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Press Release

Hikma delivers strong growth in revenue and profit in 2019

London, 27 February 2020 – Hikma Pharmaceuticals PLC (Hikma, Group), the multinational pharmaceutical company, today reports its preliminary audited results for the year ended 31 December 2019.

2019 core[1] results summary

- Group core revenue of $2,203 million, up 6%
- Group core operating profit of $508 million, up 10%
- Core basic earnings per share of 150.4 cents, up 9%

2019 reported results summary

- Group revenue of $2,207 million, up 7%
- Group operating profit of $493 million, up 33%
- Basic earnings per share of 200.8 cents, up 72%
- Cashflow from operating activities of $472 million, up 10%
- Net debt reduced to $242 million and low leverage maintained (net debt to core EBITDA[2] ratio 0.4x)
- Full year dividend of 44 cents per share, up from 38 cents per share

2019 highlights

- Injectables core revenue up 7% driven by strong demand for our broad portfolio and recent launches
- Generics core operating profit up 33% reflecting excellent commercial execution and reduced costs
- Branded core revenue up 8% driven by strong demand across most of our MENA markets
- 108 new products launched across all markets, expanding our global product portfolio
- 18 licensing agreements signed for the US and MENA
- Completed a repeat clinical endpoint study for our generic version of Advair Diskus®
- Entered into a long-term supply agreement with Civica Rx to assist in the delivery of essential medicines in short supply to US hospitals

Siggi Olafsson, Chief Executive Officer of Hikma, said:

"2019 was another very good year for Hikma, driven by strong demand for our broad product portfolio, excellent commercial execution and increased operational efficiencies across the organization. During a challenging year for the industry, we delivered strong financial performance and made important progress on our strategic objectives, including strengthening our operations, building our portfolio and pipeline, forming new partnerships, developing our people and attracting new talent across the Group. These actions were reflected in our financial results in 2019, with each of our three businesses delivering good organic growth in revenue and operating profit.

[1] Core results throughout the document are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 5. Core results are a non-IFRS measure and a reconciliation to reported IFRS measures is provided on page 11

[2] EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges/reversals. EBITDA is a non-IFRS measure, see page 12 for a reconciliation to reported IFRS results

I am proud of what our teams have achieved across the Group, enabling us to provide high-quality medicines to the people that need them most, every day. We remain highly focussed on executing our strategic priorities, which will drive further growth in 2020 and beyond, creating sustainable value for all our stakeholders."

Core results	**2019 $ million**	2018 $ million	Change	Constant currency[3] change
Core revenue	**2,203**	2,076	6%	6%
Core operating profit	**508**	460	10%	9%
Core EBITDA	**593**	549	8%	6%
Core profit attributable to shareholders	**364**	332	10%	7%
Core basic earnings per share (cents)	**150.4**	137.8	9%	7%

Reported results	**2019 $ million**	2018 $ million	Change	Constant currency[3] change
Revenue	**2,207**	2,070	7%	6%
Operating profit	**493**	371	33%	31%
EBITDA	**592**	492	20%	19%
Profit attributable to shareholders	**486**	282	72%	70%
Basic earnings per share (cents)	**200.8**	117.0	72%	69%

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Hikma Pharmaceuticals PLC (LSE: HIK) (NASDAQ Dubai: HIK) (OTC: HKMPY) (LEI:549300BNS685UXH4JI75) (rated Ba1/stable Moody's and BB+/positive S&P)

Hikma helps put better health within reach every day for millions of people in more than 50 countries around the world. For more than 40 years, we've been creating high-quality medicines and making them accessible to the people who need them. Headquartered in the UK, we are a global company with a local presence across the United States (US), the Middle East and North Africa (MENA) and Europe, and we use our unique insight and expertise to transform cutting-edge science into innovative solutions that

[3]Constant currency numbers in 2019 throughout the document represent 2019 numbers re-stated using 2018 exchange rates, excluding price increases in the business which resulted from the devaluation of currencies

transform people's lives. We're committed to our customers, and the people they care for, and by thinking creatively and acting practically, we provide them with a broad range of branded and non-branded generic medicines. Together, our 8,600 colleagues are helping to shape a healthier world that enriches all our communities. We are a leading licensing partner, and through our venture capital arm, are helping bring innovative health technologies to people around the world. For more information, please visit: www.hikma.com

A presentation for analysts and investors will be held today at 09:30 UK time. To join via conference call please dial: 0800 640 6441 (UK toll free) or +44 20 3936 2999, access code: 442936. Alternatively, the results presentation and a webcast recording of the event will be available on Hikma's website at www.hikma.com. The contents of the website do not form part of this preliminary results announcement.

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Business and financial review

The business and financial review set out below summarises the performance of the Hikma Group and our three main business segments, Injectables, Generics and Branded, for the year ended 31 December 2019.

Group

	2019 $ million	2018 $ million	Change	Constant currency change
Revenue	**2,207**	2,070	7%	6%
Core revenue	**2,203**	2,076	6%	6%
Gross profit	**1,148**	1,050	9%	8%
Core gross profit	**1,144**	1,072	7%	6%
Core gross margin	***51.9%***	*51.6%*	*0.3pp*	*0.1pp*
Operating profit	**493**	371	33%	31%
Core operating profit	**508**	460	10%	9%
Core operating margin	***23.1%***	*22.2%*	*0.9pp*	*0.6pp*

Group revenue was $2,207 million in 2019. Group core revenue grew 6% to $2,203 million (2018: $2,076 million), reflecting good growth in each of our three businesses. Group core gross profit grew 7% to $1,144 million (2018: $1,072 million), reflecting the growth in revenue across all business segments and a significant reduction in overhead costs arising from the closure of our Eatontown facility in 2018. Group core gross margin was 51.9% (2018: 51.6%).

Group operating expenses were $655 million (2018: $679 million). Excluding adjustments related to the amortisation of intangible assets (other than software) of $34 million (2018: $30 million) and net income from exceptional items of $15 million (2018: net expense $37 million), Group core operating expenses were $636 million (2018: $612 million).

Selling, general and administrative (SG&A) expenses were $494 million (2018: $470 million). Excluding the amortisation of intangible assets (other than software) and exceptional items, core SG&A expenses were $453 million (2018: $437 million), up 4%. This increase primarily reflects higher employee benefits as a result of strengthening our teams across the Group. Net impairment reversals on financial assets were zero, versus $11 million in the comparator period, which related to the release of doubtful debt provisions.

Research and development (R&D) expenses were $150 million (2018: $147 million). Excluding exceptional items,[4] core R&D expenses were $126 million (2018: $118 million). This reflects increased investment in our Injectables and Generics R&D programmes, as we build our pipeline of complex products. Core R&D was 6% of Group core revenue, in line with 2018.

Other net operating expenses were $11 million (2018: $73 million). Excluding exceptional items,[5] core other net operating expenses were $57 million (2018: $68 million), primarily due to better management of inventory, resulting in lower inventory provisions in 2019.

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[4] In 2019, Hikma incurred $24 million of R&D costs related to a repeat clinical endpoint study for generic Advair Diskus® (2018: $29 million). See Note 5 for further information

[5] In 2019, exceptional items comprised proceeds from a legal claim of $32 million, costs related to a warehouse fire at one of our facilities in Jordan of $13 million, a contingent consideration adjustment of $7 million and net $20 million related to impairment reversal of product related intangibles related to Columbus business. Refer to Note 5 for further information

The Group reported operating profit of $493 million (2018: $371 million). Excluding the impact of amortisation (other than software) and exceptional items, core operating profit increased by 10% to $508 million (2018: $460 million) and core operating margin was 23.1% (2018: 22.2%).

Group core revenue by business segment

$ million	**2019**		2018	
Injectables	**890**	40%	832	40%
Generics	**719**	33%	692	33%
Branded	**583**	26%	542	26%
Others	**11**	1%	10	1%
Total	**2,203**		2,076	

Group core revenue by region

$ million	**2019**		2018	
US	**1,355**	61%	1,299	62%
MENA	**719**	33%	656	32%
Europe and ROW	**129**	6%	121	6%
Total	**2,203**		2,076	

Injectables

$ million	**2019**	2018	Change	Constant currency change
Revenue	**894**	826	8%	9%
Core revenue	**890**	832	7%	8%
Gross profit	**523**	497	5%	6%
Core gross profit	**519**	503	3%	4%
Core gross margin	***58.3%***	*60.5%*	*(2.2)pp*	*(2.3)pp*
Operating profit	**320**	305	5%	5%
Core operating profit	**338**	335	1%	1%
Core operating margin	***38.0%***	*40.3%*	*(2.3)pp*	*(2.4)pp*

Injectables core revenue increased by 7% to $890 million (2018: $832 million). In constant currency, Injectables core revenue grew by 8%.

US Injectables core revenue grew 5% to $636 million (2018: $607 million), reflecting the breadth and resilience of our portfolio. Strong sales of our in-market products and growth from recent launches more than offset increased competition on certain products.

MENA Injectables revenue was $146 million, up 22% (2018: $120 million). In constant currency, MENA Injectables revenue increased by 20%, reflecting good growth across our markets, including Saudi Arabia

and Egypt, as well as strong demand for Remsima® and a further contribution from newly launched Herzuma®.

European Injectables revenue was $108 million, up 3% (2018: $105 million). In constant currency, European Injectables revenue increased by 9% to $114 million, reflecting a good performance from our contract manufacturing business.

Injectables core gross profit increased by 3% to $519 million (2018: $503 million) and core gross margin reduced to 58.3% (2018: 60.5%), primarily reflecting a change in the product mix in the US.

Injectables core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items,[6] was $338 million (2018: $335 million). Core operating margin was 38.0% (2018: 40.3%), due to the lower gross margin.

During the year, the Injectables business launched 14 products in the US, 40 in MENA and 15 in Europe. We submitted 183 filings to regulatory authorities across all markets and signed six licensing agreements to add more complex products to our pipeline.

In 2020, we expect Injectables revenue to grow in the low to mid-single digits, driven by new product launches and demand for our broad product portfolio across all of our markets, which should more than offset continued price erosion. We expect core operating margin to be in the range of 35% to 37%.

Generics

$ million	**2019**	2018	Change
Revenue	**719**	692	4%
Gross profit	**326**	279	17%
Core gross profit	**326**	295	11%
Core gross margin	***45.3%***	*42.6%*	*2.7pp*
Operating profit	**151**	40	278%
Core operating profit	**124**	93	33%
Core operating margin	***17.2%***	*13.4%*	*3.8pp*

Generics revenue grew 4% to $719 million in 2019 (2018: $692 million). While the US retail generics market environment remained challenging, we more than offset continued price erosion by driving strong demand for our differentiated product portfolio, including our leading nasal sprays, and by launching new products.

Generics core gross profit grew 11% to $326 million (2018: $295 million) and core gross margin increased to 45.3% (2018: 42.6%). This reflected volume growth and an improvement in the product mix, as well as the benefit of lower overhead costs resulting from the consolidation of our manufacturing facilities in 2018 and other efficiency gains.

Generics core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items,[7] increased by 33% to $124 million (2018: $93 million). Core operating margin

[6] Exceptional items comprised integration costs of $4 million. Amortisation of intangible assets (other than software) was $22 million. Refer to Note 5 for further information

[7] Exceptional items comprised $24 million of expenses related to a repeat clinical endpoint study for generic Advair Diskus®, $6 million of costs related to a warehouse fire at one of our facilities in Jordan, $32 million of proceeds from a legal claim, $7 million from a contingent consideration readjustment and net $20 million related to impairment reversal of product related intangibles related to Columbus business. Amortisation of intangible assets (other than software) was $2 million. Refer to Note 5 for further information

increased to 17.2% (2018: 13.4%). This significant improvement in profitability reflects the increase in core gross profit and better management of inventory related expenses, which more than offset an increase in marketing and R&D expenses.

During the year, the Generics business launched four products and submitted three files to regulatory authorities, as well as adding 12 products through the signing of six business development agreements. As previously announced, we also completed a repeat clinical study for generic Advair Diskus® and have submitted the results to the US FDA for review.

In 2020, we expect Generics revenue to be in the range of $700 million to $750 million and core operating margin to be around 20%. Our guidance assumes that we will launch generic Advair Diskus® in the second half of the year and we have included revenue of $20 million to $40 million from generic Advair Diskus® in this range. If we do not launch generic Advair Diskus® in 2020, we would expect the core operating margin for the Generics business to be between 16% and 18%.

Branded

$ million	**2019**	2018	Change	Constant currency change
Revenue	**583**	542	8%	6%
Gross profit	**296**	271	9%	5%
Gross margin	***50.8%***	*50.0%*	*0.8pp*	*(0.2)pp*
Operating profit	**105**	111	(5)%	(13)%
Core operating profit	**129**	117	10%	3%
Core operating margin	***22.1%***	*21.6%*	*0.5pp*	*(0.4)pp*

On a reported basis, Branded revenue grew 8% to $583 million (2018: $542 million). On a constant currency basis, Branded revenue increased 6% to $572 million.

Our largest markets, Saudi Arabia and Egypt, performed well, reflecting our strong market positions, good demand for our marketed products and new launches. We also delivered a good performance across most of our other MENA markets, which more than offset significantly lower sales in Algeria resulting primarily from political and economic disruptions.

During the year, the Branded business launched 35 products and submitted 171 filings to regulatory authorities. We further developed our portfolio through new licensing agreements. These included agreements with Gedeon Richter for their novel antipsychotic, cariprazine, with Faes Farma for their Bilaxten®, and with Chiesi for a portfolio of their respiratory and neo-natal products for the Egyptian market. Revenue from in-licensed products represented 37% of Branded revenue (2018: 36%).

Branded gross profit was $296 million, up 9% (2018: $271 million) and gross margin was 50.8% (2018: 50.0%). In constant currency, gross profit increased by 5% and gross margin was stable at 49.8% (2018: 50.0%). The improvement in gross profit largely reflects the increase in revenues over the period.

Core operating profit, which excludes the amortisation of intangibles (other than software) and exceptional items,[8] was $129 million, up 10% (2018: $117 million), and core operating margin was 22.1% (2018:

[8] In 2019, exceptional items comprised expenses of $7 million related to a warehouse fire in one of our facilities in Jordan and $7 million of severance and restructuring costs. Amortisation of intangible assets (other than software) was $10 million. Refer to Note 5 for further information

21.6%). In constant currency, core operating profit grew 3% and core operating margin was 21.2% (2018: 21.6%).

We expect Branded revenue to grow in the mid-single digits in constant currency in 2020.

Other businesses

Other businesses, which is primarily comprised of Arab Medical Containers, a manufacturer of plastic specialised medicinal sterile containers, International Pharmaceuticals Research Centre, which conducts bio-equivalency studies, Hikma Emerging Markets and Asia Pacific FZ LLC, and the chemicals division of Hikma Pharmaceuticals LLC (Jordan) contributed revenue of $11 million in 2019 (2018: $10 million) and broke even (2018: loss of $5 million). This improvement in profitability is primarily due to the closure of our emerging markets division as we focus on our core markets, in line with our strategy.

Research and development

Our investment in R&D and business development enables us to continue expanding the Group's product portfolio. During 2019, we had 108 new launches and received 169 approvals.

	2019 submissions[9]	2019 approvals[9]	2019 launches[9]
Injectables			
US	14	7	14
MENA	78	40	40
Europe	91	26	15
Generics	3	4	4
Branded	171	92	35
Total	**357**	**169**	**108**

To ensure the continuous development of our product pipeline, we submitted 357 regulatory filings.

Net finance expense

Core net finance expense was $45 million (2018: $51 million) due to increased cash deposits and reflecting lower debt utilisation. After recognising non-cash net interest income of $45 million resulting from the remeasurement of the contingent consideration related to the Columbus business acquisition, reported net finance expense was zero.

We expect core net finance expense to be around $47 million in 2020.

Profit before tax

Core profit before tax was $465 million (2018: $408 million), reflecting the strong performance of our three business segments. Reported profit before tax was $491 million (2018: $293 million). Reported profit before tax in the comparator period was impacted by exceptional costs relating to the restructuring of our Generics facilities.

Tax

The Group incurred a reported tax expense of $4 million (2018: $8 million) and an effective tax rate of 0.8% (2018: 2.7%), primarily due to the utilisation of previously unrecognised tax losses and deferred tax benefits recognised upon the internal reorganisation of intangible assets. Excluding exceptional items, Group core tax expense was $100 million (2018: $73 million). The core effective tax rate increased to 21.5% (2018: 17.9%), primarily due to a change in the earnings mix.

[9] New products submitted, approved and launched by country in 2019

We expect the Group core effective tax rate to be around 22% to 23% in 2020.

Profit attributable to shareholders

Profit attributable to shareholders was $486 million (2018: $282 million). Core profit attributable to shareholders increased by 10% to $364 million (2018: $332 million).

Earnings per share

Basic earnings per share was 200.8 cents (2018: 117.0 cents). Core basic earnings per share increased by 9% to 150.4 cents (2018: 137.8 cents) and core diluted earnings per share increased by 9% to 149.8 cents (2018: 137.2 cents).

Dividend

The Board is recommending a final dividend of 30 cents per share (approximately 23 pence per share) (2018: 26 cents per share) bringing the total dividend for the full year to 44 cents per share (approximately 34 pence per share) (2018: 38 cents per share). The proposed dividend will be paid on 7 May 2020 to eligible shareholders on the register at the close of business on 20 March 2020, subject to approval at the Annual General Meeting on 30 April 2020.

Net cash flow, working capital and net debt

The Group generated strong operating cash flow of $472 million (2018: $430 million). Group working capital days were down 8 days to 202 days, primarily driven by improved cash collection.

Capital expenditure was $119 million (2018: $107 million). In the US, $36 million was spent upgrading equipment and adding new technologies for our Generics and Injectables businesses. In MENA, $63 million was spent strengthening and expanding manufacturing capabilities. In Europe, we spent $20 million, expanding our facilities in Portugal, where we recently completed construction of our new high containment operation (HCO), which has begun commercial production. We expect Group capital expenditure to be in the range of $120 million to $140 million in 2020.

The Group's total debt increased to $685 million at 31 December 2019 (31 December 2018: $637 million), reflecting the adoption of IFRS 16, which required the recognition of lease liabilities of $45 million at 31 December 2019. The Group's cash balance improved significantly over the year to $443m (2018: $276 million). The Group's net debt (excluding co-development agreements and contingent liabilities) was $242 million at 31 December 2019 (31 December 2018: $361 million).[10] We continue to have a very strong balance sheet with a net debt to core EBITDA ratio of 0.4x. As part of our long-term financing requirements, we are exploring refinancing options for our $500 million Eurobond, which is due to be repaid in April 2020, including alternatives in the fixed income markets. The Group may also utilise its cash and unutilised revolving credit facility of $1,000 million to repay the Eurobond.

Balance sheet

Net assets at 31 December 2019 were $2,129 million (31 December 2018: $1,697 million). Net current assets reduced to $377 million (31 December 2018: $775 million) due to the reclassification of the Eurobond of $500 million from long-term liabilities to current liabilities.

[10] Group net debt is calculated as Group total debt less Group total cash. Group net debt is a non-IFRS measure, see page 12 for a reconciliation of Group net debt to reported IFRS results

Outlook for 2020

We expect Injectables revenue to grow in the low to mid-single digits in 2020. We expect core operating margin to be in the range of 35% to 37%.

We expect Generics revenue to be in the range of $700 million to $750 million and core operating margin to be around 20%. Our guidance assumes that we will launch generic Advair Diskus® in the second half of the year and we have included revenue of $20 million to $40 million from generic Advair Diskus® in this range. If we do not launch generic Advair Diskus® in 2020, we would expect the core operating margin for the Generics business to be between 16% and 18%.

We expect Branded revenue to grow in the mid-single digits in constant currency in 2020.

We expect Group net finance expense to be around $47 million in 2020 and the core effective tax rate to be around 22% to 23%. We expect Group capital expenditure to be in the range of $120 million to $140 million.

Following the recent outbreak of coronavirus disease (COVID-19), we have assessed the potential exposure of our business to related disruptions. As we do not have extensive operations or manufacturing in China, nor are we directly dependent on Chinese-manufactured goods or services, we do not currently anticipate any material impact. This is a complex situation that we are continually monitoring.

Responsibility statement

The responsibility statement below has been prepared for the year ended 31 December 2019. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;

- The business and financial review, which is incorporated into the strategic report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- Financial statements taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to access the company's performance, business model and strategy.

By order of the Board

Sigurdur Olafsson	Khalid Nabilsi
Chief Executive Officer 26 February 2020	Chief Financial Officer 26 February 2020

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The Board

The Board of Directors that served during all or part of the twelve-month period to 31 December 2019 and their respective responsibilities can be found on the Leadership team section of www.hikma.com.

Cautionary statement

This preliminary announcement has been prepared solely to provide additional information to the shareholders of Hikma and should not be relied on by any other party or for any other purpose.

Definitions

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 core numbers may be calculated differently to other companies.

Adjusted measures are not substitutable for IFRS results 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 which are excluded when assessing 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. Our core results exclude the exceptional items and other adjustments set out in Note 5.

Group operating profit	**2019 $million**	2018 $million
Core operating profit	**508**	**460**
R&D costs	(24)	(29)
Jordan warehouse fire incident	(13)	-
Proceeds from legal claim	32	-
Contingent consideration adjustment	7	-
MENA severance and restructuring costs	(7)	-
Integration costs	4	(30)
Net impairment reversal of product related intangibles	20	-
Intangible assets amortisation other than software	(34)	(30)
Reported operating profit	**493**	**371**

Constant currency

As the majority of our business is conducted in the US, we present our results in US dollars. For both our Branded and Injectable businesses, a proportion of their sales are denominated in a currency other than the US dollar. In order to illustrate the underlying performance of these businesses, we include information on our results in constant currency.

Constant currency numbers in 2019 represent reported 2019 numbers re-stated using 2018 exchange rates, excluding price increases in the business which resulted from the devaluation of currencies.

EBITDA

EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges/reversals.

EBITDA **$ million**	**2019**	2018
Reported operating profit	**493**	**371**
Depreciation, amortisation and impairment charges/reversals	99	121
Reported EBITDA	**592**	**492**
Exceptional items:		
Research and development costs	24	29
Jordan warehouse fire incident	13	-
Proceeds from legal claim	(32)	-
Contingent consideration adjustment	(7)	-
MENA severance and restructuring costs	7	
Integration costs	(4)	28
Core EBITDA	**593**	**549**

Working capital days

We believe Group working capital days provides a useful measure of the Group's working capital management and liquidity. Group working capital days are calculated as Group receivable days plus Group inventory days, less Group payable days. Group receivable days are calculated as Group trade receivables x 365, divided by trailing 12 months Group revenue.

Group net debt

We believe Group net debt is a useful measure of the strength of the Group's financing position. Group net debt is calculated as Group total debt less Group total cash. Group total debt excludes co-development agreements and contingent liabilities.

Group net debt **$ million**	**Dec-19**	Dec-18
Short-term financial debts	(569)	(74)
Short-term leases liabilities	(9)	(1)
Long-term financial debts	(48)	(539)
Long-term leases liabilities	(59)	(23)
Total debt	**(685)**	**(637)**
Cash, cash equivalents and restricted cash	443	276
Net debt	**(242)**	**(361)**

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Forward looking statements

This announcement contains certain statements which are, or may be deemed to be, "forward looking statements" which are prospective in nature with respect to Hikma's expectations and plans, strategy, management objectives, future developments and performance, costs, revenues and other trend information. All statements other than statements of historical fact may be forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward looking words such as "intends", "believes", "anticipates", "expects", "estimates", "forecasts", "targets", "aims", "budget", "scheduled" or words or terms of similar substance or the negative thereof, as well as variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved.

By their nature, forward looking statements are based on current expectations and projections about future events and are therefore subject to assumptions, risks and uncertainties that are beyond Hikma's ability to control or estimate precisely and which could cause actual results or events to differ materially from those expressed or implied by the forward looking statements. Where included, such statements have been made by or on behalf of Hikma in good faith based upon the knowledge and information available to the Directors on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and Hikma's shareholders are cautioned not to place undue reliance on the forward-looking statements. Forward looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Other than in accordance with its legal or regulatory obligations (including under the Market Abuse Regulation ((EU) No. 596/2014) and the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), Hikma does not undertake to update the forward looking statements contained in this announcement to reflect any changes in events, conditions or circumstances on which any such statement is based or to correct any inaccuracies which may become apparent in such forward looking statements. Except as expressly provided in this announcement, no forward looking or other statements have been reviewed by the auditors of Hikma. All subsequent oral or written forward looking statements attributable to Hikma or any of its members, directors, officers or employees or any person acting on their behalf are expressly qualified in their entirety by the cautionary statement above. Past share performance cannot be relied on as a guide to future performance. Nothing in this announcement should be construed as a profit forecast.

Neither the content of Hikma's website nor any other website accessible by hyperlinks from Hikma's website are incorporated in, or form part of, this announcement.

Principal risks and uncertainties

The Group faces risks from a range of sources that could have a material impact on our financial commitments and ability to trade in the future. The principal risks are determined via robust assessment considering our risk context by the Board of Directors with input from executive management. The principal risks facing the company have not materially changed over the year and they are set out in the 2019 annual report on pages 43 – 51. The Board recognises that certain risk factors that influence the principal risks are outside of the control of management. The Board is satisfied that the principal risks are being managed appropriately and consistently with the target risk appetite. The set of principal risks should not be considered as an exhaustive list of all the risks the Group faces.

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Hikma Pharmaceuticals PLC
Consolidated income statement
For the year ended 31 December 2019

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

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

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Hikma Pharmaceuticals PLC
Consolidated statement of comprehensive income
For the year ended 31 December 2019

	2019 Core results $m	2019 Exceptional items and other adjustments (note 5) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m
Profit for the year	**365**	**122**	**487**	**335**	**(50)**	**285**
Other comprehensive income						
Items that may be reclassified subsequently to the consolidated income statement, net of tax:						
Currency translation gain/(loss)	20	-	20	(29)	-	(29)
Items that will not be reclassified subsequently to the consolidated income statement, net of tax						
Change in investments at fair value through other comprehensive income (FVTOCI)	(2)	-	(2)	7	-	7
Total comprehensive income for the year	383	122	505	313	(50)	263
Attributable to:						
Non-controlling interests	2	-	2	1	-	1
Equity holders of the parent	**381**	**122**	**503**	**312**	**(50)**	**262**
	383	**122**	**505**	**313**	**(50)**	**263**

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Hikma Pharmaceuticals PLC
Consolidated balance sheet
At 31 December 2019

	Note	2019 $m	2018 $m
Non-current assets			
Goodwill	9	282	279
Other intangible assets	9	552	487
Property, plant and equipment		912	870
Right-of-use assets	10	50	-
Investment in associates and joint ventures		11	11
Deferred tax assets	14	243	125
Financial and other non-current assets		32	57
		2,082	**1,829**
Current assets			
Inventories		568	528
Income tax receivable		79	74
Trade and other receivables	11	719	731
Collateralised and restricted cash		1	-
Cash and cash equivalents		442	276
Other current assets		39	59
		1,848	**1,668**
Total assets		**3,930**	**3,497**
Current liabilities			
Short-term financial debts	12	569	74
Leases liabilities	10	9	1
Trade and other payables		473	465
Income tax provision		82	68
Other provisions		23	23
Other current liabilities		315	262
		1,471	**893**
Net current assets		377	775
Non-current liabilities			
Long-term financial debts	13	48	539
Leases liabilities	10	59	23
Deferred tax liabilities	14	20	16
Other non-current liabilities		203	329
		330	907
Total liabilities		**1,801**	**1,800**
Net assets		**2,129**	**1,697**
Equity			
Share capital		41	40
Share premium		282	282
Other reserves		(179)	(217)
Retained earnings		1,973	1,580
Equity attributable to equity holders of the parent		2,117	1,685
Non-controlling interests		12	12
Total equity		**2,129**	**1,697**

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Hikma Pharmaceuticals PLC
Consolidated statement of changes in equity
For the year ended 31 December 2019

	Merger and revaluation reserves	Translation reserve	Own shares	Total other reserves	Retained earnings	Share capital	Share premium	Equity attributable to equity shareholders of the parent	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 January 2018[1]	38	(227)	(1)	**(190)**	1,354	40	282	1,486	14	1,500
Profit for the year	-	-	-	**-**	282	-	-	282	3	285
Change in investments at FVTOCI	-	-	-	**-**	7	-	-	7	-	7
Currency translation loss	-	(27)	-	**(27)**	-	-	-	(27)	(2)	(29)
Total comprehensive income for the year	**-**	**(27)**	**-**	**(27)**	**289**	**-**	**-**	**262**	**1**	**263**
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme	-	-	-	**-**	21	-	-	21	-	21
Dividends on ordinary shares (note 7)	-	-	-	**-**	(84)	-	-	(84)	(3)	(87)
Balance at 31 December 2018 and 1 January 2019	**38**	**(254)**	**(1)**	**(217)**	**1,580**	**40**	**282**	**1,685**	**12**	**1,697**
Impact of IFRIC 23[2]	-	-	-	-	2	-	-	2	-	2
Balance at 1 January 2019 as adjusted	**38**	**(254)**	**(1)**	**(217)**	**1,582**	**40**	**282**	**1,687**	**12**	**1,699**
Profit for the year[3]	20	-	-	**20**	466	-	-	486	1	487
Change in investments at FVTOCI	-	-	-	**-**	(2)	-	-	(2)	-	(2)
Currency translation gain	-	19	-	**19**	-	-	-	19	1	20
Total comprehensive income for the year	20	19	-	**39**	464	-	-	503	2	505
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme	-	-	-	**-**	24	-	-	24	-	24
Exercise of employee share scheme	(1)	-	-	**(1)**	-	1	-	-	-	-
Dividends on ordinary shares (note 7)	-	-	-	**-**	(97)	-	-	(97)	(2)	(99)
Balance at 31 December 2019	**57**	**(235)**	**(1)**	**(179)**	**1,973**	**41**	**282**	**2,117**	**12**	**2,129**

[1]The Group adopted IFRS 9 and IFRS 15 from 1 January 2018. The impact of IFRS 9 and IFRS 15 was $3 million and $25 million debit to retained earnings, respectively.

[2] The Group adopted IFRIC 23 as of 1 January 2019. The impact of adoption was a decrease of $2 million of the amount previously held for uncertain tax positions (note 1).

[3] A net impairment reversal of $20 million has been allocated from retained earnings to the merger and revaluation reserves in relation to Columbus business impairment reversal (note 5 and 9).

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Hikma Pharmaceuticals PLC
Consolidated cash flow statement
For the year ended 31 December 2019

	Note	2019 $m	2018 $m
Cash flows from operating activities			
Cash generated from operations	15	**580**	**493**
Income taxes paid		(125)	(63)
Income taxes received		17	-
Net cash inflow from operating activities		**472**	**430**
Cash flow from investing activities			
Purchases of property, plant and equipment		(119)	(107)
Proceeds from disposal of property, plant and equipment		2	13
Purchase of intangible assets		(67)	(32)
Investment in joint ventures		-	(4)
(Increase)/decrease in investment in financial and other non-current assets		(1)	4
Proceeds from sale of investment at fair value through other comprehensive income		12	-
Additions of investments at fair value through other comprehensive income		(5)	(4)
Acquisition of business undertakings net of cash acquired		(8)	(14)
Proceeds from investment divestiture		2	-
Contingent consideration receipt		27	45
Interest income received		6	3
Net cash outflow from investing activities		**(151)**	**(96)**
Cash flow from financing activities			
(Increase)/decrease in collateralised and restricted cash		(1)	3
Proceeds from issue of long-term financial debts		19	93
Repayment of long-term financial debts		(11)	(224)
Proceeds from short-term borrowings		267	138
Repayment of short-term borrowings		(273)	(148)
Repayment of lease liabilities		(12)	-
Dividends paid		(97)	(84)
Dividends paid to non-controlling shareholders of subsidiaries		(2)	(3)
Interest and bank charges paid		(44)	(51)
Payment to co-development and earnout payment agreement		(1)	(2)
Net cash outflow from financing activities		**(155)**	(278)
Net increase in cash and cash equivalents		**166**	**56**
Cash and cash equivalents at beginning of year		276	227
Foreign exchange translation movements		-	(7)
Cash and cash equivalents at end of year		**442**	**276**

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Hikma Pharmaceuticals PLC
Notes to the consolidated financial statements

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

Basis of preparation

The Group consolidated financial statements are prepared in accordance with:

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

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

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

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

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

The 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.

The financial information does not constitute the Company's statutory accounts for the years to 31 December 2019 or 2018 but is derived from those accounts.

Adoption of new and revised standards

The following new and revised Standards and Interpretations have been adopted in the current year. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group but may impact the accounting for future transactions and arrangements.

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments

IFRS 16

IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal form of a Lease'.
IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees

– leases of 'low-value' assets (e.g personal computers) and short-term leases (i.e leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.
Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).
The lessee generally recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019.
The Group has adopted IFRS 16, applying modified retrospective approach on 1 January 2019, and recognised right-of-use assets of $55 million (including $10 million reclassed from property, plant, and equipment previously recognised as assets held under finance lease and offsetting accrued rent of $3 million) and lease liabilities of $48 million, the effect on the current year of adopting IFRS 16 is disclosed in note 10.

IFRIC 23
IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017. The interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter.
The Group adopted IFRIC 23 as of 1 January 2019 and reassessed the effect of uncertainty where applicable. The impact of adoption was a decrease of $2 million of the amount previously held for uncertain tax positions which was reflected in retained earnings.

2. Going concern

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

3. Revenue from contracts with customers

Business and geographical markets

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

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

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

The top selling markets in 2019 are as below:

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

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

The following table provide contract balances related to revenue:

	2019 $m	2018 $m
Trade receivables (note 11)	637	654
Contract liability	142	151

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

Contract liability mainly relate to returns provision and free goods balance.

4. Business segments

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

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

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

Injectables	**2019 Core results** $m	**2019 Exceptional items and other adjustments (note 5)** $m	**2019 Reported results** $m	**2018 Core results** $m	**2018 Exceptional items and other adjustments (note 5)** $m	**2018 Reported results** $m
Revenue	**890**	**4**	**894**	832	(6)	826
Cost of sales	**(371)**	**-**	**(371)**	(329)	-	(329)
Gross profit	**519**	**4**	**523**	503	(6)	497
Total operating expenses	**(181)**	**(22)**	**(203)**	(168)	(24)	(192)
Segment result	**338**	**(18)**	**320**	335	(30)	305

Generics	2019 Core results	2019 Exceptional items and other adjustments (note 5)	2019 Reported results	2018 Core results	2018 Exceptional items and other adjustments (note 5)	2018 Reported results
	$m	$m	$m	$m	$m	$m
Revenue	**719**	**-**	**719**	692	-	692
Cost of sales	**(393)**	**-**	**(393)**	(397)	(16)	(413)
Gross profit	**326**	**-**	**326**	295	(16)	279
Total operating expenses	**(202)**	**27**	**(175)**	(202)	(37)	(239)
Segment result	**124**	**27**	**151**	93	(53)	40

Branded	2019 Core results	2019 Exceptional items and other adjustments (note 5)	2019 Reported results	2018 Core results	2018 Exceptional items and other adjustments (note 5)	2018 Reported results
	$m	$m	$m	$m	$m	$m
Revenue	**583**	**-**	**583**	542	-	542
Cost of sales	**(287)**	**-**	**(287)**	(271)	-	(271)
Gross profit	**296**	**-**	**296**	271	-	271
Total operating expenses	**(167)**	**(24)**	**(191)**	(154)	(6)	(160)
Segment result	**129**	**(24)**	**105**	117	(6)	111

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

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

Group	2019 Core results $m	2019 Exceptional items and other adjustments (note 5) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m
Segment result	**591**	**(15)**	**576**	540	(89)	451
Unallocated expenses[1]	**(83)**	**-**	**(83)**	(80)	-	(80)
Operating profit	**508**	**(15)**	**493**	460	(89)	371
Finance income	**7**	**60**	**67**	3	-	3
Finance expense	**(52)**	**(15)**	**(67)**	(54)	(26)	(80)
Gain/(loss) from investment at FVTPL	**2**	**-**	**2**	(1)	-	(1)
Loss from investment divestiture	**-**	**(4)**	**(4)**	-	-	-
Profit before tax	**465**	**26**	**491**	408	(115)	293
Tax	**(100)**	**96**	**(4)**	(73)	65	(8)
Profit for the year	**365**	**122**	**487**	335	(50)	285
Attributable to:						
Non-controlling interests	**1**	**-**	**1**	3	-	3
Equity holders of the parent	**364**	**122**	**486**	332	(50)	282
	365	**122**	**487**	335	(50)	285

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

5. Exceptional items and other adjustments

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

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

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

Exceptional items:

- Hikma incurred $24 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. The study was completed in November 2019, the study and certain additional information was submitted to the US FDA for their review
- During the year, a fire broke out in a warehouse at one of Hikma's Jordan facilities which serves the Generics and Branded segments. Production was halted for a period of time and inventory was damaged. The associated loss was $17 million, mainly comprised of damaged inventory and the cost to remediate property, plant and equipment. To date, the Group has received insurance compensation of $4 million related to the fire incident resulting in a net exceptional expense of $13 million included in other operating income/(expense). The Group expects to receive final insurance compensation in 2020 and the amount receivable related to contingent asset cannot be measured reliably and is dependent on the final outcome of the insurance claim
- Hikma received compensation proceeds of $32 million in relation to a litigation matter with an external party where one of Hikma's products sales were halted by a temporary restraining order and an injunction. The litigation was resolved in Hikma's favour and a payment was received from the plaintiff representing lost profit over the affected time period. This is included in other operating income/(expense)
- The contingent consideration adjustment of $7 million relates to a change in estimate of the amount of expected contingent payments Hikma was entitled to receive under the terms of the Columbus acquisition agreement. This is included in other operating income/(expense), in cash flow from investing activities
- MENA severance and restructuring costs of $7 million related to one-off organisational restructuring in MENA and are mainly included in SG&A. Management expects to incur further costs in 2020 over approximately $5 million
- A provision of $4 million in relation to integration costs of the Columbus business and the consolidation of the distribution centers in the US was released. This was previously provided for in 2018 as exceptional items included in revenue
- $4 million loss from divestiture of Medlac investment (note 16)
- $21 million Impairment reversal of product related intangibles related to specific product related assets in Generics segment offset by $1 million impairment charge. This is included in other operating income/(expense)
- The Group has benefited $49 million from the utilisation of previously unrecognised deferred tax assets following the internal reorganisation of intangible assets (note 6)
- The Group has recorded a $48 million tax benefit associated with the internal reorganisation on intangible assets (note 6)

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

- During 2018, Hikma incurred $29 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. In 2017, Hikma recognised a $29 million contingent consideration gain from Boehringer Ingelheim as compensation for failure to receive FDA approval of generic Advair Diskus® before 24 December 2017. To obtain approval, the FDA requires the completion of an additional clinical endpoint study. Both the compensation and repeat clinical study cost have been treated as exceptional items.
- Integration and other costs were incurred in relation to the restructuring of our Columbus manufacturing facility and the closure of Eatontown manufacturing facility, in addition to the consolidation of the distribution centre in the US, of which $6 million is included in revenue, $16 million is included in cost of sales, $2 million in sales and marketing, $1 million in general and administrative and $5 million in other operating expenses.
- Tax benefit of $43 million associated with prior year impairment loss recognised in 2018.
- The prior year favorable US tax ruling of $13 million relates to the benefit associated with a change in the tax reporting for chargebacks in the US.

Other adjustments

Remeasurement of contingent consideration, financial liability and asset represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments receivables in respect of the Columbus business acquisition and the financial liability in relation to the co-development earnout payment agreement. The remeasurement is included in finance expense/income.

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6. Tax

	2019 Core results $m	2019 Exceptional items and other adjustments (note 5) $m	2019 Reported results $m	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m
Current tax:						
UK corporation tax						
Domestic tax	**16**	**32**	**48**	1	-	1
Foreign tax	**73**	**(3)**	**70**	36	(9)	27
Deferred tax (note 14)						
Current year	**2**	**(125)**	**123**	39	(43)	(4)
Adjustment to prior year	**9**	**-**	**9**	(3)	(13)	(16)
	100	**(96)**	**4**	73	(65)	8

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

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

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

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

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

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

Permanent differences relate to items which are non-taxable or for which no tax relief is ever likely to be due. The major items are expenses and income disallowed where they are covered by statutory

exemptions, foreign exchange differences in some territories and statutory reliefs such as R&D and manufacturing tax credits.

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

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

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

The change in provision for uncertain tax positions relates to the provisions the Group holds in the event of a revenue authority successfully taking an adverse view of the positions adopted by the Group in 2019 and primarily relates to a transfer pricing adjustment.

Prior year adjustments include differences between the tax liability recorded in the tax returns submitted for previous years and estimated tax provision reported in a prior period's consolidated financial statements. This category also includes adjustments (favorable or adverse) in respect of uncertain tax positions following agreement of the tax returns with the relevant tax authorities.

Publication of tax strategy

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

7. Dividends

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

The proposed final dividend for the year ended 31 December 2019 is 30 cents (2018: 26.0 cents).

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

8. 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 outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares. The number of ordinary shares used for the basic and diluted calculations is shown in the table below. Core basic earnings per share and Core diluted earnings per share are intended to highlight the Core results of the Group before exceptional items and other adjustments.

	2019 Core results $m	**2019 Exceptional items and other adjustments (note 5)** $m	**2019 Reported results** $m	**2018 Core results** $m	**2018 Exceptional items and other adjustments (note 5)** $m	**2018 Reported results** $m
Earnings for the purposes of basic and diluted EPS being net profit attributable to equity holders of the parent	**364**	**122**	**486**	332	(50)	282

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

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

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9. Goodwill and other intangible assets

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

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

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

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

Goodwill

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

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

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

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

Valuation basis	Value in use		
Key assumptions	Sales growth rates		
	Profit margins		
	Terminal growth rate		
	Discount rate		
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information		
	Margins reflect past experience, adjusted for expected changes		
	Terminal growth rates based on management's estimate of future long-term average growth rates		
	Discount rates based on Group WACC, adjusted where appropriate		
	Taxation rate based on appropriate rates for each region		
Period of specific projected cash flows	5 years		
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)	Pre-tax discount rate
	Branded	2.8%	18.0%
	Injectables	1.9%	13.0%
	Generics	1.6%	15.0%
	generic Advair Diskus®	-[1]	17.7%

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

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

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

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

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

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

Product-related intangibles

- **IPR&D**
  During the last quarter, the Group performed its annual review of In-Process Research and Development assets (IPR&D). The result of this testing was an impairment charge of $2 million.

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

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

Software

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

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

Other identified intangibles

- **Customer relationships**

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

- **Trade names**

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

- **Marketing rights**

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

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

10. Leases

IFRS 16 'Leases' was implemented by the Group from 1 January 2019. It replaces IAS 17 'Leases' and requires lease liabilities and right of use assets to be recognised on the consolidated balance sheet for all leases except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised in addition to the assets previously recognised under finance lease. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application in addition to the liabilities previously

recognised for assets under finance leases. The Group did not change the initial carrying amounts of previous finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17).

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

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

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

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

- Increase in depreciation expense of $7 million.
- Increase in interest expense of $3 million.
- Decrease in rental expense of $10 million.

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

- Increase in cash inflow from operating activities of $10 million.
- Increase in cash outflow from financing activities $10 million.

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

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

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

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

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

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

The maturity analysis of lease liabilities:

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

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

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

11. Trade and other receivables

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

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

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

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

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

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

12. Short-term financial debts

	As at 31 December	
	2019	2018
	$m	$m
Bank overdrafts	**6**	-
Import and export financing	**52**	58
Short-term loans	**2**	7
Current portion of long-term loans (note 13)[1]	**509**	9
	569	74

[1] As part of our long-term financing requirements, we are exploring refinancing options for our $500 million Eurobond which is due for repayment in April 2020, including alternatives in the fixed income markets. The Group may also utilise its cash and unutilised revolving credit facility of $1,000 million (refer to note 13) to repay the Eurobond.

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

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

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13.Long-term financial debts

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

The loans are held at amortised cost.

Long-term loans amounting to $1 million (31 December 2018: $1 million) are secured on certain property, plant and equipment.
Major arrangements entered into by the Group:

a) A $500 million (carrying value of $500 million, and fair value of $501 million) 4.25% Eurobond which is due for repayment in April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of the Columbus business acquisition.

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

c) A ten-year $150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was no utilisation of the loan as at 31 December 2019. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan will be used in MENA and in other World Bank countries of operation for its general corporate purposes. The facility matures on 15 December 2027.

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14.Deferred tax

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

	As at 31 December	
	2019	2018
	$m	$m
Deferred tax liabilities	**(20)**	(16)
Deferred tax assets	**243**	125
	223	109

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

	Tax Losses	Deferred R&D costs	Other short-term temporary differences[1]	Amortisable assets	Fixed assets	Share-based payments	Total
	$m		$m	$m	$m	$m	$m
At 1 January 2018	3	1	133	(16)	(33)	-	88
Credit/(charge) to income	-	-	(16)	5	31	1	21
At 31 December 2018 and 1 January 2019	3	1	117	(11)	(2)	1	109
Credit/(charge) to income	-	-1	-3	126	(8)	-	114
At 31 December 2019	3	-	114	115	(10)	1	223

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

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

A deferred tax liability has been recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries of $3 million (2018: $8 million). No deferred tax liability has been recognised on the remaining unremitted earnings of $236 million (2018: $187 million), as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

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

15. Net cash generated from operating activities

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

16. Business combinations

Acquisition and selling of Medlac Pharma

On 2 January 2019, the Group acquired 100% of the share capital of Medlac Pharma Italy Co Ltd (Medlac), an injectable manufacturing company in Vietnam. As part of the consideration the Group paid an initial upfront payment of $8 million and incurred $1 million acquisition cost. On 29 April 2019, the Group sold Medlac back to the original seller for a consideration of $5 million, resulting in a total loss of $4 million (note 5).

17. Contingent liabilities

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

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

In 2018, the Group received a civil investigative demand from the US Department of Justice requesting information related to products, pricing and related communications. In 2017, the Group received a subpoena from a US state attorney general and a subpoena from the US Department of Justice. Hikma denies having engaged in any conduct that would give rise to liability with respect to these demands but is cooperating with all such demands.

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

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

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

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