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 2019 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); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and parent Company balance sheets as at 31 December 2019; the consolidated income statement and consolidated 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.

During the period, we identified that three PwC teams in the Middle East and North Africa (MENA) region were involved in supporting the preparation of the local statutory financial statements for prior periods on behalf of Hikma. These teams were involved in some administrative preparation of the local statutory financial statements and were not involved in any management decision-making or bookkeeping. This service does not form part of the group audit and is limited to 12 sets of local statutory accounts. Administrative preparation of statutory financial statements is prohibited by the FRC's Ethical Standard, and therefore upon identifying the breach, the teams immediately ceased providing the service. We confirm that, based on our assessment of this breach, and the subsequent actions taken, we have not, in our view, compromised our independence.

Other than the matter referred to above, and 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 2019 to 31 December 2019.

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

Our audit approach

Overview

- Overall Group materiality: $21.5 million (2018: $17 million), based on 5% of profit before tax after adjusting for all exceptional items and other adjustments except for amortisation of intangible assets other than software.
- Overall Company materiality: capped at $19.35 million (2018: $10 million), but based on 1% of total assets.
- Our audit included full scope audits of five components, audit procedures on specific financial statement line items of two components and audit procedures performed centrally over certain areas and specific material balances at other locations around the world. Full scope components account for 76% of consolidated revenue, 69% of the adjusted profit measure we used as a basis for determining materiality and 74% of consolidated total assets.
- Valuation and presentation and disclosure of goodwill and intangible assets (Group).
- Valuation and presentation of gross to net rebate, returns and chargeback adjustments in the US (Group).
- Tax including valuation and presentation of both uncertain tax positions and deferred tax assets from transfer pricing (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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to regulations set out by the United States Food and Drug Administration (the FDA) and other industry regulators, 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, and we considered the extent to which non-compliance might have a material effect on the financial statements.

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 counsels, 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 hotline and results of management's investigation of such matters;
- challenging assumptions made by management in its significant accounting estimates particularly in relation to estimation of rebate, chargeback and return reserves, valuation of intangible assets, and recognition and measurement of litigation and contingent liabilities and uncertain tax positions (see related key audit matters below); and
- 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.

Valuation and presentation and disclosure of goodwill and intangible assets (Group)

Key audit matter	How our audit addressed the key audit matter
At 31 December 2019, the Group had goodwill of $282 million and intangible assets of $552 million (31 December 2018: $279 million and $487 million, respectively) comprising customer relationships, product-related intangible assets, software and other identified intangible assets. This is contained within four cash generating units (CGUs): Generics, Generic Advair Diskus®, Branded and Injectables. 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 tangible and intangible assets where there are indicators of impairment. Additionally, the Group must consider whether there are indicators of impairment reversal at each reporting date to the extent that this is relevant. The determination of recoverable values requires judgement on the part of management in identifying and then estimating the higher of the value in use and 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 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 (excluding goodwill) 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 and Generic Advair Diskus® CGUs in particular, due to the challenging recent market conditions and significant impairment in 2017, 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. An impairment reversal was recognised in 2019 for $21 million attributable to three specific intangible products that showed a sustained and discrete improvement in performance. An impairment charge of $3 million was recognised for software and other intangibles. *Refer to the Audit Committee review of areas of significant judgement on page 71, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3) and goodwill and intangible assets (note 16) in the Group financial statements.*	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 as it develops and how it is monitored. We conclude that management's determination of four CGUs in 2019 rather than three CGUs in 2018 is reasonable. With support from our valuations experts, 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. Our valuations experts assessed the reasonableness of the valuation methodology, discount rates, long term growth rate and mathematical accuracy. 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 as well as our valuation experts: — 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 experts to identify any anomalies or trends that warranted further investigation and corroboration; — 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; and — we recalculated the weighted average cost of capital and considered if the amount was within a reasonable range. For those 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 conclude the analyses performed and disclosed in note 16 are reasonable. We also 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 (at a CGU and product level) and factors relating to generic Advair Diskus®. Based on our procedures, we concluded it was appropriate to reverse $21 million of impairment on three specific marketed products which showed discrete and sustained recovery in performance. On generic Advair Diskus®, Hikma submitted its repeat study in November 2019 and is awaiting the results of the FDA's review of the associated drug application. Any potential reversal will be considered if and when FDA approval is obtained in line with Hikma's policy. This will continue to be monitored closely during 2020. We also validated the appropriateness of the related disclosures in notes 2, 3 and 16 of the financial statements.

Valuation and presentation of gross to net rebate, returns and chargeback adjustments in the US (Group)

Key audit matter	How our audit addressed the key audit matter
Management is required to make estimates in respect of revenue recognition and specifically the level of chargebacks, returns, rebates and other revenue deductions that will be realised against the Group's revenue. These estimates are material to the financial statements, hence the reason for inclusion as an area of focus. The largest of these estimates relates to revenue recognition through chargebacks, rebates and returns in the US for which the Group recorded revenue deductions for the year ended 31 December 2019 of $2,235 million (2018: $2,057 million). We focused on this area as chargebacks, returns, rebates and the deductions from gross revenue are complex, material and because establishing an appropriate reserve requires significant estimation by the Directors. This estimate is in a US healthcare environment in which competitive pricing pressure and product discounting are trends. The Directors have determined a reserve of $442 million to be necessary at 31 December 2019 (2018: $409 million). *Refer to the Audit Committee review of areas of significant judgement on page 71, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3), trade and other receivables (note 21) and other current liabilities (note 28) in the Group financial statements.*	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 reserves under the 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 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 reserves at 31 December 2019 using third party data and compared this expectation to the actual accrual recognised by the Group; and — We obtained management's sensitivity analyses which showed the impact of reasonably possible changes to key assumptions. We considered whether these were the key assumptions, challenged management on whether the disclosure fully satisfied the requirements on IAS 1 and validated the impact of change in the assumptions disclosed. Based on the procedures performed, we did not identify any material differences between our independent expectations and the reserves recorded.

Tax including valuation and presentation of both uncertain tax positions and deferred tax assets from transfer pricing (Group)

Key audit matter	How our audit addressed the key audit matter
The Group operates across many 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 leading to uncertain tax positions. Judgement is required in assessing the outcome, and in estimating the level, of provisions required in respect of uncertain tax positions. At 31 December 2019, the Group has recorded provisions of $52 million in respect of uncertain tax positions (2018: $61 million). In 2019 management recorded an exceptional tax credit in the income statement of $97 million relating to (1) the recognition of US deferred tax assets arising as a result of the transfer of intangible assets from Hikma Pharmaceuticals International Limited (HPIL) to Hikma USA in July 2019 and creating deductible temporary differences in the US and (2) the recognition and utilisation of historic UK tax losses against taxable gains arising on the transfer of those assets and other taxable income in the UK. This has involved estimation of the value of the assets transferred, which determines the gain arising in the UK and future tax deductions in the US as a result. Management has used their own external expert to assist determine the valuation of the assets transferred. At 31 December 2019 total recognised deferred tax assets were $243 million (2018: $125 million) and deferred tax assets were not recognised in respect of $170 million (2018: $536 million) of tax losses and other deductible temporary differences. There is inherent judgement involved in estimating the period over which tax losses can be utilised and hence the level of deferred tax assets to recognise. *Refer to the Audit Committee review of areas of significant judgement on page 71, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3), tax (note 12) and deferred tax (note 13) in the Group financial statements.*	In conjunction with our UK, US and international tax specialists, we evaluated and assessed the potential uncertainties and challenged management's judgements and estimation of the amount of tax provisions booked against the uncertain positions. In understanding and evaluating management's judgements relating to the level of provisioning for uncertain tax positions, and through discussions with management, we (including component teams, where relevant) assessed: — the status of ongoing, and outcome of, previous tax authority audits; — the integrity of management's detailed analysis and calculations of provisions recorded, amounting to $52 million; — the evidence provided by management to support its assumptions underpinning uncertain tax positions at 31 December 2019; — completeness of exposures for periods open to challenge and understanding new areas of enquiry from tax authorities; and — developments in the tax environment and external tax advice received by the Group. In respect of the exceptional tax credit we: — assessed the accuracy of management's estimate of the UK taxable gain arising from the sale of intangible assets from HPIL to Hikma US and the expected utilisation of tax losses, against this gain; — tested the additional tax deductions arising in the US as a result of differing fair values and tax bases of the intangible assets following their transfer from HPIL to Hikma USA, and the calculation of the deferred tax asset created; — tested the appropriateness of the valuation of the intangible assets by checking the consistency of underlying data supporting the transfer valuation prepared by management's experts. This included reconciling cash flows and forecasts behind the transfer value to those supporting the Group's annual impairment test of goodwill and indefinite-lived intangible assets to ensure consistency of views; and — the appropriateness of the related disclosures in notes 12 and 13 to the financial statements against the requirements of IAS 12. This included assessing the determination of which amounts are disclosed as exceptional items based on the magnitude and the nature of the item. In respect of assessing recoverability of deferred tax assets, we: — assessed whether deferred tax assets were recoverable under IAS 12 with reference to Board approved forecasts including estimated taxable profit forecasts; and — We utilised our specialists to help us assess the presentation of the deferred tax items in accordance with IAS12. Based on the procedures performed, we considered the valuation and presentation of uncertain tax positions and deferred tax assets to be supportable.

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

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 auditor procedures and controls, and visits were undertaken by senior team members to component auditor locations, to refine the audit approach and ensure sufficient oversight of component auditors.

As at 31 December 2019, Hikma Pharmaceuticals PLC had in total 65 entities (subsidiaries) 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 statement and statement of financial position prepared under Group accounting policies which are in compliance with IFRSs. We requested component teams in the US (Hikma USA), Jordan (Hikma Jordan), Algeria (Hikma Algeria) and Morocco (Hikma Morocco) to audit reporting packages of certain entities in these territories and report the results of their full scope audit work to us; the component audit of Hikma Pharmaceuticals PLC was performed by the Group audit team. This work was supplemented by procedures over specific balances performed on Hikma Pharmaceuticals International Limited (HPIL) and Hikma International Ventures Limited and procedures performed centrally including the consolidation, taxation and certain other component balances not covered by component auditors.

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, Jordan and Morocco.

Full scope components account for 76% of consolidated revenue, 74% of consolidated total assets and 69% of the adjusted profit measure we used 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	$21.5 million (2018: $17 million).	$19.35 million (2018: $10 million).
How we determined it	5% of profit before tax after adjusting for all exceptional items and other adjustments except for amortisation of intangible assets other than software.	1% of total assets. This was capped at $19.35 million, but calculated based on 1% 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 the equivalent reported 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 $3,000,000 and $19,350,000. 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 $1,000,000 (Group audit) (2018: $850,000) and $1,000,000 (Company audit) (2018: $850,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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 54 to 105) 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 54 to 105) 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 47 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 70 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.

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

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 105, 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 71 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' responsibilities statement set out on page 105, 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 four years, covering the years ended 31 December 2016 to 31 December 2019.

Darryl Phillips
(Senior Statutory Auditor)

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

London
26 February 2020

Consolidated income statement

For the year ended 31 December 2019

	Note	**2019 Core results $m**	**2019 Exceptional items and other adjustments (Note 6) $m**	**2019 Reported results $m**	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Revenue	4	**2,203**	**4**	**2,207**	2,076	(6)	2,070
Cost of sales		**(1,059)**	**–**	**(1,059)**	(1,004)	(16)	(1,020)
Gross profit		**1,144**	**4**	**1,148**	1,072	(22)	1,050
Selling, general and administrative expenses[1]		**(453)**	**(41)**	**(494)**	(437)	(33)	(470)
Net impairment reversals on financial assets		**–**	**–**	**–**	11	–	11
Research and development expenses		**(126)**	**(24)**	**(150)**	(118)	(29)	(147)
Other operating income/(expenses), net	9	**(57)**	**46**	**(11)**	(68)	(5)	(73)
Total operating expenses		**(636)**	**(19)**	**(655)**	(612)	(67)	(679)
Operating profit	5	**508**	**(15)**	**493**	460	(89)	371
Finance income	10	**7**	**60**	**67**	3	–	3
Finance expense	11	**(52)**	**(15)**	**(67)**	(54)	(26)	(80)
Gain/(loss) from investment at fair value through profit and loss (FVTPL)		**2**	**–**	**2**	(1)	–	(1)
Loss from investment divestiture		**–**	**(4)**	**(4)**	–	–	–
Profit before tax		**465**	**26**	**491**	408	(115)	293
Tax	12	**(100)**	**96**	**(4)**	(73)	65	(8)
Profit for the year		**365**	**122**	**487**	335	(50)	285
Attributable to:							
Non-controlling interests	33	**1**	**–**	**1**	3	–	3
Equity holders of the parent		**364**	**122**	**486**	332	(50)	282
		365	**122**	**487**	335	(50)	285
Earnings per share (cents)							
Basic	15	**150.4**		**200.8**	137.8		117.0
Diluted	15	**149.8**		**200.0**	137.2		116.5

1. Beginning in 2019, Sales and Marketing (S&M) and General and Administrative (G&A) expenses are reported under one-line item. In 2018, S&M and G&A were $224 million and $246 million, respectively

FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Profit for the year		**365**	**122**	**487**	335	(50)	285
Other comprehensive income							
Items that may be reclassified subsequently to the consolidated income statement, net of tax:							
Currency translation gain/(loss)		**20**	**–**	**20**	(29)	–	(29)
Items that will not be reclassified subsequently to the consolidated income statement, net of tax:							
Change in investments at fair value through other comprehensive income (FVTOCI)	19	**(2)**	**–**	**(2)**	7	–	7
Total comprehensive income for the year		**383**	**122**	**505**	313	(50)	263
Attributable to:							
Non-controlling interests		**2**	**–**	**2**	1	–	1
Equity holders of the parent		**381**	**122**	**503**	312	(50)	262
		383	**122**	**505**	313	(50)	263

Consolidated balance sheet

At 31 December 2019

	Note	2019 $m	2018 $m
Non-current assets			
Goodwill	16	**282**	279
Other intangible assets	16	**552**	487
Property, plant and equipment	17	**912**	870
Right-of-use assets	34	**50**	–
Investment in associates and joint ventures	18	**11**	11
Deferred tax assets	13	**243**	125
Financial and other non-current assets	19	**32**	57
		2,082	1,829
Current assets			
Inventories	20	**568**	528
Income tax receivable		**79**	74
Trade and other receivables	21	**719**	731
Collateralised and restricted cash	22	**1**	–
Cash and cash equivalents	23	**442**	276
Other current assets	24	**39**	59
		1,848	1,668
Total assets		**3,930**	3,497
Current liabilities			
Short-term financial debts	25	**569**	74
Leases liabilities	34	**9**	1
Trade and other payables	26	**473**	465
Income tax provision		**82**	68
Other provisions	27	**23**	23
Other current liabilities	28	**315**	262
		1,471	893
Net current assets		**377**	775
Non-current liabilities			
Long-term financial debts	29	**48**	539
Leases liabilities	34	**59**	23
Deferred tax liabilities	13	**20**	16
Other non-current liabilities	31	**203**	329
		330	907
Total liabilities		**1,801**	1,800
Net assets		**2,129**	1,697
Equity			
Share capital	32	**41**	40
Share premium		**282**	282
Other reserves		**(179)**	(217)
Retained earnings		**1,973**	1,580
Equity attributable to equity holders of the parent		**2,117**	1,685
Non-controlling interests	33	**12**	12
Total equity		**2,129**	1,697

The consolidated financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 115 to 167 were approved by the Board of Directors on 26 February 2020 and signed on its behalf by:

Said Darwazah
Director
26 February 2020

Sigurdur Olafsson
Director

Consolidated statement of changes in equity

For the year ended 31 December 2019

	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 2018[1]	38	(227)	(1)	(190)	1,354	40	282	1,486	14	1,500
Profit for the year	–	–	–	–	282	–	–	282	3	285
Change in investments at FVTOCI (Note 19)	–	–	–	–	7	–	–	7	–	7
Currency translation loss	–	(27)	–	(27)	–	–	–	(27)	(2)	(29)
Total comprehensive income 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 and 1 January 2019	38	(254)	(1)	(217)	1,580	40	282	1,685	12	1,697
Impact of IFRIC 23[2]	–	–	–	–	2	–	–	2	–	2
Balance at 1 January 2019 as adjusted	38	(254)	(1)	(217)	1,582	40	282	1,687	12	1,699
Profit for the year[3]	20	–	–	20	466	–	–	486	1	487
Change in investments at FVTOCI (Note 19)	–	–	–	–	(2)	–	–	(2)	–	(2)
Currency translation gain	–	19	–	19	–	–	–	19	1	20
Total comprehensive income for the year	20	19	–	39	464	–	–	503	2	505
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme (Note 38)	–	–	–	–	24	–	–	24	–	24
Exercise of employees share scheme	(1)	–	–	(1)	–	1	–	–	–	–
Dividends on ordinary shares (Note 14)	–	–	–	–	(97)	–	–	(97)	(2)	(99)
Balance at 31 December 2019	**57**	**(235)**	**(1)**	**(179)**	**1,973**	**41**	**282**	**2,117**	**12**	**2,129**

1. The Group adopted IFRS 9 and IFRS 15 from 1 January 2018. The impact of IFRS 9 and IFRS 15 was $3 million and $25 million debit to retained earnings, respectively
2. The Group adopted IFRIC 23 as of 1 January 2019. The impact of adoption was a decrease of $2 million of the amount previously held for uncertain tax positions (Note 1)
3. A net impairment reversal of $20 million has been allocated from retained earnings to the merger and revaluation reserves in relation to Columbus business impairment reversal (Note 6 and 16)

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 $m	2018 $m
Cash flows from operating activities			
Cash generated from operations	36	**580**	493
Income taxes paid		**(125)**	(63)
Income taxes received		**17**	–
Net cash inflow from operating activities		**472**	430
Cash flow from investing activities			
Purchases of property, plant and equipment		**(119)**	(107)
Proceeds from disposal of property, plant and equipment		**2**	13
Purchase of intangible assets		**(67)**	(32)
Investment in joint ventures		**–**	(4)
(Increase)/decrease in investment in financial and other non-current assets		**(1)**	4
Proceeds from sale of investment at FVTOCI		**12**	–
Additions of investments at FVTOCI		**(5)**	(4)
Acquisition of business undertakings net of cash acquired		**(8)**	(14)
Proceeds from investment divestiture		**2**	–
Contingent consideration receipt		**27**	45
Interest income received		**6**	3
Net cash outflow from investing activities		**(151)**	(96)
Cash flow from financing activities			
(Increase)/decrease in collateralised and restricted cash		**(1)**	3
Proceeds from issue of long-term financial debts		**19**	93
Repayment of long-term financial debts		**(11)**	(224)
Proceeds from short-term borrowings		**267**	138
Repayment of short-term borrowings		**(273)**	(148)
Repayment of lease liabilities		**(12)**	–
Dividends paid		**(97)**	(84)
Dividends paid to non-controlling shareholders of subsidiaries		**(2)**	(3)
Interest and bank charges paid		**(44)**	(51)
Payment to co-development and earnout payment agreement		**(1)**	(2)
Net cash outflow from financing activities		**(155)**	(278)
Net increase in cash and cash equivalents		**166**	56
Cash and cash equivalents at beginning of year		**276**	227
Foreign exchange translation movements		**–**	(7)
Cash and cash equivalents at end of year		**442**	276

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 2019, 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 16	Leases
IFRIC 23	Uncertainty over income tax treatments

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 (eg personal computers) and short-term leases (ie leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (ie the lease liability) and an asset representing the right to use the underlying asset during the lease term (ie the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (eg 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).

The lessee generally recognises 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.

The Group has adopted IFRS 16, applying modified retrospective approach on 1 January 2019, and recognised right-of-use assets of $55 million (including $10 million reclassed from property, plant and equipment previously recognised as assets held under finance lease and offsetting accrued rent of $3 million) and lease liabilities of $48 million, the effect on the current year of adopting IFRS 16 is disclosed in Note 34.

IFRIC 23

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017. 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 adopted IFRIC 23 as of 1 January 2019 and reassessed the effect of uncertainty where applicable. The impact of adoption was a decrease of $2 million of the amount previously held for uncertain tax positions which was reflected in retained earnings.

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, manufacturing, marketing and selling of a broad range of generic, branded and in-licensed pharmaceuticals products in solid, semi-solid, liquid and injectable final dosage forms.

Basis of preparation

Hikma Pharmaceuticals PLC's 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 presentational and functional currency of Hikma Pharmaceuticals PLC is the US dollar as the majority of the Company'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 51).

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 joint ventures

2. Significant accounting policies continued

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.

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 investment 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.

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.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (ie the date the Group attains control). The resulting gain or loss, if any, is 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 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 associate 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 associates, 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 Groups' 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.

2. Significant accounting policies continued

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 2019 in which the rate prevailing was 45.2284 Sudanese pound per US dollar as of 31 December 2019. The effect of inflation accounting in Sudan for the year ended 31 December 2019 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. The point at which control passes is determined by each customer arrangement, but generally occurs on delivery to the customer.

The Group manufactures certain medicines on behalf of the 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 also the Group has enforceable right to payments once these medicines are quality approved.

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, 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.

The Group does not expect to have any contracts 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

The ultimate net selling price is calculated using variable consideration estimates for certain gross to net adjustments.

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 (see Note 21 for chargebacks sensitivity analysis).

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 (see Note 28 for return sensitivity analysis).

Rebates

In the US, rebates are granted to wholesaler distributers and direct customers. Rebates are also granted to healthcare authorities and under contractual arrangements with certain indirect 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 (see Note 21 and 28 for rebates sensitivity analysis).

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.

2. Significant accounting policies continued

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.

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 Plans (EIP) or the 2009 and 2018 Management Incentive Plan (MIP) and the 2007 Long-Term Incentive Plan (LTIP) noting that the last grant was issued 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 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 payments 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.

Dividend income

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

Leasing

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

— Right-of-use assets: The Group recognises right-of-use assets at the commencement date of the lease (ie the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain or obtaining ownership of leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Right of use of assets are depreciated on a straight-line basis at the following depreciation rates:

Buildings	5% to 50%
Vehicles	25% to 86%

— Lease liabilities: at the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The discount rate used to calculate the lease liabilities is the incremental borrowing rate (IBR) the Group estimates it using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit profile)

— Short-term leases and leases of low-value assets: the Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (ie those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (ie below $5,000). A lease payment on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term

2. Significant accounting policies continued

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.

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 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 intercompany 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 2019, this had a 0.5% favourable impact on the effective tax rate (2018: 1.3% favourable).

Exceptional items and other adjustments

We use a number of non-IFRS measures to report and monitor the performance of our business. Management uses these adjusted numbers internally to measure our progress and for setting performance targets. We also present these numbers, alongside our reported results, to external audiences to help them understand the underlying performance of our business. Our adjusted numbers may be calculated differently to other companies.

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

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. To provide a more complete picture of the Group's performance to external audiences, we provide, alongside our reported results, core results, which are a non-IFRS measure. Reconciliation between core and reported results are provided in our consolidated financial statements.

Our core results exclude the exceptional items and other adjustments set out in Note 6 in the notes 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 as costs associated with business combinations, one-off gains and losses on disposal of businesses assets, reorganisation costs, write-down and impairment charges/reversal 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 industry peers. 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 and other adjustments did not change from prior year.

2. Significant accounting policies continued

Intangible assets

An intangible asset is recognised if all the below conditions are met:

— 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.

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 certain 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) **Product related intangibles:**

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

(ii) 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.

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

Other identified intangibles are:

(d) **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.

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

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

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 5%
Machinery and equipment	5% to 33%
Vehicles, fixtures and equipment	8% to 33%

A unit 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.

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.

2. Significant accounting policies continued

Impairment of property, plant and equipment and intangible assets

At the same time 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 for 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.

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.

When an impairment loss for the asset, other than goodwill, subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. However, the increased carrying amount should not exceed the carrying amount that would have been determined had there been no impairment in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

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 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. see Note 16.

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

(a) Goodwill is allocated to each of the Group's cash-generating units. These cash-generating units 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 cash-generating unit 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The assumptions used and sensitivity analysis 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.

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 comprise cash at bank and in hand and highly liquid investments with maturities within three months or less. Money market funds comprise of investment in funds that are subject to insignificant risk of changes in fair value and can be readily converted into cash.

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

The Group classifies its financial assets in the following measurements categories:

(i) Financial assets at FVTPL

Listed shares, debt instruments 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 at FVTOCI

The Group's investments in unlisted shares through its venture capital are stated at FVTOCI with no recycling of cumulative gains or losses upon de-recognition, see Note 19.

(iii) Financial assets at amortised cost

Trade receivables, loans and other receivables that have fixed or determinable payments that 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 milestones loans 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.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2. Significant accounting policies continued

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVTOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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 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.

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 used for calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The calculation of 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;

(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.

Own shares

The Group provide finance to the trustee of the Employee Benefit Trust (EBT) which is Link Market Apex Financial Services (Trust Company) 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 estimate (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 and rebates. These arrangements vary by product arrangements and buying groups. Refer to Note 2 for more details on each of the underlying estimates.

Goodwill (Note 16)

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:

Critical judgement
- Determination of the cash generating units (CGU)

Critical estimate
- 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 future capital expenditures and working capital requirements over the five-year period
- Estimating a discount rate that appropriately reflects the Group's weighted average cost of capital (WACC) 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)

Valuing intangible assets upon initial recognition as at the acquisition date and testing for impairment require the following judgement and estimates:

Critical judgement
- For pipeline products, establishing the launch date and probability of a successful product approval are critical judgements
- Determining whether a 'triggering event' has occurred for intangible assets. In such case 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 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, if such indication exists, the Group estimates the asset's or CGU's recoverable amount. Refer to Note 2 & 16 for more details

Critical estimate
- Estimating revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices)
- Estimating the expected economic useful lives of the product-related intangibles
- Estimating the sales and the allocation of marketing, research and development and other operating costs to the individual product-related intangibles
- Estimating a contributory asset charge (on working capital, fixed assets and workforce)
- Estimating a discount rate and specific risk premiums
- The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 16

Contingent consideration

The determination of the fair value of contingent consideration is based on discounted cash flows. The critical estimate and assumptions taken into consideration for contingent consideration fair valuation are same as described in acquired intangibles assets' above (See Note 28 and 31).

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

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 $281 million (2018: $219 million), of which $243 million (2018: $125 million) has been recognised. In 2019, as part of the internal reorganisation of intangible assets, a deferred tax asset was set up due to the higher amortisable base resulting in a higher tax deduction. The significant decrease of unrecognised deferred tax assets is due to the utilisation of previously unrecognised carried forward losses during the year and the expiration of $92 million of losses in the UK.

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.

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, intercompany 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 and the 2019 business restructuring, 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 $53 million in respect of liabilities likely to arise from the above estimation uncertainties. Hikma released $9 million in 2019 due to the statute of limitations and released $12 million following adjustments to the tax returns. This was offset by new provisions and updates of $7 million booked in 2019. In 2020, up to $5 million could be released primarily 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 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).

The critical areas of judgement in relation to contingent liabilities is as follows:

- a possible obligation depending on whether some uncertain future event occurs in relation to legal proceedings and/or governmental agencies investigations
- a present obligation but payment is not probable where Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defence of legal proceedings
- a present obligation but the amount cannot be measured reliably

4. Revenue from contracts with customers

Business and geographical markets:

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

Year ended 31 December 2019	Branded $m	Injectables $m	Generics $m	Others $m	Total $m
United States	–	640	719	–	1,359
Middle East and North Africa	567	146	–	6	719
Europe and rest of the world	16	101	–	5	122
United Kingdom	–	7	–	–	7
	583	894	719	11	2,207

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

The top selling markets in 2019 are as below:

	2019 $m	2018 $m
United States	1,359	1,293
Saudi Arabia	204	170
Egypt	114	97
	1,677	1,560

Included in revenue arising in the Generics and Injectables segments are revenue of approximately $323 million (2018: $309 million) which arose from the Group's largest customer which is located in the United States.

The following table provides contract balances related to revenue:

	2019 $m	2018 $m
Trade receivables (Note 21)	637	654
Contract liability (Note 28)	142	151

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

Contract liability mainly relates to returns provisions and free goods balance.

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	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Revenue	890	4	894	832	(6)	826
Cost of sales	(371)	–	(371)	(329)	–	(329)
Gross profit	519	4	523	503	(6)	497
Total operating expenses	(181)	(22)	(203)	(168)	(24)	(192)
Segment result	338	(18)	320	335	(30)	305

Generics	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Revenue	719	–	719	692	–	692
Cost of sales	(393)	–	(393)	(397)	(16)	(413)
Gross profit	326	–	326	295	(16)	279
Total operating expenses	(202)	27	(175)	(202)	(37)	(239)
Segment result	124	27	151	93	(53)	40

5. Business segments continued

Branded	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Revenue	583	–	583	542	–	542
Cost of sales	(287)	–	(287)	(271)	–	(271)
Gross profit	296	–	296	271	–	271
Total operating expenses	(167)	(24)	(191)	(154)	(6)	(160)
Segment result	129	(24)	105	117	(6)	111

Others[1]	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Revenue	11	–	11	10	–	10
Cost of sales	(8)	–	(8)	(7)	–	(7)
Gross profit	3	–	3	3	–	3
Total operating expenses	(3)	–	(3)	(8)	–	(8)
Segment result	–	–	–	(5)	–	(5)

1. 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)

Group	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Segment result	591	(15)	576	540	(89)	451
Unallocated expenses[1]	(83)	–	(83)	(80)	–	(80)
Operating profit	508	(15)	493	460	(89)	371
Finance income	7	60	67	3	–	3
Finance expense	(52)	(15)	(67)	(54)	(26)	(80)
Gain/(loss) from investment at FVTPL	2	–	2	(1)	–	(1)
Loss from investment divestiture	–	(4)	(4)	–	–	–
Profit before tax	465	26	491	408	(115)	293
Tax	(100)	96	(4)	(73)	65	(8)
Profit for the year	365	122	487	335	(50)	285
Attributable to:						
Non-controlling interests	1	–	1	3	–	3
Equity holders of the parent	364	122	486	332	(50)	282
	365	122	487	335	(50)	285

1. Unallocated corporate expenses mainly comprises employee costs, third-party professional fees, IT and travel expenses

6. Exceptional items and other adjustments

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

Exceptional items	**2019 $m**	2018 $m
R&D cost	**(24)**	(29)
Jordan warehouse fire incident	**(13)**	–
Proceeds from legal claim	**32**	–
Contingent consideration adjustment	**7**	–
MENA severance and restructuring costs	**(7)**	–
Integration costs	**4**	(30)
Loss from investment divestiture	**(4)**	–
Impairment reversal of product related intangibles, net	**20**	–
Tax benefit associated with previously unrecognised deferred tax assets	**49**	43
Tax benefit associated with the internal reorganisation of intangible assets	**48**	–
Prior year favourable US tax ruling	**–**	13
Exceptional items	**112**	(3)
Other adjustments		
Intangible assets amortisation other than software	**(34)**	(30)
Remeasurement of contingent consideration, financial liability and asset, net	**45**	(26)
Exceptional items and other adjustments	**123**	(59)
Tax effect	**(1)**	9
Impact on profit for the year	**122**	(50)

Exceptional items have been recognised in accordance with our accounting policy outlined in Note 2, the details are presented below:

Exceptional items

- Hikma incurred $24 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. The study was completed in November 2019. The study and certain additional information was submitted to the US FDA for their review
- During the year, a fire broke out in a warehouse at one of Hikma's Jordan facilities which serves the Generics and Branded segments. Production was halted for a period of time and inventory was damaged. The associated loss was $17 million, mainly comprising damaged inventory and the cost to remediate property, plant and equipment. To date, the Group has received insurance compensation of $4 million related to the fire incident resulting in a net exceptional expense of $13 million included in other operating income/(expenses). The Group expects to receive final insurance compensation in 2020 and the amount receivable related to this contingent asset cannot be measured reliably and is dependent on the final outcome of the insurance claim
- Hikma received compensation proceeds of $32 million in relation to a litigation matter with an external party where one of Hikma's product's sales were halted by a temporary restraining order and an injunction. The litigation was resolved in Hikma's favour and a payment was received from the plaintiff representing lost profit over the affected time period. This is included in other operating income/(expenses)
- The contingent consideration adjustment of $7 million relates to a change in estimate of the amount of expected contingent payments Hikma was entitled to receive under the terms of the Columbus acquisition agreement. This is included in other operating income/(expenses) and in cash flow from investing activities
- MENA severance and restructuring costs of $7 million related to one-off organisational restructuring in MENA and are mainly included in selling, general and administrative expenses (SG&A). Management expects to incur further costs in 2020 of approximately $5 million
- A provision of $4 million in relation to integration costs of the Columbus business and the consolidation of the distribution centre in the US was released. This was previously provided for in 2018 as exceptional items included in revenue
- $4 million loss from divestiture of Medlac investment (Note 42)
- $21 million impairment reversal of product related intangibles related to specific product related assets in Generics segment offset by $1 million impairment charge. This is included in other operating income/(expenses)
- The Group has benefitted $49 million from the utilisation of previously unrecognised deferred tax assets following the internal reorganisation of intangible assets (Note 12)
- The Group has recorded a $48 million tax benefit associated with the internal reorganisation of intangible assets (Note 12)

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6. Exceptional items and other adjustments continued

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

- 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 repeat clinical study cost have been treated as exceptional items
- Integration and other costs were incurred in relation to the restructuring of our Columbus manufacturing facility and the closure of 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 of $43 million associated with prior year impairment loss recognised in 2018
- The prior year favourable US tax ruling of $13 million relates to the benefit associated with a change in the tax reporting for chargebacks in the US

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 (Notes 10,11, 24, 28 and 31). The remeasurement is included in finance (expense)/income.

7. Audit remuneration

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

	2019 $m	2018[2] $m
Audit of the Company's annual accounts	0.8	0.7
Audit of the Company's subsidiaries pursuant to legislation	1.7	1.8
Total audit fees	2.5	2.5
Assurance services[1]	0.2	0.2
Total audit and assurance fees	2.7	2.7

1. Assurance services relate to review procedures in respect to the interim financial information
2. Amounts have been restated to reflect final amounts billed in relation to 2018

Nominal non-audit fees were charged in both years. In 2019 non-audit fees relate to a non-audit assurance engagement in connection with a statement of completeness of sales packaging brought to market in Germany. In 2018, non-audit fees relate to subscriptions to a technical accounting portal, general training and 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 69 to 72 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:

	2019 Number	2018 Number
Production	4,818	4,634
Sales and marketing	2,180	2,246
General and administrative	1,130	1,158
Research and development	450	375
	8,578	8,413

8. Staff costs continued

	2019 $m	2018 $m
Aggregate remuneration comprised:		
Wages, salaries and bonuses	**356**	346
Social security costs	**36**	32
Post-employment benefits	**14**	13
End of service indemnity	**13**	18
Share-based payments (Note 38)	**24**	21
Car and housing allowances	**21**	20
Health insurance	**34**	38
Other costs and employee benefits	**22**	18
	520	506

9. Other operating expense/income

Other operating expense	**2019 Core results $m**	**2019 Exceptional items and other adjustments (Note 6) $m**	**2019 Reported results $m**	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Inventory related provisions	**49**	**11**	**60**	62	–	62
Impairment charge	**2**	**1**	**3**	8	2	10
Damage of property, plant and equipment	**–**	**3**	**3**	–	3	3
Forex losses (net)	**4**	**–**	**4**	5	–	5
Others	**5**	**–**	**5**	–	–	–
	60	**15**	**75**	75	5	80

Other operating income[1]	**2019 Core results $m**	**2019 Exceptional items and other adjustments (Note 6) $m**	**2019 Reported results $m**	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Impairment reversal	**–**	**21**	**21**	–	–	–
Others	**3**	**40**	**43**	7	–	7
	3	**61**	**64**	7	–	7

1. In 2019, the other operating income of $43 million mainly comprised $32 million related to a litigation matter with an external party, which was concluded in Hikma's favour and $7 million related to a change in estimate of the amount of expected contingent payments Hikma was entitled to receive under the terms of the Columbus acquisition agreement

10. Finance income

	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Interest income	6	–	6	3	–	3
Remeasurement of contingent consideration and financial liability	–	60	60	–	–	–
Net foreign exchange gain	1	–	1	–	–	–
	7	60	67	3	–	3

11. Finance expense

	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Interest on bank overdrafts and loans	13	–	13	18	–	18
Interest on Eurobond	22	–	22	22	–	22
Remeasurement of contingent consideration and financial liability	–	15	15	–	26	26
Other bank charges	13	–	13	13	–	13
Lease accretion of interest	4	–	4	1	–	1
	52	15	67	54	26	80

12. Tax

	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Current tax:						
UK corporation tax	16	32	48	1	–	1
Foreign tax	73	(3)	70	36	(9)	27
Deferred tax (Note 13)						
Current year	2	(125)	(123)	39	(43)	(4)
Adjustment to prior year	9	–	9	(3)	(13)	(16)
	100	(96)	4	73	(65)	8

UK corporation tax is calculated at 19.0% (2018: 19.0%) of the estimated assessable profit made in the UK for the year.

The Group incurred a tax expense of $4 million (2018: $8 million). The effective tax charge rate is 0.8% (2018: 2.7%). The reported effective tax rate is lower than the statutory rate mainly due to the utilisation and recognition of previously unrecognised deferred tax assets and the benefit of higher estimated future tax amortisation following the internal reorganisation of intangible assets during the year.

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 before tax per the consolidated income statement as follows:

	2019 $m	2018 $m
Profit before tax	**491**	293
Tax at the UK corporation tax rate of 19.0% (2018: 19.0%)	**93**	56
Profits taxed at different rates	**3**	14
Permanent differences		
– Non-taxable income	**(1)**	(14)
– Non-deductible expenditure	**3**	2
– Adjustment on intercompany inventory	**1**	1
– Other permanent differences	**2**	–
State and local taxes	**7**	4
Temporary differences		
– Tax losses and other deductible temporary differences for which no benefit is recognised	**2**	5
– Prior year favourable US tax ruling	**–**	(13)
– Exceptional tax benefit associated with previously unrecognised tax losses (Note 6)	**(49)**	(43)
– Exceptional tax benefit associated with the internal reorganisation of intangible assets (Note 6)	**(48)**	–
Change in provision for uncertain tax positions	**(14)**	(2)
Unremitted earnings	**(4)**	4
Prior year adjustments	**9**	(6)
Tax expense for the year	**4**	8

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 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.

Tax losses and other deductible temporary differences for which no benefit is recognised includes items for which it is not possible to book deferred tax and comprise mainly unrecognised tax losses.

The exceptional tax benefit associated with previously unrecognised tax losses is a result of the internal reorganisation of intangible assets during the year.

The exceptional tax benefit associated with the internal reorganisation of intangible assets is mainly due to a higher amortisable base resulting in a higher estimated future tax deduction.

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 2019 and primarily relates to a transfer pricing adjustment.

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. 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.

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	
	2019 **$m**	2018 $m
Deferred tax liabilities	**(20)**	(16)
Deferred tax assets	**243**	125
	223	109

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 2018	3	1	133	(16)	(33)	–	88
Credit/(charge) to income	–	–	(16)	5	31	1	21
At 31 December 2018 and 1 January 2019	3	1	117	(11)	(2)	1	109
Credit/(charge) to income	–	(1)	(3)	126	(8)	–	114
At 31 December 2019	**3**	**–**	**114**	**115**	**(10)**	**1**	**223**

1. The other deferred taxes on short-term temporary differences primarily relate to chargebacks and product returns in the US of $51 million (2018: $49 million), inventory related provisions in the US of $18 million (2018: $14 million) and the unrealised intercompany profits of $17 million (2018: $15 million)

No deferred tax asset has been recognised on temporary differences totalling $170 million (2018: $536 million) mainly due to the unpredictability of the related future profit streams. $161 million (2018: $527 million) of these temporary differences relate to losses on which no deferred tax is recognised. None of these losses are expected to expire. In 2019, $92 million of losses can no longer be carried forward under UK tax rules.

A deferred tax liability has been recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries of $3 million (2018: $8 million). No deferred tax liability has been recognised on the remaining unremitted earnings of $236 million (2018: $187 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.

Deferred taxes on amortisable assets relate to differences between the tax deductions and book deductions for intangible assets in the Group. The credit to income in 2019 mainly arose as a result of the internal reorganisation of intangible assets which generated a higher amortisable base and therefore resulting in a higher estimated future tax deduction.

14. Dividends

	Paid in 2019 $m	Paid in 2018 $m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 26.0 cents (31 December 2017: 23.0 cents) per share	**63**	55
Interim dividend for the year ended 31 December 2019 of 14.0 cents (31 December 2018: 12.0 cents) per share	**34**	29
	97	84

The proposed final dividend for the year ended 31 December 2019 is 30.0 cents (2018: 26.0 cents).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 30 April 2020 and has not been included as a liability in these consolidated financial statements. Based on the number of shares in issue at 31 December 2019 (242,319,174), the unrecognised liability is $73 million.

15. Earnings per share (EPS)

Basic earnings 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.

	2019 Core results $m	**2019 Exceptional items and other adjustments (Note 6) $m**	**2019 Reported results $m**	2018 Core results $m	2018 Exceptional items and other adjustments (Note 6) $m	2018 Reported results $m
Earnings for the purposes of basic and diluted EPS being net profit attributable to equity holders of the parent	**364**	**122**	**486**	332	(50)	282

Number of shares	**2019 Number m**	2018 Number m
Weighted average number of Ordinary Shares for the purposes of basic EPS	**242**	241
Effect of dilutive potential Ordinary Shares:		
Share-based awards	**1**	1
Weighted average number of Ordinary Shares for the purposes of diluted EPS	**243**	242

	2019 Core EPS Cents	**2019 Reported EPS Cents**	2018 Core EPS Cents	2018 Reported EPS Cents
Basic	**150.4**	**200.8**	137.8	117.0
Diluted	**149.8**	**200.0**	137.2	116.5

16. Goodwill and other intangible assets

The changes in the carrying value of goodwill and other intangible assets for the years ended 31 December 2019 and 31 December 2018 are as follows:

	Goodwill $m	Product-related intangibles $m	Software $m	Other identified intangibles $m	Total $m
Cost					
Balance at 1 January 2018	690	1,015	118	111	1,934
Additions	–	–	12	21	33
Acquisition of subsidiaries	–	1	–	–	1
Translation adjustments	(3)	(1)	–	(2)	(6)
Balance at 1 January 2019	**687**	**1,015**	**130**	**130**	**1,962**
Additions	–	17	18	54	89
Translation adjustments	3	1	(1)	–	3
Balance at 31 December 2019	**690**	**1,033**	**147**	**184**	**2,054**
Amortisation					
Balance at 1 January 2018	(408)	(633)	(51)	(57)	(1,149)
Charge for the year	–	(22)	(10)	(8)	(40)
Impairment charge	–	(4)	(5)	–	(9)
Translation adjustments	–	1	–	1	2
Balance at 1 January 2019	**(408)**	**(658)**	**(66)**	**(64)**	**(1,196)**
Charge for the year	–	(21)	(10)	(13)	(44)
Impairment reversal	–	21	–	–	21
Impairment charge	–	(2)	(1)	–	(3)
Translation adjustments	–	–	2	–	2
Balance at 31 December 2019	**(408)**	**(660)**	**(75)**	**(77)**	**(1,220)**
Carrying amount					
At 31 December 2019	**282**	**373**	**72**	**107**	**834**
At 31 December 2018	279	357	64	66	766

In 2019, the Group recorded a total intangible impairment reversal of $21 million related to specific product related assets in the Generics segment.

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).

Goodwill

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

	As at 31 December	
	2019 $m	2018 $m
Branded	**168**	166
Injectables	**114**	113
Total	**282**	279

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	Value in use		
Key assumptions	Sales growth rates		
	Profit margins		
	Terminal growth rates		
	Discount rates		
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		
	Taxation rate based on appropriate rates for each region		
Period of specific projected cash flows	5 years		
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)	Pre-tax discount rate
	Branded	2.8%	18.0%
	Injectables	1.9%	13.0%
	Generics	1.6%	15.0%
	generic Advair Diskus®	–[1]	17.7%

1. generic Advair Diskus® has useful life of 12 years

CGUs: The Group performed its annual goodwill and CGU impairment test on a quantitative basis of the Branded, Injectables and Generics CGUs. The Group conducted a sensitivity analysis on the impairment of each CGU's carrying value. Although the Directors have concluded sufficient headroom[2] 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, Injectables and Generics CGUs and has determined that sufficient headroom still exists. Specifically, an evaluation of the CGU was made assuming an increase of 2% in the discount rate, or a 10% decline in the projected cash flows, or a 5% decline in the projected cash flows in the terminal year, or a 2% decline in the terminal growth rate and in all cases sufficient headroom exists.

The Group evaluated generic Advair Diskus® as separate CGU mainly due to it distinct assets and liabilities and its capabilities to generate independent cash flows. The key reason to separate the generic Advair Diskus® from Generics CGU is strategic focus on developing specialised inhalation products.

As of 31 December 2019, the Group performed sensitivity analyses over the valuation of the generic Advair Diskus® CGU. Specifically, an evaluation of the generic Advair Diskus® CGU was made assuming a delay in launch of 1 year and additional market entrant. In both cases sufficient headroom still exists. Furthermore, in the event of not receiving an FDA approval, the overall impact will be an approximate $76 million credit to the consolidated income statement as a result of writing down the carrying value of the CGU of $98 million and releasing related contingent consideration liability of $174 million.

Whilst there is some uncertainty regarding the short-term impact of the political events in MENA, the Group does not consider such events to have any significant impact on Branded CGU headroom.

2. Headroom is defined as the excess of the value in use, compared to the carrying value of a CGU

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16. Goodwill and other intangible assets continued

Other intangible assets

Product-related intangible

IPR&D

During the last quarter, the Group performed its annual review of IPR&D assets. The result of this testing was an impairment charge of $2 million.

Product rights

Whenever impairment indicators are identified for definite life intangible assets, Hikma reconsiders the asset's estimated life, calculates the value of the individual assets or asset group's cash flows and compares such value against the individual 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 pre-tax WACC rate that reflects the risk factors associated with the cash flow streams and the segment which these products pertain to. The more significant estimates and assumptions inherent in the estimate of the value in use of identifiable intangible assets include all assumptions associated with forecasting product profitability. As at 31 December 2019, the result of this testing was a reversal of impairment charge of $21 million related to specific product related assets (Generics segment) due to improved performance and forecast profitability.

In addition, on August 9, 2019, Hikma signed an asset purchase agreement with Insys Therapeutics for the purchase of two products under development and related tangible assets. The overall cash consideration amounted to $17 million, of which $16 million was attributable to in-process research and development.

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 2019, the Group recorded an impairment charge of $1 million related to software.

Other identified intangibles

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 names

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 varying from two to ten years.

As at 31 December 2019, the Group had entered into contractual commitments for the acquisition of intangible assets of $5 million (2018: $4 million).

17. Property, plant and equipment

Cost	Land and buildings $m	Machinery and equipment $m	Vehicles, fixtures and equipment $m	Projects under construction $m	Total $m
Balance at 1 January 2018	**592**	**619**	**114**	**164**	**1,489**
Additions	8	15	6	100	129
Acquisition of subsidiaries	7	5	–	–	12
Disposals	(33)	(22)	(4)	(3)	(62)
Transfers	6	18	2	(26)	–
Translation adjustment	(6)	(8)	(1)	(4)	(19)
Balance at 1 January 2019 as previously reported	**574**	**627**	**117**	**231**	**1,549**
Impact of IFRS 16[1]	(14)	(2)	–	–	(16)
Balance at 1 January 2019 as adjusted	**560**	**625**	**117**	**231**	**1,533**
Additions	7	12	7	88	114
Disposals	(10)	(3)	(4)	–	(17)
Transfers	34	48	3	(85)	–
Translation adjustment	6	3	2	(1)	10
Balance at 31 December 2019	**597**	**685**	**125**	**233**	**1,640**
Accumulated depreciation					
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 1 January 2019 as previously reported	**(194)**	**(392)**	**(80)**	**(13)**	**(679)**
Impact of IFRS 16[1]	5	1	–	–	6
Balance at 1 January 2019 as adjusted	**(189)**	**(391)**	**(80)**	**(13)**	**(673)**
Charge for the year	(16)	(30)	(18)	–	(64)
Disposals	6	2	3	–	11
Translation adjustment	–	(1)	(1)	–	(2)
Balance at 31 December 2019	**(199)**	**(420)**	**(96)**	**(13)**	**(728)**
Carrying amount					
At 31 December 2019	**398**	**265**	**29**	**220**	**912**
At 31 December 2018	380	235	37	218	870

1. The Group has adopted IFRS 16, applying modified retrospective approach on 1 January 2019, as result $10 million were reclassified from property, plant, and equipment to right-of-use assets in relation to assets previously recognised as assets held under finance lease

Land is not subject to depreciation.

As at 31 December 2019, the Group had pledged property, plant and equipment with a carrying value of $8 million (2018: $8 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 Tunisia (2018: Germany and Tunisia).

Depreciation of $48 million (2018: $55 million) is included in the cost of sales, $12 million (2018: $9 million) in selling general and administrative expenses and $4 million (2018: $5 million) in research and development expenses.

As at 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $21 million (2018: $27 million).

18. Investments in associates and joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) is 49% at 31 December 2019 (31 December 2018: 49%) with an investment balance of $9 million at 31 December 2019 (31 December 2018: $9 million).

In 2017, Hikma and MIDROC Group 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 Group. The balance of $2 million investment in Hikmacure is currently outstanding and the liquidation is still in progress.

Total investment in joint ventures including Hubei Haosun Pharmaceuticals Co Ltd and Hikmacure adds up to $11 million (2018: $11 million).

The Group's share of the results of Hubei Haosun Pharmaceutical Co Ltd is $nil (2018: $nil).

	For the year ended 31 December 2019		For the year ended 31 December 2018		
	Joint ventures $m	**Total $m**	Joint ventures $m	Associates $m	Total $m
Balance at 1 January	**11**	**11**	3	3	6
Additions	**–**	**–**	–	5	5
Share of profit	**–**	**–**	–	–	–
Reclassification	**–**	**–**	8	(8)	–
Balance at 31 December	**11**	**11**	11	–	11

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

	As at 31 December 2019 $m	As at 31 December 2018 $m
Total assets	**17**	17
Total liabilities	**(2)**	(2)
Net assets	**15**	15
Group's share of net assets of joint ventures	**7**	7

	For the year ended 31 December 2019 $m	For the year ended 31 December 2018 $m
Total revenue	**5**	6
Net profit	**1**	1
Group's share of profit of joint ventures	**–**	–

19. Financial and other non-current assets

	As at 31 December	
	2019 $m	2018 $m
Investments at FVTOCI	**18**	27
Other non-current assets	**14**	30
	32	57

Investments at FVTOCI include investments in eight venture capital companies through the Group's venture capital arm Hikma International Ventures Developments LLC and Hikma Ventures Limited. During 2019, the Group sold one of its investments for $12 million and invested $5 million in new ventures.

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

20. Inventories

	As at 31 December	
	2019 $m	2018 $m
Finished goods	**139**	135
Work-in-progress	**94**	83
Raw and packing materials	**279**	253
Goods in transit	**27**	32
Spare parts	**29**	25
	568	528

Inventories are stated net of provisions as follows:

	As at 31 December 2018 $m	Additions $m	Utilisation $m	**As at 31 December 2019 $m**
Provisions against inventory	**72**	**60**	**(47)**	**85**

21. Trade and other receivables

	As at 31 December 2019 $m	2018 $m
Trade receivables	**637**	654
Prepayments	**49**	57
VAT and sales tax recoverable	**31**	17
Employee advances	**2**	3
	719	731

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 2018 $m	Additions, net $m	Utilisation $m	**As at 31 December 2019 $m**
Chargebacks and other allowances	**236**	**2,009**	**(1,965)**	**280**
Doubtful debts	**56**	**1**	**(2)**	**55**
	292	**2,010**	**(1,967)**	**335**

More details on the Group's policy for credit and concentration risk are provided in Note 30.

At 31 December 2019, the provision balance relating to chargebacks was $179 million (2018: $156 million) within what management believes is a reasonable range for the provision of $170 million to $188 million. The key inputs and assumptions included in calculating this provision are estimations of 'in channel' inventory at the wholesalers (including processing lag) of 38 days (2018: 37 days) and the estimated chargeback rates as informed by average historical chargeback credits adjusted for expected chargeback levels for new products and estimated future sales trends. Based on the conditions existing at the balance sheet date an increase/decrease in the estimate of in channel inventory by 1 day increases/decreases the provision by $5 million and if overall chargeback rate of 45% increases/decreases by one percentage point the provision would increase/decrease by $4 million.

At 31 December 2019, provision balance relating to customer rebates was $88 million (2018: $65 million) within what management believes is a reasonable range for the provision of $85 million to $91 million. The key inputs and assumptions included in calculating this provision are historical relationships of rebates and payments to revenue, past payment experience, estimate of 'in channel' inventory at the wholesalers and estimated future trends. Based on the conditions existing at the balance sheet date, a one percentage point increase/decrease in rebates rate of 9.8% would increase/decrease this provision by approximately $6 million.

22. Collateralised and restricted cash

Collateralised and restricted cash amounted to $1 million (2018: $nil) mainly represent restricted cash retained against short-term bank transactions granted to the Group's Sudanese and Algerian operations.

23. Cash and cash equivalents

	As at 31 December 2019 $m	2018 $m
Cash at banks and on hand	**94**	112
Time deposits	**309**	128
Money market deposits	**39**	36
	442	276

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	
	2019 $m	2018 $m
Price adjustment receivable	**–**	20
Investment at FVTPL	**23**	21
Others	**16**	18
	39	59

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 was reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received $27 million reimbursement (2018: $45 million) in cash.

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 consolidated income statement. These assets are classified as level 1 as they are based on quoted prices in active markets.

25. Short-term financial debts

	As at 31 December	
	2019 $m	2018 $m
Bank overdrafts	**6**	–
Import and export financing	**52**	58
Short-term loans	**2**	7
Current portion of long-term loans (Note 29)[1]	**509**	9
	569	74

1. As part of our long-term financing requirements, we are exploring refinancing options for our $500 million Eurobond which is due for repayment in April 2020, including alternatives in the fixed income markets. The Group may also utilise its cash and unutilised revolving credit facility of $1,000 million (refer to Note 29) to repay the Eurobond

	2019 %	2018 %
The weighted average interest rates paid are as follows:		
Bank overdrafts	**5.35**	5.31
Bank loans (including the non-current bank loans)	**5.82**	4.48
Eurobond	**4.25**	4.25
Import and export financing[2]	**6.17**	5.45

2. 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	
	2019 $m	2018 $m
Trade payables	**286**	263
Accrued expenses	**173**	185
Other payables	**14**	17
	473	465

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

Other payables mainly comprises employees' provident fund liability of $5 million (31 December 2018: $7 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 end of service indemnity:

	2019 $m	2018 $m
1 January	**23**	26
Additions	**6**	5
Utilisation	**(6)**	(8)
At 31 December	**23**	23

28. Other current liabilities

	As at 31 December	
	2019 $m	2018 $m
Contract liability	**142**	151
Co-development and earnout payment	**1**	2
Supply manufacturing agreement	**5**	18
Contingent liability (Note 31)	**15**	–
Contingent consideration (Note 31)	**63**	–
Indirect rebate and other allowances	**61**	65
Others	**28**	26
	315	262

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.

At 31 December 2019, the provision balance relating to returns was $116 million (2018: $121 million) within what management believes is a reasonable range for the provision of $113 million to $119 million. The key assumptions included in calculating this provision are estimations of revenue estimated to be subject to returns and the estimated returns rate of 1.3% (2018: 1.3%) as informed by both historical return rates and consideration of specific factors like product dating and expiration, new product launches, entrance of new competitors, and changes to contractual terms. Based on the conditions existing at the balance sheet date, a ten basis point increase/decrease in the returns & allowances rate would increase/decrease this provision by approximately $4 million.

	As at 31 December 2018 $m	Additions $m	Utilisation $m	**As at 31 December 2019 $m**
Contract liability	151	96	(105)	**142**

28. Other current liabilities continued

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.

Indirect rebate and other allowances: mainly represents rebates granted to healthcare authorities and other parties under contractual arrangements with certain indirect customers.

At 31 December 2019, provision balance relating to the indirect rebates was $42 million (2018: $51 million) within what management believes is a reasonable range for the provision of $40 million to $44 million. Included within this balance are provisions for non-customer rebates of $22 million and government rebates of $20 million. The key inputs and assumptions included in calculating this provision are historical relationships of rebates and payments to revenue, past payment experience, estimate of 'in channel' inventory at the wholesalers and estimated future trends. Based on the conditions existing at the balance sheet date, a one percentage point increase/decrease in rebates rate of 3.5% would increase/decrease this provision by approximately $6 million.

29. Long-term financial debts

	As at 31 December	
	2019 $m	2018 $m
Long-term loans	**57**	51
Long-term borrowings (Eurobond)	**500**	497
Less: current portion of long term loans (Note 25)	**(509)**	(9)
Long-term financial loans	**48**	539
Breakdown by maturity:		
Within one year	**509**	9
In the second year	**12**	509
In the third year	**12**	8
In the fourth year	**15**	8
In the fifth year	**6**	9
In the sixth year	**2**	5
Thereafter	**1**	–
	557	548
Breakdown by currency:		
US dollar	**508**	514
Euro	**16**	17
Jordanian Dinar	**12**	–
Algerian dinar	**20**	16
Tunisian dinar	**1**	1
	557	548

The loans are held at amortised cost.

Long-term loans amounting to $1 million (31 December 2018: $1 million) are secured on certain property, plant and equipment.

Major arrangements entered into by the Group:

(a) A $500 million (carrying value of $500 million, and fair value of $501 million) 4.25% Eurobond which is due for repayment 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 the 27 of October 2015. $1,000 million of this facility matures on 24 December 2021 and the remaining $175 million matured 24 December 2019. The facility has an outstanding balance of $nil (2018: $nil) and a $1,000 million unused available limit (2018: $1,175 million). 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 2019. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan will be used in MENA and in other World Bank countries of operation for its general corporate purposes. The facility matures on 15 December 2027.

30. 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 2019, the Group's largest two customers in the MENA region represented 6.1% of Group revenue, 3.7% from one customer in Saudi Arabia and 2.4% from another customer in Saudi Arabia. At 31 December 2019, the amount of receivables due from all customers based in Saudi Arabia was $70 million (2018: $83 million).

During the year ended 31 December 2019, three key US wholesalers represented 37% of Group revenue (2018: 40%). The amount of receivables due from all US customers at 31 December 2019 was $280 million (2018: $298 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 30 to 120 days and in MENA 180 to 360 days. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance.

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

		Past due				
At 31 December 2019	**Not past due on the reporting date $m**	**Less than 90 days $m**	**Between 91 and 180 days $m**	**Between 181 and 360 days $m**	**Over one year $m**	**Total $m**
Total trade receivables as at 31 December 2019	**788**	**71**	**12**	**28**	**73**	**972**
Related allowance for doubtful debts	**–**	**–**	**–**	**(4)**	**(51)**	**(55)**
	788	**71**	**12**	**24**	**22**	**917**
Chargebacks and other allowances						**(280)**
Net receivables						**637**

		Past due				
At 31 December 2018	Not past due on the reporting date $m	Less than 90 days $m	Between 91 and 180 days $m	Between 181 and 360 days $m	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

30. Financial policies for risk management and their objectives continued

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, if needed.

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 include bank overdrafts and loans (Note 25), Leases liabilities (Note 34), long-term financial debts (Note 29), net of cash and cash equivalents (Note 23) and collateralised and restricted cash (Note 22).

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 cost, 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 2019, the Group's gearing (total debt/equity) was 32% (2018: 38%). The decrease in the Group's gearing ratio is due to higher profits during 2019 which led to an increase in the Group total equity.

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 its risk appetite.

Foreign exchange risk and currency risk
The Group uses the US dollar as its reporting currency and is therefore exposed to foreign exchange movements primarily in the Euro, Algerian dinar, Sudanese pound, Japanese yen, Egyptian pound, Tunisian dinar, Lebanese pound 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 and the Saudi riyal 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.

30. Financial policies for risk management and their objectives continued

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

	Period-end rates		Average rates	
	2019	2018	**2019**	2018
US dollar/Euro	**0.8915**	0.8719	**0.8936**	0.8442
US dollar/Sudanese pound	**45.2284**	47.6190	**46.0829**	32.6797
US dollar/Algerian dinar	**119.1468**	118.3304	**119.3798**	116.6424
US dollar/Saudi riyal	**3.7495**	3.7495	**3.7495**	3.7495
US dollar/Pound sterling	**0.7551**	0.7839	**0.7833**	0.7464
US dollar/Jordanian dinar	**0.7090**	0.7090	**0.7090**	0.7090
US dollar/Egyptian pound	**15.9770**	17.8571	**16.7280**	17.7936
US dollar/Japanese yen	**109.0193**	109.5600	**108.6500**	110.2800
US dollar/Moroccan dirham	**9.5932**	9.5655	**9.6176**	9.3836
US dollar/Tunisian dinar	**2.7988**	2.9940	**2.9360**	2.6469
US dollar/Lebanese pound	**1,507.5000**	1,507.5000	**1,507.5000**	1,507.5000

	Net foreign currency financial assets/(liabilities)				
2019	**US dollar $m**	**Euro $m**	**Algerian dinar $m**	**Japanese yen $m**	**Others[1] $m**
Functional currency of entity:					
– Jordanian dinar	**151**	**21**	**–**	**(5)**	**13**
– Euro	**26**	**–**	**–**	**–**	**–**
– Algerian dinar	**(4)**	**(1)**	**–**	**–**	**–**
– Saudi riyal	**29**	**(2)**	**–**	**(1)**	**–**
– Sudanese pound	**(2)**	**–**	**–**	**–**	**–**
– Egyptian pound	**(11)**	**–**	**–**	**–**	**–**
– Tunisian dinar	**(1)**	**2**	**–**	**–**	**1**
– Moroccan dirham	**(4)**	**(5)**	**–**	**–**	**–**
– Lebanese pound	**(3)**	**–**	**–**	**–**	**(4)**
– US dollar	**–**	**1**	**–**	**–**	**1**
	181	**16**	**–**	**(6)**	**11**

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

	Net foreign currency financial assets/(liabilities)				
2018	US dollar $m	Euro $m	Algerian dinar $m	Japanese yen $m	Others[1] $m
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

30. Financial policies for risk management and their objectives continued

A sensitivity analysis based on a 10% movement in foreign exchange rates would result in a $20 million increase/decrease on the Group results.

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

Interest rate risk

	As at 31 December 2019			As at 31 December 2018		
	Fixed rate $m	**Floating rate $m**	**Total $m**	Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	**513**	**104**	**617**	497	116	613
Lease liabilities	**68**	**–**	**68**	24	–	24
Financial assets						
Cash and cash equivalents	**–**	**348**	**348**	–	164	164

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2019, with all other variables held constant. Based on the composition of the Group's debt portfolio as at 31 December 2019, a 1% increase/decrease in interest rates would result in $2 million decrease/increase in net finance cost per year (2018: $nil 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 at bank and on hand, time deposit and collateralised and restricted cash – 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 (Notes 25 and 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 $23 million (Note 24)
- Money market deposit (Note 23)

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 31)
- Investment at FVTOCI (Note 19)

30. Financial policies for risk management and their objectives continued

The following table presents the changes in Level 3 items for the period ended 31 December 2019 and the year ended 31 December 2018:

	Financial assets $m	Financial liabilities $m
Balance at 1 January 2018	83	190
Received/settled	(45)	(2)
Additions	4	–
Remeasurement through income statement	–	26
Fair value adjustments recognised in equity	7	–
Balance at 31 December 2018 and 1 January 2019	**49**	**214**
Received/settlement	**(40)**	**(1)**
Remeasurement through income statement	**7**	**(35)**
Additions	**4**	**–**
Fair value adjustments recognised in equity	**(2)**	**–**
Balance at 31 December 2019	**18**	**178**

The remeasurement through the income statement is included within the finance income in the consolidated income statement.

The critical areas of judgement in relation to the contingent liability are the probabilities assigned to reaching the success-based milestones and management's estimate of future sales.

If the future sales were 5% higher or lower, the fair value of the contingent liability will increase/decrease by $5 million.

If the probability assigned to reaching the success-based milestones were 5% higher or lower, the fair value of the contingent liability will increase/decrease by $4 million.

Liquidity risk

2019	**Less than one year $m**	**One to five years $m**	**More than five years $m**	**Total $m**
Cash and cash equivalents	**442**	**–**	**–**	**442**
Trade receivables	**637**	**–**	**–**	**637**
Interest-bearing loans and borrowings[1]	**(522)**	**(48)**	**(3)**	**(573)**
Interest-bearing overdrafts[1]	**(2)**	**–**	**–**	**(2)**
Interest-bearing import and export loans[1]	**(59)**	**–**	**–**	**(59)**
Interest bearing finance lease	**(13)**	**(53)**	**(18)**	**(84)**
Trade payables and accruals	**(459)**	**–**	**–**	**(459)**
	24	**(101)**	**(21)**	**(98)**

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)

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

30. Financial policies for risk management and their objectives continued

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 2019, the Group had undrawn facilities of $1,544 million (2018: $1,724 million). Of these facilities, $1,230 million (2018: $1,391 million) were committed and the remainder were uncommitted. See page 51.

31. Other non-current liabilities

	As at 31 December	
	2019 $m	2018 $m
Contingent consideration	**111**	204
Contingent liability	**83**	109
Supply manufacturing agreement (Note 28)	**–**	4
Co-development and earnout payment (Note 28)	**3**	7
Others	**6**	5
	203	329

Contingent consideration and contingent liability represent contractual liability to make payments to third 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. These liabilities were recognised as part of Columbus business acquisition. In 2019, a $78 million of this balance was reclassified to other current liabilities.

32. Share capital

Issued and fully paid – included in shareholders' equity:

	2019		2018	
	Number	**$m**	Number	$m
At 1 January	**241,455,394**	**40**	240,678,894	40
Issued during the year (Ordinary Shares of 10p each)	**863,780**	**1**	776,500	–
At 31 December	**242,319,174**	**41**	241,455,394	40

33. Non-controlling interests

	2019 $m	2018 $m
At 1 January	**12**	14
Share of profit	**1**	3
Dividends paid	**(2)**	(3)
Currency translation gain/(loss)	**1**	(2)
At 31 December	**12**	12

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34. Leases

IFRS 16 'Leases' was implemented by the Group from 1 January 2019. It replaces IAS 17 'Leases' and requires lease liabilities and right-of-use assets to be recognised on the consolidated balance sheet for all leases except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised in addition to the assets previously recognised under finance lease. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application in addition to the liabilities previously recognised for assets under finance leases. The Group did not change the initial carrying amounts of previous finance leases (ie the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17).

The nature and effect of the changes as a result of adoption of IFRS 16 accounting standards is described below.

The effect of the adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	1 January 2019 $m
Assets	
Right-of-use assets	**55**
Property, plant and equipment	**(10)**
Total assets	**45**
Liabilities	
Accrued rent	**(3)**
Lease liabilities	**48**
Total liabilities	**45**

In 2019, the impact of applying IFRS 16 on the consolidated income statement is:

— increase in depreciation expense of $7 million
— increase in interest expense of $3 million
— decrease in rental expense of $10 million

In 2019, the impact of applying IFRS 16 on the consolidated cash flow statement is:

— increase in cash inflow from operating activities of $10 million
— increase in cash outflow from financing activities $10 million

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	$m
Operating lease commitments as at 31 December 2018	**38**
Non-lease payments previously excluded from operating lease liabilities	9
Total operating lease commitments as at 1 January 2019	47
Weighted average incremental borrowing rate as at 1 January 2019	6%
Discounted operating lease commitments at 1 January 2019	40
Add:	
Commitments relating to leases previously classified as finance leases	24
Payments in optional extension periods not recognised as at 31 December 2018	8
Lease liabilities as at 1 January 2019	**72**

34. Leases continued

The carrying amounts of right-of-use assets recognised and the movements during the year:

	Buildings $m	Motor vehicles $m	Total $m
As at 1 January 2019	52	3	55
Additions/adjustments	(1)	5	4
Depreciation expense	(7)	(2)	(9)
As at 31 December 2019	**44**	**6**	**50**

The carrying amounts of lease liabilities and the movements during the year:

	2019 $m
As at 1 January	72
Additions	4
Accretion of interest	4
Payments	(12)
As at 31 December 2019	**68**
Current	9
Non-current	59

The maturity analysis of lease liabilities:

Breakdown by maturity:	2019 $m
Within one year	9
In the second year	8
In the third year	6
In the fourth year	5
In the fifth year	23
In the sixth year	3
Thereafter	14
	68

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics
- relied on its assessment of whether leases are onerous immediately before the date of initial application
- applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Based on the foregoing, as at 1 January 2019:

- right-of-use assets of $55 million were recognised and presented separately in the consolidated balance sheet. This includes the lease assets recognised previously under finance leases of $10 million that were reclassified from property, plant and equipment
- additional lease liabilities of $48 million were recognised
- accrued rent including trade and other payables of $3 million related to previous operating leases were derecognised

35. Own shares

The Employee Benefit Trust (EBT) of Hikma holds 40,831 (2018: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Link Market Apex Financial Services (Trust Company) Limited, an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2019 was $1 million (2018: $0.9 million). The book value of the retained own shares at 31 December 2019 are $0.6 million (2018: $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

	2019 $m	2018 $m
Profit before tax	**491**	293
Adjustments for:		
Depreciation, amortisation, impairment, and write-down of:		
Property, plant and equipment	**64**	72
Intangible assets	**26**	49
Right-of-Use of Assets	**9**	–
(Gain)/loss from investment at fair value through profit or loss	**(2)**	1
Loss from investment divestiture	**4**	–
Gain on disposal of property, plant and equipment	**3**	3
Movement on provisions	**–**	(3)
Cost of equity-settled employee share scheme	**24**	21
Finance income	**(66)**	(3)
Interest and bank charges	**67**	80
Foreign exchange loss	**4**	5
Cash flow before working capital	**624**	518
Change in trade and other receivables	**21**	(41)
Change in other current assets	**(2)**	(5)
Change in inventories	**(25)**	(51)
Change in trade and other payables	**(6)**	88
Change in other current liabilities	**50**	7
Change in other non-current liabilities	**(82)**	(23)
Cash generated from operations	**580**	493

37. Contingent liabilities

A contingent liability existed at the balance sheet date in respect of external guarantees and letters of credit totalling $40 million (31 December 2018: $44 million) arising in the normal course of business. No provision for these liabilities has been made in these consolidated financial statements.

The Group is involved in a number of legal proceedings in the ordinary course of its business. It is the Group's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. Management does not believe sufficient evidence exists at this point to make any provision with respect to the following matters.

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 received a subpoena from a US state attorney general and a subpoena from the US Department of Justice. Hikma denies having engaged in any conduct that would give rise to liability with respect to these demands but is cooperating with all such demands.

Starting in 2016, several complaints have been filed in the United States on behalf of putative classes of direct and indirect purchasers of generic drug products, as well as several individual direct purchasers opt-out plaintiffs (including two product). These complaints, which allege that the defendants engaged in conspiracies to fix, increase, maintain and/or stabilise the prices of the generic drug products named, have been brought against Hikma and various other defendants. The plaintiffs generally seek damages and injunctive relief under federal antitrust law and damages under various states laws. Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defence of these cases.

Numerous complaints have been filed with respect to Hikma's sales and distribution of opioid products. Those complaints now total approximately 637 in number. These lawsuits have been filed against distributors, branded pharmaceuticals manufacturers, pharmacies, hospitals, generic pharmaceuticals manufacturers, individuals, and other defendants by a number of cities, counties, states, other governmental agencies and private plaintiffs in both state and federal courts. Most of the federal cases have been consolidated into a multidistrict litigation in the Northern District of Ohio. These cases assert in general that the defendants allegedly engaged in improper marketing and distribution of opioids and that defendants failed to develop and implement systems sufficient to identify suspicious orders of opioid products and prevent the abuse and diversion of such products. Plaintiffs seek a variety of remedies, including restitution, civil penalties, disgorgement of profits, treble damages, attorneys' fees and injunctive relief. Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defence of these cases.

37. Contingent liabilities continued

A contingent liability existed at the balance sheet date in respect to a standby letter of credit totalling $9 million (2018: $9 million) for potential stamp duty obligation that may arise for repayment of a loan by intercompany guarantors. It's not probable that the repayment will be made by the intercompany guarantors.

On April 25, the European Commission released its decision that certain tax exemptions offered by the UK authorities could constitute State Aid and where this is the case, the relevant tax will need to be paid to the UK tax authorities. The UK Government has subsequently appealed against this decision. In common with other UK headquartered international companies whose arrangements were in line with current UK CFC legislation, Hikma may be affected by the outcome of this decision and has estimated the maximum potential liability to be approximately $3 million. Hikma is reviewing the details of the decision and assessing any impact upon the Company's tax position. HMRC are expected to write to the Company shortly stating their position. Based on management's understanding of legislation and professional advice taken on the matter, management does not believe that a provision is warranted.

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) schemes. Under the EIP, the Company 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 forfeiture conditions. 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 Executives Committee must retain 100% of the shares received from elements B and C for a period of five years from the date of grant.

Year 2019	**2019 grants 17 May**	**2019 grants 12 March**	**2018 grants 7 June**	**2018 grants 16 May**	**2017 grants 11 May**	**2016 grants 11 May**	**2016 grants 17 March**	**2015 grants 10 April**	**Total Number**
Beginning balance	–	–	28,818	553,741	548,046	30,115	212,403	24,024	1,397,147
Granted during the year	246,076	593,819	–	–	–	–	–	–	839,895
Exercised during the year	–	–	(28,818)	(50,281)	(351,128)	(11,944)	(161,053)	–	(603,224)
Outstanding at 31 December	**246,076**	**593,819**	**–**	**503,460**	**196,918**	**18,171**	**51,350**	**24,024**	**1,633,818**
Exercisable at 31 December	–	–	–	–	36,630	18,171	51,350	24,024	130,175
Weighted average remaining contractual life (years)	1.38	1.67	–	2.91	2.70	6.36	6.21	5.28	3.13

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 remaining contractual life (years)	9.40	3.66	2.63	0.36	2.36	–	6.28	2.84

The cost of the EIP of $15 million (2018: $13 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 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 2019 is $23.24 (2018: $19.59).

38. Share-based payments continued

	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	32.78	33.24216
EIP 2	15/05/2015	118,000	32.42	33.11449
EIP 3 B	17/03/2016	242,608	26.21	26.97918
EIP 3 C	17/03/2016	206,267	26.21	26.97918
EIP 4	11/05/2016	165,553	31.69	32.15333
EIP 5 B	13/04/2017	428,528	23.52	23.97771
EIP 5 C	13/04/2017	184,741	23.29	23.97771
EIP 6 B	16/05/2018	440,231	18.45	19.09082
EIP 6 C	16/05/2018	113,456	18.14	19.09082
EIP 7	07/06/2018	28,818	17.89	18.83410
EIP7 B	12/03/2019	313,288	21.00	21.75408
EIP7 C	12/03/2019	208,529	20.63	21.75408
EIP8	17/05/2019	246,076	21.41	22.17868
EIP9	12/03/2019	72,000	20.63	21.75408

The exercise price of the share award is $nil.

Management incentive plan

The 2009 Management Incentive Plan (MIP) was approved by shareholders at the 2010 Annual General Meeting and the 2018 MIP was approved by shareholders at the 2018 annual general meeting, whereby shareholders consented to the Company satisfying awards under the MIP from newly issued shares. Under the MIP, the Company 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 form 2011 onwards the awards are made at the end of the KPI performance period.

Details of the grants under the plan are shown below:

Year 2019	**2019 grants 17 May Number**	**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	–	436,362	238,466	8,254	10,563	8,149	4,787	706,581
Granted during the year	436,107	–	–	–	–	–	–	436,107
Exercised during the year	(3,646)	(22,666)	(200,631)	–	(1,709)	(2,259)	(1,774)	(232,685)
Expired during the year	(23,675)	(12,826)	(845)	–	–	–	–	(37,346)
Outstanding at 31 December	**408,786**	**400,870**	**36,990**	**8,254**	**8,854**	**5,890**	**3,013**	**872,657**
Weighted average remaining contractual life (years)	1.38	1.03	6.14	6.36	5.37	4.45	3.38	1.28

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

The cost of the MIP of $9 million (2018: $8 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.

38. Share-based payments continued

The weighted average share price for 2019 is $23.24 (2018: $19.59).

	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
MIP 11	17/05/2018	436,107	21.41	22.18	1.79

The exercise price of the share award is $nil.

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.

38. Share-based payments continued

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 2019	**2014 grants 11 June Number**	**2013 grants 17 May Number**	**2012 grant 16 March Number**	**Total Number**
Outstanding at 1 January	19,470	26,630	22,220	68,320
Exercised during the year	(4,347)	(4,637)	(6,030)	(15,014)
Expired during the year	(903)	(718)	(16,190)	(17,811)
Outstanding at 31 December	**14,220**	**21,275**	**–**	**35,495**
Exercisable at 31 December	14,220	21,275	–	35,495
Weighted average remaining contractual life (years)	4.45	3.38	–	4.30

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

No costs for LTIPs were recognised in the consolidated income statement (2018: $nil credited to profit and loss).

The weighted average share price for 2019 is $23.24 (2018: $19.95).

39. Related parties

Transactions between Hikma Pharmaceuticals PLC (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 2019, the Group entered into the following transactions with related parties:

Boehringer Ingelheim GmbH (BI): is a related party of Hikma because BI owns 16.5% (2018: 16.6%) of the share capital of Hikma, controls 11.8% (2018: 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 $64.7 million (2018: $66.6 million) and the Group total purchases from BI amounted to $1 million (2018: $5.1 million). As at the year end, the amount owed from BI to the Group was $7.3 million (2018: $18.1 million). Additionally, balances arising from the acquisition of the Columbus business from BI relating to contingent consideration are disclosed in Notes 24, 28 and 31.

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 $8 million (2018: $7.5 million) and utilisation of facilities granted by Capital Bank to the Group amounted to $nil (2018: $nil).The interest expenses/commissions amounted to $0.8 million (2018: $0.7 million). The interest income is within market rate.

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 24.76% (2018: 24.85%) 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 (2018: $2.5 million). During 2017 Hikma and MIDROC have agreed not to proceed with and to liquidate the venture. During 2018, Hikmacure granted two loans of $2.3 million each to the Group and MIDROC.

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 non-controlling interest of 49% joint venture (JV) with Haosun (2018: 49%). During 2019, total purchases from Haosun were $3 million (2018: $2.3 million). At 31 December 2019, the amount owed from Hubei Haosun Pharmaceutical to the Group amounted to $0.2million (2018: $0.2 million).

Labatec Pharma (Labatec): is a related party of the Group because Labatec is owned by the family of two directors of Hikma. During 2019, total Group sales to Labatec amounted to $2 million (2018: $2.9 million), and total Group purchases amounted to $0.3 million (2018: $nil). As at the year end, the amount owed by Labatec to the Group was $0.4 million (2018: $0.3 million).

Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive Directors, Non-Executive Directors and the senior management as set out in the Governances' 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 75 to 103.

	2019 $m	2018 $m
Short-term employee benefits	**16.3**	17.4
Share-based payments	**9.5**	8.0
Post-employment benefits	**0.2**	0.1
Other benefits	**0.8**	0.8
	26.8	26.3

40. Subsidiaries, associates and joint ventures

The subsidiaries, associates and joint ventures 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 2019**	Ownership% Ordinary shares At 31 December 2018	**Ownership% Ordinary shares At 31 December 2019**	Ownership% Ordinary shares At 31 December 2018
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%	49%	–	–
Hikma Canada Limited	Canada	Blaney McMurtry LLP, Suite 15000 2 Queen Street, Toronto ON M5C 3G5	100%	–	–	–
Hikma Pharma S.A.E	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 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*	Jersey	47 Esplanade, St Helier, JE1 0BD, Jersey	100%	100%	100%	100%
Arab Medical Containers LLC	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Arab Pharmaceutical Manufacturing PSC	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*	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	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%	–	–

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

40. Subsidiaries, associates and joint ventures 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 2019**	Ownership% Ordinary shares At 31 December 2018	**Ownership% Ordinary shares At 31 December 2019**	Ownership% Ordinary shares At 31 December 2018
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.)	Morocco	Zone Industrielle du Sahel, Rue N. 7, Had Soualem, Province de Settat, Morocco	94%	94%		
Hikma Pharma Benelux B.V	Netherlands	Nieuwe Steen 36, 1625 HV, Hoorn, Netherlands	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*	Portugal	Estrada Nacional 9, Fervença, São João das Lampas e Terrugem, Sintra, Portugal	100%	100%	–	–
Hikma Shefaa for Pharmaceuticals and Medical Supplies PSC	Palestine	West Bank Al Birah, Ramallah	51%	51%	–	–
Hikma Pharmaceuticals	Palestine	West Bank Al Birah, Ramallah	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*	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%	–	–

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

40. Subsidiaries, associates and joint ventures continued

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* **Ownership% Ordinary shares At 31 December 2019**	Ownership% Ordinary shares At 31 December 2018	*Owned by PLC 'the Company'* **Ownership% Ordinary shares At 31 December 2019**	Ownership% Ordinary shares At 31 December 2018
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 FZE*	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*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikma Holdings (UK) Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma UK Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Ventures Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikmacure Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	50%	50%	–	–
West-Ward Holdings Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Pharmaceuticals International Limited*	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	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%	–	–

The investments in subsidiaries are all stated at cost in Hikma Pharmaceuticals PLC, and are consolidated in line with IFRS 10.

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 (*) were incorporated as holding companies.

41. 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 Limited (Jordan), Arab Pharmaceutical Manufacturing Co, Hikma Pharmaceuticals USA Inc. and West-Ward Columbus Inc. The details of each contribution plan are as follows:

Hikma Pharmaceuticals PLC

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 2019 were $0.3 million (2018: $0.4 million).

Hikma Pharmaceuticals LLC

The Group currently has an employee savings plan whereby the Group fully matches employees' contributions, which are fixed at 10% of basic salary. Employees are entitled to 100% of the Group contributions after three years of employment with the Company. The Group's contributions for the year ended 31 December 2019 were $3 million (2018: $3 million).

Arab Pharmaceutical Manufacturing PSC

The Group currently has an employee saving plan whereby the employees contribute at 10%, and the Company at 10% 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 2019 were $0.6 million (2018: $0.9 million).

Hikma Pharmaceuticals USA Inc. & West-Ward Columbus Inc: (401 (k) salary saving plan)

Hikma Pharmaceuticals USA Inc. & West-Ward Columbus Inc had 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 $19,000 (2018: $18,500), 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 2019 were $8.7 million (2018: $10.5 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.

42. Business combinations

Acquisition and selling of Medlac Pharma

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. As part of the consideration the Group paid an initial upfront payment of $8 million and incurred $1 million acquisition cost. On 29 April 2019, the Group sold Medlac back to the original seller for a consideration of $5 million, resulting in a total loss of $4 million (Note 6).

Company balance sheet

At 31 December 2019

	Note	2019 $m	2018 $m
Non-current assets			
Property, plant and equipment		2	3
Right-of-use assets[1]		11	–
Intangible assets	45	33	23
Investments in subsidiaries	46	3,331	3,328
Due from subsidiaries	47	383	177
Financial and other non-current assets		–	1
		3,760	3,532
Current assets			
Other receivables		10	5
Due from subsidiaries	47	87	41
Cash and cash equivalents	49	176	50
Other current assets	48	24	41
		297	137
Total assets		**4,057**	3,669
Current liabilities			
Other payables		3	3
Due to subsidiaries	50	32	39
Short-term financial debts	51	500	–
Other current liabilities		16	13
		551	55
Net current assets		**(254)**	82
Non-current liabilities			
Long-term financial debts	51	–	500
Due to subsidiaries	50	59	77
Finance lease obligations		13	–
		72	577
Total liabilities		**623**	632
Net assets		**3,434**	3,037
Equity			
Share capital	53	41	40
Share premium	54	282	282
Other reserves		1,745	1,745
Profit/(loss) for the year	55	470	(16)
Retained earnings		896	986
Equity attributable to equity holders of the parent		**3,434**	3,037

1. The effect of the adoption of IFRS 16 is immaterial (Note 34)

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 168 to 174 were approved by the Board of Directors on 26 February 2020 and signed on its behalf by:

Said Darwazah
Director
26 February 2020

Sigurdur Olafsson
Director

Company statements of changes in equity

For the year ended 31 December 2019

	Share capital $m	Share premium $m	Own shares $m	Merger reserve $m	Retained earnings $m	Total $m
Balance at 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)**
Cost of equity settled employee share scheme	–	–	–	–	21	21
Dividends paid	–	–	–	–	(84)	(84)
Balance at 31 December 2018 and 1 January 2019	40	282	(1)	1,746	970	3,037
Profit for the year	–	–	–	–	470	470
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**470**	**470**
Cost of equity settled employee share scheme	–	–	–	–	24	24
Exercise of employees share scheme	1	–	–	–	(1)	–
Dividends paid	–	–	–	–	(97)	(97)
Balance at 31 December 2019	**41**	**282**	**(1)**	**1,746**	**1,366**	**3,434**

Notes to the Company financial statements

For the year ended 31 December 2019

43. Adoption of new and revised standards

The nature of 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.

44. Significant accounting policies

Basis of accounting

These financial statements, for the year ended 31 December 2019 has 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 minimal 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 (paragraphs 30 and 31)
- 111 (cash flow statement information)
- IAS 7 'Statement of cash flows'

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.

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

Intercompany receivables are classified as financial assets at amortised cost and are measured at amortised cost using the effective interest method less any impairment.

The company applies a simplified approach in calculating expected credit loss. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Company 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.

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.

45. Intangible assets

	Software $m	Total $m
Cost		
Balance at 1 January 2018	21	21
Additions	8	8
Transfer	(2)	(2)
Balance at 1 January 2019	**27**	**27**
Additions	12	12
Balance at 31 December 2019	**39**	**39**
Amortisation		
Balance at 1 January 2018	(1)	(1)
Charge for the year	(1)	(1)
Transfers to subsidiaries	(2)	(2)
Balance at 1 January 2019	**(4)**	**(4)**
Charge for the year	(1)	(1)
Impairment	(1)	(1)
Balance at 31 December 2019	**(6)**	**(6)**
Carrying amount		
At 31 December 2019	**33**	**33**
At 31 December 2018	23	23

Details of useful lives are included in Note 16.

46. Investments in subsidiaries

The details of Investment in subsidiaries are mentioned in Note 40.

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

	2019 $m	2018 $m
Beginning balance	**3,328**	3,323
Additions to subsidiaries	**3**	5
Ending balance	**3,331**	3,328

47. Due from subsidiaries

Non-current assets

	2019 $m	2018 $m
Hikma Pharmaceuticals USA	**343**	8
Hikma Italia S. P. A	**–**	1
Hikma Hong Kong	**–**	10
Hikma Pharmaceuticals International Limited	**–**	54
Hikma Emerging Markets and Asia Pacific FZ-LLC	**6**	–
Hikma UK Limited	**34**	104
	383	177

Current assets

	2019 $m	2018 $m
Hikma Pharmaceuticals LLC	**–**	2
Hikma MENA Holdings Limited	**33**	19
Hikma Pharmaceuticals USA	**38**	9
Hikma Pharma SAE	**1**	4
Hikma Farmaceutica, (Portugal) S.A.	**3**	1
Hikma Pharmaceuticals International Limited	**2**	–
Hikma Emerging Markets and Asia Pacific FZ-LLC	**7**	5
Others	**3**	1
	87	41

The Company does not expect any credit losses from inter group receivables.

48. Other current assets

	2019 $m	2018 $m
Price adjustment receivable	–	20
Investments at FVTPL	23	21
Others	1	–
	24	41

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 was reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received $27 million reimbursement (2018: $45 million) in cash.

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 consolidated income statement. These assets are classified as level 1 as they are based on quoted prices in active markets.

49. Cash and cash equivalents

	2019 $m	2018 $m
Cash at banks and on hand	13	7
Time deposits	163	43
	176	50

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.

50. Due to subsidiaries

Non-current liabilities

	2019 $m	2018 $m
Hikma Investment LLC	–	1
Hikma MENA Holdings Limited	59	59
Hikma Pharma Limited	–	17
	59	77

50. Due to subsidiaries continued

Current liabilities

	2019 $m	2018 $m
Hikma Investment LLC	**17**	17
Hikma Pharmaceuticals International Limited	**–**	18
Hikma Pharma Limited	**2**	2
Hikma UK Limited	**1**	2
Hikma Pharmaceuticals LLC	**11**	–
Other	**1**	–
	32	39

51. Financial debts

The balance comprises mainly of a $500 million (carrying value of $500 million, and fair value of $501 million) 4.25% Eurobond which is due for repayment in April 2020 with the rating of (BB+/Ba1) (Note 29).

A syndicated revolving credit facility of $1,175 million was entered into on the 27 of October 2015. $1,000 million of this facility matures on 24 December 2021 and the remaining $175 million matured 24 December 2019. The facility has an outstanding balance of $nil (2018: $nil) and a $1,000 million unused available limit (2018: $1,175 million). The facility can be used for general corporate purposes (Note 29).

52. Staff costs

Hikma Pharmaceuticals PLC currently has an average of 37 employees (2018: 36 employees) (excluding Executive Directors); total compensation paid to them amounted to $10 million (2018: $10 million) of which salaries and bonuses compromise an amount of $8 million (2018: $8 million) the remaining balance of $2 million (2018: $2 million) represents national insurance contributions.

53. Share capital

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

	2019 Number	2019 $m	2018 Number	2018 $m
At 1 January	**241,455,394**	**40**	240,678,894	40
Issued during the year (ordinary shares of 10p each)	**863,780**	**1**	776,500	–
At 31 December	**242,319,174**	**41**	241,455,394	40

54. Share premium

	Share premium $m
Balance at 31 December 2019	**282**

55. Profit/loss for the year

The net profit in the Company for the year is $470 million (2018: loss $16 million). Included in the net profit for the year is an amount of $509 million (2018: $47 million) representing dividends received, and $7 million (2018: $4 million) representing the current year charge of share based payments and $7 million in other operating income resulting from BI R&D reimbursement. The remaining income statement components represents general and administrative expenses and net financing expenses. Audit fees for the Company are disclosed in Note 7.

56. Contingent liabilities

A contingent liability existed at the balance sheet date in respect to a standby letter of credit totalling $9 million (2018: $9 million) for potential stamp duty obligation that may arise for repayment of a loan by intercompany guarantors. It's not probable that the repayment will be made by the intercompany guarantors.