Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether for the group and company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business

The Directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Directors' report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Annual Report and financial statements includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

Electronic communications

Hikma's preference is to communicate through Hikma's website, rather than in paper form. Shareholders are encouraged to visit the website to access Hikma's Annual Reports and half-year and final results presentations. Shareholders who wish to receive paper communications can elect to do so through Hikma's registrars, Link Asset Services (www.hikmashares.com).

On behalf of the Board

Said Darwazah
Executive Chairman
24 February 2021

Sigurdur Olafsson
Chief Executive Officer
24 February 2021

Financial statements

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

In this section

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 2020 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company balance sheets as at 31 December 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the consolidated and Company 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 international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of Companies Act 2006, has also applied international financial reporting standards (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 one PwC team in the Middle East was involved in supporting the preparation of the local statutory financial statements for the financial year ended 31 December 2019 on behalf of Hikma. The team provided administrative services in connection with the preparation of local statutory financial statements for which no fee was sought nor obtained. The service has completed and was limited to two sets of local statutory accounts which did not fall within the scope of the Group audit. Administrative typing and drafting of statutory financial statements is prohibited by the FRC's Ethical Standard. We confirm that, based on our assessment of this breach, the nature and scope of the service and the subsequent actions taken, the provision of the service has not affected our professional judgement and the audit report and therefore we remained independent for the purposes of the audit.

Other than the matter referred to above, 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.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit included full scope audits of four components, central audit procedures on specific financial statement line items of one component and audit procedures performed centrally over the consolidation and specific material balances at other locations around the world. Full scope components account for 73% of consolidated revenue, 75% of the adjusted profit measure we use as a basis for determining materiality and 76% of consolidated total assets.

Key audit matters

- Valuation and presentation and disclosure of goodwill and intangible assets (Group)
- Valuation and accuracy of gross to net rebate, returns and chargeback adjustments in the US (Group)
- Tax including completeness and valuation of provisions for uncertain tax positions (Group)
- Impact of COVID-19 (Group and Company)

Materiality

- Overall Group materiality: $24 million (2019: $21.5 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: $21.6 million (2019: $19.4 million) based on 1% of total assets, capped at 90% of overall Group materiality.
- Performance materiality: $18 million (Group) and $16.2 million (Company).

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to product safety (including but not limited to the regulations set out by the United States Food and Drug Administration regulations), competition and antitrust laws, pricing and practices legislation, tax legislation and anti-bribery and corruption legislation (including but not limited to the Foreign Corrupt Practices Act), 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 Listing Rules of the Financial Conduct Authority (FCA). 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 provisions (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. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Impact of COVID-19 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

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 2020, the Group had goodwill of $289 million and intangible assets of $587 million (31 December 2019: $282 million and $552 million, respectively) comprising product-related intangible assets, software and other identified intangible assets. These are 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 and finite-life intangible assets are tested when there is an indication of impairment. An impairment is booked when the carrying value exceeds the recoverable amount. Judgement is required in assessing whether an impairment trigger event has happened and there is significant estimation uncertainty in respect of calculating the recoverable value of CGUs and assets to determine whether an impairment charge should be booked. Impairment was determined to be a significant risk for the Generics, generics Advair Diskus® and Branded CGUs. Additionally, the Group must consider whether there are indicators of impairment reversal at each reporting date. Such indicators are usually the opposite of the indicators of impairment that previously gave rise to the impairment and there is judgement involved in assessing the existence of these impairment reversal indicators. Once indicators for impairment reversal are identified, the determination of recoverable values requires significant estimation on the part of management in determining the higher of the value in use (VIU) and fair value less costs to dispose (FVLCTD) for the relevant individual assets or CGUs. The reversal cannot be so large as to cause the carrying value of an asset to exceed the lower of (i) the asset's current recoverable amount; and (ii) the carrying amount that would have been determined if no impairment loss had been recognised previously, adjusted for subsequent depreciation or amortisation. These reversal considerations are relevant to the Generics and generic Advair Diskus® CGUs due to the impairment recorded in 2017 in relation to these CGUs. During 2020, no impairment has been recorded on a CGU level. Impairment of $5 million was recorded in respect of product related intangibles and $10 million in respect of software. Also, an impairment reversal of $66 million has been recorded on individual marketed product related intangibles. Refer to the Audit Committee's review of significant matters on page 79, 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 concluded that management's determination of four CGUs in 2020 is reasonable. With support from our internal valuations experts we performed the following procedures: – Understood management's process for forecasting cash flows; – Evaluated the appropriateness of the methodology used in the relevant impairment models; – Tested the accuracy of the models as well as the underlying data used in the models, including reconciling the cash flows to the Board approved plan (which includes the impact of COVID-19); – Evaluated the significant assumptions used by management in determining future cash flows, including cash flow growth or decline, pricing and profitability, timing and probability of regulatory success for key products, and impact of COVID-19; – Our valuations experts assessed the reasonableness of the valuation methodology, discount rates, long term growth rate and mathematical accuracy. We also compared management forecasts to analyst consensus cash flows for the Generics, Injectables and Branded businesses and challenged management where there were significant differences; – Performed a retrospective comparison of forecasted revenues and costs to actual past performance including challenging management to produce additional analysis on a constant currency basis; – For the generic Advair Diskus® CGU, we challenged management's impairment model based on the expected impact of recent regulatory updates and the resulting delay in launch by getting them to include a probability of no launch in their model. Based on our work above we determined our own sensitivities and applied these to management's models. Where the sensitised VIU models showed limited headroom or some contradictory evidence we obtained recent market transactional data to form a view on a FVLCTD basis. We found management's conclusions on the CGUs and indefinite-lived intangible assets impairment assessment to be reasonable, although the headroom on the generic Advair Diskus® CGU is more sensitive to the key assumptions around growth rates, discount rates and terminal values. Additional disclosures have been included by management in accordance with IAS 36. We conclude the analyses performed and disclosed in note 16 are appropriate. We validated the appropriateness of the related disclosures in notes 2, 3 and 16 of the financial statements. We also tested management's impairment indicators assessment for finite life intangible assets and noted no issues. For impairment reversal considerations, we tested management's assessment of impairment reversal indicators both at the CGU level (Generics and generic Advair Diskus®) and individual intangible assets level taking into account the conditions in the US generics market (at a CGU and product level) and factors relating to generic Advair Diskus® and consulted with our technical accounting experts on the accounting judgements involved. Where indicators for impairment reversal were identified, we tested management's cash flow models for recoverable value in line with our testing over the CGU level models and agreed the cash flows to the business plan. Based on our procedures, we concluded it was appropriate to reverse $66 million of impairment on specific marketed product related intangibles which showed discrete and sustained recovery in performance. We believe management's position on not reversing impairment on the Generics and generic Advair Diskus® CGUs to be supportable.

Valuation and accuracy 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. Hikma USA recorded revenue deductions for the year ended 31 December 2020 of $2,142 million (2019: $2,235 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. The Directors have determined a reserve of $442 million for Hikma USA to be necessary at 31 December 2020 (2019: $442 million). Refer to the Audit Committee's review of significant matters on page 79, 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, alongside our US Component team, considered the Group's processes for making judgements in this area and performed the following procedures: – Assessed the revenue recognition policy and applicable controls in place around this process; – Tested controls over validation and approval of payment claims; – Tested chargebacks, returns, and rebates payments and credit memos throughout the year by agreeing selected transactions back to the underlying source documentation including customer claims and payment information; – Confirmed channel inventory with major wholesalers or performed alternative procedures where confirmations were not received; – Developed an independent expectation of the largest elements of the reserves at 31 December 2020 using assumptions and inputs based on contracted prices and rebate terms, historical rebates, discounts, validated channel inventory levels, and invoices received or payments made, as applicable, subsequent to year-end to validate reserves. We compared this expectation to the actual accrual recognised by the Group; and, – Considered the historical accuracy of the Group's estimates in previous years and the effect of any adjustments to prior years' accruals in the current year's results. Based on the procedures performed, we did not identify any material differences between our independent expectations and the reserves recorded. We also evaluated the disclosures in Note 2, Note 3, Note 21 and Note 28 which we considered appropriate.

Tax including completeness and valuation of provisions for uncertain tax positions (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 (UTPs). As of 31 December 2020, the Group has recorded provisions of $43 million in respect of uncertain tax positions (2019: $54 million). Refer to the Audit Committee's review of significant matters on page 79, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3) and tax (note 12) 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 $43 million; – the evidence provided by management to support its assumptions underpinning uncertain tax positions at 31 December 2020; – 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. Based on the procedures performed, we have not identified any issues with the completeness or valuation of management's provisions for UTPs and consider the level of provisioning to be acceptable.

Impact of COVID-19 (Group and Company)

Key audit matter	How our audit addressed the key audit matter
COVID-19 has had a significant impact on most businesses during 2020 and this continues into 2021. The Directors have considered the impact of COVID-19 on the Group's operations throughout the Annual Report but specifically seen on page 10. Although COVID-19 did not have a material impact on the financial statements, we have performed additional procedures in our audit work in order to adequately respond to risks related to COVID-19. The main areas that we considered included, but were not limited to: – Any potential impairment of assets (see separate KAM above for consideration of work on impairment of Goodwill and intangible assets). Consideration of other impairment is considered to the right; – Going concern and whether COVID-19 affected the ability of the Group and Company to prepare the financial statements on a going concern basis; – Management's ways of working, including the operation of controls. A large number of employees working remotely and using technology enabled working practices. For example, this has meant virtual review meetings, and electronic review processes (in place of hardcopy reviews); and – PwC's ways of working, including but not limited to impact of travel restrictions on our plans for component oversight and other physical aspects of the audit e.g. inventory counts.	We have considered the impact of COVID-19 in the following key areas: – We challenged management on the need for impairment in respect of the remaining assets (other than goodwill and intangible assets and fixed assets included within CGUs). In respect of non-quoted investments carried at fair value, we obtained evidence to support management's position that COVID-19 has not adversely impacted the future potential of these investments such that an impairment is needed. Also, we have challenged management, with the help of our component teams, on the level of provisioning for accounts receivables (expected credit losses) and inventories. No material issues have been noted in these areas; – As part of our work over the going concern and viability assessment, we have considered the impact of COVID-19 on future cash flows. Note that we have assessed going concern as a normal risk area for Hikma and COVID-19 did not result in a change in our risk assessment due to the insignificant impact on the financial statements. See 'Conclusions relating to going concern' section below for details of the procedures performed and our conclusions in respect of going concern; and – Where we relied on controls, we ensured beforehand that the change in management's ways of working did not impact the effectiveness of the controls. We also changed our way of working in response to COVID-19. Due to physical access restrictions and health and safety concerns, our US component team performed some of their inventory count observations using virtual technology tools. We have discussed the procedures and results of these with our US component team and reviewed their working papers and consider the procedures to be adequate and appropriate. We increased the oversight of our component teams, using video conferencing and remote workpaper reviews to satisfy ourselves as to the appropriateness of audit work performed at the significant and material components. Overall, we have been cognisant of the impact of COVID-19 on all areas of the financial statements and our audit plan. We have performed audit procedures to respond to all the risks in an appropriate way.

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 oversight discussions were undertaken by senior team members with component auditors, to refine the audit approach and ensure sufficient oversight of component auditors. As at 31 December 2020, Hikma Pharmaceuticals PLC had in total 65 entities (subsidiaries) in 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) to audit reporting packages of certain entities in these territories and report the results of their full scope audit work to us. This work was supplemented by a full scope audit of Hikma Pharmaceuticals PLC, central audit procedures performed over specific balances in Hikma International Ventures Limited and procedures performed centrally including the consolidation, taxation and testing of certain component auditor balances not covered by component auditors. Due to travel restrictions as a result of COVID-19, we have not been able to perform component oversight visits. Nevertheless, we have accordingly increased the frequency of communication with our component teams through conference calls both at the planning and execution stages including increasing the involvement from senior team members from both sides. We have attended meetings with local management alongside our component auditors, reviewed working papers for all components including those components which are not significant or material, attended component audit clearance meetings as part of interim and year-end audit work, and engaged in other forms of communication as considered necessary depending on the significance of the component and the extent of accounting and audit issues arising. Full scope components account for 73% of consolidated revenue, 76% of consolidated total assets and 75% 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:

	Financial statements – Group	Financial Statements - Company
Overall materiality	$24 million (2019: $21.5 million).	$21.6 million (2019: $19.4 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, but capped at $21.6 million based on 90% of overall Group materiality.
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 Company is the payment of dividends and the servicing of debt. However, due to the Company being a component of the Group, we have capped Company materiality at 90% of overall Group materiality.

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 million and $21.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to $18 million for the Group financial statements and $16.2 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $1.2 million (Group audit) (2019: $1 million) and $1.08 million (Company audit) (2019: $1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- agreeing the underlying cash flow projections to board approved forecasts, assessing how these forecasts are compiled, and assessing the accuracy of management's forecasts;
- evaluating the key assumptions within management's forecasts;
- considering liquidity and available financial resources;
- considering compliance with covenants in the current year and ability to comply with these at each future covenants reporting date in the going concern period;
- assessing whether the plausible downside scenario prepared by management appropriately considered the principal risks facing the business; and
- evaluating the feasibility of management's mitigating actions in the plausible downside scenario.

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this 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 and the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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 the Directors' report.

Directors' Remuneration

In our opinion, the part of the Annual report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

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, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 Annual report on remuneration 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 five years, covering the years ended 31 December 2016 to 31 December 2020.

Darryl Phillips
(Senior Statutory Auditor)

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

London
24 February 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	4	2,341	–	2,341	2,203	4	2,207
Cost of sales[1]		(1,128)	(12)	(1,140)	(1,108)	(11)	(1,119)
Gross profit/(loss)		1,213	(12)	1,201	1,095	(7)	1,088
Selling, general and administrative expenses		(464)	(45)	(509)	(453)	(41)	(494)
Net impairment loss on financial assets		(2)	–	(2)	–	–	–
Research and development expenses		(137)	–	(137)	(126)	(24)	(150)
Other operating income/(expenses), net[1]	9	(44)	70	26	(8)	57	49
Total operating (expenses)/income		(647)	25	(622)	(587)	(8)	(595)
Operating profit/(loss)	5	566	13	579	508	(15)	493
Finance income	10	9	38	47	7	60	67
Finance expense	11	(54)	(15)	(69)	(52)	(15)	(67)
Gain from investment at fair value through profit and loss (FVTPL)		1	–	1	2	–	2
Loss from investment divestiture		–	–	–	–	(4)	(4)
Profit before tax		522	36	558	465	26	491
Tax	12	(115)	(13)	(128)	(100)	96	(4)
Profit for the year		407	23	430	365	122	487
Attributable to:							
Non-controlling interests	33	(1)	–	(1)	1	–	1
Equity holders of the parent		408	23	431	364	122	486
		407	23	430	365	122	487
Earnings per share (cents)							
Basic	15	172.9		182.6	150.4		200.8
Diluted	15	171.4		181.1	149.8		200.0

1. Inventory related provisions have been reclassified under the cost of sales line item in order to align with industry practice. Previously the costs were reflected in other operating income/(expenses), net and hence the 2019 numbers have consequently been restated. See Note 2 for more details

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 Reported results $m	2019 Reported results $m
Profit for the year		430	487
Other comprehensive income			
Items that may subsequently be reclassified to the consolidated income statement, net of tax:			
Currency translation gain and hyperinflation movement		39	20
Items that will not subsequently be reclassified to the consolidated income statement, net of tax:			
Remeasurement of post-employment benefit obligations	27	(1)	–
Change in investments at fair value through other comprehensive income (FVTOCI)	19	2	(2)
Total comprehensive income for the year		470	505
Attributable to:			
Non-controlling interests		2	2
Equity holders of the parent		468	503
		470	505

Consolidated balance sheet

At 31 December 2020

	Note	2020 $m	2019 $m
Non-current assets			
Goodwill	16	**289**	282
Other intangible assets	16	**587**	552
Property, plant and equipment	17	**1,009**	912
Right-of-use assets	34	**59**	50
Investment in joint ventures	18	**9**	11
Deferred tax assets	13	**221**	243
Financial and other non-current assets	19	**39**	32
		2,213	2,082
Current assets			
Inventories	20	**757**	568
Income tax receivable		**36**	79
Trade and other receivables	21	**756**	719
Collateralised and restricted cash	22	**4**	1
Cash and cash equivalents	23	**323**	442
Other current assets	24	**46**	39
		1,922	1,848
Total assets		**4,135**	3,930
Current liabilities			
Short-term financial debts	25	**158**	569
Lease liabilities	34	**10**	9
Trade and other payables	26	**470**	473
Income tax payable		**72**	82
Other provisions	27	**28**	23
Other current liabilities	28	**290**	315
		1,028	1,471
Net current assets		**894**	377
Non-current liabilities			
Long-term financial debts	29	**692**	48
Lease liabilities	34	**72**	59
Deferred tax liabilities	13	**31**	20
Other non-current liabilities	31	**164**	203
		959	330
Total liabilities		**1,987**	1,801
Net assets		**2,148**	2,129
Equity			
Share capital	32	**41**	41
Share premium		**282**	282
Other reserves		**(80)**	(179)
Retained earnings[1]		**1,892**	1,973
Equity attributable to equity holders of the parent		**2,135**	2,117
Non-controlling interests	33	**13**	12
Total equity		**2,148**	2,129

1. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were included in other reserves (Note 32)

The consolidated financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 118 to 170 were approved by the Board of Directors on 24 February 2021 and signed on its behalf by:

Said Darwazah
Director
24 February 2021

Sigurdur Olafsson
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 31 December 2020

	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 2019 as adjusted[1]	38	(254)	(1)	(217)	1,582	40	282	1,687	12	1,699
Profit for the year[2]	20	–	–	20	466	–	–	486	1	487
Change in investments at FVTOCI (Note 19)	–	–	–	–	(2)	–	–	(2)	–	(2)
Currency translation gain and hyperinflation movement	–	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 37)	–	–	–	–	24	–	–	24	–	24
Exercise of employees share scheme	(1)	–	–	(1)	–	1	–	–	–	–
Dividends paid (Note 14)	–	–	–	–	(97)	–	–	(97)	(2)	(99)
Balance at 31 December 2019 and 1 January 2020	57	(235)	(1)	(179)	1,973	41	282	2,117	12	2,129
Reclassification[3]	–	–	1	1	(1)	–	–	–	–	–
Balance at 1 January 2020 as adjusted	57	(235)	–	(178)	1,972	41	282	2,117	12	2,129
Profit for the year[2]	62	–	–	62	369	–	–	431	(1)	430
Change in investments at FVTOCI (Note 19)	–	–	–	–	2	–	–	2	–	2
Remeasurement of post-employment benefit obligations (Note 27)	–	–	–	–	(1)	–	–	(1)	–	(1)
Currency translation gain and hyperinflation movement	–	36	–	36	–	–	–	36	3	39
Total comprehensive income for the year	62	36	–	98	370	–	–	468	2	470
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme (Note 37)	–	–	–	–	27	–	–	27	–	27
Dividends paid (Note 14)	–	–	–	–	(109)	–	–	(109)	(1)	(110)
Share buyback (Note 32 and 38)	–	–	–	–	(368)	–	–	(368)	–	(368)
Balance at 31 December 2020	**119**	**(199)**	**–**	**(80)**	**1,892**	**41**	**282**	**2,135**	**13**	**2,148**

1. 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 which was credited to retained earnings (Note 3)
2. A net Impairment reversal of $62 million (2019: $20 million) has been allocated from retained earnings to the merger and revaluation reserves in relation to the Generics segment (Note 6 and 16)
3. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were separately presented in other reserves (Note 32)

Consolidated cash flow statement

For the year ended 31 December 2020

	Note	2020 $m	2019 $m
Cash flows from operating activities			
Cash generated from operations	35	**525**	580
Income taxes paid		**(68)**	(125)
Income taxes received		**7**	17
Net cash inflow from operating activities		**464**	472
Cash flow from investing activities			
Purchases of property, plant and equipment		**(172)**	(119)
Proceeds from disposal of property, plant and equipment		**–**	2
Purchase of intangible assets		**(52)**	(67)
Increase in investment in financial and other non-current assets		**–**	(1)
Proceeds from sale of investment at FVTOCI		**–**	12
Additions of investments at FVTOCI		**(5)**	(5)
Acquisition of business undertakings net of cash acquired		**–**	(8)
Proceeds from investment divestiture		**2**	2
Contingent consideration (paid)/received		**(60)**	27
Interest income received		**7**	6
Investment related amounts held in escrow account		**(3)**	–
Net cash outflow from investing activities		**(283)**	(151)
Cash flow from financing activities			
Increase in collateralised and restricted cash		**–**	(1)
Proceeds from issue of long-term financial debts		**1,543**	19
Repayment of long-term financial debts		**(1,372)**	(11)
Proceeds from short-term borrowings		**430**	267
Repayment of short-term borrowings		**(367)**	(273)
Repayment of lease liabilities		**(14)**	(12)
Dividends paid		**(109)**	(97)
Dividends paid to non-controlling shareholders of subsidiaries		**(1)**	(2)
Interest and bank charges paid		**(39)**	(44)
Share buyback		**(375)**	–
Commitment fees received related to the share buyback		**7**	–
Payment to co-development and earnout payment agreement		**(1)**	(1)
Net cash outflow from financing activities		**(298)**	(155)
Net (decrease)/increase in cash and cash equivalents		**(117)**	166
Cash and cash equivalents at beginning of year		**442**	276
Foreign exchange translation movements		**(2)**	–
Cash and cash equivalents at end of year		**323**	442

Notes to the consolidated financial statements

1. Adoption of new and revised standards

The following revised Standards and Interpretations have been issued and are effective on annual periods beginning on or after 1 January 2020. These amendments had no impact on the consolidated financial statements of the Group but may impact the accounting for future transactions and arrangements.

IFRS 3 (Amendments)	Business Combinations
IFRS 7 (Amendments)	Financial Instruments: Disclosures
IFRS 9 (Amendments)	Financial Instruments
IFRS 16 (Amendments)	Leases
IAS 1 (Amendments)	Presentation of Financial Statements
IAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 39 (Amendments)	Financial Instruments: Recognition and Measurement
Conceptual Framework for Financial Reporting	

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 180.

The Group's principal activities are the development, manufacturing, marketing and selling of a broad range of generic, branded and in-licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms.

Reclassification of 2019 financial statements

Beginning in 2020, inventory related provisions are reported under the cost of sales line item for both 2020 and 2019 comparatives. In 2019 audited financial statements, inventory related provisions were included in other operating income/(expenses), net line item. The reason for reclassification is to be in line with industry practice. The effect of the adjustment on the operating profit was as follows:

	2019 results as previously reported $m	Adjustment $m	Adjusted 2019 reported results $m
Cost of Sales	(1,059)	(60)	(1,119)
Gross Profit	1,148	(60)	1,088
Other operating income/(expenses), net	(11)	60	49
Operating Profit	493	–	493

Basis of preparation

Hikma Pharmaceuticals PLC's consolidated financial statements are prepared in accordance with:

(i) International accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

(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 believe that the Group is well diversified due to its geographic spread, product diversity and large customer and supplier base. Taking into account the Group's current position and its principal risks for a period longer than twelve months from the date of signing the consolidated financial statement, a going concern analysis has been prepared using realistic scenarios applying a severe but plausible downside which shows sufficient liquidity headroom and compliance with our debt covenants. Therefore, the Directors believe that the Group and its subsidiaries are adequately placed to manage its business and financing risks successfully, despite the current uncertain economic and political outlook. Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. (See page 59)

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

All subsidiaries and the Company financial statements consolidated are made up to 31 December each year.

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

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

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

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

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

2. Significant accounting policies continued

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

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

Contingent consideration classified as an asset or liability is a financial instrument and, within the scope of IFRS 9 'Financial Instruments', is measured at fair value, with changes in fair value recognised in the 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 acquired 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 acquired 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, 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 joint ventures
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 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 joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and acquired contingent liabilities of the joint venture 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 a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture. The aggregate of Group's share of profit or losses after tax of joint ventures is shown on the face of the consolidated income statement below operating profit and represents profit after tax.

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

Exchange differences arising on consolidation are recognised in the consolidated statement of other comprehensive income. On the disposal of foreign operation entities, the accumulated foreign exchange gains/losses are reclassified from OCI to the consolidated income statement.

2. Significant accounting policies continued

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. In territories where there are restrictions on the free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed. Lebanon and Sudan were considered to be hyperinflationary economies in the year ended 31 December 2020 at which date the prevailing rates were 120.00 Sudanese pound per US dollar and 1,507.5 Lebanese pound per US dollar (see Note 30 for the rates in hyperinflationary economies). Gain or loss on net monetary asset/liability is recognised in the consolidated income statement. Inflation effect on non-monetary asset/liability is recognised in other comprehensive income within equity.

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 some 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 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 distributors 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).

Performance obligation
Free goods
Free goods are issued to certain customers as an alternative to discounts. Under IFRS 15 these free goods give rise to a separate performance obligation, which 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 then recognises revenue for the free goods when they are transferred to the customer.

2. Significant accounting policies continued

Share-based payments

At the Company's discretion and subject to the achievement of Group and personal performance criteria in the prior year, employees (including Executive Directors) of the Group receive performance based 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 made in 2014). Refer to Note 37 for more details.

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 Black-Scholes methodology for nil-cost options using the share price as at the date of grant discounted by dividend yield. No account is taken of any performance conditions.

The cost of share-based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the year of performance and the vesting period after the grant date based on the Group's estimate of cost 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.

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 made 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 (Note 40).
— In certain countries and entities, the Group has post-employment defined benefit plans. Accordingly, valuations of the obligations under those plans are carried out and any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement gains or losses in other comprehensive income. Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognised immediately in the consolidated income statement as past service costs.
— End of service payments are provided for based on employees' final salaries and allowances and their cumulative years of service (Note 27).

Dividend income

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

Leases

In accordance with IFRS 16, the Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets:

— Right-of-use assets: The Group recognises right-of-use assets at the commencement date of the lease (i.e. 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 of obtaining ownership of a 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	4% to 50%
Machinery and Equipment	25% to 50%
Vehicles	20% to 33%

— 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, payments for optional extension periods and payments of penalties for terminating a lease when these options are reasonably certain to be exercised by the Group. 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 (i.e. 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 (i.e. below $5,000). Lease payments on short term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2. Significant accounting policies continued

Taxes

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.

Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities within one year.

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

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 will 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.

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, and any exceptional items related to tax such as significant tax benefit/expense associated with previously unrecognised deferred tax assets/ liabilities.

Other adjustments

These include amortisation of intangibles excluding software and finance income and expense resulting from remeasurement of contingent consideration and co-development earnout payment agreement, financial liability and asset.

Both exceptional items and other adjustments are excluded from core results to improve comparability of our consolidated financial statements, 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 the prior year.

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

2. Significant accounting policies continued

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. The assets are amortised on a straight-line basis on the following amortisation rates:

Customer relationships	10%
Product related intangibles	5% to 33%
Trade names	10%
Marketing rights	7% to 33%
Software	5% to 33%

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 an intangible asset are 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, liabilities and acquired contingent liabilities.

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 any profit or loss on disposal in the consolidated income statement.

(b) **Product related intangibles:**

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

(ii) Product files and in-licensed products recognised through acquisitions and partnerships 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

(d) **Customer relationships**: represent the value attributed to the long-term relationships held with existing customers that the group acquired on business combinations. Customer relationships 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 33%
Machinery and equipment	5% to 25%
Vehicles, fixtures and equipment	3% 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.

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 to depreciation and amortisation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

2. Significant accounting policies continued

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

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

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 assets' or CGU's recoverable amounts. A previously recognised impairment loss is reversed only if there has been a sustained and discrete change in the assumptions and indicators 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 and amortization, 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 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 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 deposits comprise 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. These investments are measured at cost minus any impairment, and adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer, 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 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, 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.

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 as FVTPL are held within a business model with the objective of both holding to collect contractual cash flows and selling.

2. Significant accounting policies continued

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 'financial debts' representing 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 at FVTPL 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. (Note 28 and 31)

(ii) Financial debts

Financial debts are initially measured at fair value, net of transaction costs and 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

Own shares

- The Group provides finance to the trustee of the Employee Benefit Trust (EBT) which is Link Market Service Trustee 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. (Note 32)
- Treasury shares and any direct expenses associated with it are recognised at cost and deducted from equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. (Note 32)

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 arrangement and buying group. Refer to Note 2 for more details on each of the underlying estimates.

Impairment and reversal (Note 16)

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

Critical judgement

- Determination of the CGU
- For reversal assessment of the Generics CGU, the Group assessed the events that indicated the impairment booked in 2017 and concluded that such indicators still existed, namely pricing pressures in the market, the increasing number of generic products and delays to approvals of more complex products. Existing headroom of Generics CGU has predominantly been created by marketed and pipeline products that were not reflected in the Group's plans at the time that the original impairment was booked, and as such did not reflect a reversal of the initial impairment indicators.

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 as adjusted for specific risk premiums reflecting risks inherent in achieving the projected future cash flows
- Estimate an 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 judgements and estimates:

Critical judgement

- For pipeline products, establishing the launch date and probability of a successful product approval are critical judgements
- Determining whether an impairment indication has occurred for intangible assets. In such case the Group first assesses 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 and 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 (Notes 28, 30 and 31)

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 the same as described in 'Acquired intangibles assets' above. (See Note 30 for sensitivity analysis).

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 (Note 13)

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.

This exercise is reviewed each year and, to the extent forecasts change, an adjustment to the recognised deferred tax asset may be made.

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

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

Key sources of estimation uncertainty
The Group has made 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 (Note 12)
Where an uncertain tax position arises, the Group will assess what the probable outcome will be, assuming the relevant tax authority has full knowledge of the situation. Where it is assessed that an exposure will give rise to an uncertain tax position, a provision is booked for the best estimate of the liability. Hikma continues to re-evaluate existing uncertain positions to determine if a change in facts and circumstances has occurred that would make it necessary to adjust.

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 on the beginning balance in 2019 of the amount previously held for uncertain tax position was a decrease of $2 million.

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 36).

The critical areas of judgement in relation to contingent liabilities are 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 2020	**Injectables $m**	**Generics $m**	**Branded $m**	**Others $m**	**Total $m**
United States	**662**	**744**	**–**	**–**	**1,406**
Middle East and North Africa	**160**	**–**	**605**	**5**	**770**
Europe and rest of the world	**149**	**–**	**8**	**2**	**159**
United Kingdom	**6**	**–**	**–**	**–**	**6**
	977	**744**	**613**	**7**	**2,341**

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

The top selling markets in 2020 are as below:

	2020 $m	2019 $m
United States	**1,406**	1,359
Saudi Arabia	**223**	204
Egypt	**118**	114
	1,747	1,677

In 2020, included in revenue arising from the Generics and Injectables segments are sales the Group made to two wholesalers in the US of approximately $607 million (2019: $594 million). Each of these customers accounted for equal to or greater than 10% of Group's revenue in the period on an individual basis.

The following table provide contract balances related to revenue:

	2020 $m	2019 $m
Trade receivables (Note 21)	**662**	637
Contract assets (Note 24)	**3**	–
Contract liabilities (Note 28)	**162**	142

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 liabilities 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	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	977	–	977	890	4	894
Cost of sales[1]	(414)	–	(414)	(385)	–	(385)
Gross profit	563	–	563	505	4	509
Total operating expenses[1]	(186)	(23)	(209)	(167)	(22)	(189)
Segment result	377	(23)	354	338	(18)	320

Generics	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	744	–	744	719	–	719
Cost of sales[1]	(403)	(12)	(415)	(419)	(5)	(424)
Gross profit	341	(12)	329	300	(5)	295
Total operating expenses[1]	(180)	54	(126)	(176)	32	(144)
Segment result	161	42	203	124	27	151

Branded	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	613	–	613	583	–	583
Cost of sales[1]	(306)	–	(306)	(296)	(6)	(302)
Gross profit	307	–	307	287	(6)	281
Total operating expenses[1]	(181)	(6)	(187)	(158)	(18)	(176)
Segment result	126	(6)	120	129	(24)	105

1. Inventory related provisions have been reclassified under the cost of sales line item in order to align with industry practice. Previously the costs were reflected in other operating income/(expenses), net and hence the 2019 numbers have consequently been restated. See Note 2 for more details

5. Business segments continued

Others[1]	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	7	–	7	11	–	11
Cost of sales	(5)	–	(5)	(8)	–	(8)
Gross profit	2	–	2	3	–	3
Total operating expenses	(2)	–	(2)	(3)	–	(3)
Segment result	–	–	–	–	–	–

1. Others mainly comprises Arab Medical Containers LLC and International Pharmaceutical Research Center LLC

Group	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Segment result	664	13	677	591	(15)	576
Unallocated expenses[1]	(98)	–	(98)	(83)	–	(83)
Operating profit/(loss)	566	13	579	508	(15)	493
Finance income	9	38	47	7	60	67
Finance expense	(54)	(15)	(69)	(52)	(15)	(67)
Gain from investment at FVTPL	1	–	1	2	–	2
Loss from investment divestiture	–	–	–	–	(4)	(4)
Profit before tax	522	36	558	465	26	491
Tax	(115)	(13)	(128)	(100)	96	(4)
Profit for the year	407	23	430	365	122	487
Attributable to:						
Non-controlling interests	(1)	–	(1)	1	–	1
Equity holders of the parent	408	23	431	364	122	486
	407	23	430	365	122	487

1. In 2020, unallocated corporate expenses mainly comprise employee costs, third-party professional fees and software impairments while in 2019, unallocated corporate expenses mainly comprise employee costs, third-party professional fees, IT and travel expenses

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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.

	2020	Generics $m	Injectables $m	Branded $m	Others $m	Unallocated $m	Total $m
Exceptional Items							
Jordan warehouse fire incident	Other operating (expense)/income	4	–	7	–	–	11
MENA severance and restructuring costs	SG&A	–	–	(3)	–	–	(3)
Assets write off – PPE Impairment	Other operating (expense)/income	(3)	–	–	–	–	(3)
Assets write off – inventory related provisions	Cost of sales	(12)	–	–	–	–	(12)
Impairment reversal of product related intangibles, net	Other operating (expense)/income	62	–	–	–	–	62
Exceptional items		51	–	4	–	–	55
Other adjustments							
Intangible assets amortisation other than software	SG&A	(9)	(23)	(10)	–	–	(42)
Unwinding and remeasurement of contingent consideration and other financial liabilities, net	Finance expense	–	–	–	–	23	23
Exceptional items and other adjustments including in profit before tax		42	(23)	(6)	–	23	36
Tax expenses associated with previously unrecognised deferred tax assets	Tax	–	–	–	–	(3)	(3)
Tax effect on exceptional items and other adjustments	Tax	–	–	–	–	(10)	(10)
Impact on profit for the year		42	(23)	(6)	–	10	23

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

Exceptional items

- Jordan warehouse fire incident: In 2020, Hikma recognised $11 million for insurance compensation related to a fire incident which took place in 2019 at one of Hikma's Jordan facilities. The Group received part of the insurance compensation of $4 million in 2019 and $1 million in March 2020
- MENA severance and restructuring costs: of $3 million related to one-off organisational restructuring in MENA that started in 2019 and finished in 2020
- Assets write off: In December 2020, Hikma submitted to the FDA a Prior Approval Supplement (PAS) relating to generic Advair Diskus®. The amendment reflects enhanced packaging controls to meet new industry standards adopted since the initial submission of its ANDA application. As a result, the launch has been temporarily paused and inventory amounting to $12 million is expected to expire before launch and has been written off. In addition, $3 million of property, plant and equipment was written off (Notes 9, 17)
- Impairment reversal of product related intangibles, net: $66 million net impairment reversal in respect of specific product related intangibles in the Generics segment which reflects a better than expected performance of certain marketed products acquired through business combination offset by $4 million impairment charge (Note 16)
- Tax (expense) benefit associated with previously unrecognised deferred tax assets: A prior year adjustment to the tax expense associated with previously unrecognised deferred tax assets of $3 million arose as a tax return to provision adjustment

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

	2019	Generics $m	Injectables $m	Branded $m	Others $m	Unallocated $m	Total $m
Exceptional Items							
R&D cost	R&D	(24)	–	–	–	–	(24)
Jordan warehouse fire incident	Cost of sales	(5)	–	(6)	–	–	(11)
Jordan warehouse fire incident	Other operating (expense)/income	(1)	–	(1)	–	–	(2)
Proceeds from legal claim	Other operating (expense)/income	32	–	–	–	–	32
Contingent consideration adjustment	Other operating (expense)/income	7	–	–	–	–	7
MENA severance and restructuring costs	SG&A	–	–	(7)	–	–	(7)
Integration costs	Revenue	–	4	–	–	–	4
Loss from investment divestiture	Other expenses	–	–	–	(4)	–	(4)
Impairment reversal of product related intangibles, net	Other operating (expense)/income	20	–	–	–	–	20
Exceptional items		29	4	(14)	(4)	–	15
Other adjustments							
Intangible assets amortisation other than software	SG&A	(2)	(22)	(10)	–	–	(34)
Unwinding and remeasurement of contingent consideration, financial liability and asset, net	Finance income/(expense)	–	–	–	–	45	45
Exceptional items and Other adjustments including in profit before tax		27	(18)	(24)	(4)	45	26
Tax benefit associated with previously unrecognised deferred tax assets	Tax	–	–	–	–	49	49
Tax benefit associated with the internal reorganisation of intangible assets	Tax	–	–	–	–	48	48
Tax effect on exceptional items and other adjustments	Tax	–	–	–	–	(1)	(1)
Impact on profit for the year		27	(18)	(24)	(4)	141	122

6. Exceptional items and other adjustments continued

- R&D cost: 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. In December 2020, Hikma has received the US FDA approval
- Jordan warehouse fire incident: During 2019, 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. Up to 31 December 2019, the Group has received part of the insurance compensation of $4 million related to the fire incident resulting in a net exceptional expense of $13 million
- Proceeds from legal 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
- Contingent consideration adjustment: 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.
- MENA severance and restructuring costs: of $7 million related to one-off organisational restructuring in MENA
- Integration costs: 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
- Loss from investment divestiture: $4 million loss from divestiture of Medlac investment
- Impairment reversal of product related intangibles, net: $21 million impairment reversal of product related intangibles related to specific product related assets in Generics segment offset by $1 million impairment charge
- Tax (expense) benefit associated with previously unrecognised deferred tax assets: The Group has benefitted $49 million from the utilisation of previously unrecognised deferred tax assets following the internal reorganisation of intangible assets (Note 12)
- Tax benefit associated with the internal reorganisation of intangible assets: The Group has recorded a $48 million tax benefit associated with the internal reorganisation of intangible assets (Note 12)

Other adjustments

Remeasurement of contingent consideration, financial liability and asset represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments and receivables in respect of contingent consideration recognised through business combinations and the financial liability in relation to the co-development earnout payment agreement (Notes 10,11, 28 and 31). The remeasurement is included in finance income and expense.

Intangible assets amortisation other than software of $42 million (2019: $34 million).

7. Audit remuneration

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

	2020 $m	2019[2] $m
Fees to the auditor for the audit of the annual accounts	0.9	0.8
Fees to the auditor and its associates for the audit of the Group's subsidiaries	1.9	1.9
Total audit fees	2.8	2.7
Audit related assurance services[1]	0.2	0.2
Other non-audit fees	0.2	–
Total audit and non-audit fees	3.2	2.9

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 2019

In 2020 non-audit fees of $0.2m were charged relating to bond offering. In 2019 nominal non-audit fees were charged relating to assurance engagement in connection with a statement of completeness of sales packaging brought to market in Germany.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 77 to 80 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:

	2020 Number	2019 Number
Production	4,918	4,818
Sales and marketing	2,232	2,180
General and administrative	1,050	1,130
Research and development	481	450
	8,681	8,578

	2020 $m	2019 $m
Aggregate remuneration comprised:		
Wages, salaries and bonuses	392	356
Social security costs	39	36
Post-employment benefits	14	14
End of service indemnity	9	13
Share-based payments (Note 37)	27	24
Car and housing allowances	21	21
Health insurance	36	34
Other costs and employee benefits	22	22
	560	520

9. Other operating income/expense

Other operating expense[1]	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Impairment charge on intangible assets	11	4	15	2	1	3
Impairment charge on property, plant and equipment	3	3	6	–	–	–
Loss on disposal/damage of property, plant and equipment	2	–	2	–	3	3
Forex and net monetary hyperinflation losses, net	30	–	30	4	–	4
Others	1	–	1	5	–	5
	47	7	54	11	4	15

1. Inventory related provisions have been reclassified under the cost of sales in order to align with industry practice. Previously the costs were reflected in other operating income/(expenses),net line item and hence the 2019 numbers have consequently been restated. See Note 2 for more details

Exceptional items represent $4 million impairment charge in relation to certain marketed products acquired through business combination in addition to $3 million write off of property, plant and equipment (Note 6, 16 and 17).

Other operating income	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Impairment reversal on intangible assets	–	66	66	–	21	21
Others	3	11	14	3	40	43
	3	77	80	3	61	64

In 2020, the other operating income of $14 million mainly comprised $11 million for insurance compensation related to a fire incident (see Note 6). 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.

Exceptional items represent $66 million impairment reversal in relation to certain marketed products acquired through business combination (Note 6, and 16).

10. Finance income

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Interest income	7	–	7	6	–	6
Remeasurement of contingent consideration and financial liability and assets (Note 28 and 31)	–	38	38	–	60	60
Net foreign exchange gain	–	–	–	1	–	1
Other finance income	2	–	2	–	–	–
	9	38	47	7	60	67

11. Finance expense

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Interest on bank overdrafts and loans	22	–	22	10	–	10
Interest on Eurobond	15	–	15	22	–	22
Unwinding of contingent consideration and other financial liabilities (Note 28 and 31)	–	15	15	–	15	15
Other bank charges	13	–	13	13	–	13
Lease accretion of interest	4	–	4	4	–	4
Other finance expense	–	–	–	3	–	3
	54	15	69	52	15	67

12. Tax

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Current tax:						
UK corporation	–	–	–	16	32	48
Foreign tax	99	(2)	97	73	(3)	70
Adjustment to prior year	(1)	3	2	–	–	–
Deferred tax (Note 13)						
Current year	19	12	31	2	(125)	(123)
Adjustment to prior year	(2)	–	(2)	9	–	9
	115	13	128	100	(96)	4

UK corporation tax is calculated at 19.0% (2019: 19.0%) of the estimated assessable profit made in the UK for the year.

The Group incurred a tax expense of $128 million (2019: $4 million). The effective tax charge rate is 22.9% (2019: 0.8%). The reported effective tax rate is higher than the statutory rate primarily due to the earnings mix.

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:

	2020 $m	2019 $m
Profit before tax	**558**	491
Tax at the UK corporation tax rate of 19.0% (2019: 19.0%)	**106**	93
Profits taxed at different rates	**7**	3
Permanent differences		
– Non-deductible expenditure	**7**	4
– Rate differential on unrealised intercompany profits on inventory sales	**–**	1
– Other permanent differences	**–**	2
– R&D benefit	**(3)**	(2)
State and local taxes	**8**	7
Temporary differences		
– Rate change tax losses and other deductible temporary differences for which no benefit is recognised	**6**	2
– Exceptional tax expenses/(benefit) associated with previously unrecognised tax losses (Note 6)	**3**	(49)
– Exceptional tax (benefit) associated with the internal reorganisation of intangible assets (Note 6)	**–**	(48)
Change in provision for uncertain tax positions	**(8)**	(14)
Unremitted earnings	**4**	(4)
Prior year adjustments	**(2)**	9
Tax expense for the year	**128**	4

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. In 2020, the R&D benefit is now presented in a separate line item due to its increasing relevance to the effective tax rate. The comparative figures were reclassified to match the 2020 disclosure (in 2019, the R&D benefit of $2 million was split equally between the non-taxable income and the non-deductible expenditure line items).

Rate change 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 2019.

The exceptional tax benefit associated with the 2019 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 2020 and primarily relates to a transfer pricing adjustment. As at the consolidated balance sheet date, the Group held an aggregate provision in the sum of $43 million (2019: $53 million) in respect of liabilities likely to arise from estimation uncertainties. Hikma released $8 million in 2020 (2019: $9 million) due to the statute of limitations and released $4 million (2019: $12 million) following settlements. This was offset by new provisions and updates of $4 million booked in 2020 (2019: $7 million). The currency exchange differences for the year is a $2 million reduction to the aggregate provision. In 2021, up to $7 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.

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.

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 2020 $m	2019 $m
Deferred tax liabilities	**(31)**	(20)
Deferred tax assets	**221**	243
	190	223

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
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**

The classification of the ending balances as of 31 December 2019 has been amended to enable more clarity and now presents more relevant categories as shown below. The reconciliation between the categories used in 2019 and in 2020 is as follows:

	Tax losses $m	Deferred R&D costs $m	Other short-term temporary differences $m	Amortisable assets $m	Fixed assets $m	Share-based payments $m	Total $m
Product related provision	–	–	96	–	–	–	96
Intangible assets	–	–	–	99	–	–	99
Other provisions and accruals	–	–	20	–	–	–	20
Unremitted earnings	–	–	(7)	–	–	–	(7)
Others	3	–	5	16	(10)	1	15
At 31 December 2019 and 1 January 2020	**3**	**–**	**114**	**115**	**(10)**	**1**	**223**

The below table represents the deferred tax movement in 2020 following the updated presentation:

	Product related provision $m	Intangible assets $m	Other provisions and accruals $m	Unremitted earnings $m	Others $m	Total $m
1 January 2020	96	99	20	(7)	15	223
Credit/(charge) to income	15	(22)	(1)	(4)	(17)	(29)
Currency translation (loss) and hyperinflation impact	–	(1)	(1)	–	(2)	(4)
At 31 December 2020	**111**	**76**	**18**	**(11)**	**(4)**	**190**

1. The other deferred taxes on short-term temporary differences in 2019 primarily relate to chargebacks and product returns in the US of $51 million, inventory related provisions in the US of $18 million and the unrealised intercompany profits of $17 million

The Group has a potential deferred tax asset of $258million (2019: $281 million), of which $221 million (2019: $243 million) has been recognised.

No deferred tax asset has been recognised on gross temporary differences totalling $171 million (2019: $170 million) mainly due to the unpredictability of the related future profit streams. $168 million (2019: $161 million) of these gross temporary differences relate to losses on which no deferred tax is recognised. In 2020 $nil million (2019: $92 million) of losses can no longer be carried forward under UK tax rules.

During 2020 an additional deferred tax liability has been recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries of $4 million (2019: $3 million). No deferred tax liability has been recognised on the remaining unremitted earnings of $239 million (2019: $236 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 intangible 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 2020 $m	Paid in 2019 $m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2019 of 30.0 cents (31 December 2018: 26.0 cents) per share	72	63
Interim dividend during the year ended 31 December 2020 of 16.0 cents (31 December 2019: 14.0 cents) per share	37	34
	109	97

The proposed final dividend for the year ended 31 December 2020 is 34.0 cents (2019: 30.0 cents).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 23 April 2021 and has not been included as a liability in these consolidated financial statements. Based on the number of shares in free issue at 31 December 2020 (230,458,116), the unrecognised liability is $78 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.

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Earnings for the purposes of basic and diluted EPS being net profit attributable to equity holders of the parent	408	23	431	364	122	486

Basic earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the Employee Benefit Trust (EBT) and Treasury shares. The trustees have waived their rights to dividends on the shares held by the EBT and Treasury shares have no right to receive dividends.

The numbers of shares used in calculating basic and diluted earnings per share are reconciled below:

Number of shares	2020 Number m	2019 Number m
Weighted average number of Ordinary Shares for the purposes of basic EPS[1]	236	242
Effect of dilutive potential Ordinary Shares:		
Share-based awards	2	1
Weighted average number of Ordinary Shares for the purposes of diluted EPS	**238**	**243**

1. Weighted average number of ordinary shares has been calculated by the weighted average number of shares in issue during the period after deducting shares held by the EBT and Treasury shares (Note 32)

	2020 Core EPS Cents	2020 Reported EPS Cents	2019 Core EPS Cents	2019 Reported EPS Cents
Basic	172.9	182.6	150.4	200.8
Diluted	171.4	181.1	149.8	200.0

16. Goodwill and other intangible assets

The changes in the carrying value of goodwill and other intangible assets for the years ended 31 December 2020 and 31 December 2019 are as follows:

	Goodwill $m	Product-related intangibles $m	Software $m	Other identified intangibles $m	Total $m
Cost					
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 1 January 2020	**690**	**1,033**	**147**	**184**	**2,054**
Additions	–	8	12	16	36
Disposals	–	–	(14)	–	(14)
Translation adjustments	7	–	–	5	12
Balance at 31 December 2020	**697**	**1,041**	**145**	**205**	**2,088**
Accumulated Amortisation & Impairment					
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 1 January 2020	**(408)**	**(660)**	**(75)**	**(77)**	**(1,220)**
Charge for the year	–	(29)	(10)	(14)	(53)
Disposals	–	–	14	–	14
Impairment reversal	–	66	–	–	66
Impairment charge	–	(5)	(10)	–	(15)
Translation adjustments	–	(1)	–	(3)	(4)
Balance at 31 December 2020	**(408)**	**(629)**	**(81)**	**(94)**	**(1,212)**
Carrying amount					
At 31 December 2020	**289**	**412**	**64**	**111**	**876**
At 31 December 2019	282	373	72	107	834

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 2020 $m	2019 $m
Branded	173	168
Injectables	116	114
Total	**289**	**282**

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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 indicators 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 (VIU)				
Key assumptions	Sales growth rates, informed by pricing and volume assumptions Profit margins and profit margin growth rates for marketed and pipeline products Expected launch dates for pipeline products Terminal growth rates Discount rates				
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information, informed by historical experience and management's best estimates of the future Margins reflect past experience, adjusted for expected changes in the future Terminal growth rates are based on the Group's experience in its markets Discount rates for CGU are derived from specific regions/countries, risk adjusted where appropriate				
Period of specific projected cash flows	5 years, to which a terminal growth rate is then applied				
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)		Pre-tax discount rate	
		2020	2019	**2020**	2019
	Branded	**2.4%**	2.8%	**16.6%**	18.0%
	Injectables	**2.1%**	1.9%	**11.1%**	13.0%
	Generics	**2.3%**	1.6%	**12.7%**	15.0%
	generic Advair Diskus®	**–**[1]	–[1]	**13.7%**	17.7%

1. generic Advair Diskus® is expected to have a useful life of 11 years, as the asset is not in use, it is not currently being amortised

CGUs: The Group performed its annual goodwill and CGU impairment for the Branded, Injectables, Generics and generic Advair Diskus® CGUs. The Group's model is a VIU model based on the discounted value of the best estimates of the key assumptions to arrive at the recoverable value. This value is then compared to the carrying value of the CGU to determine whether an impairment is required. In addition, the Group models sensitivities on the VIU amounts calculated to determine whether reasonable changes in key assumptions could lead to a potential impairment. If such reasonable changes results in an impairment, then in accordance with IAS36 these are disclosed below. For the Branded, Injectables and Generics CGUs the Group has determined that sufficient headroom2 still exists under reasonable change scenarios. Specifically, an evaluation of the CGUs 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 reducing the terminal growth rate by 2% and in all cases sufficient headroom exists.

The Group evaluated generic Advair Diskus® as a separate CGU, mainly due to its distinct assets and liabilities and its ability to generate largely independent cash flows. The generic Advair Diskus® VIU was calculated using a probability weighted average of three scenarios.

In December 2020, the Group received FDA approval of generic Advair Diskus®. Launch has been temporarily paused while the FDA reviews an amendment to the application, classified as a Prior Approval Supplement (PAS). The PAS does not affect the status of the Abbreviated New Drug Application (ANDA) for generic Advair Diskus® The amendment reflects enhanced packaging controls to meet new industry standards adopted since the initial submission of the ANDA application.

As of 31 December 2020, the Group performed sensitivity analysis over the valuation of the generic Advair Diskus® CGU. The sensitivity analysis assumed a further delay of three months to the projected launch date and a 15% reduction in the projected cash flows from lower conversion rates from the branded product and earlier competitor entries, which assumptions eroded the $26m of headroom. A further reduction of the cash flows by an additional 10% would imply an impairment of about $10m. As per the Group's policy, whilst approval has been obtained, generic Advair Diskus® has not been launched, meaning that none of the previously identified indicators of impairment have reversed.

As at 31 December 2020, the Group had entered into contractual commitments for the acquisition of intangible assets of $nil million (2019: $5 million).

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

16. Goodwill and other intangible assets continued

Product-related intangible assets

In-Process Research and Development (IPR&D)
IPR&D consists of pipeline products of $170 million (2019: $182 million) mainly relating to generic Advair Diskus® of $138 million and Generics of $25 million CGUs with immaterial amounts allocated to the Branded and Injectables CGUs. These intangibles are not in use and accordingly, no amortisation has been charged against them. The Group performs an impairment review of IPR&D assets annually. The result of this test was an impairment charge of $4 million (2019: $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, the Group records an impairment loss for the excess of book value over the valuation which is based on the discounted cash flows by applying an appropriate pre-tax WACC rate that reflects the risk factors associated with the cash flows and the CGUs under which these products sit. 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. Furthermore, if there is an indication that previously recognised impairment losses no longer exist or have decreased, the Group estimates the assets' recoverable amounts. A previously recognised impairment loss is reversed only if there has been a sustained and discrete change in the assumptions and indicators 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 and amortisation, had no impairment loss been recognised for the asset in prior years. As at 31 December 2020, the result of this testing was an impairment charge of $1 million (2019: $nil) and an impairment reversal of $66 million (2019: $21 million) related to specific product related assets (Generics segment) due to improved performance and forecasted profitability, as a result of events including, but not limited to, improved commercial terms, favorable market conditions and the speed of regulatory approvals.

A net reversal of $62 million was considered as an exceptional item related to product related intangibles acquired through a business combination (Note 6 and 9).

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 2020, the Group recorded an impairment charge of $10 million related to software (2019: $1 million).

Other identified intangibles

The Group has performed an impairment indicators on other identified intangibles and did not identify any issues.

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.

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 2019	**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 1 January 2020	**597**	**685**	**125**	**233**	**1,640**
Additions	6	20	8	136	170
Disposals	(4)	(34)	(7)	–	(45)
Transfers	28	83	3	(114)	–
Translation adjustment	9	7	1	–	17
Balance at 31 December 2020	**636**	**761**	**130**	**255**	**1,782**
Accumulated depreciation & impairment					
Balance at 1 January 2019	**(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 1 January 2020	**(199)**	**(420)**	**(96)**	**(13)**	**(728)**
Charge for the year	(18)	(36)	(17)	–	(71)
Disposals	4	32	7	–	43
Impairment	(2)	(4)	–	–	(6)
Translation adjustment	(4)	(6)	(1)	–	(11)
Balance at 31 December 2020	**(219)**	**(434)**	**(107)**	**(13)**	**(773)**
Carrying amount					
At 31 December 2020	**417**	**327**	**23**	**242**	**1,009**
At 31 December 2019	398	265	29	220	912

Land is not subject to depreciation.

As at 31 December 2020, the Group had pledged property, plant and equipment with a carrying value of $9 million (2019: $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 (2019: Tunisia).

Depreciation of $57 million (2019: $48 million) is included in the cost of sales, $10 million (2019: $12 million) in selling general and administrative expenses and $4 million (2019: $4 million) in research and development expenses.

As at 31 December 2020, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $60 million (2019: $21 million).

As at 31 December 2020, the Group booked an impairment charge of $6 million (2019: $nil), impairment charge of $3 million was considered as exceptional item related to property, plant and equipment write off (Note 6 and 9).

18. Investments in joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) was 49% at 31 December 2020 (31 December 2019: 49%) with an investment balance of $9 million at 31 December 2020 (31 December 2019: $9 million). The Group's share of the results of Hubei Haosun Pharmaceutical Co Ltd is $nil (2019: $nil).

In 2017, Hikma and MIDROC Group agreed not to proceed with the HikmaCure Limited 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. In 2020, the liquidation process progressed and the loans were settled against the initial investment amounts, liquidation is expected to be finalised in 2021.

Total investment in joint ventures including Hubei Haosun Pharmaceuticals Co Ltd and HikmaCure adds up to $9 million (2019: $11 million).

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Joint ventures $m	**Total $m**	Joint ventures $m	Total $m
Balance at 1 January	**11**	**11**	11	11
Liquidation of HikmaCure	**(2)**	**(2)**	–	–
Balance at 31 December	**9**	**9**	11	11

Summarised financial information in respect of the Group's interests in Hubei Haosun Pharmaceuticals Co Ltd is set out below:

	As at 31 December 2020 $m	As at 31 December 2019 $m
Total assets	**19**	17
Total liabilities	**(2)**	(2)
Net assets	**17**	15
Group's share of net assets of joint ventures	**8**	7

	For the year ended 31 December 2020 $m	For the year ended 31 December 2019 $m
Total revenue	**6**	5
Net profit	**1**	1
Group's share of profit of joint ventures	**–**	–

19. Financial and other non-current assets

	As at 31 December 2020 $m	2019 $m
Investments at FVTOCI	25	18
Other non-current assets	14	14
	39	32

Investments at FVTOCI include investments in 11 venture-backed start-up companies through the Group's venture capital arm, Hikma International Ventures and Developments LLC and Hikma Ventures Limited. During 2020, the venture arm invested $3 million in a new company, and increased investment in existing ventures by $2 million. These investments are unlisted shares without readily determinable fair values that fall under level 3 valuation (Note 30), its value is measured at cost minus any impairment, and adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Other non-current assets mainly represent long term receivables and a sublease arrangement in US. In 2019 the amount mainly represented inventory that was expected not to be sold within one year.

20. Inventories

	As at 31 December 2020 $m	2019 $m
Finished goods	283	224
Work-in-progress	95	94
Raw and packing materials	394	279
Goods in transit	44	27
Spare parts	33	29
Provision against Inventory[1]	(92)	(85)
	757	568

Inventories are stated net of provisions as follows:

	As at 1 January $m	Additions $m	Utilisation $m	As at 31 December $m
Provisions against inventory in 2020	85	57	(50)	92
Provisions against inventory in 2019	72	60	(47)	85

1. The cost of inventory related provisions recognised as an expense in the cost of sales in the consolidated income statement was $57 million (2019: $60 million)

21. Trade and other receivables

	As at 31 December 2020 $m	2019 $m
Trade receivables	662	637
Prepayments	58	49
VAT and sales tax recoverable	35	31
Employee advances	1	2
	756	719

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

Trade receivables are stated net of provisions for chargebacks and expected credit loss allowance as follows:

	As at 31 December 2019 $m	Additions/ (Releases), net $m	Utilisation $m	Translation adjustments $m	As at 31 December 2020 $m
Chargebacks and other allowances	280	1,865	(1,889)	–	256
Expected credit loss allowance[1]	55	2	(1)	(1)	55
	335	1,867	(1,890)	(1)	311

1. Includes additions of $5 million and release of $2 million

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

At 31 December 2020, the provision balance relating to chargebacks was $184 million (2019: $179 million) within what management believes is a reasonable range for the provision of $181 million to $185 million. The key inputs and assumptions included in calculating this provision are estimations of 'in channel' inventory at the wholesalers (including processing lag) of 40 days (2019: 38 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 $5million and if the overall chargeback rate of 55% increases/decreases by one percentage point the provision would increase/ decrease by $3 million.

At 31 December 2020 the provision balance relating to customer rebates was $57 million (2019: $88 million) within what management believes is a reasonable range for the provision of $55 million to $57 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 the rebates rate of 7.8% would increase/decrease this provision by approximately $7 million.

22. Collateralised and restricted cash

Collateralised and restricted cash amounted to $4 million (2019: $1 million) and mainly represent investment related amounts held in an escrow account in relation to the US business (2019: 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 2020 $m	2019 $m
Cash at banks and on hand	85	94
Time deposits	203	309
Money market deposits	35	39
	323	442

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 2020 $m	2019 $m
Investment at FVTPL	24	23
Others	22	16
	46	39

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.

Others balance at 31 December 2020, mainly represent insurance compensation receivable of $10 million (Note 6) and revenue contract asset of $3 million.

25. Short-term financial debt

	As at 31 December 2020 $m	2019 $m
Bank overdrafts	3	6
Import and export financing	67	52
Short-term loans	47	2
Current portion of long-term loans (Note 29)[1]	41	509
	158	569

1 At April 2020, the Group settled a $500 million five-year Eurobond that was issued in 2015. The Group used the revolving credit facility (refer to Note 29) to settle the outstanding Eurobond

	2020 %	2019 %
The weighted average effective interest rates incurred are as follows:		
Bank overdrafts	4.25	5.35
Bank loans (including the non-current bank loans)	3.04	5.82
Eurobond[2]	4.17	4.25
Import and export financing[3]	5.70	6.17

2. In 2020, the Eurobond effective interest comprised the 4.25% 2015 $500 million Eurobond settled in April 2020, and the 3.25% $500 million Eurobond issued in July. Noting that the Eurobond effective interest rate includes unwinding of discount amount and upfront fees
3. 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 2020 $m	2019 $m
Trade payables	279	286
Accrued expenses	175	173
Other payables	16	14
	470	473

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

27. Other provisions

Other provisions represent the end of service indemnity provisions for employees of certain Hikma Group subsidiaries including some defined benefit plans. This provision is calculated based on relevant laws in the countries where each Group company operates, in addition to their own policies. For defined benefit plans changes in net liability due to actuarial valuations and changes in assumptions resulted in remeasurement loss of $1 million (2019: $nil).

Movements on the provision for end of service indemnity:

	2020 $m	2019 $m
1 January	23	23
Additions	10	6
Remeasurement of post-employment benefit obligations	1	–
Utilisation	(6)	(6)
At 31 December	28	23

28. Other current liabilities

	As at 31 December 2020 $m	2019 $m
Contract liabilities	162	142
Co-development and earnout payment (Note 30 and 31)	2	1
Supply manufacturing agreement	–	5
Acquired contingent liability (Note 31)	18	15
Contingent consideration (Note 30 and 31)	13	63
Indirect rebate and other allowances	74	61
Others	21	28
	290	315

Contract liabilities: 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 2020, the provision balance relating to returns was $154 million (2019: $116 million) within what management believes is a reasonable range for the provision of $153 million to $156 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 1.47% (2019: 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 and allowances rate would increase/decrease this provision by approximately $8 million.

	As at 31 December 2019 $m	Additions $m	Utilisation $m	As at 31 December 2020 $m
Contract liabilities	142	127	(107)	162

Supply manufacturing agreement: the balance held in 2019 is related to the acquisition of the Columbus business, the Group entered into supply and manufacturing contracts with the seller, Boehringer Ingelheim.

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 2020, provision balance relating to the indirect rebates was $55 million (2019: $42 million) within what management believes is a reasonable range for the provision of $53 million to $56 million. Included within this balance are provisions for non-customer rebates of $14 million and government rebates of $31 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 2.7% would increase/decrease this provision by approximately $20 million.

29. Long-term financial debt

	As at 31 December 2020 $m	2019 $m
Long-term loans	242	57
Long-term borrowings (Eurobond)	491	500
Less: current portion of long-term loans (Note 25)	(41)	(509)
Long-term financial loans	692	48
Breakdown by maturity:		
Within one year	41	509
In the second year	48	12
In the third year	44	12
In the fourth year	36	15
In the fifth year	522	6
In the sixth year	21	2
Thereafter	21	1
	733	557
Breakdown by currency:		
US dollar	642	508
Euro	54	16
Jordanian dinar	13	12
Algerian dinar	14	20
Saudi riyal	9	-
Tunisian dinar	1	1
	733	557

The loans are held at amortised cost.

Long-term loans amounting to $1 million (31 December 2019: $1 million) are secured on certain property, plant and equipment.

Major arrangements entered by the Group during the year were:

a) A syndicated revolving credit facility of $1,175 million was entered into on 27 October 2015. From the $1,175 million, $175 million matured on 24 December 2019, $130 million mature in January 2021 and the remaining $870 million was renewed until December 2023. At 31 December 2020 the facility has an outstanding balance of $nil (2019: $nil) and a $1,000 million unused available limit (2019: $1,000 million). The facility can be used for general corporate purposes

b) A ten-year $150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was full utilisation of the loan since April 2020. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan was used for general corporate purposes. The facility matures on 15 December 2027

c) At April 2020, the Group settled a $500 million five-year Eurobond that was issued in 2015

d) Hikma issued a $500 million (carrying value of $491 million, and fair value of $521 million) 3.25%, five-year Eurobond on 9 July 2020 with a rating of (BBB-/Ba1) which is due in July 2025. The proceeds of the issuance were $494 million which were used for general corporate purposes

e) An eight-year $200 million loan from the International Finance Corporation and Managed Co-lending Portfolio program was entered into on 26 October 2020. There was no utilisation of the loan as of December 2020. The facility matures on 15 September 2028 and can be used for general corporate purposes

At 31 December 2020, there were two covenants in place on the Group's revolving and banking facilities with which the Group was in compliance. The Group also expects to be in compliance in the future.

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 expected credit loss, 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 2020, the Group's largest two customers in the MENA region represented 6.2% of Group revenue, 4.1% from one customer in Saudi Arabia, and 2.1% from another customer in Saudi Arabia. At 31 December 2020, the amount of receivables due from all customers based in Saudi Arabia was $78 million (2019: $70 million).

During the year ended 31 December 2020, three key US wholesalers represented 35% of Group revenue (2019: 37%). The amount of receivables due from all US customers at 31 December 2020 was $285 million (2019: $280 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.

Trade receivables aged over one year increased compared to 31 December 2019, this reflects increased trade receivables due from governments and public sectors which carry lower credit risk.

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

		Past due				
At 31 December 2020	**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**
Expected credit loss rate	0%	4%	6%	13%	58%	6%
Total trade receivables as at 31 December 2020	780	75	17	16	85	973
Related allowance for expected credit loss	–	(3)	(1)	(2)	(49)	(55)
Chargebacks and other allowances	(256)	–	–	–	–	(256)
Net receivables	524	72	16	14	36	662

		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
Expected credit loss rate	0%	0%	0%	14%	70%	6%
Total trade receivables as at 31 December 2019	788	71	12	28	73	972
Related allowance for expected credit loss	–	–	–	(4)	(51)	(55)
Chargebacks and other allowances	(280)	–	–	–	–	(280)
Net receivables	508	71	12	24	22	637

30. Financial policies for risk management and their objectives continued

Market risk
The Group is exposed to foreign exchange and interest rate risks. 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 debt which includes long and short-term financial debts (Note 25 and 29), lease liabilities (Note 34), net of cash and cash equivalents (Note 23) and collateralised and restricted cash (Note 22). Group net debt excludes co-development and earnout payments, acquired contingent liabilities and contingent consideration (Notes 28 and 31).

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 2020, the Group's gearing ratio (total debt/equity) was 43% (2019: 32%). The increase in the Group's gearing ratio is due to the share buyback which resulted in a reduction in equity and an increase in borrowing in order to finance the share buyback (Note 32).

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.

Lebanon and Sudan were considered to be hyperinflationary economies in the year ended 31 December 2020. When translating their results of operations into US dollars, assets, liabilities, income statement and equity accounts are translated at the rate prevailing on the balance sheet date. For the Lebanese pound, the rate at 31 December 2020 was 1,507.5 Lebanese pound per US dollar. For Sudanese pound, the official exchange rate as at 31 December 2020 was 55.275 Sudanese pound per US dollar, however due to lack of exchangeability of foreign currencies in Sudan during 2020 the Group has determined the rate of 120.0 instead of the official rate for translating Sudanese operations, being the rate to which the Group had access to settle certain transactions at the end of the reporting period through the legal exchange mechanism with the Sudanese government.

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	
	2020	2019	**2020**	2019
US dollar /Euro	**0.8239**	0.8915	**0.8760**	0.8936
US dollar /Sudanese pound[1]	**120.000**	45.2284	**–[1]**	–[1]
US dollar /Algerian dinar	**132.2116**	119.1468	**126.7988**	119.3798
US dollar /Saudi riyal	**3.7495**	3.7495	**3.7495**	3.7495
US dollar /Pound sterling	**0.7313**	0.7551	**0.7792**	0.7833
US dollar /Jordanian dinar	**0.7090**	0.7090	**0.7090**	0.7090
US dollar /Egyptian pound	**15.6643**	15.9770	**15.7452**	16.7280
US dollar /Japanese yen	**103.200**	109.0193	**106.770**	108.6500
US dollar /Moroccan dirham	**8.9048**	9.5932	**9.5017**	9.6176
US dollar /Tunisian dinar	**2.7047**	2.7988	**2.8124**	2.9360
US dollar /Lebanese pound	**1,507.5000**	1,507.5000	**–[2]**	1,507.5000

1. In both years, Sudan has been a hyperinflationary economy and Sudanese operations were translated using period end rate
2. In 2020, Lebanon has been a hyperinflationary economy and Lebanese operations were translated using period end rate

2020	**Net foreign currency financial assets/(liabilities)**			
	US dollar $m	**Euro $m**	**Japanese yen $m**	**Others[1] $m**
Functional currency of entity:				
– Jordanian dinar	279	12	(6)	7
– Euro	32	–	–	–
– Algerian dinar	(5)	–	–	–
– Saudi riyal	7	(5)	–	–
– Sudanese pound	(26)	–	–	–
– Egyptian pound	(14)	–	–	–
– Tunisian dinar	1	1	–	2
– Moroccan dirham	(4)	(5)	–	–
– Lebanese pound	(4)	(1)	–	3
– US dollar	–	3	–	2
	266	5	(6)	14

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

2019	Net foreign currency financial assets/(liabilities)			
	US dollar $m	Euro $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

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 $28 million translational 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 2020			As at 31 December 2019		
	Fixed rate $m	Floating rate $m	Total $m	Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	**704**	**146**	**850**	513	104	617
Lease liabilities	**82**	**–**	**82**	68	–	68
Financial assets						
Cash and cash equivalents	**–**	**238**	**238**	–	348	348

An interest rate sensitivity analysis assumes an instantaneous 1% change in interest rates in all currencies from their levels at 31 December 2020, with all other variables held constant. Based on the composition of the Group's net debt portfolio as at 31 December 2020, a 1% increase/decrease in interest rates would result in $1 million decrease/increase in net finance cost per year (2019: $2 million increase/decrease).

As at 31 December 2020, approximately 5% ($47 million) of the Group's utilised debt portfolio as well as $1,314million of the Group's unutilised debt facilities, have USD LIBOR as the benchmark interest rate. the unutilised debt facilities relates to the Group's syndicated revolving credit facility of $1,000 million. The Group has no outstanding interest rate hedges. The replacement of benchmark interest rates such as LIBOR and other interbank offered rates (IBORs) is a priority for global regulators and is expected to be largely completed in 2021. Further amendments (Phase 2) were issued on 27 August 2020 and the Group will apply these in 2021. We are currently in the process of fully identifying the Group's USD LIBOR exposure, and we are following the market developments surrounding LIBOR's replacement.

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 mainly to the $500 million (carrying value of $491 million, and fair value of $521 million) Eurobond accounted through amortised cost. The fair value is determined with reference to a quoted price in an active market as at the balance sheet date (Note 29). For the remaining fixed loans exposures, fair value is estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans
- Receivables and payables – the fair values of receivables and payables are estimated to be not significantly different from the respective carrying amounts

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 $24 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 and 31)
- Contingent consideration liability resulting from the acquisition of the Columbus business (Notes 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 year ended 31 December 2020 and the year ended 31 December 2019:

	Financial assets $m	Financial liabilities $m
1 January 2019	49	214
Received/settled, net	(40)	(1)
Remeasurement through income statement	7	(35)
Additions	4	–
Fair value adjustments recognised in equity	(2)	–
Balance at 31 December 2019 and 1 January 2020	**18**	**178**
Settled	**–**	**(61)**
Remeasurement through income statement	**–**	**(23)**
Additions	**5**	**–**
Fair value adjustments recognised in equity	**2**	**–**
Balance at 31 December 2020	**25**	**94**

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

The critical areas of judgement and estimates in relation to the contingent consideration are the probabilities assigned to reaching the success-based milestones and management's estimate of future sales (Note 28 and 31).

If the future sales were 5% higher or lower, the fair value of the contingent consideration will increase/decrease by $4 million (Note 28 and 31).

If the probability assigned to reaching the success-based milestones were 5% higher or lower, the fair value of the contingent consideration will increase/decrease by $1 million (Note 28 and 31).

Liquidity risk

2020	Less than one year $m	One to five years $m	More than five years $m	Total $m
Cash and cash equivalents	**323**	**–**	**–**	**323**
Trade receivables	**662**	**–**	**–**	**662**
Interest-bearing long term loans and borrowings[1]	**(64)**	**(728)**	**(42)**	**(834)**
Interest-bearing short term loans and borrowings[1]	**(47)**	**–**	**–**	**(47)**
Interest-bearing overdrafts[1]	**(2)**	**–**	**–**	**(2)**
Interest-bearing import and export loans[1]	**(69)**	**–**	**–**	**(69)**
Interest bearing finance lease[1]	**(10)**	**(49)**	**(49)**	**(108)**
Trade payables and accruals	**(454)**	**–**	**–**	**(454)**
	339	**(777)**	**(91)**	**(529)**

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 long term loans and borrowings[1]	(522)	(48)	(3)	(573)
Interest-bearing short term loans and borrowings[1]	(2)	–	–	(2)
Interest-bearing overdrafts[1]	(2)	–	–	(2)
Interest-bearing import and export loans[1]	(57)	–	–	(57)
Interest bearing finance lease[1]	(9)	(52)	(26)	(87)
Trade payables and accruals	(459)	–	–	(459)
	28	(100)	(29)	(101)

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 2020, the Group had undrawn facilities of $1,549 million (2019: $1,544 million). Of these facilities, $1,286 million (2019: $1,230 million) were committed and the remainder were uncommitted.

31. Other non-current liabilities

	As at 31 December	
	2020 $m	2019 $m
Contingent consideration (Note 28 and 30)	**76**	111
Acquired contingent liability (Note 28)	**80**	83
Co-development and earnout payment (Note 28 and 30)	**3**	3
Others	**5**	6
	164	203

Contingent consideration and acquired 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 the Columbus business acquisition. In 2020, $15 million (2019: $78 million) of this balance was reclassified to other current liabilities (See Note 30 for sensitivity analysis).

32. Share capital

Issued and fully paid – included in shareholders' equity:

	2020		2019	
	Number	**$m**	Number	$m
At 31 December	**243,332,180**	**41**	242,319,174	41

At 31 December 2020, of the issued share capital, 12,833,233 are held as Treasury shares, 40,831 shares are held in the Employee Benefit Trust (EBT) and 230,458,116 shares are in free issue.

Own Shares

Treasury Shares

On 23 June 2020, Hikma bought back 12,833,233 of its own shares previously held by Boehringer Ingelheim GmbH (BI) for £23.00/share ($28.76/share). These shares are held as 'treasury shares'. The voting rights attached to the treasury shares are not capable of exercise. Hikma also received a commitment fee of 2% of the aggregate value of the buyback shares acquired at the buyback price from BI. Hikma paid £295 million ($369 million) for the share buyback and received £5.9 million ($7.3 million) from BI for the commitment fees. Hikma also incurred $6 million of transaction costs related to legal fees, financial advisory fees and UK stamp duty bringing the total book value to $368 million, the market value at 31 December 2020 was $442 million. The buyback and related transaction costs and commitment fee were accounted for as equity transactions.

Shares held in EBT

EBT of Hikma holds 40,831 (2019: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Apex Financial Services (Trust Company) Limited an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2020 was $1 million (2019: $1 million). The book value of the retained own shares at 31 December 2020 are $0.6 million (2019: $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.

33. Non-controlling interests

	2020 $m	2019 $m
At 1 January	**12**	12
Share of (losses)/profits	**(1)**	1
Dividends paid	**(1)**	(2)
Currency translation gain	**3**	1
At 31 December	**13**	12

34. Leases

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

	Buildings $m	Vehicles $m	Machinery and Equipment $m	Total $m
As at 1 January 2019	50	3	2	55
Additions/Adjustments	(1)	5	–	4
Depreciation expense	(6)	(2)	(1)	(9)
As at 31 December 2019 and 1 January 2020	43	6	1	50
Additions	**19**	**6**	**–**	**25**
Sub-lease reclassification to financial and other non-current assets (Note 19)	**(4)**	**–**	**–**	**(4)**
Impairment charge	**(1)**	**–**	**–**	**(1)**
Depreciation expense	**(7)**	**(4)**	**–**	**(11)**
As at 31 December 2020	**50**	**8**	**1**	**59**

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

	2020 $m	2019 $m
As at 1 January	**68**	72
Additions	**24**	4
Accretion of interest	**4**	4
Payments	**(14)**	(12)
As at 31 December	**82**	68
Current	**10**	9
Non-current	**72**	59

The maturity analysis of lease liabilities:

Breakdown by maturity:	**2020 $m**	2019 $m
Within one year	**10**	9
In the second year	**6**	8
In the third year	**6**	6
In the fourth year	**24**	5
In the fifth year	**4**	23
In the sixth year	**2**	3
Thereafter	**30**	14
	82	68

At 31 December 2020, lease liabilities included optional extension periods amounting to $13 million (2019: $8 million).

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34. Leases continued

The following are the amounts recognised in the consolidated income statement:

	2020 $m	2019 $m
Depreciation expense of right-of-use assets	(11)	(9)
Impairment charge on right-of-use assets	(1)	–
Interest expense on lease liabilities	(4)	(4)
Expense relating to short-term leases	(1)	(1)
Total amount recognised in the consolidated income statement	**(17)**	(14)

35. Net cash generated from operating activities

	2020 $m	2019 $m
Profit before tax	**558**	491
Adjustments for:		
Depreciation, amortisation, impairment, and write-down of:		
Property, plant and equipment	77	64
Intangible assets	2	26
Right of Use of Assets	12	9
Gain from investment at FVTPL	(1)	(2)
Loss from investment divestiture	–	4
Loss on disposal/damage of property, plant and equipment	2	3
Movement on provisions	4	–
Cost of equity-settled employee share scheme	27	24
Finance income	(47)	(66)
Interest and bank charges	69	67
Foreign exchange loss and net monetary hyperinflation impact	30	4
Cash flow before working capital	**733**	624
Change in trade and other receivables	(47)	21
Change in other current assets	(14)	(2)
Change in inventories	(180)	(25)
Change in trade and other payables	6	(6)
Change in other current liabilities	41	50
Change in other non-current liabilities	(14)	(82)
Cash generated from operations	**525**	580

36. Contingent liabilities

Guarantees and letters of credit

A contingent liability existed at the balance sheet date in respect of external guarantees and letters of credit totalling $41 million (31 December 2019: $40 million) arising in the normal course of business. No provision for these liabilities has been made in these consolidated financial statements.

A contingent liability existed at the balance sheet date for a standby letter of credit totalling $8 million (2019: $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.

Legal proceedings

The Group is involved in a number of legal proceedings in the ordinary course of its business, including actual or threatened litigation and actual or potential government investigations relating to employment matters, product liability, commercial disputes, pricing, sales and marketing practices, infringement of IP rights, the validity of certain patents and competition laws.

Most of the claims involve highly complex issues. Often these issues are subject to substantial uncertainties and, therefore, the probability of a loss, if any, being sustained and/or an estimate of the amount of any loss is difficult to ascertain. 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. Unless specifically identified below that a provision has been taken, the Group does not believe sufficient evidence exists at this point to make any provision.

- 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. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- 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 products). 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 state laws. Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defense of these cases. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- Starting in June 2020, several complaints have been filed in the United States on behalf of putative classes of direct and indirect purchasers of Xyrem® against Hikma and other defendants. These complaints allege that the Jazz Pharmaceuticals PLC and its subsidiaries entered into unlawful reverse payment agreements with each of the defendants, including Hikma, in settling patent infringement litigation over Xyrem®. The plaintiffs in these lawsuits seek treble damages and a permanent injunction. Hikma denies having engaged in conduct that would give rise to liability with respect to these lawsuits and is vigorously pursuing defence of these cases. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- Numerous complaints have been filed with respect to Hikma's sales and distribution of opioid products. Those complaints now total approximately 661 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 defense of these cases. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- In October 2020, Hikma received a voluntary request for information from the US Federal Trade Commission requesting information related to its investigation into whether Amarin Pharma, Inc. has engaged in, or is engaging in, anticompetitive practices or unfair methods of competition relating to the drug Vascepa®. In October 2020, Hikma also received a subpoena duces tecum from the State of New York, Office of the Attorney General, seeking information relevant and material to an investigation related to Amarin Pharma, Inc. Hikma is cooperating with all such demands.
- In March 2020, Hikma entered into an agreement settling a patent litigation between it and Micro Labs USA Inc. Hikma initiated the lawsuit against Micro Labs in the U.S. District Court for the District of Delaware after Micro Labs submitted a Paragraph IV Notice Letter advising that it has submitted an Abbreviated New Drug Application to the U.S. Food and Drug Administration seeking authorization from the FDA to manufacture, use or sell a generic version of Mitigare® colchicine 0.6 mg capsules in the United States. The specific terms of the settlement agreement are confidential.

Tax

On 25 April 2019, 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 $2.4 million. Hikma has also filed it's own appeal at the CJEU and is in correspondence with HMRC. To data, based on management's understanding of legislation and professional advice taken on the matter, management does not believe that a provision is warranted.

37. Share-based payments

Executive incentive plan

The 2014 Executive Incentive Plan (EIP) was approved by shareholders at the 2014 Annual General Meeting. The EIP is a combined cash bonus (element A), deferred shares (element B) and restricted shares (element C) scheme. Under the EIP, the Company makes grants of conditional awards 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 2020	**2020 grants 27 Feb**	**2020 grants 27 Feb**	**2019 grants 17 May**	**2019 grants 12 March**	**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	–	–	246,076	280,529	313,288	–	503,460	196,918	18,171	51,350	24,024	1,633,816
Granted during the year	184,355	561,994	–	–	–	–	–	–	–	–	–	746,349
Exercised during the year	–	(11,249)	(29,242)	–	–	–	(362,976)	(146,811)	(5,000)	–	(12,012)	(567,290)
Outstanding at 31 December	**184,355**	**550,745**	**216,834**	**280,529**	**313,288**	**–**	**140,484**	**50,107**	**13,171**	**51,350**	**12,012**	**1,812,875**
Exercisable at 31 December	–	–	–	–	–	–	26,982	50,107	13,171	51,350	12,012	153,622
Weighted average remaining contractual life (years)	2.16	1.16	0.38	1.19	0.19	–	7.38	6.36	5.36	5.21	4.28	1.80

Year 2019	2019 grants 17 May	2019 grants 12 March	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	280,529	313,288	–	–	–	–	–	–	839,893
Exercised during the year	–	–	–	(28,818)	(50,281)	(351,128)	(11,944)	(161,053)	–	(603,224)
Outstanding at 31 December	246,076	280,529	313,288	–	503,460	196,918	18,171	51,350	24,024	1,633,816
Exercisable at 31 December	–	–	–	–	–	36,630	18,171	51,350	24,024	130,175
Weighted average remaining contractual life (years)	1.38	2.20	1.20	–	8.38	7.36	6.36	6.21	5.28	4.63

37. Share-based payments continued

The cost of the EIP of $18 million (2019: $15 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 the vesting period. Valuation is based on Black-Scholes methodology for nil-cost options.

The weighted average share price for 2020 is $30.24 (2019: $23.24).

	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
EIP10 B	27/02/2020	561,994	24.10	24.91051
EIP10 C	27/02/2020	184,355	23.703	24.91051

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. 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.

Details of the grants under the plan are shown below:

Year 2020	**2020 grants 27 Feb Number**	**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	–	408,243	400,870	36,990	8,254	8,854	5,890	3,013	872,114
Granted during the year	381,546	–	–	–	–	–	–	–	381,546
Exercised during the year	(776)	(6,832)	(376,560)	–	–	–	–	–	(384,168)
Expired during the year	(2,857)	(7,148)	(6,865)	–	–	–	–	–	(16,870)
Outstanding at 31 December	377,913	394,263	17,445	36,990	8,254	8,854	5,890	3,013	852,622
Weighted average remaining contractual life (years)	1.16	0.38	7.38	6.38	5.36	4.37	3.45	2.38	1.24

37. Share-based payments continued

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	(4,189)	(22,666)	(200,631)	–	(1,709)	(2,259)	(1,774)	(233,228)
Expired during the year	(23,675)	(12,826)	(845)	–	–	–	–	(37,346)
Outstanding at 31 December	408,243	400,870	36,990	8,254	8,854	5,890	3,013	872,114
Weighted average remaining contractual life (years)	1.38	8.38	7.39	6.36	5.37	4.45	3.38	4.97

The cost of the MIP of $9 million (2019: $9 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 the vesting period. Valuation is based on Black-Scholes methodology for nil-cost options.

The weighted average share price for 2020 is $30.24 (2019: $23.24).

	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
MIP 12	27/02/2020	381,546	24.10	24.91	1.67

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.

37. Share-based payments continued

Details of the grants under the plan are shown below:

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

All long-term incentive plans have ten years' contractual life and vest after three years. The estimated fair value of each share option granted in the LTIP was calculated by applying the Monte Carlo simulation methodology. For awards made from 2011, 50% of the award is subject to a TSR performance condition which was valued by applying the Monte Carlo simulation methodology, the remaining 50% of the award is subject to financial metrics which are valued by applying the Black-Scholes model. For further details, see the Remuneration Committee report.

The exercise price of the share award is $nil.

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

Year 2020	**2014 grants 11 June Number**	**2013 grants 17 May Number**	**2012 grant 16 March Number**	**Total Number**
Outstanding at 1 January	14,220	21,275	–	35,495
Exercised during the year	(11,774)	(18,424)	–	(30,198)
Expired during the year	(2,446)	(2,851)	–	(5,297)
Outstanding at 31 December	**–**	**–**	**–**	**–**

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

No costs for LTIPs were recognised in the consolidated income statement (2019: $nil credited to profit and loss).

The weighted average share price for 2020 is $30.24 (2019: $23.24).

38. 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 joint ventures and other related parties are disclosed below.

Trading transactions:

During the year ended 31 December 2020, the Group entered into the following transactions with related parties:

Boehringer Ingelheim GmbH (BI): was previously a related party of Hikma as until 22 June 2020 it owned 16.5% of the share capital of Hikma, controlled 11.8% of the voting capital of Hikma and had the right to appoint an independent Director of Hikma. The independent Director appointed by BI was also a senior executive of BI.

On 22 June 2020, BI announced its intention to exit in full its investment in Hikma. BI sold all of its stake (40 million ordinary shares) in Hikma, Hikma bought back 12.8 million shares on 23 June 2020 and holds them in treasury (Note 32). As of 31 December 2020, BI did not hold any shares in Hikma.

On 25 June 2020, following the BI divestiture, the independent Director appointed by BI on Hikma's board resigned with immediate effect in accordance with the shareholder agreement between Hikma and BI.

The Group total sales to BI during the year amounted to $62.2 million (2019: $64.7 million) and the Group total purchases from BI during the year amounted to $1 million (2019: $1 million). As at the year end, the amount owed from BI to the Group was $12 million (2019: $7.3 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.

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 24.66% (2019: 24.76%) of the share capital and 26.03% (2019: 24.76%) 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). 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. In 2020, the liquidation process progressed and the loans were settled against the initial investment amounts, liquidation is expected to be finalised in 2021.

HMS Holdings SAL (HMS): is a related party of Hikma because HMS is owned by the family of two Directors of Hikma and HMS held 1,350,000 Ordinary Shares (0.55% of the share capital and 0.59% of the voting capital) in Hikma until 13 May 2020 when it disposed of the entire holding. Other than the final dividend for 2019 (as paid to all eligible shareholders on 7 May 2020), 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% in the joint venture (JV) with Haosun (2019: 49%). During 2020, total purchases from Haosun were $1 million (2019: $3 million). At 31 December 2020, the amount owed from Haosun to the Group amounted to $nil (2019: $0.2 million) and the amount owed from the Group to Haosun amounted to $0.1 million (2019: $nil).

Labatec Pharma (Labatec): is a related party of the Group because Labatec is owned by the family of two Directors of Hikma. During 2020, total Group sales to Labatec amounted to $3 million (2019: $2 million), and total Group purchases amounted to $0.6 million (2019: $0.3 million). As at the year end, the amount owed by Labatec to the Group was $0.7 million (2019: $0.4 million).

Al Tibbi; is a related party of the Group because its jointly controlled by a direct relation to a senior executive member of the Group and Dash Ventures, in which two Directors of the Group have a controlling interest, During 2020, the Group requested that Al Tibbi provide patient referral services in response to COVID measures in Jordan. Total transactions with Al Tibbi was $0.4 million (2019: $nil) and the amount owed by the Group to Al Tibbi was $0.2 million (2019: $nil).

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 Governance 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 83 to 104.

	2020 $m	2019 $m
Short-term employee benefits	**19.9**	16.3
Share-based payments	**11.1**	9.5
Post-employment benefits	**0.3**	0.2
Other benefits	**0.7**	0 .8
	32.0	26.8

39. Subsidiaries and joint ventures

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

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* **Ownership% Ordinary shares At 31 December 2020**	Ownership% Ordinary shares At 31 December 2019
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%	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%
Hikma Importation Co. LLC	Egypt	16 Ahmed Hosny Street, First Zone, Naser City, Cairo, Egypt	100%	100%
Hikmacure Pharmaceuticals Share Company	Ethiopia	Addis Ababa, Bole Sub City, Kebele 16, Woreda, Ethiopia	–	50%
Hikma Pharma GmbH	Germany	Lochhamer Strasse 13, 82152, Martinsried, Germany	100%	100%
Thymoorgan Pharmazie GmbH	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Germany	100%	100%
Hikma Finance (Ireland) Limited	Ireland	2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland	100%	100%
Hikma Italia S.p.A	Italy	Viale Certosa 10, 27100, Pavia, Italy	100%	100%
Hikma Pharma Limited* [1]	Jersey	47 Esplanade, St Helier, JE1 0BD, Jersey	100%	100%
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.

39. Subsidiaries and joint venture continued

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* Ownership% Ordinary shares At 31 December 2020	Ownership% Ordinary shares At 31 December 2019
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 Pharmaceuticals Co. Ltd., Almaty (Kazakhtan) Representative Office	Kazakhstan	Apt. 1, House 7, Building-28, "Keremet" Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%
Al Jazeera Pharmaceutical Industries Ltd	KSA	P.O. Box 106229 11666 Riyadh, Saudi Arabia	100%	100%
Hikma Liban S.A.R.L.	Lebanon	Saria Building, Ground Floor, Embassies Street, Bir Hassan, Beirut, Lebanon	67%	67%
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%
Hikma Slovakia s.r.o	Slovakia	Seberíniho 1 821 03 Bratislava, Slovakia	100%	100%
Hikma Espana S.L	Spain	CALLE MALDONADO, 4 – BJ D 28006, MADRID Spain	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.[1]	Switzerland	Rue des Battoirs 7, 1205 Genève, Switzerland	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%

39. Subsidiaries and joint venture continued

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* Ownership% Ordinary shares At 31 December 2020	Ownership% Ordinary shares At 31 December 2019
Hikma Emerging Markets and Asia Pacific FZ-LLC[1]	United Arab Emirates	Premises 202-204, Floor 2, Building 26, Dubai, United Arab Emirates	100%	100%
Hikma International Trading Limited[1]	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%
Hikma MENA FZE*[1]	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%
Hikma (Maple) Limited	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%
Hikma Acquisitions (UK) Limited*[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%
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[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	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%
Hikma Iintelligence Limited	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	–
Eurohealth (U.S.A.) Inc	United States	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	100%	100%
Hikma Speciality USA, Inc.	United States	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	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	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	100%	100%
Hikma Finance USA LLC	United States	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	100%	100%

1. Owned by PLC 'the company'

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

The investments in 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.

40. Defined contribution retirement benefit plan

Hikma Pharmaceuticals PLC has defined contribution retirement plans in four of its subsidiaries: Hikma Pharmaceuticals PLC – United Kingdom, Hikma Pharmaceuticals Limited (Jordan), Arab Pharmaceutical Manufacturing Co and Hikma Pharmaceuticals USA Inc.. The details of each contribution plan are as follows:

Hikma Pharmaceuticals PLC

Hikma Pharmaceuticals PLC currently has a defined contribution pension plan available for staff working in the United Kingdom whereby Hikma Pharmaceuticals PLC contributes 10% of basic salary. Employees are immediately entitled to 100% of the contributions. Hikma Pharmaceuticals PLC contributions for the year ended 31 December 2020 were $0.3 million (2019: $0.3 million).

Hikma Pharmaceuticals LLC

Hikma Pharmaceuticals LLC currently has an employee savings plan whereby Hikma Pharmaceuticals LLC fully matches employees' contributions, which are fixed at 10% of basic salary. Employees are entitled to 100% of Hikma Pharmaceuticals LLC contributions after three years of employment with the Company. Hikma Pharmaceuticals LLC contributions for the year ended 31 December 2020 were $3 million (2019: $3 million).

Arab Pharmaceutical Manufacturing PSC

Arab Pharmaceuticals Manufacturing PSC currently has an employee savings plan whereby Arab Pharmaceuticals Manufacturing PSC fully matches employees' contributions, which are fixed at 10% of basic salary. Employees are entitled to 100% of Arab Pharmaceuticals Manufacturing PSC contributions after three years of employment with the Company. Arab Pharmaceuticals Manufacturing PSC contributions for the year ended 31 December 2020 were $0.5 million (2019: $0.6 million).

Hikma Pharmaceuticals USA Inc.: (401 (k) Retirement Plan)

Hikma Pharmaceuticals USA 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. Eligible employees can begin contributing to the Plan after being employed for 90 days. Employees can defer up to 95% of their eligible income into the Plan, not to exceed $19,500 (2019: $19,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The company matches the employees' eligible contribution dollar-for-dollar on the first 6% of eligible pay contributed to the Plan. Employer contributions vest 50% after two years of service and 100% after three years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the Plan for the year ended 31 December 2020 were $8.9 million (2019: $8.7 million). The assets of this Plan are held separately from those of the Group. The only obligation of the Group with respect to this Plan is to make specified contributions.

Company balance sheet

At 31 December 2020

	Note	**2020 $m**	2019 $m
Non-current assets			
Property, plant and equipment		**2**	2
Right-of-use assets		**9**	11
Intangible assets	3	**27**	33
Investments in subsidiaries	4	**3,332**	3,331
Due from subsidiaries	5	**100**	383
		3,470	3,760
Current assets			
Trade and other receivables		**20**	10
Due from subsidiaries	5	**49**	87
Cash and cash equivalents	7	**156**	176
Other current assets	6	**24**	24
		249	297
Total assets		**3,719**	4,057
Current liabilities			
Other payables		**2**	3
Due to subsidiaries	8	**29**	32
Short-term financial debts	9	**21**	500
Other current liabilities		**12**	16
		64	551
Net current assets		**185**	(254)
Non-current liabilities			
Long-term financial debts	9	**129**	–
Due to subsidiaries	8	**48**	59
Lease liabilities		**11**	13
		188	72
Total liabilities		**252**	623
Net assets		**3,467**	3,434
Equity			
Share capital	11	**41**	41
Share premium	12	**282**	282
Other reserves[1]		**1,746**	1,746
Profit for the year	13	**483**	470
Retained earnings[1]		**915**	895
Equity attributable to equity holders of the parent		**3,467**	3,434

1. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were included in other reserves

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 171 to 178 were approved by the Board of Directors on 24 February 2021 and signed on its behalf by:

Said Darwazah
Director
24 February 2021

Sigurdur Olafsson
Chief Executive Officer

FINANCIAL STATEMENTS

Company statement of changes in equity

For the year ended 31 December 2020

	Share capital $m	Share premium $m	Own shares $m	Merger reserve $m	Retained earnings $m	Total $m
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 and 1 January 2020	**41**	**282**	**(1)**	**1,746**	**1,366**	**3,434**
Reclassification[1]	–	–	1	–	(1)	–
Balance at 1 January 2020 as adjusted	41	282	–	1,746	1,365	3,434
Profit for the year	–	–	–	–	483	483
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**483**	**483**
Cost of equity settled employee share scheme	–	–	–	–	27	27
Dividends paid	–	–	–	–	(109)	(109)
Share buyback	–	–	–	–	(368)	(368)
Balance at 31 December 2020	**41**	**282**	**–**	**1,746**	**1,398**	**3,467**

1. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were separately presented in other reserves

Notes to the Company financial statements

For the year ended 31 December 2020

1. 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 of the Group consolidated financial statements.

2. Significant accounting policies

Basis of accounting

These financial statements, for the year ended 31 December 2020 have been prepared in accordance with FRS 101.

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

- Paragraph 10(d) of IAS 1 'Presentation of Financial Statements' (statement of cash flows)
- Paragraph 16 of IAS 1 'Presentation of Financial Statements' (statement of compliance with all IFRS)
- Paragraph 38A of IAS 1 'Presentation of Financial Statements' (requirements for minimal of two primary statements, including cash flow statements)
- Paragraph 45B and 46 to 52 of IAS 1 'Presentation of Financial Statements' (Share based payment)
- Paragraph 111 of IAS 1 'Presentation of Financial Statements' (cash flow statement information)
- IFRS 7 financial instruments disclosure
- Paragraph 17 of IAS 24 'Related Parties Disclosures'
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- 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 principal accounting policies adopted are the same as those set out in Note 2 of the Group 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 Company income statement.

Intercompany receivable 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 schemes are accounted for in accordance with IFRS 2 'Share based payment'. The current charge relating to the subsidiaries' employees is recharged to subsidiary companies.

3. Intangible assets

Cost	Software $m	Total $m
Balance at 1 January 2019	27	27
Additions	12	12
Balance at 1 January 2020	**39**	**39**
Additions	11	11
Disposals (charged to subsidiaries)	(10)	(10)
Balance at 31 December 2020	**40**	**40**
Amortisation		
Balance at 1 January 2019	(4)	(4)
Charge for the year	(1)	(1)
Impairment	(1)	(1)
Balance at 1 January 2020	**(6)**	**(6)**
Charge for the year	(2)	(2)
Impairment	(5)	(5)
Balance at 31 December 2020	**(13)**	**(13)**
Carrying amount		
At 31 December 2020	**27**	**27**
At 31 December 2019	33	33

Details of useful lives are included in Note 16 of the Group consolidated financial statements.

4. Investments in subsidiaries

The details of Investment in subsidiaries are mentioned in Note 39 of the Group consolidated financial statements.

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

	2020 $m	2019 $m
Beginning balance	3,331	3,328
Additions to subsidiaries	1	3
Ending balance	**3,332**	3,331

5. Due from subsidiaries

Non-current assets

	2020 $m	2019 $m
Hikma MENA FZE	43	–
Hikma Pharmaceuticals LLC	40	–
Hikma Pharmaceuticals USA Inc.	8	343
Hikma Emerging Markets and Asia Pacific FZ-LLC	5	6
Hikma UK Limited	4	34
	100	383

Current assets

	2020 $m	2019 $m
Hikma Pharma-GmbH	1	–
Hikma MENA FZE	–	33
Hikma Pharmaceuticals USA Inc.	31	38
Hikma Pharma S.A.E	2	1
Hikma Farmaceutica, (Portugal) S.A.	–	3
Hikma Pharmaceuticals International Limited	1	2
Hikma Emerging Markets and Asia Pacific FZ-LLC	7	7
Others	7	3
	49	87

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

6. Other current assets

	2020 $m	2019 $m
Investments at FVTPL	24	23
Others	–	1
	24	24

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

7. Cash and cash equivalents

	2020 $m	2019 $m
Cash at banks and on hand	11	13
Time deposits	145	163
	156	176

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.

8. Due to subsidiaries

Non-current liabilities

	2020 $m	2019 $m
Hikma MENA FZE	48	59
	48	59

Current liabilities

	2020 $m	2019 $m
Hikma Investment LLC	17	17
Hikma Farmaceutica, (Portugal) S.A.	4	–
Hikma Pharma Limited	3	2
Hikma UK Limited	1	1
Hikma Pharmaceuticals LLC	2	11
Other	2	1
	29	32

9. Financial debts

A syndicated revolving credit facility of $1,175 million was entered into on the 27 of October 2015. From the $1,175 million, $175 million matured on 24 December 2019, $130 million mature in January 2021 and the remaining $870 million was renewed until December 2023. At 31 December 2020 the facility has an outstanding balance of $nil (2019: $nil) and a $1,000 million unused available limit (2019: $1,000 million). The facility can be used for general corporate purposes (Note 29) of the Group consolidated financial statements.

A ten-year $150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was full utilisation of the loan as of April 2020. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan was used for general corporate purposes. The facility matures on 15 December 2027 (Note 29) of the Group consolidated financial statements. In April 2020, the Group settled a $500 million five-year Eurobond that was issued in 2015 (Note 29) of the Group consolidated financial statements.

An eight-year $200 million loan from the International Finance Corporation and Managed Co-lending Portfolio program was entered into on 26 October 2020. There was no utilisation of the loan as of December 2020. The facility matures on 15 September 2028 (Note 29) of the Group consolidated financial statements.

10. Staff costs

Hikma Pharmaceuticals PLC currently has an average of 35 employees (2019: 37 employees) (excluding Executive Directors); total compensation paid to them amounted to $12 million (2019: $10 million), of which salaries and bonuses comprise an amount of $8 million (2019: $8 million) the remaining balance of $4 million (2019: $2 million) mainly represents national insurance contributions and other employee benefits.

11. Share capital

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

	2020 Number	2020 $m	2019 Number	2019 $m
At 31 December	243,332,180	41	242,319,174	41

At 31 December 2020, of the issued share capital, 12,833,233 are held as Treasury shares, 40,831 shares are held in the Employee Benefit Trust (EBT) and 230,458,116 shares are in free issue (Note 32) of the Group consolidated financial statements.

12. Share premium

	Share premium $m
Balance at 31 December 2020	**282**

13. Profit for the year

The net profit in the Company for the year is $483 million (2019: $470 million). Included in the net profit for the year is an amount of $510 million (2019: $509 million) representing dividends received. The remaining income statement components largely represent general and administrative expenses and net financing expenses. Audit fees for the Company are disclosed in Note 7 of the Group consolidated financial statements.

14. Contingent liabilities

A contingent liability existed at the balance sheet date for a standby letter of credit totalling $8 million (2019: $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.

In addition, the Company guaranteed Hikma Finance USA LLC $500million, 3.25%, five year Eurobond issued in July 2020 (Note 29 of the Group consolidated financial statements) and guaranteed Hikma Pharmaceuticals USA Inc. contingent consideration related to the Columbus business acquisition (Note 28 and 31 of the Group consolidated financial statements). It's not probable that any of the guaranteed entities will default on the guaranteed obligations.