Financial review

Full year operating highlights
- US market growth in financial year 2017 improved to low double-digit levels. Suboxone® Film average market share was 59% (2016: 61%), exiting the year at 56% (2016: 61%) primarily due to ongoing generic tablet competition in the most price sensitive US payors (Managed Medicaid).
- SUBLOCADE™ became the first once-monthly buprenorphine long-acting injection delivery system approved by FDA for the treatment of moderate-to-severe opioid use disorder (OUD); launching in the US in March 2018.
- FDA accepted NDA for RBP-7000, a once-monthly risperidone long-acting injection for the treatment of schizophrenia; PDUFA date of July 28, 2018 established; setting up new business unit.
- Indivior entered into a strategic collaboration with Addex Therapeutics on January 3, 2018 that includes exclusive global license rights to their GABAB positive allosteric modulator program.
- Indivior initiated an appeals process against Dr. Reddy’s after the US District Court for the District of Delaware found asserted claims of Patent Nos. 8,017,150 (the ‘150 patent), 8,603,514 (the ‘514 patent) and 8,900,497 (the ‘497 patent) valid but not infringed by Dr. Reddy’s proposed generic buprenorphine/naloxone film. The appeal is progressing in the Federal Circuit Court of Appeals.
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- Indivior took additional actions to secure its intellectual property position by reaching a settlement with Mylan, including the termination of their inter partes review (IPR), and is asserting its new Orange Book-listed patents covering SUBOXONE® Film, US Patent Nos. 9,687,454 (the ‘454 patent) and 9,855,221 (the ‘221 patent), against the other abbreviated new drug application (ANDA) filers.
- The Group continues in active discussions with the various governmental and other entities about possible resolutions to their investigative and antitrust litigation matters. Please see pages 6 to 9 for a comprehensive Litigation Update.

Full year financial highlights
- Net revenue at $1,093m (2016: $1,058m) increased 3%. Net revenue at constant FX was also +3%.
- Operating profit was $193m (2016: $149m) including exceptional costs of $210m. Adjusted operating profit, excluding exceptional costs of $210m (2016: $238m), grew 4% to $403m (2016: $387m).
- Net income was $58m (2016: $35m) after net financing costs of $56m (2016: $51m) and tax expense of $79m (2016: $63m). Adjusted effective tax rate of 25% (2016: 25%). Adjusted net income, excluding exceptional items, was $270m (2016: $254m), an increase of 6%.
- Cash balance at year-end was $863m (2016: $692m). Net cash of $376m (2016: $131m).
Full year operating review

US market update
The market for buprenorphine products continued to grow strongly in 2017, resulting in low double-digit percentage volume growth compared to 2016. Market growth continues to benefit from legislative changes that have expanded OUD treatment capacity. Growth in both the number of physicians waivered to administer medication-assisted treatment and those able to treat to the new allowable level of 275 patients (from 100 patients) continued in 2017. The number of waivered nurse practitioners and physician assistants continued to grow as well.

SUBOXONE® Film had an average market share of 57% in 2017, compared to 61% in 2016, and 2017 exit share was 56%, compared to 61% exiting 2016. The decline in share during 2017 was largely due to continued competition in the most price sensitive payors that have prioritized lower priced generic tablet options. Overall commercial formulary access remains solid for SUBOXONE® Film. The list price of SUBOXONE® Film in the US increased modestly in January 2017, but this was offset by tactical rebating to maintain formulary access.

Financial performance for 12 months to December 31, 2017
Net revenue in 2017 increased 3% to $1,093m (2016: $1,058m) at actual exchange rates (3% at constant exchange rates). Revenue grew primarily from volume improvement in the US, along with ROW growth from one-off net revenue benefits in Europe and strong growth in Australasia and Canada. These net revenue gains were partially offset by a decline in US Suboxone® Film market share, while price increase in the US was offset by tactical rebating activity in connection with formulary access. Mix was also unfavorable from increased lower margin US Medicaid business. US net revenue increased 2% to $877m (2016: $857m).

Rest of World net revenue increased 7% at actual exchange rates (7% at constant exchange rates) to $216m (2016: $201m). Continued growth in Australasia and Canada and some one-off revenue benefits in Europe drove the overall net revenue improvement.

Gross margin for the year was 90%, unchanged from last year (2016: 90%). Excluding prior year exceptional items of $11m, related to strategic planning for a potential negative ANDA outcome, included in Cost of Sales in the prior year, gross margin declined 1% from 91%. The modest decline reflects a slight change in the geographic mix of revenues with an increased contribution from Australasia and Canada who have lower margins.

SD&A expenses increased 4% to $707m (2016: $683m). The periods include exceptional items of $210m and $227m, respectively. 2017 SD&A included exceptional items of $185m for additional legal provision related to investigative and antitrust litigation matters partially offset by the release of a legacy litigation reserve. Also included in 2017 was the legal settlement of the Amneal antitrust matter of $25m. 2016 SD&A expenses included exceptional items of $220m for a legal provision related to investigative and antitrust litigation matters and $7m related to strategic planning for a potential negative ANDA outcome.

Operating margin was 18% as reported (2016: 14%). Excluding exceptional costs, the operating margin was 37% (2016: 37%).

Net finance expense for the year was $56m (2016: $51m), representing the interest and amortization on the Group’s term loan borrowing facility, which was slightly offset by modest interest income. Finance expense for the year also included $14m of exceptional costs related to the replacement term loan facilities. In December 2017, Indivior entered into an amendment and extension with various lenders to provide replacement term loans in an aggregate principal amount of approximately $487m, replacing all the Group’s U.S. dollar and Euro denominated term loans outstanding under the existing credit agreement. The new term loan facilities reduce the Group’s interest coupon to LIBOR plus 4.50% from LIBOR plus 6.00%. The final maturity date has been extended by three years from December 19, 2019 to December 18, 2022.

On an adjusted basis, net finance expense of $42m was lower than the prior year, resulting from the benefit of required repayments made during the year.

EBITDA (operating profit plus depreciation and amortization) for the year was $206m (2016: $163m). Excluding exceptional costs, adjusted EBITDA increased 4% to $416m (2016: $401m).

Operating profit for the year was $193m, a 30% increase from the prior year (2016: $149m). On an adjusted basis, operating profit was $403m, 4% ahead of the prior year (2016: $387m). The underlying year-over-year improvement, which excludes exceptional costs, primarily reflects the benefit of higher net sales and lower R&D expenses, partially offset by expected pre-launch investments for SUBLOCADE™ and RBP-7000, as well as higher legal expenses related to ongoing ANDA litigation activity and related patent defense costs.

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The 2017 tax charge was $79m, a rate of 58% (2016: $63m; 64% rate). The tax charge reflects a $15m one-time non-cash charge related to the lowering of the US corporate income tax rate to 21%, requiring a revaluation of US deferred tax assets and liabilities. It also includes other one-time items related to the release of uncertain tax provisions of $18m upon close out of IRS tax audits. Both the current and prior year tax charges assume non-deductibility for tax purposes of the exceptional legal provisions. Excluding exceptional items in the pre-tax income of $224m (2016: $238m) and within taxation of $12m (2016: $19m), the adjusted effective tax rate was 25% (2016 adj.: 25%).

Net income for the year was therefore $58m (2016: $35m), excluding exceptional costs, the adjusted net income was $270m, an increase of 6% (2016 adj.: $254m).

EPS for the full year was 8 cents (2016: 5 cents) on both a basic and diluted basis. On an adjusted basis, excluding the effect of exceptional costs, basic EPS was 37 cents (2016: 35 cents) and diluted EPS was 36 cents (2016: 34 cents).

**Cash flow**

Cash generated from operations in the full year was $369m (2016: $512m), a decrease of $143m, reflecting an investment in net working capital, reflecting trade payables dynamic on working capital.

Net cash inflow from operating activities was $295m (2016: $407m), reflecting the decrease in cash generated from operations, plus lower tax payments in the period of $33m (2016: $63m), net interest of $36m (2016: $42m) and transaction costs relating to the loan facility of $5m (2016: nil).

Investment in property, plant and equipment, which primarily relate to the new R&D laboratory in Hull, redevelopment of the facility in Fort Collins, and other building refits, was $30m (2016: $20m). Investments in intangible assets of $15m related to the purchase of certain patent rights from DURECT Corporation, further enhancing RBP-7000’s IP position.

During the year, the Group repaid $86m (2016: $78m) of its term loan as part of its commitment under the syndicated debt facility. As noted above, the Group restructured its debt in December. There were no dividends paid in the year as the Board determined that it does not expect to pay further dividends in the foreseeable future.

The net increase in cash and cash equivalents in the period, therefore, was $168m (2016: $225m). Added to the cash and cash equivalents at the beginning of the period of $692m and exchange differences of $3m, the Group ended the year with a total cash and cash equivalents balance of $863m.

**Balance Sheet at December 31, 2017**

Non-current assets were $219m at the year-end (2016: $219m). Although total non-current assets remain unchanged from the prior year, increases in property, plant and equipment relating to additional investments in the Group’s R&D facilities, in intangible assets from the patent purchase noted above, and other receivables from long term prepayments were fully offset by a significant decrease in deferred tax assets.

Current assets increased by $235m to $1,225m (2016: $990m) primarily driven by a $171m increase in cash and cash equivalents, and $51m increase in trade and other receivables from increased sales.

Current liabilities decreased $176m to $854m (2016: $1,030m), reflecting the lower loan annual amortization rate from 10% to 1% due to the debt restructuring and updates to the legal provision that resulted in a shift from current to non-current position.

Non-current liabilities increased $319m to $793m (2016: $474m) driven by increases in the non-current borrowings due to the lower annual amortization rates and increase in the legal provision as noted in the litigation update on pages 46 and 47.

Therefore, the Group ended the year with net liabilities of $203m (2016: $295m), consisting of total assets of $1,444m (2016: $1,209m), and liabilities of $1,647m (2016: $1,504m).
Adjusted Results
The board and management team use adjusted results and measures to give greater insight to the financial results of the Group and the way it is managed. They believe that the use of adjusted measures such as adjusted operating profit, adjusted net income and adjusted earnings per share provide additional useful information on underlying trends to shareholders. The tables below show the list of adjustments between the reported and adjusted operating profit and net income for both FY 2017 and FY 2016. Further details of each adjustment are available in note 4 of the notes to the Group’s Financial Statements on page 129.

Reconciliation of operating profit to adjusted operating profit

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<tr>
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<th>2017 $m</th>
<th>2016 $m</th>
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<tbody>
<tr>
<td>Operating profit</td>
<td>193</td>
<td>149</td>
</tr>
<tr>
<td>Exceptional selling, distribution and administrative expenses</td>
<td>210</td>
<td>238</td>
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<tr>
<td><strong>Adjusted operating profit</strong></td>
<td><strong>403</strong></td>
<td><strong>387</strong></td>
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Reconciliation of net income to adjusted net income

<table>
<thead>
<tr>
<th></th>
<th>2017 $m</th>
<th>2016 $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>193</td>
<td>149</td>
</tr>
<tr>
<td>Exceptional selling, distribution and administrative expenses</td>
<td>210</td>
<td>238</td>
</tr>
<tr>
<td>Exceptional finance expense</td>
<td>14</td>
<td>–</td>
</tr>
<tr>
<td>Exceptional tax expense</td>
<td>(12)</td>
<td>(19)</td>
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<tr>
<td><strong>Adjusted net income</strong></td>
<td><strong>270</strong></td>
<td><strong>254</strong></td>
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