedures performed, we noted no material matters from our work.

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

Procedures were performed prior to year-end to evaluate component procedures and controls, and visits were undertaken by senior team members to component locations, to refine the audit approach and ensure sufficient oversight of component auditors.

As at 31 December 2018, Hikma Pharmaceuticals PLC had in total 51 entities (subsidiaries and associates) as part of the Group. These entities may operate solely in one segment but more commonly operate across two. Each territory (component) submits a Group reporting package to Hikma's central accounting team including its income and financial position prepared under Group accounting policies which are in compliance with IFRSs. We requested component teams in the US (Hikma Pharmaceuticals USA Inc. and West-Ward Columbus Inc.), Jordan (Hikma Jordan), Saudi Arabia (Hikma Al Jazeera Pharmaceuticals Industries), Algeria (Hikma Pharma Algeria) and Portugal (Hikma Portugal) to audit reporting packages of certain entities in these territories and report the results of their full scope audit work to us. This work was supplemented by procedures over specific balances performed on Hikma Pharmaceuticals International Limited (HPIL) and procedures performed centrally including the consolidation, taxation and certain component balances not covered by local component teams.

The involvement of the Group audit team in the work of the component auditors included conference calls, meetings with local management, review of working papers, attendance at audit clearance meetings, and other forms of communication as considered necessary depending on the significance of the component and the extent of accounting and audit issues arising. Senior members of the Group audit team also visited the US and Jordan.

Taken together our audit work accounted for 84% of consolidated revenue, 75% of consolidated profit before tax, 83% of total assets and 73% of the adjusted profit measure we use as a basis for determining materiality.

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

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

	Group financial statements	Company financial statements
Overall materiality	$17 million (2017: $14 million).	$10 million (2017: $10 million).
How we determined it	5% of profit before tax after adding back the following exceptional and other items: research and development costs relating to generic Advair Diskus®, restructuring costs as a result of the closure of the Eatontown, New Jersey manufacturing plant and the remeasurement of acquisition-related liabilities.	1% of total assets. This was capped at $10 million (2017: $10 million), but calculated based on 1% of total assets.
Rationale for benchmark applied	The Group's principal measure of earnings is core profit. Management believes that it reflects the underlying performance of the Group and is a more meaningful measure of the Group's performance. We took this measure into account in determining our materiality but did not add back certain non-core items unless we deemed them to be non-recurring in nature. Our materiality would have been higher if we had adjusted for all non-core items.	The Company holds the Group's investments and performs treasury functions on behalf of the Group. The strength of the balance sheet is the key measure of financial health that is important to shareholders since the primary concern for the parent Company is the payment of dividends and servicing of debt.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between $1,500,000 and $10,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $850,000 (Group audit) (2017: $500,000) and $850,000 (Company audit) (2017: $500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Hikma Pharmaceuticals PLC continued

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

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

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

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

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

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

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

Corporate Governance Statement
In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 62 to 107) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA (DTR) is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 62 to 107) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
We have nothing material to add or draw attention to regarding:

- the Directors' confirmation on page 58 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated
- the Directors' explanation on page 61 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the Code); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:

- the statement given by the Directors, on page 107, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit

- the section of the Annual Report on page 74 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

- the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Responsibility Statement set out on page 107, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit or

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us or

- certain disclosures of Directors' remuneration specified by law are not made or

- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 11 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2016 to 31 December 2018.

Mark Gill
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
12 March 2019

Consolidated income statement

For the year ended 31 December 2018

	Note	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	4	**2,076**	**(6)**	**2,070**	1,936	–	1,936
Cost of sales		**(1,004)**	**(16)**	**(1,020)**	(963)	(6)	(969)
Gross profit		**1,072**	**(22)**	**1,050**	973	(6)	967
Sales and marketing expenses		**(191)**	**(33)**	**(224)**	(188)	(48)	(236)
General and administrative expenses		**(246)**	**–**	**(246)**	(238)	(1)	(239)
Net impairment reversals on financial assets		**11**	**–**	**11**	–	–	–
Research and development expenses		**(118)**	**(29)**	**(147)**	(115)	(6)	(121)
Other operating expenses (net)	9	**(68)**	**(5)**	**(73)**	(46)	(1,072)	(1,118)
Total operating expenses		**(612)**	**(67)**	**(679)**	(587)	(1,127)	(1,714)
Operating profit/(loss)	5	**460**	**(89)**	**371**	386	(1,133)	(747)
Finance income	10	**3**	**–**	**3**	2	93	95
Finance expense	11	**(54)**	**(26)**	**(80)**	(60)	(26)	(86)
Loss from investment at fair value		**(1)**	**–**	**(1)**	–	–	–
Profit/(loss) before tax		**408**	**(115)**	**293**	328	(1,066)	(738)
Tax	12	**(73)**	**65**	**(8)**	(72)	(29)	(101)
Profit/(loss) for the year		**335**	**(50)**	**285**	256	(1,095)	(839)
Attributable to:							
Non-controlling interests	34	**3**	**–**	**3**	4	–	4
Equity holders of the parent		**332**	**(50)**	**282**	252	(1,095)	(843)
		335	**(50)**	**285**	256	(1,095)	(839)
Earnings/(loss) per share (cents)							
Basic	15	**137.8**		**117.0**	105.0		(351.3)
Diluted	15	**137.2**		**116.5**	104.6		(349.8)

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Profit/(loss) for the year		335	(50)	285	256	(1,095)	(839)
Other comprehensive income/(loss)							
Items that may be reclassified subsequently to the consolidated income statement, net of tax:							
Currency translation (loss)/gain		(29)	–	(29)	20	–	20
Items that will not be reclassified subsequently to the consolidated income statement, net of tax:							
Change in fair value of available-for-sale financial assets[1]	24	–	–	–	2	–	2
Change in the fair value of equity investments[2]	19	7	–	7	–	–	–
Total comprehensive income/(loss) for the year		313	(50)	263	278	(1,095)	(817)
Attributable to:							
Non-controlling interests		1	–	1	3	–	3
Equity holders of the parent		312	(50)	262	275	(1,095)	(820)
		313	(50)	263	278	(1,095)	(817)

1. This investment was previously designated as available-for-sale financial assets, upon transition to IFRS 9 it has been re-categorised as Investments measured at fair value through profit or loss (FVTPL)
2. This investment was previously classified as available-for-sale and stated at cost (under IAS 39 cost exemption); upon transition to IFRS 9 it has been re-categorised as Investments measured at fair value through other comprehensive income (FVTOCI)

Consolidated balance sheet

At 31 December 2018

	Note	2018 $m	2017 $m
Non-current assets			
Goodwill	16	**279**	282
Other intangible assets	16	**487**	503
Property, plant and equipment	17	**870**	828
Investment in associates and joint ventures	18	**11**	6
Deferred tax assets	13	**125**	135
Financial and other non-current assets	19	**57**	60
		1,829	1,814
Current assets			
Inventories	20	**528**	488
Income tax receivable		**74**	53
Trade and other receivables	21	**731**	707
Collateralised and restricted cash	22	**–**	4
Cash and cash equivalents	23	**276**	227
Other current assets	24	**59**	95
		1,668	1,574
Total assets		**3,497**	3,388
Current liabilities			
Bank overdrafts and loans	25	**74**	86
Trade and other payables	26	**465**	365
Income tax provision		**68**	82
Other provisions	27	**23**	26
Other current liabilities	28	**263**	238
		893	797
Net current assets		**775**	777
Non-current liabilities			
Long-term financial debts	29	**539**	670
Obligations under finance leases	30	**23**	20
Deferred tax liabilities	13	**16**	49
Other non-current liabilities	32	**329**	324
		907	1,063
Total liabilities		**1,800**	1,860
Net assets		**1,697**	1,528
Equity			
Share capital	33	**40**	40
Share premium		**282**	282
Other reserves		**(217)**	(190)
Retained earnings		**1,580**	1,382
Equity attributable to equity holders of the parent		**1,685**	1,514
Non-controlling interests	34	**12**	14
Total equity		**1,697**	1,528

The consolidated financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 116 to 167 were approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

Said Darwazah
Director
12 March 2019

Sigurdur Olafsson
Director

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Merger and revaluation reserves $m	Translation reserve $m	Own shares $m	Total other reserves $m	Retained earnings $m	Share capital $m	Share premium $m	Equity attributable to equity shareholders of the parent $m	Non-controlling interests $m	Total equity $m
Balance at 1 January 2017	1,077	(248)	(1)	828	1,246	40	282	2,396	15	2,411
Loss for the year[1]	(1,039)	–	–	(1,039)	196	–	–	(843)	4	(839)
Change in fair value of available-for-sale financial assets (note 24)[2]	–	–	–	–	1	–	–	1	–	1
Currency translation gain/(loss)	–	21	–	21	–	–	–	21	(1)	20
Total comprehensive (loss)/income for the year	(1,039)	21	–	(1,018)	197	–	–	(821)	3	(818)
Cost of equity-settled employee share scheme (note 38)	–	–	–	–	22	–	–	22	–	22
Dividends on ordinary shares (note 14)	–	–	–	–	(79)	–	–	(79)	(2)	(81)
Adjustment arising from change in non-controlling interests (note 34)	–	–	–	–	(4)	–	–	(4)	(2)	(6)
Total transactions with owners, recognised directly in equity										
Balance at 31 December 2017 and 1 January 2018 as previously reported	38	(227)	(1)	(190)	1,382	40	282	1,514	14	1,528
Impact of IFRS 9[3]	–	–	–	–	(3)	–	–	(3)	–	(3)
Impact of IFRS 15[3]	–	–	–	–	(25)	–	–	(25)	–	(25)
Balance at 1 January 2018 as adjusted	38	(227)	(1)	(190)	1,354	40	282	1,486	14	1,500
Profit for the year	–	–	–	–	282	–	–	282	3	285
Change in the fair value of equity investments at fair value through other comprehensive income (note 19)[4]	–	–	–	–	7	–	–	7	–	7
Currency translation loss	–	(27)	–	(27)	–	–	–	(27)	(2)	(29)
Total comprehensive income/(loss) for the year	–	(27)	–	(27)	289	–	–	262	1	263
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme (note 38)	–	–	–	–	21	–	–	21	–	21
Dividends on ordinary shares (note 14)	–	–	–	–	(84)	–	–	(84)	(3)	(87)
Balance at 31 December 2018	**38**	**(254)**	**(1)**	**(217)**	**1,580**	**40**	**282**	**1,685**	**12**	**1,697**

1. In 2017 a loss of $1,039 million had been allocated from retained earnings to the merger and revaluation reserves in relation to the Columbus business impairment (note 6, 16 and 17)
2. This investment was previously designated as available-for-sale financial assets, upon transition to IFRS 9 it has been re-categorised as Investments FVTPL
3. The Group adopted IFRS 9 and IFRS 15 from 1 January 2018 (note 1, 4, 28 and 44)
4. This investment was previously classified as available-for-sale and stated at cost (under IAS 39 cost exemption); upon transition to IFRS 9 it has been re-categorised as Investments at FVTOCI

Consolidated cash flow statement

For the year ended 31 December 2018

	Note	2018 $m	2017 $m
Cash flows from operating activities			
Cash generated from operations	36	**493**	546
Income taxes paid		**(63)**	(103)
Net cash inflow from operating activities		**430**	443
Cash flow from investing activities			
Purchases of property, plant and equipment		**(107)**	(107)
Proceeds from disposal of property, plant and equipment		**13**	4
Purchase of intangible assets		**(32)**	(44)
Cash (paid)/received from investment in joint ventures		**(4)**	2
Investment in financial and other non-current assets, net		**4**	(2)
Investments at fair value through other comprehensive income (2017: available-for-sale investment)		**(4)**	(8)
Acquisition of business undertakings net of cash acquired		**1**	3
Contingent consideration adjustment		**30**	–
Finance income		**3**	1
Net cash outflow from investing activities		**(96)**	(151)
Cash flow from financing activities			
Decrease in collateralised and restricted cash		**3**	3
Proceeds from issue of long-term financial debts[1]		**93**	349
Repayment of long-term financial debts[1]		**(224)**	(401)
Proceeds from short-term borrowings[2]		**138**	323
Repayment of short-term borrowings[2]		**(148)**	(349)
Dividends paid		**(84)**	(79)
Dividends paid to non-controlling shareholders of subsidiaries		**(3)**	(2)
Interest paid		**(51)**	(57)
Purchase of non-controlling interest in subsidiary		**–**	(6)
Payment from co-development and earnout payment agreement, net		**(2)**	(1)
Net cash outflow from financing activities		**(278)**	(220)
Net increase in cash and cash equivalents		**56**	72
Cash and cash equivalents at beginning of year		**227**	155
Foreign exchange translation movements		**(7)**	–
Cash and cash equivalents at end of year		**276**	227

1. These cash flows relate to long-term financial debts (note 29) and the movements above reconcile to the movement per the note. In the prior year, the movement reconciled to the note after including a non-cash movement of $1 million in respect of unfavourable translation differences
2. These cash flows relate to bank overdraft and loans (note 25) and the movements above reconcile to the movement per the note after including a non-cash movement of $2 million (2017: $5 million) in respect of favourable translation differences

Notes to the consolidated financial statements

1. Adoption of new and revised standards

The following new and revised standards and interpretations have been adopted in the current year. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group, but may impact the accounting for future transactions and arrangements.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendments)	Revenue from Contracts with Customers

The following standards and interpretations have not been applied in these consolidated financial statements because while in issue, these are not yet effective:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments

IFRS 15

IFRS 15 'Revenue from Contracts with Customers' is effective for accounting periods beginning on or after 1 January 2018 and replaces IAS 18 'Revenue'. It provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the Company expects to be entitled to receive. The standard also updates revenue disclosure requirements.

The key revenue recognition policy impacted under IFRS 15 is the accounting of free goods. Previously, free goods were recorded only at cost, within cost of sales and no transaction price was allocated to the free goods revenue. Under IFRS 15 an option to acquire additional goods or services gives rise to a separate performance obligation, if the option provides a material right to the customer that the customer would not receive without entering into that contract. The standard requires management to estimate the transaction price to be allocated to the separate performance obligations, to defer revenue and to recognise a contract liability for the performance obligations that will be satisfied in the future. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

The Group has adopted IFRS 15, applying modified retrospective approach on 1 January 2018 with a cumulative adjustment as an increase to other current liabilities of $27 million (contract liability), reflecting the free goods obligations outstanding as at 1 January 2018, an increase of trade receivables by $1 million, decrease in the income tax provision by $1 million and the corresponding net adjustment to decrease retained earnings by $25 million. There is no restatement to prior periods as permitted in the transition rules for IFRS 15. The impact of IFRS 15 on the consolidated financial statements for 31 December 2018 is disclosed in note 44.

IFRS 9

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018, bringing aspects of the accounting for financial instruments: classification, measurement; and impairment.

(a) Classification and measurement
The principal impact is that the portfolio investments (quoted securities portfolio) previously designated as available-for-sale financial assets have been re-categorised on initial application as Investments FVTPL. For further details, see note 24 of the consolidated financial statements and note 51 to the Company financial statements. The Group recorded the fair value movements for such investments through the consolidated income statement for the year ended 31 December 2018.

Equity instruments are normally measured at fair value through profit or loss. However, on initial recognition, the Group may make irrevocable election (on instrument-by-instrument basis) to present in other comprehensive income subsequent changes in the fair value of equity instrument not held for trading.

The fair value movements on investments in unlisted equity instrument (i.e. the Group's venture capital investments) are recorded in other comprehensive income. This category only includes equity instruments, which the Group intends to hold for the foreseeable future. The Group has irrevocably elected (on instrument-by-instrument basis) to classify these equity investments as measured at FVTOCI upon transition to IFRS 9.

Previously, the investments in unlisted shares that were not held for trading were stated at cost, less a provision for any impairment loss (under IAS 39 cost exemption). At transition date, the investments in unlisted shares ($16 million – see note 31) are re-classed as financial assets measured at FVTOCI.

(b) Impairment
The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

The Group has adopted IFRS 9 retrospectively, but with certain permitted exceptions. As a result, prior year results are also not restated, but a cumulative adjustment as a decrease in trade receivables and a corresponding adjustment to decrease equity at 1 January 2018 by $3 million has been made (note 44).

The adoption of the ECL requirements of IFRS 9 resulted in an increase in impairment allowance of the Group's debt financial assets.

The other changes introduced in IFRS 9 have not had a significant impact on the Group.

IFRS 16

IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal form of a Lease'.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

1. Adoption of new and revised standards continued

The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Early application is permitted. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs; it is currently anticipated that the standard will be adopted on a modified retrospective approach.

In 2018, the Group has assessed the potential effect of IFRS 16 on its consolidated financial statements. The Group expects to recognise lease liabilities of approximately $49 million on 1 January 2019, right-of-use assets of $46 million (after an adjustment for accrued rent of $3 million recognised as at 31 December 2018).

IFRIC 23

IFRIC 23 'Uncertainty over Income Tax Treatments' was issued in June 2017 and will be implemented by the Group from 1 January 2019. The interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter.

The Group has assessed the potential impact of the new interpretation and believes the application of IFRIC 23 on 1 January 2019 will not result in a material change to the provisions held for uncertain tax positions.

2. Significant accounting policies

General information

Hikma Pharmaceuticals PLC is a public limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is given on page 176.

The Group's principal activities are the development, manufacture, and marketing of a broad range of branded and non-branded generic pharmaceuticals products across the US, the Middle East and North Africa (MENA) and Europe. Hikma is also a leading licensing partner in MENA.

Basis of preparation

The Group consolidated financial statements are prepared in accordance with:

(i) EU endorsed International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Standards Interpretations Committee and those parts of the Companies Act 2006 as applicable to companies using IFRS.

(ii) International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation to fair value of certain financial assets and liabilities.

The accounting policies included in this note have been applied consistently other than where new policies have been adopted.

The Group's previously published consolidated financial statements were also prepared in accordance with IFRSs issued by the IASB and also in accordance with IFRSs adopted for use in the European Union.

The presentation and functional currency of the Group is the US dollar as the majority of the Group's business is conducted in US dollars.

Going concern

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and therefore considered the going concern basis as appropriate. Therefore, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements (see page 61).

Basis of consolidation

The consolidated financial statements incorporate the results of Hikma Pharmaceuticals PLC (the Company) and entities controlled by the Company (together the Group). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The consolidated financial statements include:

- the assets and liabilities, results and cash flows of the Company and its subsidiaries, (entities that are controlled by the Group, through the power of governing the financial and operating policies to obtain benefits from its activities)
- the Group's share of the results and net assets of associates and joint ventures

The consolidated financial statements of entities are made up to 31 December each year.

Interests acquired in entities are consolidated from the date the Group acquires control and interests sold are de-consolidated from the date control ceases.

Goodwill is capitalised as a separate item in the case of subsidiaries and as part of the cost of investment in the case of joint ventures and associates.

Transactions and balances between subsidiaries are eliminated and no profit before tax is taken on sales between subsidiaries until the products are sold to customers outside the Group.

Transactions with non-controlling interests are recorded directly in equity.

Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable.

2. Significant accounting policies continued

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. All identifiable assets, liabilities and contingent liabilities acquired are measured at fair value on the acquisition date. All acquisition related costs are recognised in the consolidated income statement as incurred.

The consideration is measured at the aggregate fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, at the acquisition date. Where applicable, this consideration may include the fair value of assets or liabilities resulting from a contingent consideration arrangement.

Contingent consideration classified as an asset or liability is a financial instrument and within the scope of IFRS 9 'Financial Instruments', is measured at fair value with changes in fair value recognised in consolidated income statement in line with IFRS 9, 'Other Contingent Consideration' that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated income statement.

Subsequent changes to those fair values can only affect the measurement of goodwill, where they occur during the 'measurement period' and are as a result of additional information becoming available about facts and circumstances that existed at the acquisition date. All other changes are dealt with in accordance with relevant IFRSs. This will usually mean that changes in the fair value of consideration are recognised in the consolidated income statement.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the aggregate of consideration, non-controlling interest and fair value of previously held equity interest over the fair values of the identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the consideration, the excess is recognised immediately in the consolidated income statement.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date that the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Investment in associates and joint ventures

An associate is an entity which the Group has significant influence over, where the Group has the power to participate in the financial and operating policy decisions of the investee revenue.

Joint ventures are entities that the Group has the ability to exercise joint control over their economic activities and net assets.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, where the investments are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any impairment charges are recognised immediately in the consolidated income statement.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit after tax.

Foreign currencies

Foreign currency transactions, being transactions denominated in a currency other than an individual Group entity's functional currency, are translated into the relevant functional currencies of individual Group entities at average rates for the relevant monthly accounting periods, which approximate to actual rates. Monetary assets and liabilities arising from foreign currency transactions are retranslated at exchange rates prevailing at the reporting date. Exchange gains and losses on loans and on short-term foreign currency borrowings and deposits are included within finance income and expense. Exchange differences on all other foreign currency transactions are recognised in operating profit in the individual Group entity's accounting records. Non-monetary items arising from foreign currency transactions are not retranslated in the individual Group entity's accounting records. In the consolidated financial statements, income and expense items for Group entities with a functional currency other than US dollars are translated into US dollars at average exchange rates, which approximate to actual rates, for the relevant accounting periods. Assets and liabilities are translated at the US dollar exchange rates prevailing at the reporting date. Exchange differences arising on consolidation are recognised in the consolidated statement of other comprehensive income.

Hyperinflationary economies

In hyperinflationary economies, when translating the results of operations into US dollars, assets, liabilities, income statement and equity accounts are translated at the rate prevailing on the balance sheet date. Sudan was considered as a hyperinflationary economy in the year ended 31 December 2018 in which the rate prevailing was 47.6 Sudanese pounds per US dollar as of 31 December 2018. The effect of inflation accounting in Sudan for the year ended 31 December 2018 was not material.

Revenue recognition

Under IFRS 15 revenue is recognised in the consolidated income statement when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

2. Significant accounting policies continued

The transition to IFRS 15 had no significant impact on the Group's revenue recognition policies as the majority of the Group's revenue is derived from the supply of goods (i.e. single performance obligation). The only significant revenue recognition policy that is impacted by IFRS 15 transition is free goods. Refer to free goods policy for more details.

The Group has generally concluded that it acts as principal in its revenue arrangements because it typically controls the goods or services before the transfer to customer.

Revenue represents the amounts receivable after the deduction of discounts, value added tax, other sales taxes, allowances given, penalties, provisions for chargebacks and accruals for estimated future rebates, returns and price adjustments. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in light of contractual and historical information.

Dynamic market changes can generate uncertainty as to the ultimate net selling price of a pharmaceutical product and therefore revenue cannot always be measured reliably at the point when the product is supplied or made available to external customers.

If the ultimate net selling price cannot be reliably measured, revenue recognition is deferred until a reliable measurement can be made. Revenue is only recognised when it is highly probable that a significant reversal will not occur.

The Group does not expect to have any contract where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Variable consideration

Chargebacks

The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. In the US, the Group sells its products directly to wholesale distributors, generic distributors, retail pharmacy chains and mail-order pharmacies. The Group also sells its products indirectly to independent pharmacies, managed care organisations, hospitals, and group purchasing organisations, collectively referred to as 'indirect customers'. The Group enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which they purchase the products at agreed-upon prices. The Group will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler's invoice price. This credit is called a chargeback. The provision for chargebacks is based on historical sell-through levels by the Group's wholesale customers to the indirect customers, and estimated wholesaler inventory levels. As sales are made to large wholesale customers, the Group continually monitors the reserve for chargebacks and makes adjustments when it believes that actual chargebacks may differ from estimated reserves.

Returns

The Group has a product return policy that allows customers to return the product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognised as a reduction of revenue in the period in which the underlying sales are recognised.

The Group estimates its provision for returns based on historical experience, representing management's best estimate. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Group continually monitors the provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves.

Rebates

In certain countries, rebates are granted to healthcare authorities and under contractual arrangements with certain customers. Products sold in the US are covered by various programmes (such as Medicaid) under which products are sold at a discount.

The Group estimates its provision for rebates based on current contractual terms and conditions as well as historical experience, changes to business practices and credit terms. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future rebate liabilities. The Group continually monitors the provisions for rebates and makes adjustments when it believes that actual rebates may differ from established reserves. All rebates are recognised in the period in which the underlying sales are recognised as a reduction of revenue.

Price adjustments

Price adjustments, also known as 'shelf stock adjustments', are credits issued to reflect decreases in the selling prices of the Group's products that customers have remaining in their inventories at the time of the price reduction. Decreases in selling prices are discretionary decisions made by Group management to reflect competitive market conditions. Amounts recorded for estimated shelf stock adjustments are based upon specified terms with direct customers, estimated declines in market prices and estimates of inventory held by customers. The Group regularly monitors these and other factors and re-evaluates the reserve as additional information becomes available.

Customer option that provides a material right

Free goods

Free goods are issued to customers as sale incentives. Under IFRS 15 an option to acquire additional goods or services gives rise to a separate performance obligation, if the option provides a material right that the customer would not receive without entering into that contract. IFRS 15 requires management to estimate the transaction price to be allocated to the separate performance obligations and to recognise a contract liability for the performance obligations that will be satisfied in the future. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

Previously, free goods were recorded only at cost, within cost of sales and no transaction price was allocated to the free goods revenue.

2. Significant accounting policies continued

Contract manufacturing
The Group manufactures certain medicines on behalf of customers. The revenue from providing contract manufacturing services is recognised when these medicines are approved by the quality control department. There is no alternative use of these medicines and the Group also has the enforceable right to payments once these medicines are quality approved.

Share-based payments
At the Company's discretion and subject to the achievement of Group and personal performance criteria, employees (including Executive Directors) of the Group receive performance remuneration in the form of share-based payments, whereby employees render their services in exchange for shares or rights over shares (equity-settled transactions) under either the 2014 Executive Incentive Plan (EIP) or the 2009 Management Incentive Plan (MIP) and the 2007 Long-Term Incentive Plan (LTIP) (noting that the last grant under the LTIP was made in 2014).

IFRS 2 'Share-Based Payments' requires an expense to be recognised when the Group buys goods or services in exchange for shares or rights over shares (share-based payments) or in exchange for other equivalent assets.

The cost of share-based payments' transactions with employees is measured by reference to the fair value at the date at which the share-based payments are granted. The fair value of the EIP and MIP are determined based on the share price as at the date of grant discounted by the dividend yield.

The expected life used in the models applied to fair value the EIPs and MIPs have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations (further details are given in note 38). In valuing share-based payments, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of Hikma Pharmaceuticals PLC.

The cost of share-based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the vesting period based on the Group's estimate of equity instruments that will eventually vest. The Group revises its estimate of the number of equity instruments expected to vest and the impact of the revision of the original estimates, if any, is recognised in the consolidated income statement, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Where the terms of share-based payments award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the modification date. Where a share-based payment award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for a cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above.

The dilutive effect of outstanding share-based payments is reflected as additional share dilution in the computation of diluted earnings per share.

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Dividend income
Income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing
Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the operating lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated balance sheet as a capital lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

A new standard for leasing, IFRS 16 'Leases' will come into effect on 1 January 2019, the potential effect on the consolidated financial statement is disclosed in note 1.

Government grants
Government grants relating to property, plant and equipment are treated as deferred income and released to the consolidated income statement over the expected useful lives of the assets concerned.

Tax
The Group provides for income tax according to the laws and regulations prevailing in the countries where the Group operates. Furthermore, the Group computes and records deferred tax assets and liabilities according to IAS 12 'Income Taxes'.

The tax expense represents the sum of the current tax in the current period and deferred tax.

2. Significant accounting policies continued

The current tax incurred in the period is based on taxable profit for the year and prior year movement accounted for in the current year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's tax incurred is calculated using tax rates that have been enacted or substantively enacted by the consolidated balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the consolidated balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can reverse. To the extent the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, no deferred tax is provided.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is booked on unrealised inter-company profits on inventory sales, to the extent they are expected to unwind, at the rate applicable to the distribution company. Where there is a significant difference between the tax rates of the relevant companies, this creates deferred tax that can materially impact the Group's effective tax rate. In 2018, this had a 1.3% favourable impact on the effective tax rate (2017: 0.9% unfavourable).

Core results

Reported results represent the Group's overall performance. However, these results can include one-off or non-cash items that mask the underlying performance of the Group.

Non-IFRS measures are used to report and monitor the underlying performance of our business. Management uses these numbers internally to measure our progress and for setting performance targets. To provide a more complete picture of the Group's performance we present core results, alongside our reported results, to external audiences to help them understand the underlying performance of our business. Our core results may be calculated differently to other companies.

Core numbers are not substitutable for IFRS numbers and should not be considered superior to results presented in accordance with IFRS.

Our core results exclude the exceptional items and other adjustments set out in note 6 to the consolidated financial statements.

Exceptional items

Exceptional items represent adjustments for costs and profits which management believes to be exceptional in nature by virtue of their size or incidence, or have a distortive effect on current year earnings. Such items include costs associated with business combinations, one-off gains and losses on disposal of businesses assets, reorganisation costs, write-down and impairment charges on assets and impairment of goodwill, net of any tax impact.

Other adjustments

These include amortisation of intangibles excluding software and finance cost resulted from remeasurement of contingent consideration, financial liability and asset, net of any tax impact.

Both exceptional items and other adjustments are excluded from core results to improve comparability and consistency of our consolidated financial statements, which is consistent with our fellow companies. We represent and discuss our Group and segmental financials reconciled between reported and core results. This presentation allows for full visibility and transparency of our financials so that shareholders are able to clearly assess the performance factors of the Group.

The basis of determining exceptional items did not change from prior year.

Intangible assets

An intangible asset is recognised if:
- it is identifiable
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group
- the cost of the asset can be measured reliably

The probability of expected future economic benefits is assessed using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset and are amortised on a straight-line basis on the following amortisation rates:

Customer relationships	7%
Product related intangibles	7% to 14%
Trade names	10%
Marketing rights	10% to 50%
Software	10% to 30%

Judgement is used to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

Expenditures on research and development activities are charged to the consolidated income statement, except only when the criteria for recognising an internally generated intangible asset is met, which is usually when approval from the relevant regulatory authority is considered probable.

2. Significant accounting policies continued

Also, the Group engages with third party research and development companies to develop products on its behalf. Substantial payments made to such third parties to fund research and development efforts are recognised as intangible assets if the capitalisation criteria for recognising an intangible asset is met, which typically is when licence fees and milestone payments are made, all other payments are charged to the consolidated income statement.

Principal intangible assets are:

(a) **Goodwill:** arising in a business combination and is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the consolidated income statement on disposal.

(b) **Customer relationships:** represent the value attributed to the long-term relationships held with existing customers at the date of acquisition and are amortised over their useful economic life.

(c) **Product related intangibles:**
   (i) Product files and under-licensed products recognised through acquisitions, and from development activities are amortised over their useful economic lives once the asset is ready for use.

   (ii) In process product files recognised on acquisition are amortised over the useful economic life once the asset is ready for use.

(d) **Trade names:** are amortised over their useful lives from the date of acquisition.

(e) **Marketing rights:** are amortised over their useful lives commencing in the year in which the rights first generate sales.

(f) **Purchased software:** is amortised over the useful economic life when the asset is ready for use.

Property, plant and equipment

Property, plant and equipment have been stated at cost on acquisition and are depreciated on a straight-line basis except for land at the following depreciation rates:

Buildings	2% to 4%
Machinery and equipment	5% to 33%
Vehicles, fixtures and equipment	6% to 33%

A units of production method of depreciation is applied to operations in their start-up phase, as this reflects the expected pattern of consumption of the future economic benefits embodied in the assets. When these assets are fully utilised, a straight-line method of depreciation is applied.

Projects under construction are not depreciated until construction has been completed and assets are considered ready for use.

Any additional costs that extend the useful life of property, plant and equipment are capitalised.

Property, plant and equipment which are financed by leases giving Hikma Pharmaceuticals PLC substantially all the risks and rewards of ownership are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments at the inception of the lease, and depreciated in the same manner as other property, plant and equipment over the shorter of the lease term or their useful life.

Whenever the recoverable amount of an asset is impaired, the carrying value is reduced to the recoverable amount and the impairment loss is taken to the consolidated income statement. Projects under construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Impairment of property, plant and equipment and intangible assets

Each year, the Group carries out an impairment review for goodwill and intangible assets that are not yet ready for use. At the year end, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets that are subject to depreciation and amortisation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). In consideration of the impairment review, the Group compares the carrying value of the asset to its recoverable amount.

2. Significant accounting policies continued

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit (CGU)) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement.

The Group's goodwill and intangible assets are tested as follows:

(a) Goodwill is allocated to each of the Group's CGUs. These CGUs are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The assumptions used in the impairment tests are set out in note 16.

(b) Intangible assets that are not yet ready for use are not subject to amortisation, and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a sustained change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. In line with IAS 36, previously recognised impairment losses on goodwill are not reversed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Purchased products are stated at acquisition cost including all additional attributable costs incurred in bringing each product to its present location and condition. The costs of own-manufactured products comprise of direct materials and, where applicable, direct labour costs and any overheads that have been incurred in bringing the inventories to their present location and condition. In the consolidated balance sheet, inventory is primarily valued at standard cost, which approximates to historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the consolidated income statement.

Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs necessary to make the sale. Inventory related provisions are made for net realisable value lower than cost, slow moving and short-dated inventory.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

From 1 January 2018, the Group classifies its financial assets in the following measurements categories:

(i) Financial assets at fair value through profit and loss (P&L)

Listed shares and investment portfolios held by the Group that are traded in an active market are classified as being financial assets at FVTPL and are stated at fair value. Gains and losses arising from changes in fair value are recognised in the consolidated income statement, see note 24.

(ii) Financial assets designated at fair value through other comprehensive income (OCI)

The Group's investments in unlisted shares that are not traded in an active market and the fair value of which cannot be reliably measured are stated at cost, less a provision for any impairment loss, see note 19.

(iii) Financial assets at amortised cost

Trade receivables, loans, and other receivables that have fixed or determinable payments of principle and interest amounts and are not quoted in an active market are classified as 'Financial assets at amortised cost'. These receivables include the reimbursements of certain contingent payments in respect to milestone, loan, and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as being at FVTPL.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit loss. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. Significant accounting policies continued

Financial liabilities
Financial liabilities are classified in two categories: financial liabilities 'at FVTPL' or 'Loans and Borrowings'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

(i) Financial liabilities at (FVTPL)
The Group currently has two financial liabilities at FVTPL as below:

- co-development and earn out payment agreements with third parties where the Group earns milestone payments reflecting the achievement of research and development; and commercialisation milestones. Those payments are recognised as financial liabilities once received
- contingent consideration arising from the Columbus business acquisition represent contractual liabilities to make payments to third parties in the form of milestone payments that are dependent on the achievement of certain US FDA approval milestones; and royalty payments based on future sales of certain products that are currently under development

Financial liabilities are revalued at the end of each reporting period to represent the value of expected future cash outflows and the difference is presented as finance cost/income. These financial liabilities are currently booked under other non-current liabilities and other current liabilities in the consolidated balance sheet.

(ii) Loans and borrowings
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest method.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Restructuring provisions
Restructuring provisions are recognised only when the Group has a constructive obligation, which is when:

(i) There is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and

(ii) The employees affected have been notified of the plan's main features.

Decommissioning provisions
The Group records a provision for decommissioning costs of a manufacturing facility. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated income statement as a finance expense. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Onerous contracts
The present obligation under the onerous contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Own shares
The Group provide finance to the trustee of the Employee Benefit Trust (EBT) which is Link Trustees (Jersey) Limited. Own shares are deducted from equity. These shares are held to be used to satisfy long-term commitments arising from the employee share plan operated by the Company.

Cash dividend
The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. In accordance with the laws of the United Kingdom, a final dividend is binding on the Company when it is approved by the shareholders and an interim dividend obtains this status when it is approved by the Board of Directors.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group's Directors believe that the following accounting policies that involve Directors' judgements and estimates are the most critical to understanding and evaluating the Group's financial results.

Revenue recognition (notes 4 and 5)

The Group's revenue recognition policies require Directors to make estimates of the net selling price, which is made complicated due to chargebacks, product returns, rebates and price adjustments. These significant estimates vary by product arrangements and buying groups. We have not included sensitivity disclosures with respect to these given the commercially sensitive nature of this information. Refer to note 2 for more detail on each of the underlying estimates.

Goodwill (note 16)

The critical areas of estimates in relation to the valuation of goodwill involve:

Testing for impairment of goodwill and other assets included within a CGU to establish the appropriate valuation of the CGU. The valuation is used for comparison to the carrying value of the net assets of the CGU and requires the following key judgements and estimates:

- evaluation of current and future market conditions, market size, market share, and competition
- estimating a five-year business plan for purposes of forecasting free cash flows which involves forecasting appropriate sales and operating expenses taking into considerations both internal and external information
- estimating a discount rate that appropriately reflects the Group's weighted average cost of capital as adjusted for specific risk premiums reflecting risks inherent in achieving the projected future cash flows
- estimating appropriate terminal growth rate beyond the forecast period

Acquired intangible assets (note 16)

When testing for impairment, the following judgements and estimates are made:

- judgement around determining whether a 'triggering event' has occurred for intangible assets. In such cases we first assess the qualitative factors to determine whether it is more likely than not that the fair value of the intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test
- for pipeline products, establishing the launch date and probability of a successful product approval are critical judgements
- estimating revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices)
- estimating the future product profitability
- estimating a discount rate and specific risk premiums
- estimating appropriate terminal growth rate beyond the forecast period

For previously impaired assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased, see note 2.

Taxation (notes 12 and 13)

Critical judgements in applying the Group's accounting policies

The following are the critical tax related judgements, apart from those involving estimations (which are dealt with separately below), that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Recognition of deferred tax assets

The recognition of deferred tax assets is based on the current forecast of taxable profits arising in the jurisdiction in which the deferred tax asset arises. A deferred tax asset is recognised to the extent that there are forecast taxable profits within a reasonable period. The Group has a potential deferred tax asset of $219 million (2017: $278 million), of which $125 million (2017: $135 million) has been recognised. This exercise is reviewed each year and, to the extent forecasts change, an adjustment to the recognised deferred tax asset may be made.

Recognition of deferred tax assets is driven by the Group's ability to utilise the deferred tax asset which is reliant on forecast taxable profits arising in the jurisdiction in which losses are incurred.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Legislative change risks

The Group makes substantial sales in the US market of products owned by a UK Group company which also arranges for the product development and manufacture, both in the US and in other territories in which the Group operates. Whilst a reduction in the US federal tax rate has beneficially impacted the Group's effective tax rate, other aspects of the recently enacted US tax reforms, such as base erosion and anti-avoidance tax and a restriction on interest deductions, could have a negative impact on the Group's effective tax rate. This risk is reviewed periodically through the year. Continuing with the impact of changes in tax rules in the territories in which we operate, we are experiencing an upward pressure on the Group's effective tax rate as a result of the Base Erosion and Profit Shifting (BEPS) initiative of the Organisation for Economic Co-operation and Development (OECD). The Group continues to monitor the impact of such changes as they become clear and is taking any action necessary to help mitigate any adverse consequences to the extent reasonably possible.

Key sources of estimation uncertainty

The Group has the following key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Tax audit risk

In common with most international organisations, the Group is subject to audit from revenue authorities from time to time. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as new facts emerge and each dispute progresses. Hikma continues to invest in its financial systems to ensure the quality of the Group's financial data which reduces the risk of an adverse revenue authority audit. Furthermore, Hikma continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments and audits. Where open issues exist, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.

Other risks

In addition to tax audits, the Group faces other potential tax risks that could affect the sustainability of the Group's effective tax rate. The main risks are noted below. Hikma regularly takes professional advice to ensure the risks mentioned below are appropriately analysed and managed with any ultimate potential liability being adequately provided.

Transfer pricing risk

The transfer pricing risk can arise from a difference in view over the pricing of cross-border, inter-company product sales and services and of sales of assets. The standard by which most authorities, and the Group, assess the transfer price is whether it is set at arm's length. An upward adjustment by the tax authority of one territory will not necessarily result in the downward adjustment by the other territory, potentially leading to an increased estimated tax cost through a mismatch of tax deductions and taxable income, as well as a potential increase arising out of a rate arbitrage. The Group has considered the risk in detail and has provided for potential tax adjustments so does not believe that any adjustment will materially impact the rate going forward.

Valuation risk

As part of a reorganisation following the Columbus business acquisition in 2016, certain assets and liabilities were transferred intra-Group with external valuations obtained. If these valuations are successfully challenged by relevant tax authorities, it could adversely impact the tax recorded on the reorganisation.

Sensitivity

As at the consolidated balance sheet date, the Group held an aggregate provision in the sum of $57 million in respect of liabilities likely to arise from the above estimation uncertainties. Hikma released $20 million in 2018 mainly due to the statute of limitations but this was offset by new provisions of $13 million booked in 2018. In 2019, up to $9 million could be released on the same grounds. If all areas of uncertainty were audited and all areas resulted with an adverse outcome, management does not believe any material additional tax would be payable beyond what is provided.

Contingent liabilities

The promotion, marketing and sale of pharmaceutical products and medical devices is highly regulated and the operations of market participants, such as Hikma, are closely supervised by regulatory authorities and law enforcement agencies, including the US FDA and the US Department of Justice. As a result, the Group is subject to certain investigations by governmental agencies, as well as other various legal proceedings considered typical to its business relating to employment, product liability and commercial disputes, see note 37.

4. Revenue from contracts with customers

Business and geographical markets:

The following table provides an analysis of the Group's sales by segment and geographical market, irrespective of the origin of the goods/services:

Year ended 31 December 2018	Branded $m	Injectables $m	Generics $m	Others $m	Total $m
United States	–	601	692	–	1,293
Middle East and North Africa	531	120	–	5	656
Europe and rest of the world	11	100	–	5	116
United Kingdom	–	5	–	–	5
	542	826	692	10	2,070

Year ended 31 December 2017	Branded $m	Injectables $m	Generics $m	Others $m	Total $m
United States	–	586	615	–	1,201
Middle East and North Africa	523	102	–	5	630
Europe and rest of the world	13	86	–	4	103
United Kingdom	–	2	–	–	2
	536	776	615	9	1,936

The top selling markets in 2018 are as below:

	2018 $m	2017 $m
United States	1,293	1,201
Saudi Arabia	170	157
Egypt	97	75
	1,560	1,433

Included in revenue arising in the Generics and Injectables segments is revenue of approximately $309 million (2017: $301 million) which arose from the Group's largest customer which is located in the US.

Contract balances:

	2018 $m	2017 $m
Trade receivables (note 21)	654	650
Contract liabilities (note 28)	151	127

Trade receivables are non-interest bearing. Typical credit terms in the US range from 30 to 90 days, in Europe from 30 to 120 days, and in MENA from 180 to 360 days.

Contract liabilities mainly relate to returns provisions and free goods balances. The movement in the year is mainly due to the increase in contract liability offset by the settlement of free goods liability of $28 million against a customer account receivable balance.

There was nominal amount of revenue recognised in the year in relation to the contract liability balance recognised at the beginning of the year.

5. Business segments

For management reporting purposes, the Group is organised into three principal operating divisions – Injectables, Generics and Branded. These divisions are the basis on which the Group reports its segmental information.

Core operating profit, defined as 'segment result', is the principal measure used in the decision-making and resource allocation process of the chief operating decision maker, who is the Group's Chief Executive Officer.

Information regarding the Group's operating segments is reported below:

Injectables	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	832	(6)	826	776	–	776
Cost of sales	(329)	–	(329)	(296)	–	(296)
Gross profit	503	(6)	497	480	–	480
Total operating expenses	(168)	(24)	(192)	(165)	(22)	(187)
Segment result	335	(30)	305	315	(22)	293

Generics	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	692	–	692	615	–	615
Cost of sales	(397)	(16)	(413)	(390)	(6)	(396)
Gross profit	295	(16)	279	225	(6)	219
Total operating expenses	(202)	(37)	(239)	(203)	(1,098)	(1,301)
Segment result	93	(53)	40	22	(1,104)	(1,082)

Branded	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	542	–	542	536	–	536
Cost of sales	(271)	–	(271)	(271)	–	(271)
Gross profit	271	–	271	265	–	265
Total operating expenses	(154)	(6)	(160)	(151)	(7)	(158)
Segment result	117	(6)	111	114	(7)	107

Others	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	10	–	10	9	–	9
Cost of sales	(7)	–	(7)	(6)	–	(6)
Gross profit	3	–	3	3	–	3
Total operating expenses	(8)	–	(8)	(7)	–	(7)
Segment result	(5)	–	(5)	(4)	–	(4)

'Others' mainly comprises Arab Medical Containers LLC, International Pharmaceutical Research Center LLC, Hikma Emerging Markets and Asia Pacific FZ LLC, and the chemicals division of Hikma Pharmaceuticals LLC (Jordan).

5. Business segments continued

Group	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Segment result	**540**	**(89)**	**451**	447	(1,133)	(686)
Unallocated expenses	**(80)**	**–**	**(80)**	(61)	–	(61)
Operating profit/(loss)	**460**	**(89)**	**371**	386	(1,133)	(747)
Finance income	**3**	**–**	**3**	2	93	95
Finance expense	**(54)**	**(26)**	**(80)**	(60)	(26)	(86)
Loss from investment at fair value	**(1)**	**–**	**(1)**	–	–	–
Profit/(loss) before tax	**408**	**(115)**	**293**	328	(1,066)	(738)
Tax	**(73)**	**65**	**(8)**	(72)	(29)	(101)
Profit/(loss) for the year	**335**	**(50)**	**285**	256	(1,095)	(839)
Attributable to:						
Non-controlling interests	**3**	**–**	**3**	4	–	4
Equity holders of the parent	**332**	**(50)**	**282**	252	(1,095)	(843)
	335	**(50)**	**285**	256	(1,095)	(839)

Unallocated corporate expenses mainly comprise employee costs, third-party professional fees, IT costs, travel expenses, rent expenses and donations.

6. Exceptional items and other adjustments

Exceptional items and other adjustments are disclosed separately in the consolidated income statement to assist in understanding the Group's core performance.

Exceptional items	2018 $m	2017 $m
Research and development cost	**(29)**	–
Contingent consideration gain	**–**	29
Acquisition, integration and other costs	**(30)**	(26)
Impairment of the Columbus business goodwill	**–**	(407)
Impairment of product-related intangible assets, software, property, plant and equipment and others	**–**	(681)
Exceptional items included in operating profit/(loss)	**(59)**	(1,085)
Tax benefit associated with prior year impairment loss for which a tax benefit is recognised	**43**	–
Prior year favourable US tax ruling	**13**	–
US tax reform bill	**–**	(49)
Exceptional items included in profit/(loss)	**(3)**	(1,134)
Other adjustments		
Intangible amortisation other than software	**(30)**	(48)
Remeasurement of contingent consideration, financial liability and asset, (net)	**(26)**	67
Exceptional items and other adjustments	**(59)**	(1,115)
Tax effect	**9**	20
Impact on profit/(loss) for the year	**(50)**	(1,095)

6. Exceptional items and other adjustments continued

In reference to the exceptional items and other adjustments policy in note 2, the details are presented below:

Exceptional items

- During 2018, Hikma incurred $29 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. In 2017, Hikma recognised a $29 million contingent consideration gain from Boehringer Ingelheim as compensation for failure to receive FDA approval of generic Advair Diskus® before 24 December 2017. To obtain approval, the FDA requires the completion of an additional clinical endpoint study. Both the compensation and the repeat clinical study cost have been treated as exceptional items.
- Integration and other costs were incurred in relation to the restructuring of the Columbus manufacturing facility and the closure of the Eatontown manufacturing facility, in addition to the consolidation of the distribution centre in the US, of which $6 million is included in revenue, $16 million is included in cost of sales, $2 million in sales and marketing, $1 million in general and administrative and $5 million in other operating expenses.
- Tax benefit associated with prior year impairment loss recognised in 2018 (note 12).
- The prior year favourable US tax ruling relates to the benefit associated with a change in the tax reporting for chargebacks in the US.

In previous periods, exceptional items and other adjustments were related to the following:

- acquisition, integration and other costs were incurred in relation to the acquisition of the Columbus business and disposal the Eatontown plant and were included in the cost of sales, general and administrative expenses, sales and marketing expenses, research and development expenses and other operating expenses (notes 9 and 17)
- impairment of the Columbus business goodwill related to the unfavourable industry developments in the US generics industry in the second half of 2017 and was included in other operating expenses (note 16)
- impairment of product related intangible assets, property, plant and equipment and others, related to the impairment of assets of the Columbus business, including product rights, in process R&D, software and property, plant and equipment, and was included in other operating expenses (notes 16 and 17). In addition, impairment of other product-related intangible assets of $4 million which was included in research and development expenses (note 16)
- contingent consideration gain represents compensation received from Boehringer Ingelheim for failure to receive FDA approval of generic Advair Diskus® before 24 December 2017 (notes 9 and 24)
- US tax reform bill represents the estimated impact on the US deferred tax asset of lowering the US federal tax rate which was signed in December 2017 and effective from 1st January 2018 (note 12)

Other adjustments

Remeasurement of contingent consideration, financial liability and asset represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments receivables in respect of the Columbus business acquisition and the financial liability in relation to the co-development earnout payment agreement in respect of certain generic injectable products that were acquired from Boeringher Ingelheim (notes 19, 24, 28 and 32). The remeasurement is included in finance expense/income.

7. Audit remuneration

The Group auditor's remuneration on a worldwide basis is as below:

	2018 $m	2017[2] $m
Audit of the Company's annual accounts	**0.6**	0.9
Audit of the Company's subsidiaries pursuant to legislation	**1.8**	1.7
Total audit fees	**2.4**	2.6
Assurance services[1]	**0.2**	0.2
Total audit and assurance fees	**2.6**	2.8

1. Assurance services relate to review procedures in respect to the interim financial information
2. Amounts have been restated for audit fees related to statutory accounts

Nominal non-audit fees were charged in both years for subscriptions to a technical accounting portal, for general training and for services required to be performed by the incumbent in Ireland.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 73 to 76 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

8. Staff costs

The average monthly number of employees (including Executive Directors) is:

	2018 Number	2017 Number
Production	**4,634**	5,017
Sales and marketing	**2,246**	2,123
General and administrative	**1,158**	1,047
Research and development	**375**	334
	8,413	8,521

	2018 $m	2017 $m
Their aggregate remuneration comprised:		
Wages, salaries and bonuses	**346**	321
Social security costs	**32**	30
Post-employment benefits	**13**	16
End of service indemnity	**18**	10
Share-based payments (note 38)	**21**	22
Car and housing allowances	**20**	19
Health insurance	**38**	39
Other costs and employee benefits	**18**	28
	506	485

9. Other operating expense/income

Other operating expense	**2018 Core results $m**	**2018 Exceptional Items and other adjustments (note 6) $m**	**2018 Reported results $m**	2017 Core results $m	2017 Exceptional Items and other adjustments (note 6) $m	2017 Reported results $m
Inventory related provisions	**62**	**–**	**62**	58	–	58
Impairment loss	**8**	**2**	**10**	–	1,101	1,101
Loss from disposal of property, plant and equipment	**–**	**3**	**3**	3	–	3
Forex losses (net)	**5**	**–**	**5**	–	–	–
	75	**5**	**80**	61	1,101	1,162

Other operating income	**2018 Core results $m**	**2018 Exceptional items and other adjustments (note 6) $m**	**2018 Reported results $m**	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Gain from disposal of property, plant and equipment	**–**	**–**	**–**	1	–	1
Forex gain (net)	**–**	**–**	**–**	4	–	4
Others	**7**	**–**	**7**	10	29	39
	7	**–**	**7**	15	29	44

10. Finance income

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Interest income	3	–	3	2	–	2
Remeasurement of contingent consideration, financial liability and asset	–	–	–	–	93	93
	3	–	3	2	93	95

11. Finance expense

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Interest on bank overdrafts and loans	19	–	19	29	–	29
Interest on Eurobond	22	–	22	22	–	22
Remeasurement of contingent consideration, financial liability	–	26	26	–	26	26
Other bank charges	13	–	13	8	–	8
Net foreign exchange loss	–	–	–	1	–	1
	54	26	80	60	26	86

12. Tax

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Current tax:						
Domestic tax	1	–	1	2	–	2
Foreign tax	36	(9)	27	48	(20)	28
Deferred tax (note 13)						
Current year	39	(43)	(4)	22	49	71
Adjustment to prior year	(3)	(13)	(16)	–	–	–
	73	(65)	8	72	29	101

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profit made in the UK for the year.

The Group incurred a tax expense of $8 million (2017: $101 million). The effective tax charge rate is 2.7%, (2017: credit 13.7%). The reported effective tax rate is lower than the statutory rate mainly due to the tax benefit associated with the impairment loss incurred in the prior year, for which a current year deferred tax benefit is being recognised.

Taxation for all jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

12. Tax continued

The charge for the year can be reconciled to profit/(loss) before tax per the consolidated income statement as follows:

	2018 $m	2017 $m
Profit/(loss) before tax	**293**	(738)
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	**56**	(142)
Profits taxed at different rates	**14**	13
Permanent differences		
– Non-taxable income	**(14)**	(13)
– Non-deductible expenditure	**2**	6
– Adjustment on intercompany inventory	**1**	(7)
– Other	**–**	(7)
– Impairment of goodwill	**–**	78
State and local taxes	**4**	(4)
Temporary differences		
– Tax losses and other deductible temporary differences for which no benefit is recognised	**8**	119
– Prior year favourable US tax ruling	**(13)**	–
– Tax benefit associated with losses incurred in a prior year for which a current benefit is recognised	**(43)**	–
– Tax rate changes (US tax reform)	**–**	49
– Other deductible temporary differences for which no benefit is recognised	**(3)**	–
Change in provision for uncertain tax positions	**(2)**	7
Unremitted earnings	**4**	2
Prior year adjustments	**(6)**	–
Tax expense for the year	**8**	101

Profits taxed at different tax rates relates to profits arising in overseas jurisdictions where the tax rate differs from the UK statutory rate.

Permanent differences relate to items which are non-taxable or for which no tax relief is ever likely to be due. The major items are differences in GAAP between IFRS and local territory GAAP, expenses and income disallowed where they are covered by statutory exemptions, foreign exchange differences in some territories and statutory reliefs such as R&D and manufacturing tax credits.

Temporary differences for which no benefit is recognised includes items on which it is not possible to book deferred tax and comprise mainly unrecognised tax losses. Management has not recognised a benefit for the losses on the basis that there are insufficient forecasted taxable profits in the foreseeable future.

The change in provision for uncertain tax positions relates to the provisions the Group holds in the event of a revenue authority successfully taking an adverse view of the positions adopted by the Group in 2018 and primarily relates to a transfer pricing adjustment. This category also includes adjustments (favourable or adverse) in respect of uncertain tax positions following agreement of the tax returns with the relevant tax authorities.

The prior year favourable US tax ruling relates to the benefit associated with a change in tax reporting for chargebacks in the US.

Prior year adjustments include differences between the tax liability recorded in the tax returns submitted for previous years and estimated tax provision reported in a prior period's consolidated financial statements.

US tax reform

In 2017, the impact of the US Tax Cuts and Jobs Act of 2017 was restricted to the reduction of the US deferred tax asset, as a result of the fall in the federal corporate income tax rate from 35% to 21%, by $49 million (note 6).

US deferred tax assets recognition

In 2017, management did not recognise a tax benefit associated with the impairment of certain assets of the Columbus business on the basis that there were insufficient forecasted taxable profits in the foreseeable future. In 2018, as a result of positive changes to the US business model due to internal reorganisation which increased the US taxable profit principally in relation to our Injectables business, management determined that it is now more likely than not that such tax benefit is realisable from forecasted taxable profits in the foreseeable future.

12. Tax continued

State Aid

The Group is monitoring developments in relation to the EU's State Aid investigations, in particular, the EU Commission's announcement in October 2017 that it will be opening a State Aid investigation into the Group Financing Exemption of the UK's Controlled Foreign Company (CFC) legislation. This exemption was introduced by the UK Government in 2013. In common with other UK-based international companies that have arrangements in line with the UK's current CFC legislation, Hikma is potentially affected by the outcome of this investigation. The Group does not currently consider any provision is required in relation to EU State Aid. As with all uncertain tax positions, the assessment of risk is subjective and involves significant management judgement. The judgement is based on management's understanding of legislation, experience and professional advice taken on the matters.

Publication of tax strategy

In line with the UK requirement for large UK businesses to publish their tax strategy. Hikma's tax strategy has been made available on the Group's website.

13. Deferred tax

Certain deferred tax assets and liabilities have been appropriately offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	As at 31 December	
	2018 $m	2017 $m
Deferred tax liabilities	**(16)**	(49)
Deferred tax assets	**125**	135
	109	86

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting years.

	Tax losses $m	Deferred R&D costs $m	Other short-term temporary differences[1] $m	Amortisable assets $m	Fixed assets $m	Share-based payments $m	Total $m
At 1 January 2017	6	1	202	(23)	(29)	–	157
Credit/(charge) to income	(3)	–	(71)	7	(4)	–	(71)
At 1 January 2018 as previously reported	3	1	131	(16)	(33)	–	86
Impact of IFRS 9 and 15	–	–	2	–	–	–	2
At 1 January 2018 as adjusted	**3**	**1**	**133**	**(16)**	**(33)**	**–**	**88**
Credit/(charge) to income	–	–	(16)	5	31	1	21
At 31 December 2018	**3**	**1**	**117**	**(11)**	**(2)**	**1**	**109**

1. The other deferred taxes on short-term temporary differences primarily relate to charge backs and product returns in the US of $49 million (2017: $76 million), tax benefit in respect of US impairment of $39 million (2017: $nil) and unrealised intercompany profits of $15 million (2017: $17 million)

No deferred tax asset has been recognised on temporary differences totalling $536 million (2017: $770 million) due to the unpredictability of the related future profit streams. $527 million (2017: $578 million) of these temporary differences relate to losses on which no deferred tax is recognised. None of these losses are expected to expire.

A deferred tax liability has been recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries of $8 million (2017: $4 million). No deferred tax liability has been recognised on the remaining unremitted earnings of $187 million (2017: $278 million), as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

14. Dividends

	2018 $m	2017 $m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2017 of 23.0 cents (2016: 22.0 cents) per share	55	53
Interim dividend for the year ended 31 December 2018 of 12.0 cents (2017: 11.0 cents) per share	29	26
	84	79

The proposed final dividend for the year ended 31 December 2018 is 26.0 cents (2017: 23.0 cents).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 17 May 2019 and has not been included as a liability in these consolidated financial statements. Based on the number of shares in issue at 31 December 2018 (241,455,394), the unrecognised liability is $63 million.

15. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders by the weighted average number of the Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on conversion of all dilutive potential Ordinary Shares into ordinary shares. The number of Ordinary Shares used for the basic and diluted calculations is shown in the table below. Core basic earnings per share and core diluted earnings per share are intended to highlight the core results of the Group before exceptional items and other adjustments.

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Earnings/(loss) for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	332	(50)	282	252	(1,095)	(843)

Number of shares	2018 Number m	2017 Number m
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	241	240
Effect of dilutive potential Ordinary Shares:		
Share-based awards	1	1
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	242	241

	2018 Core earnings per share Cents	2018 Reported earnings per share Cents	2017 Core earnings per share Cents	2017 Reported earnings per share Cents
Basic	137.8	117.0	105.0	(351.3)
Diluted	137.2	116.5	104.6	(349.8)

16. Goodwill and other intangible assets

The changes in the carrying value of goodwill and other intangible assets for the years ended 31 December 2018 and 31 December 2017 are as follows:

	Goodwill $m	Product-related intangibles $m	Software $m	Other identified intangibles $m	Total $m
Cost					
Balance at 1 January 2017	683	1,006	87	106	1,882
Additions	–	7	31	1	39
Translation adjustments	7	2	–	4	13
Balance at 1 January 2018	**690**	**1,015**	**118**	**111**	**1,934**
Additions	–	–	12	21	33
Acquisition of subsidiaries (note 43)	–	1	–	–	1
Translation adjustments	(3)	(1)	–	(2)	(6)
Balance at 31 December 2018	**687**	**1,015**	**130**	**130**	**1,962**
Amortisation					
Balance at 1 January 2017	(1)	(87)	(28)	(47)	(163)
Charge for the year	–	(41)	(11)	(7)	(59)
Impairment (note 6)	(407)	(505)	(12)	–	(924)
Translation adjustments	–	–	–	(3)	(3)
Balance at 1 January 2018	**(408)**	**(633)**	**(51)**	**(57)**	**(1,149)**
Charge for the year	–	(22)	(10)	(8)	(40)
Impairment	–	(4)	(5)	–	(9)
Translation adjustments	–	1	–	1	2
Balance at 31 December 2018	**(408)**	**(658)**	**(66)**	**(64)**	**(1,196)**
Carrying amount					
At 31 December 2018	**279**	**357**	**64**	**66**	**766**
At 31 December 2017	282	382	67	54	785

Amortisation of all intangible assets with finite useful lives is charged on a straight-line basis in which $1 million is included in the cost of sales, $30 million in sales and marketing expenses and $9 million in general and administrative expenses.

In 2018, the Group recorded a total intangible impairment charge of $9 million, of which $5 million related to software and $4 million to product related intangibles. $7 million of the impairment charge is included within other operating expenses (note 9).

In 2017, the Group recorded a total intangible impairment charge of $924 million related to goodwill of $407 million, product-related intangibles of $505 million and software of $12 million. Of this amount $920 million relates to the impairment of the intangible assets related to the Columbus business. As a result of this impairment the Generics business goodwill was written off to $nil.

Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	As at 31 December	
	2018 $m	2017 $m
Branded	**166**	169
Injectables	**113**	113
Total	**279**	282

16. Goodwill and other intangible assets continued

In accordance with the Group policy, goodwill is tested annually for impairment during the fourth quarter or more frequently if there are indications that goodwill may be impaired.

Details related to the discounted cash flow models used in the impairment tests of the CGUs are as follows:

Valuation basis	Higher of fair value less costs to sell and value in use			
Key assumptions	Sales growth rates Profit margins Terminal growth rate Discount rate			
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information Margins reflect past experience, adjusted for expected changes Terminal growth rates based on management's estimate of future long-term average growth rates Discount rates based on Group WACC, adjusted where appropriate			
Period of specific projected cash flows	5 years			
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)	Pre-tax discount rate	Post-tax discount rate
	Branded	2%	16.3%	14.1%
	Injectables	2%	13.1%	11.1%

CGUs: The Group also performed its annual goodwill impairment test on a quantitative basis for the Branded and Injectables CGUs. The Group conducted a sensitivity analysis on the impairment of each CGU's carrying value. Although the Directors have concluded sufficient headroom[1] exists for all of the CGUs, there is a possibility that changes to the key assumptions could result in impairment. The Group has performed sensitivity analysis on the key assumptions affecting the valuation of the Branded and Injectables CGUs and has determined that sufficient headroom exists. Specifically, an evaluation of the valuation of the CGUs was made assuming an increase of 1% in the discount rate, or a 5% decline in the forecasted net sales, or a 5% decline in the gross margins in the terminal year, or a 1% decline in the terminal growth rate and in all cases sufficient headroom exists.

Whilst there is some uncertainty regarding the short-term impact of the political events in the MENA region, the Group does not consider that the likelihood of impairment losses in the long term has increased.

1. Headroom is defined as the excess of the higher of fair value less costs to sell and value in use, compared to the carrying value of a CGU

Other intangible assets

Other intangible assets with a net book value of $487 million at 31 December 2018 (2017: $503 million) consists of in-process research and development (IPR&D) of $236 million (2017: $223 million), product rights of $125 million (2017: $159 million) and other intangible assets of $126 million (2017: $121 million).

IPR&D: As of 31 December 2018, the Group performed its annual review of IPR&D. The result of this testing is an impairment charge of $4 million.

Product rights: Whenever impairment indicators are identified for definite life intangible assets, Hikma reconsiders the asset's estimated life, calculates the undiscounted value of the assets or asset group's cash flows and compares such value against the asset's or asset group's carrying amount. If the carrying amount is greater, Hikma records an impairment loss for the excess of book value over valuation based on the discounted cash flows by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. The more significant estimates and assumptions inherent in the estimate of the recoverable amount of identifiable intangible assets include all assumptions associated with forecasting product profitability. As at 31 December 2018, management did not identify any impairment indicators.

Software: Software intangibles mainly represent the Enterprise Resource Planning solutions that are being implemented in different operations across the Group in addition to other software applications. The software has an average estimated useful life that varies from three to ten years.

In 2018, the Group recorded an impairment charge of $5 million related to software.

Customer relationships: Customer relationships represent the value attributed to existing direct customers that the Group acquired on the acquisition of subsidiaries. The customer relationships have an average estimated useful life of 15 years.

Trade name: Trade names were mainly recognised on the acquisition of Hikma Germany GmbH (Germany) and Promopharm with estimated useful lives of ten years.

Marketing rights: Marketing rights are amortised over their useful lives commencing in the year in which the rights are ready for use with estimated useful lives that vary from two to ten years.

As at 31 December 2018, the Group had entered into definitive contractual commitments for the acquisition of intangible assets of $4 million (2017: $5 million).

17. Property, plant and equipment

	Land and buildings $m	Machinery and equipment $m	Vehicles, fixtures and equipment $m	Projects under construction $m	Total $m
Cost					
Balance at 1 January 2017	**530**	**539**	**98**	**192**	**1,359**
Additions	2	7	8	95	112
Adjustments to opening balance	2	1	1	–	4
Disposals	(1)	(4)	(2)	(2)	(9)
Transfers	52	64	7	(123)	–
Translation adjustment	7	12	2	2	23
Balance at 1 January 2018	**592**	**619**	**114**	**164**	**1,489**
Additions	8	15	6	100	129
Acquisition of subsidiaries (note 43)	7	5	–	–	12
Disposals	(33)	(22)	(4)	(3)	(62)
Transfers	6	18	2	(26)	–
Translation adjustment	(6)	(8)	(1)	(4)	(19)
Balance at 31 December 2018	**574**	**627**	**117**	**231**	**1,549**
Accumulated depreciation					
Balance at 1 January 2017	**(84)**	**(242)**	**(57)**	**(7)**	**(390)**
Charge for the year	(21)	(45)	(11)	–	(77)
Adjustments to opening balance	(2)	(1)	(1)	–	(4)
Disposals	–	1	2	–	3
Impairment (note 6)	(86)	(84)	(5)	(6)	(181)
Translation adjustment	(3)	(8)	(1)	–	(12)
Balance at 1 January 2018	**(196)**	**(379)**	**(73)**	**(13)**	**(661)**
Charge for the year	(19)	(38)	(12)	–	(69)
Disposals	19	23	4	–	46
Impairment (note 6)	–	(3)	–	–	(3)
Translation adjustment	2	5	1	–	8
Balance at 31 December 2018	**(194)**	**(392)**	**(80)**	**(13)**	**(679)**
Carrying amount					
At 31 December 2018	**380**	**235**	**37**	**218**	**870**
At 31 December 2017	396	240	41	151	828

Land is not subject to depreciation.

A depreciation amount of $55 million is included within the cost of sales, $2 million in sales and marketing expenses, $7 million in general and administrative expenses and $5 million in research and development expenses.

In 2018, the Group reported an impairment charge of $3 million, of which $2 million related to the closure of Eatontown (note 6).

The net book value of the Group's property, plant and equipment includes an amount of $2 million (2017: $6 million) in respect of assets held under finance lease.

As at 31 December 2018, the Group had pledged property, plant and equipment with a carrying value of $8 million (2017: $11 million) as collateral for various long-term loans. This amount includes both specific items around the Group and the net property, plant and equipment of the Group's businesses in Germany and Tunisia (2017: Germany, Tunisia and Egypt).

As at 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $27 million (2017: $12 million).

18. Investments in associates and joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) is 49.0% at 31 December 2018 (31 December 2017: 30.1%) with an investment balance of $8 million at 31 December 2018 (31 December 2017: $3 million),

The Group's share of the results of Hubei Haosun Pharmaceutical Co Ltd (China) is $nil (2017: loss of $1 million).

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Joint ventures $m	**Associates $m**	**Total $m**	Joint ventures $m	Associates $m	Total $m
Balance at 1 January	**3**	**3**	**6**	3	4	7
Additions	**–**	**5**	**5**	–	–	–
Share of loss	**–**	**–**	**–**	–	(1)	(1)
Reclassification	**8**	**(8)**	**–**	–	–	–
Balance at 31 December	**11**	**–**	**11**	3	3	6

On 13 February 2018, Hikma acquired an additional stake in Hubei Haosun Pharmaceuticals Co Ltd (China) bringing the total ownership to 49.0% (2017:30.1%).

Summarised financial information in respect of the Group's interests in joint ventures and associated companies is set out below:

	As at 31 December 2018 $m	As at 31 December 2017 $m
Total assets	**17**	16
Total liabilities	**(2)**	(7)
Net assets	**15**	9
Group's share of net assets of joint ventures/associate[1]	**7**	3

	For the year ended 31 December 2018 $m	For the year ended 31 December 2017 $m
Total revenue	**6**	3
Net profit/(loss)	**1**	(1)
Group's share of loss of joint ventures/associate[1]	**–**	(1)

1. This represents the Groups share of net assets/share of results of Hubei Haosun Pharmaceuticals Co Ltd

In 2017, Hikma and MIDROC have agreed not to proceed with the Hikmacure joint venture and to liquidate it. As part of the liquidation process the joint venture granted two loans of $2 million each to the Group and MIDROC, the balance is currently outstanding and the liquidation is still in progress.

19. Financial and other non-current assets

	As at 31 December	
	2018 **$m**	2017 $m
Investments at FVTOCI (2017: available-for-sale investments)	**27**	16
Other non-current asset	**30**	44
	57	60

Investments at FVTOCI include investments in seven venture capital companies through the Group's venture capital arm Hikma International Ventures Developments LLC and Hikma Ventures Limited.

Other non-current assets mainly represent inventory expected not to be sold within one year.

20. Inventories

	As at 31 December	
	2018 **$m**	2017 $m
Finished goods	**135**	135
Work-in-progress	**83**	63
Raw and packing materials	**253**	234
Goods in transit	**32**	33
Spare parts	**25**	23
	528	488

Inventories are stated net of provisions as follows:

	As at 31 December 2017 $m	Additions $m	Utilisation $m	**As at 31 December 2018 $m**
Provisions against inventory	**81**	**62**	**(71)**	**72**

21. Trade and other receivables

	As at 31 December 2018 $m	2017 $m
Trade receivables	**654**	650
Prepayments	**57**	41
VAT and sales tax recoverable	**17**	13
Employee advances	**3**	3
	731	707

The fair value of receivables is estimated to be equal to the carrying amount.

Trade receivables are stated net of provisions for chargebacks and doubtful debts as follows:

	As at 31 December 2017 $m	IFRS 9 impact $m	As at 31 December 2017 and 1 January 2018 (adjusted) $m	Additions /(releases), net $m	Utilisation $m	Translation adjustments $m	**As at 31 December 2018 $m**
Chargebacks and other allowances	**238**	**–**	**238**	**1,861**	**(1,863)**	**–**	**236**
Doubtful debts	**67**	**3**	**70**	**(11)**	**(2)**	**(1)**	**56**
	305	**3**	**308**	**1,850**	**(1,865)**	**(1)**	**292**

More details on the Group's policy for credit and concentration risk are provided in note 31.

22. Collateralised and restricted cash

Collateralised and restricted cash amounted to $nil (2017: $4 million) and mainly represents restricted cash retained against short-term bank transactions granted to the Group's Sudanese, Algerian and Egyptian operations.

23. Cash and cash equivalents

	As at 31 December 2018 $m	2017 $m
Cash at banks and on hand	**112**	98
Time deposits	**128**	80
Money market deposits	**36**	49
	276	227

Cash and cash equivalents include highly liquid investments with maturities of three months or less which are convertible to known amounts of cash and are subject to insignificant risk of changes in value.

24. Other current assets

	As at 31 December	
	2018 $m	2017 $m
Price adjustment receivable	**20**	61
Investment at FVTPL (2017: available-for-sale investments)	**21**	22
Others	**18**	12
	59	95

Price adjustment receivable represents the current portion of the contingent receivable in relation to the Columbus business acquisition, whereby as part of the acquisition, the Group will be reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received $45 million reimbursement (2017: $3 million) in cash. The non-current portion of price adjustment receivable is included within other non-current assets (note 19).

Investment at FVTPL represents the agreement the Group entered into with an asset management firm in 2015 to manage a $20 million portfolio of underlying debt instruments. The investment comprises a portfolio of assets that are managed by an asset manager and is measured at fair value; any changes in fair value go through consolidated income statement. This asset is classified as level 1 as it uses quoted prices in active markets.

25. Bank overdrafts and loans

	As at 31 December	
	2018 $m	2017 $m
Bank overdrafts	**–**	10
Import and export financing	**58**	48
Short-term loans	**7**	1
Current portion of long-term loans (note 29)	**9**	27
	74	86

	2018 %	2017 %
The weighted average interest rates paid are as follows:		
Bank overdrafts	**5.31**	4.55
Bank loans (including the non-current bank loans)	**4.48**	3.65
Eurobond	**4.25**	4.25
Import and export financing	**5.45**	4.58

Import and export financing represents short-term financing for the ordinary trading activities of the Group.

26. Trade and other payables

	As at 31 December	
	2018 $m	2017 $m
Trade payables	**263**	218
Accrued expenses	**185**	134
Other payables	**17**	13
	465	365

The fair value of payables are estimated to be equal to the carrying amount.

Other payables mainly comprise employees' provident fund liability of $7 million (31 December 2017: $4 million), which mainly represents the outstanding contributions to the Hikma Pharmaceuticals Ltd (Jordan) retirement benefit plan, on which the fund receives 3.5% interest.

27. Other provisions

Other provisions represent the end of service indemnity provisions for employees of certain Hikma Group subsidiaries. This provision is calculated based on relevant laws in the countries where each Group company operates, in addition to their own policies.

Movements on the provision for the end of service indemnity:

	2018 $m	2017 $m
1 January	**26**	27
Additions	**5**	3
Utilisation	**(8)**	(4)
At 31 December	**23**	26

28. Other current liabilities

	As at 31 December	
	2018 $m	2017 $m
Contract liability[1]	**151**	127
Co-development and earnout payment	**2**	3
Supply manufacturing agreement	**18**	9
Obligations under finance leases (note 30)	**1**	1
Indirect rebate and other allowances	**65**	67
Others	**26**	31
	263	238

1. The 2018 balance includes the IFRS 15 transition impact of $27 million (note 1)

Contract liability: The Group allows customers to return products within a specified period prior to and subsequent to the expiration date. In addition, free goods are issued to customers as sale incentives, reimbursement of agreed upon expenses incurred by the customer or as compensation for expired or returned goods.

Co-development and earn out payment agreement: The liability mainly relates to the present value of future payments on a co-development and earn out agreement. As part of this agreement, milestone payments dependent on successful clinical development of defined products are received by the Group. In return of receiving such milestone payments, the Group has agreed to pay the contracting party a certain percentage of future sales of those products. As at 31 December 2018, the liability associated with these earn out payments was adjusted to reflect the present value of the expected future cash outflows and the difference is presented as a finance expense. This balance represents the current portion of the liability and the non-current portion is disclosed in note 32.

Supply manufacturing agreement: As part of the acquisition of the Columbus business, the Group entered into supply and manufacturing contracts with the seller, Boehringer Ingelheim. This balance represents the current portion of the liability and the non-current portion is disclosed in note 32.

Indirect rebate and other allowances: represents rebates granted to healthcare authorities and other parties under contractual arrangements with certain customers, see note 2.

29. Long-term financial debts

	As at 31 December	
	2018 $m	2017 $m
Long-term loans	**51**	201
Long-term borrowings (Eurobond)	**497**	496
Less: current portion of long term loans (note 25)	**(9)**	(27)
Long-term financial loans	**539**	670
Breakdown by maturity:		
Within one year	**9**	27
In the second year	**509**	139
In the third year	**8**	520
In the fourth year	**8**	4
In the fifth year	**9**	2
In the sixth year	**5**	5
	548	697
Breakdown by currency:		
US dollar	**514**	673
Euro	**17**	12
Algerian dinar	**16**	–
Saudi riyal	**–**	1
Egyptian pound	**–**	9
Tunisian dinar	**1**	2
	548	697

The loans are held at amortised cost.

Long-term loans amounting to $1 million (31 December 2017: $2 million) are secured on certain property, plant and equipment.

Included in the table above are the following major arrangements entered into by the Group:

(a) A $500 million (carrying value of $497 million, and fair value of $496 million) 4.25% Eurobond due in April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of the Columbus business acquisition.

(b) A syndicated revolving credit facility of $1,175 million was entered into on 27 October 2015. The facility has an outstanding balance of $nil at 31 December 2018, (with a fair value of $nil) (2017: $112 million with a fair value of $112 million) and a $1,175 million unused available limit (2017: $1,063), $1,000 million of the facility matures on 24 December 2021 and the remainder matures on 24 December 2019. The facility can be used for general corporate purposes.

(c) A ten-year $150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was no utilisation of the loan as at 31 December 2018. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan will be used in the MENA region and in other World Bank countries of operation for general corporate purposes. The facility matures on 15 December 2027.

30. Obligations under finance leases

	Minimum lease payments 2018 $m	Minimum lease payments 2017 $m	Present value of minimum lease payments 2018 $m	Present value of minimum lease payments 2017 $m
Amounts payable under finance leases:				
Within one year[1]	**2**	2	**1**	1
In the second to fifth years inclusive	**24**	21	**23**	20
	26	23	**24**	21
Less: Interest lease charges	**(2)**	(2)		
Present value of minimum lease payments payable	**24**	21		

1. The current portion of the obligations under finance leases is included within other current liabilities (note 28)

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is five years (2017: five years). For the year ended 31 December 2018, the average effective borrowing rate was between 1.89% and 14.00% (2017: between 1.87% and 14.00%).

31. Financial policies for risk management and their objectives

Credit and concentration of risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts, chargebacks, and other allowances. A provision for impairment is made based on expected credit losses which are estimated based on previous experience, current events and forecasts of future conditions.

The credit risk on liquid investments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In line with local market practice, customers in the MENA region are offered relatively long payment terms compared to customers in Europe and the US. During the year ended 31 December 2018, the Group's largest two customers in the MENA region represented 5.3% of Group revenue, 3.5% from one customer in Saudi Arabia, and 1.8% from a customer in Algeria. At 31 December 2018, the amount of receivables due from all customers based in Saudi Arabia was $83 million (2017: $131 million), and in Algeria was $55 million (2017: $67 million).

During the year ended 31 December 2018, three key US wholesalers represented 40.0% of Group revenue (2017: 44.3%). The amount of receivables due from all US customers at 31 December 2018 was $298 million (2017: $293 million).

The Group manages this risk through the implementation of stringent credit policies, procedures and certain credit insurance agreements.

Trade receivable exposures are managed locally in the operating units where they arise. Credit limits are set as deemed appropriate for the customer, based on a number of qualitative and quantitative factors related to the creditworthiness of a particular customer. The Group is exposed to a variety of customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the underlying local economic risks vary across the Group. Typical credit terms in the US range from 30 to 90 days, in Europe from 30 to 120 days, and in MENA from 180 to 360 days. Where appropriate, the Group endeavours to minimise risk through the use of trade finance instruments such as letters of credit and insurance.

31. Financial policies for risk management and their objectives continued

The following table provides a summary of the age of trade receivables (note 21):

At 31 December 2018	Not past due on the reporting date $m	Past due: less than 90 days $m	Past due: Between 91 and 180 days $m	Past due: Between 181 and 360 days $m	Past due: Over one year $m	Total $m
Total trade receivables as at 31 December 2018	**739**	**102**	**21**	**21**	**63**	**946**
Related allowance for doubtful debts	**(1)**	**–**	**(1)**	**(1)**	**(53)**	**(56)**
	738	**102**	**20**	**20**	**10**	**890**
Chargebacks and other allowances						**(236)**
Net receivables						**654**

At 31 December 2017	Not past due on the reporting date $m	Past due: less than 90 days $m	Past due: Between 91 and 180 days $m	Past due: Between 181 and 360 days $m	Past due: Over one year $m	Total $m
Total trade receivables as at 31 December 2017	750	82	22	24	77	955
Related allowance for doubtful debts	(1)	–	(1)	(1)	(64)	(67)
	749	82	21	23	13	888
Chargebacks and other allowances						(238)
Net receivables						650

Market risk

The Group is exposed to foreign exchange and interest rate risk. The Group's objective is to reduce, where it is appropriate to do so, fluctuations in earnings and cash flow associated with changes in interest rates and foreign currency rates. Management actively monitors these exposures to manage the volatility relating to these exposures by entering into a variety of derivative financial instruments.

Capital risk management

The Group manages its capital and monitors its liquidity to have reasonable assurance that the Group will be able to continue as a going concern and deliver its growth strategy objectives, whilst reducing its cost of capital and maximising the return to shareholders through the optimisation of the debt and equity mix. The Group regularly reviews the capital structure by considering the level of available capital and the short to medium-term strategic plans concerning future capital spend, as well as the need to meet dividends, banking covenants, and borrowing ratios.

The Group defines capital as equity plus net funds, which includes bank overdrafts and loans (note 25), obligations under finance leases (note 30), long-term financial debts (note 29), net of cash and cash equivalents (note 23), and collateralised and restricted cash (note 22).

31. Financial policies for risk management and their objectives continued

During the year, the Group continued its strategy of obtaining debt financing at both the Group level and at the operating entities level. This enables the Group to borrow at competitive rates and to build relationships with local, regional and international banks and is therefore deemed to be the most effective means of raising finance, while maintaining the balance between borrowing costs, asset and liability management, and consolidated balance sheet currency risk management.

In order to monitor the available net funds, management reviews financial capital reports on a monthly basis, in addition to the continuous review by the Group treasury function.

At 31 December 2018, the Group's gearing ratio (total debt/equity) was 38% (2017: 51%). The decrease in the Group's gearing ratio is due to the repayment of long-term debt during 2018.

Cash management

The Group manages the deployment of cash balances to predefined limits approved by the Board of Directors under the cash/risk management policy. Per the policy, the Group's excess cash should be held with highly rated global and regional financial institutions. The aim of the policy is to mitigate the risk of holding cash in certain currencies, countries and financial institutions, through a specific threshold. The Group reviews the policy periodically to meet Hikma's risk appetite.

Foreign exchange risk and currency risk

The Group uses the US dollar as its presentation currency and is therefore exposed to foreign exchange movements primarily in the Euro, Algerian dinar, Sudanese pound, Japanese yen, Egyptian pound, Tunisian dinar and Moroccan dirham. Consequently, where possible, the Group enters into various contracts, which change in value as foreign exchange rates change, to hedge against the risk of movement in foreign denominated assets and liabilities. Due to the lack of open currency markets, the Algerian dinar, the Sudanese pound, the Tunisian dinar, the Moroccan dirham and the Egyptian pound cannot be hedged at reasonable cost. Where possible, the Group uses financing facilities denominated in local currencies to mitigate the risks. The Jordanian dinar, Saudi riyal and Lebanese pound had no impact on the consolidated income statement as those currencies are pegged against the US dollar.

Currency risks, as defined by IFRS 7, arise on account of financial instruments being denominated in a currency that is other than the functional currency of an entity and being of a monetary nature.

The currencies that have a significant impact on the Group accounts and the exchange rates used are as follows:

	Period-end rates		Average rates	
	2018	2017	**2018**	2017
US dollar/Euro	**0.8719**	0.8319	**0.8442**	0.8848
US dollar/Sudanese pound	**47.6190**	20.0000	**32.6797**	16.9779
US dollar/Algerian dinar	**118.3304**	114.9402	**116.6424**	110.9802
US dollar/Saudi riyal	**3.7495**	3.7495	**3.7495**	3.7495
US dollar/Pound sterling	**0.7839**	0.7379	**0.7464**	0.7755
US dollar/Jordanian dinar	**0.7090**	0.7090	**0.7090**	0.7090
US dollar/Egyptian pound	**17.8571**	17.7936	**17.7936**	17.8891
US dollar/Japanese yen	**109.5600**	112.7800	**110.2800**	112.1826
US dollar/Moroccan dirham	**9.5655**	9.3574	**9.3836**	9.6800
US dollar/Tunisian dinar	**2.9940**	2.4839	**2.6469**	2.4194
US dollar/Lebanese pound	**1,507.5000**	1,507.5000	**1,507.5000**	1,507.5000

31. Financial policies for risk management and their objectives continued

2018	US dollar $m	Euro $m	Algerian dinar $m	Japanese yen $m	Others[1] $m
	Net foreign currency financial assets/(liabilities)				
Functional currency of entity:					
– Jordanian dinar	**89**	**43**	**(21)**	**(3)**	**9**
– Euro	**6**	**–**	**–**	**–**	**–**
– Algerian dinar	**(6)**	**(1)**	**–**	**–**	**–**
– Saudi riyal	**27**	**(1)**	**–**	**–**	**–**
– Sudanese pound	**(27)**	**–**	**–**	**–**	**–**
– Egyptian pound	**(42)**	**(1)**	**–**	**–**	**–**
– Tunisian dinar	**(1)**	**2**	**–**	**–**	**–**
– Moroccan dirham	**(3)**	**(6)**	**–**	**–**	**–**
– Lebanese pound	**(2)**	**–**	**–**	**–**	**(1)**
– US dollar	**–**	**1**	**–**	**–**	**2**
	41	**37**	**(21)**	**(3)**	**10**

1. Others include Saudi riyal, Jordanian dinar and Pound sterling

2017	US dollar $m	Euro $m	Algerian dinar $m	Japanese yen $m	Others[1] $m
	Net foreign currency financial assets/(liabilities)				
Functional currency of entity:					
– Jordanian dinar	19	28	(11)	(1)	37
– Euro	–	–	–	–	–
– Algerian dinar	(6)	–	–	–	–
– Saudi riyal	39	(3)	–	(4)	–
– Sudanese pound	(10)	–	–	–	–
– Egyptian pound	(35)	(1)	–	–	–
– Tunisian dinar	(2)	2	–	–	–
– Moroccan dirham	(1)	(5)	–	–	–
– Lebanese pound	(3)	–	–	–	2
– US dollar	–	–	–	–	1
	1	21	(11)	(5)	40

1. Others include Saudi riyal and Jordanian dinar

A sensitivity analysis based on a 10% movement in foreign exchange rates has no material impact on the Group results or the Group consolidated statement of changes in equity.

The Group sets certain limits on liquid funds per currency (other than the functional currency of the Group) and per country.

31. Financial policies for risk management and their objectives continued

	As at 31 December 2018			As at 31 December 2017		
	Fixed rate $m	Floating rate $m	Total $m	Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	**521**	**116**	**637**	515	262	777
Financial assets						
Cash and cash equivalents	**–**	**164**	**164**	–	129	129

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2018, with all other variables held constant. Based on the composition of the Group's debt portfolio as at 31 December 2018, a 1% increase/decrease in interest rates would not result in a material decrease/increase in finance cost being incurred per year (2017: $1 million increase/decrease).

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following financial assets/liabilities are presented at their carrying value which approximates to their fair value:

- cash and cash equivalents – due to the short-term maturities of these financial instruments and given that generally they have negligible credit risk, management considers the carrying amounts to be not significantly different from their fair values
- short-term loans and overdrafts – approximates to their fair value because of the short maturity of these instruments
- long-term loans – loans with variable rates are re-priced in response to any changes in market rates and so management considers the carrying amount to be not significantly different from their fair market value
- loans with fixed rates relate to the $500 million Eurobond accounted through amortised cost. The fair value is determined with reference to quoted price in an active market on the consolidated balance sheet date (note 29)
- receivables and payables – the fair values of receivables and payables are estimated to be equal to the respective carrying amounts;
- lease obligations – are valued at the present value of the minimum lease payments

Management classifies items that are recognised at fair value based on the level of inputs used in their fair value determination as described below:

- **Level 1:** Quoted prices in active markets for identical assets or liabilities
- **Level 2:** Inputs that are observable for the asset or liability
- **Level 3:** Inputs that are not based on observable market data

Financial assets and liabilities that fall under Level 1 are:

- Investment at FVTPL amounted to $21 million (note 24).

Financial assets and liabilities that fall under Level 3 are:

- Co-development and earnout payment liabilities (note 28)
- Contingent consideration asset and liability resulting from the acquisition of the Columbus business (notes 24,28 and 32)
- Investment at FVTOCI (note 19)

31. Financial policies for risk management and their objectives continued

The following table presents the changes in Level 3 items for the year ended 31 December 2018 and the year ended 31 December 2017:

	Financial assets $m	Financial liabilities $m
Balance at 1 January 2017	39	258
Additions	29	–
Release	(3)	(3)
Remeasurement through income statement (note 6)	2	(65)
Balance at 31 December 2017 and 1 January 2018	67	190
Restatement on adoption of IFRS 9[1]	16	–
Balance at 1 January 2018 (adjusted)	**83**	**190**
Received/settlement	**(45)**	**(2)**
Remeasurement through income statement (note 6)	**–**	**26**
Additions	**4**	**–**
Fair value adjustments recognised in equity	**7**	**–**
Balance at 31 December 2018	**49**	**214**

1. As per IFRS 9 available-for-sale investments stated at cost (under IAS 39 cost exemption) have been re-classified to investments at FVTOCI

Liquidity risk of assets/(liabilities)

Liquidity risk

2018	**Less than one year $m**	**One to five years $m**	**More than five years $m**	**Total $m**
Cash and cash equivalents	**276**	**–**	**–**	**276**
Trade receivables	**654**	**–**	**–**	**654**
Interest-bearing loans and borrowings[1]	**(32)**	**(548)**	**(6)**	**(586)**
Interest-bearing import and export loans[1]	**(68)**	**–**	**–**	**(68)**
Interest bearing finance lease	**(2)**	**(24)**	**–**	**(26)**
Trade payables and accruals	**(448)**	**–**	**–**	**(448)**
	380	**(572)**	**(6)**	**(198)**

2017	Less than one year $m	One to five years $m	More than five years $m	Total $m
Cash and cash equivalents	227	–	–	227
Trade receivables	650	–	–	650
Interest-bearing loans and borrowings[1]	(52)	(700)	(6)	(758)
Interest-bearing overdrafts[1]	(10)	–	–	(10)
Interest-bearing import and export loans[1]	(51)	–	–	(51)
Interest-bearing finance lease	(2)	(21)	–	(23)
Trade payables and accruals	(352)	–	–	(352)
	410	(721)	(6)	(317)

1. As these are interest bearing liabilities, expected interest expense have been included in the balance

The Group regularly monitors all cash, cash equivalents and debt to maintain liquidity needs, this is done by analysing debt headroom and expected cash flows. The Group seeks to be proactive in its liquidity management to avoid any adverse liquidity effect.

At 31 December 2018, the Group had undrawn facilities of $1,724 million (2017: $1,534 million). Of these facilities, $1,391 million (2017: $1,256 million) were committed and the remainder were uncommitted.

32. Other non-current liabilities

	As at 31 December	
	2018 $m	2017 $m
Contingent consideration	**204**	178
Contingent liability	**109**	109
Supply manufacturing agreement (note 28)	**4**	25
Co-development and earnout payment (note 28)	**7**	8
Others	**5**	4
	329	324

Contingent consideration and contingent liability represent a contractual liability to make payments to thirds parties in the form of milestone payments that depend on the achievement of certain US FDA approval milestones; and royalty payments based on future sales of certain products that are currently under development.

33. Share capital

Issued and fully paid – included in shareholders' equity:

	2018		2017	
	Number	**$m**	Number	$m
At 1 January	**240,678,894**	**40**	239,954,532	40
Issued during the year (Ordinary Shares of 10p each)	**776,500**	**–**	724,362	–
At 31 December	**241,455,394**	**40**	240,678,894	40

34. Non-controlling interests

	2018 $m	2017 $m
At 1 January	**14**	15
Share of profit	**3**	4
Dividends paid	**(3)**	(2)
Currency translation loss	**(2)**	(1)
Acquisition of subsidiaries	**–**	(2)
At 31 December	**12**	14

35. Own shares

The Employee Benefit Trust (EBT) of Hikma holds 40,831 (2017: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Link Trustees (Jersey) Limited an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2018 was $0.9 million (2017: $0.6 million). The book value of the retained own shares at 31 December 2018 are $0.6 million (2017: $0.6 million). The Ordinary Shares held in the EBT will be used to satisfy long-term commitments arising from the employee share plans operated by the Company.

36. Net cash generated from operating activities

	2018 $m	2017 $m
Profit/(loss) before tax	**293**	(738)
Adjustments for:		
Depreciation, amortisation, impairment, and write-down of:		
Property, plant and equipment	**72**	258
Intangible assets	**49**	983
Loss from investment at fair value through profit or loss	**1**	–
Loss on disposal of property, plant and equipment	**3**	3
Movement on provisions	**(3)**	(1)
Cost of equity-settled employee share scheme	**21**	22
Finance income	**(3)**	(95)
Interest and bank charges	**80**	86
Foreign exchange loss/(gain)	**5**	(4)
Cash flow before working capital	**518**	514
Change in trade and other receivables	**(41)**	52
Change in other current assets	**(5)**	(28)
Change in inventories	**(51)**	(31)
Change in trade and other payables	**88**	15
Change in other current liabilities	**7**	31
Change in other non-current liabilities	**(23)**	(7)
Cash generated from operations	**493**	546

37. Contingent liabilities

A contingent liability existed at the consolidated balance sheet date in respect of external guarantees and letters of credit totalling $53 million (31 December 2017: $47 million), arising in the normal course of business. No provision for these liabilities has been made in these consolidated financial statements.

In 2018, the Group received a civil investigative demand from the US Department of Justice requesting information related to products, pricing and related communications. In 2017, the Group had received a subpoena from a US state attorney general and a subpoena from the US Department of Justice. Hikma is still cooperating with all such demands, and management still does not believe that sufficient evidence exists at this point to make any provision.

38. Share-based payments

Executive Incentive Plan

The 2014 Executive Incentive Plan (EIP) was approved by shareholders at the 2014 Annual General Meeting. The EIP is a combined cash bonus (element A), deferred shares (element B) and restricted shares (element C) scheme. Under the EIP, the Group makes grants of conditional awards and $nil cost options under elements B and C to the Executive Directors and senior executives of the Group. Awards under all elements are dependent on the achievement of individual and Group KPIs over one year prior to grant. The shares awarded under element B are not released for a period of two years during which they are subject to a forfeiture condition. The shares awarded under element C are not released for a period of three years, but are not subject to a forfeiture condition. Members of the Executive Committee must retain 100% of the shares received from elements B and C for a period of five years from the date of grant. For EIP element B and C grants made in 2017 and before, Members of the Executive Committee must retain 50% of these shares for a period of five years from the date of grant.

Year 2018	**2018 grants 7 June**	**2018 grants 16 May**	**2017 grants 11 May**	**2016 grants 11 May**	**2016 grants 17 March**	**2015 grants 15 May**	**2015 grants 10 April**	**Total Number**
Beginning balance	–	–	608,376	149,579	448,875	47,000	114,430	1,368,260
Granted during the year	28,818	553,741	–	–	–	–	–	582,559
Exercised during the year	–	–	(60,330)	(119,464)	(236,472)	(47,000)	(90,406)	(553,672)
Outstanding at 31 December	**28,818**	**553,741**	**548,046**	**30,115**	**212,403**	**–**	**24,024**	**1,397,147**
Exercisable at 31 December	–	–	–	30,115	35,620	–	24,024	89,759
Weighted average contractual useful life (years)	9.40	3.66	2.63	0.36	2.36	-	6.28	2.84

Year 2017	2017 grants 11 May	2016 grants 11 May	2016 grants 17 March	2015 grants 15 May	2015 grants 10 April	Total Number
Beginning balance	–	165,553	448,875	118,000	338,808	1,071,236
Granted during the year	613,269	–	–	–	–	613,269
Exercised during the year	–	(3,578)	–	(71,000)	(224,378)	(298,956)
Expired during the year	(4,893)	(12,396)	–	–	–	(17,289)
Outstanding at 31 December	608,376	149,579	448,875	47,000	114,430	1,368,260
Exercisable at 31 December	–	–	–	–	17,386	17,386
Weighted average contractual useful life (years)	4.10	2.49	2.49	1.07	1.32	3.06

The cost of the EIP of $13 million (2017: $16 million) has been recorded in the consolidated income statement as part of general and administrative, and sales and marketing expenses.

The fair value per share is the face value of shares on the date of grant.

The weighted average share price for 2018 is $19.59 (2017: $20.03).

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $
EIP 1	10/04/2015	338,808	33.24216	33.24216
EIP 2	15/05/2015	118,000	33.11449	33.11449
EIP 3 B	17/03/2016	242,608	26.97918	26.97918
EIP 3 C	17/03/2016	206,267	26.97918	26.97918
EIP 4	11/05/2016	165,553	32.15333	32.15333
EIP 5 B	13/04/2017	428,528	23.97771	23.97771
EIP 5 C	13/04/2017	184,741	23.97771	23.97771
EIP 6 B	16/05/2018	440,231	19.09082	19.09082
EIP 6 C	16/05/2018	113,456	19.09082	19.09082
EIP 7	07/06/2018	28,818	18.83410	18.83410

The exercise price of the share award is $nil.

38. Share-based payments continued

Management Incentive Plan

The 2009 Management Incentive Plan (MIP) was approved by shareholders at the 2010 Annual General Meeting, whereby shareholders consented to the Group satisfying awards under the MIP from newly issued shares. Under the MIP, the Group makes grants of conditional awards to management across the Group below senior management level. Awards are dependent on the achievement of individual and Group KPIs over one year and are then subject to a two-year holding period. The 2009 MIP awards were made at the start of the KPI performance period, whereas the 2011 awards and future awards will be made at the end of the KPI performance period.

Details of the grants under the plan are shown below:

Year 2018	**2018 grants 16 May Number**	**2017 grants 19 May Number**	**2016 grants 11 May Number**	**2015 grants 14 May Number**	**2014 grants 11 June Number**	**2013 grants 17 May Number**	**Total Number**
Outstanding at 1 January	–	259,099	173,725	10,563	8,149	4,787	456,323
Granted during the year	443,288	–	–	–	–	–	443,288
Exercised during the year	(3,960)	(17,270)	(165,471)	–	–	–	(186,701)
Expired during the year	(2,966)	(3,363)	–	–	–	–	(6,329)
Outstanding at 31 December	**436,362**	**238,466**	**8,254**	**10,563**	**8,149**	**4,787**	**706,581**
Weighted average remaining contractual life (years)	1.76	0.37	7.34	6.37	5.45	4.38	1.28

Year 2017	2017 grants 19 May Number	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 June Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	192,725	132,442	12,632	9,973	347,772
Granted during the year	273,724	–	–	–	–	273,724
Exercised during the year	–	–	(121,879)	(4,483)	(5,186)	(131,548)
Expired during the year	(14,625)	(19,000)	–	–	–	(33,625)
Outstanding at 31 December	259,099	173,725	10,563	8,149	4,787	456,323
Weighted average remaining contractual life (years)	1.38	0.36	7.37	6.45	5.30	1.27

The cost of the MIP of $8 million (2017: $6 million) has been recorded in the consolidated income statement as part of general and administrative, sales and marketing, cost of sales, and research and development expenses.

The fair value per share is the face value of shares on the date of grant less the present value of dividends expected to be paid during this period. Valuation is based on Black-Scholes methodology for nil-cost options.

The weighted average share price for 2018 is $19.59 (2017: $20.03).

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $	Expected dividends yield %
MIP 1	19/03/2009	340,000	4.89	5.11	1.47
MIP 2	28/03/2010	147,561	9.15	9.36	1.15
MIP 3	11/05/2011	356,894	12.96	13.23	1.00
MIP 4	18/05/2012	412,056	9.47	9.72	1.29
MIP 5	17/05/2013	252,482	14.61	14.93	1.10
MIP 6	11/06/2014	225,904	27.73	28.33	0.71
MIP 7	11/05/2015	145,918	32.17	32.63	0.71
MIP 8	11/05/2016	196,373	31.73	32.20	0.73
MIP 9	19/05/2017	273,724	22.09	22.54	1.01
MIP 10	16/05/2018	443,288	18.45	19.09	1.71

The exercise price of the share award is $nil.

38. Share-based payments continued

Long-term Incentive Plan

The 2007 Long-Term Incentive Plan (LTIP) was approved by shareholders at the 2007 Annual General Meeting and the last grant was made under the LTIP during the year ended 31 December 2014. The LTIP is settled by equity instruments, with 15 separate grant dates. Under the LTIP, conditional awards and $nil cost options were granted which vest after three years subject to a total shareholder return (TSR), revenue growth, earnings per share and return on invested capital performance conditions. The TSR condition measures the Group's TSR relative to a comparator group of other pharmaceutical companies. The TSR vesting schedule dictates that 20% of awards vest for median performance and 100% for upper quartile performance, with pro-rata vesting in between these points. No awards vest for performance which is below the median.

Details of the grants under the plan are shown below:

Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $	Expected volatility	Expected dividend yield	Risk-free interest rate
3-Dec-2014	5,899	23.28	31.39	25.40%	0.71%	1.28%
11-Jun-2014	151,429	23.47	28.62	25.40%	0.71%	1.28%
29-May-2014	109,000	22.67	27.63	27.00%	0.73%	1.15%
3-Apr-2014	89,727	23.25	27.73	26.00%	0.72%	1.17%
6-Nov-2013	20,802	15.18	19.41	26.00%	0.89%	0.89%
17-May-2013	470,683	11.00	14.92	26.40%	1.10%	0.45%
16-Mar-2012	547,780	8.65	11.43	30.31%	1.14%	0.67%
18-Mar-2011	646,054	9.00	11.74	37.04%	1.11%	1.65%
22-Mar-2010	730,253	6.97	9.00	37.18%	1.20%	1.88%
19-May-2009	200,000	3.89	6.67	38.98%	1.22%	1.92%
19-Mar-2009	920,000	2.94	5.11	38.98%	1.47%	1.88%
29-Apr-2008	700,000	5.46	9.22	31.47%	0.08%	4.50%
10-Sep-2007	150,000	4.70	8.28	34.64%	0.08%	5.00%
23-Apr-2007	466,000	4.47	7.69	34.64%	0.08%	5.45%
2-Apr-2007	160,000	4.33	7.46	34.64%	0.08%	5.40%

All long-term incentive plans have ten years' contractual life and vest after three years.

The estimated fair value of each share option granted in the LTIP was calculated by applying the Monte Carlo simulation methodology. For awards made from 2011, 50% of the award is subject to a TSR performance condition which was valued by applying the Monte Carlo simulation methodology, the remaining 50% of the award is subject to financial metrics which are valued by applying the Black-Scholes model. For further details, see the Remuneration Committee report.

The exercise price of the share award is $nil.

Further details on the number of shares outstanding are as follows:

Year 2018	**2014 grants 11 June Number**	**2013 grants 17 May Number**	**2012 grant 16 March Number**	**Total Number**
Outstanding at 1 January	**24,720**	**26,630**	**22,220**	**73,570**
Exercised during the year	**(4,347)**	**–**	**–**	**(4,347)**
Expired during the year	**(903)**	**–**	**–**	**(903)**
Outstanding at 31 December	**19,470**	**26,630**	**22,220**	**68,320**
Exercisable at 31 December	**19,470**	**26,630**	**22,220**	**68,320**
Weighted average remaining contractual life (years)	5.45	4.38	3.21	4.30

38. Share-based payments continued

Year 2017	2014 grants 3 December Number	2014 grants 14 June Number	2014 grants 29 May Number	2014 grants 3 April Number	2013 grants 6 November Number	2013 grants 17 May Number	2012 grant 16 March Number	2007 grants 23 April Number	Total Number
Outstanding at 1 January	5,899	151,429	109,000	84,954	5,180	31,985	22,220	13,000	423,667
Exercised during the year	(4,885)	(104,914)	(90,252)	(70,342)	(4,485)	(4,637)	–	(13,000)	(292,515)
Expired during the year	(1,014)	(21,795)	(18,748)	(14,612)	(695)	(718)	–	–	(57,582)
Outstanding at 31 December	–	24,720	–	–	–	26,630	22,220	–	73,570
Exercisable at 31 December	–	24,720	–	–	–	26,630	22,220	–	73,570
Weighted average remaining contractual life (years)	–	6.45	–	–	–	5.38	4.21	–	5.39

No costs for LTIPs were recognised in the consolidated income statement (2017: $1 million credited to profit and loss).

The weighted average share price for 2018 is $19.95 (2017: $20.03).

39. Operating lease arrangements

	2018 $m	2017 $m
Minimum lease payments under operating leases recognised in profit or loss for the year	**13**	9

At the consolidated balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 $m	2017 $m
Within one year	**7**	9
In two to five years inclusive	**21**	22
After five years	**10**	13
	38	44

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a term of one to eight years.

40. Related parties

Transactions between Hikma and its subsidiaries (together, the Group) have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates, joint ventures and other related parties are disclosed below.

Trading transactions

During the year ended 31 December 2018, the Group entered into the following transactions with related parties:

Boehringer Ingelheim (BI): is a related party of Hikma because BI owns 16.6% (2017: 16.6%) of the share capital of Hikma, controls 11.8% (2017: 11.8%) of the voting capital of Hikma, has the right to appoint a director of Hikma and a senior executive of BI holds a directorship of Hikma. The Group total sales to BI amounted to $66.6 million (2017: $79.1 million) and the Group total purchases from BI amounted to $5.1 million (2017: $10.6 million). As at the year end, the amount owed from BI to the Group was $18.1 million (2017: $43.8 million). Additionally, balances arising from the acquisition of the Columbus business from BI relating to contingent consideration are disclosed in notes 24, 28 and 32.

Capital Bank, Jordan: is a related party of Hikma because one director of Hikma is the founder and former Chief Executive Officer of Capital Bank. At the year end, total cash balance at Capital Bank was $7.5 million (2017: $11.8 million) and utilisation of facilities granted by Capital Bank to the Group amounted to $nil (2017: $nil). The interest income is within the market range.

Darhold Limited (Darhold): is a related party of Hikma because three directors of Hikma jointly constitute the majority of directors and shareholders (with immediate family members) in Darhold and because Darhold owns 24.85% (2017: 24.93%) of the share and voting capital of Hikma. Other than dividends (as paid to all shareholders), there were no transactions between the Group and Darhold Limited during the year.

Hikmacure Limited (Hikmacure): is a related party of Hikma because Hikmacure is a 50:50 joint venture (JV) with MIDROC Pharmaceuticals Limited (MIDROC). Hikma and MIDROC have invested in Hikmacure in equal proportions of $2.5 million each in cash (2017: $2.5 million). During 2017, Hikma and MIDROC agreed not to proceed with and to liquidate the venture.

HMS Holdings SAL (HMS): is a related party of Hikma because HMS is owned by the family of two directors of Hikma. Other than dividends (as paid to all shareholders), there were no transactions between the Group and HMS during the year.

Hubei Haosun Pharmaceutical Co Ltd (Haosun): is a related party of Hikma because the Group holds a 49.0% interest in the joint venture (JV) with Haosun (2017: 30.1%). During 2018, total purchases from Haosun were $2.3 million (2017: $1.4 million). At 31 December 2018, the amount owed from Haosun to the Group amounted to $0.2 million (2017: $1.6 million). During the year Hikma acquired an additional stake in Haosun bringing the total ownership to 49.0% (note 18).

Labatec Pharma (Labatec): is a related party of the Group because Labatec is owned by the family of two directors of Hikma. During 2018, total Group sales to Labatec amounted to $2.9 million (2017: $1.8 million). As at the year end, the amount owed by Labatec to the Group was $0.3 million (2017: $0.3 million).

Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive and Non-Executive Directors and certain of senior management as set out in the Directors' report) of the Group is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of the individual Directors is provided in the audited part of the Remuneration Committee report on pages 81 to 104.

	2018 $m	2017 $m
Short-term employee benefits	**17.4**	11.0
Share-based payments	**8.0**	10.2
Post-employment benefits	**0.1**	10.3
Other benefits	**0.8**	0.6
	26.3	32.1

41. Subsidiaries, associate and joint venture

The subsidiaries, associate and joint venture of Hikma Pharmaceuticals PLC are as follows:

			Owned by the Group		***Owned by PLC 'the Company'***	
Company's name	**Incorporated in**	**Address of the registered office**	**Ownership% Ordinary Shares At 31 December 2018**	**Ownership% Ordinary Shares At 31 December 2017**	**Ownership% Ordinary Shares At 31 December 2018**	**Ownership% Ordinary Shares At 31 December 2017**
Al Jazeera Pharmaceutical Industry S.A.R.L	Algeria	Zone d'Activité, Propriété N° 379 Section N° 04 Staoueli, Algeria	99%	99%	–	–
Algerie Industrie Mediterraneene Du Medicament S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	97%	97%	–	–
Hikma Pharma Algeria S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	100%	100%	–	–
SPA Al Dar Al Arabia pour la Fabrication de Médicaments	Algeria	Zone d'Activité El Boustane N° 78, Sidi Abdellah, Al Rahmania, Algeria	100%	100%	–	–
Hubei Haosun Pharmaceutical Co Ltd	China	No 20 Juxian Road, Gedian Economic and Technology Development Area, Hubei, China	49%	30%	–	–
Hikma for Importation Co. LLC	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	99%	99%	–	–
Hikma Pharma S.A.E[1]	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	100%	100%	–	–
Hikma Pharmaceuticals Industries S.A.E	Egypt	16 Ahmed Hosny Street, First Zone, Naser City, Cairo, Egypt	100%	100%	–	–
Hikma Specialised Pharmaceuticals (S.A.E)	Egypt	10 D, 11 D, Industrial Zone, Badr City, Cairo, Egypt	98%	98%	–	–
Hikmacure Pharmaceuticals Share Company	Ethiopia	Addis Ababa, Bole Sub City, Kebele 16, Woreda, Ethiopia	50%	50%	–	–
Hikma Pharma GmbH	Germany	Lochhamer Strasse 13, 82152, Martinsried, Germany	100%	100%	–	–
Thymoorgan GmbH[1]	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Deutchland	100%	100%	–	–
Thymoorgan Pharmazie GmbH	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Deutchland	100%	100%	–	–
Hikma Finance (Ireland) Limited	Ireland	2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland	100%	100%	–	–
Hikma Italia S.p.A	Italy	Viale Certosa 10, 27100, Pavia, Italy	100%	100%		
Hikma Pharma Limited[1]	Jersey	47 Esplanade, St Helier, JE1 0BD, Jersey	100%	100%	100%	100%
Arab Medical Containers LLC[1]	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Arab Pharmaceutical Manufacturing PSC[1]	Jordan	Al Buhaira – Salt, P.O. Box 42, Jordan	100%	100%		
Future Pharmaceutical Industries LLC	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Hikma International Pharmaceuticals LLC (Exempt)	Jordan	122 Queen Zain AlSharaf Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
Hikma International Ventures and Development LLC (Exempt)	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma Investment LLC[1]	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma Pharmaceuticals LLC[1]	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma United Renewable Energy	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–

41. Subsidiaries, associate and joint venture continued

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* Ownership% Ordinary Shares At 31 December 2018	*Owned by the Group* Ownership% Ordinary Shares At 31 December 2017	*Owned by PLC 'the Company'* Ownership% Ordinary Shares At 31 December 2018	*Owned by PLC 'the Company'* Ownership% Ordinary Shares At 31 December 2017
International Pharmaceutical Research Centre LLC	Jordan	P.O. Box 963166, Amman, 11196, Jordan	51%	51%	–	–
Sofia Travel and Tourism	Jordan	Mustafa Semreen Complex Building No. 29, Jamal Qaytoqa Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
Specialised for Pharmaceutical Industries LLC	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma CIS JSC	Kazakhstan	Apt. 1, House 7, Building-28, 'Keremet' Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%	–	–
Hikma Pharmaceuticals Co. Ltd., Almaty (Kazakhtan) Representative Office	Kazakhstan	Apt. 1, House 7, Building-28, 'Keremet' Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%	–	–
Hikma Liban S.A.R.L.	Lebanon	Saria Building, Ground Floor, Embassies Street, Bir Hassan, Beirut, Lebanon	67%	67%	–	–
Hikma Finance (Luxembourg) SARL	Luxembourg	20 rue des Peupliers, L-2328 Luxembourg	100%	100%	–	–
Société de Promotion Pharmaceutique du Maghreb (Promopharm S.A.) [1]	Morocco	Zone Industrielle du Sahel, Rue N. 7, Had Soualem, Province de Settat, Morocco	94%	94%		
Hikma International N.V	Netherlands	Luna Arena, Herikerberweg 238, 1101 CM, Amersterdam Zuidoost, Netherlands	100%	100%	100%	100%
Hikma Pharma Benelux B.V	Netherlands	Nieuwe Steen 36, 1625 HV, Hoorn, Netherlands	100%	100%	–	–
Eurohealth N.V	Netherlands Antilles	Pareraweg 45, P.O. Box 4914, Curacao, (Netherlands Antilles)	100%	100%	–	–
Hikma Farmaceutica, (Portugal) S.A	Portugal	Estrada Rio Da Mo no.8, 8a, 8B-Fervenca, 2705-906, Terugem SNT, Portugal	100%	100%	–	–
Lifotec Farmaceutica S.G.P.S S.A[1]	Portugal	Estrada Nacional 9, Fervença, São João das Lampas e Terrugem, Sintra, Portugal	100%	100%	–	–
Al Jazeerah Pharmaceutical Industries Ltd[1]	Saudi Arabia	Riyadh Gallery, Olaya Street, P.O. Box 106229, Riyadh-11666, Kingdom of Saudi Arabia	100%	100%	52.5%	52.5%
Hikma Slovakia s.r.o	Slovakia	Seberíniho 1, 821 03 Bratislava, Slovakia	100%	100%	–	–
Pharma Ixir Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	51%	51%	–	–
Savannah Pharmaceutical Industries Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	100%	100%	–	–
Eurohealth International S.A.R.L.	Switzerland	Rue des Battoirs 7, 1205 Genève, Switzerland	100%	100%	100%	100%
APM Tunisie S.A.R.L.	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage, 2035, Tunisia	99%	99%	–	–
STE D'Industriee Pharmaceutique Ibn Al Baytar[1]	Tunisia	11 Rue 8610 Charguia 1-2035 Tunis-Carthage, Tunisia	100%	100%	–	–
STE Hikma Pharma Tunisie	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage 2035, Tunisia	100%	100%	–	–
STE Medicef	Tunisia	Avenue Habib Bourguiba, Sidi Thabet, 2020 Ariana, Tunisia	100%	100%	–	–

41. Subsidiaries, associate and joint venture continued

			Owned by the Group		*Owned by PLC 'the Company'*	
Company's name	**Incorporated in**	**Address of the registered office**	**Ownership% Ordinary Shares At 31 December 2018**	**Ownership% Ordinary Shares At 31 December 2017**	**Ownership% Ordinary Shares At 31 December 2018**	**Ownership% Ordinary Shares At 31 December 2017**
Hikma Emerging Markets and Asia Pacific FZ-LLC	United Arab Emirates	Premises 202-204, Floor 2, Building 26, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma International Trading Limited	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma MENA Holdings Limited[1]	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma (Maple) Limited	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Acquisitions (UK) Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikma Holdings (UK) Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma UK Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Ventures Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikmacure Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	50%	50%	–	–
West-Ward Holdings Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Pharmaceuticals International Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Bedford Property Holdings, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Eurohealth (U.S.A.) Inc[1]	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Hikma Speciality USA, Inc.	United States	C T Corporation System, 800 S Gay Street, Suite Knoxville TN 2021 37929-9710, United States	100%	100%	–	–
Hikma Labs Inc.	United States	Corporation Trust Company of Nevada 701 S Carson Street Suite 200, Carson City, NV 89701, United States	100%	100%	–	–
West-Ward Columbus Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
Hikma Injectables, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
Hikma Pharmaceuticals USA Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
Hikma (HK) Limited	Hong Kong	4603-4609, 46/F Jardine HSE, One Connaught Place, Central Hong Kong	100%	–	–	–
Hikma Shefaa for Pharmaceuticals and Medical Supplies PSC	Palestine	West Bank Al Birah, Ramallah	100%	–	–	–

The investments in subsidiaries are all stated at cost in Hikma Pharmaceuticals PLC, while accounted for using the equity method in the Group.

The investments in associates and joint ventures are accounted for using the equity method in the Group (note 18).

The Group's subsidiaries principally operate in trading pharmaceuticals products and associated goods and services. Companies marked ([1]) were incorporated as holding companies.

42. Defined contribution retirement benefit plan

Hikma Pharmaceuticals PLC has defined contribution retirement plans in five of its subsidiaries: Hikma Pharmaceuticals PLC – United Kingdom, Hikma Pharmaceuticals LLC (Jordan), Arab Pharmaceutical Manufacturing PSC, Hikma Pharmaceuticals USA Inc. and West-Ward Columbus Inc. The details of each contribution plan are as follows:

Hikma Pharmaceuticals PLC – United Kingdom

The Group currently has a defined contribution pension plan available for staff working in the United Kingdom whereby the Group contributes 10% of basic salary. Employees are immediately entitled to 100% of the Group's contributions. The Group's contributions for the year ended 31 December 2018 were $0.4 million (2017: $0.2 million).

Hikma Pharmaceuticals LLC – Jordan

The Group currently has an employee savings plan whereby the Group fully matches employees' contributions, which are fixed at 10% (up to 2011 was 5%) of basic salary. Employees are entitled to 30% of the Group contributions after three years of employment with the Company and an additional 10% for each subsequent year. Employees are entitled to 100% of the Company contributions after ten years of employment with the Company. The Group's contributions for the year ended 31 December 2018 were $3 million (2017: $3 million).

Arab Pharmaceutical Manufacturing PSC – Jordan

The Group currently has an employee saving plan whereby the employees contribute at 10%, and the Company at 15% of basic salary. After three years of employment with the Company, employees are entitled to 100% of the Company contributions. The Group's contributions for the year ended 31 December 2018 were $0.9 million (2017: $1 million).

Hikma Pharmaceuticals USA Inc.: (401 (k) salary saving plan)

Hikma Pharmaceuticals USA Inc. has a 401(k)-defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. All employees not covered by any collective bargaining agreement are eligible after being employed for 90 days. Employees can defer up to 95% of their gross salary into the plan, not to exceed $18,500 (2017: $18,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The Company matches the employees' eligible contribution dollar-for-dollar on the first 6% of eligible pay contributed to the plan. Employer contributions vest 50% after two years of service and 100% after three years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan for the year ended 31 December 2018 were $3.5 million (2017: $3 million). The assets of both retirement plans are held separately from those of the Group. The only obligation of the Group with respect to both retirement benefit plans is to make specified contributions.

West-Ward Columbus Inc.: (401 (k) salary saving plan)

West-Ward Columbus Inc. has a 401(k)-defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. Employees can defer up to 95% of their gross salary into the plan, not to exceed $18,500 (2017: $18,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The Company matches 100% on first 5% of the employees' eligible contribution. Employer contributions vest after six years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan for the year ended 31 December 2018 were $7 million (2017: $8 million). The assets of both retirement plans are held separately from those of the Group. The only obligation of the Group with respect to both retirement benefit plans is to make specified contributions.

43. Business combinations

Acquisition of Geber Health

On 12 March 2018, Hikma signed an asset purchase agreement with EURL Geber Health. The overall cash consideration for the tangible and intangible assets amounted to $13 million.

This acquisition has been accounted for as per IFRS 3 'business combination' where a set of activities and assets that is capable of being conducted and managed for the purpose of providing a return exists.

The assets acquired included an oral general formulation facility located in Algeria. Hikma has converted this facility into an oral cephalosporin facility in order to locally manufacture its cephalosporin portfolio for the Algerian market.

The fair value of the assets acquired included property, plant and equipment of $12 million and intangible assets of $1 million.

There was insignificant goodwill as a result of this acquisition.

From the date of acquisition, Geber Health contributed $4 million of revenue and $0.4 million to profit before tax of the Group.

If the acquisition of Geber health had been completed on the first day of the financial year, the Group's revenues for the year would have been approximately USD $2,073 million and the Group's profit before tax would have been approximately USD $294 million.

44. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 transition impact on opening balance sheet as at 1 January 2018

The Group has adopted IFRS 15 applying modified retrospective approach on 1 January 2018 with a cumulative adjustment as an increase to other current liabilities of $27 million (contract liability), reflecting the free goods obligations outstanding as at 1 January 2018, an increase of trade receivables by $1 million, a decrease in the income tax provision by $1 million and the corresponding net adjustment to decrease retained earnings by $25 million. There is no restatement to prior periods as permitted in the transition roles for IFRS 15.

IFRS 15 impact on the consolidated income statement for the year ended 31 December 2018

The Group revenue was reduced by $36 million under IFRS 15 reporting. This was mainly due to the change in the accounting treatment for payments made to customers ($32 million) and free goods ($4 million) under IFRS 15. Previously, certain customer payments were accounted for as sales and marketing expenses whereas under IFRS 15, any payments made to customers (unless payments made in exchange for distinct good or service that the customer transfers to the entity) are treated as a reduction of transaction price and recognised as a reduction of revenue. See note 2 for change in accounting policy for free goods.

IFRS 15 impact on the consolidated balance sheet as at 31 December 2018

The Group current liabilities balance was increased by $31 million and the retained earnings balance decreased by $29 million under IFRS 15 reporting. This was mainly due to the change in free goods accounting treatment. See note 2 for change in accounting policy for free goods.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group applied IFRS 9 retrospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The effect of adopting IFRS 9 as at 1 January 2018 is explained in note 1.

45. Subsequent events

Acquisition of Medlac

On 2 January 2019, the Group acquired 100% of the share capital of Medlac Pharma Italy Co Ltd. (Medlac), an injectable manufacturing company in Vietnam. The total consideration amount includes an initial upfront cash payment of $8 million and is not expected to exceed $17 million. The consideration includes deferred and contingent consideration payable on successful achievement of certain conditions and milestones. The acquisition includes an injectable facility, adjacent vacant land, Medlac's product portfolio of 23 injectables products, its pipeline and all employees.

The fair value and purchase price allocation of the acquired assets and liabilities will be disclosed in the financial statements for the interim period ending 30 June 2019.

Legal settlement

On 13 January 2019, a litigation matter with an external party was concluded in Hikma's favour and Hikma was entitled to receive compensation of $32 million. The settlement amount was received on 13 February 2019 and this will be recognised in the financial statements.

Company balance sheet

At 31 December 2018

	Note	2018 $m	2017 $m
Non-current assets			
Property, plant and equipment		**3**	3
Intangible assets	48	**23**	20
Investments in subsidiaries	49	**3,328**	3,323
Due from subsidiaries	50	**177**	362
Financial and other non-current assets		**1**	5
		3,532	3,713
Current assets			
Other receivables		**5**	3
Due from subsidiaries	50	**41**	71
Cash and cash equivalents	52	**50**	25
Other current assets	51	**41**	86
		137	185
Total assets		**3,669**	3,898
Current liabilities			
Other payables	53	**3**	4
Due to subsidiaries	54	**39**	39
Other current liabilities		**13**	14
		55	57
Net current assets		**82**	128
Non-current liabilities			
Long-term financial debts	55	**500**	610
Due to subsidiaries	54	**77**	115
		577	725
Total liabilities		**632**	782
Net assets		**3,037**	3,116
Equity			
Share capital	57	**40**	40
Share premium	58	**282**	282
Other reserves		**1,745**	1,745
Retained earnings	59	**970**	1,049
Equity attributable to equity holders of the parent		**3,037**	3,116

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 168 to 174 were approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

Said Darwazah
Director
12 March 2019

Sigurdur Olafsson
Director

Company statements of changes in equity

For the year ended 31 December 2018

	Share capital $m	Share premium $m	Own shares $m	Merger reserve $m	Retained earnings $m	Total $m
Balance at 1 January 2017	40	282	(1)	1,746	1,093	3,160
Profit for the year	–	–	–	–	12	12
Change in fair value of available-for-sale financial assets[1]	–	–	–	–	1	1
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**13**	**13**
Total transactions with owners, recognised directly in equity						
Cost of equity settled employee share scheme	–	–	–	–	22	22
Dividends paid	–	–	–	–	(79)	(79)
Balance at 31 December 2017 and 1 January 2018	40	282	(1)	1,746	1,049	3,116
Loss for the year	–	–	–	–	(16)	(16)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(16)**	**(16)**
Total transactions with owners, recognised directly in equity						
Cost of equity settled employee share scheme	–	–	–	–	21	21
Dividends paid	–	–	–	–	(84)	(84)
Balance at 31 December 2018	**40**	**282**	**(1)**	**1,746**	**970**	**3,037**

1. This investment was previously designated as available-for-sale financial assets. Upon transition to IFRS 9 it has been re-categorised as Investments FVTPL

Notes to the Company financial statements

For the year ended 31 December 2018

46. Adoption of new and revised standards

The impact on the Company of new and revised standards is the same as for the Group. Details are given in note 1 to the consolidated financial statements.

47. Significant accounting policies

Basis of accounting

These financial statements, for the year ended 31 December 2018 have been prepared in accordance with FRS 101.

As permitted by FRS 101, the Company has taken advantage of the following exemptions from the requirements of IFRS as below:

The following paragraphs of IAS 1, 'Presentation of Financial Statements':

- 10(d), statement of cash flows
- 16 (statement of compliance with all IFRS)
- 38A (requirements for a minimum of two primary statements, including cash flow statements)
- 45B and 46 to 52 share-based payment
- IFRS 7 financial instruments disclosure
- IAS 24 (paragraph 17)
- IAS 8 (paragraph 30 and 31)
- 111 (cash flow statement information); and
- IAS 7 'Statement of Cash Flows'.

We have considered the impact of IFRS 9. The Company does not expect any credit losses from intra-Group receivables.

No individual profit and loss account is prepared as provided by section 408 of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis. The principle accounting policies adopted are the same as those set out in note 2 of the consolidated financial statements with the addition of the policies noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

There are no significant judgements and estimates affecting the financial statements of the Company.

The carrying value of investments are reviewed for impairment when there is an indication that the investments might be impaired. Any provision resulting from an impairment review is charged to the income statement.

Equity-settled employee share scheme are accounted for in accordance with IFRS 2 'Share-based payment'. The current charge expenses relating to the subsidiaries' employees are recharged to subsidiary companies.

48. Intangible assets

	Software $m	Total $m
Cost		
Balance at 1 January 2017	13	13
Additions	8	8
Balance at 1 January 2018	**21**	**21**
Additions	8	8
Transfer	(2)	(2)
Balance at 31 December 2018	**27**	**27**
Amortisation		
Balance at 1 January 2017	–	–
Charge for the year	(1)	(1)
Balance at 1 January 2018	**(1)**	**(1)**
Charge for the year	(1)	(1)
Impairment	(2)	(2)
Balance at 31 December 2018	**(4)**	**(4)**
Carrying amount		
At 31 December 2018	**23**	**23**
At 31 December 2017	20	20

Details of useful lives and amortisation rates are included in note 16.

49. Investments in subsidiaries

The details of investment in subsidiaries are mentioned in note 41.

The following table provides the movement of the investments in subsidiaries:

	2018 $m	2017 $m
Beginning balance	**3,323**	3,179
Additions to subsidiaries	**5**	144
Ending balance	**3,328**	3,323

50. Due from subsidiaries

Non-current assets

	2018 $m	2017 $m
Hikma Pharmaceuticals USA Inc.	**8**	8
Hikma Italia S. P. A	**1**	4
Hikma Hong Kong	**10**	–
Hikma Pharmaceuticals International Limited	**54**	167
Hikma UK Limited	**104**	183
	177	362

Current assets

	2018 $m	2017 $m
Hikma Pharmaceuticals LLC	**2**	–
Hikma UK Limited	**–**	55
Hikma MENA Holdings Limited	**19**	5
Hikma Pharmaceuticals USA Inc.	**9**	4
Hikma Pharma SAE	**4**	3
Hikma Farmaceutica, (Portugal) S.A.	**1**	1
Hikma Emerging Markets and Asia Pacific FZ-LLC	**5**	3
Others	**1**	–
	41	71

51. Other current assets

	2018 $m	2017 $m
Price adjustment receivable	**20**	61
Investments at FVTPL (2017: available-for-sale investments)	**21**	22
Others	**–**	3
	41	86

Price adjustment receivable in respect to note 24 this represents the current portion of the contingent receivable in relation to the Columbus business acquisition, whereby as part of the acquisition, the Group will be reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received $45 million reimbursement (2017: $3 million) in cash. The non-current portion of price adjustment receivable is included within other non-current assets (note 19).

Investment at FVTPL represents the agreement the Group entered into with an asset management firm in 2015 to manage a $20 million portfolio of underlying debt instruments. The investment comprises a portfolio of assets that are managed by an asset manager and is measured at fair value; any changes in fair value go through the income statement. This asset is classified as level 1 as it uses quoted prices in active markets.

52. Cash and cash equivalents

	As at 31 December	
	2018 $m	2017 $m
Cash at banks and on hand	**7**	5
Time deposits	**43**	20
	50	25

Cash and cash equivalents include highly liquid investments with maturities of three months or less which are convertible to known amounts of cash and are subject to insignificant risk of changes in value.

53. Other payables

Management consider that the carrying amount of other payables approximates to their fair value.

54. Due to subsidiaries

Non-current liabilities

	2018 $m	2017 $m
Hikma (Maple) Limited	**–**	44
Hikma Investment LLC	**1**	1
Hikma Pharmaceuticals LLC	**–**	10
Hikma MENA Holdings Limited	**59**	60
Hikma Pharma Limited	**17**	–
	77	115

Current liabilities

	2018 $m	2017 $m
Hikma Investment LLC	**17**	22
Hikma Pharmaceuticals International Limited	**18**	15
Hikma Pharma Limited	**2**	2
Hikma UK limited	**2**	–
	39	39

55. Long-term financial debts

The balance comprises mainly of a $500 million (carrying value of $497 million, and fair value of $496 million) 4.25% Eurobond due in April 2020 with the rating of (BB+/Ba1) and a withdrawal of $nil on the syndicated revolving credit facility (note 29).

56. Staff costs

Hikma Pharmaceuticals PLC currently has an average of 36 employees (2017: 30 employees) (excluding Executive Directors); total compensation paid to them amounted to $10 million (2017: $8 million) of which salaries and bonuses compromise an amount of $8 million (2017: $6 million) the remaining balance of $2 million (2017: $2 million) represents national insurance contributions.

57. Share capital

Issued and fully paid – included in shareholder's equity:

	2018		2017	
	Number	**$m**	Number	$m
At 1 January	**240,678,894**	**40**	239,954,532	40
Issued during the year (Ordinary Shares of 10p each)	**776,500**	**–**	724,362	–
At 31 December	**241,455,394**	**40**	240,678,894	40

58. Share premium

	Share premium $m
Balance at 1 January and 31 December 2018	**282**

59. Loss/profit for the year

The net loss in the Company for the year is $16 million (2017: profit $12 million). Included in the net loss for the year is an amount of $47 million (2017: $16 million) representing dividends received and $4 million (2017: $5 million) representing the current year charge of share-based payments. The remaining income statement components represents general and administrative expenses and net financing expenses. Audit fees for the Company are disclosed in note 7.

60. Contingent liabilities

A contingent liability exists at the balance sheet date in respect to a standby letter of credit totalling $9 million (2017: $9 million) for potential stamp duty obligation that may arise if a repayment of the syndicated revolving credit facility (see note 29) is made by the intercompany guarantors on behalf of the Company. It is not probable that the repayment will be made by the intercompany guarantors.