Financial statements

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

Independent auditors' report to the members of Hikma Pharmaceuticals plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- Hikma Pharmaceuticals plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and parent Company balance sheets as at 31 December 2017; the consolidated income statement and statement of comprehensive income, the consolidated cash flow statement, and the consolidated and parent Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 2 to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ('IASB').

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the 'Auditors' responsibilities for the audit of the financial statements' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in Note 6 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall Group materiality: $14,000,000 (2016: $13,275,000), based on 5% of profit before tax after adding back certain non-recurring items such as impairment charges, indemnity income relating to the Group's 2016 acquisition activity, severance and other expenses resulting from the planned restructuring of the Eatontown, New Jersey manufacturing facility and the impact of US tax reform. Overall Company materiality: capped at $10,000,000 (2016: $13,275,000), but calculated based on 1% of total assets. For the purposes of the Group audit, we applied a lower materiality to Company balances and transactions, other than those which were eliminated on consolidation in the Group financial statements.
- Our audit included full scope audits of seven components, procedures on specific financial statement line items of one component and procedures performed centrally over specific material balances at other locations around the world. Taken together these account for 83% of consolidated revenue, 73% of consolidated profit before tax and 88% of consolidated total assets.
- Impairment of goodwill and intangible assets;
- Revenue recognition – chargebacks, returns and other revenue deductions;
- Taxation;
- Carrying value of investments in subsidiaries (Company only).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and Company and the industry in which they operate, and considered the risk of acts by the Group and Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We designed audit procedures that focused on laws and regulations that could give rise to a material misstatement in the event of non-compliance particularly relating to, but not limited to, regulations set out by the United States Food and Drug Administration (the 'FDA') and other industry regulators, defence of products, pricing and practices legislation, taxation and anti-bribery and corruption legislation. Our tests included, but were not limited to, enquiries of management, review of related work performed by component audit teams, review of relevant Internal Audit reports and discussions with in-house legal counsel supplemented by review of external legal counsel correspondence. There are inherent limitations in the audit procedures described above as the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud, and the risk of fraud in revenue recognition. Procedures designed and executed to address these risks included use of data enabled auditing techniques to test journal entries and post-close adjustments, testing and evaluating management's key accounting estimates for reasonableness and consistency, undertaking cut-off procedures to verify proper cut-off of revenue and expenses and testing the existence and accuracy of revenue transactions. In addition, we incorporate an element of unpredictability into our audit work each year

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Impairment of goodwill and intangible assets

Key audit matter	How our audit addressed the key audit matter
The Group has goodwill of $282 million and intangible assets of $503 million (31 December 2016: $682 million and $1,037 million, respectively) comprising customer relationships, product related intangible assets, software and other identified intangible assets. This is contained within three cash generating units ('CGUs'). All CGUs containing goodwill and indefinite –lived intangible assets must be tested for impairment annually. The determination of carrying values, requires judgement on the part of management in identifying and then estimating the higher of the value in use and a fair value less cost to dispose for the relevant CGUs. These amounts are based on management's view of future cash flow forecasts and external market conditions such as future pricing probability of technical and regulatory success and the most appropriate discount rate. For the year ended 31 December 2017, the Group has recorded $1,105 million as an exceptional impairment charge, principally in relation to a number of events that occurred in the second half of 2017 including the continued delay in approval of its application for its generic version of Advair Diskus® and sustained pricing pressures and erosion in the US generics market. This impairment charge was recorded in respect of goodwill, marketed products and products under development in the Group's US segment, as well as fixed assets underpinning the manufacturing process in this segment. As the carrying values of goodwill and intangible assets are contingent on future cash flows, there is a risk that the assets will be further impaired if these cash flows do not meet the Group's expectations. The impairment reviews performed by the Group contained a number of significant judgements and estimates including revenue growth, the success of new product launches, profit margins, cash conversion, terminal values and discount rate. In particular the assumptions made in respect of its version of generic Advair Diskus® are particularly sensitive. Changes in these assumptions could lead to further impairment to the carrying value of intangible assets and goodwill. We focused on intangible assets in the Westward Columbus Cash Generating Unit which were largely acquired from Boehringer Ingelheim in February 2016 given the events detailed above. *Refer to Notes 3 and 14 in the Group financial statements and the audit committee review of areas of significant judgement pages 78 and 79.*	With support from our valuations specialists, we obtained the Group's impairment analyses and tested the integrity of the calculations, reasonableness of key assumptions, including product profit and cash flow growth or decline, terminal values and discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry forecasts. We assessed the determination of the CGUs identified for the impairment calculation by considering the CGU's previously used as well as from our understanding of the business and how it is monitored. In particular, given the key sensitivity around future cash flows we performed the following procedures, with significant involvement from senior engagement team members: — corroborated the information to board approved budgets and forecasts; — understood management's process for forecasting cash flows, which is underpinned by a model that encompasses a product by product analysis, and we challenged management's market and pricing assumptions by comparing them to historical and third party market data. We also utilised our valuations specialists to identify any anomalies or trends that warranted further investigation and corroboration; — in respect of costs and resulting profit margins in management's model, we challenged management on forecasted trends and assumed cost savings in the context of the Group's plans for ongoing product development, maintenance of its manufacturing facilities via capital expenditure and other investment and plans for organic growth; — undertook look back testing to understand how accurate management had been in its previous forecasting; — took into account that historically the Group has faced challenges in respect of reliably forecasting cash flows and challenged the rate used to discount the cash flows to appropriately assess the supportability of the forecast, as well as management's process for building up a forecast through detailed testing of revenue, cost, margin and other inputs, including performing sensitivity analyses on these assumptions to understand the resulting impact on the impairment charge; — in respect of generic Advair Diskus®, we obtained and reviewed correspondence from the FDA, engaged in discussions with management to understand how its key assumptions around expected launch date and anticipated market share impacted forecast cash flows and examined external data to corroborate management's views; — for impairment charged against the Group's In Process Research & Development ('IPRD') in 2017 we corroborated products included in the valuation model to minutes from the Product Review Committee meetings, where decisions on pipeline and IPRD opportunities are made; — considered analysts' reports and other market information over expected future market shares and pricing; and — recalculated the weighted average cost of capital and considered if the amount was within a reasonable range. We also obtained management's sensitivity analyses which showed the impact of reasonably possible changes to key assumptions. We considered whether these were the key sensitivities and compared the output to a reasonable range based on the evidence available. We validated the appropriateness of the related disclosures in Note 14 of the financial statements. We considered the presentation of the impairment charge as an exceptional charge in 2017 in the context of the nature and magnitude of the charge itself, giving consideration to the Group's policy for exceptional items. We reviewed the Annual Report to form a view on whether the disclosures contained therein are fair, balanced and understandable. Based on our procedures we consider management's key assumptions to be within a reasonable range and the overall impairment charge, whilst judgemental, to also lie within an acceptable range. For those intangible assets including goodwill where management determined that no impairment was required, we found that these judgements were supported by reasonable assumptions.

Revenue recognition

Key audit matter	How our audit addressed the key audit matter
Management is required to make certain judgements in respect of revenue recognition and the level of chargebacks, returns and other revenue deductions that will be realised against the Group's revenue. These estimates are material to the financial statements and involve judgement, hence the reason for inclusion as an area of focus. The largest of these judgements relates to revenue recognition, chargebacks, rebates and returns in the US for which the Group recorded revenue deductions for the year ended 31 December 2017 of $1,933 million (2016: $1,822 million). We focused on this area as rebates, discounts, allowances and returns arrangements and the deductions from gross revenue are complex and because establishing an appropriate accrual requires significant estimation by the directors. This judgement is complex in a US healthcare environment in which competitive pricing pressure and product discounting are trends. The directors have determined an accrual of $388 million to be necessary at 31 December 2017 (2016: $397 million). *Refer to the audit committee review of areas of significant judgement pages 78 and 79, significant accounting policies Note 2, trade and other receivables Note 20 and other current liabilities Note 27.*	We considered the Group's processes for making judgements in this area and performed the following procedures: — We assessed applicable controls in place around this process, tested the nature of the pricing arrangements and the accuracy of calculations and agreed the rates in customer agreements with those used in management's calculations of the required reserves and deductions. — We obtained management's calculations for accruals under applicable schemes and validated the assumptions used by reference to the Group's stated commercial policies, the terms of the applicable contracts and historical levels of product returns. — We compared the assumptions to contracted prices, historical rebates, discounts, allowances and returns levels (where relevant) and to current payment trends. We also considered the historical accuracy of the Group's estimates in previous years and the impact of competitive pricing pressures and greater discounting in the US market more generally. We formed an independent expectation of the largest elements of the reserve at 31 December 2017 using third party data and compared this expectation to the actual accrual recognised by the Group. Based on the procedures performed, we did not identify any material differences between our independent expectations and the accrual recorded.

Taxation

Key audit matter	How our audit addressed the key audit matter
The Group operates across a large number of jurisdictions due to its geographic spread, resulting in complex cross-border tax arrangements. As a result, it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business including transaction related tax matters and transfer pricing arrangements. In addition and following the Group's acquisition of West-Ward Columbus in 2016, the Group undertook legal entity rationalisation and restructuring in 2017 in support of maintaining the operational structure which had several complex tax consequences. Judgement is required in assessing the level of provisions required in respect of uncertain tax positions. At 31 December 2017, the Group has recorded provisions of $63 million in respect of uncertain tax positions (2016: $64 million). There have also been a number of changes in tax law in the US and elsewhere that have resulted in a material impact on the Group's current and deferred tax balances at 31 December 2017. The most significant of these has been as a result of the Tax Cuts and Jobs Act being substantively enacted before year-end. In aggregate, the total adjusting item to account for the impact amounts to $49 million in the tax line. The changes include a reduction in the corporate tax rate that should be applied to deferred taxation balances and changes to the foreign taxation credits regime. Some of these changes are complex and there are a number of areas of uncertainty relating both to the manner in which the law will apply and how to account for these matters. Therefore we have focused on this area in our 2017 audit. *Refer to Notes 11 and 17 in the Group financial statements.*	In conjunction with our UK, US, international tax and transfer pricing specialists, we evaluated and challenged management's judgements in respect of the ongoing taxation impacts of the 2016 West-Ward Columbus acquisition, estimates of tax exposures and contingencies in order to assess the adequacy of the Group's tax provisions, estimates involved in the measurement of uncertain tax provisions and judgements taken in the measurement of deferred tax assets. We assessed the application of International Accounting Standard 12 – *Income Taxes* in determining the tax base of the deferred tax assets, and assessed recoverability of assets against forecast taxable income. Where this has involved judgements, we challenged the judgements made by management and evaluated these in the context of the evidence available including examining correspondence with tax authorities. In understanding and evaluating management's judgement relating to the level of provisioning for uncertain tax positions, we considered the status of ongoing tax authority audits, the outcome of previous tax authority audits, and developments in the tax environment. We considered management's disclosures in this regard and we agreed with management's view that a material change to the Group's estimates of tax exposures is not expected within the next 12 months. For the tax effects as a result of the US tax reform we have discussed the key judgements made in assessing these implications with management and we agree that these are appropriate. We have also verified the mathematical accuracy of the current and deferred tax calculated on the revised basis. Based on this we believe that management's position is appropriate. However, as there remains significant complexity in the new law and a number of areas of uncertainty relating both to the manner in which the law will apply and to the accounting in certain areas, we expect that there will be true-ups and updates to the estimates as further guidance is issued. We consider that the level of uncertain tax provisioning and disclosure is acceptable in the context of the Group's financial statements.

Carrying value of investments in subsidiaries (Company only)

Key audit matter	How our audit addressed the key audit matter
The Company holds investments in subsidiaries of $3,323 million at 31 December 2017 (2016: $3,179 million). Investments in subsidiaries are accounted for at cost less impairment in the Company balance sheet at 31 December 2017. Investments are assessed for impairment annually or earlier if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement. Management judgement is required in the area of impairment testing, particularly in determining whether any impairment triggers have arisen that necessitate carrying out an impairment review to assess whether the carrying value of an asset can be supported by the recoverable amount which is determined by reference to the Group's market capitalisation and in the context of the net assets underpinning the Company's investment in subsidiaries. *Refer to Note 47 in the parent company financial statements.*	We evaluated management's assumption whether any indicators of impairment existed by comparing the net assets of the subsidiaries at 31 December 2017 with the Company's investment carrying values. For those investments where the subsidiaries' net assets were lower than the carrying values, we considered their recoverable value by reference to the Group's market capitalisation at 31 December 2017 and the valuations implied by other models and for goodwill impairment review purposes, all of which were subject to audit procedures as part of our Group audit. Within the Company accounts we have performed procedures to ensure the cost of investment balance of $3,323 million is supported. These procedures have included auditing the assets and considering actual and expected performance of the businesses underpinning each of the investments. As a result of our work, we agreed with management that the carrying values of the investments held by the Company are supportable.

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

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Procedures were performed prior to year-end to evaluate component procedures and controls, and visits were undertaken by senior team members to component locations, to refine the audit approach and ensure sufficient oversight of component auditors.

As at 31 December 2017, Hikma Pharmaceuticals plc had in total 66 entities (subsidiaries and associates) as part of the Group. These entities may operate solely in one segment but more commonly operate across two. Each territory ('component') submits a Group reporting package to Hikma's central accounting team including its income and financial position prepared under Group accounting policies which are in compliance with IFRSs. We requested component teams in the US (West-Ward Pharmaceuticals and West-Ward Columbus), Jordan (Hikma Pharmaceuticals), Saudi Arabia (Hikma Al Jazeera Pharmaceuticals Industries), Algeria (Hikma Pharma Algeria) and Portugal (Hikma Farmaceutica) to audit reporting packages of certain entities in these territories and report the results of their full scope audit work to us. This work was supplemented by procedures over specific balances performed on West-Ward Pharmaceuticals International Limited (WWPIL) and procedures performed centrally including the consolidation, taxation and certain component balances not covered by local component teams.

The involvement of the Group audit team in the work of the component auditors included conference calls, meetings with local management, review of working papers, attendance at audit clearance meetings, and other forms of communication as considered necessary depending on the significance of the component and the extent of accounting and audit issues arising. Senior members of the Group audit team also visited the US, Algeria and Jordan.

Taken together our audit work accounted for 83% of consolidated revenue, 86% of the adjusted profit measure we use as a basis for determining materiality and 73% of consolidated profit before tax.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	$14,000,000 (2016: $13,275,000)	$10,000,000 (2016: $13,275,000)
How we determined it	5% of profit before tax after adding back certain non-recurring items such as impairment charges, indemnity income relating to the Group's 2016 acquisition activity, severance and other expenses resulting from the planned restructuring of the Eatontown, New Jersey manufacturing facility and the impact of US tax reform.	1% of total assets. This was capped at $10,000,000 (2016: $13,275,000), but calculated based on 1% of total assets. For the purposes of the Group audit, we applied a lower materiality to Company balances and transactions, other than those which were eliminated on consolidation in the Group financial statements.
Rationale for benchmark applied	The Group's principal measure of earnings is core profit. Management believes that it reflects the underlying performance of the Group and is a more meaningful measure of the Group's performance. We took this measure into account in determining our materiality but did not add back certain non-core items unless we deemed them to be non-recurring in nature. Our materiality would have been higher if we had adjusted for all non-core items.	There is no income statement presented for the parent Company, as the entity takes the Companies Act 2006 s408 exemption, and therefore users of the financial statements are not relying on this figure to make economic decisions. The Company holds the Group's investments and performs treasury functions on behalf of the Group. Therefore, the entity is not in itself profit-oriented. The strength of the balance sheet is the key measure of financial health that is important to shareholders since the primary concern for the parent Company is the payment of dividends and servicing of debt.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between $1 million and $10 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $500,000 (Group and Company audits) (2016: $500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on page 74) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ('DTR') is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information.

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on page 74) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR.

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company.

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

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 61 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 65 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 111, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 78 to 81 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibility Statement set out on page 111, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 11 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2016 to 31 December 2017.

Mark Gill
Senior Statutory Auditor

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

London

13 March 2018

Consolidated income statement

For the year ended 31 December 2017

	Note	2017 Core results $m	2017 Exceptional items and other adjustments (Note 5) $m	2017 Reported results $m	2016 Core results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $m
Revenue	4	**1,936**	**–**	**1,936**	1,950	–	1,950
Cost of sales	4	**(963)**	**(6)**	**(969)**	(932)	(32)	(964)
Gross profit	4	**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)	8	**(46)**	**(1,072)**	**(1,118)**	(81)	12	(69)
Total operating expenses		**(587)**	**(1,127)**	**(1,714)**	(599)	(85)	(684)
Operating profit/(loss)	4	**386**	**(1,133)**	**(747)**	419	(117)	302
Finance income	9	**2**	**93**	**95**	3	9	12
Finance expense	10	**(60)**	**(26)**	**(86)**	(63)	(41)	(104)
Profit/(loss) before tax		**328**	**(1,066)**	**(738)**	359	(149)	210
Tax	11	**(72)**	**(29)**	**(101)**	(80)	28	(52)
Profit/(loss) for the year	6	**256**	**(1,095)**	**(839)**	279	(121)	158
Attributable to:							
Non-controlling interests	34	**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	13	**105.0**		**(351.3)**	118.5		66.5
Diluted	13	**104.6**		**(349.8)**	117.9		66.2

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 Core Results $m	2017 Exceptional Items and other adjustments (Note 5) $m	2017 Reported results $m	2016 Core results $m	2016 Exceptional Items and other adjustments (Note 5) $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	23	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	34	3	–	3	–	–	–
Equity holders of the parent		**275**	**(1,095)**	**(820)**	**190**	**(121)**	**69**
		278	**(1,095)**	**(817)**	**190**	**(121)**	**69**

Consolidated balance sheet

At 31 December 2017

	Note	2017 $m	2016 $m
Non-current assets			
Goodwill	14	**282**	682
Other intangible assets	14	**503**	1,037
Property, plant and equipment	15	**828**	969
Investment in associates and joint ventures	16	**6**	7
Deferred tax assets	17	**135**	172
Financial and other non-current assets	18	**60**	48
		1,814	2,915
Current assets			
Inventories	19	**488**	459
Income tax receivable		**53**	2
Trade and other receivables	20	**707**	759
Collateralised and restricted cash	21	**4**	7
Cash and cash equivalents	22	**227**	155
Other current assets	23	**95**	66
		1,574	1,448
Total assets		**3,388**	4,363
Current liabilities			
Bank overdrafts and loans	24	**86**	117
Trade and other payables	25	**365**	343
Income tax provision		**82**	112
Other provisions	26	**26**	27
Other current liabilities	27	**238**	319
		797	918
Net current assets		**777**	530
Non-current liabilities			
Long-term financial debts	28	**670**	721
Obligations under finance leases	29	**20**	21
Deferred tax liabilities	17	**49**	15
Other non-current liabilities	32	**324**	277
		1,063	1,034
Total liabilities		**1,860**	1,952
Net assets		**1,528**	2,411
Equity			
Share capital	33	**40**	40
Share premium		**282**	282
Own shares	35	**(1)**	(1)
Other reserves		**1,193**	2,075
Equity attributable to equity holders of the parent		**1,514**	2,396
Non-controlling interests	34	**14**	15
Total equity		**1,528**	2,411

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 122 to 171 were approved by the Board of Directors on 13 March 2018 and signed on its behalf by:

Said Darwazah
Director
13 March 2018

Mazen Darwazah
Director

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Merger and Revaluation reserves $m	Translation reserves $m	Retained earnings $m	Total reserves $m	Share capital $m	Share premium $m	Own shares $m	Equity attributable to equity shareholders of the parent $m	Non-controlling interests $m	Total equity $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 (Note 23)	–	–	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 a subsidiary	1,039	–	–	1,039	5	–	–	1,044	–	1,044
Cost of equity-settled employee share scheme (Note 38)	–	–	22	22	–	–	–	22	–	22
Deferred tax arising on share-based payments	–	–	1	1	–	–	–	1	–	1
Dividends on ordinary shares (Note 12)	–	–	(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 (Note 23)	–	–	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 (Note 38)	–	–	22	22	–	–	–	22	–	22
Dividends on ordinary shares (Note 12)	–	–	(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 has been allocated from retained earnings to the merger and revaluation reserves in relation to West-Ward Columbus impairment (Notes 5, 14 and 15).

Consolidated cash flow statement

For the year ended 31 December 2017

	Note	2017 $m	2016 $m
Cash generated from operating activities	36	**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.

Notes to the consolidated financial statements

1. Adoption of new and revised standards

The following new and revised Standards and Interpretations have been adopted in the current year. 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 have 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. Significant accounting policies

General Information

Hikma Pharmaceuticals PLC is a public limited liability company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 181.

Basis of preparation

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

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

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

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

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

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

The presentational and functional currency of Hikma Pharmaceuticals PLC is the US dollar as the majority of the Company's business is conducted in US dollars.

Going concern

The Directors have, at the time of approving the 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 (see page 65).

Basis of consolidation

The consolidated financial statements incorporate the results of Hikma Pharmaceuticals PLC (the 'Company') and entities controlled by the Company (together the 'Group').

The consolidated financial statements include:

- the assets and liabilities, results and cash flows of the Company and its subsidiaries, (entities that are controlled by the Group, through the power of governing the financial and operating policies to obtain benefits from its activities)
- the Group's share of the results and net assets of associates and joint ventures

The financial statements of entities consolidated are made up to 31 December each year.

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

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

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

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

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

Business combinations

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

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

Subsequent changes to those fair values can only affect the measurement of goodwill, where they occur during the 'measurement period' and are as a result of additional information becoming available about facts and circumstances that existed at the acquisition date. All other changes are dealt with in accordance with relevant IFRSs. This will usually mean that changes in the fair value of consideration are recognised in the consolidated income statement.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control). The resulting gain or loss, if any, is recognised in the consolidated income statement.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the aggregate of consideration, non-controlling interest and fair value of previously held equity interest over the fair values of the identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the consideration, the excess is recognised immediately in the consolidated income statement.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

2. Significant accounting policies continued

Investment in associates and joint ventures

An associate is an entity which the Group has significant influence over, where the Group has the power to participate in the financial and operating policy decisions of the investee revenue.

Joint Ventures are entities that the Group has the ability to exercise joint control over their economic activities and net assets.

The results and assets and liabilities of associates and joint ventures are incorporated in these financial statements using the equity method of accounting, where the investments are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any impairment charges are recognised immediately in the consolidated income statement.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Foreign currencies

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

Hyperinflationary economies

In hyperinflationary economies, when translating the results of operations into US dollars, assets, liabilities, income statement and equity accounts are translated at the rates prevailing on the balance sheet date. Sudan was considered as a hyperinflationary economy in the year ended 31 December 2016. As of 31 December 2017, Sudan is no longer considered as a hyperinflationary economy and had no material impact in 2017, however, it will be kept under review in 2018 for hyperinflation. The effect of inflation accounting in Sudan for the year ended 31 December 2016 was not material.

Revenue recognition

Revenue is recognised in the consolidated income statement when goods or services are supplied or made available to external customers against orders received and when risk of loss and rewards have passed.

Revenue represents the amounts receivable after the deduction of discounts, value added tax, other sales taxes, allowances given, provisions for chargebacks and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in light of contractual and historical information.

Dynamic market changes can generate uncertainty as to the ultimate net selling price of a pharmaceutical product and therefore revenue cannot always be measured reliably at the point when the product is supplied or made available to external customers.

If the ultimate net selling price cannot be reliably measured, revenue recognition is deferred until a reliable measurement can be made. Deferred revenue is included in other current liabilities in the consolidated balance sheet, if any.

Chargebacks

The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. In the US, the Group sells its products directly to wholesale distributors, generic distributors, retail pharmacy chains and mail-order pharmacies. The Group also sells its products indirectly to independent pharmacies, managed care organisations, hospitals, and group purchasing organisations, collectively referred to as 'indirect customers'. The Group enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which they purchase the products at agreed-upon prices. The Group will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler's invoice price. This credit is called a chargeback. The provision for chargebacks is based on historical sell-through levels by the Group's wholesale customers to the indirect customers, and estimated wholesaler inventory levels. As sales are made to large wholesale customers, the Group continually monitors the reserve for chargebacks and makes adjustments when it believes that actual chargebacks may differ from estimated reserves.

Returns

The Group has a product return policy that allows customers to return the product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognised as a reduction of revenue in the period in which the underlying sales are recognised.

The Group estimates its provision for returns based on historical experience, representing management's best estimate. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Group continually monitors the provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves.

Rebates

In certain countries, rebates are granted to healthcare authorities and under contractual arrangements with certain customers. Products sold in the United States are covered by various programmes (such as Medicaid) under which products are sold at a discount.

2. Significant accounting policies continued

The Group estimates its provision for rebates based on current contractual terms and conditions as well as historical experience, changes to business practices and credit terms. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future rebate liabilities. The Group continually monitors the provisions for rebates and makes adjustments when it believes that actual rebates may differ from established reserves. All rebates are recognised in the period in which the underlying sales are recognised as a reduction of revenue.

Price adjustments

Price adjustments, also known as 'shelf stock adjustments', are credits issued to reflect decreases in the selling prices of the Group's products that customers have remaining in their inventories at the time of the price reduction. Decreases in selling prices are discretionary decisions made by Group management to reflect competitive market conditions. Amounts recorded for estimated shelf stock adjustments are based upon specified terms with direct customers, estimated declines in market prices and estimates of inventory held by customers. The Group regularly monitors these and other factors and re-evaluates the reserve as additional information becomes available.

Free goods

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. Free goods are recognised at cost at the date at which one of the above conditions is met. The costs associated with free goods are classified as cost of sales.

Share-based payments

At the Company's discretion and subject to the achievement of group and personal performance criteria, employees (including executive directors) of the Group receive performance remuneration in the form of share-based payments, whereby employees render their services in exchange for shares or rights over shares ('equity-settled transactions') under either the 2014 Executive Incentive Plan ('EIP') or the 2009 Management Incentive Plan ('MIP') and the 2007 Long-Term Incentive Plan ('LTIP') noting that the last grant was issued in 2014.

IFRS 2 'Share-Based Payments' requires an expense to be recognised when the Group buys goods or services in exchange for shares or rights over shares ('share-based payments') or in exchange for other equivalent assets.

The cost of share-based payments' transactions with employees is measured by reference to the fair value at the date at which the share-based payments are granted. The fair value of the EIP and MIP are determined based on the share price as at the date of grant discounted by dividend yield.

The expected life used in the models applied to fair value the EIPs and MIPs have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations (further details are given in Note 38). In valuing share-based payments, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of Hikma Pharmaceuticals PLC.

The cost of share-based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the vesting period based on the Group's estimate of equity instruments that will eventually vest. The Group revises its estimate of the number of equity instruments expected to vest and the impact of the revision of the original estimates, if any, is recognised in the consolidated income statement, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Where the terms of share-based payments award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the modification date. Where a share-based payments award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for a cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above. The dilutive effect of outstanding share-based payments is reflected as additional share dilution in the computation of diluted earnings per share.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Dividend income

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

Leasing

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the operating lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a capital lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

2. Significant accounting policies continued

A new standard for leasing, IFRS 16, will come into effect on 1 January 2019. We will adopt this new standard from that date. Our assessment of the impact this will have on our business is ongoing and we will provide further updates in future reporting periods.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the consolidated income statement over the expected useful lives of the assets concerned.

Tax

The Group provides for income tax according to the laws and regulations prevailing in the countries where the Group operates. Furthermore, the Group computes and records deferred tax assets and liabilities according to IAS 12 'Income Taxes'.

The tax expense represents the sum of the current tax in the current period and deferred tax.

The current tax incurred in the period is based on taxable profit for the year and prior year movement accounted for in the current year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's tax incurred is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can reverse. To the extent the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, no deferred tax is provided.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is booked on unrealised inter-company profits on inventory sales, to the extent they are expected to unwind, at the rate applicable to the distribution company. Where there is a significant difference between the tax rates of the relevant companies, this creates deferred tax that can materially impact the Group's effective tax rate. In 2017, this had a 0.9% unfavourable impact on the effective tax rate (2016: 6.7% favourable).

Exceptional items and other adjustments

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

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

Core results

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

Our core results exclude the exceptional items and other adjustments set out in Note 5 in the notes to the financial statements.

Exceptional items

Exceptional items represent adjustments for costs and profits which management believes to be exceptional in nature by virtue of their size or incidence, or have a distortive effect on current year earnings. Such items include costs associated with business combinations, one-off gains and losses on disposal of business assets, reorganisation costs, write-down and impairment charges on assets and impairment of goodwill, net of any tax impact.

Other adjustments

These include amortisation of intangibles excluding software and finance cost resulted from remeasurement of contingent consideration, financial liability and asset, net of any tax impact.

Both exceptional items and other adjustments are excluded from core results to improve comparability and consistency of our financial statements which is consistent with our fellow companies. We represent and discuss our Group and segmental financials reconciled between reported and core results. This presentation allows for full visibility and transparency of our financials so that shareholders are able to clearly assess the performance factors of the Group.

2. Significant accounting policies continued

The basis of determining exceptional items did not change from prior year.

Intangible assets

An intangible asset is recognised if:

- it is identifiable
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and
- the cost of the asset can be measured reliably

The probability of expected future economic benefits is assessed using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Judgment is used to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

Expenditures on research and development activities are charged to the consolidated income statement, except only when the criteria for recognising an internally generated intangible asset is met, which is usually when approval from the relevant regulatory authority is considered probable.

Also, the Group engages with third party research and development companies to develop products on its behalf. Substantial payments made to such third parties to fund research and development efforts are recognised as intangible assets if the capitalisation criteria for recognising an intangible asset is met, which typically is when licence fees and milestone payments are made, all other payments are charged to the consolidated income statement.

Principal intangible assets are:

(a) Goodwill: arising in a business combination and is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the consolidated income statement on disposal.

(b) Customer relationships: represent the value attributed to the long-term relationships held with existing customers at the date of acquisition and are amortised over their useful economic life.

(c) Product related intangibles:

(i) Product files and under-licensed products recognised through acquisitions, and from development activities are amortised over their useful economic lives once the asset is ready for use.

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

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

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

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

Property, plant and equipment

Property, plant and equipment have been stated at cost on acquisition and are depreciated on a straight-line basis except for land at the following depreciation rates:

Buildings	2% to 4%
Machinery and equipment	5% to 33%
Vehicles, fixtures and equipment	6% to 33%

A units of production method of depreciation is applied to operations in their start-up phase, as this reflects the expected pattern of consumption of the future economic benefits embodied in the assets. When these assets are fully utilised, a straight-line method of depreciation is applied.

Projects under construction are not depreciated until construction has been completed and assets are considered ready for use.

Any additional costs that extend the useful life of property, plant and equipment are capitalised.

Property, plant and equipment which are financed by leases giving Hikma Pharmaceuticals PLC substantially all the risks and rewards of ownership are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments at the inception of the lease, and depreciated in the same manner as other property, plant and equipment over the shorter of the lease term or their useful life.

Whenever the recoverable amount of an asset is impaired, the carrying value is reduced to the recoverable amount and the impairment loss is taken to the consolidated income statement. Projects under construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

2. Significant accounting policies continued

Impairment of property, plant and equipment and intangible assets

At the same time each year the Group carries out an impairment review for goodwill and intangible assets that are not yet ready for use. At the year end, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets that are subject for depreciation and amortisation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). In consideration of the impairment review, the Group compares the carrying value of the asset to its recoverable amount.

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

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

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

The Group's Goodwill and intangible assets are tested as follows;

(a) Goodwill is allocated to each of the Group's cash-generating units. These cash-generating units are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

    The assumptions used in the impairment tests are set out in Note 14.

(b) Intangible assets that are not yet ready for use are not subject to amortisation, and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Purchased products are stated at acquisition cost including all additional attributable costs incurred in bringing each product to its present location and condition. The costs of own-manufactured products comprise of direct materials and, where applicable, direct labour costs and any overheads that have been incurred in bringing the inventories to their present location and condition.

In the balance sheet, inventory is primarily valued at standard cost, which approximates to historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the consolidated income statement. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs necessary to make the sale. Inventory related provisions are made for net realisable value lower than cost, slow moving and short dated inventory.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The current accounting policy falls under IAS 39, while starting 1 January 2018, IFRS 9 will be implemented, replacing the current standard.

Financial Assets within the Group are:

(i) Available for sale ('AFS') financial assets

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in the other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment's revaluation reserve is reclassified to the consolidated income statement. The Group's investments in unlisted shares that are not traded in an active market and the fair value of which cannot be reliably measured are stated at cost, less a provision for any impairment loss. If there is objective evidence that an impairment loss has been incurred on unlisted shares that is stated at cost, the amount of impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, which is taken to the consolidated income statement.

(ii) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. These receivables include the reimbursements of certain contingent payments in respect to milestones loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. Significant accounting policies continued

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as 'at FVTPL'.

Financial liabilities
Financial liabilities are classified in two categories: financial liabilities 'at FVTPL' or 'other financial liabilities'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

(i) Financial liabilities 'at FVTPL'
The Group currently has two financial liabilities at FVTPL as below:

- co-development and earn out payment agreements with third parties where the Group earns milestone payments reflecting the achievement of R&D and commercialisation milestones. Those payments are recognised as financial liabilities once received
- contingent consideration arising from West-Ward Columbus acquisition represent contractual liabilities to make payments to third parties in the form of milestone payments that are dependent on the achievement of certain US FDA approval milestones; and royalty payments based on future sales of certain products that are currently under development

Financial liabilities are revalued at the end of each reporting period to represent the value of expected future cash outflows and the difference is presented as finance cost/income. These financial liabilities are currently booked under other non-current liabilities and other current liabilities in the consolidated balance sheet.

(ii) Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derivative financial instruments
Derivative financial instruments are used to manage the Group's exposure to interest rate and foreign exchange risks. The principal derivative instruments used by the Group are interest rate swaps and foreign exchange forward and option contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Hedge accounting
The Group designates certain hedging instruments, in respect of interest rate and foreign currency risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group tests whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 31 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedge
The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated income statement.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group's Directors believe that the following accounting policies that involve Directors' judgements and estimates are the most critical to understanding and evaluating the Group's financial results.

Revenue recognition (Note 2)
The Group's revenue recognition policies require Directors to make a number of estimates, with the most significant relating to chargebacks, product returns, rebates and price adjustments (Note 2) which vary by product arrangements and buying groups. If the ultimate net selling price cannot be reliably measured, revenue recognition is deferred until a reliable measurement can be made. The deferred revenue in respect of this is included in other current liabilities in the consolidated balance sheet.

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

Accounts receivable and bad debts (Note 20)

Trade receivable exposures are managed locally in the operating units where they arise. Credit limits are set as deemed appropriate for the customer, based on a number of qualitative and quantitative factors related to the credit worthiness of a particular customer. The Group is exposed to a variety of customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the underlying local economic risks vary across the Group. Typical credit terms in the US range from 30-90 days, in Europe 30-120 days, and in MENA 180-360 days. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance.

The Group estimates, based on its historical experience, the level of debts that it believes will not be collected. Such estimates are made when collection of the full amount of the debt is no longer probable. These estimates are based on a number of factors including specific customer issues and industry, economic and political conditions. Bad debts are written-off when identified.

Goodwill and intangible assets (Note 14)

The critical areas of judgement in relation to the valuation of goodwill and intangible assets involve:

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

- establishing a five-year business plan for purposes of forecasting free cash flows which involves forecasting appropriate sales and operating expenses taking into considerations both internal and external information. This involves judgements in evaluating current and future market conditions, market size, estimated market share, and competition
- determining future capital expenditures and working capital requirements over the five-year period
- determining a discount rate that appropriately reflects the Group's weighted average cost of capital as adjusted for specific risk premiums reflecting risks inherent in achieving the projected future cash flows
- determining appropriate terminal growth rate beyond the forecast period
- establishing a normalised terminal year to determine the terminal year value, including normalised gross margins

Valuing intangible assets upon initial recognition as at the acquisition date and testing for impairment

- establishing revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices)
- establishing the expected economic useful lives of the product-related intangibles
- determining the sales and the allocation of marketing, R&D and other operating costs to the individual product-related intangibles
- calculating a contributory asset charge (on working capital, fixed assets and workforce)
- determining a discount rate and specific risk premiums
- for pipeline products, establishing the launch date and probability of a successful product approval are also critical judgements
- taking into consideration potential scenarios when determining forecast revenues
- determining whether a 'triggering event' has occurred for intangible assets with finite lives. In such case we first assess the qualitative factors to determine whether it is more likely than not that the fair value of a finite asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test

Contingent liabilities related to acquisitions (Notes 27, 32)

The Group entered contractual liabilities in the form of milestone and royalty payments, where the critical areas of judgement to those liabilities are the probability assigned to reaching the success-based milestones and the management's estimate of future sales.

If the future sales were 5% higher or lower, the fair value of the financial liability at profit or loss will increase/decrease by $6 million.

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

Co-development and earnout payment agreement (Notes 27, 32)

In connection with a co-development arrangement for certain products, the Group has a liability for future earnout payments where the critical area of judgment is management's estimate of future sales.

If the above critical areas of judgement were 10% higher or lower, the fair value of the financial liability at profit or loss will increase/decrease by $1 million.

Taxation (Notes 11, 17)

Critical judgements in applying the Group's accounting policies

The following are the critical tax related judgements, apart from those involving estimations (which are dealt with separately below), that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The recognition of deferred tax assets is based on the current forecast of taxable profits arising in the jurisdiction in which the deferred tax asset arises. A deferred tax asset is recognised to the extent that there are forecast taxable profits within a reasonable period. The Group has a potential deferred tax asset of $278 million (2016: $361 million), of which $135 million (2016: $172 million) has been recognised. This exercise is reviewed each year and, to the extent forecasts change, an adjustment to the recognised deferred tax asset may be made.

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

Key sources of estimation uncertainty

The Group has the following key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

Tax audit risk

In common with most international organisations, the Group may be subject to audit from revenue authorities from time to time. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as new facts emerge and each dispute progresses. Hikma continues to invest in its financial systems to ensure the quality of the Group's financial data which reduces the risk of an adverse revenue authority audit. Furthermore, Hikma continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments and audits.

Where open issues exist, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.

Other Risks

In addition to tax audits, the Group faces other potential tax risks that could affect the sustainability of the Group's effective tax rate. The main risks are noted below. Hikma regularly takes professional advice to ensure the risks mentioned below are appropriately analysed and managed with any ultimate potential liability being adequately provided.

Transfer Pricing Risk

The transfer pricing risk can arise from a difference in view over the pricing of cross-border, inter-company product sales and services and of sales of assets. The standard by which most authorities, and the Group, assess the transfer price is whether it is set at arm's length. An upward adjustment by the tax authority of one territory will not necessarily result in the downward adjustment by the other territory, potentially leading to an increased estimated tax cost through a mismatch of tax deductions and taxable income, as well as a potential increase arising out of a rate arbitrage. The Group has considered the risk in detail and has provided for potential tax adjustments so does not believe that any adjustment will materially impact the rate going forward.

Export Exemption Withdrawal Risk

The Group benefits from a tax exemption in Jordan arising partly from the WTO approved Export Exemption that will be in force up until 31 December 2018. Hikma does not believe that the impact of the future withdrawal of this exemption will materially impact the Group's tax rate in light of the alternative options available under Jordan's existing domestic rules.

Legislative Change Risks

The Group makes substantial sales in the US market of products owned by a UK Group company which also arranges for the product development and manufacture, both in the US and in other territories in which the Group operates. Whilst a reduction in the US federal tax rate beneficially impacts the Group's effective tax rate, other aspects of the recently enacted US tax reforms, such as base erosion and anti-avoidance tax and a restriction on interest deductions, could have a negative impact on the Group's effective tax rate. Continuing with the impact of changes in tax rules in the territories in which we operate, we are experiencing an upward pressure on the Group's effective tax rate as a result of the Base Erosion and Profit Shifting ('BEPS') initiative of the OECD. The Group continues to monitor the impact of such changes as they become clear and is taking any action necessary to help mitigate any adverse consequences to the extent reasonably possible.

Valuation Risk

As part of a reorganisation following the West-Ward Columbus acquisition in the prior year, certain assets and liabilities were transferred intra-group with external valuations obtained. If these valuations are successfully challenged by relevant tax authorities, it could adversely impact the tax recorded on the reorganisation.

Sensitivity

As at the balance sheet date, the Group held an aggregate provision in the sum of $63 million in respect of liabilities likely to arise from the above estimation uncertainties. Hikma released $17 million in 2017 due to the statute of limitations but this was offset by new provisions of $24 million booked in 2017. In 2018, up to $20 million could be released on the same grounds. If all areas of uncertainty were audited and all areas resulted with an adverse outcome, management does not believe any material additional tax would be payable beyond what is provided.

Contingent liabilities

The promotion, marketing and sale of pharmaceutical products and medical devices is highly regulated and the operations of market participants, such as Hikma, are closely supervised by regulatory authorities and law enforcement agencies, including the FDA and the US Department of Justice. As a result, the Group is subject to certain investigations by governmental agencies, as well as other various legal proceedings considered typical to its business relating to employment, product liability and commercial disputes.

4. 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 **Year ended 31 December 2017**	**2017 Core Results $m**	**2017 Exceptional items and other adjustments (Note 5) $m**	**2017 Reported results $m**	2016 Core results $m	2016 Exceptional items and other adjustments (Note 5) $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 **Year ended 31 December 2017**	**2017 Core Results $m**	**2017 Exceptional items and other adjustments (Note 5) $m**	**2017 Reported results $m**	2016 Core results $m	2016 Exceptional items and other adjustments (Note 5) $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 **Year ended 31 December 2017**	**2017 Core Results $m**	**2017 Exceptional items and other adjustments (Note 5) $m**	**2017 Reported results $m**	2016 Core Results $m	2016 Exceptional items and other adjustments (Note 5) $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 **Year ended 31 December 2017**	**2017 Core results $m**	**2017 Exceptional items and other adjustments (Note 5) $m**	**2017 Reported results $m**	2016 Core Results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $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 comprises of Arab Medical Containers LLC, International Pharmaceutical Research Center LLC, Hikma Emerging Markets and Asia Pacific FZ LLC, and the chemicals division of Hikma Pharmaceuticals LLC (Jordan).

4. Business and geographical segments continued

Group Year ended 31 December 2017	2017 Core Results $m	2017 Exceptional items and other adjustments (Note 5) $m	2017 Reported results $m	2016 Core results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $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 expense	**(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/services:

	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.

5. 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)

In reference to the exceptional items and other adjustments policy in Note 2, the details are presented below:

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 14)
- 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 (Notes 14, 15). In addition, impairment of other product related intangible assets of $4 million which is included in research and development expenses (Note 14)
- Impairment of property, plant and equipment mainly relates to the planned disposal of the Eatontown, NJ manufacturing facility which is included in other operating expenses (Notes 8, 15)
- 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 (Notes 8, 23)
- Acquisition, integration and other costs were incurred in relation to the acquisition of West-Ward Columbus and Eatontown planned disposal 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 is effective from 1 January 2018 (Note 11)

The details of impairment losses are presented below:

	2017 $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**

5. Exceptional items and other adjustments continued

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 receivable in respect of the West-Ward Columbus acquisition and the financial liability in relation to the co-development earnout payment agreement (Notes 18, 23, 27, 32). The remeasurement is included in finance expense/income.

6. Profit/(loss) for the year

Profit/(loss) for the year has been arrived at after charging/crediting:

	2017 Core results $m	2017 Exceptional items and other adjustments (Note 5) $m	2017 Reported results $m	2016 Core results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $m
Net foreign exchange (gains)/losses	(3)	–	(3)	21	–	21
Depreciation and impairment	77	181	258	68	10	78
Amortisation and impairment (including software)	11	972	983	7	43	50
Research and development (other than staff costs)	81	–	81	91	18	109
Inventories:						
Cost of inventories recognised as an expense	548	–	548	548	27	575
Write-down of inventories	58	–	58	68	–	68
Staff costs (Note 7)	477	8	485	461	4	465

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

	2017 $m	2016 $m
Audit of the Company's annual accounts	0.6	0.9
Audit of the Company's subsidiaries pursuant to legislation	1.6	1.7
Total audit fees	2.2	2.6
Assurance services*	0.2	0.2
Total audit and assurance fees	2.4	2.8
– Tax advisory services	–	0.6
Total non-audit fees	–	0.6
Total fees	2.4	3.4

* Assurance services relate to review procedures in respect to the interim financial information.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 78 to 81 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

7. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2017 Number	2016 Number
Production	**5,017**	4,904
Sales and marketing	**2,123**	2,147
General and administrative	**1,047**	992
Research and development	**334**	296
	8,521	8,339

	2017 $m	2016 $m
Their aggregate remuneration comprised:		
Wages, salaries and bonuses	**321**	320
Social security costs	**30**	29
Post-employment benefits	**16**	16
End of service indemnity	**10**	6
Share-based payments (Note 38)	**22**	22
Car and housing allowances	**19**	17
Health insurance	**39**	32
Other costs and employee benefits	**28**	23
	485	465

8. Other operating expense/income

Other operating expense	**2017 Core Results $m**	**2017 Exceptional items and other adjustments (Note 5) $m**	**2017 Reported results $m**	2016 Core Results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $m
Inventory related provisions	**58**	**–**	**58**	68	–	68
Impairment loss	**–**	**1,101**	**1,101**	–	10	10
Loss from disposal of property, plant and equipment	**3**	**–**	**3**	–	–	–
Loss from disposal of intangible assets	**–**	**–**	**–**	1	–	1
Forex losses (net)	**–**	**–**	**–**	19	–	19
Others	**–**	**–**	**–**	4	–	4
	61	**1,101**	**1,162**	92	10	102

Other operating income	**2017 Core results $m**	**2017 Exceptional items and other adjustments (Note 5) $m**	**2017 Reported results $m**	2016 Core results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $m
Gain from disposal of property, plant and equipment	**1**	**–**	**1**	–	–	–
Gain from disposal of intangible assets	**–**	**–**	**–**	1	18	19
Forex gain (net)	**4**	**–**	**4**	–	–	–
Others*	**10**	**29**	**39**	10	4	14
	15	**29**	**44**	11	22	33

* **Others:** mainly includes contingent consideration gain (Note 5) in addition to proceeds from legal claims.

9. Finance income

	2017 Core Results $m	2017 Exceptional items and other adjustments (Note 5) $m	2017 Reported results $m	2016 Core Results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $m
Interest income	**2**	**–**	**2**	2	–	2
Remeasurement of contingent consideration, financial liability and asset, net	**–**	**93**	**93**	–	9	9
Other financial income	**–**	**–**	**–**	1	–	1
	2	**93**	**95**	3	9	12

10. Finance expense

	2017 Core Results $m	2017 Exceptional items and other adjustments (Note 5) $m	2017 Reported results $m	2016 Core Results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $m
Interest on bank overdrafts and loans	**29**	**–**	**29**	26	–	26
Interest on Eurobond	**22**	**–**	**22**	22	–	22
Remeasurement of contingent consideration, financial liability and asset, net	**–**	**26**	**26**	–	41	41
Other bank charges	**8**	**–**	**8**	13	–	13
Net foreign exchange loss	**1**	**–**	**1**	2	–	2
	60	**26**	**86**	63	41	104

11. Tax

	2017 Core Results $m	2017 Exceptional items and other adjustments (Note 5) $m	2017 Reported Results $m	2016 Core Results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported Results $m
Current tax:						
Foreign tax	**50**	**(20)**	**30**	143	(28)	115
Adjustment to prior year	**–**	**–**	**–**	2	–	2
Deferred tax (Note 17)						
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.

11. Tax continued

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: 20.0%)	**(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

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

Permanent differences relate to items which are non-taxable or 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 positions relates to the provisions the Group holds in the event of a revenue authority successfully taking an adverse view of the positions adopted by the Group in 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.

12. Dividends

	2017 $m	2016 $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 cents) 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.

13. 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 $m	2017 Exceptional items and other adjustments (Note 5) $m	2017 Reported results $m	2016 Core results $m	2016 Exceptional items and other adjustments (Note 5) $m	2016 Reported results $m
Earnings/(loss) for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	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

14. 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 5)	–	(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 5)	–	(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 5)	(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 5).

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 $m	2016 $m
Branded	**169**	164
Injectables	**113**	111
West-Ward Columbus	**–**	407
Total	**282**	682

14. Goodwill and Other intangible assets continued

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

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

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

			Change in total impairment	
Sensitivity factor	Assumption in model	Sensitivity Variant	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.

14. Goodwill and Other intangible assets continued

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 31 December 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 $m	2016 $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 Variant	Change in Generic Advair® base asset value	
Sensitivity factor	Assumption in model		Low end change	Base asset 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.

14. Goodwill and Other intangible assets continued

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 ten 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).

15. 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 5)	–	(10)	–	–	(10)
Translation adjustment	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 5)	(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 (Notes 5, 14).

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).

16. Investments in associates and joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) is 30.1% at 31 December 2017 (31 December 2016: 30.1%) with an investment balance of $3 million at 31 December 2017 (31 December 2016: $4 million),

The Group's share of the results of Hubei Haosun Pharmaceutical Co. Ltd is loss of $1 million (2016: $nil).

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Joint ventures $m	**Associates $m**	**Total $m**	Joint ventures $m	Associates $m	Total $m
Balance at 1 January	**3**	**4**	**7**	3	4	7
Share of loss	**–**	**(1)**	**(1)**	–	–	–
Balance at 31 December	**3**	**3**	**6**	3	4	7

During 2017, Hikma and MIDROC have agreed not to proceed with the HikmaCure joint venture and to liquidate it. During the year, the Joint venture granted two loans of $2.3 million each to the Group and MIDROC.

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

	As at 31 December 2017 $m	As at 31 December 2016 $m
Total assets	**16**	15
Total liabilities	**7**	5
Net assets	**9**	10
Group's share of net assets of associates	**3**	3

	For the year ended 31 December 2017 $m	For the year ended 31 December 2016 $m
Total revenue	**3**	4
Net loss	**(1)**	–
Group's share of loss of associates	**(1)**	–

17. Deferred tax

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

	As at 31 December	
	2017 $m	2016 $m
Deferred tax liabilities	**(49)**	(15)
Deferred tax assets	**135**	172
	86	157

17. Deferred tax continued

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

	Tax losses $m	Deferred R&D costs $m	Other short-term temporary differences* $m	Amortisable assets $m	Fixed assets $m	Share-based payments $m	Total $m
At 1 January 2016	4	1	74	(18)	(13)	1	49
Credit/(Charge) to income	2	–	70	10	(16)	(1)	65
Acquisition of subsidiary	–	–	61	(20)	(2)	–	39
Exchange differences	–	–	(3)	5	2	–	4
At 1 January 2017	**6**	**1**	**202**	**(23)**	**(29)**	**–**	**157**
Credit/(Charge) to income	(3)	–	(71)	7	(4)	–	(71)
At 31 December 2017	**3**	**1**	**131**	**(16)**	**(33)**	**–**	**86**

* The other deferred taxes on short-term temporary differences primarily relate to charge backs and product returns in the US of $76 million (2016: $104 million) and the unrealised intercompany profits of $17 million (2016: $25 million).

No deferred tax asset has been recognised on temporary differences totalling $770 million (2016: $189 million) due to the unpredictability of the related future profit streams. $578 million (2016: $167 million) of these temporary differences relate to losses on which no deferred tax is recognised. None of these losses are expected to expire.

We have recognised a deferred tax liability on temporary differences relating to the unremitted earnings of overseas subsidiaries of $4 million (2016: $2 million). No deferred tax liability has been recognised on the remaining unremitted earnings of $278 million (2016: $208 million), as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

18. Financial and other non-current assets

	As at 31 December 2017 $m	2016 $m
Price adjustment receivable	**4**	3
Available for sale investments	**16**	7
Other non-current asset	**40**	38
	60	48

Price adjustment receivable represents the non-current portion of the contingent receivable in relation to the West-Ward Columbus acquisition (Note 30), whereby as part of the acquisition, the Group will be reimbursed for certain contingent payments in respect of milestones and other conditions based on future events, the current portion of the price adjustment receivable is disclosed in Note 23. During the year, the Group received $3 million reimbursement (2016: $82 million) in cash.

Available for sale investments include investments in five venture capital companies through the Group's venture capital arms, Hikma International Ventures and Development LLC and Hikma Ventures Limited.

Other non-current assets represent mainly inventory expected to be sold after one year.

19. Inventories

	As at 31 December 2017 $m	2016 $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

19. Inventories continued

Inventories are stated net of provision as follows:

	As at 31 December 2016 $m	Additions $m	Utilisation $m	Translation adjustments $m	**As at 31 December 2017 $m**
Provisions against inventory	65	56	(40)	–	**81**

20. Trade and other receivables

	As at 31 December **2017 $m**	2016 $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.

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

	As at 31 December 2016 $m	Additions $m	Utilisation $m	Translation adjustments $m	**As at 31 December 2017 $m**
Chargebacks and other allowances	261	1,711	(1,734)	–	**238**
Doubtful debts	54	14	(1)	–	**67**
	315	1,725	(1,735)	–	**305**

The following table provides a summary of the age of trade receivables:

At 31 December 2017	**Not past due on the reporting date $m**	**Past due: Less than 90 days $m**	**Past due: Between 91 and 180 days $m**	**Past due: Between 181 and 360 days $m**	**Past due: Over one year $m**	**Impaired $m**	**Total $m**
Total trade receivables as at 31 December 2017	**750**	**82**	**22**	**22**	**12**	**67**	**955**
Related allowance for doubtful debts						**(67)**	**(67)**
	750	**82**	**22**	**22**	**12**	**–**	**888**
Chargebacks and other allowances							**(238)**
Net receivables							**650**

At 31 December 2016	Not past due on the reporting date $m	Past due: Less than 90 days $m	Past due: Between 91 and 180 days $m	Past due: Between 181 and 360 days $m	Past due: Over one year $m	Impaired $m	Total $m
Total trade receivables as at 31 December 2016	841	70	13	24	12	54	1,014
Related allowance for doubtful debts						(54)	(54)
	841	70	13	24	12	–	960
Chargebacks and other allowances							(261)
Net receivables							699

The Group establishes an allowance for impairment that represents its estimate of losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable. When the receivable is deemed irrecoverable, the allowance account is written-off against the underlying receivable.

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

21. Collateralised and restricted cash

Collateralised and restricted cash amounting to $4 million and mainly represents restricted cash retained against short-term bank transactions granted to the Group's Sudanese, Algerian and Egyptian operations (2016: Sudanese, Algerian and US operations of $5 million and a further of $2 million of restricted cash held in an escrow account related to the acquisition of EIMC United Pharmaceuticals).

22. Cash and cash equivalents

	As at 31 December	
	2017 $m	2016 $m
Cash at banks and on hand	**98**	77
Time deposits	**80**	68
Money market deposits	**49**	10
	227	155

Cash and cash equivalents include highly liquid investments with maturities of three months or less which is convertible to known amounts of cash and are subject to insignificant risk of changes in value.

23. Other current assets

	As at 31 December	
	2017 $m	2016 $m
Price adjustment receivable	**61**	34
Investment designated at fair value	**22**	20
Others	**12**	12
	95	66

Price adjustment receivable: In respect to Note 18 this represents the current portion of the contingent receivable in relation to the West-Ward Columbus acquisition (Note 30). In addition, the Group was entitled to be reimbursed with $30 million from the seller of a previous acquisition if certain regulatory conditions existed as of 24 December 2017.

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

24. Bank overdrafts and loans

	As at 31 December	
	2017 $m	2016 $m
Bank overdrafts	**10**	10
Import and export financing	**48**	63
Short-term loans	**1**	–
Current portion of long-term loans (Note 28)	**27**	44
	86	117

	2017 %	2016 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	**4.55**	4.32
Bank loans (including the non-current bank loans)	**3.65**	3.26
Eurobond	**4.25**	4.25
Import and export financing	**4.58**	3.75

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

25. Trade and other payables

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

The fair value of payables are 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.

26. Other provisions

Other provisions represent the end of service indemnity provisions for employees of certain Hikma Group subsidiaries. This provision is calculated based on relevant laws in the countries where each Group company operates, in addition to their own policies.

Movements on the provision for end of service indemnity:

	2017 $m	2016 $m
1 January	**27**	28
Additions	**3**	1
Utilisation	**(4)**	(2)
At 31 December	**26**	27

27. Other current liabilities

	As at 31 December 2017 $m	2016 $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
Obligations 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 $m	Additions $m	Utilisation $m	As at 31 December 2017 $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 32.

27. Other current liabilities continued

Supply Manufacturing Agreement: As part of the acquisition of West-Ward Columbus, the Group entered into supply and manufacturing contracts with the seller, Boehringer Ingelheim. This balance represents the current portion of the liability and the non-current portion is disclosed in Note 32.

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 (Note 32).

During the year, the Group paid a total of $nil (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 32).

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

28. Long-term financial debts

	As at 31 December	
	2017 $m	2016 $m
Long-term loans	**201**	270
Long-term borrowings (Eurobond)	**496**	495
Less: current portion of long-term loans (Note 24)	**(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.

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

(a) A $500 million (carrying value of $496 million, and fair value of $502 million) 4.25% Eurobond due in April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of the West-Ward Columbus acquisition.

(b) A syndicated revolving credit facility of $1,175 million was entered into on 27 October 2015. The facility has an outstanding balance of $112 million at 31 December 2017 (with a fair value of $112 million) (2016: $145 million with a fair value of $145 million) and a $1,063 million unused available limit (2016: $1,030). The facility matures on 24 December 2019 and can be used for general corporate purposes.

(c) A nine-year $110 million loan from the International Finance Corporation was entered into on 19 December 2011. The loan has an outstanding balance of $54 million at 31 December 2017 with a fair value of $54 million (2016: $74 million with a fair value of $73 million). Quarterly equal repayments of the term loan commenced on 15 November 2013 and will continue until 15 August 2020. The loan has been used to finance acquisitions in the MENA region and MENA's capital expenditure.

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

29. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Amounts payable under finance leases:				
Within one year*	**2**	2	**1**	1
In the second to fifth years inclusive	**21**	23	**20**	21
	23	25	**21**	22
Less: Interest lease charges	**(2)**	(3)		
Present value of minimum lease payments payable	**21**	22		

* The current portion of the obligations under finance leases is included within Other Current Liabilities (Note 27).

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 5 years (2016: 5 years). For the year ended 31 December 2017, the average effective borrowing rate was between 1.87% and 14.00% (2016: between 1.88% and 14.00%).

30. Financial policies for risk management and their objectives

Credit and concentration of risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, chargebacks, without recourse discounts, and other allowances. A provision for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds, investments and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In line with local market practice, customers in the MENA region are offered relatively long payment terms compared to customers in Europe and the US. During the year ended 31 December 2017, the Group's largest two customers in the MENA region represented 6.2% of Group revenue, 3.9% from one customer in Saudi Arabia, and 2.3% from a customer in Algeria. At 31 December 2017, the amount of receivables due from all customers based in Saudi Arabia was $131 million (2016: $113 million), and in Algeria was $67 million (2016: $87 million).

During the year ended 31 December 2017, three key US wholesalers represented 44.3% of Group revenue (2016: 36.1%). The amount of receivables due from all US customers at 31 December 2017 was $293 million (2016: $369 million).

The Group manages this risk through the implementation of stringent credit policies, procedures and certain credit insurance agreements.

Trade receivable exposures are managed locally in the operating units where they arise. Credit limits are set as deemed appropriate for the customer, based on a number of qualitative and quantitative factors related to the creditworthiness of a particular customer. The Group is exposed to a variety of customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the underlying local economic risks vary across the Group. Typical credit terms in the US range from 30-90 days, in Europe 30-120 days, and in MENA 180-360 days. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance.

Market risk

The Group is exposed to foreign exchange and interest rate risk. The Group's objective is to reduce, where it is appropriate to do so, fluctuations in earnings and cash flow associated with changes in interest rates and foreign currency rates. Management actively monitors these exposures to manage the volatility relating to these exposures by entering into a variety of derivative financial instruments.

30. Financial policies for risk management and their objectives continued

Capital risk management

The Group manages its capital and monitors its liquidity to have reasonable assurance that the Group will be able to continue as a going concern and deliver its growth strategy objectives, whilst reducing its cost of capital and maximising the return to shareholders through the optimisation of the debt and equity mix. The Group regularly reviews the capital structure by considering the level of available capital and the short to medium-term strategic plans concerning future capital spend, as well as the need to meet dividends, banking covenants, and borrowing ratios.

The Group defines capital as equity plus net funds, which include bank overdrafts and loans (Note 24), obligations under finance leases (Note 29), long-term financial debts (Note 28), net of cash and cash equivalents (Note 22), and collateralised and restricted cash (Note 21).

During the year, the Group continued its strategy of obtaining debt financing at both the Group level and at the operating entities level. This enables the Group to borrow at competitive rates and to build relationships with local, regional and international banks and is therefore deemed to be the most effective means of raising finance, while maintaining the balance between borrowing cost, asset and liability management, and balance sheet currency risk management.

In order to monitor the available net funds, management reviews financial capital reports on a monthly basis, in addition to the continuous review by the Group treasury function.

At 31 December 2017, the Group's gearing (Total debt/equity) was 51% (2016: 35%). The increase in the Group's gearing ratio is due to the impact of full year 2017 losses, which reduces total equity with debt remaining fairly stable.

Cash management

The Group manages the deployment of cash balances to predefined limits approved by the Board of Directors under the cash/risk management policy. Per the policy, the Group's excess cash should be held with highly rated global and regional financial institutions. The aim of the policy is to mitigate the risk of holding cash in certain currencies, countries and financial institutions, through a specific threshold. The Group reviews the policy periodically to meet Hikma's risk appetite.

Foreign exchange risk and currency risk

The Group uses the US Dollar as its presentation currency and is therefore exposed to foreign exchange movements primarily in the Euro, Algerian Dinar, Sudanese Pound, Japanese Yen, Egyptian Pound, Tunisian Dinar and Moroccan Dirham. Consequently, where possible, the Group enters into various contracts, which change in value as foreign exchange rates change, to hedge against the risk of movement in foreign denominated assets and liabilities. Due to the lack of open currency markets, the Algerian Dinar, the Sudanese Pound, the Tunisian Dinar, the Moroccan Dirham and the Egyptian Pound cannot be hedged at reasonable cost. Where possible, the Group uses financing facilities denominated in local currencies to mitigate the risks. The Jordanian Dinar and the Saudi Riyal had no impact on the consolidated income statement as those currencies are pegged against the US Dollar.

Currency risks, as defined by IFRS 7, arise on account of financial instruments being denominated in a currency that is other than the functional currency of an entity and being of a monetary nature.

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

30. Financial policies for risk management and their objectives continued

2017	Net foreign currency financial assets/(liabilities) US Dollar $m	Euro $m	Algerian Dinar $m	Japanese Yen $m	Others* $m
Functional currency of entity:					
– Jordanian Dinar	**19**	**28**	**(11)**	**(1)**	**37**
– Euro	**–**	**–**	**–**	**–**	**–**
– Algerian Dinar	**(6)**	**–**	**–**	**–**	**–**
– Saudi Riyal	**39**	**(3)**	**–**	**(4)**	**–**
– Sudanese Pound	**(10)**	**–**	**–**	**–**	**–**
– Egyptian Pound	**(35)**	**(1)**	**–**	**–**	**–**
– Tunisian Dinar	**(2)**	**2**	**–**	**–**	**–**
– Moroccan Dirham	**(1)**	**(5)**	**–**	**–**	**–**
– Lebanese Pound	**(3)**	**–**	**–**	**–**	**2**
– US Dollar	**–**	**–**	**–**	**–**	**1**
	1	**21**	**(11)**	**(5)**	**40**

* Others include Saudi Riyal and Jordanian Dinar.

2016	Net foreign currency financial assets/(liabilities) US Dollar $m	Euro $m	Algerian Dinar $m	Japanese Yen $m	Others* $m
Functional currency of entity:					
– Jordanian Dinar	54	15	(19)	(1)	47
– Euro	(11)	–	–	–	–
– Algerian Dinar	(66)	–	–	–	–
– Saudi Riyal	38	(2)	–	(2)	–
– Sudanese Pound	(13)	–	–	–	–
– Egyptian Pound	(29)	(2)	–	(1)	–
– Tunisian Dinar	(3)	2	–	–	–
– Moroccan Dirham	(2)	(7)	–	–	–
– Lebanese Pound	(2)	–	–	–	–
– US Dollar	–	12	–	–	8
	(34)	18	(19)	(4)	55

* Others include Saudi Riyal and Jordanian Dinar.

A sensitivity analysis based on a 10% movement in foreign exchange rates has no material impact on the Group results and Group statement of changes in equity.

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

30. Financial policies for risk management and their objectives continued

Interest rate risk

The Group manages its exposure to interest rate risk by changing the proportion of debt that is floating by entering into interest rate swap agreements. As at 31 December 2017 the Group had no outstanding interest rate swap agreements.

	As at 31 December 2017			As at 31 December 2016		
	Fixed rate $m	**Floating rate $m**	**Total $m**	Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	**515**	**262**	**777**	514	346	860
Financial assets						
Cash and cash equivalents	**–**	**129**	**129**	–	78	78

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2017, with all other variables held constant. Based on the composition of the Group's debt portfolio as at 31 December 2017, a 1% increase/decrease in interest rates would result in a $1 million (2016: $3 million) increase/decrease in finance cost being incurred per year and would not be material to the Group.

Fair Value of Financial assets and liabilities

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

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

- Cash and cash equivalents – due to the short-term maturities of these financial instruments and given that generally they have negligible credit risk, management considers the carrying amounts to be not significantly different from their fair values
- Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments
- Long-term loans – loans with variable rates are re-priced in response to any changes in market rates and so management considers the carrying amount to be not significantly different from their fair market value
- Loans with fixed rates relate to the $500 million Eurobond accounted through amortised cost. The fair value is determined with reference to quoted price in an active market on the balance sheet date (Note 28)
- Over the counter (OTC) derivative contracts may include forward, swap, and option contracts relating to interest rates or foreign currencies and are valued based on level 2 market prices and prevailing exchange rates at the balance sheet date
- Receivables and payables – the fair values of receivables and payables are estimated to be equal to the respective carrying amounts
- Lease obligations – are valued at the present value of the minimum lease payments
- Contingent liability results from the acquisition accounting of the West-Ward Columbus acquisition, which represents a contractual obligation assumed at the time of the acquisition from a third party, is measured at cost (Note 27)

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

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

Financial assets and liabilities that fall under Level 1 are:

- Investment designated at fair value amounted to $22 million (Note 23).

Financial assets and liabilities that fall under Level 3 are:

- Co-development and earnout payment agreement (Note 27).
- Contingent consideration receivable resulted from the acquisition accounting of the West-Ward Columbus acquisition (Notes 18, 23, 27 and 32).

30. Financial policies for risk management and their objectives continued

The following table presents the changes in Level 3 items for the period ended 31 December 2017 and the year ended 31 December 2016:

	Financial Assets $m	Financial Liabilities $m
Balance at 1 January 2016	–	25
Additions	1	5
Release	–	(4)
Received/Settlement	(82)	(23)
Acquisition of subsidiaries	118	220
Remeasurement through income statement (Note 5)	2	35
Balance at 31 December 2016	**39**	**258**
Received/Settlement	**(3)**	**(3)**
Remeasurement through income statement (Note 5)	**2**	**(65)**
Additions	**29**	**–**
Balance at 31 December 2017	**67**	**190**

Liquidity risk of assets/(liabilities)

Liquidity risk

2017	**Less than one year $m**	**One to five years $m**	**More than five years $m**	**Total $m**
Cash and cash equivalents	**227**	**–**	**–**	**227**
Trade receivables	**650**	**–**	**–**	**650**
Interest-bearing loans and borrowings*	**(52)**	**(700)**	**(6)**	**(758)**
Interest-bearing overdrafts*	**(10)**	**–**	**–**	**(10)**
Interest-bearing Import and Export loans*	**(51)**	**–**	**–**	**(51)**
Interest bearing finance lease	**(2)**	**(21)**	**–**	**(23)**
Trade payables and accruals	**(352)**	**–**	**–**	**(352)**
	410	**(721)**	**(6)**	**(317)**

2016	**Less than one year $m**	**One to five years $m**	**More than five years $m**	**Total $m**
Cash and cash equivalents	155	–	–	155
Trade receivables	699	–	–	699
Interest-bearing loans and borrowings*	(73)	(787)	–	(860)
Interest-bearing overdrafts*	(10)	–	–	(10)
Interest-bearing Import and Export loans*	(64)	–	–	(64)
Interest-bearing finance lease	(2)	(22)	–	(24)
Trade payables and accruals	(329)	–	–	(329)
	376	(809)	–	(433)

* As these are interest bearing liabilities, expected interest expense has been included in the balance.

30. Financial policies for risk management and their objectives continued

The Group regularly monitors all cash, cash equivalents and debt to maintain liquidity needs, this is done by analysing debt headroom and expected cash flows. The Group seeks to be proactive in its liquidity management to avoid any adverse liquidity effect.

At 31 December 2017, the Group had undrawn facilities of $1,534 million (2016: $1,289 million). Of these facilities, $1,256 million (2016: $1,093 million) were committed and the remainder were uncommitted.

31. Derivative financial instruments

Foreign exchange forward contracts

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the balance sheet date, the Group was not committed to any forward foreign exchange contracts (2016: $6 million foreign exchange forward contract JPY).

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings when necessary. There are no outstanding interest rate swaps as at 31 December 2017 (2016: $nil).

32. Other non-current liabilities

	As at 31 December	
	2017 **$m**	2016 $m
Contingent consideration (Note 27)	**178**	146
Contingent liability (Note 27)	**109**	80
Supply Manufacturing Agreement (Note 27)	**25**	33
Co-development and earnout payment (Note 27)	**8**	14
Others	**4**	4
	324	277

33. 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

34. Non-controlling interests

	2017 $m	2016 $m
At 1 January	**15**	15
Share of profit	**4**	3
Dividends paid	**(2)**	(1)
Currency translation loss	**(1)**	(3)
Acquisition of subsidiaries	**(2)**	1
At 31 December	**14**	15

35. Own shares

The Employee Benefit Trust ('EBT') of Hikma holds 40,831 (2016: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Link Market Services Trustee Limited, an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2017 was $0.6 million (2016: $1.2 million). The book value of the retained own shares at 31 December 2017 are $0.6 million (2016: $0.6 million). The Ordinary Shares held in the EBT will be used to satisfy long-term commitments arising from the employee share plans operated by the Company.

36. Net cash generated from operating activities

	2017 $m	2016 $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**

37. Contingent liabilities

Contingent liability

A contingent liability existed at the balance sheet date in respect of external guarantees and letters of credit totalling $47 million (31 December 2016: $49 million), arising in the normal course of business. No provision for these liabilities has been made in these financial statements.

In 2017 the Group received two subpoenas from a US state attorney general and the US Department of Justice, each requesting information related to certain products, pricing and related communications. Management do not believe sufficient evidence exists to make any provision for this currently.

38. Share-based payments

Executive Incentive Plan

The 2014 Executive Incentive Plan (EIP) was approved by shareholders at the 2014 Annual General Meeting. The EIP is a combined cash bonus (element A), deferred shares (element B) and restricted shares (element C) scheme. Under the EIP, the Company makes grants of conditional awards and $nil cost options under elements B and C to the executive directors and senior executives of the Group. Awards under all elements are dependent on the achievement of individual and Group KPIs over one year prior to grant. The shares awarded under element B are not released for a period of two years during which they are subject to a forfeiture condition. The shares awarded under element C are not released for a period of three years, but are not subject to a forfeiture condition. Members of the Executive Committee must retain 50% of the shares received from elements B and C for a period of five years from the date of grant.

Year 2017	**2017 grants 13 Apr Number**	**2016 grants 11 May Number**	**2016 grants 17 Mar Number**	**2015 grants 15 May Number**	**2015 grants 10 Apr Number**	**Total Number**
Beginning Balance	–	165,553	448,875	118,000	338,808	1,071,236
Granted during the year	613,269	–	–	–	–	613,269
Exercised during the year	–	(3,578)	–	(71,000)	(224,378)	(298,956)
Expired during the year	(4,893)	(12,396)	–	–	–	(17,289)
Outstanding at 31 December	**608,376**	**149,579**	**448,875**	**47,000**	**114,430**	**1,368,260**
Exercisable at 31 December	–	–	–	–	17,386	17,386

Year 2016	2016 grants 11 May Number	2016 grants 17 Mar Number	2015 grants 15 May Number	2015 grants 10 Apr Number	Total Number
Beginning Balance	–	–	118,000	338,808	456,808
Granted during the year	165,553	448,875	–	–	614,428
Outstanding at 31 December	165,553	448,875	118,000	338,808	1,071,236

The cost of the EIP of $16 million (2016: $13 million) has been recorded in the consolidated income statement as part of general and administrative expenses.

The fair value per share is the face value of shares on the date of grant.

The weighted average share price for 2017 is $20.03 (2016: $27.84).

	Date of grant	Number granted	The estimated fair value of each share option granted $	The share price at grant date $
EIP's 1	10/04/2015	338,808	33.24216	33.24216
EIP's 2	15/05/2015	118,000	33.11449	33.11449
EIP's 3 B	17/03/2016	242,608	26.97918	26.97918
EIP's 3 C	17/03/2016	206,267	26.97918	26.97918
EIP's 4	11/05/2016	165,553	32.15333	32.15333
EIP's 5 B	13/04/2017	428,528	23.97771	23.97771
EIP's 5 C	13/04/2017	184,741	23.97771	23.97771

The exercise price of the share award is $nil.

38. Share-based payments continued

Management Incentive Plan

The 2009 Management Incentive Plan ('MIP') was approved by shareholders at the 2010 Annual General Meeting, whereby shareholders consented to the Company satisfying awards under the MIP from newly issued shares. Under the MIP, the Company makes grants of conditional awards to management across the Group below senior management level. Awards are dependent on the achievement of individual and Group KPIs over one year and are then subject to a two-year holding period. The 2009 MIP awards were made at the start of the KPI performance period, whereas the 2011 awards and future awards will be made at the end of the KPI performance period.

Details of the grants under the plan are shown below:

Year 2017	2017 grants 19 May Number	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 Jun Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	192,725	132,442	12,632	9,973	347,772
Granted during the year	273,724	–	–	–	–	273,724
Exercised during the year	–	–	(121,879)	(4,483)	(5,186)	(131,548)
Expired during the year	(14,625)	(19,000)	–	–	–	(33,625)
Outstanding at 31 December	**259,099**	**173,725**	**10,563**	**8,149**	**4,787**	**456,323**

Year 2016	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 Jun Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	140,594	214,009	9,973	364,576
Granted during the year	196,373	–	–	–	196,373
Exercised during the year	–	–	(190,400)	–	(190,400)
Expired during the year	(3,648)	(8,152)	(10,977)	–	(22,777)
Outstanding at 31 December	192,725	132,442	12,632	9,973	347,772

The cost of the MIP of $6 million (2016: $6 million) has been recorded in the consolidated income statement as part of general and administrative expenses.

The fair value per share is the face value of shares on the date of grant less the present value of dividends expected to be paid during this period. Valuation is based on Black-Scholes methodology for nil-cost options.

The weighted average share price for 2017 is $20.03 (2016: $27.84).

	Date of grant	Number granted	The estimated fair value of each share option granted $	The share price at grant date $	Expected dividends yield %
MIP's 1	19/03/2009	340,000	4.89	5.11	1.47
MIP's 2	28/03/2010	147,561	9.15	9.36	1.15
MIP's 3	11/05/2011	356,894	12.96	13.23	1.00
MIP's 4	18/05/2012	412,056	9.47	9.72	1.29
MIP's 5	17/05/2013	252,482	14.61	14.93	1.10
MIP's 6	11/06/2014	225,904	27.73	28.33	0.71
MIP's 7	11/05/2015	145,918	32.17	32.63	7.08
MIP's 8	11/05/2016	196,373	31.73	32.20	0.73
MIP's 9	19/05/2017	273,724	22.09	22.54	1.01

The exercise price of the share award is $nil.

38. Share-based payments continued

Long-Term Incentive Plan

The 2007 Long-Term Incentive Plan ('LTIP') was approved by shareholders at the 2007 Annual General Meeting and the last grant was made under the LTIP during the year ended 31 December 2014. The LTIP is settled by equity instruments, with 15 separate grant dates. Under the LTIP, conditional awards and $nil cost options were granted which vest after three years subject to total shareholder return (TSR), revenue growth, earnings per share and return on invested capital performance conditions. The TSR condition measures the Group's TSR relative to a comparator group of other pharmaceutical companies. The TSR vesting schedule dictates that 20% of awards vest for median performance and 100% for upper quartile performance, with pro-rata vesting in between these points. No awards vest for performance, which is below the median. The threshold and maximum performance requirements for the revenue growth, earnings per share and return on invested capital performance conditions are detailed in page 99 of the remuneration report and are measured against the audited financial statements for the closest three-year financial period to the grant and vesting dates.

Details of the grants under the plan are shown below:

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

All long-term incentive plans have ten years contractual life and vest after three years.

The estimated fair value of each share option granted in the LTIP was calculated by applying the Monte Carlo simulation methodology. For awards made from 2011, 50% of the award is subject to a TSR performance condition which was valued by applying the Monte Carlo simulation methodology, the remaining 50% of the award is subject to financial metrics which are valued by applying the Black-Scholes model. For further details see the remuneration committee report.

The exercise price of the share award is $nil.

38. Share-based payments continued

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

Year 2017	2014 grants 03 Dec Number	2014 grants 14 June Number	2014 grants 29 May Number	2014 grants 3 Apr Number	2013 grants 6 Nov Number	2013 grants 17 May Number	2012 grant 16 March Number	2007 grants 23 April Number	Total Number 423,668
Outstanding at 1 January	**5,899**	**151,429**	**109,000**	**84,954**	**5,180**	**31,986**	**22,220**	**13,000**	**423,668**
Exercised during the year	**(4,885)**	**(104,914)**	**(90,252)**	**(70,342)**	**(4,485)**	**(4,637)**	**–**	**(13,000)**	**(292,515)**
Expired during the year	**(1,014)**	**(21,795)**	**(18,748)**	**(14,612)**	**(695)**	**(718)**	**–**	**–**	**(57,582)**
Outstanding at 31 December	**–**	**24,720**	**–**	**–**	**–**	**26,630**	**22,220**	**–**	**73,570**
Exercisable at 31 December	**–**	**24,720**	**–**	**–**	**–**	**26,630**	**22,220**	**–**	**73,570**

Year 2016	2014 grants 03 Dec Number	2014 grants 14 June Number	2014 grants 29 May Number	2014 grants 3 Apr Number	2013 grants 6 Nov Number	2013 grants 17 May Number	2012 grant 16 March Number	2007 grants 23 April Number	Total Number
Outstanding at 1 January	5,899	151,429	109,000	84,954	20,802	431,876	27,820	13,000	844,780
Exercised during the year	–	–	–	–	(13,529)	(346,295)	(5,600)	–	(365,424)
Expired during the year	–	–	–	–	(2,093)	(53,595)	–	–	(55,688)
Outstanding at 31 December	5,899	151,429	109,000	84,954	5,180	31,986	22,220	13,000	423,668
Exercisable at 31 December	–	–	–	–	5,180	31,986	22,220	13,000	72,386

A true up of $1 million has been credited to the consolidated income statement as part of the general and administrative expenses (2016: $3 million charged to profit and loss).

The weighted average share price for 2017 is $20.03 (2016: $27.84).

39. Operating lease arrangements

	2017 $m	2016 $m
Minimum lease payments under operating leases recognised in profit or loss for the year	**9**	7

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 $m	2016 $m
Within one year	**9**	8
In two to five years inclusive	**22**	23
After five years	**13**	18
	44	49

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a term of one to eight years.

40. 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 are disclosed in Notes 18, 23, 27, 30 and 32.

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: $11.3 million) 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): 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 an additional stake in Hubei Haosun Pharmaceutical Co. Ltd bringing the total ownership to 49% (Note 43).

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).

Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive and Non-Executive Directors and certain of senior management as set out in the Directors' Report) of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in the audited part of the Remuneration Committee Report on pages 86 to 108.

	2017 $m	2016 $m
Short-term employee benefits	**11.0**	14.2
Share-based payments	**10.2**	11.5
Post-employment benefits	**10.3**	–
Other benefits	**0.6**	0.3
	32.1	26.0

41. Subsidiaries, associate and joint venture

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

			Owned by the Group		*Owned by PLC 'the Company'*	
Company's name	**Incorporated in**	**Address of the registered office**	**Ownership % Ordinary shares At 31 December 2017**	**Ownership % Ordinary shares At 31 December 2016**	**Ownership % Ordinary shares At 31 December 2017**	**Ownership % Ordinary shares At 31 December 2016**
Al Jazeera Pharmaceutical Industry S.A.R.L	Algeria	Zone d'Activité, Propriété N° 379 Section N° 04 Staoueli, Algeria	99%	99%	–	–
Algerie Industrie Mediterraneene Du Medicament S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	91%	91%	–	–
Hikma Pharma Algeria S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	100%	100%	–	–
SPA Al Dar Al Arabia pour la Fabrication de Médicaments	Algeria	Zone d'Activité El Boustane N° 78, Sidi Abdellah, Al Rahmania, Algeria	100%	100%	–	–
Hubei Haosun Pharmaceutical Co Ltd	China	No 20 Juxian Road, Gedian Economic and Technology Development Area, Hubei, China	30%	30%	–	–
Hikma for Importation Co. LLC	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	99%	99%	–	–
Hikma Pharma S.A.E*	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	100%	100%	–	–
Hikma Pharmaceuticals Industries S.A.E	Egypt	16 Ahmed Hosny Street, First Zone, Naser City, Cairo, Egypt	100%	100%	–	–
Hikma Specialised Pharmaceuticals (S.A.E)	Egypt	10 D, 11 D, Industrial Zone, Badr City, Cairo, Egypt	98%	98%	–	–
HikmaCure Pharmaceuticals Share Company	Ethiopia	Addis Ababa, Bole Sub City, Kebele 16, Woreda, Ethiopia	50%	50%	–	–
Hikma Pharma GmbH	Germany	Lochhamer Strasse 13, 82152, Martinsried, Germany	100%	100%	–	–
Thymoorgan GmbH*	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Deutchland	100%	100%	–	–
Thymoorgan Pharmazie GmbH	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Deutchland	100%	100%	–	–
Hikma Finance (Ireland) Limited	Ireland	2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland	100%	100%	–	–
Hikma Italia S.p.A	Italy	Viale Certosa 10, 27100, Pavia, Italy	100%	100%		
Hikma Pharma Limited*	Jersey	47 Esplanade, St Helier, JE1 0BD, Jersey	100%	100%	100%	100%
Arab Medical Containers LLC*	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Arab Pharmaceutical Manufacturing PSC*	Jordan	Al Buhaira – Salt, P.O. Box 42, Jordan	100%	100%		
Future Pharmaceutical Industries LLC	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Hikma International Pharmaceuticals LLC (Exempt)	Jordan	122 Queen Zain AlSharaf Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
Hikma International Ventures and Development LLC (Exempt)	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma Investment LLC*	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma Pharmaceuticals LLC*	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma United Renewable Energy	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
International Pharmaceutical Research Centre LLC	Jordan	P.O. Box 963166, Amman, 11196, Jordan	51%	51%	–	–

41. Subsidiaries, associate and joint venture continued

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* Ownership % Ordinary shares At 31 December 2017	*Owned by the Group* Ownership % Ordinary shares At 31 December 2016	*Owned by PLC 'the Company'* Ownership % Ordinary shares At 31 December 2017	*Owned by PLC 'the Company'* Ownership % Ordinary shares At 31 December 2016
Sofia Travel and Tourism	Jordan	Mustafa Semreen Complex Building No. 29, Jamal Qaytoqa Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
Specialised for Pharmaceutical Industries LLC	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma CIS JSC	Kazakhstan	Apt. 1, House 7, Building-28, 'Keremet' Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%	–	–
Hikma Pharmaceuticals Co. Ltd., Almaty (Kazakhtan) Representative Office	Kazakhstan	Apt. 1, House 7, Building-28, 'Keremet' Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%	–	–
Hikma Liban S.A.R.L.	Lebanon	Saria Building, Ground Floor, Embassies Street, Bir Hassan, Beirut, Lebanon	67%	67%	–	–
Hikma Finance (Luxembourg) SARL	Luxembourg	20 rue des Peupliers, L-2328 Luxembourg	100%	100%	–	–
Société de Promotion Pharmaceutique du Maghreb (Promopharm S.A.)*	Morocco	Zone Industrielle du Sahel, Rue N. 7, Had Soualem, Province de Settat, Morocco	94%	94%		
Hikma International N.V	Netherlands	Luna Arena, Herikerberweg 238, 1101 CM, Amsterdam Zuidoost, Netherlands	100%	100%	100%	100%
Hikma Pharma Benelux B.V	Netherlands	Nieuwe Steen 36, 1625 HV, Hoorn, Netherlands	100%	100%	–	–
Eurohealth N.V	Netherlands Antilles	Pareraweg 45, P.O. Box 4914, Curacao, (Netherlands Antilles)	100%	100%	–	–
Hikma Farmaceutica, (Portugal) S.A	Portugal	Estrada Rio Da Mo no.8, 8a, 8B-Fervenca, 2705-906, Terugem SNT, Portugal	100%	100%	–	–
Lifotec Farmaceutica S.G.P.S S.A*	Portugal	Estrada Nacional 9, Fervença, São João das Lampas e Terrugem, Sintra, Portugal	100%	100%	–	–
Al Jazeerah Pharmaceutical Industries Ltd*	Saudi Arabia	Riyadh Gallery, Olaya Street, P.O. Box 106229, Riyadh-11666, Kingdom of Saudi Arabia	100%	100%	52.5%	52.5%
Hikma Slovakia s.r.o	Slovakia	Seberíniho 1, 821 03 Bratislava, Slovakia	100%	100%	–	–
Pharma Ixir Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	51%	51%	–	–
Savannah Pharmaceutical Industries Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	100%	100%	–	–
Eurohealth International S.A.R.L.	Switzerland	Rue des Battoirs 7, 1205 Genève, Switzerland	100%	100%	100%	100%
APM Tunisie S.A.R.L.	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage, 2035, Tunisia	99%	99%	–	–
STE D'Industriee Pharmaceutique Ibn Al Baytar*	Tunisia	11 Rue 8610 Charguia 1-2035 Tunis-Carthage, Tunisia	100%	66%	–	–
STE Hikma Pharma Tunisie	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage 2035, Tunisia	100%	100%	–	–
STE Medicef	Tunisia	Avenue Habib Bourguiba, Sidi Thabet, 2020 Ariana, Tunisia	100%	100%	–	–
Hikma Emerging Markets and Asia Pacific FZ-LLC	United Arab Emirates	Premises 202-204, Floor 2, Building 26, Dubai, United Arab Emirates	100%	100%	100%	100%

41. Subsidiaries, associate and joint venture continued

			Owned by the Group		*Owned by PLC 'the Company'*	
Company's name	**Incorporated in**	**Address of the registered office**	**Ownership% Ordinary shares At 31 December 2017**	**Ownership % Ordinary shares At 31 December 2016**	**Ownership % Ordinary shares At 31 December 2017**	**Ownership % Ordinary shares At 31 December 2016**
Hikma International Trading Limited	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma MENA Holdings Limited*	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma (Maple) Limited	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Acquisitions (UK) Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikma Holdings (UK) Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma UK Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Ventures Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
HikmaCure Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	50%	50%	–	–
West-Ward Holdings Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
West-Ward Pharmaceuticals International Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Bedford Property Holdings, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Eurohealth (U.S.A.) Inc*	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Hikma Americas, Inc.	United States	C T Corporation System, 800 S Gay Street, Suite Knoxville TN 2021 37929-9710, United States	100%	100%	–	–
Roxane Laboratories, Inc.	United States	Corporation Trust Company of Nevada 701 S Carson Street Suite 200, Carson City, NV 89701, United States	100%	100%	–	–
West-Ward Columbus Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
West-Ward Injectables, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
West-Ward Pharmaceuticals Corp	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–

The investments in subsidiaries are all stated at cost in PLC 'the Company', while accounted for using the equity method in the Group.

The investments in associates and joint ventures are accounted for using the equity method in the Group (Note 16).

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

42. Defined contribution retirement benefit plan

Hikma Pharmaceuticals PLC has defined contribution retirement plans in five of its subsidiaries: Hikma Pharmaceuticals PLC – United Kingdom, Hikma Pharmaceuticals LLC (Jordan), Arab Pharmaceutical Manufacturing PSC, West-Ward Pharmaceuticals Corp and West-Ward Columbus Inc. The details of each contribution plan are as follows:

Hikma Pharmaceuticals PLC – United Kingdom

The Group currently has a defined contribution pension plan available for staff working in the United Kingdom whereby the Group contributes 10% of basic salary. Employees are immediately entitled to 100% of the Group's contributions. The Group's contributions for the year ended 31 December 2017 were $0.2 million (2016: $0.2 million).

Hikma Pharmaceuticals LLC – Jordan

The Group currently has an employee savings plan whereby the Group fully matches employees' contributions, which are fixed at 10% (up to 2011, the level was 5%) of basic salary. Employees are entitled to 30% of the Group contributions after three years of employment with the Company and an additional 10% for each subsequent year. Employees are entitled to 100% of the Company contributions after ten years of employment with the Company. The Group's contributions for the year ended 31 December 2017 were $3 million (2016: $2 million).

Arab Pharmaceutical Manufacturing PSC – Jordan

The Group currently has an employee saving plan whereby the employees contribute at 10%, and the company at 15% of basic salary. After three years of employment with the Company, employees are entitled to 100% of the Company contributions. The Group's contributions for the year ended 31 December 2017 were $1 million (2016: $1 million).

West-Ward Pharmaceuticals Corp: (401 (k) salary saving plan)

West-Ward Pharmaceutical Corp. has a 401(k)-defined contribution Plan, which allows all eligible employees to defer a portion of their income through contributions to the Plan. All employees not covered by any collective bargaining agreement are eligible after being employed for 90 days. Employees can defer up to 95% of their gross salary into the Plan, not to exceed $18,000 (2016: $18,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The Company matches 40% of the employees' eligible contribution. Employer contributions vest after three years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a Plan year. Employer contributions to the Plan for the year ended 31 December 2017 were $3 million (2016: $3 million). The assets of both retirement Plans are held separately from those of the Group. The only obligation of the Group with respect to both retirement benefit Plans is to make specified contributions.

West-Ward Columbus Pharmaceuticals Inc: (401 (k) salary saving plan)

West-Ward Columbus Pharmaceutical Corp has a 401(k)-defined contribution Plan, which allows all eligible employees to defer a portion of their income through contributions to the Plan. Employees can defer up to 95% of their gross salary into the Plan, not to exceed $18,000 (2016: $18,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The Company matches 100% on first 5% of the employees' eligible contribution. Employer contributions vest after six years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a Plan year. Employer contributions to the Plan for the year ended 31 December 2017 were $8 million (2016: $8 million). The assets of both retirement Plans are held separately from those of the Group. The only obligation of the Group with respect to both retirement benefit Plans is to make specified contributions.

43. Subsequent Events

On 13 February 2018, Hikma acquired an additional stake in Hubei Haosun Pharmaceutical Co. Ltd bringing the total ownership to 49%.

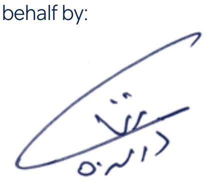
Company balance sheet

At 31 December 2017

	Note	2017 $m	2016 $m
Non-current assets			
Property, plant and equipment		**3**	3
Intangible assets	46	**20**	13
Investments in subsidiaries	47	**3,323**	3,179
Due from subsidiaries	48	**362**	507
Financial and other non-current assets		**5**	6
		3,713	3,708
Current assets			
Other receivables		**3**	2
Due from subsidiaries	48	**71**	108
Cash and cash equivalents	50	**25**	32
Other current assets	49	**86**	59
		185	201
Total assets		**3,898**	3,909
Current liabilities			
Other payables	51	**4**	4
Income tax provision		**–**	5
Due to subsidiaries	52	**39**	32
Other current liabilities		**14**	13
		57	54
Net current assets		**128**	147
Non-current liabilities			
Long-term financial debts	53	**610**	640
Due to subsidiaries	52	**115**	55
		725	695
Total liabilities		**782**	749
Net assets		**3,116**	3,160
Equity			
Share capital	57	**40**	40
Share premium	58	**282**	282
Own shares		**(1)**	(1)
Profit for the year	59	**12**	77
Other reserves		**2,783**	2,762
Equity attributable to equity holders of the parent		**3,116**	3,160

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 172 to 179 were approved by the Board of Directors on 13 March 2018 and signed on its behalf by:

Said Darwazah
Director
13 March 2018



Mazen Darwazah
Director

Company statement of changes in equity

For the year ended 31 December 2017

	Paid up capital $m	Share premium $m	Own shares $m	Merger reserve $m	Retained earnings $m	Total $m
Balance at 1 January 2016	35	282	(1)	707	1,070	2,093
Profit for the year	–	–	–	–	77	77
Effect of change in investment designated at fair value	–	–	–	–	1	1
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**78**	**78**
Total transactions with owners, recognised directly in equity						
Issue of equity shares	5	–	–	1,039	–	1,044
Cost of equity settled employee share scheme	–	–	–	–	22	22
Dividends paid	–	–	–	–	(77)	(77)
Balance at 31 December 2016 and 1 January 2017	40	282	(1)	1,746	1,093	3,160
Profit for the year					12	12
Effect of change in investment designated at fair value	–	–	–	–	1	1
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**13**	**13**
Total transactions with owners, recognised directly in equity						
Cost of equity settled employee share scheme	–	–	–	–	22	22
Dividends paid	–	–	–	–	(79)	(79)
Balance at 31 December 2017	**40**	**282**	**(1)**	**1,746**	**1,049**	**3,116**

44. Adoption of new and revised standards

The impact on the Company of new and revised standards is the same as for the Group. Details are given in Note 1 to the consolidated financial statements.

45. Significant accounting policies

Basis of accounting

For all periods, up to and including the year ended 31 December 2016, the Company prepared its financial statements in accordance with International Financial Reporting Standards adopted for use in the European Union. These financial statements, for the year ended 31 December 2017, are the first the Company has prepared in accordance with FRS 101 (Reduced Disclosure Framework). The transition to FRS 101 did not result in any material impact.

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

The following paragraphs of IAS 1, 'presentation of financial statements':

- 10(d), statement of cash flows;
- 16 (statement of compliance with all IFRS);
- 38A (requirements for minimal of two primary statements, including cash flow statements);
- 111 (cash flow statement information); and
- IAS 7. 'Statement of cash flows'.

No individual profit and loss account is prepared as provided by section 408 of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 2 of the consolidated financial statements with the addition of the policies noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

Equity-settled employee share schemes are accounted for in accordance with IFRS 2 'Share based payments'. The current charge expenses relating to the subsidiaries' employees are recharged to subsidiary companies.

46. Intangible assets

	Goodwill $m	Product related intangibles $m	Software $m	Total $m
Cost				
Balance at 1 January 2016	43	145	10	198
Additions/(transfers to) subsidiaries	–	(140)	3	(137)
Transfer to investment in subsidiaries	(43)	–	–	(43)
Disposals	–	(5)	–	(5)
Balance at 1 January 2017	–	–	**13**	**13**
Additions	–	–	8	8
Balance at 31 December 2017	**–**	**–**	**21**	**21**
Amortisation				
Balance at 1 January 2016	**–**	**(1)**	**–**	**(1)**
Charge for the year	–	(2)	–	(2)
Transfers to subsidiaries	–	3	–	3
Balance at 1 January 2017	**–**	**–**	**–**	**–**
Charge for the year	–	–	(1)	(1)
Balance at 31 December 2017	**–**	**–**	**(1)**	**(1)**
Carrying amount				
At 31 December 2017	**–**	**–**	**20**	**20**
At 31 December 2016	–	–	13	13

Details of useful lives and amortisation rates are included in Note 14.

47. Investments in subsidiaries

The details of Investment in subsidiaries are mentioned in Note 41.

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

	2017 $m	2016 $m
Beginning balance	3,179	1,888
Additions to subsidiaries	144	1,908
Transfer from Goodwill	–	43
Reduction in investment*	–	(650)
Reduction in paid up capital**	–	(10)
Ending balance	**3,323**	3,179

* This category relates to an intragroup restructuring following the acquisition of West-Ward Columbus Inc.
** In 2016, the capital of Hikma Finance (Luxembourg) SARL was reduced by $10 million.

48. Due from subsidiaries

Non-current assets

	2017 $m	2016 $m
West-Ward Pharmaceuticals Corp.	8	8
Hikma Italia S. p. A	4	4
Hikma MENA Holdings Limited	–	7
West-Ward Pharmaceuticals International Limited	167	488
Hikma UK Limited	183	–
	362	507

Current assets

	2017 $m	2016 $m
Hikma Pharmaceuticals LLC	–	3
Hikma UK Limited	55	62
Hikma MENA Holdings Limited	5	7
West-Ward Pharmaceuticals Corp.	4	33
Hikma Pharma SAE	3	2
Hikma Farmaceutica, (Portugal) S.A.	1	–
Hikma Emerging Markets and Asia Pacific FZ-LLC	3	1
	71	108

49. Other current assets

	2017 $m	2016 $m
Price adjustment receivable	**61**	34
Investment designated at fair value	**22**	20
Co-development and earnout receivable	**–**	3
Others	**3**	2
	86	59

Price adjustment receivable: in respect to Note 18 this represents the current portion of the contingent receivables in relation to the West-Ward Columbus acquisition. In addition, the Group was entitled to be reimbursed with $30 million from the seller of a previous acquisition if certain regulatory conditions existed as of 24 December 2017.

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

50. Cash and cash equivalents

	As at 31 December	
	2017 $m	2016 $m
Cash at banks and on hand	**5**	5
Time deposits	**20**	27
	25	32

Cash and cash equivalents include highly liquid investments with maturities of three months or less which is convertible to known amounts of cash and are subject to insignificant risk of changes in value.

51. Other payables

Management consider that the carrying amount of other payables approximates to their fair value.

52. Due to subsidiaries

Non-current liabilities

	2017 $m	2016 $m
Hikma (Maple) Limited	**44**	44
Hikma Investment LLC	**1**	1
Hikma Pharmaceuticals LLC	**10**	–
Eurohealth International SARL	**–**	10
Hikma MENA Holdings Limited	**60**	–
	115	55

52. Due to subsidiaries continued

Current liabilities

	2017 $m	2016 $m
Hikma Investment LLC	22	5
Thymoorgan GmbH	–	1
West-Ward Pharmaceuticals International Limited	15	24
Hikma Pharma Limited	2	2
	39	32

53. Long-term financial debts

The balance comprises mainly of a $500 million (carrying value of $496 million, and fair value of $502 million) 4.25% Eurobond due April 2020 with the rating of (BB+/Ba1) and a withdrawal of $112 million on the syndicated revolving credit facility (Note 28).

54. Financial policies for risk management and their objectives

Currency risk

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency.

A sensitivity analysis based on a 10% movement in foreign exchange rates has no material impact on the Company results and Company statement of changes in equity.

Further details on how the Company manages the currency risk are given in Note 30.

Interest rate risk

			As at 31 December 2017			As at 31 December 2016
	Fixed rate $m	Floating rate $m	Total $m	Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	496	112	608	495	145	640
Financial assets						
Cash and cash equivalents	–	20	20	–	27	27

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2017, with all other variables held constant. Based on the composition of the Company debt and cash portfolio as at 31 December 2017, a 1% increase in interest rates would result in an additional interest expense of $1 million being incurred per year (2016: $1 million of interest income incurred).

54. Financial policies for risk management and their objectives continued

Liquidity risk

2017	Less than one year $m	Two to five years $m	Total $m
Cash and cash equivalents	**25**	**–**	**25**
Other receivables	**3**	**–**	**3**
Interest bearing loans and borrowings	**(22)**	**(643)**	**(665)**
Other payables	**(4)**	**–**	**(4)**
	2	**(643)**	**(641)**

2016	Less than one year $m	Two to five years $m	Total $m
Cash and cash equivalents	32	–	32
Other receivables	2	–	2
Interest bearing loans and borrowings	(24)	(702)	(726)
Other payables	(4)	–	(4)
	6	(702)	(696)

The Company believes that, given the Group's operating cash flow during 2017, it has the ability to satisfy its liability commitments.

55. Staff costs

Hikma Pharmaceuticals PLC currently has an average of 30 employees (2016: 21 employees) (excluding Executive Directors); total compensation paid to them amounted to $8 million (2016: $6 million) of which salaries and bonuses compromise an amount of $6 million (2016: $5 million) the remaining balance of $2 million (2016: $1 million) represents national insurance contributions. The cost of share-based payments and other benefits is represented below.

56. Share based payment

Executive incentive plans ('EIPs')

The details of the EIP scheme are provided in Note 38. As at 31 December 2017, the total number of awards granted to employees of the Company under the EIP during the life of the plans was 554,700 shares (2016: 364,274) and the total amount of the compensation expenses charged to profit and loss is $5.4 million (2016: $3 million).

Management incentive plans ('MIPs')

The details of the MIP scheme are provided in Note 38. As at 31 December 2017, the total number of awards granted to employees of the Company under the MIP during the life of the plans was 31,316 shares (2016: 25,716) and the total amount of the compensation expenses charged to profit and loss is $0.2 million (2016: $0.2 million).

Long-term incentive plans ('LTIPs')

The details of the long-term incentive plan ('LTIPs') are provided in Note 38. As at 31 December 2017, the total number of awards granted to employees of the Company under the LTIPs during the life of the plans was 1,649,615 shares (2016: 1,649,615). A true up of $0.3 million has been credited to profit and loss (2016: $2 million charged to profit and loss).

57. Share capital

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

	2017 Number	2017 $m	2016 Number	2016 $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

58. Share premium

	Share premium $m
Balance at 1 January and 31 December 2017	**282**

59. Profit for the year

The net income in the Company for the year is $12 million (2016: $77 million). Included in the net income for the year is an amount of $16 million (2016: $125 million) representing dividends received, $29 million contingent consideration gain (Note 5) included in the other operating income (2016: $nil), and $5 million (2016: $5 million) representing the current year charge of share based payments. The remaining $16 million (2016: $17 million) of the Group's share based payment charge is recharged to subsidiary companies. The remaining income statement components represent general and administrative expenses. Audit fees for the Company are borne by the Group (Note 6).

60. Related Parties

Amounts repayable to and from subsidiaries are disclosed in Notes 48 and 52.

Other transactions with related parties include management charges for services provided to the subsidiary companies, equity settled employee share scheme costs relating to the subsidiary companies and transactions with key management personnel. Compensation paid to key management personnel is disclosed in Note 40. Details of Directors remuneration are disclosed in the Remuneration Committee Report on pages 86 to 108.

More details on the general information of the ultimate parent of the Group are disclosed in Note 2.

61. Contingent liabilities

A contingent liability existed at the balance sheet date in respect to a standby letter of credit totalling $9 million (2016: $9 million) for a potential stamp duty obligation that may arise for repayment of a loan by intercompany guarantors. It is not probable that the repayment will be made by the intercompany guarantors, accordingly, no provision for any liability has been made in these financial statements.

Shareholder information

2018 financial calendar

5 April	2017 final dividend ex-dividend date
6 April	2017 final dividend record date
18 May	Annual General Meeting
24 May	2017 final dividend paid to shareholders
15 August*	2017 interim results and interim dividend announced
23 August*	2018 interim dividend ex-dividend date
24 August*	2018 interim dividend record date
21 September*	2018 interim dividend paid to shareholders

* Provisional dates

Shareholding enquiries

Enquiries or information concerning existing shareholdings should be directed to the Company's registrars, Link Registrars either:

— in writing to Shareholder Services, Link Registrars, 34 Beckenham Road, Beckenham, Kent BR3 4TU
— by telephone from within the UK on 0871 664 0300
— by telephone from outside the UK on +44 371 664 0300 or
— by email – enquiries@linkgroup.co.uk

Dividend payments – Currency

The Company declares dividends in US Dollars. Unless you have elected otherwise, you will receive your dividend in US Dollars. Shareholders can opt to receive the dividend in Pounds Sterling or Jordanian Dinars. The Registrar retains records of the dividend currency for each shareholder and only changes them at the shareholder's request. If you wish to change the currency in which you receive your dividend please contact the Registrars.

Dividend payments – Bank Transfer

Shareholders who currently receive their dividend by cheque can request a dividend mandate form from the Registrar and have their dividend paid direct into their bank account on the same day as the dividend is paid. The tax voucher is sent direct to the shareholder's registered address.

Dividend payments – International Payment System

If you are an overseas shareholder the Registrar is now able to pay dividends in several foreign currencies for an administrative charge of £5.00, which is deducted from the payment. Contact the Registrar for further information.

Website

Press releases, the share price and other information on the Group are available on the Company's website www.hikma.com.

Share listings

London Stock Exchange

The Company's Ordinary Shares are admitted to the Official List of the London Stock Exchange. They are listed under EPIC – HIK, SEDOL – B0LCW08 GB and ISIN – GB00B0LCW083.

Further information on this market, its trading systems and current trading in Hikma Pharmaceuticals PLC shares can be found on the London Stock Exchange website www.londonstockexchange.com.

Global Depository Receipts

The Company also has listed Global Depository Receipts (GDRs) on the Nasdaq Dubai. They are listed under EPIC – HIK and ISIN – US4312882081. Further information on the Nasdaq Dubai, its trading systems and current trading in Hikma Pharmaceuticals PLC GDRs can be found on the website www.nasdaqdubai.com.

American Depository Receipts (ADRs)

Hikma Pharmaceuticals PLC has an ADR programme for which BNY Mellon acts as Depository. One ADR equates to 2 Hikma Ordinary Shares. ADRs are traded as a Level 1 (OTC) programme under the symbol HKMPY. Enquiries should be made to:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
Tel: +1 201 680 6825
Tel: +1 888 BNY ADRS (toll-free within the US)
E-mail: shrrelations@bnymellon.com

Shareholder fraud

The Financial Conduct Authority has issued a number of warnings to shareholders regarding boiler room scams. Over the last year many companies have become aware that shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as boiler rooms. These brokers can be very persistent and extremely persuasive. Shareholders are advised to be very cautious of unsolicited advice, offers to buy shares at a discount or offers of free Company reports. If you receive any unsolicited investment advice:

Obtain the correct name of the person and organisations;

— Check they are authorised by the FCA by looking the firm up on www.fca.org.uk/register;
— Report the matter to the FCA either by calling 0800 111 6768 or visit www.fca.org.uk/consumers;
— If the caller persists, hang up.

Details of the share dealing facilities sponsored by the Company are included in Company mailings and are on the Company website.

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