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Press Release

# Hikma reports 2017 full year results

**London, 14 March 2018** – Hikma Pharmaceuticals PLC (Hikma, Group) (LSE: HIK) (NASDAQ Dubai: HIK) (OTC: HKMPY) (rated Ba1 Moody's / BB+ S&P, both stable), the multinational generic pharmaceutical company, today reports its preliminary audited results for the year ended 31 December 2017.

**2017 financial summary - core**

- Core Group revenue of $1,936 million, down 1% and in constant currency up 1%[1], despite challenging market conditions in the US
- Core[2] operating profit of $386 million, down 8% and down 4% in constant currency
- Core basic earnings per share of 105.0 cents, down 11% and down 8% in constant currency
- Record cashflow from operations, up 51% to $443 million from $293 million
- Net debt reduced to $546 million from $697 million and healthy leverage ratios maintained

**2017 financial summary - reported**

- Reported Group operating loss of $747 million, down from income of $302 million, primarily due to the impairment of West-Ward Columbus' intangible assets of $920 million and property plant and equipment of $164 million[3]
- Basic loss per share of 351.3 cents, compared to basic earnings per share of 66.5 cents
- Proposed full year dividend of 34 cents per share, up from 33 cents per share

**Strategic update**

- Siggi Olafsson appointed Chief Executive Officer, bringing substantial commercial and operational capabilities and a strong track record of driving performance and delivering growth
- Enhanced the management teams across our three businesses to drive successful strategy execution, strengthen customer relationships and enhance the efficiency of our R&D program
- Commenced consolidation of our Generics' manufacturing facilities and US distribution centres to create further operational efficiencies
- Reinforced our position as partner of choice in MENA through expanded partnership agreements with key partners, Takeda and Celltrion
- Launched 44 new compounds across all markets, expanding our global product portfolio
- Bringing all Hikma companies under a refreshed Hikma corporate brand to drive efficiencies, reduce complexities and mobilise employees to better serve our customers
- Initiating a new clinical endpoint study with respect to our ANDA submission for generic Advair Diskus®

Said Darwazah, Executive Chairman of Hikma, said:

"We delivered a solid performance in 2017 at a challenging time for our industry, demonstrating the benefit of our diversified business model. Profitability in our Branded business remained stable and our Injectables business was resilient, maintaining strong profitability despite new competitors for our top products and benefiting from our strong market position in the US hospital segment.

The increasingly competitive dynamics of the US market, including intense pricing pressure, had a material impact on our Generics business and, in particular, on West-Ward Columbus. This was further impacted

by the delay in approval for our generic version of Advair Diskus®. As a result of these headwinds, we have had to take an impairment related to the West-Ward Columbus business to reflect our updated view of the fair value of this business.

To be more competitive and achieve our ambitious goals, we are making transformational changes across the Group. We recently announced the appointment of Siggi Olafsson as Chief Executive Officer. Siggi is an exceptional leader with extensive experience in the industry. He is the right person to take the business to the next level.

I am confident that the investments we have made across our businesses in 2017 – in our people, our capabilities and our facilities – leave us well positioned to achieve our strategy for growth."

Siggi Olafsson, Chief Executive Officer of Hikma, said:

"Since arriving at Hikma, I can already see the incredible potential of this business and I'm confident that the operational improvements already under way will deliver substantial value to our customers, employees, investors and the wider community."

**Summary financials**

| **Core results** | | Growth | | |
|---|---|---|---|---|
| | **2017 $million** | Constant currency | $ | 2016 $million |
| Core revenue | **1,936** | 1% | -1% | 1,950 |
| Core operating profit | **386** | -4% | -8% | 419 |
| Core EBITDA[4] | **468** | -1% | -5% | 493 |
| Core profit attributable to shareholders | **252** | -5% | -9% | 276 |
| Core basic earnings per share (cents) | **105.0** | -8% | -11% | 118.5 |

| **Reported results** | | Growth | | |
|---|---|---|---|---|
| | **2017 $million** | Constant currency | $ | 2016 $million |
| Revenue | **1,936** | 1% | -1% | 1,950 |
| Operating profit/(loss) | **-747** | -342% | -347% | 302 |
| EBITDA | **488** | 7% | 3% | 473 |
| Profit/(loss) attributable to shareholders | **-843** | -636% | -644% | 155 |
| Basic earnings per share (cents) | **-351.3** | -620% | -628% | 66.5 |

**Enquiries**

**Hikma Pharmaceuticals PLC**

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**About Hikma**

Hikma helps puts better health within reach every day for millions of people in more than 50 countries around the world. For 40 years, we've been creating high-quality medicines and making them accessible to the people who need them. We're 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 8,500 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 3003 2666 or 0808 109 0700 (UK toll free), password 'Hikma'. Alternatively, you can listen live via our website at www.hikma.com. A recording of both the meeting and the call will be available on the Hikma website. The contents of the website do not form part of this preliminary results announcement.

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## Business and financial review

The business and financial review set out below summarises the performance of Hikma's three main business segments, Injectables, Generics and Branded, for the year ended 31 December 2017.

### Group reported revenue by business segment

| $ million | **2017** | | 2016 | |
|---|---|---|---|---|
| Injectables | 776 | 40% | 781 | 40% |
| Generics | 615 | 32% | 604 | 31% |
| Branded | 536 | 28% | 556 | 29% |
| Others | 9 | - | 9 | - |

### Group reported revenue by region

| $ million | **2017** | | 2016 | |
|---|---|---|---|---|
| MENA | 630 | 33% | 641 | 33% |
| US | 1,201 | 62% | 1,211 | 62% |
| Europe and ROW | 105 | 5% | 98 | 5% |

### Injectables

- Global Injectables revenue of $776 million, down 1%
- Strong core operating margin of 40.6%, reflecting a resilient product mix

| $ million | **2017** | 2016 | Change | Constant currency change |
|---|---|---|---|---|
| Revenue | **776** | 781 | -1% | 0% |
| Gross profit | **480** | 505 | -5% | -4% |
| *Gross margin* | **61.9%** | *64.7%* | -2.8pp | -3.0pp |
| Core operating profit | **315** | 340 | -7% | -7% |
| *Core operating margin* | **40.6%** | *43.5%* | -2.9pp | -3.0pp |

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**Injectables reported revenue by region**

| $ million | **2017** | | 2016 | |
|---|---|---|---|---|
| US | **586** | 76% | 607 | 78% |
| MENA | **103** | 13% | 91 | 12% |
| Europe and ROW | **87** | 11% | 83 | 10% |
| Total | **776** | | 781 | |

In 2017, global Injectables revenue declined by 1% to $776 million. In constant currency, global Injectables revenue was in line with 2016.

Of this total, US Injectables revenue was $586 million, down 3% from $607 million in 2016, due to increased competition on certain products with new market entrants and a reduction in contract manufacturing, partially offset by recent product launches and volume gains.

During 2017, MENA Injectables revenue was $103 million, up 13% from $91 million in 2016. In constant currency, MENA Injectables revenue increased by 23%. As expected, sales accelerated in the second half of the year across our markets. In addition, we achieved a strong performance in Sudan and benefitted from the launch of our biosimilar product, Remsima®, in new markets.

European Injectables revenue was $87 million in 2017, up 5%, reflecting a good performance in Italy and Portugal, partially offset by lower sales in Germany due to expected changes in government regulations, restricting direct sales.

Injectables gross profit declined to $480 million in 2017, compared with $505 million in 2016. Gross margin decreased to 61.9%, compared with 64.7% in 2016, reflecting increased competition on some of our higher margin products in the US and a slight increase in overheads due to the expansion of our manufacturing facility in Portugal.

Core operating profit, which excludes the amortisation of intangible assets other than software and exceptional items of $22 million, was $315 million in 2017, down from $340 million in 2016. Core operating margin was 40.6%, compared with 43.5% in 2016. This reflects a change in product mix and a slight increase in operating costs.

During 2017, the Injectables business launched 34 compounds in 88 different dosage forms and strengths across all markets. The Injectables business also received a total of 149 regulatory approvals for products in different dosage forms and strengths across all markets - 61 in the MENA, 65 in Europe and 23 in the US.

In 2017, we reached a licensing agreement with South Korea-based Celltrion, Inc. and Celltrion Healthcare, Inc (Celltrion) for Truxima™ (rituximab), the first biosimilar monoclonal Antibody (mAb) in oncology to be granted European marketing authorisation. We now have exclusive agreements with Celltrion for three biosimilar products - Truxima™ (rituximab), Remsima® (infliximab) and Herzuma® (trastuzumab).

Looking forward, we expect Injectables revenue of between $750 million to $800 million in 2018 and core operating margin to return to more normalised levels in the low to mid 30's.

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**Generics**

- Generics revenue of $615 million, up 2% from $604 million
- Core operating profit of $22 million, compared with $35 million

| $ million | **2017** | 2016 | Change |
|---|---|---|---|
| Revenue | **615** | 604 | 2% |
| Gross profit | **219** | 196 | -12% |
| *Gross margin* | **35.6%** | *32.4%* | -3.2pp |
| Core operating profit | **22** | 35 | -37% |
| *Core operating margin* | **3.6%** | *5.8%* | -2.2pp |

Generics revenue was $615 million in 2017, up from $604 million in 2016. In 2017, Generics revenue included twelve months from West-Ward Columbus, compared with ten months in 2016. We faced significant industry headwinds during the year, primarily due to customer consolidation and greater competition following an increase in generic drug approvals by the US FDA. This resulted in greater than expected price and volume erosion. As expected, revenue growth was also limited by a reduction in contract manufacturing from Boehringer Ingelheim.

Generics gross profit was $219 million in 2017, compared with $196 million in 2016. Excluding the impact of exceptional items, core gross profit was $225 million, in line with 2016. This reflects an increase in costs associated with the development of our generic version of Advair Diskus®, partially offset by a reduction in raw material and overhead costs. Gross margin was 35.6%, and core gross margin was 36.6%, compared with 37.7% in 2016.

Core Generics operating profit was $22 million in 2017, compared with $35 million in 2016, primarily reflecting an increase in general and administrative costs related to strengthening our human resources, finance and technology capabilities, which were only partially offset by lower than expected investment in R&D. Core operating margin was 3.6%, compared with 5.8% in 2016.

The Generics business reported an operating loss of $1,082 million in 2017, largely due to the impairment of the West-Ward Columbus business. An initial impairment of product-related investments of $35 million was taken in the first half of 2017, primarily related to the West-Ward Columbus pipeline and a change in the expected market opportunity of certain products.

In the second half of the year, as pricing pressure increased due to customer consolidation and the pace of FDA approvals accelerated, we further reduced our expectations for the West-Ward Columbus marketed portfolio and pipeline. This has resulted in an additional impairment, primarily related to West-Ward Columbus of $1,070 million.[5] The impairment was slightly offset by a contingent consideration gain of $29 million related to a refund of the West-Ward Columbus acquisition purchase price, given certain regulatory conditions did not occur as expected by 24 December 2017, and which will be used for any future related expenses.

In 2017, we strengthened our Generics management team, recruiting experienced generic pharmaceutical leaders to manage research and development, sales and marketing, business development and the West-Ward Columbus facility. We are confident that going forward the enhanced management team can deliver the changes necessary to improve customer relationships and drive stronger profitability.

During 2017, the Generics business launched 4 compounds in 9 different dosage forms and strengths and received 22 product approvals in different dosage forms and strengths. The Generics business also signed licensing agreements for 2 new products.

Since receiving a complete response letter (CRL) from the FDA on 11 May 2017 with respect to our ANDA submission for generic Advair Diskus®, we have worked collaboratively with the FDA to address the majority of questions raised. Concurrently, we also entered into a dispute resolution process with the FDA with respect of questions raised regarding our clinical endpoint study. The FDA has subsequently concluded this dispute process, upholding their original determination and requiring the completion of a new clinical endpoint study. We have finalised the planning of the new clinical study and expect to start patient enrolment in the coming weeks. We anticipate being able to submit a response to the FDA with new clinical data as early as possible in 2019 and remain committed to bringing this important product to the US market.

We expect Generics revenue to be between $550 million to $600 million in 2018 and core operating margin in the low single digits before adjusting for lower depreciation related to the impairment taken in 2017.

**Branded**

- Branded revenue of $536 million, down 4% and up 2% in constant currency
- Core operating profit of $114 million, slightly ahead of 2016
- Core operating margin of 21.3% and 21.8% in constant currency, up 170 basis points

| $ million | **2017** | 2016 | Change | Constant currency change |
|---|---|---|---|---|
| Revenue | **536** | 556 | -4% | 2% |
| Gross profit | **265** | 282 | -6% | 1% |
| *Gross margin* | **49.4%** | *50.7%* | -1.3pp | -0.4pp |
| Core operating profit | **114** | 112 | 2% | 10% |
| *Core operating margin* | **21.3%** | *20.1%* | 1.2pp | 1.7pp |

On a reported basis, Branded revenue was $536 million, down 4% compared with $556 million in 2016. On a constant currency basis, before the impact of adverse movements in the Egyptian pound and Sudanese pound against the US dollar, Branded revenue increased by 2% to $565 million. The growth on a constant currency basis reflects a strong acceleration in sales in the second half of the year as well as particularly good growth in Egypt, the GCC and Sudan, partially offset by more challenging operating conditions in other markets.

In Egypt, revenue grew by 18% in constant currency due to strong underlying market growth and an improvement in our portfolio mix. In the GCC, which includes Saudi Arabia and the UAE, our businesses delivered a strong performance, with revenue up 5%. In Algeria, our second largest market, revenue was in line with 2016 in constant currency, despite increased import restrictions.

During 2017, the Branded business launched 6 new compounds in 113 different dosage forms and strengths across all markets. The Branded business also received 126 regulatory approvals across the region for products in different dosage forms and strengths.

Revenue from in-licensed products represented 37% of Branded revenue, compared with 39% in 2016. We launched 3 new in-licensed compounds during 2017, including Actosmet®, Duetact® and Tamsin®.

In 2017, we expanded our licensing and distribution agreement with Takeda to add attractive branded products to our MENA portfolio. The agreement builds on our long-standing partnership and enables us to expand our portfolio in key therapeutic areas, including cardiovascular, diabetes and gastroenterology.

On a reported basis, Branded gross profit was $265 million, down 6% from $282 million and gross margin was 49.4%, compared with 50.7% in 2016. In constant currency, gross profit increased by 1% compared with 2016, and gross margin was 50.3%.

Core operating profit, which excludes the amortisation of intangibles of $7 million, was $114 million, slightly ahead of 2016, and core operating margin was 21.3%, up from 20.1%. In constant currency, core operating profit grew by 9.8% and core operating margin increased to 21.8%, up 170 basis points. This improvement in profitability reflects the benefit of more stable exchange rates in 2017 compared to 2016, when we incurred a loss of $17 million as a result of the devaluation of the Egyptian pound against the US dollar.[6]

In 2018, we expect Branded revenue growth in constant currency in the mid-single digits. As in 2017, we expect a stronger second half, reflecting the usual seasonality of this business.

**Other businesses**

Other businesses, which primarily comprise Arab Medical Containers, a manufacturer of plastic specialised medicinal sterile containers, International Pharmaceuticals Research Centre, which conducts bio-equivalency studies, and the API manufacturing division of Hikma Pharmaceuticals Limited Jordan, contributed revenue of $9 million in 2017, in line with 2016. These other businesses made an operating loss of $4 million, compared with an operating loss of $2 million in 2016. This was due to the establishment of a regional hub in Dubai to support our expansion into emerging markets.

**Group**

Group revenue was $1,936 million in 2017, down from $1,950 million in 2016. Group gross profit was $967 million and core gross profit was $973 million, down from $1,018 million. Group gross margin was 49.9% and core gross margin was 50.3%, compared with 52.2% in 2016.

Group operating expenses increased by 151% to $1,714 million. Excluding the amortisation of intangible assets other than software and exceptional items, core Group operating expenses were $587 million, compared with $599 million in 2016. In 2017, amortisation of intangible assets other than software increased to $48 million, compared with $37 million in 2016, due to a significant upgrade of technology systems and the consolidation of an additional two months of West-Ward Columbus. Exceptional items included within operating expenses were $1,127 million, compared with $85 million in 2016. Exceptional items comprised an impairment charge to West-Ward Columbus' intangible assets of $920 million and property plant and equipment of $164 million.[7] The paragraphs below address the Group's main operating expenses in turn.

Sales and marketing (S&M) expenses were $236 million, compared with $221 million in 2016. Excluding the amortisation of intangible assets other than software, S&M expenses were $188 million, up 2% compared to 2016, due to the consolidation of an additional two months of West-Ward Columbus, partially offset by good control of expenses across the Group.

General and administrative (G&A) expenses decreased by $5 million to $239 million in 2017. Excluding exceptional items, G&A expenses increased by $30 million due in part to an increase in G&A costs in the Generics business related to the strengthening of human resources, finance and technology capabilities and the consolidation of an additional two months of West-Ward Columbus.

Research and development (R&D) expenses were $121 million, down from $150 million in 2016. Excluding exceptional items, core R&D expense was $115 million, down from $126 million. This primarily reflects a reduction in R&D expenditure in our Generics business following a detailed review of our R&D pipeline, which reprioritised high-value products and identified opportunities for cost savings and efficiencies. An additional $7 million of product-related investment was capitalised on the balance sheet in 2017. This related to product development investments with third party partners in the US to support growth of our Generics and Injectables business. The combined core R&D expense and product-related investment for the Group was $121 million (6% of Group revenue), compared with $139 million (7% of Group revenue) in 2016.

Other net operating expenses were $1,118 million in 2017, compared with $69 million in 2016. Excluding exceptional items of $1,072 million, primarily related to the impairment of West-Ward Columbus, other net operating expenses were $46 million, down from $81 million in 2016.

The Group reported an operating loss of $747 million in 2017, compared to a reported operating profit of $302 million in 2016. Excluding the impact of amortisation and exceptional items, core Group operating profit decreased by 8% to $386 million and core operating margin was 19.9%, compared with 21.5% in 2016, reflecting lower profitability in our Generics and Injectables businesses.

**Research and development**

The Group's product portfolio continues to grow as a result of our product development efforts. During 2017, we launched 44 new compounds[8]. The Group's portfolio now stands at 658 compounds.

Across all businesses and markets, a total of 214 products[9] were launched during 2017. In addition, the Group received 297 product approvals.

To ensure the continuous development of our product pipeline, we submitted 226 regulatory filings in 2017 across all regions and markets. As of 31 December 2017, we had a total of 846 products pending approval across all regions and markets. At 31 December 2017, we had a total of 147 new compounds under development.

| | Products launched in 2017 | | | Products approved in 2017 | | Products pending approval as at 31 December 2017 | |
|---|---|---|---|---|---|---|---|
| | New compounds[10] | New dosage forms and strengths | Total launches, across all countries[11] | Compounds | Total approvals across all countries[12] | Compounds | Total pending approval, across all countries[12] |
| Injectables | 34 | 36 | 88 | 61 | 149 | 138 | 506 |
| Generics | 4 | 9 | 13 | 9 | 22 | 20 | 39 |
| Branded | 6 | 13 | 113 | 53 | 126 | 66 | 301 |
| Group | 44 | 58 | 214 | 123 | 297 | 224 | 846 |

**Net finance expense**

In 2017, net finance income was $9 million. Excluding non-cash income of $67 million resulting from the remeasurement of contingent liabilities, the Group incurred a net finance expense of $58 million, down from $60 million in 2016. This reduction primarily reflects a decrease in bank charges and lower debt. In 2018, we expect Group net finance expense to be around $55 million.

**Profit/(loss) before tax**

The Group reported a loss before tax of $738 million in 2017, down 451% due to the impairment of the West-Ward Columbus business. Core profit before tax was $328 million, down 9% compared to 2016.

**Tax**

The Group incurred a tax expense of $101 million, up from $52 million in 2016 primarily due to a $49 million write-down to our US deferred tax asset due to new tax regulations in the US described below. Excluding the tax impact of exceptional items, core Group tax expense was $72 million in 2017, down from $80 million in 2016. The core effective tax rate was 22.0%, compared with 22.3% in 2016.

On 22 December 2017, the Cuts and Jobs Act was enacted in the US, reducing the statutory rate of US federal corporate income tax to 21%. As a result, Hikma's measurement of its US deferred tax assets has reduced by $49 million. Going forward, we expect the reduction in the statutory US federal rate to reduce Hikma's effective tax rate, which we now expect will be in the range of 21% to 22% in 2018.

**Profit/(loss) attributable to shareholders**

Loss attributable to shareholders was $843 million, compared with profit of $155 million in 2016. Core profit attributable to shareholders decreased by 9% to $252 million, compared with $276 million in 2016.

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**Earnings per share**

Basic loss per share was 351.3 cents in 2017, compared to basic earnings per share of 66.5 cents in 2016. Core basic earnings per share decreased by 11% to 105.0 cents, compared with 118.5 cents in 2016. Core diluted earnings per share decreased by 11% to 104.6 cents, compared with 117.9 cents in 2016.

**Dividend**

The Board is recommending a final dividend of 23 cents per share (approximately 16 pence per share) bringing the total dividend for the full year to 34 cents per share (approximately 24 pence), up from 33 cents per share in 2016. The proposed dividend will be paid on 24 May 2018 to shareholders on the register on 6 April 2018, subject to approval at the Annual General Meeting on 18 May 2018.

**Net cash flow, working capital and net debt**

The Group generated operating cash flow of $443 million in 2017, compared with $293 million in 2016. In 2016, Group operating cash flow was negatively impacted by the investment in working capital required to support West-Ward Columbus following the acquisition in February 2016. Group working capital days were 225 days at December 2017, down from 240 days at December 2016, primarily driven by an improvement in receivables in the US, following the integration of West-Ward Columbus.[13]

Capital expenditure was $107 million, compared with $122 million in 2016. Of this, around $67 million was spent in the US to expand the manufacturing capacity and capabilities of our Injectables and Generics businesses. In the MENA region, around $25 million was spent to maintain and upgrade our equipment and facilities across a number of markets. Approximately $15 million was spent in Europe, building our dedicated oncology facility in Portugal. We expect Group capital expenditure in the range of $120 million to $140 million in 2018.

The Group's net debt (excluding co-development agreements and contingent liabilities) stood at $546 million at the end of December 2017, compared with $697 million at the end of December 2016.[14] The reduction reflects the increase in cash flow from operations.

**Balance sheet**

Net assets at 31 December 2017 were $1,528 million, compared to $2,411 million at 31 December 2016. The decrease in net assets reflects the impairment of the West-Ward Columbus business.[15] Net current assets were $777 million, compared to $530 million at 31 December 2016.

**Outlook**

We expect Injectables revenue in 2018 will be in the range of $750 million to $800 million, as increased competition in the US is offset by new launches and continued growth in the MENA and Europe. We expect core Injectables operating margin to return to more normalised levels in the low to mid 30's in 2018, reflecting the expected change in product mix.

In our Generics business, we are actively pursuing new commercial opportunities and focusing on the execution of our pipeline to help offset continuing price erosion. We are also identifying further cost savings for this business, which will include the consolidation of our non-injectables manufacturing operations and distribution centres in the US. We expect Generics revenues in 2018 will be in the range of $550 million to $600 million and core Generics operating margin in the low single digits before adjusting for lower depreciation related to the impairment taken in 2017.

We expect Branded revenue growth in constant currency in the mid-single digits as we benefit from new launches of our branded generics and in-licensed products across our key markets. As in 2017, we expect a stronger second half, reflecting the usual seasonality of this business.

Across the Group, we are focused on delivering value from our marketed products, investing in our pipeline and enhancing the efficiency of our operations, to ensure we are well positioned for future growth.

**Responsibility statement**

The responsibility statement below has been prepared for the year ended 31 December 2017. 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

| | |
|---|---|
| Said Darwazah | Khalid Nabilsi |
| Executive Chairman | Chief Financial Officer |

14 March 2018

**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.

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**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 adjusted numbers may be calculated differently to other companies.

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

*Core results*

Reported results represent the Group's overall performance. However, these results can include one-off or non-cash items that mask the underlying performance of the Group. To provide a more complete picture of the Group's performance to external audiences, we provide, alongside our reported results, core results, which are a non-IFRS measure. Reconciliation between core and adjusted results are provided in our Financial Statements.

Our core results exclude the exceptional items and other adjustments set out in Note 4.

*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 2017 represent reported 2017 numbers re-stated using average exchange rates in 2016, excluding price increased in the Branded business which resulted from the devaluation of currencies.

*Working capital days*

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

*Group net debt*

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

**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 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 the Hikma or any of its members, directors, officers or employees or any person acting on their behalf are expressly qualified in their entirety by the cautionary statement above. Past share performance cannot be relied on as a guide to future performance. Nothing in this announcement should be construed as a profit forecast.

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

**Principal risks and uncertainties**

The Group faces risks and uncertainties that could have a material impact on its earnings and ability to trade in the future. These are determined via robust assessment considering our risk context by the Board of Directors with input from executive management. These risks and uncertainties are set out below. The contents of this table should not be considered as an exhaustive list of all the risks and uncertainties the Group faces.

The Board is satisfied that these risks are being managed appropriately and consistently with the target risk appetite.

| Risk and description | Mitigating actions |
|---|---|
| Industry earnings | |
| The commercial viability of the industry and business model we operate may change significantly as a result of political action, economic factors, societal pressures, regulatory interventions or changes to participants in the value chain of the industry. | • Securing of key talent to manage complex commercial environment and develop business<br>• Growth and expansion in new markets, with new products and in new therapeutic areas<br>• Portfolio management programme to focus on strategic products that support revenue, profit and margin targets<br>• Development of capacity, diversification of capability through differentiated technology, and investment in local markets<br>• Active product life cycle and pricing management across all regions<br>• Continuous alignment of commercial and R&D organisations to identify market opportunities and meet demand through internal portfolio<br>• Collaboration with external partners for development and in-licensing partnerships |
| Product pipeline | |
| Identifying, developing and registering supply of new products from the pipeline that meet market needs to provide continuous source of future growth | • Partner marketing and business development departments to monitor and assess the market for arising opportunities<br>• Expansive global product portfolio with increased focus on high value and differentiated products<br>• Experienced internal R&D teams developing products and overseeing joint venture activities<br>• Product related acquisitions bolster pipeline<br>• Third party pharmaceutical product specialists brought in to assist in the development of manufacturing processes for new generic products. |
| Organisational development | |

| | |
|---|---|
| Developing, maintaining and adapting organizational structures, management processes and controls, and talent pipeline to enable effective delivery by the business in the face of rapid and constant internal and external change | • Strengthening executive experience with key talent to fill strategic global positions, including appointment of new CEO<br>• Investment in group-wide human capital management system<br>• Developing global HR programmes that attract, manage and develop talent within the organisation<br>• Review of organisation design, structures and accountabilities to maintain empowerment in decision making and bring appropriate level of governance |
| Reputation | |
| Building and maintaining trusting and successful partnerships with our many stakeholders relies on developing and sustaining our reputation as one of our most valuable assets. | • Launch of new corporate brand to better communicate our values, purpose and strategy<br>• Internal and external monitoring for early detection and monitoring of issues that may impact reputation<br>• Investment and group alignment of corporate responsibility and ethics through transparent reporting and compliance with global best practices and strategic industry and community partnerships<br>• Communication and engagement programmes on appropriate use of products<br>• Globalising communication and corporate affairs capabilities |
| Ethics and compliance | |
| Maintaining a culture underpinned by ethical decision making, with appropriate internal controls to ensure staff and third parties comply with our Code of Conduct, associated principles and standards, as well as all applicable legislation | • Board level oversight from the Compliance, Responsibility and Ethics Committee<br>• Code of Conduct approved by the Board, translated into seven languages and rolled out to all employees<br>• Active participation in international anti-corruption initiatives<br>• Anti-bribery and corruption, Sales and marketing, and other compliance programmes implemented and monitored through internal compliance assessments, Sales and marketing, and other compliance programmes implemented and monitored through internal compliance assessments<br>• Development of third party due diligence and oversight programme |
| Information, technology and infrastructure | |

| | |
|---|---|
| Ensuring integrity of data, securing information stored and/or processed internally or externally, maintaining and developing technology systems that enable business processes, and in ensuring infrastructure supports the organisation effectively | • IT organisational structure designed to enable coordinated, consistent and comprehensive enterprise approach<br>• Industry-standard information security solutions and best practice processes adopted and adapted for local and Group requirements<br>• Cyber-risk activity monitored and changes implemented as necessary to combat evolving threats<br>• Partnership established with strategic third parties to implement and maintain a robust Group wide information security programme<br>• Investment in enterprise-wide standardisation initiative incorporating data management, access and process control and risk management |
| Legal, regulatory and intellectual property | |
| Adapting to changes in laws, regulations and their application, managing litigation, governmental investigations, sanctions, contractual terms and conditions and potential business disruptions | • Internal expertise drives awareness and understanding through policies, processes, and compliance culture<br>• Staff trained and contractual terms established to mitigate or lower risks where possible<br>• Expert external advice procured to provide independent services and ensure highest standards<br>• Board of Directors and executive management provide leadership and take action |
| Inorganic growth | |
| Identifying, accurately pricing and/or realising expected benefits from acquisitions or divestments, licensing, or other business development activities | • The mergers and acquisitions team undertake extensive due diligence of each acquisition in partnership with external advisors including financial and legal advisors, investment banks, and industry specialists in order to strategically identify, value, and execute transactions.<br>• Executive Committee reviews major acquisitions before they are considered by the Board<br>• The Board is willing and has demonstrated its ability to refuse acquisitions where it considers the price or risk is too high<br>• Dedicated integration project teams are assigned for the acquisition, which are led by the business head responsible for proposing the opportunity. Following the acquisition of a target, the finance team, the management team and the Audit Committee closely monitor its financial and non-financial performance<br>• Post-transaction reviews highlight opportunities to improve effectiveness of processes |

| | |
|---|---|
| Supply chain and API sourcing | |
| Maintaining continuity of supply of finished product and managing cost, quality and appropriate oversight of third parties in our supply chain<br><br>API and raw materials represent one of the Group's largest cost components. As is typical in the pharmaceuticals industry, a significant proportion of the Group's API requirements is provided by a small number of API suppliers | • Implementing comprehensive group wide third party management solution<br>• Maintaining alternative API suppliers for the Group's top strategic products, where possible<br>• Rigorous selection process for API suppliers and focus on building long-term supply contracts<br>• The Group has a dedicated plant in Jordan that can synthesise strategic injectable APIs where appropriate<br>• Utilising supply chain models to maintain adequate API levels<br>• Strengthening trade compliance capability to ensure compliance and drive efficiency<br>• Serialisation programme ensuring roll out across the group |
| Crisis response and continuity management | |
| Preparedness, response, continuity and recovery from crisis events such as natural catastrophe, economic turmoil, operational issues, political crisis, regulatory intervention | • Central oversight being established of systems, processes, and capabilities to enhance our Group-wide resilience and preparedness<br>• Programme being rolled out to enhance our ability to respond effectively to crises, and to expedite the restoration of critical processes after disruption.<br>• Engagement with key third parties involved in preparedness, response and recovery<br>• Corporate insurance programme reviewed and updated to ensure appropriate coverage of high impact low likelihood events |
| Product Quality | |
| Maintaining compliance with current Good Practices for Manufacturing (cGMP), Laboratory (cGLP), Distribution (cGDP) and pharmacovigilance (GVP) by staff, and ensuring compliance is maintained by all relevant third parties involved in these processes | • Quality culture driven throughout the organisation by global Quality office initiatives, and regularly reinforced by communication from senior executives<br>• Global implementation of quality systems that guarantee valid consistent manufacturing processes leading to the production of quality products<br>• Facilities are maintained as inspection ready for assessment by relevant regulators<br>• Documented procedures are continuously improved and staff receive training on those procedures on a regular basis<br>• Continued environment and health certifications<br>• Global pharmacovigilance programme in place and being |

| | |
|---|---|
| | enhanced |
| Financial control and reporting | |
| Effectively managing treasury activities, tax position, income, expenditure, assets and liabilities, and debtors, and in reporting accurately and in a timely manner in compliance with statutory requirements and accounting standards. | • Extensive financial control procedures implemented and assessed annually as part of the internal audit programme<br>• A network of banking partners is maintained for lending and deposits<br>• Management monitors debtor payments and takes precautionary measures and action where necessary<br>• Where it is economic and possible to do so, the Group hedges its exchange rate and interest rate exposure<br>• Management obtains external advice to help manage tax exposures and has upgraded internal tax control systems<br>• Introduction of new automated financial consolidation module |

[1] Constant currency numbers in 2017 represent reported 2017 numbers re-stated using average exchange rates in 2016, excluding price increases in the Branded business which resulted from the devaluation of currencies.
[2] Core results are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 4.
[3] See Notes 8 and 9.
[4] Core results are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 4. EBITDA is earnings before interest, tax, depreciation, amortisation and the impairment charge.
[5] See Notes 8 and 9.
[6] In November 2016, the Egyptian pound had devalued against the US dollar from its peg of 8:8 EGP:USD to 18.2 EGP:USD as of 31 December 2016.
[7] See Notes 8 and 9.
[8] Compounds are defined as pharmaceutical compounds in the Group's portfolio and pipeline.
[9] Products refer to dosage forms and strengths, across all markets.
[10] New compounds are defined as pharmaceutical compounds being introduced for the first time during the period.
[11] Total launches include all dosage forms and strengths that are new product launches, new geographic launches, as well as relaunches.
[12] Total include all dosage forms and strengths that are either approved or pending approval across all markets.
[13] Group working capital days are calculated as Group receivable days plus Group inventory days, less Group payable days.
[14] Group net debt is calculated as Group total debt less Group total cash.
[15] See Notes 8 and 9.

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**CONSOLIDATED INCOME STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Note | 2017 Core results $m | 2017 Exceptional items and other adjustments (note 4) $m | 2017 Reported results $m | 2016 Core results $m | 2016 Exceptional items and other adjustments (note 4) $m | 2016 Reported results $m |
|---|---|---|---|---|---|---|---|
| Revenue | 3 | **1,936** | **-** | **1,936** | 1,950 | - | 1,950 |
| Cost of sales | 3 | **(963)** | **(6)** | **(969)** | (932) | (32) | (964) |
| **Gross profit** | 3 | **973** | **(6)** | **967** | 1,018 | (32) | 986 |
| Sales and marketing expenses | | **(188)** | **(48)** | **(236)** | (184) | (37) | (221) |
| General and administrative expenses | | **(238)** | **(1)** | **(239)** | (208) | (36) | (244) |
| Research and development expenses | | **(115)** | **(6)** | **(121)** | (126) | (24) | (150) |
| Other operating expenses (net) | | **(46)** | **(1,072)** | **(1,118)** | (81) | 12 | (69) |
| Total operating expenses | | **(587)** | **(1,127)** | **(1,714)** | (599) | (85) | (684) |
| **Operating profit/(loss)** | 3 | **386** | **(1,133)** | **(747)** | 419 | (117) | 302 |
| Finance income | | **2** | **93** | **95** | 3 | 9 | 12 |
| Finance expense | | **(60)** | **(26)** | **(86)** | (63) | (41) | (104) |
| **Profit/(loss) before tax** | | **328** | **(1,066)** | **(738)** | 359 | (149) | 210 |
| Tax | 5 | **(72)** | **(29)** | **(101)** | (80) | 28 | (52) |
| **Profit/(loss) for the year** | | **256** | **(1,095)** | **(839)** | 279 | (121) | 158 |
| Attributable to: | | | | | | | |
| Non-controlling interests | | **4** | - | **4** | 3 | - | 3 |
| **Equity holders of the parent** | | **252** | **(1,095)** | **(843)** | 276 | (121) | 155 |
| | | **256** | **(1,095)** | **(839)** | 279 | (121) | 158 |
| **Earnings/(loss) per share (cents)** | | | | | | | |
| Basic | 7 | **105.0** | | **(351.3)** | 118.5 | | 66.5 |
| Diluted | 7 | **104.6** | | **(349.8)** | 117.9 | | 66.2 |

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Note | **2017 Core results $m** | **2017 Exceptional Items and other adjustments (note 4) $m** | **2017 Reported results $m** | 2016 Core results $m | 2016 Exceptional Items and other adjustments (note 4) $m | 2016 Reported results $m |
|---|---|---|---|---|---|---|---|
| **Profit/(loss) for the year** | | **256** | **(1,095)** | **(839)** | 279 | (121) | 158 |
| **Other Comprehensive Income/(loss)** | | | | | | | |
| Items that may be reclassified subsequently to the income statement, net of tax: | | | | | | | |
| Effect of change in investment designated at fair value | | **2** | **-** | **2** | 1 | - | 1 |
| Exchange difference on translation of foreign operations | | **20** | **-** | **20** | (90) | - | (90) |
| **Total comprehensive income/(loss) for the year** | | **278** | **(1,095)** | **(817)** | 190 | (121) | 69 |
| Attributable to: | | | | | | | |
| Non-controlling interests | | **3** | **-** | **3** | - | - | - |
| **Equity holders of the parent** | | **275** | **(1,095)** | **(820)** | 190 | (121) | 69 |
| | | **278** | **(1,095)** | **(817)** | 190 | (121) | 69 |

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**CONSOLIDATED BALANCE SHEET**
**AT 31 DECEMBER 2017**

| | Note | **2017 $m** | 2016 $m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 8 | **282** | 682 |
| Other intangible assets | 8 | **503** | 1,037 |
| Property, plant and equipment | 9 | **828** | 969 |
| Investment in associates and joint ventures | | **6** | 7 |
| Deferred tax assets | | **135** | 172 |
| Financial and other non-current assets | | **60** | 48 |
| | | **1,814** | 2,915 |
| **Current assets** | | | |
| Inventories | 10 | **488** | 459 |
| Income tax receivable | | **53** | 2 |
| Trade and other receivables | 11 | **707** | 759 |
| Collateralised and restricted cash | | **4** | 7 |
| Cash and cash equivalents | | **227** | 155 |
| Other current assets | | **95** | 66 |
| | | **1,574** | 1,448 |
| **Total assets** | | **3,388** | 4,363 |
| **Current liabilities** | | | |
| Bank overdrafts and loans | | **86** | 117 |
| Trade and other payables | 12 | **365** | 343 |
| Income tax provision | | **82** | 112 |
| Other provisions | | **26** | 27 |
| Other current liabilities | 13 | **238** | 319 |
| | | **797** | 918 |
| **Net current assets** | | **777** | 530 |
| **Non-current liabilities** | | | |
| Long-term financial debts | 14 | **670** | 721 |
| Obligations under finance leases | | **20** | 21 |
| Deferred tax liabilities | | **49** | 15 |
| Other non-current liabilities | 15 | **324** | 277 |
| | | **1,063** | 1,034 |
| **Total liabilities** | | **1,860** | 1,952 |
| **Net assets** | | **1,528** | 2,411 |
| **Equity** | | | |
| Share capital | 16 | **40** | 40 |
| Share premium | | **282** | 282 |
| Own shares | | **(1)** | (1) |
| Other reserves | | **1,193** | 2,075 |
| **Equity attributable to equity holders of the parent** | | **1,514** | 2,396 |
| Non-controlling interests | | **14** | 15 |
| **Total equity** | | **1,528** | 2,411 |

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Merger and Revaluation reserves | Translation reserves | Retained earnings | Total reserves | Share capital | Share premium | Own shares | Equity attributable to equity shareholders of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| **Balance at 1 January 2016** | 38 | (161) | 1,144 | 1,021 | 35 | 282 | (1) | 1,337 | 15 | 1,352 |
| Profit for the year | - | - | 155 | 155 | - | - | - | 155 | 3 | 158 |
| Effect of change in investment designated at fair value | - | - | 1 | 1 | - | - | - | 1 | - | 1 |
| Currency translation loss | - | (87) | - | (87) | - | - | - | (87) | (3) | (90) |
| **Total comprehensive Income/(loss) for the year** | - | (87) | 156 | 69 | - | - | - | 69 | - | 69 |
| **Total transactions with owners, recognised directly in equity** | | | | | | | | | | |
| Issue of equity shares for acquisition of subsidiary | 1,039 | - | - | 1,039 | 5 | - | - | 1,044 | - | 1,044 |
| Cost of equity-settled employee share scheme | - | - | 22 | 22 | - | - | - | 22 | - | 22 |
| Deferred tax arising on share-based payments | - | - | 1 | 1 | - | - | - | 1 | - | 1 |
| Dividends on ordinary shares (note 6) | - | - | (77) | (77) | - | - | - | (77) | (1) | (78) |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | - | 1 | 1 |
| **Balance at 31 December 2016 and 1 January 2017** | 1,077 | (248) | 1,246 | 2,075 | 40 | 282 | (1) | 2,396 | 15 | 2,411 |
| Loss for the year** | (1,039) | - | 196 | (843) | - | - | - | (843) | 4 | (839) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Effect of change in investment designated at fair value | - | - | 1 | 1 | - | - | - | 1 | - | 1 |
| Currency translation gain/(loss) | - | 21 | - | 21 | - | - | - | 21 | (1) | 20 |
| **Total comprehensive (loss)/ income for the year** | (1,039) | 21 | 197 | (821) | - | - | - | (821) | 3 | (818) |
| **Total transactions with owners, recognised directly in equity** | | | | | | | | | | |
| Cost of equity-settled employee share scheme | - | - | 22 | 22 | - | - | - | 22 | - | 22 |
| Dividends on ordinary shares (note 6) | - | - | (79) | (79) | - | - | - | (79) | (2) | (81) |
| Adjustment arising from change in non-controlling interests* | - | - | (4) | (4) | - | - | - | (4) | (2) | (6) |
| **Balance at 31 December 2017** | **38** | **(227)** | **1,382** | **1,193** | **40** | **282** | **(1)** | **1,514** | **14** | **1,528** |

*During the year the Group acquired the remaining stake in Ibn Al Baytar bringing the total ownership to 100%. This was completed in April 2017.
** A loss of $1,039 million have been allocated from retained earnings to the merger and revaluation reserve in relation to West-Ward Columbus impairment (note 4,8,9)

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## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017 $m | 2016 $m |
|---|---|---|---|
| **Cash generated from operating activities** | 17 | **546** | **369** |
| Income tax Paid | | (103) | (76) |
| **Net cash generated from operating activities** | | **443** | **293** |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | | (107) | (122) |
| Proceeds from disposal of property, plant and equipment | | 4 | 1 |
| Purchase of intangible assets | | (44) | (68) |
| Proceeds from disposal of intangible assets | | - | 24 |
| Cash received from investment in joint ventures | | 2 | - |
| Investment in financial and other non-current assets | | (2) | (11) |
| Investment in available for sale investments | | (8) | (6) |
| Acquisition of business undertakings net of cash acquired* | | 3 | (515) |
| Finance income | | 1 | 2 |
| **Net cash used in investing activities** | | **(151)** | **(695)** |
| **Financing activities** | | | |
| Increase/(decrease) in collateralised and restricted cash | | 3 | (4) |
| Proceeds from issue of long-term financial debts | | 349 | 471 |
| Repayment of long-term financial debts | | (401) | (326) |
| Proceeds from short-term borrowings | | 323 | 345 |
| Repayment of short-term borrowings | | (349) | (337) |
| Dividends paid | | (79) | (77) |
| Dividends paid to non-controlling shareholders of subsidiaries | | (2) | (1) |
| Interest paid | | (57) | (54) |
| Purchase of non-controlling interest in subsidiary | | (6) | - |
| (Payment)/proceeds from co-development and earnout payment agreement, net | | (1) | 2 |
| **Net cash (used in)/generated by financing activities** | | **(220)** | **19** |
| **Net increase/(decrease) in cash and cash equivalents** | | **72** | **(383)** |
| **Cash and cash equivalents at beginning of year** | | **155** | **553** |
| Foreign exchange translation movements | | **-** | (15) |
| **Cash and cash equivalents at end of year** | | **227** | **155** |

* During the year, the Group received a $3 million payment from Boehringer Ingelheim in respect of the price adjustment receivable to the West-Ward Columbus acquisition.

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**Notes to the Consolidated Financial Statements**

**1.Accounting Policies**

**Basis of preparation**

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under S498 (2) or (3) of the Companies Act 2006. Hikma Pharmaceuticals PLC's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared under the historical cost convention, except for the revaluation to market of certain financial assets and liabilities. The preliminary announcement is based on the Company's financial statements. The Group's previously published financial statements were also prepared in accordance with International Financial Reporting Standards. These International Financial Reporting Standards have been subject to amendment and interpretation by the International Accounting Standards Board and the financial statements presented for the years ended 31 December 2017 and 31 December 2016 have been prepared in accordance with those revised standards. Unless stated otherwise, these policies are in accordance with the revised standards that have been applied throughout the year and prior years presented in the financial statements. The presentational and functional currency of Hikma Pharmaceuticals PLC is the US Dollar as the majority of the Company's business is conducted in US Dollars ($).

**1. Adoption of new and revised standards**

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

| | |
|---|---|
| IAS 7 (Amendments) | Statement of cash flows on disclosure initiative |

The following Standards and Interpretations have not been applied in these financial statements because while in issue, are not yet effective (and in some cases, had not yet been adopted by the EU):

| | |
|---|---|
| IFRS 9 | Financial instruments |
| IAS 12 (Amendments) | Income taxes on Recognition of deferred tax assets for unrealised losses |
| IFRS 15 | Revenue from contracts with customers |
| IFRS 15 (Amendments) | Revenue from contracts with customers |
| IFRS 40 (Amendments) | Investment property |
| IFRS 4 (Amendments) | Insurance contracts |
| IFRS 16 | Leases |
| IFRS 2 (Amendments) | Share based payment |
| IFRIC 22 | Foreign currency transactions and advance considerations |
| IFRIC 23 | Uncertainty over income tax treatments |
| IFRS 17 | Insurance contracts |

Annual improvements 2014-2016

Annual improvements 2015-2017

**IFRS 9 Financial instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The new version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required; but providing comparative information is not mandatory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the effective date and will not restate comparative information.

**(a) Classification and measurement**

The Group does not expect a significant impact on its balance sheet or equity upon applying the classification and measurement requirements of IFRS 9.

Loans as well as trade receivables are generally held to collect contractual cash flows and are expected to give rise to cash flows solely representing payments of principal and interest. The Group believes that the contractual cash flow characteristics of those instruments meet the criteria for amortised cost measurement under IFRS 9 and any reclassification of these instruments is estimated to be minimal.

**(b) Impairment**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables and will not restate comparative information. During 2017, the Group has performed an impact assessment of IFRS 9 to estimate the additional provision to be recorded resulting from the expected credit loss from its trade receivables and anticipated no significant change in level of impairment recognised compared to that based on current procedures.

**IFRS 15 Revenue from contracts with customers**

The IASB issued IFRS 15 Revenue from contracts with customers (“IFRS 15”) in May 2014. Subsequent amendments, “Clarifications to IFRS 15,” were issued in April 2016. Both of these have now been endorsed by the EU. The new amended standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and other existing revenue interpretations.

IFRS 15 sets out new requirements for recognising revenue and costs from contracts with customers. In particular, it outlines new principles for an entity to follow in determining the measurement and recognition of revenue using a five-step model. This model requires revenue to be recognised when or as goods or services are transferred to customers based on the consideration to which the entity expects to be entitled.

The new standard is required to be applied by the Group from 1 January 2018 and hence IFRS 15 will be adopted in the financial statements for the year ending 31 December 2018.

While our assessment remains ongoing, from work performed to date, which has included a detailed review of some of our largest customer contracts:

- As the majority of the Group’s revenues are derived from the supply of goods, (i.e. a single performance obligation), the transition to IFRS 15 is not anticipated to have a significant impact on the Group’s revenue recognition (including the approach applied under IAS 18 for estimating chargebacks, returns, rebates and price adjustments); and
- it is currently anticipated that the standard will be adopted on a modified retrospective basis.

It is, though, noted that the Group's current accounting policy to defer revenue recognition in isolated circumstances where dynamic market circumstances mean that the ultimate net selling price cannot be reliably measured (as currently applied under IAS 18), will need to be revised. IFRS 15 requires variable consideration to be included in the transaction price (albeit only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur). As the Group has rarely deferred revenue under IAS 18 on the basis of being unable to reliably measure the ultimate net selling price, this change in the Group's stated accounting policy is not anticipated to give rise to a significant difference.

**2. Going concern**

The Directors have, at the time of approving the 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 financial statements.

**3. Business and geographical 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.

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

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

| **Injectables**<br>**Year ended 31 December 2017** | **2017 Core results $m** | **2017 Exceptional items and other adjustments (note 4) $m** | **2017 Reported results $m** | 2016 Core results $m | 2016 Exceptional items and other adjustments (note 4) $m | 2016 Reported results $m |
|---|---|---|---|---|---|---|
| Revenue | **776** | **-** | **776** | 781 | - | 781 |
| Cost of sales | **(296)** | **-** | **(296)** | (276) | - | (276) |
| **Gross profit** | **480** | **-** | **480** | 505 | - | 505 |
| Total operating expenses | **(165)** | **(22)** | **(187)** | (165) | (28) | (193) |
| **Segment result** | **315** | **(22)** | **293** | 340 | (28) | 312 |

| Generics<br>Year ended 31 December 2017 | **2017 Core results $m** | **2017 Exceptional items and other adjustments (note 4) $m** | **2017 Reported results $m** | 2016 Core results $m | 2016 Exceptional items and other adjustments (note 4) $m | 2016 Reported results $m |
|---|---|---|---|---|---|---|
| Revenue | **615** | **-** | **615** | 604 | - | 604 |
| Cost of sales | **(390)** | **(6)** | **(396)** | (376) | (32) | (408) |
| **Gross profit** | **225** | **(6)** | **219** | 228 | (32) | 196 |
| Total operating expenses | **(203)** | **(1,098)** | **(1,301)** | (193) | (17) | (210) |
| **Segment result** | **22** | **(1,104)** | **(1,082)** | 35 | (49) | (14) |

The Generics segment includes the results of the West-Ward Columbus business.

| Branded<br>Year ended 31 December 2017 | **2017 Core results $m** | **2017 Exceptional items and other adjustments (note 4) $m** | **2017 Reported results $m** | 2016 Core results $m | 2016 Exceptional items and other adjustments (note 4) $m | 2016 Reported results $m |
|---|---|---|---|---|---|---|
| Revenue | **536** | **-** | **536** | 556 | - | 556 |
| Cost of sales | **(271)** | **-** | **(271)** | (274) | - | (274) |
| **Gross profit** | **265** | **-** | **265** | 282 | - | 282 |
| Total operating expenses | **(151)** | **(7)** | **(158)** | (170) | (8) | (178) |
| **Segment result** | **114** | **(7)** | **107** | 112 | (8) | 104 |

| Others<br>Year ended 31 December 2017 | **2017 Core results**<br>**$m** | **2017 Exceptional items and other adjustments (note 4)**<br>**$m** | **2017 Reported results**<br>**$m** | 2016 Core results<br>$m | 2016 Exceptional items and other adjustments (note 4)<br>$m | 2016 Reported results<br>$m |
|---|---|---|---|---|---|---|
| Revenue | **9** | **-** | **9** | 9 | - | 9 |
| Cost of sales | **(6)** | **-** | **(6)** | (6) | - | (6) |
| **Gross profit** | **3** | **-** | **3** | 3 | - | 3 |
| Total operating expenses | **(7)** | **-** | **(7)** | (5) | - | (5) |
| **Segment result** | **(4)** | **-** | **(4)** | (2) | - | (2) |

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

| Group<br>Year ended 31 December 2017 | **2017 Core results**<br>**$m** | **2017 Exceptional items and other adjustments (note 4)**<br>**$m** | **2017 Reported results**<br>**$m** | 2016 Core results<br>$m | 2016 Exceptional items and other adjustments (note 4)<br>$m | 2016 Reported results<br>$m |
|---|---|---|---|---|---|---|
| Revenue | **1,936** | **-** | **1,936** | 1,950 | - | 1,950 |
| Cost of sales | **(963)** | **(6)** | **(969)** | (932) | (32) | (964) |
| **Gross profit** | **973** | **(6)** | **967** | 1,018 | (32) | 986 |
| Total operating expenses | **(526)** | **(1,127)** | **(1,653)** | (533) | (53) | (586) |
| **Segment result** | **447** | **(1,133)** | **(686)** | 485 | (85) | 400 |
| Unallocated expenses | **(61)** | **-** | **(61)** | (66) | (32) | (98) |
| **Operating profit/(loss)** | **386** | **(1,133)** | **(747)** | 419 | (117) | 302 |
| Finance income | **2** | **93** | **95** | 3 | 9 | 12 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Finance expense | **(60)** | **(26)** | **(86)** | (63) | (41) | (104) |
| **Profit/(loss) before tax** | **328** | **(1,066)** | **(738)** | 359 | (149) | 210 |
| Tax | **(72)** | **(29)** | **(101)** | (80) | 28 | (52) |
| **Profit/(loss) for the year** | **256** | **(1,095)** | **(839)** | 279 | (121) | 158 |
| Attributable to: | | | | | | |
| Non-controlling interests | **4** | **-** | **4** | 3 | - | 3 |
| **Equity holders of the parent** | **252** | **(1,095)** | **(843)** | 276 | (121) | 155 |
| | **256** | **(1,095)** | **(839)** | 279 | (121) | 158 |

Unallocated corporate expenses mainly comprise of employee costs, third party professional fees, travel expenses, rent expenses and donations (2016 comprise of employee costs, third party professional fees, travel expenses, donations and acquisition – related expenses).

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

| | **2017 $m** | 2016 $m |
|---|---|---|
| United States | **1,201** | 1,211 |
| Middle East and North Africa | **630** | 641 |
| Europe and Rest of the World | **103** | 95 |
| United Kingdom | **2** | 3 |
| | **1,936** | 1,950 |

The top selling markets were as below:

| | **2017 $m** | 2016 $m |
|---|---|---|
| United States | **1,201** | 1,211 |
| Saudi Arabia | **157** | 143 |
| Algeria | **106** | 115 |
| | **1,464** | 1,469 |

Included in revenues arising from the Generics and Injectables segments are revenues of approximately $301 million (2016: $253 million) which arose from the Group's largest customer which is located in the United States.

**4. Exceptional items and other adjustments**

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

| *Exceptional items* | **2017 $m** | 2016 $m |
|---|---|---|
| Impairment of West-Ward Columbus goodwill | **(407)** | - |
| Impairment of product related intangible assets, software, property, plant and equipment and others | **(681)** | (6) |
| Impairment of property, plant and equipment | **(17)** | (10) |
| Contingent consideration gain | **29** | - |
| Acquisition, integration and other costs | **(9)** | (41) |
| Gain from sale of assets, (net) | **-** | 18 |
| Inventory related adjustments | **-** | (27) |
| Release of contingent liability | **-** | 4 |
| Write-down of products related intangible assets | **-** | (18) |
| **Exceptional items included in operating profit/(loss)** | **(1,085)** | (80) |
| US tax reform bill | **(49)** | - |
| **Exceptional items included in profit/(loss)** | **(1,134)** | (80) |
| *Other adjustments* | | |
| Intangible amortisation other than software | **(48)** | (37) |
| Remeasurement of contingent consideration, financial liability and asset,(net) | **67** | (32) |
| **Exceptional items and other adjustments** | **(1,115)** | (149) |
| Tax effect | **20** | 28 |
| **Impact on profit/(loss) for the year** | **(1,095)** | (121) |

**Exceptional items:**

- Impairment of West-Ward Columbus goodwill relates to the unfavourable industry developments in the US Generics industry in the second half of 2017 and is included in other operating expenses (note 8).
- Impairment of product related intangible assets, property, plant and equipment and others, relates to the impairment of West-Ward Columbus other assets, including product rights, in process R&D, software and property, plant and equipment, and is included in other operating expenses (note 8,9). In addition, impairment of other product related intangible assets of $4 million which is included in research and development expense (note 8).
- Impairment of property, plant and equipment mainly relates to the planned disposal of the Eatontown, NJ manufacturing facility which are included in other operating expenses (note 9).
- Contingent consideration gain represents an adjustment to a refund of the West-Ward Columbus purchase price, given certain regulatory conditions did not occur as expected by 24 December 2017 and is included in the other operating expenses.
- Acquisition, integration and other costs were incurred in relation to the acquisition of West-Ward Columbus and, Eatontown planned disposition and are included in the overhead, general and administrative, sales and marketing, and research and development expenses.
- 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 5).

The details of impairment losses are presented below:

| | 2017<br>$m |
|---|---|
| West-Ward Columbus goodwill | 407 |
| West-Ward Columbus product related intangible assets | 501 |
| West-Ward Columbus software | 12 |
| **West-Ward Columbus intangible assets** | **920** |
| West-Ward Columbus property, plant and equipment | 164 |
| **Total West-Ward Columbus impairment** | **1,084** |
| Other Property, Plant and Equipment | 17 |
| Other product related intangible assets (Research and development) | 4 |
| **Total impairment** | **1,105** |
| | |
| **Total impairment of intangibles** | **924** |
| **Total impairment of property, plant and equipment** | **181** |
| **Total impairment** | **1,105** |

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

- Impairment of product-related intangible assets was included within research and development expenses.
- Acquisition, integration and other related costs were incurred in relation to the acquisition of West-Ward Columbus, which was completed on 29 February 2016. Acquisition related expenses were included within the unallocated corporate expenses, while integration and other expenses were included within general and administrative expense and cost of sales respectively. Acquisition related expenses mainly comprise of third party consulting services, legal and professional fees; and other costs represent severance and retention payments paid.
- Impairment of property, plant and equipment related to the write-off of machinery and equipment as a result of previous acquisition, and was included within other operating expenses.
- Gain from sale of assets related to the divestiture of certain products, and was included within other operating income.
- Inventory-related adjustments reflected the amortisation of the fair value uplift of the inventory acquired as part of the West-Ward Columbus acquisition, and were included within cost of sales.
- Release of contingent liability was due to not achieving certain performance-related milestones in respect of a previous acquisition, and was included within other operating income.
- Write-down of product-related intangible assets related to the write-down of certain R&D elements associated with the co-development agreements entered into with third parties since 2011 and was included within research and development expenses.

**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 West-Ward Columbus acquisition and the financial liability in relation to the co-development earnout payment agreement (note 13,15). The remeasurement is included in finance expense/income.

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**5. Tax**

| | **2017 Core results** | **2017 Exceptional items and other adjustments (note 4)** | **2017 Reported results** | 2016 Core results | 2016 Exceptional items and other adjustments (note 4) | 2016 Reported results |
|---|---|---|---|---|---|---|
| | **$m** | **$m** | **$m** | $m | $m | $m |
| Current tax: | | | | | | |
| Foreign tax | **50** | **(20)** | **30** | 143 | (28) | 115 |
| Adjustment to prior year | **-** | **-** | **-** | 2 | - | 2 |
| Deferred tax | | | | | | |
| Current year | **22** | **49** | **71** | (57) | - | (57) |
| Adjustment to prior year | **-** | **-** | **-** | (8) | - | (8) |
| | **72** | **29** | **101** | 80 | (28) | 52 |

UK corporation tax is calculated at 19.25% (2016: 20.0%) of the estimated assessable profit made in the UK for the year.

The Group incurred a tax expense of $101 million (2016: $52 million). The effective tax (credit)/charge rate is (13.7%), (2016: 24.8%). The reduction in the effective tax rate largely reflects the impairment booked during the year.

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

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

| | **2017 $m** | 2016 $m |
|---|---|---|
| **Profit/(loss) before tax** | **(738)** | 210 |
| Tax at the UK corporation tax rate of 19.25% (2016: 20%) | **(142)** | 42 |
| Profits taxed at different rates | **13** | 13 |
| Permanent differences | | |
| - non-taxable income | **(13)** | (17) |
| - non-deductible expenditures | **6** | 13 |
| - adjustment on intercompany inventory | **(7)** | (14) |
| - Other | **(7)** | (1) |
| - Impairment of Goodwill | **78** | - |
| State and local taxes | **(4)** | 2 |
| Temporary differences | | |
| - Tax losses and other deductible temporary differences for which no benefit is recognised | **119** | 11 |
| -Tax rate changes (US tax reform) | **49** | - |
| -Other | **-** | 2 |
| Change in provision for uncertain tax positions | **7** | 5 |
| Unremitted earnings | **2** | 2 |
| Prior year adjustments | **-** | (6) |
| **Tax expense for the year** | **101** | 52 |

Profit 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 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. The tax losses have mainly arisen from the impairment of the West-Ward Columbus. 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 provisions 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 2017 and primarily relates to a transfer pricing adjustment.

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

**US tax reform**

The impact of the US Tax Cuts and Jobs Act of 2017 has been 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.

**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**

The new UK requirement for large UK businesses to publish their tax strategy came into effect in 2017. Hikma's tax strategy has been made available on the Group's website.

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## 6. Dividends

| | **2017** | 2016 |
|---|---|---|
| | **$m** | $m |
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2016 of 22.0 cents (2015: 21.0 cents) per share | **53** | 51 |
| Interim dividend for the year ended 31 December 2017 of 11.0 cents (2016: 11.0) per share | **26** | 26 |
| | **79** | 77 |

The proposed final dividend for the year ended 31 December 2017 is 23.0 cents (2016: 22.0 cents).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 19 May 2018 and has not been included as a liability in these financial statements. Based on the number of shares in issue at 31 December 2017 (240,678,894), the unrecognised liability is $55 million.

## 7. Earnings/(loss) per share

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. 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.

| | **2017 Core results** | **2017 Exceptional items and other adjustments (note 4)** | **2017 Reported results** | 2016 Core results | 2016 Exceptional items and other adjustments (note 4) | 2016 Reported results |
|---|---|---|---|---|---|---|
| | **$m** | **$m** | **$m** | $m | $m | $m |
| Earnings/(loss) for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent | **252** | **(1,095)** | **(843)** | 276 | (121) | 155 |

| Number of shares | 2017 Number 'm | 2016 Number 'm |
|---|---|---|
| Weighted average number of Ordinary Shares for the purposes of basic earnings per share | **240** | 233 |
| 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 | **241** | 234 |

| | 2017 Core Earnings per share Cents | 2017 Reported Earnings per share Cents | 2016 Core Earnings per share Cents | 2016 Reported Earnings per share Cents |
|---|---|---|---|---|
| Basic | **105.0** | **(351.3)** | 118.5 | 66.5 |
| Diluted | **104.6** | **(349.8)** | 117.9 | 66.2 |

## 8. Goodwill and other intangible assets

The changes in the carrying value of goodwill and other intangible assets for the years ended 31 December 2017 and 31 December 2016 are as follows:

| | Goodwill $m | Product-related intangibles $m | Software $m | Other identified intangibles $m | Total $m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 1 January 2016** | 293 | 287 | 52 | 96 | 728 |
| Additions | - | 18 | 35 | 19 | 72 |
| Acquisition of subsidiaries* | 420 | 743 | 1 | - | 1,164 |
| Write-down (note 4) | - | (18) | - | - | (18) |
| Disposals | - | (5) | - | (1) | (6) |
| Translation adjustments | (30) | (19) | (1) | (8) | (58) |
| **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 31 December 2017** | **690** | **1,015** | **118** | **111** | **1,934** |
| **Amortisation** | | | | | |
| **Balance at 1 January 2016** | (1) | (52) | (22) | (46) | (121) |
| Charge for the year | - | (30) | (7) | (7) | (44) |
| Adjustments to beginning balance | - | (2) | - | 2 | - |
| Impairment (note 4) | - | (6) | - | - | (6) |

| | | | | | |
|---|---|---|---|---|---|
| Translation adjustments | - | 3 | 1 | 4 | 8 |
| **Balance at 1 January 2017** | **(1)** | **(87)** | **(28)** | **(47)** | **(163)** |
| Charge for the year | - | (41) | (11) | (7) | (59) |
| Impairment (note 4) | (407) | (505) | (12) | - | (924) |
| Translation adjustments | - | - | - | (3) | (3) |
| **Balance at 31 December 2017** | **(408)** | **(633)** | **(51)** | **(57)** | **(1,149)** |
| Carrying amount | | | | | |
| **At 31 December 2017** | **282** | **382** | **67** | **54** | **785** |
| At 31 December 2016 | 682 | 919 | 59 | 59 | 1,719 |

*Goodwill recognised as part of the West-Ward Columbus and EUP transactions in 2016.

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 West-Ward Columbus (note 4).

Of the $924 million impairment recorded, $35 million was recorded in the first half and the remaining $889 million was recorded in the second half.

**Goodwill**

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Branded | **169** | 164 |
| Injectables | **113** | 111 |
| West-Ward Columbus | **-** | 407 |
| **Total** | **282** | 682 |

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 of disposal and value in use | | |
| Key assumptions | Sales growth rates<br>Profit margins<br>Terminal growth rate<br>Discount rate | | |
| Determination of assumptions | Growth rates are internal forecasts based on both internal and external market information.<br>Margins reflect past experience, adjusted for expected changes.<br>Terminal growth rates based on management's estimate of future long-term average growth rates.<br>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 |
| | Branded | 2% | 18% |
| | Injectables | 2% | 13% |
| | West-Ward Columbus | 2% | 13% |

Considering the unfavourable industry developments impacting the Generics' business during the second half of 2017, Hikma recorded an impairment charge of $407 million against the West-Ward Columbus goodwill.

**West-Ward Columbus CGU:** Over the second half of 2017, Hikma noted ongoing and difficult market conditions in the US generics market, driven primarily by:

- Pricing challenges due to customer consolidation.
- Increasing generic approvals affecting the value in use of already marketed products and the potential of future launches.
- Delays in generic approvals of more complex products.

As a result of these factors discussed, Hikma adjusted certain assumptions used in its cash flow projections to determine the value in use of the West-Ward Columbus CGU. More specifically, in comparison with previous periods, Hikma expects lower revenues and profitability from newly launched products as well as higher price erosion on its currently marketed portfolio. The outlook for West-Ward Columbus revenue and profitability over the medium term is lower than previously expected.

In performing the impairment test for the West-Ward Columbus CGU, an additional impairment charge of $269 million above the amount of impairment of the goodwill and stand-alone IPR&D and Product Rights was required. In accordance with IFRS, such excess was allocated pro rata to the remaining non-current asset of the CGU.

The impairment charge was the result comparing the estimated value in use of the CGU based on its discounted cash flow model to the carrying value of the CGU. The key sensitivities in determining the value in use, and the potential impact on the impairment charge were as follows:

| | | | Low* | High* |
|---|---|---|---|---|
| Terminal Growth rate | 2% per year into perpetuity | 1% change | 44 | (57) |
| Discount rate | 10.5% post tax, 12.9% pre-tax | 1% change | 83 | (106) |
| Sales | According to management projections of volumes and prices on a product by product basis | 5% change in price and volumes | 230 | (235) |
| | | 5% change in price | 133 | (125) |
| | | 5% change in volume | 103 | (97) |
| Terminal year margins | Based on five-year average | 5% change | 192 | (188) |

*Represents the low and high end of the range of change in the impairment charge based on the sensitivity variant.

The discount rate is expected to reduce over time as any risk-premium associated with the acquisition should reduce. Also, any change in expected product launch dates is likely to result in potential operational changes which could mitigate any potential impairment charges.

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

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

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

**Other Intangible Assets**

Other intangible assets with a net book value of $503 million at December 31, 2017 (2016: $1,037 million) consists of In-Process Research and Development (IPR&D) of $223 million (2016: $547 million), product rights of $159 million (2016: $375 million) and other intangible assets of $121 million (2016: $115 million).

The majority of the Group's product related intangible assets are marketed in the US region, whereby the carrying value of individually significant assets within the product-related intangibles are presented below:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Generic Advair® | **138*** | 306 |

* Amount is lower than the stand-alone asset value of $206 million as a result of a $68 million allocation of the excess CGU impairment as discussed above.

**IPR&D**: During the first half of 2017, certain triggering events occurred and required the Group to perform tests for impairment. Such events included continued pricing pressure and increased competition on a number of products and delays in product launches, resulting in a reduced forecast of future net cash inflows compared to previous forecasts. The Group recorded impairment charges of $35 million for other intangible assets using a value-in-use model in the first half of 2017.

As of 31 December 2017, Hikma performed an analysis and valuation of the Generic Advair® and the related contingent consideration using a discounted cash flow model based on a probability weighting of a number of different potential scenarios, including the expected launch date and the number of competitors at the time of launch. As a result, a total impairment charge of $168 million was recorded in the second half of 2017 after considering the pro-rata allocation of the excess CGU impairment. The key sensitivities in the valuation of this IPR&D asset and the impact on the valuation of the asset are as follows:

| **Sensitivity factor** | **Assumption in model** | **Sensitivity Variant** | **Change in Generic Advair® base assets value** | | |
|---|---|---|---|---|---|
| | | | **Low end change** | **Base assets value** | **High end change** |
| Launch date | Probability weighted average of different possibilities | 1Q change | (31) | 138 | 29 |
| Sales | According to management projections of volumes and prices | 5% change in price and volumes | (34) | 138 | 37 |
| | | 5% change in price | (18) | 138 | 19 |
| | | 5% change in volume | (17) | 138 | 17 |
| Discount rate | 12.5% post tax | 1% change | (12) | 138 | 14 |

As of 31 December 2017, the Group performed its annual review of other IPR&D assets acquired as part of the West-Ward Columbus and Bedford acquisitions. The result of this testing was a further impairment charge of $177 million for the West-Ward Columbus IPR&D. The impairment charge was based upon updated forecasts and future development plans, compared with the carrying values. The updated values were determined based upon detailed valuations employing the value in use approach. The valuations reflect, among other things, the impact of changes to development programs, the projected development and regulatory time frames and the current competitive environment. Any future change to these assumptions may result in further reduction to the estimated fair values of these IPR&D assets and could result in additional impairment charges. We performed sensitivity analysis on the remaining $85 million of indefinite life IPR&D (other than Generic Advair® discussed above) on the key assumptions affecting the valuation and have determined that sufficient headroom exists. Specifically evaluated an increase of 1% in the discount rate, or a 5% decline is 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 no additional impairment was necessary.

Based on the new estimates incorporating all of the above factors, an impairment charge of $345 million, including for Generic Advair® above, was recorded in the second half of 2017 for IPR&D products.

**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 value in use of identifiable intangible assets include all assumptions associated with forecasting product profitability.

In the second half of 2017, due to the challenges impacted the US generics market, discussed above, an impairment charge of $123 million was recorded for product rights.

**Other Intangible assets**:

**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. As noted above, $12 million of the West-Ward Columbus CGU impairment charge was allocated to software intangibles.

**Customer relationships**: Customer relationships represent the value attributed to existing direct customers that the Group acquired on the acquisition of subsidiaries. The customer relationships have an average estimated useful life of 15 years (2016: 15 years).

**Trade name**: Trade names were mainly recognised on the acquisition of Hikma Germany GmbH (Germany) and Promopharm with estimated useful lives of 10 years.

**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 varies from 2 to 10 years.

**Other acquisition related**: This mainly represents intangible assets recognised on the acquisition of Thymoorgan, which relate to its specialist manufacturing capabilities. The estimated useful life is 12 years.

Amortisation of all intangible assets with finite useful lives is charged on a straight-line basis.

As at 31 December 2017, the Group had entered into contractual commitments for the acquisition of intangible assets of $5 million (2016: $19 million).

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## 9. 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 2016** | 298 | 360 | 84 | 90 | 832 |
| Additions | 8 | 7 | 6 | 97 | 118 |
| Acquisition of subsidiaries | 180 | 144 | 9 | 125 | 458 |
| Adjustments to opening balance | - | 8 | - | 2 | 10 |
| Disposals | - | (3) | (1) | (1) | (5) |
| Transfers | 64 | 44 | 9 | (117) | - |
| Translation adjustment | (20) | (21) | (9) | (4) | (54) |
| **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 31 December 2017** | **592** | **619** | **114** | **164** | **1,489** |
| **Accumulated depreciation** | | | | | |
| **Balance at 1 January 2016** | (70) | (198) | (53) | (4) | (325) |
| Charge for the year | (18) | (39) | (11) | - | (68) |
| Adjustments to opening balance | - | (7) | - | (3) | (10) |
| Disposals | - | 2 | 2 | - | 4 |
| Impairment (note 4) | - | (10) | - | - | (10) |
| Translation adjustments | 4 | 10 | 5 | - | 19 |
| **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 4) | (86) | (84) | (5) | (6) | (181) |
| Translation adjustment | (3) | (8) | (1) | - | (12) |
| **Balance at 31 December 2017** | **(196)** | **(379)** | **(73)** | **(13)** | **(661)** |
| Carrying amount | | | | | |
| **At 31 December 2017** | **396** | **240** | **41** | **151** | **828** |
| At 31 December 2016 | 446 | 297 | 41 | 185 | 969 |

Land is not subject to depreciation.

During the year the Group reported an impairment charge of $181 million, of which $164 million related to the West-Ward Columbus CGU impairment, in addition to $17 million resulted from the decision to consolidate certain manufacturing facilities in the US (note 4,8).

The net book value of the Group's property, plant and equipment includes an amount of $6 million (2016: $6 million) in respect of assets held under finance lease.

As at 31 December 2017, the Group had pledged property, plant and equipment having a carrying value of $11 million (2016: $42 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, Tunisia and Egypt (2016: Portugal, Germany and Tunisia).

As at 31 December 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $12 million (2016: $9 million).

**10. Inventories**

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Finished goods | **135** | 120 |
| Work-in-progress | **63** | 73 |
| Raw and packing materials | **234** | 229 |
| Goods in transit | **33** | 18 |
| Spare parts | **23** | 19 |
| | **488** | 459 |

**11. Trade and other receivables**

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Trade receivables | **650** | 699 |
| Prepayments | **41** | 44 |
| VAT and sales tax recoverable | **13** | 14 |
| Employee advances | **3** | 2 |
| | **707** | 759 |

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

**12. Trade and other payables**

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Trade payables | **218** | 172 |
| Accrued expenses | **134** | 157 |
| Other payables | **13** | 14 |
| | **365** | 343 |

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

Other payables mainly comprise of employees' provident fund liability of $4 million (31 December 2016: $5 million), which mainly represents the outstanding contributions to the Hikma Pharmaceuticals Ltd (Jordan) retirement benefit plan, on which the fund receives 3.5% interest.

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## 13.Other current liabilities

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Deferred revenue | **-** | 13 |
| Return and free goods provision | **127** | 109 |
| Co-development and earnout payment | **3** | 4 |
| Supply Manufacturing Agreement | **9** | - |
| Contingent consideration | **-** | 93 |
| Contingent liability | **-** | 30 |
| Obligation under finance leases | **1** | 1 |
| Indirect rebate and other allowances | **67** | 49 |
| Others | **31** | 20 |
| | **238** | 319 |

**Return and free goods provision**: The Group allows customers to return products within a specified period prior to and subsequent to the expiration date. 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.

The movement on return and free goods provision is presented below:

| | As at 31 December 2016 | Additions | Utilisation | As at 31 December 2017 |
|---|---|---|---|---|
| | $m | $m | $m | $m |
| Return and free goods provision | 109 | 96 | (78) | 127 |

**Co-development and earnout payment agreement**: The liability mainly relates to the present value of future payments on a co-development and earnout 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 2017, the liability associated with these earnout payments was adjusted to reflect the present value of the expected future cash outflows and the difference is presented as a finance expense/income. This balance represents the current portion of the liability and the non-current portion is disclosed in note 15.

**Supply Manufacturing Agreement**: As part of the acquisition of West-Ward Columbus, the Group entered into supply and manufacturing contracts with the seller, Boehringer Ingelhiem. This balance represents the current portion of the liability and the non-current portion is disclosed in note 15.

**Contingent consideration**: This contingent consideration results from the acquisition accounting of West-Ward Columbus and represents future estimated consideration payable to the seller, which is in the form of milestones that are dependent on the achievement of certain US FDA approval targets. As of 31 December 2017, the balance was moved to other non-current liabilities.

During the year, the Group paid a total of $nil million (2016: $20 million).

**Contingent liability**: This contingent liability results from the acquisition accounting of West-Ward Columbus and represents a contractual obligation assumed at the time of the acquisition from a third party, which is in the form of

royalty payments based on future sales of certain products that are currently under development. As of 31 December 2017, the balance was moved to other non-current liabilities (note 15).

During the year, the Group paid a total of $nil million (2016: $10 million).

## 14.Long-term financial debts

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Long-term loans | **201** | 270 |
| Long-term borrowings (Eurobond) | **496** | 495 |
| Less: current portion of long term loans | **(27)** | (44) |
| Long-term financial loans | **670** | 721 |
| Breakdown by maturity: | | |
| Within one year | **27** | 44 |
| In the second year | **139** | 29 |
| In the third year | **520** | 171 |
| In the fourth year | **4** | 519 |
| In the fifth year | **2** | 2 |
| In the sixth year | **5** | - |
| | **697** | 765 |
| Breakdown by currency: | | |
| US Dollar | **673** | 746 |
| Euro | **12** | 1 |
| Algerian Dinar | **-** | 2 |
| Saudi Riyal | **1** | 1 |
| Egyptian Pound | **9** | 13 |
| Tunisian Dinar | **2** | 2 |
| | **697** | 765 |

The loans are held at amortised cost.

Long-term loans amounting to $2 million (31 December 2016: $3 million) are secured on certain property, plant and equipment.

## 15. Other non-current liabilities

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **$m** | $m |
| Contingent consideration (note 13) | **178** | 146 |
| Contingent liability (note 13) | **109** | 80 |
| Supply manufacturing agreement (note 13) | **25** | 33 |
| Co-development and earnout payment (note 13) | **8** | 14 |
| Others | **4** | 4 |
| | **324** | 277 |

## 16. Share capital

Issued and fully paid – included in shareholders' equity:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number** | **$m** | Number | $m |
| **At 1 January** | **239,954,532** | **40** | 199,385,118 | 35 |
| Issued during the year (ordinary shares of 10p each) | **724,362** | **-** | 40,569,414 | 5 |
| **At 31 December** | **240,678,894** | **40** | 239,954,532 | 40 |

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## 17. Net cash generated from operating activities

| | 2017 | 2016 |
|---|---|---|
| | **$m** | $m |
| **(Loss)/profit before tax** | **(738)** | 210 |
| Adjustments for: | | |
| Depreciation, amortisation, impairment and write down of: | | |
| Property, plant and equipment | **258** | 78 |
| Intangible assets | **983** | 68 |
| Loss on disposal of property, plant and equipment | **3** | - |
| Gain on disposal of intangible assets | **-** | (18) |
| Movement on provisions | **(1)** | (1) |
| Cost of equity-settled employee share scheme | **22** | 22 |
| Finance income | **(95)** | (12) |
| Interest and bank charges | **86** | 102 |
| Foreign exchange (gain)/loss | **(4)** | 19 |
| Release of contingent Liability | **-** | (4) |
| **Cash flow before working capital** | **514** | 464 |
| Change in trade and other receivables | **52** | (128) |
| Change in other current assets | **(28)** | 1 |
| Change in inventories | **(31)** | (32) |
| Change in trade and other payables | **15** | 46 |
| Change in other current liabilities | **31** | 15 |
| Change in other non-current liabilities | **(7)** | 3 |
| **Cash generated by operations** | **546** | 369 |

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## 18. Related parties

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

**Trading transactions:**

During the year ended 31 December 2017, the Group entered into the following transactions with related parties:

**Boehringer Ingelheim GmbH ('BI'):** is a related party of Hikma because BI owns 16.6% (2016: 16.7%) of the share capital of Hikma, controls 11.7% (2016: 11.7%) 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. During the year, the Group acquired six products from BI which amounted to an aggregate consideration of $3.0 million, the Group total sales to BI amounted to $79.1 million (2016: $90.1 million) and the Group total purchases from BI amounted to $10.6 million (2016: $10.3 million). As at the year end, the amount owed from BI to the Group was $43.8 million (2016: $45.2 million). Additionally, balances arising from the acquisition of West-Ward Columbus from BI relating to contingent consideration.

**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 $11.8 million(2016:$11.3million) and utilisation of facilities granted by Capital Bank to the Group amounted to $nil (2016: $8.3 million). The interest expense/income is within market rate.

**Darhold Limited ('Darhold'):** ): is a related party of Hikma because three directors of Hikma jointly constitute the majority of directors and shareholders (with immediate family members) in Darhold and because Darhold owns 24.93% (2016: 25.00%) 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 (2016: $2.5 million). During 2017 Hikma and MIDROC have agreed not to proceed with and to liquidate the venture. During the year, Hikmacure granted two loans of $2.3 million each to the Group and MIDROC.

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

**Hubei Haosun Pharmaceutical Co. Ltd ('Haosun'):** is a related party of Hikma because the Group holds a non-controlling interest of 30.1% (2016: 30.1%) in Haosun. During 2017, total purchases from Haosun were $1.4 million (2016: $0.4 million). At 31 December 2017, the amount owed from Hubei Haosun Pharmaceutical to the Group amounted to $1.6 million (2016: $1.7 million). On 13 February 2018, Hikma acquired additional stake in Hubei Haosun Pharmaceutical Co. Ltd 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 2017, total Group sales to Labatec amounted to $1.8 million (2016: $1.4 million). As at the year end, the amount owed by Labatec to the Group was $0.3 million (2016: $0.3 million).

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## 19. 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 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| USD/EUR | **0.8319** | 0.9500 | **0.8848** | 0.9053 |
| USD/Sudanese Pound | **20.0000** | 15.9490 | **16.9779** | 12.0919 |
| USD/Algerian Dinar | **114.9402** | 110.5274 | **110.9802** | 109.4432 |
| USD/Saudi Riyal | **3.7495** | 3.7495 | **3.7495** | 3.7495 |
| USD/British Pound | **0.7379** | 0.8077 | **0.7755** | 0.7432 |
| USD/Jordanian Dinar | **0.7090** | 0.7090 | **0.7090** | 0.7090 |
| USD/Egyptian Pound | **17.7936** | 18.2482 | **17.8891** | 10.1112 |
| USD/Japanese Yen | **112.7800** | 116.8907 | **112.1826** | 116.8907 |
| USD/Moroccan Dirham | **9.3574** | 10.0699 | **9.6800** | 9.7920 |
| USD/Tunisian Dinar | **2.4839** | 2.3386 | **2.4194** | 2.1482 |