hikma.

Press Release

Hikma delivers strong 2018 results and makes good strategic progress to position for future growth

London, 13 March 2019 – Hikma Pharmaceuticals PLC (Hikma, Group) (LSE: HIK) (NASDAQ Dubai: HIK) (OTC: HKMPY) (LEI: 549300BNS685UXH4JI75) (rated Ba1 Moody's / BB+ S&P, both stable), the multinational pharmaceutical company, today reports its preliminary audited results for the year ended 31 December 2018.

2018 core[1] results summary

- Group core revenue of $2,076 million, up 7%
- Group core operating profit of $460 million, up 19%
- Core basic earnings per share of 137.8 cents, up 31%
- Cashflow from operating activities of $430 million
- Net debt reduced to $361 million and low leverage ratios maintained

2018 reported results summary

- Group revenue of $2,070 million, up 7%
- Group operating profit of $371 million
- Basic earnings per share of 117.0 cents
- Proposed full year dividend of 38 cents per share, up from 34 cents per share

Strategic highlights

- Appointed new Chief Executive Officer and strengthened leadership teams across the Group
- Leveraged our high-quality injectables manufacturing facilities and broad product portfolio to deliver critical medicines to our hospital customers
- Strengthened our Generics business, by enhancing commercial capabilities and streamlining operations
- Reinforced our position as 'partner of choice' in MENA, adding important in-licensed products
- Restructured our global R&D function to improve productivity and increase returns on investment
- Launched 122 new products across all markets, expanding our global product portfolio
- Strengthened our pipeline through a long-term agreement with Vectura to develop and commercialise generic versions of GSK's Ellipta® products

Siggi Olafsson, Chief Executive Officer of Hikma, said:

"The Group has delivered a strong performance in 2018, with revenue and profitability significantly ahead of our expectations at the start of the year. We also made good strategic progress, strengthening our management teams, growing our portfolio, investing in our capabilities and adding new partners.

Our Injectables business continued to perform very well, demonstrating the diversification of our portfolio, the flexibility of our operations in responding to customer needs and our ability to bring important products

[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.

to market. The significant commercial and operational improvements we have made enabled our Generics business to deliver strong growth and our Branded business continued to grow steadily.

These results show considerable progress and I am confident that we can build on this momentum going forward."

Said Darwazah, Executive Chairman of Hikma, said

"In 2018, we have made transformational changes across our businesses that will enable us to be more competitive and achieve our strategic goals. I am very pleased with the progress we've made and the strong financial performance this year. Looking ahead to 2019 and beyond, I am very optimistic for the future of Hikma. I believe we have set ourselves the right strategic objectives and have a strong leadership team in place to deliver sustainable growth over the long term."

Core results	**2018 $ million**	2017 $ million	Change	Constant currency[2] change
Core revenue	**2,076**	1,936	7%	8%
Core operating profit	**460**	386	19%	24%
Core EBITDA[3]	**549**	468	17%	21%
Core profit attributable to shareholders	**332**	252	32%	39%
Core basic earnings per share (cents)	**137.8**	105.0	31%	38%

Reported results	**2018 $ million**	2017 $ million	Change	Constant currency change
Revenue	**2,070**	1,936	7%	8%
Operating profit/(loss)	**371**	(747)	N/A	N/A
EBITDA	**492**	488	1%	5%
Profit/(loss) attributable to shareholders	**282**	(843)	N/A	N/A
Basic earnings/(loss) per share (cents)	**117.0**	(351.3)	N/A	N/A

Enquiries

Hikma Pharmaceuticals PLC

Susan Ringdal — +44 (0)20 7399 2760/ +44 7776 477050
EVP, Strategic Planning and Global Affairs

Lucinda Baker — +44 (0)20 7399 2765/ +44 7818 060211
Deputy Director of Investor Relations

Virginia Spring — +44 (0)20 3892 4389/ +44 7973 679502
Senior Investor Relations Manager

[2]Constant currency numbers in 2018 throughout the document represent 2018 numbers re-stated using average exchange rates in 2017, excluding price increases in the business which resulted from the devaluation of currencies

[3] EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges. EBITDA is a non-IFRS measure, see page 13 for a reconciliation to reported IFRS results

FTI Consulting

Ben Atwell/Andrew Ward +44 (0)20 3727 1000

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 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 8,400 colleagues are helping to shape a healthier world that enriches all our communities. We are a leading licensing partner in the MENA region, 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 at FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD. To join via conference call please dial: +44 (0) 20 3936 2999 (UK toll free) or +1 845 709 8568 (US toll free), password: 078263. Alternatively, the results presentation and a webcast recording of the event will be available on Hikma's website at http://webcast.openbriefing.com/hikmaPR2018/. The contents of the website do not form part of this preliminary results announcement.

hikma.

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 2018.

Group

	2018 $ million	2017 $ million	Change	Constant currency change
Revenue	**2,070**	1,936	7%	8%
Core revenue	**2,076**	1,936	7%	8%
Gross profit	**1,050**	967	9%	10%
Gross margin	***50.7%***	*49.9%*	*0.8pp*	*1.1pp*
Core gross profit	**1,072**	973	10%	12%
Core gross margin	***51.6%***	*50.3%*	*1.3pp*	*1.7pp*
Operating profit/(loss)	**371**	(747)	N/A	N/A
Core operating profit	**460**	386	19%	24%
Core operating margin	***22.2%***	*19.9%*	*2.3pp*	*2.9pp*
Profit/(loss) attributable to shareholders	**282**	(843)	N/A	N/A
Core profit attributable to shareholders	**332**	252	32%	39%
Basic earnings/(loss) per share (cents)	**117.0**	(351.3)	N/A	N/A
Core basic earnings per share (cents)	**137.8**	105.0	31%	38%

Group revenue grew 7% to $2,070 million in 2018 and Group core revenue grew 7% to $2,076 million (2017: $1,936 million), reflecting good demand for our in-market products and new product launches. Group gross profit was $1,050 million (2017: $967 million). As previously announced, we consolidated our Generics manufacturing facilities and our US distribution facilities and we restructured our Columbus facility. Excluding the related costs, Group core gross profit grew 10% to $1,072 million (2017: $973 million), primarily due to a strong improvement in the profitability of our Generics business. Group gross margin was 50.7% (2017: 49.9%) and core gross margin was 51.6% (2017: 50.3%).

Group operating expenses were $679 million, compared to $1,714 million in 2017. Group operating expenses in 2017 included exceptional items of $1,084 million that arose as a result of an impairment of the Columbus intangible assets and property, plant and equipment. Excluding the amortisation of intangible assets other than software and exceptional items, Group core operating expenses were $612 million (2017: $587 million). The paragraphs below address the Group's main operating expenses in turn.

Sales and marketing (S&M) expenses were $224 million (2017: $236 million). Excluding the amortisation of intangible assets other than software and exceptional items, core S&M expenses were $191 million (2017: $188 million), up 2%. This slight increase reflects enhanced commercial activities in the US and MENA and investments to strengthen our sales and marketing capabilities.

General and administrative (G&A) expenses were $246 million (2017: $239 million), up 3%, due to the cost of strengthening our corporate functions and higher employee benefits. Net impairment reversals on financial assets were $11 million, which related to the release of doubtful debt provisions following collection during the year.

R&D expenses were $147 million (2017: $121 million). Excluding exceptional items,[4] core R&D expenses were $118 million (2017: $115 million). This reflected increased investment in our Branded and Injectables R&D programmes, which was partially offset by a reduction in R&D expenditure for our Generics business following a detailed review of our R&D pipeline in 2017. Core R&D was 6% of Group core revenue, in line with 2017.

Other net operating expenses were $73 million (2017: $1,118 million). Excluding exceptional items, core other net operating expenses increased to $68 million (2017: $46 million), primarily reflecting a foreign exchange loss in 2018 compared to a gain in 2017.

The Group reported operating profit of $371 million (2017: $(747) million). Excluding the impact of amortisation other than software and exceptional items, Group core operating profit increased by 19% to $460 million (2017: $386 million) and core operating margin was 22.2% (2017:19.9%).

Group core revenue by business segment

$ million	**2018**		2017	
Injectables	**832**	40%	776	40%
Generics	**692**	33%	615	32%
Branded	**542**	26%	536	28%
Others	**10**	1%	9	-
Total	**2,076**		1,936	

Group core revenue by region

$ million	**2018**		2017	
MENA	**656**	32%	630	33%
US	**1,299**	62%	1,201	62%
Europe and ROW	**121**	6%	105	5%
Total	**2,076**		1,936	

[4] In 2018, Hikma incurred $29 million of R&D 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 contingent consideration and the repeat clinical study have been treated as exceptional items. See note 5 for further information

hikma.

Injectables

$ million	**2018**	2017	Change	Constant currency change
Revenue	**826**	776	6%	6%
Core revenue	**832**	776	7%	7%
Gross profit	**497**	480	4%	4%
Core gross profit	**503**	480	5%	5%
Core gross margin	***60.5%***	*61.9%*	*(1.4)pp*	*(1.2)pp*
Operating profit	**305**	293	4%	5%
Core operating profit	**335**	315	6%	8%
Core operating margin	***40.3%***	*40.6%*	*(0.3)pp*	*0.2pp*

In 2018, our global Injectables business performed well, with core revenue up 7% to $832 million (2017: $776 million). In constant currency, global Injectables core revenue was also up 7%.

US Injectables core revenue was $607 million, up 4% (2017: $586 million). While competition on certain products increased significantly, strong demand from our hospital customers for our large and diversified portfolio, recent product launches and our flexibility in responding to market shortages enabled our US business to deliver growth.

MENA Injectables revenue was $120 million, up 17% (2017: $103 million). In constant currency, MENA Injectables revenue increased by 21%, reflecting a strong performance in Saudi Arabia and a significant increase in sales of Remsima®, our infliximab biosimilar product licensed from Celltrion.

European Injectables revenue was $105 million, up 21% (2017: $87 million). In constant currency, European Injectables revenue increased by 15%, reflecting the contribution from recently launched products and expanded capacity for our lyophilised products.

Injectables core gross profit increased to $503 million (2017: $480 million) and core gross margin remained relatively stable at 60.5% (2017: 61.9%), reflecting a favourable product mix. Core operating profit, which excludes the amortisation of intangible assets other than software and exceptional items,[5] was $335 million (2017: $315 million). Core operating margin remained extremely strong at 40.3% (2017: 40.6%). This reflects the strong gross margin, which more than offset increased investment in R&D.

During the year, the Injectables business launched 15 products in the US, 17 in MENA and 20 in Europe. We submitted 130 filings to regulatory authorities across all markets and signed a number of licensing agreements to add more complex products to our pipeline. In the US, this included licensing agreements with Hansoh Pharmaceutical Group Co., Ltd. (Hansoh), for a portfolio of injectable oncology medicines, and Beijing Sciecure Pharmaceutical Co., Ltd (Sciecure) for one of their niche injectable anti-viral medicines. In MENA, we signed a licensing agreement with Laboratorios Farmaceúticos Rovi SA (Rovi) for their enoxaparin.

In 2019, we expect global Injectables revenue to be in the range of $850 million to $900 million. We expect revenue growth from new product launches and good demand for our in-market portfolio to more than offset continued price erosion and an easing in demand for products on shortage. We expect core operating margin to be in the range of 35% to 38%.

[5] Exceptional items include the costs related to the consolidation of our distribution facilities in the US. Refer to note 5 for further information

hikma.

Generics

$ million	**2018**	2017	Change
Revenue	**692**	615	13%
Gross profit	**279**	219	27%
Core gross profit	**295**	225	31%
Core gross margin	***42.6%***	*36.6%*	*6.0pp*
Operating profit/(loss)	**40**	(1,082)	N/A
Core operating profit	**93**	22	323%
Core operating margin	***13.4%***	*3.6%*	*9.8pp*

In 2018, our Generics business performed extremely well, exceeding the expectations we set at the beginning of the year. Revenue grew 13% to $692 million (2017: $615 million). While the US retail generics market remains competitive, we benefitted from our enhanced commercial capabilities and strengthened business operations. Good growth from our more differentiated product portfolio and new product launches more than offset the impact of continued price erosion.

Generics gross profit was $279 million (2017: $219 million). As previously announced, we consolidated our manufacturing and distribution facilities during the year and restructured our Columbus facility. Excluding related costs, core gross profit was $295 million (2017: $225 million). Gross margin was 40.3% (2017: 35.6%), and core gross margin increased to 42.6% (2017: 36.6%), reflecting an improvement in the product mix, operating leverage and a significant reduction in overheads, partly due to closure of our Eatontown plant.

Generics core operating profit, which excludes the amortisation of intangible assets other than software and exceptional items,[6] increased to $93 million (2017: $22 million). This primarily reflects the strong improvement in gross profit. Core operating margin was 13.4% (2017: 3.6%). On a reported basis, Generics operating profit was $40 million compared to an operating loss of $1,082 million in 2017 that arose as a result of an impairment of the intangible assets and property, plant and equipment of the Columbus business.

During the year, the Generics business launched 13 products, including a first-to-file Paragraph IV product with market exclusivity. We continued to invest in pipeline development, submitting eight filings to regulatory authorities, as well as adding products through licensing and partnership agreements. In particular, we expanded our partnership with Vectura with an agreement to develop and commercialise their Open, Inhale, Close (OIC) dry powder inhaler (DPI) platform, including generic versions of GSK's five Ellipta® DPI products. The generic respiratory market is a key area of focus for us and this agreement leverages the investment we have made and the experience we are gaining through our generic Advair Diskus® development programme.

As previously announced, we initiated a repeat clinical study for generic Advair Diskus® during the year. The study is progressing well and we expect to submit a response to the FDA with new clinical data in 2019.

We expect Generics revenue to be in the range of $650 million to $700 million in 2019. This reflects continued price erosion on our marketed portfolio, which we expect to be partially offset with market share gains and new product launches. We expect our focus on cost reduction and operational efficiencies to enable us to achieve a core operating margin in the mid-teens.

[6] Exceptional items include the expenses related to a repeat clinical endpoint study for generic Advair Diskus®, the restructuring of our Columbus facility and the closure of our Eatontown manufacturing plant. Refer to note 5 for further information

Branded

$ million	**2018**	2017	Change	Constant currency change
Revenue	**542**	536	1%	5%
Gross profit	**271**	265	2%	7%
Gross margin	***50.0%***	*49.4%*	*0.6pp*	*1.3pp*
Operating profit	**111**	107	4%	17%
Core operating profit	**117**	114	3%	15%
Core operating margin	***21.6%***	*21.3%*	*0.3pp*	*2.1pp*

On a reported basis, Branded revenue was $542 million, up 1% (2017: $536 million). On a constant currency basis before adverse movements against the US dollar, primarily in the Sudanese pound and the Algerian dinar, Branded revenue grew 5% to $560 million.

Egypt delivered double-digit revenue growth, reflecting strong underlying market growth, an improvement in our product mix and new product launches. This strong performance in Egypt more than offset lower revenue in Saudi Arabia and Algeria. Revenue in Saudi Arabia decreased slightly, reflecting the timing of sales. A strong pipeline of new launches is expected to drive a return to growth in 2019. In Algeria, planned upgrades at our general formulation plant impacted revenue growth in the first half of the year. We expect a stronger performance in 2019 now that the plant is back on line and manufacturing has commenced at our recently-acquired cephalosporin facility. Our businesses in Iraq, Jordan, Libya and Sudan delivered strong growth in constant currency during the year.

Revenue from in-licensed products represented 36% of Branded revenue (2017: 37%). During the year, we strengthened and expanded our partnerships, adding new in-licensed products to our portfolio. We signed a partnership agreement with Omega Pharma Trading NV, an affiliate of Perrigo Company PLC (Perrigo), for the exclusive right to license and distribute more than 30 consumer healthcare products across MENA, with the exception of current agreements in place. We also have the right of first refusal to the full range of Perrigo's OTC medicines in the region.

During the year, the Branded business launched 57 products and submitted 68 filings to regulatory authorities.

Branded gross profit was $271 million, up 2% (2017: $265 million) and gross margin was 50.0% (2017: 49.4%). In constant currency, gross profit increased by 7% and gross margin increased to 50.7% (2017: 49.4%), reflecting the receipt of an allowance from a supplier to compensate for changing market dynamics.

Core operating profit, which excludes the amortisation of intangibles, was $117 million, up 3% (2017: $114 million), and core operating margin was 21.6%. In constant currency, core operating profit grew 15% and core operating margin increased to 23.4%, up 210 basis points. This primarily reflects the improvement in the gross margin and the release of doubtful debt provisions following collection during the year.

We expect Branded revenue to grow in the mid-single digits in constant currency in 2019.

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 $10 million in 2018 (2017: $9 million) and an operating loss of $5 million (2017: $(4) million).

Research and development

Our investment in R&D and business development is enabling us to continue expanding the Group's product portfolio. During 2018, we had 122 new launches and received 136 approvals.

	2018 submissions[7]	2018 approvals[8]	2018 launches[9]
Injectables			
US	20	14	15
MENA	76	34	17
Europe	34	33	20
Generics	8	9	13
Branded	68	46	57
TOTAL	**206**	**136**	**122**

To ensure the continuous development of our product pipeline, we submitted 206 regulatory filings.

Net finance expense

Core net finance expense decreased 12% to $51 million (2017: $58 million), due to lower debt in the year. After recognising a non-cash expense of $26 million, which primarily resulted from the remeasurement of the contingent consideration related to the Columbus business acquisition, net finance expense was $77 million. We expect Group core net finance expense to be around $50 million in 2019.

Profit before tax

The Group reported profit before tax of $293 million (2017: $(738) million). Core profit before tax was $408 million (2017: $328 million).

Tax

The Group incurred a tax expense of $8 million (2017: $101 million). The reported effective tax rate was 2.7% (2017: (13.7)%), primarily due to the recognition of previously unrecognised deferred tax assets and favourable prior year tax rulings in the US.

Excluding exceptional items, Group core tax expense was $73 million (2017: $72 million). The core effective tax rate decreased to 17.9% (2017: 22.0%), primarily due to a reduction in the effective tax rate in the US and smaller uncertain tax positions in 2018. We expect the Group core effective tax rate to be around 21% in 2019.

Profit attributable to shareholders

Profit attributable to shareholders was $282 million, compared with a loss of $843 million in 2017. Core profit attributable to shareholders increased by 32% to $332 million, compared with $252 million in 2017.

[7] Submissions for new products includes Marketing Authorisations, NDAs, ANDAs, supplements, line extensions, and re-introduction of legacy products by country, submitted in 2018
[8] New product approvals includes technical approvals and tentative approvals, line extensions, and the re-introduction of legacy products by country, approved in 2018
[9] New product launches includes line extensions and the re-introduction of legacy products by country, launched in 2018

hikma.

Earnings per share

Core basic earnings per share increased by 31% to 137.8 cents (2017: 105.0 cents) and core diluted earnings per share increased by 31% to 137.2 cents (2017: 104.6 cents). Basic earnings per share was 117.0 cents (2017: (351.3) cents). The basic loss per share in 2017 arose as a result of an impairment of the intangible assets and property, plant and equipment of the Columbus business.

Dividend

The Board is recommending a final dividend of 26 cents per share (approximately 20 pence per share) (2017: 23 cents per share) bringing the total dividend for the full year to 38 cents per share (approximately 29 pence per share) (2017: 34 cents per share, approximately 24 pence per share). The proposed dividend will be paid on 22 May 2019 to eligible shareholders on the register at the close of business on 5 April 2019, subject to approval at the Annual General Meeting on 17 May 2019.

Net cash flow, working capital and net debt

The Group generated strong operating cash flow of $430 million (2017: $443 million). Group working capital days were down 15 days to 210 days, primarily driven by improved cash collections and improved supplier payment terms across the Group in 2018.

Capital expenditure was $107 million (2017: $107 million). Of this, around $45 million was spent in the US to expand the manufacturing capacity and capabilities of our Generics and Injectables businesses. In MENA, around $44 million was spent on strengthening our manufacturing capabilities in Algeria and upgrading our facilities in Jordan, Algeria and Egypt to manufacture new in-licensed products. In Europe, we spent approximately $18 million, primarily on the expansion of our manufacturing facilities in Portugal. We expect Group capital expenditure to be in the range of $120 million to $140 million in 2019.

The Group's net debt (excluding co-development agreements and contingent liabilities) was $361 million at 31 December 2018 (31 December 2017: $546 million).[10] The significant decrease was due to the paydown of debt during the year. We continue to have a very strong balance sheet with a net debt to core EBITDA ratio of 0.66x.

In January 2019, a litigation matter with an external party was concluded in Hikma's favour and Hikma received compensation of $32 million.

Balance sheet

Net assets at 31 December 2018 were $1,697 million (31 December 2017: $1,528 million). Net current assets were $775 million (31 December 2017: $777 million).

Outlook

The Group delivered a strong financial performance in 2018 and we made good strategic progress.

Going forward, we expect global Injectables revenue to be in the range of $850 million to $900 million in 2019. We expect revenue growth from new product launches and good demand for our in-market portfolio to more than offset continued price erosion and an easing in demand for products on shortage. We expect core operating margin to be in the range of 35% to 38% in 2019.

[10] Group net debt is calculated as Group total debt less Group total cash. Group net debt is a non-IFRS measure, see page 13 for a reconciliation of Group net debt to reported IFRS results

We expect Generics revenue to be in the range of $650 million to $700 million in 2019. This reflects continued price erosion on our marketed portfolio, which we expect to partially offset with market share gains and new product launches. We expect our focus on cost reduction and operational efficiencies to enable us to achieve a core operating margin in the mid-teens.

We expect Branded revenue to grow in the mid-single digits in constant currency in 2019.

We expect Group net finance expense to be around $50 million in 2019 and the core effective tax rate to be around 21%. We expect Group capital expenditure to be in the range of $120 million to $140 million.

Looking beyond 2019, we expect to benefit from our continued investment in R&D across our businesses and we will look to fill pipeline gaps through business development.

Responsibility statement

The responsibility statement below has been prepared for the year ended 31 December 2018. 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 12 March 2019	Chief Financial Officer 12 March 2019

The Board

The Board of Directors that served during all or part of the twelve-month period to 31 December 2018 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 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. Our core results exclude the exceptional items and other adjustments set out in note 5.

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 2018 represent reported 2018 numbers re-stated using average exchange rates in 2017, 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.

EBITDA **$ million**	**2018**	2017
Reported operating profit	**371**	**(747)**
Depreciation, amortisation and impairment	121	1,235
Reported EBITDA	**492**	**488**
Research and development costs	29	-
Contingent consideration gains	-	(29)
Acquisition, integration and other costs	28	9
Core EBITDA	**549**	**468**

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.

hikma.

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-18**	Dec-17
Bank overdrafts and loans[11]	(75)	(87)
Long-term financial debts	(539)	(670)
Obligations under finance leases	(23)	(20)
Total debt	**(637)**	**(777)**
Cash and cash equivalents	276	231
Net debt	**(361)**	**(546)**

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.

[11] Includes obligations under finance leases

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 2018 annual report on pages 60-62. The Board recognises that certain risk factors that influence the principal risks are outside of the control of management. The Board is satisfied that these 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.

hikma.

Hikma Pharmaceuticals PLC
Consolidated income statement

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

hikma.

Hikma Pharmaceuticals PLC
Consolidated statement of comprehensive income

	Note	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 5) $m	2017 Reported results $m
Profit/(loss) for the year		**335**	**(50)**	**285**	**256**	**(1,095)**	**(839)**
Other comprehensive income/(loss)							
Items that may be reclassified subsequently to the consolidated income statement, net of tax:							
Currency translation (loss)/gain		**(29)**	**-**	**(29)**	20	-	20
Items that will not be reclassified subsequently to the consolidated income statement, net of tax:							
Change in fair value of available-for-sale financial assets[1]	13	-	-	-	2	-	2
Change in the fair value of equity investments [2]		**7**	**-**	**7**	-	-	-
Total comprehensive income/(loss) for the year		**313**	**(50)**	**263**	278	(1,095)	(817)
Attributable to:							
Non-controlling interests		**1**	**-**	**1**	3	-	3
Equity holders of the parent		**312**	**(50)**	**262**	**275**	**(1,095)**	**(820)**
		313	**(50)**	**263**	**278**	**(1,095)**	**(817)**

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

hikma.

Hikma Pharmaceuticals PLC
Consolidated balance sheet

	Note	2018 $m	2017 $m
Non-current assets			
Goodwill	9	**279**	282
Other Intangible assets	9	**487**	503
Property, plant and equipment	10	**870**	828
Investment in associates and joint ventures		**11**	6
Deferred tax assets		**125**	135
Financial and other non-current assets		**57**	60
		1,829	**1,814**
Current assets			
Inventories	11	**528**	488
Income tax receivable		**74**	53
Trade and other receivables	12	**731**	707
Collateralised and restricted cash		**-**	4
Cash and cash equivalents		**276**	227
Other current assets	13	**59**	95
		1,668	**1,574**
Total assets		**3,497**	**3,388**
Current liabilities			
Bank overdrafts and loans	16	**74**	86
Trade and other payables	14	**465**	365
Income tax provision		**68**	82
Other provisions		**23**	26
Other current liabilities	15	**263**	238
		893	**797**
Net current assets		**775**	**777**
Non-current liabilities			
Long-term financial debts	17	**539**	670
Obligations under finance leases		**23**	20
Deferred tax liabilities		**16**	49
Other non-current liabilities	18	**329**	324
		907	**1,063**
Total liabilities		**1,800**	**1,860**
Net assets		**1,697**	**1,528**
Equity			
Share capital		**40**	40
Share premium		**282**	282
Other reserves		**(217)**	(190)
Retained earnings		**1,580**	1,382
Equity attributable to equity holders of the parent		**1,685**	**1,514**
Non-controlling interests		**12**	14
Total equity		**1,697**	**1,528**

hikma.

Hikma Pharmaceuticals PLC
Consolidated statement of changes in equity

	Merger and revaluation reserves $m	Translation reserve $m	Own shares $m	Total other reserves $m	Retained earnings $m	Share capital $m	Share premium $m	Equity attributable to equity shareholders of the parent $m	Non-controlling interests $m	Total equity $m
Balance at 1 January 2017	**1,077**	**(248)**	**(1)**	**828**	**1,246**	**40**	**282**	**2,396**	**15**	**2,411**
Loss for the year[1]	(1,039)	-	-	(1,039)	196	-	-	(843)	4	**(839)**
Change in fair value of available-for-sale financial assets [2] (note 13)	-	-	-	-	1	-	-	1	-	**1**
Currency translation gain/(loss)	-	21	-	**21**	-	-	-	**21**	(1)	**20**
Total comprehensive (loss)/income for the year	**(1,039)**	**21**	**-**	**(1,018)**	**197**	**-**	**-**	**(821)**	**3**	**(818)**
Cost of equity-settled employee share scheme	-	-	-	-	22	-	-	22	-	**22**
Dividends on ordinary Shares (note 7)	-	-	-	-	(79)	-	-	(79)	(2)	**(81)**
Adjustment arising from change in non-controlling interests	-	-	-	-	(4)	-	-	(4)	(2)	**(6)**
Total transactions with owners, recognised directly in equity										
Balance at 31 December 2017 and 1 January 2018 as previously reported	**38**	**(227)**	**(1)**	**(190)**	**1,382**	**40**	**282**	**1,514**	**14**	**1,528**
Impact of IFRS 9[3]	-	-	-	-	(3)	-	-	(3)	-	**(3)**
Impact of IFRS 15[3]	-	-	-	-	(25)	-	-	(25)	-	**(25)**
Balance at 1 January 2018 as adjusted	**38**	**(227)**	**(1)**	**(190)**	**1,354**	**40**	**282**	**1,486**	**14**	**1,500**
Profit for the year	-	-	-	-	282	-	-	**282**	3	**285**
Change in the fair value of equity investments at fair value through other comprehensive income 4	-	-	-	-	7	-	-	**7**	-	**7**
Currency translation loss	-	(27)	-	**(27)**	-	-	-	**(27)**	(2)	**(29)**
Total comprehensive income/(loss) for the year	-	(27)	-	**(27)**	289	-	-	**262**	1	**263**
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme	-	-	-	-	21	-	-	**21**	-	**21**
Dividends on ordinary Shares (note 7)	-	-	-	-	(84)	-	-	**(84)**	(3)	**(87)**
Balance at 31 December 2018	**38**	**(254)**	**(1)**	**(217)**	**1,580**	**40**	**282**	**1,685**	**12**	**1,697**

1. In 2017 a loss of $1,039 million have been allocated from retained earnings to the merger and revaluation reserves in relation to the Columbus business impairment. (note 5, 9 and 10)
2.This investment was previously designated as available-for-sale financial assets, upon transition to IFRS 9 it has been re-categorised as FVTPL
3.The Group adopted IFRS 9 and IFRS 15 from 1 January 2018. (note 1,3 and 15)
4.This investment was previously classified as available-for-sale and stated at cost (under IAS 39 cost exemption), upon transition to IFRS 9 it has been re-categorised as Investments at FVTOCI

hikma.

Hikma Pharmaceuticals PLC
Consolidated cash flow statement

	Note	2018 $m	2017 $m
Cash flows from operating activities			
Cash generated from operations	20	**493**	**546**
Income taxes paid		(63)	(103)
Net cash inflow from operating activities		**430**	**443**
Cash flow from investing activities			
Purchases of property, plant and equipment		(107)	(107)
Proceeds from disposal of property, plant and equipment		13	4
Purchase of intangible assets		(32)	(44)
Cash (paid)/received from investment in joint ventures		(4)	2
Investment in financial and other non-current assets, net		4	(2)
Investments at fair value through other comprehensive income (2017: available for sale investment)		(4)	(8)
Acquisition of business undertakings net of cash acquired		1	3
Contingent consideration adjustment		30	-
Finance income		3	1
Net cash outflow from investing activities		**(96)**	**(151)**
Cash flow from financing activities			
Decrease in collateralised and restricted cash		3	3
Proceeds from issue of long-term financial debts[1]		93	349
Repayment of long-term financial debts[1]		(224)	(401)
Proceeds from short-term borrowings[2]		138	323
Repayment of short-term borrowings[2]		(148)	(349)
Dividends paid		(84)	(79)
Dividends paid to non-controlling shareholders of subsidiaries		(3)	(2)
Interest paid		(51)	(57)
Purchase of non-controlling interest in subsidiary		-	(6)
Payment from co-development and earnout payment agreement, net		(2)	(1)
Net cash outflow from financing activities		**(278)**	**(220)**
Net increase in cash and cash equivalents		**56**	**72**
Cash and cash equivalents at beginning of year		227	155
Foreign exchange translation movements		(7)	-
Cash and cash equivalents at end of year		**276**	**227**

1. These cash flows relate to long-term financial debts (note 17) and the movements above reconcile to the movement per the note. In the prior year, the movement reconciled to the note after including a non-cash movement of $1 million in respect of unfavourable translation differences.

2. These cash flows relate to bank overdraft and loans (note 16) and the movements above reconcile to the movement per the note after including a non-cash movement of $2 million (2017: $5 million) in respect of favourable translation differences.

hikma.

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

Basis of preparation

The Group consolidated financial statements are prepared in accordance with:

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

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

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

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

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

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

Adoption of new and revised standards

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

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

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

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments

IFRS 15

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

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

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

IFRS 9

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

(a) Classification and measurement

The principal impact is that the portfolio investments (quoted securities portfolio) previously, designated as available for sale financial assets have been re-categorised on initial application as Investments FVTPL. For further details see note 13, of the consolidated financial statements. The Group recorded the fair value movements for such investments through of the consolidated income statement for the year ended 31 December 2018.

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

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

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

(b) Impairment

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

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

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

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

IFRS 16

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

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

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

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

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

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

IFRIC 23

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

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

2. 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 sales by segment and geographical market, irrespective of the origin of the goods/services:

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

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

The top selling markets in 2018 are as below:

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

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

Contract balances:

	2018 $m	2017 $m
Trade receivables (note 12)	654	650
Contract liabilities (note 15)	151	127

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

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

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

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:

hikma.

Injectables	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 5) $m	2017 Reported results $m
Revenue	832	(6)	826	776	-	776
Cost of sales	(329)	-	(329)	(296)	-	(296)
Gross profit	503	(6)	497	480	-	480
Total operating expenses	(168)	(24)	(192)	(165)	(22)	(187)
Segment result	335	(30)	305	315	(22)	293

Generics	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 5) $m	2017 Reported results $m
Revenue	692	-	692	615	-	615
Cost of sales	(397)	(16)	(413)	(390)	(6)	(396)
Gross profit	295	(16)	279	225	(6)	219
Total operating expenses	(202)	(37)	(239)	(203)	(1,098)	(1,301)
Segment result	93	(53)	40	22	(1,104)	(1,082)

Branded	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 5) $m	2017 Reported results $m
Revenue	**542**	**-**	**542**	536	-	536
Cost of sales	**(271)**	**-**	**(271)**	(271)	-	(271)
Gross profit	**271**	**-**	**271**	265	-	265
Total operating expenses	**(154)**	**(6)**	**(160)**	(151)	(7)	(158)
Segment result	**117**	**(6)**	**111**	114	(7)	107

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

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

Group	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 5) $m	2017 Reported results $m
Segment result	**540**	**(89)**	**451**	447	(1,133)	(686)
Unallocated expenses	**(80)**	**-**	**(80)**	(61)	-	(61)
Operating profit/(loss)	**460**	**(89)**	**371**	386	(1,133)	(747)
Finance income	**3**	**-**	**3**	2	93	95
Finance expense	**(54)**	**(26)**	**(80)**	(60)	(26)	(86)
Loss from investment at fair value through profit or loss	**(1)**	**-**	**(1)**	-	-	-
Profit/(loss) before tax	**408**	**(115)**	**293**	328	(1,066)	(738)
Tax	**(73)**	**65**	**(8)**	(72)	(29)	(101)
Profit/(loss) for the year	**335**	**(50)**	**285**	256	(1,095)	(839)
Attributable to:						
Non-controlling interests	**3**	**-**	**3**	4	-	4
Equity holders of the parent	**332**	**(50)**	**282**	252	(1,095)	(843)
	335	**(50)**	**285**	256	(1,095)	(839)

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

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.

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

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

Exceptional items:

- During 2018, Hikma incurred $29 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. In 2017, Hikma recognised a $29 million contingent consideration gain from Boehringer Ingelheim as compensation for failure to receive FDA approval of generic Advair Diskus® before 24

December 2017. To obtain approval, the FDA requires the completion of an additional clinical endpoint study. Both the compensation and the repeat clinical study cost have been treated as exceptional items.

- Integration and other costs were incurred in relation to the restructuring of the Columbus manufacturing facility and the closure of the Eatontown manufacturing facility, in addition to the consolidation of the distribution centre in the US, of which $6 million is included in revenue, $16 million is included in cost of sales, $2 million in sales and marketing, $1 million in general and administrative and $5 million in other operating expenses.

- Tax benefit associated with prior year impairment loss recognised in 2018 (note 6).

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

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

- acquisition, integration and other costs were incurred in relation to the acquisition of the Columbus business and disposal the Eatontown plant and were included in the cost of sales, general and administrative expenses, sales and marketing expenses, research and development expenses and other operating expenses (notes 10).
- impairment of the Columbus business goodwill related to the unfavourable industry developments in the US generics industry in the second half of 2017 and was included in other operating expenses (note 9).
- impairment of product related intangible assets, property, plant and equipment and others, related to the impairment of assets of the Columbus business, including product rights, in process R&D, software and property, plant and equipment, and was included in other operating expenses (notes 9 and 10). In addition, impairment of other product-related intangible assets of $4 million which was included in research and development expenses (note 9).
- Contingent consideration gain represents a compensation received from Boehringer Ingelheim for failure to receive FDA approval of generic Advair Diskus® before 24 December 2017 (note 13).
- US tax reform bill represents the estimated impact on the US deferred tax asset of lowering the US federal tax rate which was signed in December 2017 and effective from 1st January 2018 (note 6).

Other adjustments:

Remeasurement of contingent consideration, financial liability and asset represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments receivables in respect of the Columbus business acquisition and the financial liability in relation to the co-development earnout payment agreement in respect of certain generic injectable products that were acquired from Boeringher Ingelheim (note 13,15 and 18). The remeasurement is included in finance expense/income.

hikma.

6. Tax

	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 5) $m	2017 Reported results $m
Current tax:						
Domestic tax	**1**	**-**	**1**	2	-	2
Foreign tax	**36**	**(9)**	**27**	48	(20)	28
Deferred tax						
Current year	**39**	**(43)**	**(4)**	22	49	71
Adjustment to prior year	**(3)**	**(13)**	**(16)**	-	-	-
	73	**(65)**	**8**	**72**	**29**	**101**

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

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

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

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

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

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

Permanent differences relate to items which are non-taxable or for which no tax relief is ever likely to be due. The major items are differences in GAAP between IFRS and local territory GAAP, expenses and income disallowed where

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

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

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

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

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

US tax reform
In 2017, the impact of the US Tax Cuts and Jobs Act of 2017 was restricted to the reduction of the US deferred tax asset, as a result of the fall in the federal corporate income tax rate from 35% to 21%, by $49 million (note 5).

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

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

Publication of tax strategy

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

hikma.

7. Dividends

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

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

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

8. Earnings/(loss) per share

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

	2018 Core results $m	2018 Exceptional items and other adjustments (note 5) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 5) $m	2017 Reported results $m
Earnings/(loss) for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**332**	**(50)**	**282**	252	(1,095)	(843)

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

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

9. Goodwill and Other intangible assets

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

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

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

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

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

Goodwill

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

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

In accordance with the Group policy, goodwill is tested annually for impairment during the fourth quarter or more frequently if there are indications that goodwill may be impaired.
Details related to the discounted cash flow models used in the impairment tests of the CGUs are as follows:

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

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

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

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

Other Intangible Assets

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

In-Process Research and Development (IPR&D)

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

Product Rights

Whenever impairment indicators are identified for definite life intangible assets, Hikma reconsiders the asset's estimated life, calculates the undiscounted value of the assets or asset group's cash flows and compares such value against the asset's or asset group's carrying amount. If the carrying amount is greater, Hikma records an impairment loss for the excess of book value over valuation based on the discounted cash flows by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. The more significant estimates and assumptions inherent in the estimate of the recoverable amount of identifiable intangible assets include all

assumptions associated with forecasting product profitability. As at 31 December 2018, management did not identify any impairment indicators.

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

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

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

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

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

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

10. 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 2017	**530**	**539**	**98**	**192**	**1,359**
Additions	2	7	8	95	112
Adjustments to opening balance	2	1	1	-	4
Disposals	(1)	(4)	(2)	(2)	(9)
Transfers	52	64	7	(123)	-
Translation adjustment	7	12	2	2	23
Balance at 1 January 2018	**592**	**619**	**114**	**164**	**1,489**
Additions	8	15	6	100	129
Acquisition of subsidiaries	7	5	-	-	12
Disposals	(33)	(22)	(4)	(3)	(62)
Transfers	6	18	2	(26)	-
Translation adjustment	(6)	(8)	(1)	(4)	(19)
Balance at 31 December 2018	**574**	**627**	**117**	**231**	**1,549**
Accumulated depreciation					
Balance at 1 January 2017	**(84)**	**(242)**	**(57)**	**(7)**	**(390)**
Charge for the year	(21)	(45)	(11)	-	(77)
Adjustments to opening balance	(2)	(1)	(1)	-	(4)
Disposals	-	1	2	-	3
Impairment (note 5)	(86)	(84)	(5)	(6)	(181)
Translation adjustment	(3)	(8)	(1)	-	(12)
Balance at 1 January 2018	**(196)**	**(379)**	**(73)**	(13)	**(661)**
Charge for the year	(19)	(38)	(12)	-	(69)
Disposals	19	23	4	-	46
Impairment (note 5)	-	(3)	-	-	(3)
Translation adjustment	2	5	1	-	8
Balance at 31 December 2018	**(194)**	**(392)**	**(80)**	**(13)**	**(679)**
Carrying amount					
At 31 December 2018	**380**	**235**	**37**	**218**	**870**
At 31 December 2017	**396**	**240**	**41**	**151**	**828**

Land is not subject to depreciation.

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

In 2018, the Group reported an impairment charge of $3 million, of which $2 million related to the closure of Eatontown (note 5).

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

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

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

hikma.

11. Inventories

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

Inventories are stated net of provisions as follows:

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

12. Trade and other receivables

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

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

13. Other current assets

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

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

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

14. Trade and other payables

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

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

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

15. Other current liabilities

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

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

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

Co-development and earn out payment agreement: The liability mainly relates to the present value of future payments on a co-development and earn out agreement. As part of this agreement, milestone payments dependent on successful clinical development of defined products are received by the Group. In return of receiving such milestone payments, the Group has agreed to pay the contracting party a certain percentage of future sales of those products. As at 31 December 2018, the liability associated with these earn out payments was adjusted to reflect the present value of the expected future cash outflows and the difference is presented as a finance expense. This balance represents the current portion of the liability and the non-current portion is disclosed in note 18.

Supply manufacturing agreement: As part of the acquisition of the Columbus business, the Group entered into supply and manufacturing contracts with the seller, Boehringer Ingelheim. This balance represents the current portion of the liability and the non-current portion is disclosed in note 18.

Indirect rebate and other allowances: represent rebates granted to healthcare authorities and others parties under contractual arrangements with certain customers.

16. Bank overdrafts and loans

	As at 31 December	
	2018	**2017**
	$m	**$m**
Bank overdrafts	**-**	10
Import and export financing	**58**	48
Short-term loans	**7**	1
Current portion of long-term loans (note 17)	**9**	27
	74	86

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

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

17.Long-term financial debts

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

The loans are held at amortised cost.

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

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

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

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

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

18. Other non-current liabilities

	As at 31 December	
	2018	**2017**
	$m	**$m**
Contingent consideration	204	178
Contingent liability	109	109
Supply manufacturing agreement (note 15)	4	25
Co-development and earnout payment (note 15)	7	8
Others	5	4
	329	324

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

19. Share capital

Issued and fully paid – included in shareholders' equity:

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

20. Net cash generated from operating activities

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

21. Fair Value of Financial Assets and Liabilities

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

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

— cash and cash equivalents – due to the short-term maturities of these financial instruments and given that generally they have negligible credit risk, management considers the carrying amounts to be not significantly different from their fair values
— short-term loans and overdrafts – approximates to their fair value because of the short maturity of these instruments
— long-term loans–loans with variable rates are re-priced in response to any changes in market rates and so management considers the carrying amount to be not significantly different from their fair market value
— loans with fixed rates relate to the $500 million Eurobond accounted through amortised cost. The fair value is determined with reference to quoted price in an active market on the consolidated balance sheet date (note 17)
— receivables and payables – the fair values of receivables and payables are estimated to be equal to the respective carrying amounts;
— lease obligations – are valued at the present value of the minimum lease payments

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

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

Financial assets and liabilities that fall under Level 1 are:

— Investment at fair value through profit or loss amounted to $21 million (note 13).

Financial assets and liabilities that fall under Level 3 are:

— Co-development and earnout payment liabilities
— Contingent consideration asset and liability resulting from the acquisition of the Columbus business
— Investment at fair value through other comprehensive income

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

	Financial asset	Financial liability
Balance at 1 January 2017	**39**	**258**
Additions	29	-
Release	(3)	(3)
Remeasurement through income statement (note 5)	2	(65)
Balance at 31 December 2017 and 1 January 2018	**67**	**190**
Restatement on adoption of IFRS 9[1]	16	-
Balance at 1 January 2018 (adjusted)	**83**	**190**
Received/settlement	(45)	(2)
Remeasurement through income statement (note 5)	-	26
Additions	4	-
Fair value adjustments recognised in equity	7	-
Balance at 31 December 2018	**49**	**214**

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

22. Business Combinations

Acquisition of Geber health

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

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

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

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

There was insignificant goodwill as a result of this acquisition.

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

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

23. Related party balances and transactions

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

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

Boehringer Ingelheim (BI): is a related party of Hikma because BI owns 16.6% (2017: 16.6%) of the share capital of Hikma, controls 11.8% (2017: 11.8%) of the voting capital of Hikma, has the right to appoint a director of Hikma and a senior executive of BI holds a directorship of Hikma. The Group total sales to BI amounted to $66.6 million (2017: $79.1 million) and the Group total purchases from BI amounted to $5.1 million (2017: $10.6 million). As at the year end, the amount owed from BI to the Group was $18.1 million (2017: $43.8 million). Additionally, balances arising from the acquisition of the Columbus business from BI relating to contingent consideration are disclosed in note 13,15 and 18.

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

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

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

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

Hubei Haosun Pharmaceutical Co Ltd (Haosun): is a related party of Hikma because the Group holds a 49% interest in the joint venture (JV) with Haosun (2017: 30.1%). During 2018, total purchases from Haosun were $2.3 million (2017: $1.4 million). At 31 December 2018, the amount owed from Haosun to the Group amounted to $0.2 million (2017: $1.6 million). During the year Hikma acquired an additional stake in Haosun bringing the total ownership to 49%.

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

24. Contingent liabilities

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

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

hikma.

25. Subsequent Events

Acquisition of Medlac

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

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

Legal settlement

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

26. Foreign exchange currencies

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

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