

**Better health.  
Within reach.  
Every day.**

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**hikma.**

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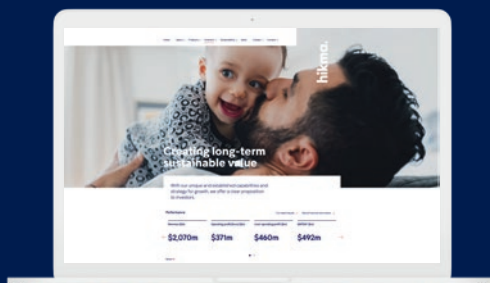
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# Hikma puts better health within reach, every day.

We create high-quality medicines and make them accessible to people who need them. Global experts with a local presence, we think creatively and act practically. We develop innovative solutions that transform people's lives, for a healthier world wherever we are.



Read more content online [www.hikma.com](http://www.hikma.com)

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# How we have performed



1. In 2017, the Group reported an operating loss of \$747 million, primarily due to an impairment of the intangible assets and property, plant and equipment of the Columbus business  
 2. Core results are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 6 in the Notes to financial statements. A reconciliation from core to reported operating profit is included within the Consolidated income statement in the Financial statements

3. EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges. EBITDA is a non-IFRS measure, see page 30 for a reconciliation to reported IFRS results  
 4. Core basic earnings per share is reconciled to basic earnings per share in Note 15 in the Notes to the financial statements

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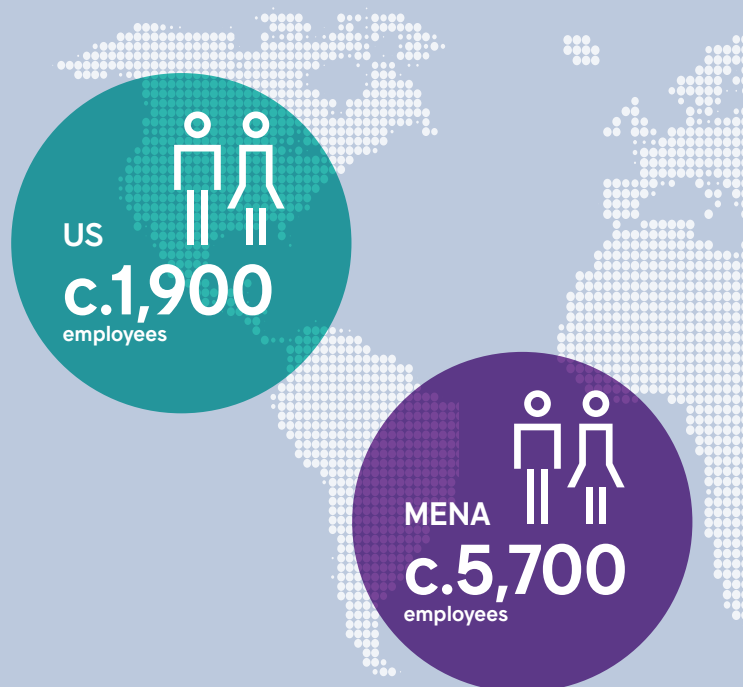
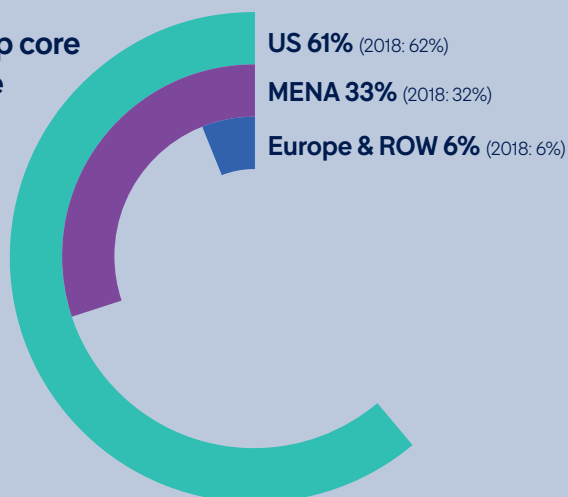


# What we do

We develop, manufacture and market a broad range of generic pharmaceutical products across the US, the Middle East and North Africa (MENA) and Europe. We are also a leading licensing partner.

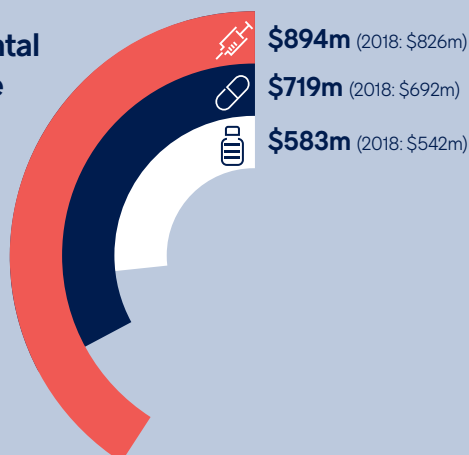
## Our markets

% Group core revenue



## Our business segments

Segmental revenue



### Injectables

Our Injectables business develops and manufactures generic injectable products. Our products are sold globally and are primarily used in hospitals.

For more information see page 22

**c.8,600**  
employees



**31**  
manufacturing plants  
in 11 countries



**7**  
R&D centres



**690+**  
products



Europe  
& ROW

**c.1,000**  
employees



### US

Our large manufacturing facilities – one for injectables and one for non-injectables – supply products across a broad range of therapeutic areas, including respiratory, oncology and pain management. We also have two dedicated R&D facilities to support sustainable growth.

### MENA

We sell branded generics and in-licensed patented products across the region. We have manufacturing facilities in seven markets, including US FDA-inspected plants in Jordan and Saudi Arabia. Around 2,000 sales representatives market our brands to healthcare professionals across 18 markets.

### Europe and the rest of the world (ROW)

We have injectable manufacturing facilities in Germany, Italy and Portugal, with a range of capabilities including dedicated capacity for oncology and cephalosporins. These facilities supply injectable products to the US and MENA and a growing number of markets in Europe.



### Generics

Our Generics business develops and manufactures oral and other non-injectable generic products. Our products are sold in the US retail market.

 For more information see page 24



### Branded

Our Branded business develops and manufactures branded generics and markets and sells in-licensed patented products in MENA. Our products are sold in the retail and hospital markets.

 For more information see page 26

# Executive Chairman's statement



Our strategy is delivering results. Hikma achieved a robust financial performance in 2019 and we are investing in the future to drive sustainable long-term growth and create continued value for shareholders.

## **Clear purpose and values**

Hikma's founding purpose was to put better health within reach every day by producing high-quality medicines and making them accessible to those who need them. I am proud that everything we do at Hikma, from the strategic decisions we make to the culture we foster, enables us to remain true to this purpose.

We have evolved from a family company to a global company with family values: integrity, respect, excellence and transparency. We are building a culture that reflects our values, encourages employees to perform at their best, shows consideration for one another and embodies openness, communication and accountability.

## **Building a strong culture**

Having the right organisational culture – a culture that believes in our vision and is committed to delivering our strategic objectives – is critical to achieving long-term success. We undertook our first Group-wide culture survey in 2019, with 73% participation. The survey provided important insights into where we excel and where we need to improve. Our employees have tremendous pride in working for Hikma and believe in the positive impact of our business, but they are also seeking opportunities for further professional development and responsibility.

## Ensuring broad stakeholder engagement

We are committed to engaging with all our stakeholders, including shareholders, patients, healthcare professionals, customers, suppliers, regulators and the communities in which we operate. Continuous engagement with a broad range of stakeholders informs our day-to-day commercial and operational decisions, as well as our long-term investments in our business and our people. This enables us to fulfil our commitment to be a high-quality, reliable supplier of essential medicines to those that need them.

Since our founding, the principle of supporting the communities in which we have a presence has been integral to how we operate. We do this through the provision of high-quality medicines, raising health awareness, investing in our businesses and employees, and through donations, fundraising and volunteering. We are proud of the positive impact we have on millions of lives. More detail on our stakeholder engagement is provided on pages 10 to 11 and 102 to 103.

## Operating responsibly

We continued to focus on our six adopted UN Sustainable Development Goals (SDGs). For example, we are committed to making our operations more energy efficient and undertook a number of related projects during the year. We also remained a constituent of the FTSE4Good Index, as we have been for the past five years. More detail provided on pages 34 to 35.

## Maintaining strong governance

The Board and I worked closely with our CEO, Siggí Olafsson, the Executive Committee and the wider leadership team in 2019. This included a thorough review of the strategic priorities for the Group. We met with management teams and employees to assess and give guidance on the growth opportunities, challenges and risks for our businesses. The Board and I are confident that our strategic direction and priorities will drive continued success. Our strategy is set out in detail within Siggí's statement and on pages 16 to 17.

One of our Directors, Nina Henderson, is responsible for ensuring our employees' perspective is considered in the Board's decision-making. In this role, Nina has met with employees at all levels in the organisation, visiting a number of our sites and has attended various internal meetings, including our global leadership conference. She is also a member of each Board Committee. Nina's role is one of a number of ways that we are ensuring the Board is more connected to the employee experience.

We continue to advance our strong corporate governance practices each year through Board appointments and role changes, succession planning and dialogue with stakeholders. Details of the activities of the Board and its Committees are set out in the Corporate governance section of this report on pages 54 to 105.

## Robust financial performance and shareholder returns

Our strategy is delivering results. While the market remains highly competitive, the Group delivered another strong performance in 2019. Group core operating profit increased by 10% and core basic earnings per share increased by 9%.

Hikma has a long track record of creating value for shareholders. Over the last ten years, we have delivered a total shareholder return of 345%, exceeding the FTSE 100 and the FTSE Pharmaceutical total shareholder returns of 104% and 206% respectively.

We remain committed to consistent dividend payments. The strong financial performance in 2019, the strength of our balance sheet and confidence in our outlook mean that the Board has recommended a 16% increase in the total dividend for the full year in 2019 to 44 cents per share (approximately 34 pence per share), up from 38 cents per share (approximately 29 pence per share) in 2018.

## Looking ahead

I believe we have the right team and strategy in place to deliver long-term sustainable growth and continue to create value for all of our stakeholders. I would like to thank my colleagues across the Hikma family for their hard work throughout 2019 and our shareholders, customers and stakeholders for their continual support.



**Said Darwazah**  
Executive Chairman

# Chief Executive Officer's statement



2019 was another very good year for Hikma. I am proud of what our teams have achieved, enabling us to provide high-quality medicines to the people that need them.

In my statement to you last year, I set out our three strategic priorities:

**Deliver more from a strong foundation**



**Build a portfolio that anticipates future health needs**



**Inspire and enable our people**



As I reflect on 2019, I am pleased with the progress we have made to strengthen our operations, build our portfolio and pipeline, form new partnerships, develop our people and attract new talent across the Group. These efforts will enable us to deliver sustainable long-term growth and create significant value for shareholders.



### Strong financial results

All of our businesses achieved strong organic growth in 2019. We delivered more from our unique business model, leading market positions, diversified portfolio and successful pipeline launches. Group revenue grew 7% to \$2.2 billion, operating profit grew 33% to \$493 million and core operating profit grew 10% to \$508 million.

The resilience of our Injectables business reflects the strength of our market position as a top three supplier of generic injectable products in the US, the breadth and durability of our portfolio, and the quality of our operations. We launched 69 injectable products across our markets in 2019 and continued to invest in a pipeline to drive future growth.

Our Generics business outperformed our expectations. Our strengthened commercial team and operational enhancements improved customer relationships and service levels, stimulating increased demand for our differentiated portfolio. Manufacturing efficiencies and cost savings also improved our profitability.

The Branded business grew steadily in 2019, with good performance across most of our markets more than offsetting lower sales in Algeria. We have embedded our tiered-market strategy and prioritised our therapeutic areas, to include oncology, diabetes, central nervous system (CNS) and respiratory. We launched 35 products across the region and continued to add innovative products through partnerships.

In all of our businesses, ensuring quality in everything we do remains our overarching priority. The quality of our products, processes, partnerships, people and thinking has always been a key differentiator for us and remains a critical success factor. We continuously review our quality systems and procedures, and I have recently established a Hikma Quality Council, which I chair, to ensure we maintain the necessary oversight and share best practices across the Group. In 2019, we had five inspections by the US Food and Drug Administration (FDA) across our facilities, and no critical observations.

At a time when a large number of essential medicines are in short supply, particularly in the US, I am proud of the role that we continue to play in alleviating shortage situations. I believe the decision by Civica Rx, the US non-profit organisation established to reduce and prevent drug shortages, to select Hikma as a partner for essential generic medicines is an endorsement of our reputation as a reliable, high-quality supplier.

### Deliver more from a strong foundation



Our steps to strengthen our foundation over the last two years have stabilised our business. We have delivered more value from our differentiated in-market portfolio, successfully launched new products, become a more trusted strategic partner for customers and improved service levels. We have reduced costs, increased capacity utilisation and improved business processes, including the increased use of cost-effective digital technologies. We have also simplified our organisational structure, implementing changes that mean operational decision-makers, intellectual property and business activities are now more closely located.





**We made good strategic progress in 2019. We have a strong foundation from which to build and I am confident in the outlook for 2020."**

## **Building a portfolio that anticipates future health needs**



Key to our success is building a portfolio of complex and differentiated products. As I highlighted last year, the investment we are making in R&D of 6% to 7% of revenue, is the right level. However, I want to optimise this spend, be more ambitious in the projects we undertake and increase the return on investment, so that by 2023, 10% of annual revenue comes from new launches.

We strengthened our global R&D function with the appointment of Shahin Fesharaki in 2019 as our Chief Scientific Officer. Shahin's experience will improve processes and increase productivity, increasing the number of filings, improving submission times and building momentum in new product launches.

Across our businesses, we are focusing our R&D on more complex products. In Generics, the completion of our clinical endpoint study for generic Advair® was an important milestone in our respiratory programme. We also acquired pipeline products from Insys that will enhance our position as the largest supplier of nasal spray products in the US. In Injectables, we launched our first pre-filled syringe in the US and continued the roll-out of our Celltrion biosimilar product, Remsima®, in MENA.

We signed licensing deals in 2019 that will enable us to bring more complex products to the market in the coming years. In MENA, we signed new licensing agreements with partners including Gedeon Richter and Chiesi, adding novel anti-psychotics, respiratory and neo-natal products to our portfolio. In the US, we signed further licensing agreements, including an agreement with Sciecare for a niche injectable anti-viral medicine. Adding specialty products that complement our existing portfolio and leverage our commercial and manufacturing capabilities will continue to be a focus.

## **Inspire and enable our people**



The people at Hikma are key to our success. Retaining and motivating our people and attracting new talent are a key part of our strategy. In 2019, our employee retention was 88%. We continued to invest in developing our people and we recruited experienced talent across the Group.

We want to have an innovative and results-oriented culture, where people can thrive and do their best work. In 2019, we implemented new initiatives to improve employee engagement and enablement and we did more to promote communication and collaboration across the organisation. We held our second global leadership conference, which was a fantastic forum for sharing experiences and best practice across the business and networking with colleagues.

As noted by the Chairman, the first all-employee global culture survey we undertook provided important insight into where our culture is strong and where improvements are needed. These initiatives will be a key management focus in 2020.

### **Outlook**

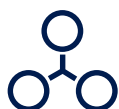
So where do we go from here? Our focus is on the current business. There is more we can do to drive value from our large product portfolio, improve our processes, increase efficiencies and reduce cost. We are focused on increasing our share in existing markets. We are building a pipeline that will help us deliver sustainable, long-term growth.

I am very proud of what we do at Hikma. We have performed very well in 2019; we have a strong foundation on which to build and I am confident in the outlook for 2020 and beyond. Every day, our businesses are having a positive and important impact on people's lives around the world. I want to thank all of our employees, customers and partners for helping us put better health within reach, every day for millions of people.

**Sigurdur Olafsson**  
Chief Executive Officer

# Investment case

We have a track record of creating value for our shareholders. By focusing on our strategic priorities and leveraging our strengths, we can build upon our success.



## Unique and diversified business model

Our business is uniquely positioned, with three main distinct business segments with strong foundations in the US, MENA and Europe. Our large and broad product portfolio is sold in both the retail and hospital markets.

### Revenue by business segment

Injectables	41%
Generics	33%
Branded	26%
Other	0%



## Strong market position

We are the third largest generic injectable manufacturer and a top ten generic company overall in the US with an increasing market share. In MENA, we are one of the largest pharmaceutical companies and a 'partner of choice'.

# #3

Third largest generic injectable manufacturer in the US

Leading pharmaceutical company in MENA



## Commitment to quality

We have built our reputation on manufacturing high-quality medicines. Quality is embedded in our people, our relationships and our thinking. Our excellent track record of regulatory compliance has made us a trusted partner for our customers and patients.

# 5

FDA inspections in 2019, with no critical observations



## Large and growing pipeline

We have a large pipeline, with an increasing proportion of differentiated and complex products. We complement our internal development with partnerships and M&A.

# 500+

Products in our pipeline



## Cash generation

We have consistently generated strong cash flow. Our disciplined approach to cash management and acquisitions ensures we maintain a strong balance sheet and gives us the financial flexibility to support future growth.

# 69%

Free cash flow/core operating profit<sup>1</sup>


1. Free cash flow is defined as net cash inflow from operating activities less purchases of property, plant and equipment

# Delivering for stakeholders

For more than 40 years, we have transformed people's lives by providing the medicine and support that they need every day. We are committed to putting better health within reach, every day.

## Section 172 Directors' Duties

The Board is fully aware of its responsibilities to promote the success of the company in accordance with section 172 of the Companies Act. A summary of how we deliver for our stakeholders is outlined below. Further details on the Board's activities in relation to stakeholder engagement is included on pages 102 to 103.

 Find out more on pages 102 to 103.



### Patients and healthcare professionals

We believe that people everywhere should have access to the medicines they need, when they need them. Continuous investment in our manufacturing capacity and capabilities is enabling us to meet growing demand.

Our sales teams meet regularly with doctors and hospital clinicians, and in MENA we provide regular forums for bringing together key opinion leaders, doctors and global research institutes to share knowledge and raise awareness. By better understanding their needs, we are developing a pipeline of products and technologies to improve the healthcare available to patients.



### Employees

People have always been at the heart of our business. The passion and commitment of our employees will allow us to deliver our brand promise, and we are creating a culture to inspire and enable them. We are building an environment of trust, in which our people are empowered to drive innovation, have a strong sense of ownership and continuously strive for better results.



### Communities

Our vision is to create a healthier world that enriches all our communities by developing high-quality medicines and making them accessible to those who need them.

We invest in the communities in which we operate to improve access to medicine, support education and assist those in need. We work with charities and provide in-kind medicine donations in MENA and the US. Supporting the communities where we live and work allows us to drive long-term, sustainable growth while positively impacting society.

Committed to better health





### Suppliers

Our suppliers are critical to our business, and their products and expertise support us in the delivery of high-quality medicines to patients around the world. Operating responsibly and ethically is vital for our long-term success and our Code of Conduct sets out the social and ethical standards we require our third parties to follow. We actively engage with our suppliers to ensure our principles of human rights and high quality standards are upheld.



### Investors

We maintain regular contact with our shareholders with a comprehensive investor relations programme of conferences, roadshows and meetings. Through our regular financial reporting and investor events, including our Annual General Meeting, we ensure our strategy and financial performance are clearly communicated and understood. The Board receives regular updates on investor relations activities and investor feedback. This ensures that the views of our shareholders are considered in the Board's decision-making.



### Customers

Our customers are our business partners and we are committed to providing them with a consistent and reliable supply of high-quality medicines. We work closely with Group Purchasing Organisations (GPOs), hospitals, healthcare professionals, retailers and wholesalers to build strong relationships and enhance service levels. Our commercial teams work closely with our different customers to better understand their needs, reduce drug shortages and ensure we invest in the products, manufacturing capacity and capabilities to meet their requirements.



### Regulators

Our quality system operates in full compliance with the regulatory requirements of the US Food and Drug Administration (FDA) and the European Medicines Agency (EMA) and we comply with the requirements of the individual regulatory bodies in each of our markets. This ensures that all Hikma products satisfy safety, quality, integrity and intended efficacy standards.

# Our markets

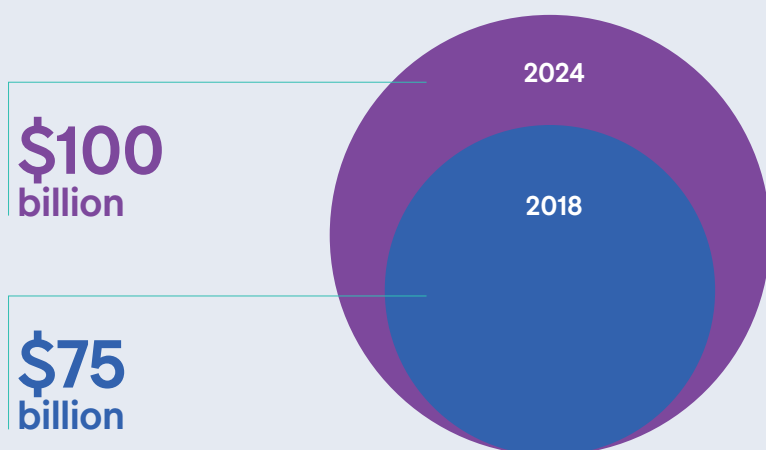
Demographic trends continue to drive growth in the demand for and cost of global healthcare



## Global context

The global pharmaceutical market continued to grow in 2019, despite a slowdown in economic growth. The global generic prescription market is expected to grow at a compound annual growth rate of around 5% over the next six years.<sup>1</sup> The social, demographic and economic dynamics within the industry are changing rapidly, creating both opportunities and challenges.

### Global generic prescription drug sales<sup>1</sup>



## Key industry trends

### Shifting demographics

# 2 billion

growth in global population estimated by 2050

Life expectancy is on the rise. According to the United Nations' projections, the world's population is expected to increase by 2 billion people by 2050, with the number of people aged 65 or over expected to more than double.<sup>2</sup> This shift in demographic trends is also contributing to an increase in non-communicable diseases,<sup>3</sup> driving higher demand for healthcare.

### Strategic response

We are committed to improving access to high-quality, affordable medicines. We have a broad product portfolio of medicines across our geographies and we are investing both in our capacity and in a pipeline that meets the future needs of patients.

1. EvaluatePharma, June 2019  
2. United Nations, 'World population prospects', 2019  
3. WHO, Global Health and Ageing  
4. ASHP drug shortages  
5. UBS, March 2019  
6. Association for Accessible Medicines, The Case for Competition, 2019



### Evolving regulatory environment

**5**

**US FDA inspections in 2019, with no critical observations**

The global pharmaceutical industry is heavily regulated to ensure the development of high-quality medicines that comply with stringent levels of safety, efficacy and quality. Although there is a continuous process of harmonisation, the regulatory requirements for product development, manufacturing and distribution vary significantly in countries around the world.

In MENA, many governments have introduced regulation to protect local companies and promote local manufacturing. Some regulations restrict the importation of products when there is a local manufacturer. Local manufacturers may also be given preferential treatment in government tenders or faster approval times for new products.

Across our geographies quality concerns arising from manufacturing issues are leading to drug shortages, which are creating challenges for healthcare provision. In the US, there are currently more than 200 products in short supply.<sup>4</sup> Regulators, manufacturers and hospitals are working together to help solve this problem.

**Strategic response**

Quality is our highest priority. We continuously review and invest in our processes and procedures to ensure compliance with the specific regulatory requirements in each of our markets.

In MENA, we have invested in local manufacturing facilities, including US FDA-inspected plants in Jordan and Saudi Arabia.

We are committed to alleviating drug shortages by investing in capacity and capabilities to ensure a secure supply of essential medicines. This commitment was recognised by Civica Rx's decision to partner with Hikma in its mission to reduce and prevent drug shortages.

### Rising global healthcare costs

**20%**

**of US GDP forecast to be spent on healthcare in 2026**

The increase in demand for healthcare, as a result of a growing and ageing population and changes in lifestyle, is putting pressure on global healthcare costs. In the US, 17% of GDP was spent on healthcare in 2016 and this is expected to reach 20% in 2026.<sup>5</sup> In Europe, cost containment policies have been put in place to maintain sustainable healthcare budgets.

Governments are looking to increase patient access to high-quality, affordable medicines and this need for more cost-effective healthcare is driving an increase in generic penetration. Generic medicines are a part of the solution to rising healthcare costs; in the US 90% of prescriptions filled are dispensed as generics, accounting for only 22% of all drugs spending.<sup>6</sup>

**Strategic response**

Generic medicines play an important role in increasing patient access to essential treatments and are part of the solution to relieving pressure on global healthcare costs. Our continuous investment in R&D, manufacturing capabilities and capacity will enable us to meet the growing demand from patients.

### Increasing competition

**90%**

**of all US retail generics are sold to three customers**

The generics industry is highly competitive. In the US, 90% of all retail generics are sold to three customers,<sup>6</sup> and the number of competitors and drug approvals are increasing.

Governments in Europe have introduced tendering to drive competitive bidding. Across MENA, the number of local pharmaceutical companies has increased, as well as an influx of generic manufacturers from Asia.

**Strategic response**

We aim to offset price erosion from increased competition with new launches. We invest 6% to 7% of revenue in core R&D, with increasing focus on complex, specialty products. Actions to strengthen our R&D function and processes will accelerate new launches.

A number of factors impact purchasing decisions beyond price. We are continuously improving our customer service levels, expanding our portfolio, and ensure we maintain our high-quality record.

# Our business model

We operate in a competitive, highly-regulated industry. Our diversified business model allows us to respond to the many opportunities and risks we face, while delivering value for our all our stakeholders.

## Our resources

### Financial

Investment in R&D, manufacturing facilities and M&A enables us to expand our product portfolio, technical capabilities and operations.



### People

We have a highly skilled, diverse and effective workforce. Through continuous development of our people and by hiring new talent, we secure our future.



### Values

We are committed to conducting business ethically and achieving high quality standards. This approach helps ensure our business is sustainable.



### Relationships

Strong relationships with regulators and health authorities across all our markets, and successful collaborations with industry partners, enable us to achieve our shared objectives.



### Capabilities

We have extensive manufacturing operations across our global markets focused on quality and efficiency.



## Our strategy



## Our activities

### Develop and innovate



Our activities are diversified across our business segments and markets and are aligned with our purpose to make high-quality medicines accessible to the people who need them.

We are developing a broad and differentiated portfolio of generic, branded generic and in-licensed patented products through internal R&D, co-development partnerships, licensing agreements and acquisitions.

**6%** Group revenue invested in core R&D (2018: 6%)

## Our business segments:

Injectables 

Generics 





**Deliver more from a strong foundation**



**Build a portfolio that anticipates future health needs**



**Inspire and enable our people**

 For further details on our strategy see page 16

### Manufacture and maintain quality



We are committed to maintaining high-quality standards in all of our manufacturing facilities. We have 31 plants across the Group that supply our global markets with a broad range of injectable and non-injectable products, including 11 US FDA-inspected plants and 11 EMA-inspected plants.

**31** manufacturing plants  
**11** US FDA-inspected plants  
**11** EMA-inspected plants

### Market across geographies



We distribute our products in our markets through experienced sales and marketing teams. In the MENA region, around 2,000 representatives market our brands to doctors and pharmacists, while our sales teams in the US and Europe sell to a broad range of customers, including the leading wholesalers, pharmacy chains, governments and hospital purchasing organisations.

**c. 2,000** sales representatives market our products across MENA

**Branded** 

 See our business review page 20



Find out more about our **key performance indicators** see page 18

Find out more about how we are **managing risk** see page 44

## The value we create

### Patient benefits

We provide our patients with access to high-quality medicines.

**690+**  
Products

### Employee engagement

By focusing on the engagement and development of our people, we provide long and rewarding careers for our talented and diverse workforce.

**69%**  
Employee engagement score

### Shareholder returns

We have a long history of creating value for our shareholders.

**345%**  
Total shareholder return over last ten years

### Sustainable business

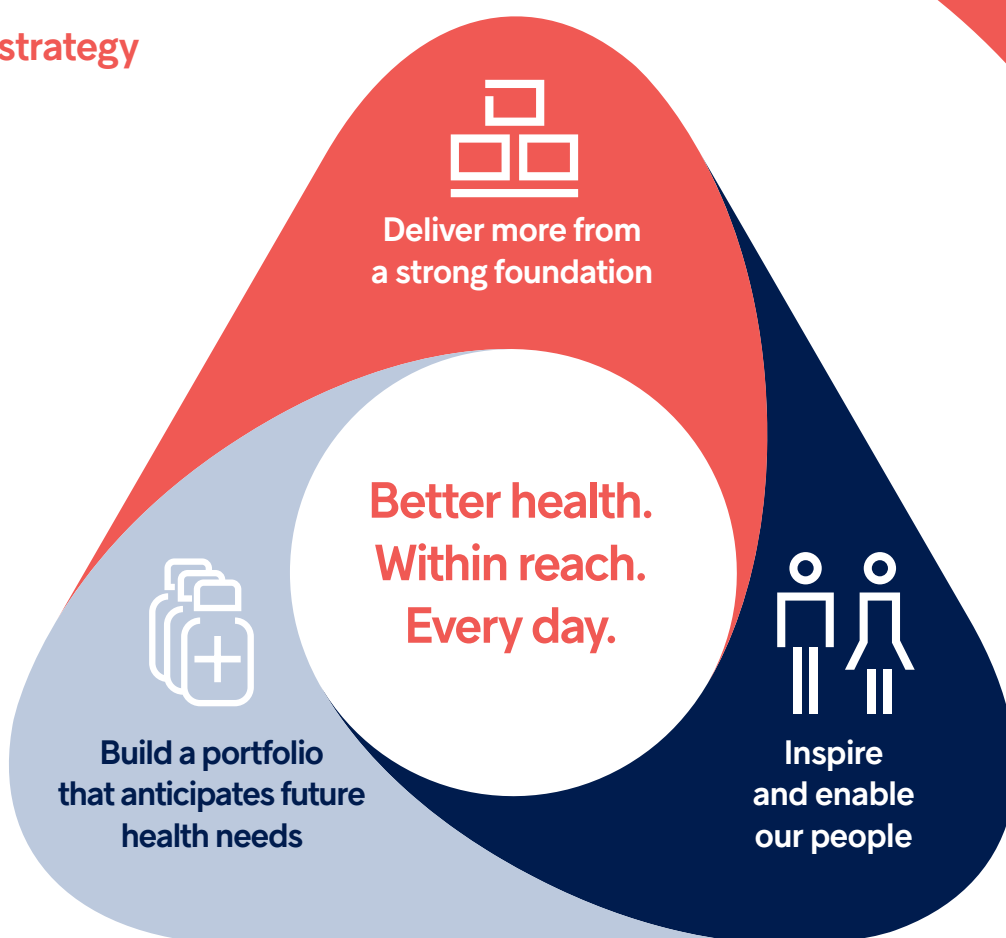
By acting responsibly and with integrity, we are benefitting the communities in which we operate.

- Patron of The Prince's Trust
- Member of the United Nations Global Compact and FTSE4Good

# Our strategy

As a leading provider of high-quality medicines, our strategy is to make better health more accessible by delivering more from our strong foundation, building a portfolio that anticipates future health needs and inspiring and enabling our people.

## Our strategy



## Our purpose

By creating high-quality products and making them accessible to those who need them we are helping to shape a healthier world that enriches all of our communities.

**We have a unique business model, a differentiated footprint and a strong commitment to quality. We are building and enhancing these assets to drive sustainable growth.**

**Our focus is on:**

- Growing our existing business
- Controlling costs and improving processes
- Ensuring full quality compliance

**Our KPIs:**

- Core revenue
- Core operating profit
- Return on invested capital

**Today's pipeline is tomorrow's product. We are investing in our pipeline to meet the future needs of patients and increase access to high-quality medicines.**

**Our focus is on:**

- Building portfolio momentum
- Investing in specialised products

**Our KPIs:**

- Core revenue from new products launched

**Our people are delivering our strategy. Our strong brand and clear purpose support a culture that enables us to achieve our goals.**

**Our focus is on:**

- Developing competencies and talent
- Building a strong culture

**Our KPIs:**

- Employee enablement
- Employee engagement



Find out more about our **key performance indicators** see page 18

# Our progress

We are delivering our strategy through our three strategic priorities and measuring our performance with relevant key performance indicators (KPIs).

Strategic priority	Deliver more from a strong foundation 		
<b>KPI</b>	<b>Core revenue</b> (\$m)  <b>\$2,203m</b>  	<b>Core operating profit</b> (\$m)  <b>\$508m</b>  	<b>Return on invested capital<sup>2</sup></b> (%)  <b>17.3%</b>  
<b>Description</b>	Total annual core revenue generated across all businesses	Core operating profit	Core operating profit after interest and tax divided by invested capital (calculated as total equity plus net debt)
<b>Why is it a KPI?</b>	This measures our ability to extract value from our product portfolio across our global markets	This measures our ability to grow revenue and maintain quality while delivering efficiencies and ensuring cost control	This measures our efficiency in allocating capital to businesses and projects
<b>2019 performance</b>	Group core revenue increased by 6% reflecting good demand for our in-market products and new product launches	The increase in core operating profit was driven by good revenue growth across all three business segments and a reduction in costs, particularly in our Generics business	Our strong return on invested capital reflects a good performance in operating profit across all three of our business segments
<b>Link to remuneration</b>		 <sup>1</sup>	

1. As one of the performance criteria for determining the Executive Directors' remuneration, core operating profit is measured before R&D costs

2. See reconciliation on page 31





Find out more about our **strategy**  
see page 16

Find out more about how we are **managing risk**  
see page 44

Find out more about our **remuneration report**  
see page 75

	<p><b>Build a portfolio that anticipates future health needs</b></p> 	<p><b>Inspire and enable our people</b></p> 	
<p><b>Core revenue from new product launches (%)</b></p> <p><b>4%</b></p> 	<p><b>Employee enablement (%)</b></p> <p><b>65%</b></p> 	<p><b>Employee engagement (%)</b></p> <p><b>69%</b></p> 	
<p>Percentage of core revenue contribution from products launched in 2019 and the second half of 2018</p>	<p>Global employee enablement score</p>	<p>Global employee engagement score</p>	
<p>This demonstrates our ability to offset price erosion and other competitive pressures</p>	<p>This measures whether people find their work fulfilling and rewarding and whether they feel supported to achieve their full potential</p>	<p>This measures people's pride in working for Hikma, their willingness to recommend Hikma as an employer and their desire to stay long term</p>	
<p>In 2019, revenue from new product launches was \$96 million. As we increase our focus on specialty products and successful pipeline execution, we expect the percentage of core revenue from new launches to reach 10% by 2023</p>	<p>In 2019, we conducted an all-employee global culture survey, which produced qualitative results. We did not carry out our usual data driven all-employee survey, and therefore we do not have the enablement and engagement percentages for reporting purposes this year. The next all-employee survey is scheduled for the second half of 2020</p>		
<p><b>R</b></p>	<p><b>R</b></p>	<p><b>R</b></p>	

# Business and financial review

## Highlights

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

## Summary financial results

Core <sup>1</sup> results	2019 \$ million	2018 \$ million	Change	Constant currency <sup>2</sup> change
Core revenue	2,203	2,076	6%	6%
Core operating profit	508	460	10%	9%
Core EBITDA <sup>3</sup>	593	549	8%	6%
Core profit attributable to shareholders	364	332	10%	7%
Core basic earnings per share (cents)	150.4	137.8	9%	7%

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

1. Core results throughout the document are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 5. Core results are a non-IFRS measure and a reconciliation to reported IFRS measures is provided on page 29
2. Constant currency numbers in 2019 throughout the document represent 2019 numbers re-stated using 2018 exchange rates, excluding price increases in the business which resulted from the devaluation of currencies
3. EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges. EBITDA is a non-IFRS measure, see page 30 for a reconciliation to reported IFRS results



I am very pleased with the performance of each of our businesses this year. We are delivering good growth from our broad product portfolio and benefitting from our improved cost base.”

**Khalid Nablisi**  
Chief Financial Officer



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

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

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

Research and development (R&D) expenses were \$150 million (2018: \$147 million). Excluding exceptional items,<sup>1</sup> core R&D expenses were \$126 million (2018: \$118 million). This reflects increased investment in our Injectables and Generics R&D programmes, as we build our pipeline of complex products. Core R&D was 6% of Group core revenue, in line with 2018.

Other net operating expenses were \$11 million (2018: \$73 million). Excluding exceptional items,<sup>2</sup> core other net operating expenses were \$57 million (2018: \$68 million), primarily due to better management of inventory, resulting in lower inventory provisions in 2019.

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

1. In 2019, Hikma incurred \$24 million of R&D costs related to a repeat clinical endpoint study for generic Advair Diskus® (2018: \$29 million). Refer to Note 6 for further information

2. In 2019, exceptional items comprised proceeds from a legal claim of \$32 million, costs related to a warehouse fire at one of our facilities in Jordan of \$13 million, a contingent consideration adjustment of \$7 million and net \$20 million related to impairment reversal of product related intangibles related to Columbus business. Refer to Note 6 for further information



# Injectables



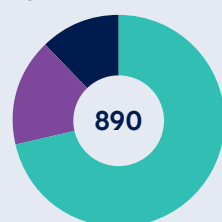
## Overview

### Financial highlights

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

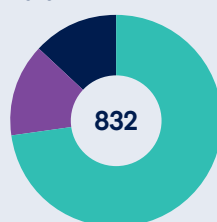
### Injectables core revenue by region (\$m)

2019



US	<b>636 (71.4%)</b>
MENA	<b>146 (16.4%)</b>
Europe and ROW	<b>108 (12.2%)</b>

2018

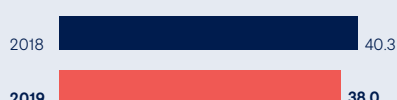


US	<b>607 (72.9%)</b>
MENA	<b>120 (14.5%)</b>
Europe and ROW	<b>105 (12.6%)</b>

### Core revenue (\$m)



### Core operating margin (%)



## Outlook

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

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

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

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

MENA Injectables revenue was \$146 million, up 22% (2018: \$120 million). In constant currency, MENA Injectables revenue increased by 20%, reflecting good growth across our markets, including Saudi Arabia and Egypt, as well as strong demand for Remsima® and a further contribution from newly launched Herzuma®.

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

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

Injectables core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items, was \$338 million (2018: \$335 million).<sup>1</sup> Core operating margin was 38.0% (2018: 40.3%), due to the lower gross margin.

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

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





# Generics



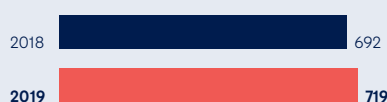


## Overview

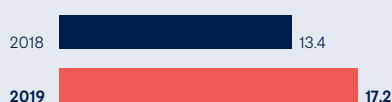
### Financial highlights

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

#### Revenue (\$m)



#### Core operating margin (%)



### Outlook

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

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

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

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

Generics core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items,<sup>1</sup> increased by 33% to \$124 million (2018: \$93 million). Core operating margin increased to 17.2% (2018: 13.4%). This significant improvement in profitability reflects the increase in core gross profit and better management of inventory related expenses, which more than offset an increase in marketing and R&D expenses.

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

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

# Branded

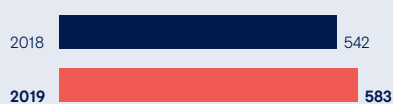


## Overview

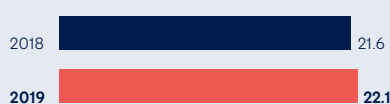
### Financial highlights

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

#### Revenue (\$m)



#### Core operating margin (%)



### Outlook

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

1. In 2019, exceptional items comprised expenses of \$7 million related to a warehouse fire in one of our facilities in Jordan and \$7 million of severance and restructuring costs. Amortisation of intangible assets (other than software) was \$10 million. Refer to Note 6 for further information

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

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

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

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

Core operating profit, which excludes the amortisation of intangibles (other than software) and exceptional items,<sup>1</sup> was \$129 million, up 10% (2018: \$117 million), and core operating margin was 22.1% (2018: 21.6%). In constant currency, core operating profit grew 3% and core operating margin was 21.2% (2018: 21.6%).

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

# Group performance

## Other businesses

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

## Research and development

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

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

## Net finance expense

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

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

## Profit before tax

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

## Tax

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

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

## Profit attributable to shareholders

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

## Earnings per share

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

	2019 submissions <sup>1</sup>	2019 approvals <sup>1</sup>	2019 launches <sup>1</sup>
Injectables			
US	14	7	14
MENA	78	40	40
Europe	91	26	15
Generics	3	4	4
Branded	171	92	35
<b>Total</b>	<b>357</b>	<b>169</b>	<b>108</b>

1. New products submitted, approved and launched by country in 2019

## Dividend

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

## Net cash flow, working capital and net debt

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

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

The Group's total debt increased to \$685 million at 31 December 2019 (31 December 2018: \$637 million), reflecting the adoption of IFRS 16, which required the recognition of lease liabilities of \$45 million at 31 December 2019. The Group's cash balance improved significantly over the year to \$443m (2018: \$276 million). The Group's net debt (excluding co-development agreements and contingent liabilities) was \$242 million at 31 December 2019 (31 December 2018: \$361 million).<sup>1</sup> We continue to have a very strong balance sheet with a net debt to core EBITDA ratio of 0.41x. As part of our long-term financing requirements, we are exploring refinancing options for our \$500 million Eurobond, which is due to be repaid in April 2020, including alternatives in the fixed income markets. The Group may also utilise its cash and unutilised revolving credit facility of \$1,000 million to repay the Eurobond.

## Balance sheet

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

## Definitions

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

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

## Core results

Reported results represent the Group's overall performance. However, these results can include one-off or non-cash items which are excluded when assessing the underlying performance of the Group. To provide a more complete picture of the Group's performance to external audiences, we provide, alongside our reported results, core results, which are a non-IFRS measure. Our core results exclude the exceptional items and other adjustments set out in Note 5.

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

1. Group net debt is calculated as Group total debt less Group total cash. Group net debt is a non-IFRS measure, see page 30 for a reconciliation of Group net debt to reported IFRS results

## Group performance continued

### Constant currency

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

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

### EBITDA

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

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

### Working capital days

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

### Group net debt

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

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



## ROIC

ROIC is calculated as core operating profit after interest and tax divided by invested capital (calculated as total equity plus net debt). This measures our efficiency in allocating capital to profitable investments.

ROIC \$ million	2019	2018
Core operating profit	508	460
Interest income	6	3
Total tax	(105)	(81)
<b>Core operating profit after tax</b>	<b>409</b>	382
Net debt	242	360
Equity	2,129	1,697
<b>Invested capital</b>	<b>2,371</b>	2,057
<b>ROIC</b>	<b>17.3%</b>	18.6%

## Outlook

### Group

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



### Injectables

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



### Generics

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



### Branded

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

### Net finance expense, tax and capital expenditure

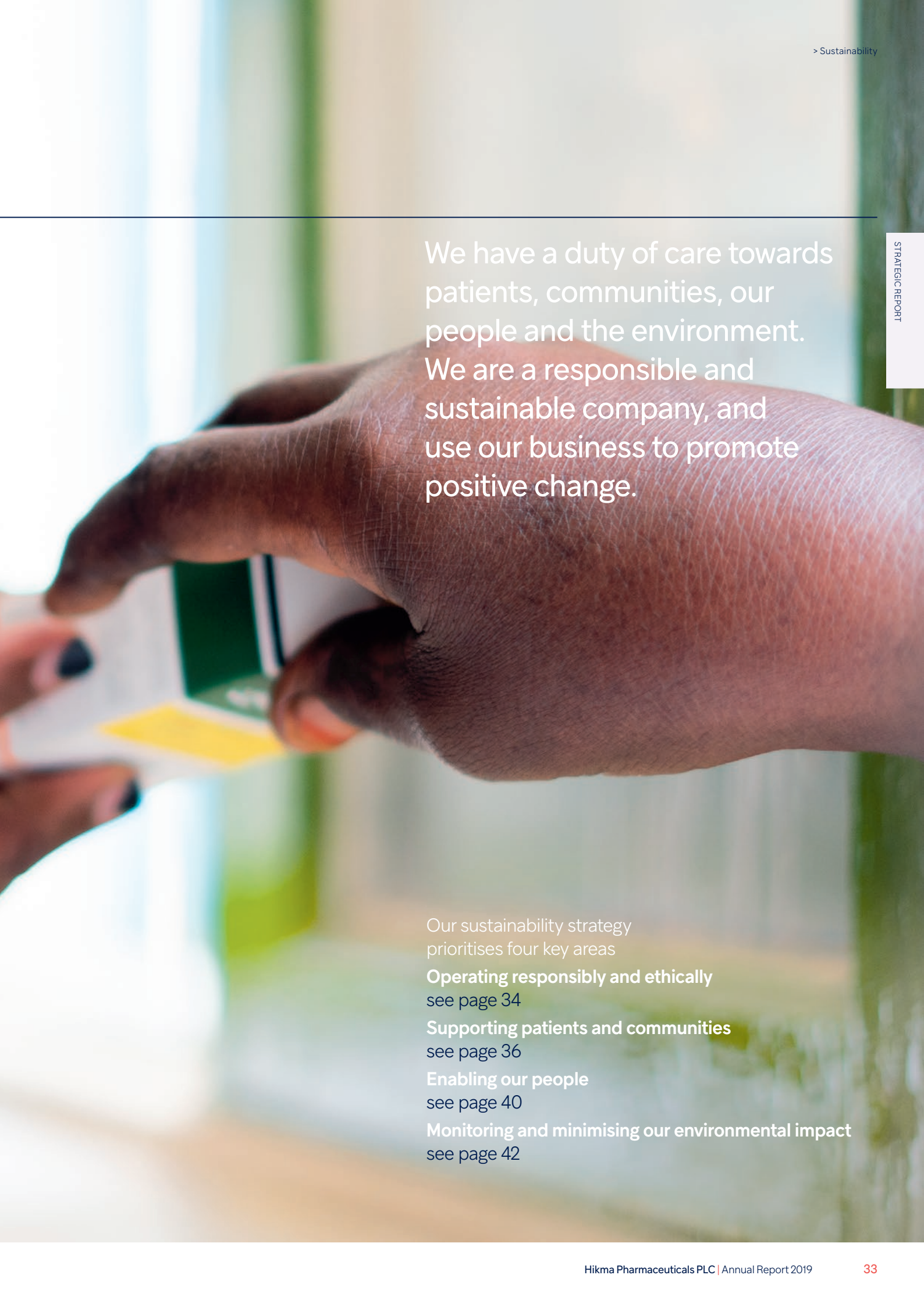
We expect Group net finance expense to be around \$46 million in 2020 and the core effective tax rate to be around 22% to 23%. We expect Group capital expenditure to be in the range of \$120 million to \$140 million.

### Other matters

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

# Sustainability





We have a duty of care towards patients, communities, our people and the environment. We are a responsible and sustainable company, and use our business to promote positive change.

Our sustainability strategy  
prioritises four key areas

**Operating responsibly and ethically**  
see page 34

**Supporting patients and communities**  
see page 36

**Enabling our people**  
see page 40

**Monitoring and minimising our environmental impact**  
see page 42

## Operating responsibly and ethically

Our strong governance framework is built on accountability, trust and our values and is fundamental to our long-term organisational success. We have a robust set of policies, internal controls and management processes to ensure our business operates responsibly and ethically.

### **Upholding high standards of ethical conduct**

We are committed to upholding high standards of ethical conduct in our business and in our dealings with others. This includes compliance with all relevant global and local laws, codes and regulations wherever we operate.

Our culture is built upon shared values of integrity, respect, excellence and transparency. Our Code of Conduct clearly sets out the standards for ethical business conduct that we expect from all our employees. All of our employees are trained on the Code of Conduct as part of their induction and are provided refresher training on a periodic basis. We have also developed policies and procedures designed to help employees and third parties put these behaviours into practice.

We have a zero-tolerance policy for bribery and corruption at Hikma. Our Compliance, Responsibility and Ethics Committee provides oversight of our anti-bribery and corruption (ABC) programme and the management of associated risks.

As a publicly listed company on the London Stock Exchange (LSE), we abide by the regulations of the UK Listing Authority. We also comply with the UK Bribery Act 2010 and the Foreign Corrupt Practices Act, as well as global anti-corruption standards and local ABC laws.





We are founding members of the Partnering Against Corruption Initiative (PACI), an offshoot of the World Economic Forum dedicated to promoting compliance and eliminating corruption. We are also members of the Business 20 (B20) Anti-Corruption Working Group. The B20 represents the business voice of the G20 group of governments and the Anti-Corruption Working Group has a mandate to help companies improve their ethical conduct.

We promote an open door culture to enable employees to feel comfortable in raising any concerns about potential violation of laws and regulations, or any other behaviours or incidents that do not align with our Code of Conduct.

We have in place a process that allows both internal and external stakeholders to confidentially raise concerns about suspected misconduct. All cases received are reviewed by our Investigations Committee, which includes members of our Legal and Compliance teams. We respond to any substantiated cases with the appropriate level of action or discipline.

### Defending the principles of human rights

We respect and uphold the principles of the Universal Declaration of Human Rights both within Hikma and across our value chain.

We are also committed to upholding the principles of the UK Modern Slavery Act (MSA), ensuring that modern slavery in the form of forced or compulsory labour and human trafficking does not exist in any of our businesses nor in those of our partners and suppliers.

Our commitment to complying with the MSA is articulated in our Code of Conduct. We conduct regular audits to assess MSA compliance for our major suppliers and have a zero-tolerance policy towards any violations. To ensure awareness of the requirements of the MSA, a training module has been incorporated into our annual Code of Conduct e-learning for all employees.

### Diversity and inclusion

Hikma celebrates diversity and prides itself on a culture of inclusion. We uphold the sixth principle of the United Nations Global Compact on the elimination of discrimination in the workplace.

We hire on merit and are committed to employing and engaging talented people irrespective of their race, gender, religion, sexual orientation, age, marital status, national origin, present or past history of mental or physical disability and any other factors not related to a person's ability to perform a role.

### Our inclusion in the FTSE4Good Index

For the fifth consecutive year, we maintained our membership of the FTSE4Good Index Series – an index of LSE-listed companies that demonstrate strong Environmental, Social and Governance (ESG) practices as measured against globally recognised standards. The FTSE4Good evaluates companies' effectiveness in addressing issues such as human rights, anti-corruption, environmental performance, health and safety, and community engagement. Their assessments are used by a wide variety of market participants to develop responsible investment funds and other products. We continue to score above the averages for both healthcare and pharmaceuticals sectors in all three ESG categories, achieving a score of 3.0 out of 5 in 2019 which places us in the 57th percentile among member companies. Our aim is to continue improving our management of ESG issues, with a focus on strengthening our environmental performance in 2020.

### Aligning with the United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) are a set of 17 goals adopted by the United Nations to drive sustainable development.

We adopted six SDGs that are aligned with our business and values, and are committed to supporting global efforts to achieve these goals.

### Our adopted goals



## Supporting patients and communities

We are passionate about serving patients and supporting the communities where we operate. For more than 40 years, we have been guided by the simple belief that when world-class medicine is put within people's reach, it transforms lives and communities.

In all of our markets, we work to meet social needs and improve lives. We have developed programmes in key areas to tackle social challenges and promote health and wellbeing. This is how we work towards our vision of a healthier world that enriches all of our communities.

Our community engagement focus areas:

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### Providing better health through access and awareness

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### Supporting education

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### Assisting people in need: refugees and low-income groups

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### Providing better health through access and awareness

#### Supporting the Healthy Kitchen Project in Jordan

The Healthy Kitchen Project was developed in 2015 by the Royal Health Awareness Society (RHAS), the Jordan Ministry of Health and Ministry of Education and the World Food Programme to address malnutrition among students while also providing employment opportunities for economically disadvantaged women in the area.

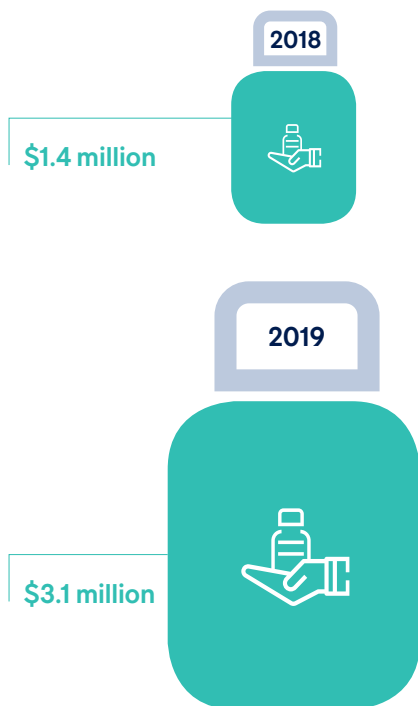
Through the project, women in Madaba, Jordan are trained and employed as chefs to provide healthy meals for students in nearby schools. Children learn about the risks of an unhealthy diet and the importance of physical activity and personal hygiene. By offering training and development the project builds the capability and future prospects for members of the community.

As the first private sponsors of the Healthy Kitchen Project, we at Hikma are proud of the achievements of the programme, which runs in 11 schools across Madaba and employs 50 women. More than 5,000 meals a day are now produced through the project, positively impacting more than 2,400 students every year. Impact assessments conducted by RHAS show an 11% to 25% reduction in unhealthy food purchases from school canteens and a 50% increase in awareness about healthy eating habits among the children in the target age groups.





**In-kind medicine donations: value of medicines provided (cost of goods)**



**Raising awareness of breast cancer**

Our Breast Cancer Awareness Campaign focuses on education and testing for our employees and our broader communities. Every year, we undertake a comprehensive approach to raising awareness about the value of early detection and treatment, including establishing testing booths and spreading information about the importance of early detection through public seminars, testimonials and social media.

Since 2008 we have supported and worked alongside the King Hussein Cancer Foundation (KHCF), an independent, non-governmental, non-profit institution dedicated to combating cancer in MENA.

Our partnership supports fundraising, strengthening global advocacy and public awareness, enabling early detection and providing patient support.

**Our medicine donations programme**

We work to address unmet healthcare needs by providing in-kind medicine donations to refugees and low-income groups in MENA and patients without sufficient medical insurance or those recovering from natural disasters in the US. In 2019, we donated \$3.1 million of medicine compared to a value of \$1.4 million donated in 2018 (value based on cost of goods).

**Supporting education**

**Our partnership with The Prince's Trust**

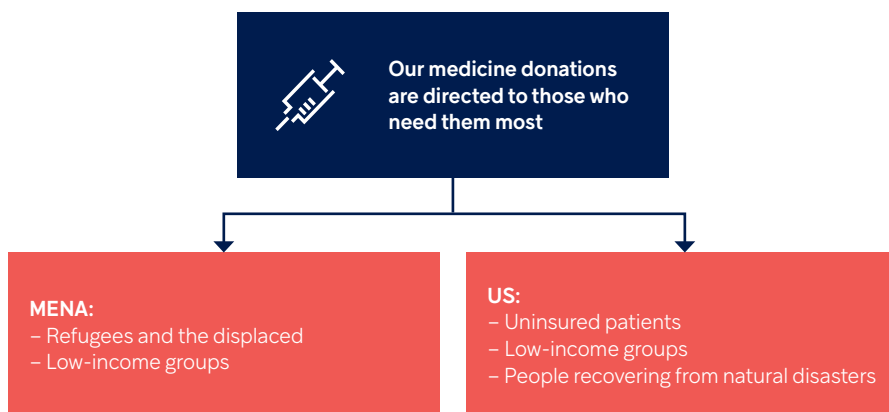
2019 marked the second year of our four-year partnership with The Prince's Trust, a UK-based organisation providing capacity building and job-readiness opportunities to young people who face barriers to education and employment. As Patrons of The Prince's Trust, we support the organisation with a financial contribution of £50,000 per year and by enabling our employees to volunteer as mentors and participate in fundraising activities. In 2020, The Prince's Trust will support its millionth young person in the UK, with an ambition to support another million over the next ten years.

Around half of our financial contributions support STEM (Science, Technology, Engineering and Maths) education through a series of STEM-enrichment workshops. The workshops provide young participants with the tools and knowledge that help diversify their capabilities and secure future employment opportunities.

In 2019, our support was directed towards two STEM-related activities: the Achieve programme and the Get Started with Robotics programme.

The goal of the Achieve programme is to help young people that face barriers to learning to either continue or re-engage in education. These early interventions are integral to giving young people the inspiration and aspiration they need to succeed.

**Our medicine donations programme**



**Major medicine donation partners**

- Direct Relief
- Dispensary of Hope
- The US National Children's Cancer Society
- Operation Smile
- Jordan Hashemite Charity Organisation

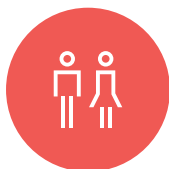
# Supporting patients and communities continued

### Our Prince's Trust partnership: How are we helping?



#### Fundraising activities

Our people took part in various fundraising initiatives organised by The Prince's Trust to help raise money for their cause.



#### Mentorship

Hikma mentors took part in the 'World of Work Day' which aims to improve the interpersonal skills and job readiness for the student participants.



#### Financial contributions

Our financial assistance of £50,000 per year, half of which is directed towards supporting STEM education across the UK.

The Get Started in Robotics programme offered 11 young people the opportunity to gain hands-on experience in building robots. The programme engages children from disadvantaged backgrounds through a themed, week-long course designed to strengthen education and employability.

#### Our partnership with Injaz Tunisia

Injaz is a regional non-profit organisation that aims to empower youth through capacity building activities and by developing entrepreneurial skills. In 2019, we continued our partnership with Injaz Tunisia on several programmes by providing financial assistance and opportunities for our employees to mentor.

The Injaz Tunisia programmes that we support:

#### Company Programme

Under the guidance of volunteering mentors from Hikma and other organisations, secondary school and university students form teams to learn to generate business ideas and to manage a company of their own. National and regional competitions are held annually to reward the best projects undertaken by the students.

#### Steer Your Career

Through this programme, university students learn key employability skills they need to succeed in the workplace such as interpersonal skills, teamwork, written and verbal communication and job-searching skills. Steer Your Career is one of Injaz Tunisia's pioneer programmes, providing students with the skills needed to successfully integrate into the labour market.

#### Assisting people in need: refugees and low-income groups

#### Working with the Jordan River Foundation to enhance opportunities for women

The Jordan River Designs Programme was developed in 1997 by the Jordan River Foundation (JRF) and IKEA to provide capacity building and economic empowerment for marginalised women in Jordan. The programme offers training and employment in manufacturing traditional artisanal products, providing the women with sustainable income and marketable skills.



Our partnership with Injaz Tunisia focuses on youth empowerment and capacity building



**My story was one of struggle and perseverance. The series of technical trainings that were offered motivated me to work and become an independent woman."**

Fairouz Mohammed, Jordan River Design Programme participant

We began our support for the programme in 2012, directly sponsoring training and employment for nine women from the Amman and Madaba areas of Jordan. All nine women are currently employed through the programme and have become the primary wage earner for their families.

**Donating to help children in Portugal**

Every year during Christmas, employees in Portugal work alongside the Santa Casa da Misericórdia de Sintra to alleviate some of the hardship facing disadvantaged families in the city. The organisation is one of the city's oldest and most prominent social solidarity institutions, directing aid and assistance towards improving the quality of life of disadvantaged families.

In 2019, our Portugal employees came together to address the needs of 15 marginalised children through the institution. Each child created a wish list of presents they would like to receive, and our employees pooled their resources and worked together to purchase, wrap and send each child their Christmas gift.



The Jordan River Designs Programme, supported by Hikma since 2012, offers training and employment opportunities for marginalised women in Jordan

## Enabling our people

As the driving force behind Hikma's growth and success, our people are our most valuable asset. We take our commitment to developing their skills, protecting their health and safety and celebrating a culture of diversity very seriously.

It is ultimately our people that will deliver our strategy and achieve our ambition. For this reason, 'inspiring and enabling our people' is one of Hikma's strategic priorities. Across Hikma, our focus is on building a culture of collaboration, creating an environment where people can do their best, and recruiting and retaining the best talent.

### **Investing in our people's growth and development**

By investing in our employees' development, we believe we are securing Hikma's future and helping people fulfil their potential and ambition.

We offer many ways for employees to enhance their skills and capabilities, including on-the-job training, e-learning, formal education opportunities and developmental relationships.

Our Learning and Development (L&D) team ensures high quality, consistent training opportunities are provided to our people. Our global learning management system allows Hikma to deliver high-quality employee learning activities across our markets. The scope of L&D activities encompasses training content across a range of categories, including:

- technical and standard operating procedures
- managerial, leadership and soft skills
- health and safety
- compliance
- digital





In response to employee engagement surveys (see page 19), a new leadership development programme was established in 2019.

**Lead Forward**

The Lead Forward programme was established in 2019 as part of our effort to develop leadership skills among high potential employees. 100 employees were selected for participation in the programme.

The programme involves a series of development activities spanning the year designed to enhance leadership competencies, particularly in the following areas:

- effective leadership
- engaging and motivating others
- aligning team goals and actions with organisational strategy and objectives
- driving innovation and creativity

**Keeping our people safe and healthy**

Keeping our people safe and healthy is fundamental to our success. Occupational health, safety, environment and energy (OHSEE) management is a priority at all of our sites and all our manufacturing facilities comply with stringent industry standards. We provide information, training and support to all our employees to ensure we have safe processes and working environments.

We are continuously refining our production processes, equipment and training to minimise potentially harmful situations and to prevent environmental incidents and emergencies.



Employees in Sudan come together as part of our 'We are Hikma' campaign to promote health and safety

**Our 'We are Hikma' campaign**

Our 'We are Hikma' campaign focuses on raising awareness about relevant health and safety issues among our employees at manufacturing sites. Ongoing since 2008, 'We are Hikma' activities vary based on local needs and include awareness lectures, training seminars and blood donation drives.

In our US locations, our people were offered awareness lectures on the dangers of distracted driving and hazard recognition, while in Jordan employees were provided with free medical testing and fire safety tutorials. Other locations organised campaigns to encourage waste recycling as well as fundraising for community education programmes.

We continue to prioritise the health and safety of our people and have developed wellness initiatives for 2020 across a range of important issues including:

- mental health awareness
- nutritional guidance
- the effects of travel on health
- diabetes prevention and treatment

## Monitoring and minimising our environmental impact

We are committed to making our operations more energy efficient and environmentally responsible.

### Our 'Go Green' initiatives in Portugal and Jordan

In both Portugal and Jordan, we have taken meaningful strides in making our Company more energy efficient. In 2019, we installed photovoltaic (PV) solar panels in each of our facilities, achieving cleaner operations while at the same time improving our bottom line. Recognising climate change as a pivotal challenge for the world today, it is important that we continue to identify opportunities to operate more responsibly and to reduce the environmental costs of our business.

Harnessing solar energy instead of conventional electricity sources has enabled us to reduce our annual emissions by about 368 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) per year (296 tonnes in Jordan and 72 tonnes in Portugal). The 409,000 kilowatt (kW) PV panels in Jordan power around 4% of our total energy capacity in the facility, while the 250,000 kW panels in Portugal cover around 2%, with payback periods of three years and five years respectively.

#### Photovoltaic capacity

Jordan	Portugal
409,000 kW	250,000 kW
PV panels achieving a reduction of 296 tonnes CO <sub>2</sub> e per year	PV panels achieving a reduction of 72 tonnes CO <sub>2</sub> e per year





### Measuring our performance

Our reported greenhouse gas (GHG) emissions from direct fuel usage (Scope 1) decreased by 24% in 2019, compared with 2018. This is partly due to consuming less petrol and diesel in our fleet vehicles as we utilise a growing number of hybrid and electric vehicles. We have also reduced our dependence on fuels, particularly natural gas and diesel consumption, as we continue to drive efficiency and clean energy alternatives.

Our GHG emissions from electricity consumption (Scope 2) increased by 1.7% in 2019 compared to 2018, but remained 1.1% below 2017 emissions. Increases between 2018 and 2019 are partly due to growing electrification of our production. Despite the expansion of many of our facilities, investments in energy efficiency ensured electricity consumption only grew marginally.

Overall our GHG emissions from direct fuel usage and electricity consumption (Scope 1 and 2) decreased by 6% year on year, from 128,277 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) in 2018 to 120,462 tCO<sub>2</sub>e in 2019.

### Improving energy efficiency

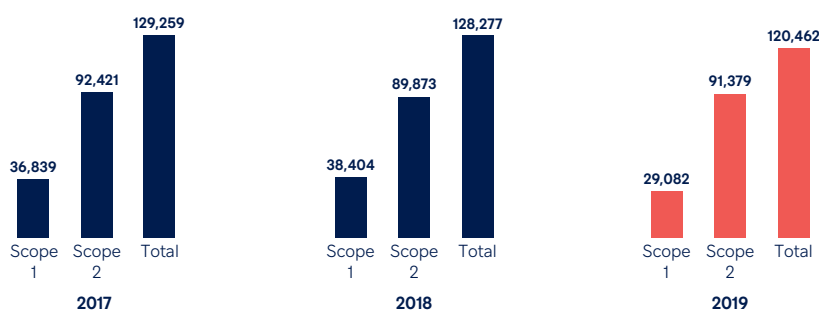
We continue to achieve progress in making our Company more energy efficient. Notable energy efficiency projects completed in 2019 include:

- The installation of a steam trap monitoring system in our Columbus facility resulted in energy savings of approximately 1,145,000 kilowatt hours (kWh).
- We installed photovoltaic (PV) cells in our AMC facility in Jordan, saving around 99,777 kWh in electricity consumption. Additionally, the installation of lithium cobalt oxide (LCO) power saving units saved approximately 158,495 kWh.
- The installation of Light Emitting Diode (LED) fixtures in our Thymoorgan facility in Germany led to estimated savings of 7,320 kWh.

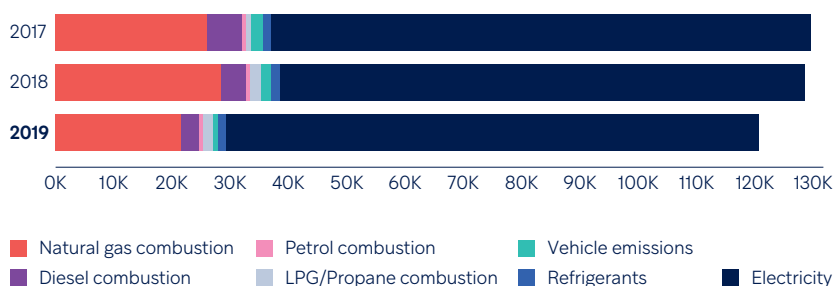


### Greenhouse gas emissions: 2017–2019

	2019	2018	2017
Scope 1 – direct combustion of fuel and operation of facilities (tCO <sub>2</sub> e)	29,082	38,404	36,839
Scope 2 – electricity consumption (tCO <sub>2</sub> e)	91,379	89,873	92,421
<b>Total Scope 1 and 2 emissions (location-based)</b>	<b>120,462</b>	<b>128,277</b>	<b>129,259</b>



### Year-on-year change by emission source



Data notes:

- Emissions from the consumption of electricity are reported in tonnes of carbon dioxide (tCO<sub>2</sub>) rather than tCO<sub>2</sub>e since the International Energy Agency emission factors for electricity currently account for carbon dioxide emissions only.
- Emissions are calculated in alignment with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard.
- Joint ventures with less than 50% holding and non-manufacturing facilities with less than 150 staff are not included within our emissions disclosure as it falls below our materiality threshold. Emissions are reported from sites which represent 93% of total employees.

# Risk management

In 2019, we used enterprise-wide key risk indicators to monitor our risk exposure and enhanced our risk assessment processes.

- 45 Risk management framework
- 46 Risk management activities
- 47 Principal risks and uncertainties
- 51 Going concern
- 51 Longer-term viability

## Risk management framework

### Risk context

We develop, manufacture and market a broad range of generic pharmaceutical products across the US, MENA and Europe. We are also a leading licensing partner.

Risks are inherent in our business. They may be related to our strategy and delivery of our objectives, the fundamental activities and processes of the organisation, meeting the expectations of our stakeholders, or through key relationships and dependencies.

Find out more about the internal and external context for risk management for the Group in **Our markets** (pages 12 and 13), **Our business model** (pages 14 and 15) and **Our strategy** (pages 16 and 17).

### Risk strategy

Effective management of risk is fundamental to delivering long-term success for the Group. We operate an Enterprise Risk Management (ERM) framework to ensure that we are comprehensive and structured in our approach. This framework delivers a thorough view on our risk exposure to inform our decision-making and enable the alignment, effectiveness and efficiency of our strategic, tactical, operational and compliance processes. The holistic approach ensures we fulfil our obligations and provides assurance that our activities are appropriately controlled.

### Risk appetite

The Board determines the nature and extent of the principal risks it is willing to take and communicates this through the Group risk appetite. The risk appetite outlines expected management strategies and details limits and tolerances on risk exposure for each of the principal risks. It forms the foundation of the ERM framework, guides management decision-making across the Group and is reviewed and updated annually.

### Risk governance

The Board has ultimate responsibility for the Group's approach to risk management and internal control. On behalf of the Board, the Audit Committee oversees risk management for the Group as part of its responsibilities for internal control.

The Audit Committee reviews the material risks facing the Group considering different sources of assurance, including executive management, internal audit and external audit. The Chair of the Audit Committee is a standing member of the Compliance, Responsibility and Ethics Committee (CREC) ensuring connection between the Board committees with risk oversight responsibilities.<sup>1</sup>

Internal audit provides independent assurance of the Group's risk management and internal control systems. For more details on our internal audit approach see page 69.

The ERM office enables and drives the implementation of effective risk management practices by management, and partners with global risk owners in assessing and reporting their risks.

Compliance and control functions with professional expertise in managing risk in specialist areas are in place across the organisation.

The CEO and Executive Committee have direct ownership of risk management for the Group and risk considerations are incorporated into their management responsibilities. As part of the risk governance framework, senior executives are assigned global risk owner responsibility for specific principal risks.

Global risk owners coordinate risk management activities across the organisation with support from management teams to ensure risk exposure is managed appropriately and in line with the risk appetite.

1. Full committee responsibilities are available on [www.hikma.com](http://www.hikma.com)

## Risk management responsibilities

<p><b>Board of Directors</b></p> <ul style="list-style-type: none"> <li>– Determine principal risks</li> <li>– Define and communicate the Group risk appetite</li> <li>– Ensure overall effectiveness of the risk management framework</li> <li>– Review risk management key outcomes</li> </ul>	<p><b>Internal audit</b></p> <ul style="list-style-type: none"> <li>– Provide independent assurance of the effectiveness of the Group's risk management and internal control systems</li> </ul>	<p><b>ERM office</b></p> <ul style="list-style-type: none"> <li>– Enable and drive effective risk management practices</li> <li>– Partners with global risk owners in risk assessment and reporting</li> </ul>	<p><b>Global risk owners</b></p> <ul style="list-style-type: none"> <li>– Implement effective risk management practices to identify, assess and manage risks across the organisation</li> <li>– Report on risk exposure and risk management status</li> </ul>
<p><b>Audit Committee</b></p> <ul style="list-style-type: none"> <li>– Oversee design and implementation of risk management framework</li> <li>– Review risk and assurance reports from executive management, internal audit and external audit</li> <li>– Consider risks highlighted by the CREC</li> </ul>	<p><b>CEO and Executive Committee</b></p> <ul style="list-style-type: none"> <li>– Review regular risk and assurance reports to ensure Group operates within risk appetite</li> <li>– Take enterprise view of risk exposure, consider inter-relation of risks and assess emerging risks</li> <li>– Make decisions on prioritisation for risk response</li> </ul>	<p><b>Compliance and control functions</b></p> <ul style="list-style-type: none"> <li>– Develop, implement and monitor compliance to Group and functional policies and procedures</li> </ul>	<p><b>Management teams</b></p> <ul style="list-style-type: none"> <li>– Manage risks and risk mitigation activities</li> <li>– Implement and monitor Group and functional policies and procedures, and other internal controls</li> </ul>

# Risk management continued

## Risk management activities

Risk management activities occur at all levels of the organisation. The risk governance framework provides structure for these activities to ensure consistency of approach, alignment to the risk appetite and monitoring of our risk exposure. The ERM office coordinates regular risk assessments with global risk owners to review management of existing risks, and to identify new and emerging risks. These assessments are consolidated through a risk management process coordinated by the ERM office and reported to the Executive Committee and the Audit Committee by the global risk owners. In addition to the core reporting and communication processes described, a range of key risk management activities occurred during the year.

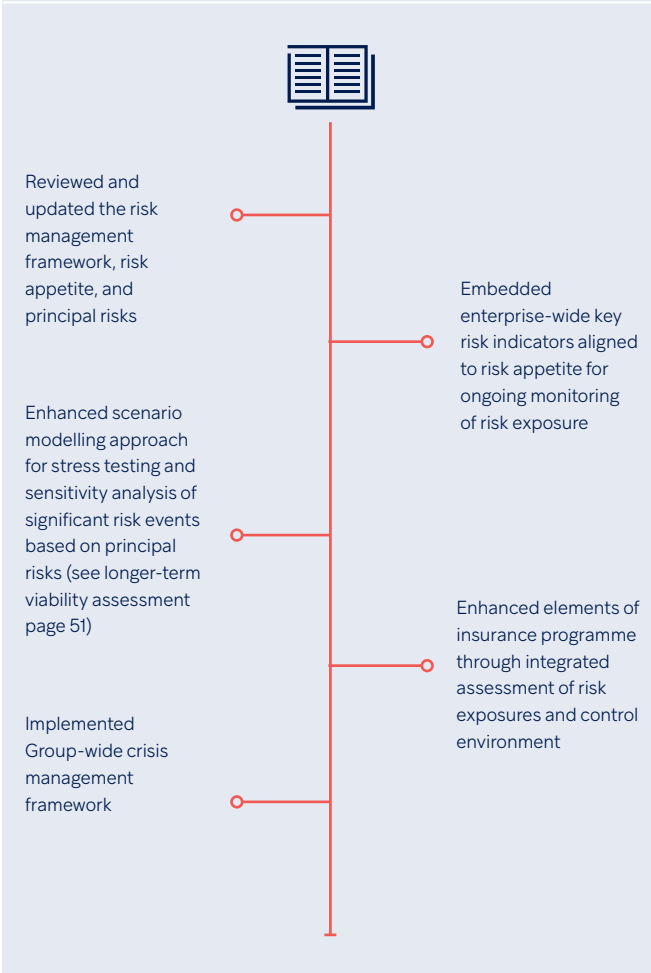
### Priorities for 2020

In addition to our core risk management activities, in 2020 we will continue to roll out our upgraded crisis response and business continuity management processes and develop partnerships between compliance and control functions to strengthen our organisational resilience and bring greater assurance for the Group.

### Brexit

We are monitoring the UK's withdrawal from the European Union and the implications for our business. Our cross-functional reviews continue to assess that the exposure for the Group is low and manageable. We have a small footprint in the UK and limited dependence on movement of people, goods, services and capital between the UK and Europe.

## Key risk management activities in 2019



### Risk management in practice

As part of continuous improvement for risk mitigation, the global risk owner for crisis response and business continuity initiated a programme of detailed site-level business continuity impact assessments. These assessments involved site leadership, external specialists, and internal subject matter

experts, and covered the sourcing, production, sales and distribution lifecycle to determine areas of exposure to potential disruption for the site as a whole and for key products. Action plans were generated and informed decisions made on updates to business continuity plans.



## Principal risks and uncertainties

The Group faces risks from a range of sources that could have a material impact on our financial commitments and ability to trade in the future. The Board of Directors has performed a robust assessment to determine the principal risks for the Group considering our risk context and with input from executive management. Effectively managing these risks is directly linked to the performance of our strategic KPIs and the delivery of the strategic priorities outlined on pages 16–19. Our principal risks are set out below with examples of management actions that help to control the risk. The Board recognises that certain risk factors that influence these risks are outside the control of management. The Board is satisfied that the principal risks are being managed appropriately and consistently with the target risk appetite. The set of principal risks should not be considered as an exhaustive list of all the risks the Group faces.

### Industry dynamics

What does the risk cover?	Example management actions
The commercial viability of the industry and business model we operate may change significantly as a result of political action, economic factors, societal pressures, regulatory interventions or changes to participants in the value chain of the industry.	<ul style="list-style-type: none"> <li>– Growth and expansion in existing markets with new products and in new therapeutic areas</li> <li>– Portfolio management programmes to focus on strategic products that support revenue, profit and margin targets</li> <li>– Development of capacity and diversification of capability through differentiated technology</li> <li>– Capital investment in the countries in which we operate to ensure continued market access</li> <li>– Active product life cycle and pricing management</li> <li>– Continuous alignment of commercial and R&amp;D organisations to identify market opportunities and meet demand through internal portfolio</li> <li>– Collaboration with external partners for development and in-licensing partnerships</li> </ul>

### Product pipeline

What does the risk cover?	Example management actions
Identifying, developing and registering new products that meet market needs and are aligned with Hikma's strategy to provide continuous source of future growth.	<ul style="list-style-type: none"> <li>– Established Chief Scientific Officer role and globalised R&amp;D function</li> <li>– Integrated selection process for pipeline products with commercial teams</li> <li>– Optimise use of our expansive global product portfolio with increased focus on specialty products with high value and differentiation</li> <li>– Strategic oversight of pipeline delivery through dedicated global project management office</li> <li>– Product-related acquisitions to bolster pipeline</li> </ul>

### Organisational development

What does the risk cover?	Example management actions
Developing, maintaining and adapting organisational structures, management processes and controls, and talent pipeline to enable effective delivery by the business in the face of rapid and constant internal and external change.	<ul style="list-style-type: none"> <li>– Strengthened teams with key talent appointed to fill strategic regional and global positions</li> <li>– Embedded Group-wide human capital management system</li> <li>– Developed global programmes that attract, manage and develop talent within the organisation, such as the Lead Forward programme (see page 41 for details)</li> <li>– Ongoing updates to organisation design, structures and accountabilities to maintain empowerment in decision-making and bring appropriate level of governance</li> </ul>



## Principal risks and uncertainties continued

### Reputation

What does the risk cover?	Example management actions
<p>Building and maintaining trusted and successful partnerships with our stakeholders relies on developing and sustaining our reputation as one of our most valuable assets.</p>	<ul style="list-style-type: none"> <li>– Active external communications, and investor engagement programme, to build awareness of Group strategy and purpose</li> <li>– Internal and external monitoring and management of issues that may impact reputation (including complex business and stakeholder environment related to drug pricing, and the manufacture, sale and distribution of opioid products)</li> <li>– Independent external review of Corporate Social Responsibility (CSR) activities to support continuous improvement and effectiveness of programme</li> <li>– Establishment and development of strategic industry and community partnerships</li> <li>– Deployment of internal communication programmes to support employee engagement</li> <li>– Continuing to strengthen communication and corporate affairs capabilities</li> </ul>

### Ethics and compliance

What does the risk cover?	Example management actions
<p>Maintaining a culture underpinned by ethical decision-making, with appropriate internal controls to ensure staff and third parties comply with our Code of Conduct, associated policies and procedures, as well as all applicable legislation.</p>	<ul style="list-style-type: none"> <li>– Board level oversight from the Compliance, Responsibility and Ethics Committee (see page 73 for details)</li> <li>– Code of Conduct approved by the Board and delivered to all employees</li> <li>– Initiated programme to automate third-party due diligence and oversight programme</li> <li>– Developed and implemented policies and procedures to ensure compliance with new laws and regulations, including US pharmaceutical pricing transparency, California Consumer Privacy Act</li> <li>– Active participation in international anti-corruption initiatives</li> <li>– Update and implementation of compliance programmes, including anti-bribery and corruption, sales and marketing practices, data privacy, and other areas</li> </ul>

### Information and cyber security, technology and infrastructure

What does the risk cover?	Example management actions
<p>Ensuring integrity, confidentiality, availability and resilience of data, securing information stored and/or processed internally or externally from cyber and non-cyber threats, maintaining and developing technology systems that enable business processes, and ensuring infrastructure supports the organisation effectively.</p>	<ul style="list-style-type: none"> <li>– IT organisational structure designed to enable coordinated, consistent and comprehensive enterprise approach</li> <li>– Industry-standard information security solutions and best practice processes adopted and adapted for local and Group requirements</li> <li>– Cyber-risk activity monitored and controls updated to combat evolving threats</li> <li>– Partnership established with strategic third parties to implement and maintain a robust Group-wide information security framework</li> <li>– Roll out of enterprise-wide standardisation initiative incorporating data management and access control</li> </ul>

## Legal, regulatory and intellectual property

What does the risk cover?	Example management actions
<p>Complying with laws and regulations, and their application. Managing litigation, governmental investigations, sanctions, contractual terms and conditions and adapting to their changes while preserving shareholder values, business integrity and reputation.</p>	<ul style="list-style-type: none"> <li>– Appropriate response to complex litigation activity related to the manufacture, sale and distribution of opioid products</li> <li>– Rigorous assessment and monitoring of litigation activity in US pharmaceutical environment</li> <li>– Continuous assessment of developments in legal and regulatory frameworks and impact on the organisation</li> <li>– Internal communication and training on policies and processes drives awareness and understanding and builds a compliance culture</li> <li>– External advice procured to provide independent services and ensure highest standards</li> </ul>

## Inorganic growth

What does the risk cover?	Example management actions
<p>Identifying, accurately pricing and realising expected benefits from acquisitions or divestments, licensing, or other business development activities.</p>	<ul style="list-style-type: none"> <li>– Extensive due diligence of each acquisition in partnership with external support in order to strategically identify, value, and execute transactions</li> <li>– The Board spends a significant amount of time reviewing major acquisitions proposed by the Executive Committee to ensure strategic alignment</li> <li>– Post-acquisition performance (financial and non-financial) monitored closely to ensure integration and delivery on business plan</li> <li>– Post-transaction reviews highlight opportunities to improve effectiveness of processes</li> </ul>

## Active pharmaceutical ingredient (API) and third-party risk management

What does the risk cover?	Example management actions
<p>Maintaining availability of supply, quality and competitiveness of API purchases and ensuring proper understanding and control of third-party risks.</p>	<ul style="list-style-type: none"> <li>– Continuity of API supply maintained for high-value products through alternative API suppliers, stocking strategies, and supply chain modelling</li> <li>– Rigorous selection process for API suppliers and focus on building long-term supply contracts</li> <li>– Vertically integrated plant in Jordan to synthesise selected strategic APIs</li> <li>– Benchmarking, price negotiation and alternate sourcing programmes ensure competitiveness</li> </ul>

## Crisis response and business continuity

What does the risk cover?	Example management actions
<p>Preparedness, response, continuity and recovery from crisis events, such as natural catastrophe, economic turmoil, operational issues, political crisis, and regulatory intervention.</p>	<ul style="list-style-type: none"> <li>– Continued strengthening of central oversight of systems, processes, and capabilities to enhance our Group-wide resilience and crisis preparedness</li> <li>– Implemented crisis management framework to enhance our ability to respond effectively to crises, and to expedite the restoration of critical processes after disruption (example activations include: Jordan warehouse fire incident, COVID-19 outbreak)</li> <li>– Established crisis response training programme to develop employee capability across the Group</li> <li>– Identified key third parties involved in preparedness, response and recovery</li> <li>– Corporate insurance programme aligned to ensure appropriate coverage of high-impact, low-likelihood events</li> </ul>

## Principal risks and uncertainties continued

### Product quality and safety

What does the risk cover?	Example management actions
<p>Maintaining compliance with current Good Practices for Manufacturing (cGMP), Laboratory (cGLP), Distribution (cGDP) and Pharmacovigilance (cGVP) by staff, and ensuring compliance is maintained by all relevant third parties involved in these processes.</p>	<ul style="list-style-type: none"> <li>– Establishment of a Hikma Quality Council (see page 7) to provide oversight and share best practice across the Group</li> <li>– Quality and safety culture driven throughout the organisation by global initiatives, and regularly reinforced by communication from senior executives</li> <li>– Global implementation of quality systems that ensure valid consistent manufacturing processes leading to the production of quality products</li> <li>– Facilities maintained as inspection-ready for assessment by relevant regulators</li> <li>– Documented procedures continuously improved and regular staff training</li> <li>– Maintained environment and health certifications and drove continuous improvements</li> <li>– Continuous monitoring of the safety of products to detect any change to risk-benefit</li> <li>– Global pharmacovigilance programme in place</li> </ul>

### Financial control and reporting

What does the risk cover?	Example management actions
<p>Effectively managing income, expenditure, assets and liabilities, liquidity, exchange rates, tax uncertainty, debtor and associated activities, and in reporting accurately, in a timely manner and in compliance with statutory requirements and accounting standards.</p>	<ul style="list-style-type: none"> <li>– Extensive financial control procedures implemented, including increased proportion of automated controls, assessed annually as part of the financial compliance monitoring programme</li> <li>– Network of banking partners maintained for lending and deposits</li> <li>– Management monitors debtor payments and takes precautionary measures and action where necessary</li> <li>– Selected hedging of exchange rate and interest rate exposure</li> <li>– External advice to help manage tax exposures and upgraded internal tax control systems</li> </ul>



Our key risk indicators help us monitor our risk exposure and ensure we are operating in line with our risk appetite.”

**Henriette Nielsen**  
EVP Business Operations

## Going concern

A full assessment of the Group's current and forecast financial position is used to assess the going concern position, including the following matters (as at end of 2019):

- Cash flow: Net cash flow from operating activities was \$472 million
- Net debt: The Group's overall net debt position was \$242 million (0.41 times core EBITDA)
- Available borrowing capacity: The Group has \$1,274 million of undrawn short-term and long-term banking facilities, in addition to \$270 million of unutilised import and export financing limits. These facilities are well-diversified across the subsidiaries of the Group and are with a number of financial institutions<sup>1</sup>
- Forecasting: The Group's forecasts, taking into account reasonable possible changes in trading performance, facility renewal sensitivities, and maturities of long-term debt, show that the Group should be able to operate well within the levels of its facilities and their related covenants. The analysis shows that Hikma is well-placed to manage its business and financial risks successfully despite current uncertainties and confirms that the going concern basis should be used in preparing the financial statements

## Longer-term viability

In accordance with the UK Corporate Governance Code, the longer-term viability of the Group is assessed for a period longer than the 12 months required by the going concern statement. This assessment takes into account our current position and prospects, our principal risks and uncertainties (see pages 47 to 50), and the assumptions that are part of our financial modelling.

### Viability period

The assessment of the viability of the Group is over a period of three years, ending on 31 December 2022. This is the timeframe for acquisitions and business development opportunities to become integrated into our business, and for pipeline products to contribute as marketed products. Our forecasts are more accurate in the near term than in the long term and so the limitation also applies to our viability assessments.

### Assessment of position and prospects

The position and prospects of the Group are assessed at Executive Committee meetings and at the end of the financial year. The assessments consider strategic and operational updates from each member of the Executive Committee, including review of the principal risks to the industry and business set out on pages 47 to 50, financial reporting and forecasting from the Chief Financial Officer, and through the development of a business plan. The business plan takes into account our current position, specific risks and uncertainties facing the business and known changes to our organisation and business model.

The Executive Committee assesses the future strategic positioning of Hikma as a company in the context of the changing macroeconomic and healthcare environment. Aspects of this analysis are shown in **Global context** and **Key industry trends** (see page 12).

These various assessments are presented to the Audit Committee and Board of Directors for independent scrutiny of management's assumptions and modelling approach. The Board also receives regular updates on operational, strategic and financial matters from executives.

### Assumptions

Financial modelling for the business plan and the viability assessment is subject to a number of assumptions related to:

- introduction and commercialisation of new products
- market share and product demand rates
- foreign exchange rates
- continuation of elevation of certain product prices
- political and social stability in the markets
- ability to re-finance existing debt on similar terms
- cash flow generation from newly acquired businesses
- ability to increase operational efficiency and reduce central costs
- effective tax rate being within the current guidance range

### Stress testing, modelling and sensitivity analysis

Management selected realistic and severe risk scenarios that could impact the business adversely and modelled the impact of each of these independently over the forecast period. The scenarios were chosen considering the Group's strategic objectives and principal risks. They were developed with management input, using real-world examples and the financial modelling assumptions listed above. Realistic but extremely severe adjustments were further applied for sensitivity analysis:

- Scenario 1: significant adverse changes to the pricing environment in the US (principal risk: industry dynamics)
- Scenario 2: failure of pipeline to deliver strategic new products (principal risk: product pipeline)
- Scenario 3: prolonged regulator-imposed restriction of a major US FDA-inspected manufacturing plant (principal risk: product quality and safety)
- Scenario 4: escalation of political or social instability in a major MENA market (principal risk: crisis response and business continuity)
- Scenario 5: long-term shortage of API for a strategic product (principal risk: API and third-party risk management)

The assessment shows that although the risk scenarios are severe events they do not threaten the viability of Hikma. The assessment and analysis did not rely on management actions that could be taken in the circumstances to reduce the impact and consequences of the risk events. Such actions, and the ongoing implementation of the ERM programme and investment in infrastructure and change initiatives are anticipated to continue to enhance organisational resilience and support longer-term viability.

The outcome of these various quantitative and qualitative assessments leads management to believe that Hikma is resilient to risk event shocks. This is largely as a result of our financial position (in particular our strong balance sheet and low levels of debt) and is supported by the fact that our business is well-diversified through geographic spread, product diversity, and large customer and supplier base. Further details are provided in **Our markets** (pages 12 and 13), **Our business model** (pages 14 and 15) and **Our strategy** (pages 16 and 17).

1. As part of our long-term financing requirements, we are exploring refinancing options for our \$500 million Eurobond, which is due to be repaid in April 2020, including alternatives in the fixed income markets. The Group may also utilise its cash and unutilised revolving credit facility of \$1,000 million to repay the Eurobond (refer to Note 29 in the Notes to the financial statements)

# Compliance

## Non-financial disclosures

The table below summarises our position on matters relevant to the Non-Financial Reporting Directive, in line with the requirements of Sections 414CA and 414CB of the Companies Act 2006. All references made are to publicly accessible information.

	Summary	Further information and policies
<b>Our business model</b>	<ul style="list-style-type: none"> <li>– We operate in a competitive, highly-regulated industry. Our diversified business model allows us to respond to the many opportunities and risks we face, while delivering value for our stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>– Our business model, pages 14 and 15</li> </ul>
<b>Principal risks</b>	<ul style="list-style-type: none"> <li>– Our risk management framework is designed to ensure we take a comprehensive view of risk. This includes financial and non-financial risks that may impact our business and stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>– Risk management, pages 45 to 51</li> </ul>
<b>Environmental matters</b>	<ul style="list-style-type: none"> <li>– We are committed to monitoring and minimising our environmental impacts and making our operations more energy efficient and environmentally responsible</li> <li>– Board-level oversight of environmental sustainability through the Compliance, Responsibility and Ethics Committee (CREC)</li> <li>– Environmental matters incorporated in our regular risk reporting</li> </ul>	<ul style="list-style-type: none"> <li>– Monitoring and minimising our environmental impacts, pages 42 and 43</li> <li>– Principal risk: Reputation, page 48</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>– Our people are our most valuable asset and the driving force behind our success. We are committed to investing in the development of our workforce and in protecting their health and safety. We have c.8,600 employees across the US, MENA, Europe and ROW</li> </ul>	<ul style="list-style-type: none"> <li>– Upholding high standards of anti-corruption and ethical conduct, page 34</li> <li>– <b>Code of Conduct</b><sup>1</sup></li> <li>– Enabling our people, page 40</li> <li>– <b>Occupational health, safety, energy, environment policy</b><sup>1</sup></li> <li>– Principal risk: Organisational development, page 47</li> </ul>
<b>Social matters</b>	<ul style="list-style-type: none"> <li>– In all of our markets, we work to meet social needs locally and improve lives. We have developed programmes in key areas to address social challenges: <ul style="list-style-type: none"> <li>– Providing better health through access and awareness</li> <li>– Supporting education</li> <li>– Assisting people in need: refugees and low-income groups</li> </ul> </li> <li>– Where our activities relate to other social matters, we seek to understand the perspective of all stakeholders, determine our role and make clear our position based on our values and purpose</li> </ul>	<ul style="list-style-type: none"> <li>– Supporting our patients and communities, page 36</li> <li>– <b>Addressing drug shortages in the US</b><sup>1</sup></li> <li>– <b>Animal testing position</b></li> <li>– Principal risk: Reputation, page 48</li> </ul>

1. Our public policies, codes and statements are available on [www.hikma.com](http://www.hikma.com)



	Summary	Further information and policies
<b>Respect for human rights</b>	<ul style="list-style-type: none"> <li>– We respect and uphold the principles of the Universal Declaration of Human Rights both within Hikma and across our value chain</li> <li>– Our position on the use of our products for capital punishment</li> </ul>	<ul style="list-style-type: none"> <li>– Operating responsibly and ethically, page 34</li> <li>– <b>Modern slavery act policy statement<sup>1</sup></b></li> <li>– <b>Use of products in capital punishment<sup>1</sup></b></li> <li>– Principal risk: Reputation, page 48</li> </ul>
<b>Anti-bribery and corruption</b>	<ul style="list-style-type: none"> <li>– Our Compliance, Responsibility and Ethics Committee (CREC) leads our efforts to strengthen anti-bribery and corruption (ABC) policies and manage associated risks</li> <li>– As a publicly-listed company on the London Stock Exchange (LSE), we abide by the regulations of the UK Listing Authority. We operate in compliance with the UK Bribery Act 2010, the Foreign Corrupt Practices Act (FCPA) as well as local laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>– Upholding high standards of anti-corruption and ethical conduct, page 34</li> <li>– <b>Code of Conduct<sup>1</sup></b></li> <li>– Principal risk: Ethics and compliance, page 48</li> </ul>
<b>Non-financial KPIs</b>	<ul style="list-style-type: none"> <li>– We monitor the position, performance and impact of Hikma across a wide range of financial and non-financial KPIs. Non-financial KPIs are used to measure progress towards our strategic priorities (pages 18 and 19), our exposure to risks (page 45), and are in place in other areas throughout the organisation as part of Hikma’s long-term sustainable growth strategy and our commitment to helping people and improving the communities in which we operate</li> </ul>	<ul style="list-style-type: none"> <li>– Environmental matters: Greenhouse gas emissions, page 43</li> <li>– Employees: Engagement and Enablement, page 19</li> <li>– Audit Committee report, page 69</li> <li>– Compliance, Responsibility and Ethics Committee report, page 73</li> </ul>

The Strategic report was approved by the Board of Directors and signed on its behalf by:



**Sigurdur Olafsson**  
Chief Executive Officer

26 February 2020

# Corporate governance

During the year, we continued to promote our Hikma values of integrity, respect, excellence and transparency.

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# Chair overview

## Evolving governance

### Chair letter



The Board has made excellent progress in further developing and enhancing its governance arrangements and overseeing the continued development and delivery of the Group's strategy."



#### Dear Shareholders

During 2019, the Board made excellent progress in further developing and enhancing its governance arrangements and overseeing the continued development and delivery of the Group's strategy.

#### Executive leadership

In the prior year, we separated the roles of Chairman and Chief Executive Officer, with Siggí Olafsson joining us to take on the role of Chief Executive Officer. As I reported last year, this change has greatly improved the organisation and has taken us in a new direction. Moving into 2020, our highly effective leadership roles will help us achieve the optimal performance from our people, assets and technology.

#### Board and committee composition

In 2019, we welcomed Cynthia Schwalm to the Board. Cynthia brings extensive commercial and leadership experience in the pharmaceutical and biotech industries, as well as her experience as a healthcare practitioner. She brings a fresh perspective to the Board and will greatly assist in our next stage of growth.

Last year I reported that we would consider succession arrangements for the Senior Independent Director position over the course of 2019. The Nomination and Governance Committee has assisted the Board in assessing the strengths of our current Directors, areas where additional expertise is required on the Board and developing a plan for an orderly transition. This succession plan takes account of our continued belief in the advantages of continuity and knowledge of Hikma when undertaking additional responsibilities on behalf of the Board. Accordingly, I am delighted to announce

that Pat Butler will become our Senior Independent Director over the course of 2020 after a suitable transitional period.

After nine years of excellent contribution and dedication, Robert Pickering will retire from the Board during 2020. During his time with us, Robert has been a great friend to me and to Hikma. Robert has led the development of the structure of the Board and our governance arrangements as we have progressed from being a family company to a global company with family values.

With Pat taking on the roles of Senior Independent Director and Chair of the Nomination and Governance Committee, we have already begun the process of identifying a successor for his responsibilities as Chair of the Audit Committee. We will ensure that a candidate with appropriate financial and audit experience is appointed and that there is a suitable transitional period building on our desire to ensure the transfer of organisational knowledge. I would like to thank Pat for his achievements as the Committee Chair, particularly the enhancements to our financial reporting and risk management which are now fully integrated into Hikma's processes and regularly considered at the Executive Committee.

The implementation of these changes and the new executive succession plan (see page 66 for further details) will ensure that the Board is well positioned for the next few years. Over the course of 2020 and beyond, Pat will develop a new medium-term succession plan for the Non-Executive Directors and will continue to oversee the development and delivery of the executive succession arrangements.

#### Culture and strategy

The Board and the Executive Committee have focused their efforts in 2019 on understanding and evolving the culture of the Company, engaging with our employees, and promoting the relevant values to help us deliver the strategy. Further details are available on pages 4 to 5.

Nina Henderson, the independent Board member overseeing employee engagement, has undertaken her first year in the role. The engagement programme has been sponsored internally by the Chief Executive Officer. Nina has met with employees at all levels in the organisation and has attended internal events which have given employees an opportunity to communicate their ideas directly including the:

- Global Leadership Conference
- Generics sales and marketing annual conference
- Business operations global team meeting

Nina formally reports to the Board on her findings at each meeting and provides us with the benefit of her insights as we consider formal business.

#### Stakeholders

The Board undertakes significant efforts to understand and take account of the desires and perspectives of our patients, suppliers, employees, investors and communities in which we operate. Further details are available on pages 10 to 11 and 102 to 103.

If there are any matters that you wish to discuss, please do not hesitate to contact me.

Said Darwazah  
Executive Chairman

# Corporate governance at a glance

## Highlights 2019

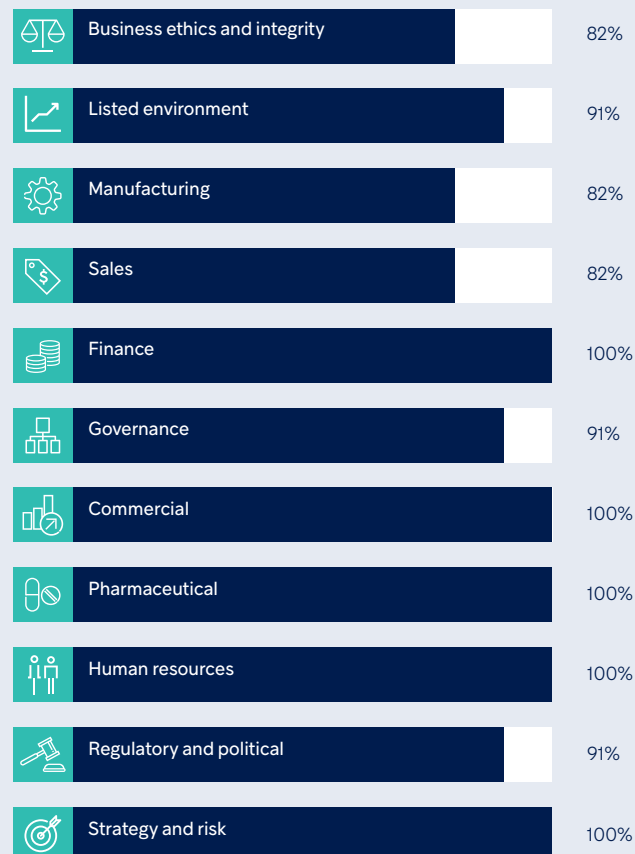
- Increased the level of independent representation on the Board
- Developed a new executive succession plan reflecting recent structural and people changes to the leadership
- Considered the executives' strategic and business plans
- Further enhanced gender diversity in the boardroom
- Oversaw management's delivery of employee enablement enhancements
- Implemented recommendations arising from the recent externally facilitated Board evaluation
- Enhanced the consideration of employee and stakeholder perspectives in the boardroom

## Priorities 2020

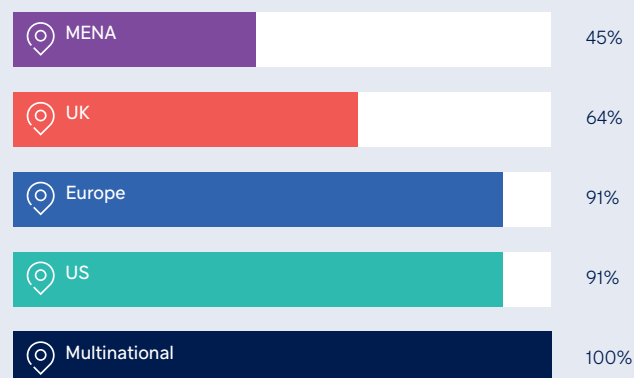
- Identify, appoint and induct an additional independent Board member
- Complete the implementation of the Senior Independent Director succession plan
- Undertake a full interview-based external Board evaluation
- Develop a plan for the orderly transition of the Audit Chair responsibilities

## Experience

The percentage of the Board with direct experience in the following areas:



## Geographical experience



## Country of origin



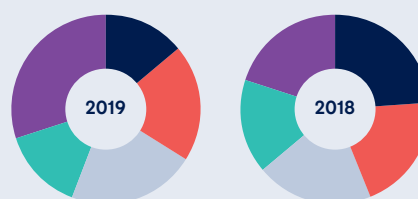
## Attendance

Directors	Meetings attended (8 scheduled and 1 unscheduled)	%
Said Darwazah	9/9	100%
Siggi Olafsson	9/9	100%
Mazen Darwazah	9/9	100%
Robert Pickering	9/9	100%
Ali Al-Husry	9/9	100%
Pat Butler <sup>1</sup>	7/9	78%
Dr Pamela Kirby	9/9	100%
Dr Jochen Gann	9/9	100%
John Castellani	9/9	100%
Nina Henderson	9/9	100%
Cynthia Schwalm <sup>2</sup>	4/5	80%

1. Pat Butler was unable to attend meetings due to a family bereavement and a timing change made by Hikma
2. Cynthia Schwalm joined the Board on 1 June 2019 and was unable to attend one meeting because of a pre-existing commitment

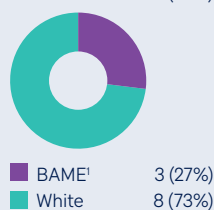
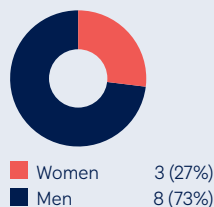
## Time

	2019	2018
Corporate governance	14%	24%
Financial performance	20%	20%
Performance and operations	22%	20%
Risk	14%	16%
Strategy and acquisitions	30%	20%

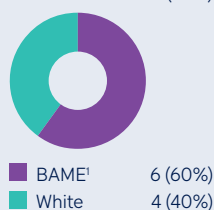
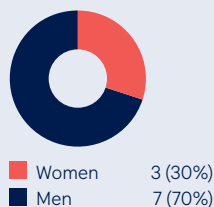


## Diversity (as at 31 December 2019)

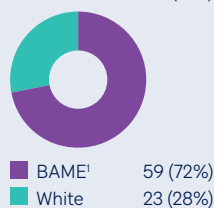
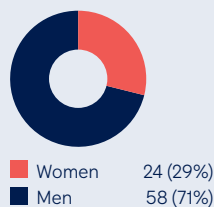
### Board



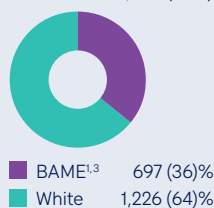
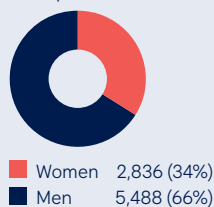
### Executive Committee



### Executive Committee reports<sup>2</sup>



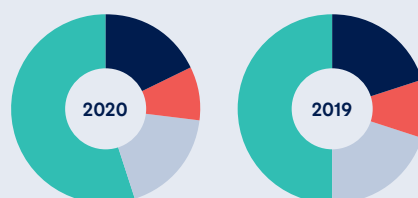
### Group



1. BAME: refers to people who identify themselves as either Black, Asian or Minority Ethnic
2. People reporting to members of the Executive Committee
3. Data from Hikma's US operations only

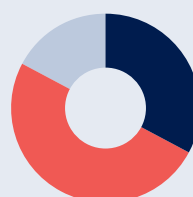
## Composition

	February 2020	March 2019
Executive Chairman and Chief Executive Officer	18%	20%
Other Executive Directors	9%	10%
Non-Independent NED	18%	20%
Independent NED	55%	50%



## Independent Director tenure (as at 26 February 2020)

	Number	%
0-3 years	2	33%
4-6 years	3	50%
7-9 years	1	17%





# Leadership

## Board of Directors



**Said Darwazah, 62**  
Executive Chairman

**Appointed:** 1 July 2007 | **Joined Hikma:** 1981  
**Nationality:** Jordanian

**Board experience:**



**Committee membership:**  
None

**Experience:** Said served as Chief Executive Officer from July 2007 to February 2018 and has served as Chair since May 2014. Said has over 38 years of experience in numerous leadership roles at Hikma. Under Said's leadership, Hikma has expanded into the US and become a leading player in injectables and the MENA region.

**Qualifications:** Industrial Engineering degree from Purdue University, MBA from INSEAD.

**Other appointments:** Chairman of the Queen Rania Foundation and Royal Jordanian Airlines. Director of the Central Bank of Jordan and Dash Ventures Limited.



**Soggi Olafsson, 51**  
Chief Executive Officer

**Appointed:** 20 February 2018 | **Joined Hikma:** 2018  
**Nationality:** Icelandic

**Board experience:**



**Committee membership:**  
None

**Experience:** Soggi has a wealth of international experience in the pharmaceutical industry, having held senior roles with Actavis Pharma Inc., Pfizer Inc. and Omega Farma. Soggi served as President and CEO of Global Generic Medicines at Teva Pharmaceuticals.

**Qualifications:** M.S. in Pharmacy (Cand Pharm) from the University of Iceland, Reykjavik.

**Other appointments:** Trustee of the American-Scandinavian foundation.



**Mazen Darwazah, 61**  
Executive Vice Chairman, President of MENA

**Appointed:** 8 September 2005 | **Joined Hikma:** 1985  
**Nationality:** Jordanian

**Board experience:**



**Committee membership:**  
None

**Experience:** Mazen has led and expanded the MENA region at Hikma. Since listing, he has Group level responsibility in his role as Executive Vice Chairman and executive responsibility for leading Hikma's unique MENA business.

**Qualifications:** BA in Business Administration from the Lebanese American University, Advanced Management Plan from INSEAD.

**Other appointments:** Vice Chairman of the Capital Bank of Jordan. Trustee of the St. Louis College of Pharmacy, Birzeit University and King's Academy. Member of the HM King Abdullah Economic Policy Council.



**Robert Pickering, 60**  
Senior Independent Director

**Appointed:** 1 September 2011 | **Joined Hikma:** 2011  
**Nationality:** British

**Board experience:**



**Committee membership:**  
None

**Experience:** Robert became Senior Independent Director in May 2014. Robert was Chief Executive Officer of Cazenove Group PLC and subsequently J.P. Morgan Cazenove until 2008. During 23 years at Cazenove and Co. he acquired extensive experience of the corporate and investment environment.

**Qualifications:** Qualified solicitor with a law degree from Lincoln College, University of Oxford.

**Other appointments:** Chairman of the Trustees at Lincoln College Oxford 2027 Trust. Director at Itau BBA International PLC, the investment bank of the Itau Unibanco group.



**Ali Al-Husry, 62**  
Non-Executive Director

**Appointed:** 14 October 2005 | **Joined Hikma:** 1981  
**Nationality:** Jordanian

**Board experience:**



**Committee membership:**  
None

**Experience:** Ali held various management and leadership roles within Hikma before stepping into an advisory role in 1995, when he founded Capital Bank of Jordan, focusing on commercial and investment banking. Ali served as Chief Executive Officer of Capital Bank until 2007.

**Qualifications:** Mechanical Engineering degree from the University of Southern California, MBA from INSEAD.

**Other appointments:** Director of Endeavour Jordan, Microfund for Women, Capital Bank of Jordan, and DASH Ventures Limited. Chairman of Alcazar Energy.



**Patrick Butler, 59**  
Independent Non-Executive Director

**Appointed:** 1 April 2014 | **Joined Hikma:** 2014  
**Nationality:** Irish

**Board experience:**



**Committee membership:**  
None

**Experience:** Pat was Senior Director at McKinsey & Co. During 25 years at McKinsey, he focused on strategic, financial and structuring advice to large corporations. Pat qualified in the audit and tax practice of Arthur Andersen.

**Qualifications:** Chartered accountant. First-class honours degree in Commerce and postgraduate diploma in Accounting and Corporate Finance from University College Dublin.

**Other appointments:** Chairman of Aldermore Group PLC. Director of The Ardonagh Group Limited and Res Media Limited. Governor of the British Film Institute. Trustee of the Resolution Foundation.



For detailed Directors' biographies go online:  
[www.hikma.com/about/leadership/](http://www.hikma.com/about/leadership/)



**Dr Pamela Kirby, 66**  
 Independent Non-Executive Director

**Appointed:** 1 December 2014 | **Joined Hikma:** 2014  
**Nationality:** British

**Board experience:**



**Committee membership:**



**Experience:** Dr Kirby was Chief Executive Officer of Quintiles Transnational Corp, and held senior executive positions at F Hoffmann-La Roche and AstraZeneca. Previously, Dr Kirby chaired Scynexis, was Senior Independent Director of Informa and held non-executive positions with Smith & Nephew and Novo Nordisk.

**Qualifications:** First-class BSc degree in Pharmacology, and Clinical Pharmacology PhD from the University of London.

**Other appointments:** Director of DCC PLC and Reckitt Benckiser Group PLC. Supervisory Board Member of Akzo Nobel NV. Non-Executive Director of King's Health Partnership.



**Dr Jochen Gann, 55**  
 Non-Executive Director

**Appointed:** 29 February 2016 | **Joined Hikma:** 2016  
**Nationality:** German

**Board experience:**



**Committee membership:**

None

**Experience:** Dr Gann is Global Head of Corporate Finance/M&A and Corporate Vice President at Boehringer Ingelheim. Dr Gann leads Boehringer Ingelheim's mergers and acquisitions activities across all businesses.

**Qualifications:** Doctorate Degree in International Finance from the University of Hohenheim. Master's Degree in Business Administration and Science from University of Karlsruhe.

**Other appointments:** Chairman of the Finance Committee at Verband Der Chemischen Industrie e.V., Germany. Advisory Board Member at KfW IPEX-Bank GmbH, Germany.



**John Castellani, 69**  
 Independent Non-Executive Director

**Appointed:** 1 March 2016 | **Joined Hikma:** 2016  
**Nationality:** American

**Board experience:**



**Committee membership:**



**Experience:** John was President and Chief Executive Officer of Pharmaceutical Research and Manufacturers of America (PhRMA) and Business Roundtable. During his career John has also held senior positions with Burson-Marsteller, Tenneco, and General Electric.

**Qualifications:** BSc in Biology from Union College Schenectady, New York.

**Other appointments:** Director of 5th Port. Trustee of The John Hopkins Medical System Sibley Memorial Hospital, Washington, DC. Member of the Advisory Board of RSR Partners.



**Nina Henderson, 69**  
 Independent Non-Executive Director

**Appointed:** 1 October 2016 | **Joined Hikma:** 2016  
**Nationality:** American

**Board experience:**



**Committee membership:**



**Experience:** Nina assumed Board-level responsibility for employee engagement in January 2019. Nina was Corporate VP of Bestfoods and President of Bestfoods Grocery prior to its acquisition by Unilever. During a 30-year career with Bestfoods, and its predecessor company CPC International, she held a wide variety of Global and North American executive general management and marketing positions. Nina has served as a director of Royal Dutch Shell, AXA Financial, The Equitable Companies, DelMonte, Pactiv and Walter Energy.

**Qualifications:** Honours graduate and BSc from Drexel University.

**Other appointments:** Non-Executive Director of CNO Financial Group Inc and IWG PLC, Vice Chair of the Board of Drexel University, Director of the Foreign Policy Association and Visiting Nurse Service of New York, Inc.



**Cynthia Schwalm, 60**  
 Independent Non-Executive Director

**Appointed:** 1 June 2019 | **Joined Hikma:** 2019  
**Nationality:** American

**Board experience:**



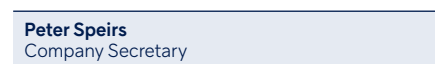
**Committee membership:**



**Experience:** Cynthia was President and CEO of the North American divisions of the global pharmaceutical companies Ipsen and Eisai, and also held leadership positions at Amgen and Johnson & Johnson. Cynthia is a non-executive director of Caladrius Biosciences Inc., Kadman Group, and G1 Therapeutics Inc., where she chairs the Compensation Committee.

**Qualifications:** Cynthia holds a BSN from the University of Delaware and Executive MBA from Wharton School at the University of Pennsylvania.

**Other appointments:** Non-executive Director of Caladrius Biosciences Inc., Kadman Group, and G1 Therapeutics Inc., where she chairs the Compensation Committee. Member of an angel investment group associated with the University of North Carolina.



**Peter Speirs**  
 Company Secretary

**Appointed:** 2 April 2012 | **Joined Hikma:** 2010  
**Nationality:** British

**Role:** Peter is responsible for advising on governance, executive remuneration, and listing related matters. Peter joined Hikma as Deputy Secretary and previously held roles with Barclays and Pool Re.

**Qualifications:** Fellow of the Chartered Governance Institute. Law degree from the University of East Anglia.

**Board experience**

- Business ethics and integrity
- Commercial
- Finance
- Governance
- Human resources
- Listed environment
- Manufacturing
- Pharmaceutical
- Regulatory and political
- Sales
- Strategy and risk

**Committees**

- Audit Committee
- Compliance, Responsibility and Ethics Committee
- Nomination and Governance Committee
- Remuneration Committee
- Chair

## Executive Committee



**Siggj Olafsson**  
Chief Executive Officer

**Joined:** 2018  
**Nationality:** Icelandic

For further biographical details please see page 58.



**Mazen Darwazah**  
Executive Vice Chairman, President of MENA

**Joined:** 1985  
**Nationality:** Jordanian

For further biographical details please see page 58.



**Khalid Nablisi**  
Chief Financial Officer

**Joined:** 2001  
**Nationality:** Jordanian

**Role:** Khalid is responsible for Group finance, including reporting and capital management. Khalid has held several financial positions during 18 years with Hikma, including VP Finance.

**Qualifications:** Certified Public Accountant. MBA from the University of Hull.



**Shahin Fesharaki**  
Chief Scientific Officer

**Joined:** 2019  
**Nationality:** American

**Role:** Shahin is responsible for all research and development activities in Hikma and has a strategic responsibility for enhancing Hikma's product pipeline.

**Qualifications:** Ph.D. in Pharmaceutical Technology from the University of Mumbai, and BSc in Pharmacy and MS in Experimental Pharmacology from Pune University.



**Brian Hoffmann**  
President, Generics

**Joined:** 2009  
**Nationality:** American

**Role:** Brian is responsible for all aspects of the Generics division in the US. Brian has significant strategic and operational experience from leadership roles at Hikma and prior consulting roles.

**Qualifications:** BA in Business Administration from Boston University. MBA from the University of Chicago.



**Bassam Kanaan**  
Executive Vice President, Corporate Development and M&A

**Joined:** 2001  
**Nationality:** Jordanian

**Role:** Bassam has Group level responsibility for strategic development, acquisitions and alliances. Bassam has held several executive positions during 18 years with Hikma, including Chief Financial Officer.

**Qualifications:** US Certified Public Accountant and Chartered Financial Analyst. BA from Claremont McKenna. International Executive MBA from Kellogg/Recanati Schools of Management.



The full biographies of Hikma's Executive Committee can be found on the Hikma website: [www.hikma.com/about/leadership/](http://www.hikma.com/about/leadership/)



**Majda Labadi**  
Executive Vice President, Organisational Development

**Joined:** 1985  
**Nationality:** Jordanian

**Role:** Majda has Group level responsibility for human resources. Majda has held several executive positions during 35 years with Hikma, including VP Injectables and VP MENA Operations.

**Qualifications:** BA from the American University of Beirut. Master's degree from Hochschule Fur Okonomie, Germany. Advanced Management Program at INSEAD.



**Riad Mishlawi**  
President, Injectables

**Joined:** 1990  
**Nationality:** Lebanese

**Role:** Riad is responsible for all aspects of the Injectables division globally. Riad has significant pharmaceutical and operational experience from leadership roles at Hikma and Watson Pharmaceuticals.

**Qualifications:** BSc in Engineering and a MS in Engineering and Management from George Washington University.



**Henriette Nielsen**  
Executive Vice President, Business Operations

**Joined:** 2018  
**Nationality:** Danish

**Role:** Henriette leads the Group's legal, compliance, risk, IT, business improvement, pharmacovigilance and digital functions.

**Qualifications:** Law Degree from the University of Copenhagen. Master of Laws from the University of Edinburgh.



**Susan Ringdal**  
Executive Vice President, Strategic Planning and Global Affairs

**Joined:** 2005  
**Nationality:** American

**Role:** Susan is responsible for strategic planning, investor relations, corporate affairs and business intelligence. Prior to joining Hikma, Susan worked for Alliance Unichem and Morgan Stanley.

**Qualifications:** BA in History from Cornell University. MBA from London Business School.

# Structure

## UK Governance Code

### Code Compliance

The Board is committed to the standards of corporate governance set out in the UK Corporate Governance Code (the UK Code) adopted in January 2019 and the Markets Law of the Dubai Financial Services Authority (the Markets Law). The report on pages 55 to 105 describes how the Board has applied the Main Principles of the UK Code and Markets Law throughout the year ended 31 December 2019. The UK Code is available at [www.frc.org.uk](http://www.frc.org.uk). The Board considers that this Annual Report provides the information shareholders need to evaluate how we have complied with our current obligations under the UK Code and Markets Law.

The Board acknowledges that Said Darwazah holding the position of Chairman and Chief Executive Officer until February 2018 and, since that point, Executive Chairman, requires explanation under the UK Code. Other than the Executive Chairman position and the Chief Executive Officer's pension contribution level being 5% above the general workforce (which is discussed in the Remuneration report on page 75), throughout the year and up until the date of this report, Hikma was in full compliance with the UK Code. Should shareholders require any further information relating to these matters, questions may be directed to the Company Secretary.

### Chair

#### Role

The Executive Chairman leads the Board of Directors of the Company in maximising the return for all shareholders. The Executive Chairman guides, oversees, and engages with the Chief Executive Officer in setting and delivering the strategic vision for the Company and optimising the Company's long-term potential.

#### Rationale

The Board acknowledges that Said Darwazah's position as Executive Chairman, having previously served as Chief Executive Officer, and his tenure as a Director are departures from the UK Code.

The Executive Chairman role was created in February 2018, following the appointment of Soggi Olafsson as Chief Executive Officer. Previously, Said Darwazah was the Chairman and Chief Executive Officer. The change of roles and appointment of a Chief Executive Officer has caused a reduction in Said's executive responsibilities, whilst still retaining his strategic input. The Board considers that the transfer of responsibilities from Said to Soggi has been very successful and that the Chief Executive Officer has been fully empowered by the Executive Chairman. The Board considers it is important to retain corporate memory, important relationships and the family culture of the organisation. Therefore, it is essential to retain Said Darwazah's services in a strategic capacity.

The Board consulted shareholders prior to Said's appointment as Chairman and Chief Executive Officer in May 2014 and following the change to the position of Executive Chairman in February 2018. The Independent Non-Executive Directors met twice during 2019 to review the Board structure and concluded that the Executive Chairman role should continue.

The Board is focused on the commercial success of Hikma and believes that continuing the position of Executive Chairman for a period of time is the best way to achieve success for Hikma, because:

- **Continuity of strategy:** Said Darwazah has been a driving force behind the strategic success of the business since 2007 and the Board believes that it is important for the continued success of the Group that he remains in a strategic role
- **Executive Chairman's role:** the Executive Chairman position is highly visible inside and outside Hikma, acting as an ambassador with business partners and adviser to the businesses
- **Business partners:** a significant number of Hikma's key political and commercial relationships across the MENA region are built on the long-term trust and respect for the Darwazah family where the role of the Executive Chairman remains key

The Board continues to operate the following enhanced controls:

- **Governance structure review:** the Independent Directors meet at least bi-annually in a private session chaired by the Senior Independent Director. This meeting includes consideration of the appropriateness of the governance structure, the division of responsibilities between the Executive Chairman and the Chief Executive Officer and safeguards for shareholders
- **Committee Chair roles:** the Chairs of the Board Committees and the Director responsible for employee engagement, undertake a significant amount of work in the oversight of their responsibilities
- **Transparency and engagement:** Hikma has always had the highest regard for shareholders, with several of the original investors from before listing still investing and supporting Hikma today. Over the circa 15 years since flotation Hikma has maintained the highest standards of shareholder engagement, which is reflective of the importance placed in maintaining strong investor relations and governance
- **Senior Independent Director role:** the Senior Independent Director has joint responsibility, with the Executive Chairman, for setting the Board agenda, agreeing action points and the minutes of the meetings

### Executive

#### Chief Executive Officer

Hikma's executives report to the Chief Executive Officer, who reports to the Executive Chairman. The Chief Executive Officer leads the executive in ensuring the delivery of the approved strategy and performance of the Company.

#### Executive Vice Chairman

When required, the Executive Vice Chairman acts as alternate to the Executive Chairman and is another point of contact and sounding board for management and the Directors.



## Non-Executive Directors

### Independence

The Board rigorously reviewed and considered the independence of each Non-Executive Director during the year as part of the annual corporate governance review, which included consideration of progressive refreshment of the Board. The Board considers Robert Pickering, Pat Butler, Dr Pamela Kirby, John Castellani, Nina Henderson and Cynthia Schwalm to be independent. These individuals provide extensive experience of international pharmaceutical, financial, corporate governance and regulatory matters and were not associated with Hikma prior to joining the Board.

The Board does not view Ali Al-Husry as an Independent Director due to the length of his association with Hikma, holding an executive position with Hikma prior to listing and his involvement with Darhold Limited, Hikma's largest shareholder. However, he continues to bring to the Board broad corporate finance experience, in-depth awareness of the Group's history, and a detailed knowledge of the MENA region, which is an important and specialist part of the Group's business.

The Board does not view Dr Jochen Gann as an Independent Director due to his appointment being in accordance with the shareholder agreement with Boehringer Ingelheim, a major shareholder and his primary employer. However, Jochen brings significant M&A and corporate finance experience with a particular focus on the pharmaceutical sector and, together with Ali Al-Husry, ensures that the Board is aware of the perspectives of shareholders when making decisions.

### Senior Independent Director

The Senior Independent Director responsibilities include:

- involvement in setting the Board agenda, action points and the minutes
- leading the Board in matters of Board composition, effectiveness and evaluation, particularly in relation to the performance of the Executive Chairman
- providing a communication channel between the Executive Chairman and the Non-Executive Directors (NEDs)
- leading the NEDs on their assessment of the appropriateness of the governance structure and safeguards for shareholders
- acting as an alternate point of contact for shareholders and maintaining contact with principal investors and representative bodies

### Employee engagement

This Director-level role is responsible for ensuring, where appropriate, that employee perspectives are taken into account in the Board's decision-making processes.

## Company Secretary

The Company Secretary reports to the Executive Chairman and supports each Board member in the delivery of their duties and specific responsibilities.

The role profiles are reviewed annually and detailed on the Hikma website at [www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/](http://www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/)

## Commitment and interests

The Committee considers the commitment of all Directors both in terms of dedication to the role and their time availability. In order to ensure an appropriate balance of skills and diversity across the boardroom, the Committee has made accommodations to the Board calendar to maximise availability and has acknowledged that there are times when this may mean that full attendance may not be achieved. The Committee considers that Hikma gains more from high-quality Directors than it loses from occasional situations where full attendance cannot be achieved. Having reviewed commitment and attendance during the year, the Committee has concluded that all Directors are fully dedicated, commit an appropriate amount of time to their roles, and are readily available at short notice.

The Committee monitors the external appointments of Directors from both an availability and conflict of interest perspective, whilst noting that experiences with other organisations can enhance a Director's ability to perform the role. The outside interests of Directors are detailed on pages 58 to 59.

## Committee overview

### Nomination and Governance Committee



#### 2019 highlights

- Developed a succession plan for the Senior Independent Director, Audit Committee and NGC Chair
- Reviewed and approved a new plan for the succession of the Executive Directors and Executive Committee members
- Completed the appointment and induction of an additional Independent Director

#### 2020 priorities

- Induct the new Independent Director
- Undertake an orderly transition of the Senior Independent Director and the Committee Chair roles
- Review and enhance the Group's governance arrangements
- Identify a new provider and process for an externally assisted, interview based Board evaluation
- Consider the key aspects of the medium-term succession plan for Non-Executive Directors

#### Allocation of time



#### Members and attendance

Member	Meetings	Attendance
Robert Pickering (Chair)	5/5	100%
Mazen Darwazah	5/5	100%
Pat Butler <sup>1</sup>	4/5	80%
Nina Henderson <sup>2</sup>	4/5	80%
Cynthia Schwalm <sup>3</sup>	2/2	100%

1. Pat Butler was unable to attend one meeting due to a family bereavement
2. Nina Henderson was unable to attend one meeting due to a timing change made by Hikma
3. Cynthia Schwalm joined the Committee on 1 June 2019

The full Committee report is on pages 66 to 68.

### Audit Committee



#### 2019 highlights

- Successfully transferred the senior audit partner position to Darryl Phillips
- Considered and assessed the impacts of the change in operational structure on reporting
- Enhanced the focus of the internal audit programme on key internal controls
- Improved the strategic information from the risk management programme
- Oversaw the strengthening of information technology platforms and associated procedural enhancements
- Enhanced the financial reporting, processing and forecasting capabilities

#### 2020 priorities

- Transition the Committee Chair
- Undertake the regular in-depth review of the processes for ensuring the reports are fair, balanced and understandable
- Consider options for extending expert assessments of the Group's processes
- Continue to develop the risk controls and reporting capabilities

#### Allocation of time



#### Members and attendance

Member	Meetings	Attendance
Pat Butler (Chair) <sup>1,2</sup>	6/7	86%
Robert Pickering	7/7	100%
Dr Pamela Kirby	7/7	100%
John Castellani	7/7	100%
Nina Henderson	7/7	100%
Cynthia Schwalm <sup>3</sup>	2/3	67%

1. Pat Butler was unable to attend one meeting due to a family bereavement. Robert Pickering chaired the meeting following discussions with the Chair
2. Pat Butler, the Independent Chair has extensive experience of financing, accounting, risk and internal control matters and is therefore considered to have recent and relevant financial experience. All members are independent and when considered as a whole, have competence relevant to the sector in which Hikma is operating. Dr Pamela Kirby, John Castellani and Cynthia Schwalm all have extensive pharmaceutical experience
3. Cynthia Schwalm joined the Committee on 1 June 2019 and was unable to attend one meeting because of a commitment made before joining the Board

The full Committee report is on pages 69 to 72.



Please visit our website for more information on Committees: [www.hikma.com/investors/corporate-governance/key-committees](http://www.hikma.com/investors/corporate-governance/key-committees)

## Compliance, Responsibility and Ethics Committee



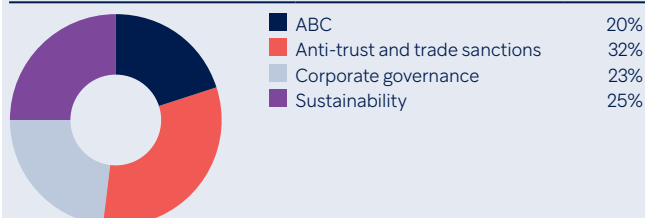
### 2019 highlights

- Transferred leadership of anti-bribery and corruption (ABC) to a new Chief Compliance Officer
- Undertook a strategic review of the Corporate Social Responsibility (CSR) programme
- Enhanced our assessment of our suppliers and service providers' ABC compliance programmes
- Implemented and tested the ABC enhancements from recent assessments
- Approved and enhanced the policies for preventing money laundering, anti-trust events and taxation evasion

### 2020 priorities

- Continue to promote our commitment to integrity
- Oversee the due diligence assessment of circa 44,000 existing suppliers
- Develop and enhance our existing strong policies
- Implement outcomes of the strategic review of CSR

### Allocation of time



### Members and attendance

Member	Meetings	Attendance
John Castellani (Chair)	4/4	100%
Siggi Olafsson	4/4	100%
Mazen Darwazah	4/4	100%
Pat Butler <sup>1</sup>	3/4	75%
Dr Pamela Kirby	4/4	100%
Nina Henderson <sup>2</sup>	3/4	75%

1. Pat Butler was unable to attend one meeting due to a family bereavement
2. Nina Henderson was unable to attend one meeting due to a timing change made by Hikma

The full Committee report is on pages 73 to 74.

## Remuneration Committee



### 2019 highlights

- Thoroughly reviewed the remuneration policy and recommended enhancements that address shareholder feedback
- Developed guidelines for post-employment shareholding requirements
- Gained greater insights into employee perspectives through the Engagement Director and results of the employee culture survey
- Reduced the complexity of the Executive Incentive Plan (EIP) through the implementation of the new performance criteria model

### 2020 priorities

- Review the alignment of the grading structure with employee performance incentives
- Oversee the response to the living wage assessment
- Monitor and assess the performance of the Executive Directors and the executive team

### Allocation of time



### Members and attendance

Member	Meetings	Attendance
Dr Pamela Kirby (Chair)	5/5	100%
Robert Pickering	5/5	100%
Pat Butler <sup>1</sup>	4/5	80%
John Castellani <sup>2</sup>	4/5	80%
Nina Henderson <sup>3</sup>	4/5	80%
Cynthia Schwalm <sup>4</sup>	1/2	50%

1. Pat Butler was unable to attend one meeting due to a family bereavement
2. John Castellani was unable to attend one meeting due to a timing conflict with another Hikma event
3. Nina Henderson was unable to attend one meeting due to a timing change made by Hikma
4. Cynthia Schwalm joined the Committee on 1 June 2019 and was unable to attend one meeting because of a commitment made before joining the Board

The full Committee report is on pages 75 to 100.

# Nomination and Governance Committee

## Letter from the Chair



## Developing capabilities and promoting good governance.

Robert Pickering

### Dear Shareholders

This is my final letter to you as Chair of the Nomination and Governance Committee (NGC). The NGC has made good progress in further developing and enhancing the Group's governance and succession arrangements over the course of 2019.

### Succession Executive

During 2019, the Chief Executive Officer led the Executive Committee in the development and implementation of a detailed succession plan for each member of the Executive Committee. The arrangements include the identification of internal talent for key operational and group roles, development programmes for those identified as having the potential to advance and allowing for external recruitment where required. The plan was considered and approved by the full Board and leaves the Company in a strong position to move forward with continuity in its executive team.

### Independent

Said Darwazah has provided commentary on the arrangements for succession of Non-Executive Directors, including committee chairs and my role, on page 55. Over the course of 2020, Pat Butler and I will arrange an orderly transfer of my responsibilities. Having made several non-executive changes over the last few years, we are at a point whereby a new plan can be developed for medium-term succession and the changes that are already in train can be implemented.

The NGC oversaw the induction programme for Cynthia Schwalm, who joined in June 2019. The Company Secretary made arrangements for briefings from each Executive Committee member, the General Counsel and other relevant members of the management team as well as visits to the key operational sites in Jordan, Portugal and the US. The Company Secretary made a briefing on the Group's governance, listing and related arrangements. Similar arrangements will be made for future appointments.

### Balance

During the year, the NGC reviewed the composition of the Board which included consideration of the skills and attributes of each member, the balance between constructive challenge and empowerment of the executive, the results of the recent board evaluation exercise and the current and desired level of diversity in the boardroom (see page 67). I am pleased to report that the NGC considers the Board continues to operate in a highly effective manner and that each member is valued for the experience and skills that they bring.

### Skills and experience

The NGC continues to believe that a longer induction period is desirable for new Independent Directors to allow for building understanding of the business and, where succession for a Committee Chair is taking place, the transfer of knowledge and relationships associated with the particular committee. Additionally, the Board believes it is important for all directors to have significant international experience at an executive level, a challenging yet consensual style, and the highest level of integrity. The Committee regularly considers whether there may be gaps in fulfilling the specific and in-depth experience that the Board requires as a whole, which focuses on the following areas:

- strategy, culture and leadership
- business environment in both the US and the MENA region
- pharmaceutical manufacturing and distribution
- development of new generic pharmaceutical capabilities
- listing regulations, investor perceptions and governance

Hikma supports Directors in their continued development. As the Directors are highly experienced, their training needs tend to be related to either ensuring awareness of changes in the business, political and regulatory environments, or bespoke training and mentoring on particular areas for development. Therefore, Hikma financially supports specific training requests and ensures that Directors are briefed by internal and external advisers on a regular basis. During the year, the Company Secretary arranged briefings for Directors on matters such as global politics, the pharmaceutical regulatory and competitive environment, capital markets and listing related developments.

### Tenure

The Committee's policy on tenure is that the Independent Non-Executive Directors are normally expected to serve for a period of nine years or the next Annual General Meeting (AGM) of the Company, following the ninth anniversary as of their appointment. Their appointments are formally reviewed after three years and at six years a more rigorous review process is undertaken.

As in previous years, each member of the Board will stand for election or re-election at the 2020 AGM. The position of each Director was closely reviewed during the year as part of the consideration of succession arrangements, independence issues, the bi-annual governance structure reviews, the Board and Committee evaluation processes and the ongoing dialogue between the Executive Chairman and the Senior Independent Director.



### Diversity

Hikma's diversity policy applies to the whole Group, including the Board. Hikma's inclusive workplace welcomes different cultures, perspectives, and experiences from across the globe. Hikma is committed to employing and engaging talented people, irrespective of their race, colour, religion, age, sex, sexual orientation, marital status, national origin, present or past history of mental or physical disability and any other factors not related to a person's ability to perform the relevant role.

One of the three pillars of the Group's strategy is to 'Inspire and enable our people'. The Group's policy and approach to diversity, succession and appointments are a core part of this pillar. Hikma has successful empowerment and talent development programmes to help all employees make the most of their potential. This diversity policy has been included in our updated Code of Conduct and communicated to all employees. Further detail on employee diversity is provided on page 57. The Board considers that it has demonstrated strong ethnic diversity since the formation of Hikma and that this diversity continues to be evident today.

### Gender

Since its founding, Hikma has actively promoted gender diversity across its operations. The NGC was pleased to be able to improve gender diversity in the boardroom over the past few years, including the recent appointment of Cynthia Schwalm. The NGC considers that the current level of gender diversity amongst the Directors needs to at least be maintained, if not enhanced. The Board has not set specific, measurable gender diversity objectives because it needs flexibility to recruit the right candidate to address the specific identified requirements.

### Governance review

As in previous years, the NGC undertook the annual review of the Group's governance arrangements in conjunction with the Company Secretary. This year the exercise included a new assessment of compliance with each provision of the new UK Governance Code and resulted in changes to the structure of this Annual Report in order to follow the style and spirit of the Code.

### Evaluation and performance

The Board conducted its first full, externally moderated, interview-based evaluation in 2017 and will repeat the exercise every three years. For 2018 and 2019, the Board undertook a questionnaire-based evaluation. These evaluations were led by the external moderator, Lintstock, which has no other connection with Hikma. A further interview-based assessment will be undertaken in 2020. Having used Lintstock to perform board evaluations for circa nine years, the Board has decided to undertake a tender process in 2020 to determine a provider for the next interview-based evaluation.

### Process

The evaluation process was coordinated by the Senior Independent Director at the request of the Executive Chairman. Lintstock led the exercise with an anonymous thematic review questionnaire. Lintstock reported independently to the Executive Chairman and the Senior Independent Director. The results were also discussed by the Board and relevant action points were agreed (see the tables in the right column on this page).

The results of the 2019 evaluation process formed part of the Executive Chairman's appraisal of the overall effectiveness of the Board and its members. Additionally, during the period between assessments, the Directors suggest and promote improvements as they arise.

### Results

Progress on previously disclosed action points

Observations	Action taken
<b>Additional US and global pharmaceuticals experience required</b>	The NGC undertook a search process that led to the appointment of Cynthia Schwalm in June 2019. Cynthia has extensive and relevant experience.
<b>Monitoring of individual strategic plans</b>	The Chief Executive Officer has enhanced the executive report to the Board by adding more detail on the progress against each key initiative that was discussed at the strategic review.
<b>Succession planning</b>	The Chief Executive Officer has developed a full plan for management succession below the Board level, which has been reviewed and approved by the Board (see page 66).
<b>Senior Independent Director succession</b>	The plan for succession of the Senior Independent Director (see Chair's letter on page 55) which is being implemented during the course of 2020.
<b>Focus of the Board agenda</b>	The Company Secretary has categorised the Board agenda into strategic, performance and governance segments with a view to focusing decision-making.
<b>Strategic focus</b>	The Chief Executive Officer developed the Group's strategy over the course of 2019 and presented an extensive update to the Board in October 2019 that enhanced the existing highly-rated plan.

### New action points

Observations	Action being undertaken
<b>Drive for expansion</b>	The executive team is extending its business development activities to identify new opportunities for expansion through partnerships, product acquisitions, R&D and related activities.
<b>Succession planning</b>	The medium-term succession arrangements will be reviewed to ensure that new appointments extend the skills and capabilities of the Board in the desired areas and the plans for Executive Directors are developed in more detail.
<b>Risk management</b>	The Board will hold a risk session considering the response to the highest scoring risks in order for additional attention to be placed on these areas, whilst continuing to review the comprehensive risk plan.
<b>Meeting efficiency</b>	Executives presenting at the Board and Committee meetings will undertake to make all presentations more concise, to allow Directors to provide more focused and informed commentary.



### Conclusions and actions

The Board considered that it continued to operate effectively with particular strengths in the following areas:

- the focus of the Chief Executive Officer on operational performance and delivery of the Group's strategy
- the strategic review held in October was considered to be a significant success with several enhancements embraced by Directors
- interaction and atmosphere providing for good, healthy discussions and challenges
- Non-Executive Directors providing support and constructive challenge to management
- oversight of risk management and advancement of the risk agenda

### Executive Chairman's appraisal

The Senior Independent Director met with the Executive Chairman at year-end to perform an appraisal based on the key performance indicators and profile for the role. The Independent Non-Executive Directors regularly met in private during the course of the year. The performance of the Executive Chairman and the Board was discussed during these meetings. The conclusion of this process was that the Executive Chairman provided strong leadership to the Board.

### Director appraisal

The Executive Chairman, having taken into account the comments from the Board evaluation and discussions with the Senior Independent Director and Chief Executive, reviewed the performance of each of the Directors during the year and concluded that each Director contributes effectively to the Board and devotes sufficient time to their role. The NGC has concluded that each Director be recommended to shareholders for re-election at the 2020 AGM.

For and on behalf of the Nomination and Governance Committee



### Robert Pickering

Chair of the Nomination and Governance Committee

26 February 2020



The NGC has made good progress in further developing and enhancing the Group's governance and succession arrangements over the course of 2019."

# Audit Committee



## Letter from the Chair



## Raising capabilities and improving resilience.

Pat Butler

### Dear Shareholders

This is my final letter to you as Chair of the Audit Committee. It has been a privilege to lead the Committee over the last few years and I am very proud of the Group's achievements during this time, including those detailed below. Over the next year I will work with the new Chair to ensure that the Committee's extensive programme of work is smoothly handed over.

### Areas of focus

During 2019, the Committee has made significant progress on a number of workstreams.

### Reporting

The Committee requested that management and the auditors develop their interim and year-end financial review plans in order for the Group to report its results weeks earlier than in previous years. The Committee was pleased that the shorter timelines were met whilst delivering improvements in the overall financial reporting.

### Budgeting

Under the Committee's oversight, management has improved the budgeting and forecasting processes resulting in earlier visibility of the overall financial direction of the Group, greater certainty in the expected outcomes, tighter accountability for the delivery in accordance with budget, and easier assessment of the results of capital expenditure projects.

### Risk

At the Committee's request, management undertook a review of the risk management framework and improved the reporting structure and strategic information provided by the programme. Management presented a full review of the risk appetite to the Board, which included the development of new performance indicators for non-financial risks. The Committee and the Board reviewed the principal risks for the Group, which are consistent with prior years, with a few minor enhancements. The Board as a whole undertook deep reviews of risks related to crisis management and cyber resilience. These reviews included expert third-party assessment of management's plans and capabilities. As in previous years, management and the Board have undertaken a thorough assessment of the Group's emerging risks as part of the annual review of the principal risks. Further information on the Group's risk management activities is available in the risk report on pages 44 to 51.

### Policies

The Committee oversaw the development of policies in the areas of impairment reversal (see page 71), hedging, banking counterparty risk and the processing of rebates. These policies were developed by a new, executive-level policy group and will strengthen our control and risk management environment.

### Internal audit

The internal audit of Hikma is performed by EY, who report directly to the Chair of the Committee. There is a regular programme of interaction between EY and the Committee which is detailed in the table overleaf.

EY assess each Hikma facility and major processes over a three-year period. For major sites, assessments are more frequent. Management is required to respond to findings within a short period, complete all process improvements within two years and ensure at least 80% of high-risk findings are resolved within six months.

During the year, management undertook a review of the internal audit programme and recommended improvements which were approved by the Committee. As a result of the review, management has made good progress in addressing any significant findings and EY have developed the programme to ensure more in-depth review of financial and non-financial controls and to ensure that the US part of the programme has more senior resource dedicated to this important part of the Group's business.

During 2019, the Committee reviewed the controls for ensuring the independence of the internal auditors as part of its review of the effectiveness of the programme and assessment of EY's interaction with the business. The Committee concluded that EY maintained their independence and conducted an effective internal audit programme.

May	August
The Committee Chair meets EY in order to undertake a thorough review of the internal audit findings to date and management responses	EY report their initial findings to the full Committee. The Committee meets with EY without management present
November	December
EY report their findings for the full year	EY present their risk assessment and plan for the following year to the Committee. The Committee meets with EY without management present

## External audit

The external audit was undertaken by PricewaterhouseCoopers LLP (PwC) since their appointment in May 2016. PwC were appointed following a competitive tender process. Following the rotation of Mr Mark Gill, Mr Darryl Phillips was appointed as the senior statutory auditor in May 2019. The Committee would like to thank Mr Gill for his strong contribution to the Group's audit.

## Effectiveness

During the year, the Committee reviewed the work of PwC and concluded that they provide an effective audit, have constructive relationships with the relevant parties and that Mr Phillips provided clear and constructive leadership to the audit team. As part of this review the Committee examined the following areas:

- **Audit quality and technical capabilities:** the Committee considered that the auditors undertook an effective and in-depth assessment and verification exercise and that the level of expertise PwC brought to bear was high. The Committee provides feedback on the auditor's performance as part of the regular meetings with them without management present, takes into account the reports and analysis of the Financial Reporting Council, and believes that there is an open and appropriately challenging relationship between the audit leadership team, the Audit Committee and management
- **Independence:** the Committee regularly reviews the independence safeguards of the auditors and remains satisfied that auditor independence has not been compromised. The Committee discovered that, in three territories in the MENA region, and for prior accounting periods, PwC had supported the preparation of local statutory accounts. This service is not part of the Group audit. PwC have subsequently identified this service as a breach of the FRC's Ethical Standard and the Committee's policy on non-audit work. This service has now ceased. The Committee is satisfied that this has not compromised the auditors' independence
- **Non-audit fees:** the Committee's policy is that the external auditors should not undertake any work outside the scope of their annual audit. The Committee has discretion to grant exceptions to this policy where it considers that exceptional circumstances exist and that independence can be maintained. The Committee's approval is required to instruct PwC's services

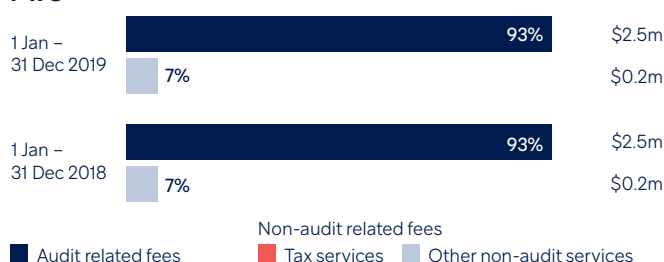
The Committee confirms that the statutory audit services for the financial year under review were conducted in compliance with the Competition and Markets Authority Order, and a competitive audit tender process was undertaken in 2015.

## Fees

### Auditor's fee (\$m)

# \$2.7m

### PwC



## Reporting

### Position and prospects

During the year, management undertook an annual review of its strategic direction and an extensive assessment of the Group's medium-term prospects. Management presented and received the Board's approval and commentary on the full strategy and business plan. Having taken account of the business plan, principal risks and uncertainties facing the Group and other relevant information, the Committee has concluded that the Group continues to have attractive prospects for the future.

### Going concern and viability

The Directors considered the going concern position as detailed on page 51. The Directors believe that the Group is adequately placed to manage its business and financing risks successfully. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence; therefore, the Directors continue to adopt the going concern basis in preparing the financial statements.

The Directors, having considered the longer-term viability assessment as detailed on page 51, confirm that they have a reasonable expectation that Hikma will be able to continue in operation and meet its liabilities as they fall due and over the viability period which ends on 31 December 2022. See page 51 for further details.



### Significant judgements

As part of its work reviewing the financial performance of the Group and the report of the auditors, the Audit Committee considered and discussed the following important financial matters:

- **Impairment:** During the year, management developed a policy for impairment reversal, which is in line with the overall impairment policy for valuing intangible assets that have been acquired and in accordance with the relevant accounting standards (see Note 3 on page 128). Management kept the impairment position under review during the year and reported to the Committee on its assessment early in the audit process. The Committee reviewed and challenged the estimate of the value of assets and liabilities which were based on the updated business plan. The changes to management's medium-term expectations for Hikma were not significant and led to an impairment reversal of \$21 million (2018: -\$9 million) related to specific products
- **Contingent Consideration:** The Committee reviewed management's determination of the fair value of contingent consideration as based on discounted cash flows. The critical estimate and assumptions taken into consideration for this assessment are described in Notes 28 and 31 to the accounts
- **Exceptional items:** the major exceptional items for Hikma were related to product development, clinical studies, acquisition related costs, damages received in settlement of litigation, the re-evaluation of intangible assets, losses resulting from the fire at the warehouse in Jordan and the reassessment of contingent consideration. The Committee reviewed the treatment of these items and management's assessment of their impact
- **Legal matters:** Hikma has claims against other parties, claims from third parties against Hikma, and formal information requests from regulatory authorities relating to a wide range of matters that are in the normal course of business for a generic pharmaceutical company. The Committee reviewed management's conclusions regarding the appropriate accounting treatment for the settlement of and provisions for legal claims
- **Revenue recognition:** the Committee reviewed the Group's policies for revenue recognition and the application of those policies by management. The Committee reviewed the model applied by management which uses average historical chargeback credits adjusted for expected chargeback levels for new products and estimated future sales and takes into account the estimations of 'in channel' inventory at the wholesalers, indirect rebates and returns
- **Taxation:** Hikma's worldwide operations are highly integrated and involve a number of cross-border supply chains, which results in judgement being required to estimate the potential tax liabilities in different jurisdictions. During the year, the Group simplified the operational structure of the Group to reduce global complexity. The Committee took advice from professional services firms and management, and considered the resulting impact on the effective tax rate and the deferred tax assets in key markets. The Committee reviewed the appropriateness of the disclosures in the Annual Report, and reviewed and approved Group's tax strategy statement, which is available on the Company's website. The Committee reviewed management's proposals to deliver sufficient financial resources for certain subsidiaries



### Management has implemented significant enhancements to the budgeting and forecasting processes."

#### Fair, balanced and understandable

Hikma is committed to clear and transparent disclosure and seeks to continuously improve the clarity of its reporting. At the request of the Board, the Audit Committee considers whether Hikma's Annual Report is fair, balanced and understandable and that the narrative section of the report is consistent with the financial information. The Committee's assessment is underpinned by a comprehensive review conducted by the Reporting Committee, which consists of the leads for finance, investor relations, risk, communications and governance, and is supported by divisional and functional heads, as required. The Reporting Committee's activities include:

- initiating the review process for the Annual Report significantly before the year-end, considering external developments, issuing guidance to contributors and identifying areas for improvement
- obtaining input from external advisers, including the auditors, designers, brokers and public relations advisers
- undertaking several multi-functional offsite reviews of the disclosures as a whole prior to the publication of the Annual Report to ensure consistency and accuracy across the document as a whole
- overseeing an extensive verification process to ensure the accuracy of disclosures

Each member of the Audit Committee and the Reporting Committee is satisfied that the 2019 Annual Report is fair, balanced and understandable and recommended the adoption of the report and accounts to the Board. Whilst the Committee assesses the whole report for this analysis, in respect of the year under review the following are examples of areas where particular consideration was given to the disclosure:

- presentation of exceptional income
- use of core results and explanation of the differences between core and reported results

## Risk management and internal control

### Risk management

Further information regarding the Group's risk management activities is available in the risk report on pages 44 to 51 and Chair's letter on page 69.

### Internal control

The Board confirms that it is ultimately responsible for ensuring that Hikma's systems of internal controls and risk management remain effective.

The key elements of our internal control framework are as follows:

- a documented and disseminated reporting structure with clear policies, procedures, authorisation limits, segregation of duties and delegated authorities
- written policies and procedures for material functional areas with specific responsibility allocated to individual managers
- a comprehensive system of internal financial reporting that includes regular comparison of results against budget and forecast and a review of KPIs, each informed by management commentary
- an established process for reviewing the financial performance and providing support to Hikma companies and associates together with direct support from Hikma's finance function
- annual budgets, updated forecasts and medium-term business plans for Hikma that identify risks and opportunities and that are reviewed and approved by the Board
- a defined process for controlling capital expenditure which is detailed in the governance framework

The Board is satisfied that Hikma's systems for internal control accord with the FRC's guidance, and have been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts. In making this assessment, the Board takes into account:

- **Risk management:** the principal risks and uncertainties and risk management report, detailed on pages 44 to 51, that forms a fundamental part of Hikma's approach to designing and implementing new controls and enhancements to existing controls
- **Internal audit:** the Committee receives regular reports from the internal auditors and other third-party experts who review relevant parts of the Group business operations who assess Hikma's processes, identify areas for improvement, monitor progress, and undertake their own assessment of the risks facing Hikma
- **Financial performance:** Hikma's financial performance and forecasting reports are reviewed by the Board to aid the understanding of the underlying performance of the business, deviations from expectations and management's operational challenges and responses
- **Ethics:** the business integrity and ethics procedures and controls that are led by the Compliance, Responsibility and Ethics Committee (CREC). To ensure consistency and awareness between these Committees' responsibilities, the Audit Committee Chair is a standing member of the CREC
- **Governance:** the Board and Group-level controls and processes that make up our approach to governance that is led by the Nomination and Governance Committee and includes all appropriate financial controls and matters reserved
- **External auditor:** the regular and confidential dialogue with the external auditor

As Chair of the Audit Committee, I remain available to shareholders and stakeholders should they wish to discuss any matters within this report or under the Committee's area of responsibility whether at the AGM or by writing to the Company Secretary.



**Pat Butler**  
Chair of the Audit Committee  
26 February 2020



# Compliance, Responsibility and Ethics Committee



## Letter from the Chair



## Building on our commitments to integrity, quality and community.

John Castellani

### Dear Shareholders

The Compliance, Responsibility and Ethics Committee (CREC) has had a successful year advancing its commitments to integrity, ethical conduct and the communities in which we operate. Doing the right thing and our duties to those around us were founding tenets for Hikma and these principles continue to form the basis of our approach today.

This report focuses on the matters that the Committee addressed during the year. Further details related to the structure of our ABC compliance and integrity programme are available on our website.

In 2019, we welcomed Deborah Penza as our new Chief Compliance Officer. Deborah brings extensive experience in ABC and related ethical and conduct matters from several large pharmaceutical companies. She has reviewed and enhanced both the structure of the department and the extensive procedures for our ABC programme. Under her leadership, significant enhancements have already been made to our existing programme.

### Anti-bribery and corruption ABC programme

Due to the top-down commitment of our senior management, particularly the strong support from the Chief Executive, the effectiveness of our compliance team and the enhancements made during the year, our ABC programme is embedded into the organisation and operating effectively. The Committee continued to receive regular reports on issues arising and oversaw the continued improvement of the programme.

During the year, the compliance department undertook a thorough review of the procedures to assess the ABC practices of our suppliers. As a result, a new software supported programme is in place and our existing 44,000 suppliers are being assessed on a risk weighted priority basis. Where relevant, appropriate action has been taken.

### Commitment to integrity

We are very proud of Hikma's commitment to high standards of business integrity, which is one of our values. It includes the Board's long-standing zero-tolerance of bribery and corruption which has been demonstrated in numerous instances, including being a founding member of the World Economic Forum's Partnering Against Corruption Initiative.

Hikma operates in some markets that are considered higher risk by ABC advisers; however, the Committee is pleased that Hikma's performance and leadership on business integrity has been recognised by several of our customers and suppliers in these jurisdictions.

### Code of Conduct

The Committee continues to oversee the development and promotion of Hikma's Code of Conduct, which embodies the important moral and ethical values that Hikma promotes. The Code guides all the Committee's activities and is the key reference point for all our employees. In 2019, the Code was refreshed and a new training exercise was designed. The training programme is being rolled out and will ensure that the principles of the Code are embedded in our everyday practices.

### Speak up

The Committee has reviewed the speak up procedures and reporting during the year and remains satisfied that the process continues to operate effectively. The procedures, which include a committee of senior, independent corporate employees that undertake proportionate investigations and implement corrective action, are appropriate and effective.

The Committee continued to receive regular reports on issues identified through the Group-wide speak up arrangements, which include confidential reporting lines that report directly to the previously mentioned Investigations Committee.

As Chair of the CREC, I report to the Board after each meeting to bring to the attention of all Directors any matters that may be relevant, including aspects of the Group's speak up arrangements. During 2019, the Group implemented an upgraded software solution for speak up reporting which ensured consistency across the globe and provides automated reporting in order that management and the Committee can now easily understand the data trends as well as any specific issues.

### Training

During the year, the online ABC training module was fully reviewed and upgraded. The module is integrated with our HR on-boarding activities. Hikma also undertakes direct integrity training programmes for its sales and marketing employees and all new hires. The Board has fully supported the training programme, which all Directors, officers and Executive Committee members have completed.

# Compliance, Responsibility and Ethics Committees continued

## Regulations

### Anti-trust, anti-money laundering (AML) and trade sanctions

The General Counsel oversees Hikma's compliance with the anti-trust, AML and trade sanctions legislation and reports to the Committee in this regard. During the year, the General Counsel led a thorough review of Hikma's extensive anti-trust, AML and trade sanctions policies and procedures and presented the updated procedures to the Committee. Furthermore, the legal team undertook a Group-wide training programme on anti-trust, AML and trade sanctions, and finalised an online training tool. As in previous years, the General Counsel provided advice to the Committee on sanctions, AML and anti-trust developments.

### Compliance with Criminal Finances Act

In 2019, the Committee reviewed and approved the General Counsel's enhancements to the existing procedures that are designed to respond to the requirements of the prevention of tax evasion legislation from the UK Government. Hikma's processes and procedures in this regard are proportionate to its risk of facilitating of tax evasion, which is relatively low. Hikma is steadfast in applying the principles of the UK tax evasion legislation across its businesses and will continue to oversee matters of compliance.

## Ethics

### Modern slavery

Hikma is committed to ensuring that modern slavery in the form of forced or compulsory labour and human trafficking does not take place in any of its businesses or supply chains across the globe. Key measures in support of this goal include:

- training Hikma staff on labour standards and how to recognise and respond to any incidences of modern slavery
- undertaking periodic analysis of any modern slavery risk in Hikma's businesses and supply chains
- carrying out appropriate due diligence
- engaging with supply chain partners and the operational part of our business if and when any issues arise

### Sustainability

The Committee has overseen, encouraged and supported the Sustainability programme which is so clearly linked to our founder's desire to improve lives, particularly through educational and development opportunities for the least privileged. Our Sustainability report is contained on pages 32 to 43.

During the year, the Committee received a presentation from management regarding the sustainability strategy which responded to a desire to undertake global initiatives whilst ensuring that the CSR activities focus on health, education and families in need. As a result of the Committee and management's feedback, a new CSR strategy was approved.



Doing the right thing and our duties to those around us were founding tenets for Hikma and these principles continue to form the basis of our approach today."

## Ethical issues

The Committee oversaw Hikma's response to ethical issues arising during the year. There are no matters to report.

I am available at any time to discuss with shareholders any matter of concern.

For and on behalf of the Compliance, Responsibility and Ethics Committee

**John Castellani**

Chair of the Compliance, Responsibility and Ethics Committee  
26 February 2020



## Letter from the Chair



## Aligning reward with superior performance, strategy and leadership

Dr Pamela Kirby

### Dear Shareholders

Since writing to you last year, we have undertaken a thorough review of all aspects of our remuneration policy, including the manner in which it supports the delivery of the Group's strategy and business plan. Please see Policy review below for further details

In terms of business performance, the Executive Directors delivered a very strong performance in 2019. Despite continued headwinds across our increasingly competitive markets, the Executive Directors grew Group revenue by 7% and core operating profit by 10% and expanded margins by nearly 100 basis points, whilst maintaining and enhancing our crucial commitment to quality and diversifying the product portfolio.

### Policy review

The Committee undertook a full review of the Company's remuneration policy during the year. The review took into account the changes to the UK Governance Code, feedback from employees and governance bodies and the Committee's experiences in implementing the existing policy.

We are proposing to maintain the core structure of our policy because it is fundamentally aligned to our strategy (see page 6 to 19) and the way in which we monitor and assess the Group's performance (see pages 18 and 19), has delivered the outcomes the Committee intended, is aligned with our organisation's culture and performance objectives and is appropriately motivating for and readily understood by management. The majority of the policy's elements apply to all employees and, as seniority increases, all elements apply. This includes information on external benchmarking with our pharmaceutical peers. This policy approach ensures that the internal and external pay ratios are aligned across the organisation.

Whilst the core of the policy will remain unchanged, we have made some fine-tuning adjustments to the performance criteria for the Executive Incentive Plan which will reduce complexity, increase objectivity and, critically, focus targets on the aspects that we believe create the strongest linkage between the delivery of the strategy and payment of rewards. The adjustments are:

- **Increased financial weighting:** the weight of the financial targets (revenue and core operating profit (or EBIT) before R&D) will be increased from 60% to 'at least 80%' of the performance targets. This will ensure the executive is focused on growing the business for the longer-term through the top line, whilst delivering shorter and medium-term operating efficiencies through the bottom line. These targets may represent 100% of total opportunity in years where we do not feel a specific strategic target is required.
- **Strategic target:** each executive may have specific strategic targets representing up to 20% of the performance targets. This enables the Committee to reward the executive for delivering critical, execution focused aspects of the strategy that the Board considers are sufficiently important to merit separation from the financial aspects.

We are also proposing to take the opportunity to address recent developments in the governance arena by:

- **Shareholding requirements:** departing Executive Directors will be required to hold for a period of two years the lower of the shares held on cessation of employment or three times their leaving salary. The post-retirement holding requirement will be the same as the holding requirement for serving Executive Directors. Both shareholding requirements will only apply to shares that derive from the Company's incentive arrangements and are not subject to further performance conditions.
- **Pension contributions:** Executive Directors' pension arrangements are to be aligned with the wider workforce. Currently the workforce receives contributions of circa 10% of salary and the Executive Directors receive either 10% (Executive Chairman and Executive Vice Chairman) or 15% (Chief Executive Officer). As the Chief Executive Officer's pension contribution is currently higher than the level of the workforce, the Committee agreed not to increase the nominal pension contribution (ie if salary increases occur) until it is aligned. Pension contributions for any new Executive Directors will be aligned with the workforce.

The Committee considered the extent to which conflicts of interest could arise during this policy review and concluded that the potential was low due to the changes not impacting the opportunity available. Nevertheless, no one was involved in decision-making where they had the potential to benefit personally.

### Rewarding performance

The global generic pharmaceutical market remained challenging in 2019. Further information on the specific challenges in each market are detailed on pages 22 to 27.

Hikma was able to successfully mitigate these external challenges by optimising its product portfolio, launching new products, driving efficiencies across its manufacturing operations, and keeping a sharp focus on quality. While the retail generics market remained highly competitive, we were able to grow the Generics segment's top line and significantly improve profitability by optimising our differentiated product portfolio and maintaining a sharp focus on cost reduction and operating efficiency. In our Injectables business, further erosion of some of our top products was more than offset by a high number of new launches in the US and strong growth in our MENA markets, resulting in both revenue and profit growth. Similarly, in our Branded business, strong performances in Saudi Arabia and Egypt more than compensated for weakness in Algeria resulting from economic and political uncertainty, delivering revenue and profit growth and margin expansion. This impressive performance was achieved while continuing to invest in the development of our product pipeline, through both

in-house R&D, product acquisitions and partnerships, leaving all three of our business segments in a strong strategic position for 2020 and beyond. As you will see from the share price graphs on our remuneration dashboard (page 77), Hikma's share price has strongly outperformed its peers since Siggí Olafsson became Chief Executive Officer in February 2018. This reflects the solid execution of our strategy and our differentiated market position.

During the year, the executive team undertook an extensive strategic planning exercise, which was presented to and endorsed by the Board. Through this exercise, the Group's three strategic priorities were reviewed and expanded, in order to build upon the strategic progress that has been made in the past two years. In conjunction with this, the executives undertook a significant, Group-wide communications programme to ensure awareness and understanding of our strategic priorities by all Hikma employees.

The executives recognise the importance of having a corporate culture that will support and deliver the Group strategy. For the first time, the executive team undertook an assessment of Hikma's corporate culture and began the development of a longer-term project to define and develop a strong and supportive culture across the Group. Working with experts, the executives sponsored an independent culture survey that circa 80% of employees voluntarily undertook. Through a detailed analysis of the survey, as well as through extensive interviews and workshops with employees, the executive team were able to identify some of the key strengths of Hikma's culture today, as well as areas for improvement. Building on this, a programme of supporting initiatives has been established, which will be carried out over the course of 2020 and beyond.

In light of the very strong operational and financial performance and delivery of key strategic milestones, the Committee has determined the Executive Directors' performance remuneration, which ranges from 75% to 79% of the maximum available. The performance of the Group is discussed in greater detail on pages 20 to 31.

### Salaries

The Committee did not increase the Executive Directors' salaries in 2019. Having taken account of the most up-to-date benchmarking information, the Committee determined that the Executive Chairman and Vice Chairman's salaries should remain unchanged and the Chief Executive Officer's salary should increase by 3%. The wider workforce experienced a salary increase of circa 3% on average.

### Stakeholder views

During the year, the Committee reviewed feedback from investors and governance agencies regarding its remuneration practices particularly in relation to the objectivity and complexity of targets under the Executive Incentive Plan. This feedback and developments in broader governance practices, led to the revisions to the remuneration policy that are being proposed. A short remuneration policy-focused consultation exercise was undertaken in the fourth quarter and commentary was taken into account.

When setting remuneration and determining policy, the Committee carefully considers how its actions may be perceived by shareholders, the business community, and the wider public. The Committee remains abreast of remuneration commentary, reviews feedback from shareholders, and takes into consideration the latest views of investor bodies and their representatives. The Committee is committed to consulting on its ideas and, as a result, has undertaken four shareholder consultations over seven years.



**The Injectables and Generics divisions have maintained and extended their profit margins, which are amongst the highest in the industry."**

### Engaging with our employees

The Committee does not directly consult employees on the policy contained in this report, but receives regular updates on employee feedback through the work of the Director responsible for employee engagement, the Group HR department and the employee cultural survey, which is conducted by an external organisation and includes views on remuneration. During the year, the Committee oversaw the management's enhancement of the performance appraisal process which focused on improving understanding of the linkage between performance and outcomes. The performance arrangements for all staff are based on the EIP model that applies to Executive Directors which ensures alignment, aids understanding, and is based on a model that has operated for circa 15 years and, therefore, addresses the relevant factors in provision 40 of the Code.

The Committee also reviewed management's development of a new grading structure for the organisation, which will enable enhancements to the benchmarking of roles and further improvements to the performance management system. The Committee and executive team consider it is very important to ensure alignment between the compensation for Executive Directors and all employees.

### Living wage

Hikma believes it is important to provide a living wage for all its employees, which means at minimum, paying an income enough to support the purchase of goods and services necessary to maintain a decent standard of living. During 2019, Hikma instructed a third-party expert to assess the living wage in Hikma's largest markets. The result of this assessment has allowed the Company to identify where a living wage is already in place, and where pay is below the established living wage. I'm pleased to report that the assessment identified that a living wage is paid to more than 96% of employees surveyed, and a timeline has been put in place to bring remaining wage levels up to living wage standards.

### Discretion

The Committee oversees the application of discretion to Executive Directors and members of the Executive Committee. The Committee has not applied discretion during the year under review.

As an organisation, Hikma is committed to clear and open communication. I remain open to discussion with shareholders should there be any matters that they wish to raise directly.

A handwritten signature in black ink, appearing to read 'P Kirby', written over a light blue horizontal line.

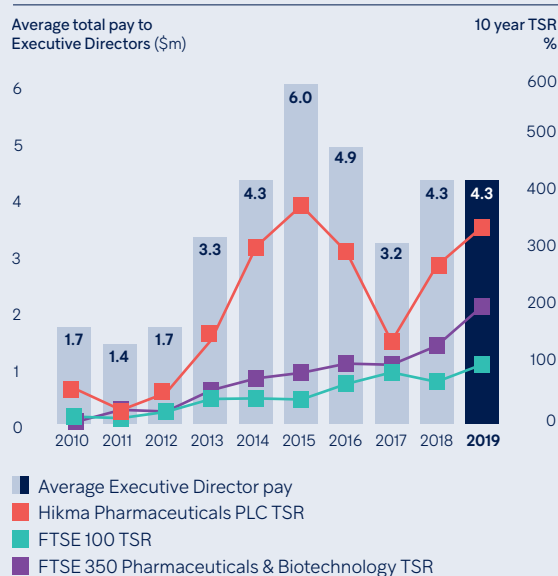
**Dr Pamela Kirby**  
Chair of the Remuneration Committee  
26 February 2020



## Remuneration dashboard

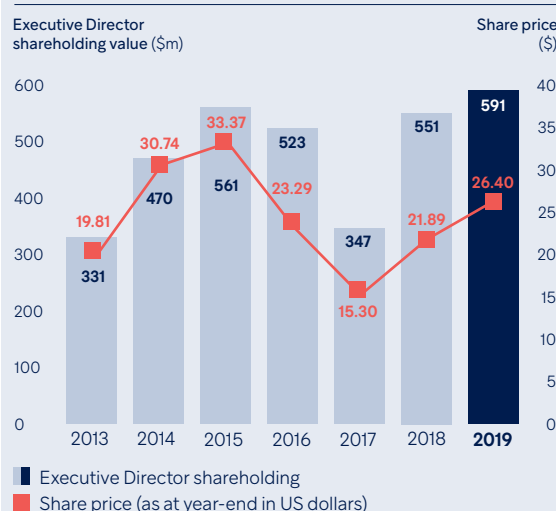
### TSR and total executive pay

During 2019, Hikma performed better than its UK peers in Hikma's index (FTSE 100) and sector (FTSE 350 Pharmaceuticals & Biotechnology segment, a relatively small group of companies that are mainly focused on developing new drugs).



### Value of executive holdings

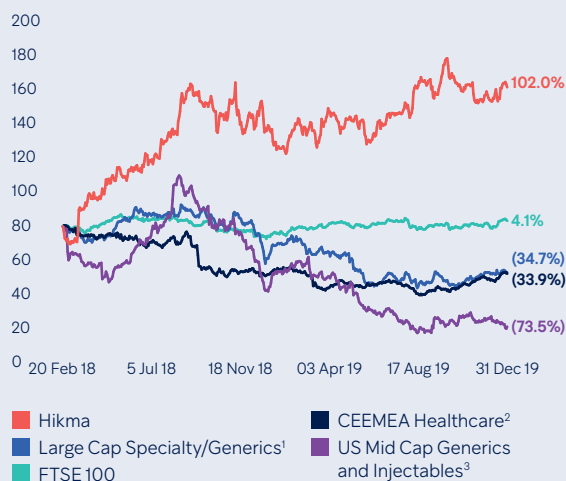
Hikma's Executive Directors have substantial equity interests, which strongly aligns their long-term interests with shareholders.



### Generic pharmaceutical peers

Hikma operates within a sub-set of the pharmaceutical industry that focuses on generic drugs, mainly in the US market. Hikma requires access to the US generic pharmaceutical environment to recruit its specialised and extensive talent pool. The Committee viewed Hikma's strong relative performance since Siggí Olafsson joined in February 2018 as an important factor in determining the Executive Directors' performance awards.

#### Strong TSR performance since Siggí Olafsson's appointment

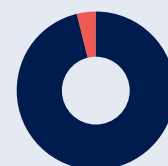


1. Large Cap Specialty/Generics includes Concordia, Mylan, Perrigo, Teva and Valeant  
 2. CEEMEA Healthcare includes Adcock, Aspen, Gedeon Richter and Krka  
 3. US Mid Cap Generics and Injectables includes Akorn, Endo, Lannett and Mallinckrodt

### Shareholder approval

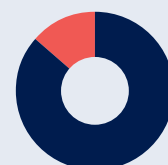
#### Annual report on remuneration (17 May 2019 AGM)

Votes available	242,013,996
Votes cast	198,171,484
For	96.12%
Against	3.88%
Withheld <sup>4</sup>	5,346



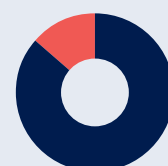
#### Annual report on remuneration (18 May 2018 AGM)

Votes available	240,930,604
Votes cast	196,565,877
For	86.4%
Against	13.6%
Withheld <sup>4</sup>	146,261



#### Remuneration Policy (19 May 2017 AGM)

Votes available	240,380,475
Votes cast	195,676,113
For	86.4%
Against	13.6%
Withheld <sup>4</sup>	2,074,207



4. Under the Companies Act 2006 votes 'Withheld' are not a valid vote and, therefore, are discounted when considering approval at a general meeting



# Remuneration Committee continued

## Remuneration and performance summary

References in this section to the 'Regulations' refer to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, with which this report complies.

### Performance components

	2018		2019
Sales	\$2,076m	6%	\$2,203m
Core operating profit	\$460m	10%	\$508m
Share price	1,716p	16%	1,991p
Dividend	38 cents	16%	44 cents
Employee compensation	\$506m	3%	\$520m
Shareholder implementation approval	86.36%		96.12%
Shareholder policy approval	N/A		N/A

### Total remuneration

Executive Director	2018 (\$000)		2019 (\$000)		2020 (\$000) (estimate)
Said Darwazah	4,501	-1%	4,448	-18%	3,655
Siggi Olafsson	5,261	-22%	4,121	-16%	3,463
Mazen Darwazah	3,007	-2%	2,937	-1%	2,899

### Components

	2018 (\$000)		2019 (\$000)		2020 (\$000) (estimate)
<b>Salary<sup>1</sup></b>					
Said Darwazah	1,018	0%	1,018	0%	1,018
Siggi Olafsson	943 <sup>2</sup>	17%	1,100	3%	1,133
Mazen Darwazah	717	0%	717	0%	717
<b>Bonus<sup>2</sup></b>					
Said Darwazah	2,245	-16%	1,879	-19%	1,528
Siggi Olafsson	4,064	-47%	2,141	-21%	1,700
Mazen Darwazah	1,543	-15%	1,312	-18%	1,076
<b>Share awards exercised<sup>3</sup></b>					
Said Darwazah	1,050	34%	1,404	-31%	962
Siggi Olafsson	0	N/A	0	N/A	0
Mazen Darwazah	591	29%	760	26%	958
<b>Pensions<sup>4</sup></b>					
Said Darwazah	72	-11%	64	0%	64
Siggi Olafsson	17	1,606%	290	-43%	165
Mazen Darwazah	56	0%	56	0%	56
<b>Other benefits</b>					
Said Darwazah	116	-28%	83	0%	83
Siggi Olafsson	237	149%	590	-21%	465
Mazen Darwazah	99	-7%	92	0%	92

1. Salary: The average rise for salaries across Hikma in 2020 was 3% depending on the jurisdiction. Siggi Olafsson's salary in 2018 was \$1,100,000 on an annualised basis

2. Bonus: The bonus figure comprises Elements A and C of the EIP. See page 85 for further explanation. The 2020 estimate presumes target performance

3. Share awards exercised: 2019 figures represent Element B of the 2017 EIP and Element C of the 2016 EIP exercised during that year. 2020 is an estimation of the value of Element B of the 2018 EIP and Element C of the 2017 EIP that are to vest in that year, using 31 December 2019 vesting percentages, share prices and exchange rates

4. Pension: Said Darwazah and Mazen Darwazah participate in the same pension plan as Jordanian employees, their country of employment. Siggi Olafsson was entitled to a pension contribution of 15% of salary in 2018; however, \$125,014 of this liability was paid in 2019



## Directors' remuneration policy 2020

### Non-Executive Directors' fees

Non-Executives	2018 (£000)		2019 (£000)		2020 (£000) (estimate)
Non-Executive Directors' average total fee <sup>1</sup>	80.9	9%	88.2	8%	95.0

1. NED fees: The average Non-Executive Director's fee includes basic fee, Committee membership fee, fees for specific additional responsibilities, and Committee Chair fees. A full breakdown of fees on page 99. The average fee changes reflect the handover of Committee responsibilities and retirement and appointment of Non-Executive Directors.

### Effective period

The Directors' remuneration policy (the Policy) for Hikma Pharmaceuticals PLC (Hikma) which is detailed on pages 79 to 85 and the relevant points of the Chairs' letter on page 75 will be put to a binding shareholder vote. The Policy will, subject to shareholder approval, become formally effective from the 2020 Annual General Meeting (AGM) on 30 April 2020 and apply to the remuneration of Directors for the 2020 financial year. It is intended that the Policy will apply for a period of three years from the date of approval.

### Core principles

The Remuneration Committee (the Committee) aims to ensure that the remuneration for the Executive Directors:

- enhances the achievement of Hikma's strategic aims
- takes account of employment conditions both inside and outside Hikma
- aligns the interests of Directors with those of shareholders
- is aligned with Hikma's core values

### Rationale

The Policy is designed to:

- Ensure the Group can attract and motivate high-calibre executives from the US-focused generic pharmaceuticals industry who are critical to the Group's commercial success and where the share-based incentive opportunities are significantly higher than the UK
- Reward for financial performance that ensures the delivery of medium-term plans and that the executive continues to be motivated to deliver in the Company's dynamic and, sometimes, volatile markets
- Align the experience of executive and shareholders through strong weighting towards equity-based pay, five year holding requirements for equity received, and extensive equity requirements for executives ensuring that the interests of shareholders and executives are fundamentally aligned for the long-term

### Changes

The Policy is broadly unchanged from the previous policy that was approved by shareholders at the 2017. The Committee has proposed a few adjustments which are detailed in the Chair's letter on page 75.

### Discretion

The Committee has discretion in several areas of the policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend the Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

### Legacy arrangements

Payments may be made to satisfy commitments made prior to the approval of this remuneration policy. All outstanding obligations may be honoured and payment will be permitted under this remuneration policy. Existing EIP awards will be honoured in accordance with the existing terms.

### Shareholding requirements

The Committee has the following minimum shareholding requirement for Executive Directors in order to ensure a long-term, locked in alignment with shareholders:

- **During employment:** the objective is for Executive Directors to build and maintain a minimum level of shareholding throughout their employment with the Company by retaining shares received from the equity-incentive arrangements. The Committee considers that new executives are likely to be able to achieve the shareholding requirement in circa three years of joining Hikma. The minimum shareholding requirement is 300% of salary
- **Following employment:** the objective is for the interests of former Executive Directors to continue to be aligned with shareholders for at least two years following leaving the Group. For this period, Executive Directors are required to hold the lower of the shares owned on cessation of employment or shares with a value of 300% of their final, annualised salary

The shareholding requirements operate in the following manner:

- shares unconditionally owned by the Executive Directors and shares granted under the EIP that are not subject to further performance conditions count towards the requirement
- the sale restrictions only apply to shares acquired by the Executive Director through the Company's equity-based incentive arrangements

## Remuneration policy continued

### Remuneration policy table

#### Fixed elements

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy
<p><b>Salary</b> Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy.</p>	<p>Base salaries for Executive Directors are reviewed annually by the Committee, and changes, if any, normally take effect from 1 January.</p> <p>Salaries are set with reference to:</p> <ul style="list-style-type: none"> <li>– pay increases for the general workforce acting as an upper limit unless exceptional circumstances exist</li> <li>– salaries in peer companies from the pharmaceutical sector and UK listed companies</li> <li>– company performance and affordability</li> </ul> <p>Salaries for individuals who are recruited or promoted to the Board may be set below market levels at the time of appointment, with the intention of bringing the base salary levels in line with the market as the individual becomes established in their role.</p>	<p>Whilst there is no maximum salary, any increase will generally be no higher than the average increase for the wider workforce. A higher increase may be made in the event of a role change, promotion, or in exceptional circumstances, but the rationale will be clearly explained in the next report to shareholders.</p>	<p>Not applicable.</p>	<p>No change to policy.</p>
<p><b>Benefits</b> An appropriate package of market competitive benefits to ensure executives are rewarded and focused.</p>	<p>Benefits may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>– healthcare</li> <li>– school fees</li> <li>– company cars/transport</li> <li>– life insurance</li> <li>– relocation: when relocation is required by the Company</li> <li>– tax equalisation: where the director becomes tax resident in a jurisdiction as a result of the role and to the extent that additional taxes are paid</li> </ul> <p>As the Company operates internationally it may be necessary for the Committee to provide special benefits or allowances. These would be disclosed to shareholders in the annual report on remuneration for the year in which the benefit or allowances were paid.</p>	<p>The value of benefit is based on the cost to the Company and there is no predetermined maximum limit. The range and value of the benefits offered are reviewed periodically.</p>	<p>Not applicable.</p>	<p>No change to policy.</p>



## Remuneration policy table

### Fixed elements

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy
<p><b>Pension</b> An appropriate level of pension contribution to ensure executives are provided with a retirement standard commensurate with their role, whilst being in line with the wider workforce.</p>	<p>The Company operates defined contribution arrangements in its main operational jurisdictions and executives participate in these arrangements. A cash supplement in lieu of pension may be paid provided the total pension payment does not exceed the maximum opportunity.</p>	<p>The pre-dominant pension contribution made for the wider global workforce, other than for the current Chief Executive Officer only, which is limited to \$165,000 (see page 75 for further details).</p>	<p>Not applicable.</p>	<p>The maximum pension contribution for executives is being aligned with the wider workforce as detailed in the Chair's letter on page 75.</p>
<p><b>Executive Incentive Plan (EIP)</b> Performance awards that incentivise Directors to deliver annual financial performance targets and certain key strategic deliverables, with the majority of awards made in shares to ensure that medium-term performance is delivered.</p>	<p>The Remuneration Committee sets annual performance targets for awards under the EIP, in accordance with the rules of the EIP. At the end of each year the Committee determines the level of performance for the prior year. Based on the performance, the Committee makes the following awards:</p> <ul style="list-style-type: none"> <li>– <b>Element A:</b> cash bonus paid immediately</li> <li>– <b>Element B:</b> shares usually vesting in two years that are subject to forfeiture conditions. The forfeiture conditions operate as part of the performance metrics. See page 91 for an example</li> <li>– <b>Element C:</b> shares usually vesting in three years and subject to continued employment</li> </ul> <p>A holding requirement applies to elements B and C ensuring that shares may not be sold until five years from the point of grant.</p> <p>In relation to disclosure of performance targets:</p> <ul style="list-style-type: none"> <li>– <b>Prior years:</b> full details of the previous year's performance targets, their level of satisfaction and the resulting performance remuneration are disclosed on pages 90 to 95</li> <li>– <b>Future years:</b> the nature and weighting of future performance targets are disclosed on page 87</li> </ul> <p>Malus and clawback provisions apply.</p>	<p>The maximum opportunity is 400% of salary per annum, which is attributed to the elements as follows:</p> <ul style="list-style-type: none"> <li>– <b>Elements A and B:</b> each element has a 150% maximum, 100% at target and 25% at threshold</li> <li>– <b>Element C:</b> 100% maximum, 50% at target and 25% at threshold</li> </ul> <p>The EIP operates for Executive Directors and the top ten management tiers. For the first tier, all elements are available, with a lower maximum opportunity. For the second layer, only elements A and B are available with a lower maximum.</p>	<p>Annual performance metrics are based on:</p> <ul style="list-style-type: none"> <li>– <b>Financial metrics:</b> at least 80% of the performance award, with specific targets based on the budget that is approved prior to the performance period. The precise targets will be determined by the Committee on an annual basis</li> <li>– <b>Strategic deliverables:</b> up to 20% of the performance award is based on the delivery of specific, subjective targets that are set by the Committee in order to ensure that key milestones in the Company's strategy are delivered</li> </ul> <p>The rationale for including these criteria is detailed in the Chair's letter on page 75. The Committee retains discretion in exceptional circumstances to change the performance measures, targets and respective weightings if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate or the Committee believes that the vesting outcome is not a fair and accurate reflection of business performance.</p>	<p>The weighting for the financial performance metrics has been increased and the strategic objectives' weighting decreased, as detailed in the Chair's letter on page 75.</p>

## Remuneration policy continued

### Malus and clawback

The malus and clawback provisions protect the Company and shareholders. Under these provisions, the Committee can reduce or cancel awards under the EIP that have not yet vested (malus) and require the repayment of an award that has vested or been paid (clawback).

In the event of any of the following situations occurring, the Remuneration Committee would apply malus and/or clawback:

- Hikma's financial statements or results being negatively restated significantly
- participant having deliberately misled management, the Board or the investor community
- participant causing significant damage amounting to corporate failure to Hikma
- participant causing serious reputational damage to Hikma
- mistake in the calculation of the level of satisfaction of the performance targets
- participant's actions amounting to serious misconduct

### Service contracts

The Committee's policy for service contracts is:

- a maximum 12 month period applies. The Committee may in exceptional circumstances arising on recruitment allow a longer period, which would in any event reduce to 12 months following the financial year of employment
- there are no contractual arrangements that would
  - constitute liquidated damages clauses
  - guarantee a pension with limited or no abatement on severance or early retirement
  - provide for compensation for loss of office or employment that occurs because of a takeover bid
- Executive Directors serve until notice is given and the notice provisions have expired

Service contracts can be viewed either at the AGM or at the Company's offices. The Company Secretary will make arrangements upon request.

### Recruitment remuneration

The Committee's normal approach to internal and external recruitment is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role from the international market in which the Company competes.

The Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments made on recruitment and the appropriateness of any performance measures associated with an award.

The table below summarises the adjustments to the Policy with respect to recruitment of Executive Directors. Other than these potential adjustments, other package elements would be in accordance with the main Policy elements on pages 80 to 81. In the event of recruitment of a Non-Executive Director, there are no changes to the Policy detailed on page 84.

Component	Policy
Maximum level of variable remuneration	In exceptional circumstances, solely for the year of recruitment, the maximum level of variable remuneration available may be increased by 150% of salary.
Share buy-outs/replacement awards	<p>The Committee's policy is not to provide share buy-outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justify the provision of a buy-out, the value of any incentives that will be forfeited on cessation of a Director's previous employment will be calculated taking into account the following:</p> <ul style="list-style-type: none"><li>– the proportion of the performance period completed on the date of the Director's cessation of employment</li><li>– the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied</li><li>– any other terms and conditions having a material effect on their value (lapsed value)</li></ul> <p>The Committee may grant up to the lapsed value under the Company's incentive plans. To the extent that it was not possible or practical to provide the buy-out within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.</p>

Details of any packages would be disclosed as soon as is reasonably possible.





### Payment for loss of office

When considering termination payments, the Remuneration Committee takes account of the best interests of Hikma and the individual's circumstances, including the reasons for termination, contractual obligations and the rules governing certain items of remuneration (eg incentive plan rules). The Remuneration Committee will ensure that there are no unjustifiable payments for failure on termination of employment. On an Executive Director ceasing to hold office, the Company will announce an out-going Executive Director's remuneration arrangements around the time of leaving.

Component	Approach	Application of Remuneration Committee discretion
General	<p>The Committee's policy in relation to leavers can be summarised as follows:</p> <ul style="list-style-type: none"> <li>– the Committee will honour Executive Directors' contractual entitlements</li> <li>– if a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case</li> <li>– in the normal course of events, the Executive Director will work their notice period (12 months for existing Executive Directors) and receive contractual compensation payments and benefits during this time</li> <li>– in the event of the termination of an executive's contract and Hikma requesting the executive to cease working immediately, payment in lieu of notice equal to fixed pay, pension entitlements, other benefits and, on a discretionary basis and only where it is in Hikma's interest, a pro-rated performance related bonus will be payable</li> <li>– in the event of termination for gross misconduct, neither notice nor payment in lieu of notice will be given and the executive will cease to perform services immediately</li> </ul>	<p>Right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.</p>
Base salary, benefits and pension	<p>Any payments in lieu of notice will be equivalent to the salary payments, benefit value and pension contributions that they would have received if still employed by the Company for a maximum of 12 months.</p>	<p>Discretion to make payments in lieu of notice to the same value.</p>
EIP	<p>The treatment of awards on cessation of employment is governed by the rules of the EIP, which provide that on termination of employment before the performance measurement date or prior to the relevant vesting date, no award will be granted in respect of the year of cessation and any subsisting entitlements will lapse; unless the following circumstances apply:</p> <ul style="list-style-type: none"> <li>– injury or disability</li> <li>– redundancy</li> <li>– retirement by agreement with the Company</li> <li>– the participant being employed by a company which ceases to be a member of the Group</li> <li>– the participant being employed in an undertaking or part of an undertaking which is transferred to a person who is not a member of the Group; or</li> <li>– any other circumstances if the Remuneration Committee decides in any particular case</li> </ul> <p>If an Executive Director leaves in one of the above circumstances, the EIP rules provide for the following:</p> <p><b>Current year</b> The Remuneration Committee will calculate the amount of any payment pro-rated to the amount of the plan year completed on the Executive Director's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any payment shall be made in cash (not deferred in shares) as soon as practicable after the determination of the level of satisfaction of the performance targets.</p> <p><b>Outstanding shares</b> Outstanding deferred share awards will vest.</p>	<p>To determine that the reason for termination is classified in the same manner as those described in the adjacent column. The Remuneration Committee will only use its general discretion to determine that an Executive Director is a good leaver in exceptional circumstances and will provide a full explanation to shareholders of the basis for its determination.</p>

## Remuneration policy continued

### Change of control

Component	Approach	Application of Remuneration Committee discretion
EIP	The treatment of awards on a change of control is governed by the rules of the EIP. The treatment is substantially the same as the good leaver provisions in the 'Payments for loss of office section'.	The Remuneration Committee has discretion whether to pro-rate any element to time. It is the Remuneration Committee's policy in normal circumstances to pro-rate to time; however, in exceptional circumstances where the nature of the transaction produces exceptional value for shareholders and provided the performance targets are met, the Remuneration Committee will consider whether pro-rating is equitable.

### Differences between the policies for Executive Directors and employees, consideration of shareholder views and consideration of conditions elsewhere in the Group

Employees were not directly consulted on the executive remuneration policy. All employees receive a salary, pension and medical insurance on a similar basis to the Executive Directors. Additionally, all employees participate in a cash bonus scheme, which is similar to Element A of the EIP. The Committee reviews detailed internal and summary benchmarking data, and is satisfied that the level of remuneration is proportionate across the HR grades. Further information is available on pages 75 and 76 regarding how the Committee takes account of shareholder views when developing and implementing the remuneration policy.

### Non-Executive Directors

Non-Executive Directors' (NEDs) fees are set by the Board under the direction of the Executive Directors having considered the:

- pay practice in FTSE 100 companies and sector peers
- extensive travel required to undertake the role
- significant guidance and support required from the NEDs

NEDs do not participate in the Group's pension or incentive arrangements. The annual fees payable to newly recruited NEDs will follow the policy for fees payable to existing NEDs, whose fees comprise:

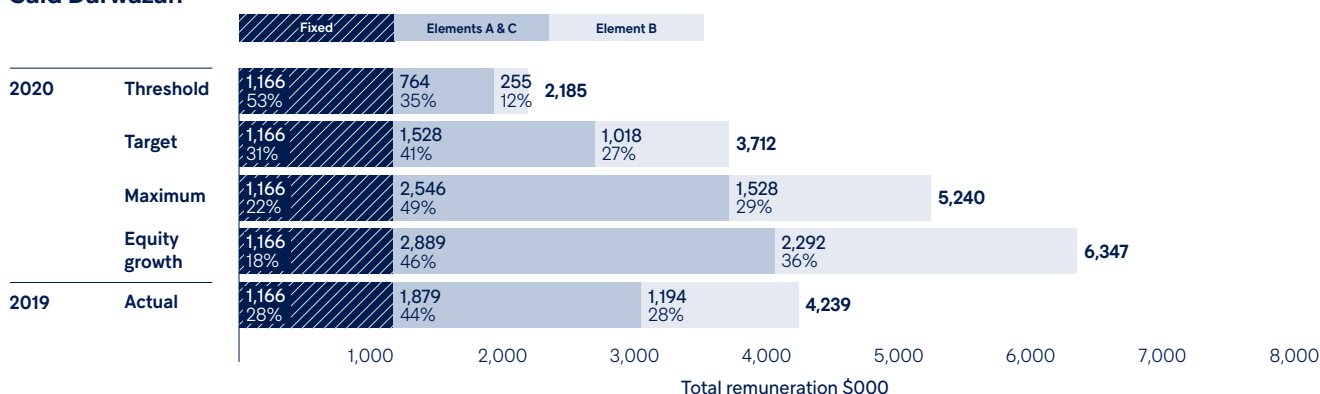
Element	Policy	Maximum opportunity
<b>Basic fee</b>	An underlying fee for undertaking the duties of a Director of Hikma, chiefly relating to Board, strategy and shareholder meetings. Provides a level of fees to support recruitment and retention of NEDs with the necessary experience.	Whilst there is no maximum, the practice is to remain within the parameters of FTSE peers.
<b>Committee membership fee</b>	A composite fee for taking additional responsibilities in relation to Committee membership. Usually NEDs are members of at least three committees.	
<b>Committee Chair/ employee engagement fee</b>	The Committee Chairs undertake additional responsibilities in leading a committee and are expected to act as a sounding board for the executive that reports to the relevant committee. The Director responsible for employee engagement receives a similar fee due to the additional requirements of that role. The chairmanship fee is paid in addition to the membership fee.	
<b>Expenses</b>	The Company pays expenses incurred wholly in relation to the position of NEDs and ensures that Directors do not incur a tax liability as a result. The Company retains discretion to provide for an allowance structure as an alternative to the latter payment.	



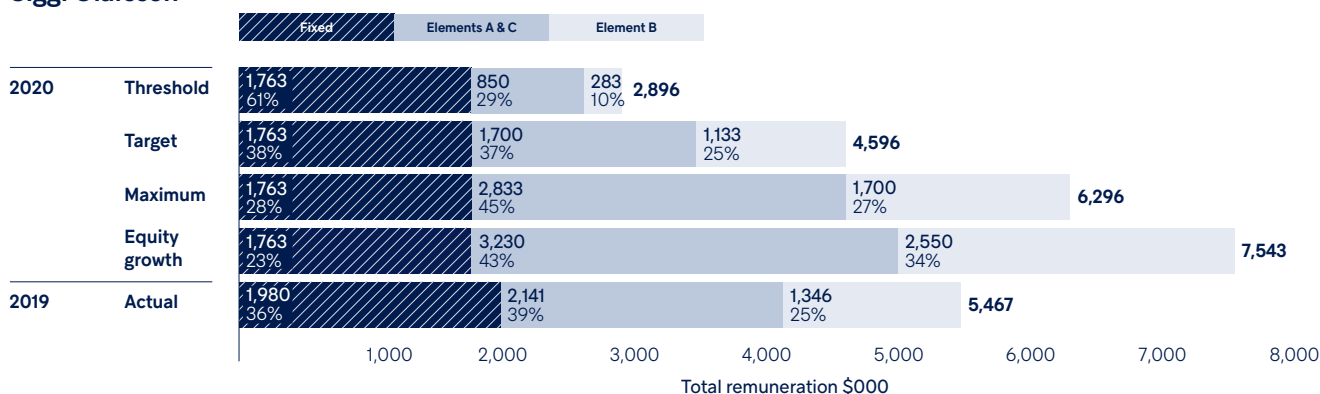
### Illustration of policy

The following charts show the value of each of the main elements of the compensation package provided to the Executive Directors during 2019 and the potential available for 2020 (dependent upon performance).

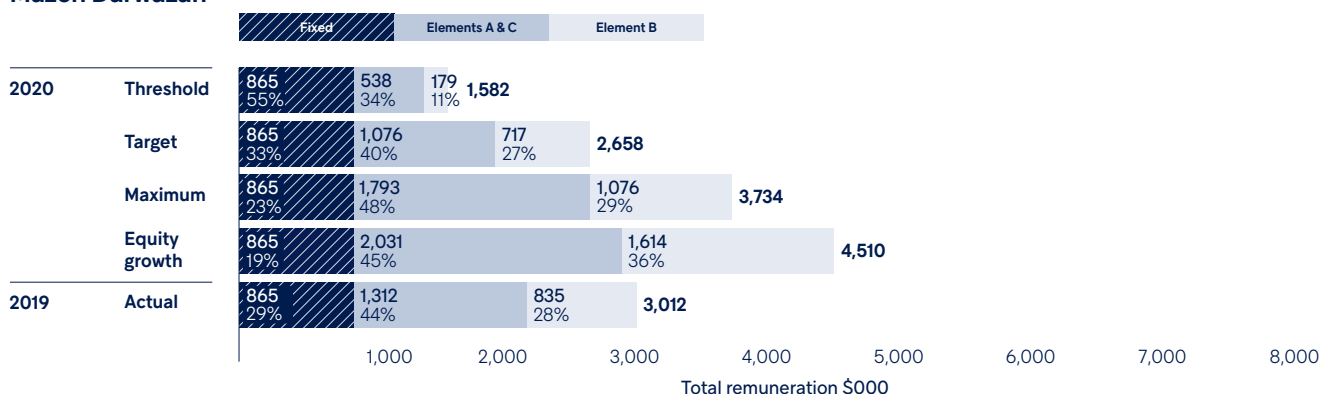
#### Said Darwazah



#### Siggi Olafsson



#### Mazen Darwazah



The following notes are applicable to the above calculations:

- Salary, benefits and pension comprise 'Fixed' remuneration.
- Elements A and C of the EIP comprise the bonus and; Element B comprises the share award. Elements A, B and C of the EIP are made in the year after the performance is achieved (eg for the 2020 illustration, the bonus would be paid and the share awards be granted in 2021. The share awards would vest two to three years later). Please note that the Remuneration and performance summary on page 78 uses share awards vesting (ie actual shares received, not those granted) during the period in order to make clear the difference between potential remuneration and what the executive receives in practice.
- 'Equity growth' presumes a 50% increase in the value of shares granted under the EIP in respect of that year and that the executive remains in place for the holding period (ie the award vests).

End of remuneration policy.

# Annual report on remuneration

## Annual report on remuneration

The information presented on the pages 86 to 100 has been audited by PwC, as indicated.

### CEO and average employee change

The table below shows how the percentage change in the Chief Executive Officer's (CEO) salary, benefits and bonus between 2018 and 2019 compared with the percentage change in the average of each of those components of pay for employees (excluding the Executive Directors).

	Salary			Benefits			Bonus		
	2019	2018	Percentage change	2019	2018	Percentage change	2019	2018	Percentage change
CEO	\$1,100,000	\$1,100,000	0.0%	\$590,291	\$237,340	148.6%	\$2,141,419	\$4,063,690	-47.3%
Employees (\$m)	300	291	3.1%	104	106	-1.9%	56	55	1.8%
Number of employees	8,578	8,413	2.0%	8,578	8,413	2.0%	8,578	8,413	2.0%
Average per employee	\$34,973	\$34,589	1.1%	\$12,124	\$12,600	-3.8%	\$6,528	\$6,538	0.2%

Hikma's pay review, which took effect from 1 January 2019, awarded average percentage increases in wages and salaries of 3.0% for existing employees (with certain exceptions for jurisdictions experiencing very high inflation). The nature and level of benefits to employees in the year ended 31 December 2019 were broadly similar to those in the previous year.

### UK gender and CEO pay ratios

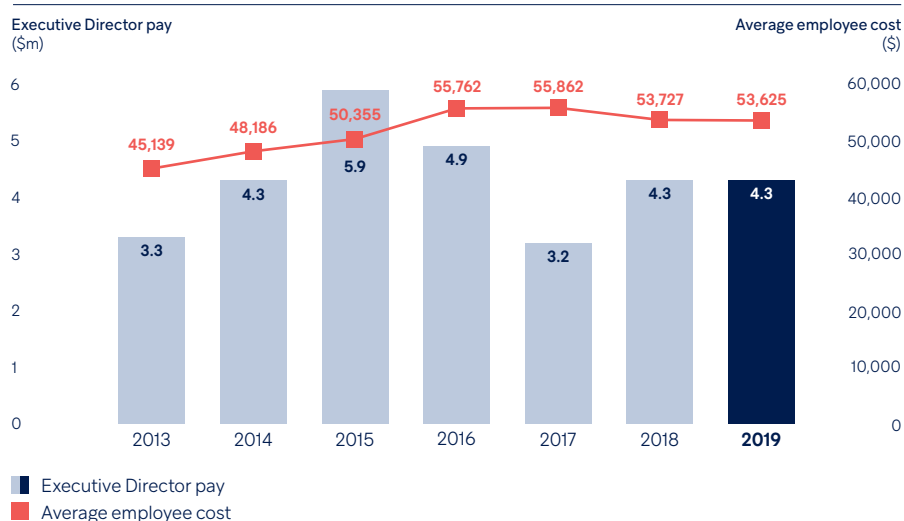
Hikma has less than 250 employees in the UK and, as a result, is exempt from gender pay and average employee: CEO pay disclosure requirements. The small number of employees and significant diversity of roles in the UK results in significant challenges in obtaining comparable data. Hikma is committed to paying fairly and not discriminating on gender or other grounds.

### Relative importance of spend on pay

The following table sets out the total amount spent in 2019 and 2018 on remuneration of Hikma's employees and major distributions to shareholders.

	2019	2018	% change from 2018 to 2019
Distribution expense			
Employee remuneration	\$520m	\$506m	2.8%
Distributions to shareholders (dividends only)	\$97m	\$84m	15.5%

### Employee cost and average executive pay (\$m)





## Committee membership and attendance

### Members and attendance

Member	Meetings	Attendance
Dr Pamela Kirby (Chair)	5/5	100%
Robert Pickering	5/5	100%
Pat Butler <sup>1</sup>	4/5	80%
John Castellani <sup>2</sup>	4/5	80%
Nina Henderson <sup>3</sup>	4/5	80%
Cynthia Schwalm <sup>4</sup>	1/2	50%

1. Pat Butler was unable to attend one meeting due to a family bereavement
2. John Castellani was unable to attend one meeting due to time conflict
3. Nina Henderson was unable to attend one meeting due to a timing change made by Hikma
4. Cynthia Schwalm joined the Committee on 1 June 2019

### Advice and support

The Committee seeks the assistance of senior management (Chief Executive Officer, EVP Organisational Development, Group Reward Director and Company Secretary) on matters relating to policy, performance and remuneration, but ensures that no officer or employee takes part in discussions relating to their own remuneration or benefits.

Willis Towers Watson (WTW) continued to provide independent advice to the Committee, at the Committee's request, in relation to market practice, UK corporate governance best practice, and incentive plan target setting. WTW also provided support to our HR department. A policy fee structure is in place for the provision of advice and is used to determine a quote for each project before it is undertaken. The total fees for advice to the Committee during the year were \$94,284 (2018: \$139,000). The Committee reviewed the performance of WTW during the year and fees received, concluding that WTW remained independent and continued to provide high-quality service. WTW were appointed by the Committee in 2016 following a competitive tender process. WTW adheres to the Remuneration Consultants Group Code of Conduct.

## Policy implementation 2020

### Salaries, benefits and pension

Please see the Chair's letter (page 75) for commentary on salaries. The application of benefits and pension is unchanged.

Executive Director	Individual	Salary		Change
		2020	2019	%
Executive Chairman	Said Darwazah	\$1,018,464	\$1,018,464	0%
CEO	Siggi Olafsson	\$1,133,000	\$1,100,000	3%
Executive Vice Chairman	Mazen Darwazah	\$717,155	\$717,155	0%

### Executive Incentive Plan (EIP)

For 2020, the Committee has determined that the performance criteria will be:

Area	Description	Weight	Rationale
<b>Financial</b>	Revenue	40%	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline.  Please see page 18 of the Strategic report for the detail on this target.
	Core operating profit before R&D	40%	Ultimately, Core operating profit is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion.  Please see page 18 of the Strategic report for the detail on this target.
<b>Strategic</b>	Strategic deliverables	20%	The targets are designed to ensure that the Executive Directors deliver the strategic plan that was approved by the Board during 2019. Further details will be disclosed on measurement.



## Annual report on remuneration continued

### Disclosed on measurement

The Remuneration Committee is of the opinion that the disclosure of high-level forward-looking targets provides shareholders with an awareness of direction and outcomes but, given the commercial sensitivity arising in relation to the detailed financial and strategic targets used for the EIP, disclosing precise targets for the EIP in advance would not be in shareholders' interests. This avoids the risk of Hikma inadvertently providing a profit forecast or giving our international competitors access to sensitive information or an unfair advantage. Actual targets, performance achieved and awards made are published at the end of the performance period so shareholders can fully assess the basis for any pay-outs under the EIP.

### Structure

	Elements			Total
	A Cash bonus	B Deferred shares	C Restricted shares	
Forfeiture	0%	0%	0%	0% award + forfeit 50% outstanding Element B
Below minimum	0%	0%	0%	0% award
Minimum	25%	25%	25%	75% award
Target	100%	100%	50%	250% award
Maximum	150%	150%	100%	400% award

### Single total figure (audited)

The following table shows a single total figure of remuneration in respect of qualifying services for the 2019 financial year for each Executive Director, together with comparative figures for 2018.

Director	Year	Salary \$	Benefits \$	Bonus (EIP Elements A & C) \$	Shares Vested (EIP Element B) \$	Pension \$	Total \$	Share price appreciation impact
Said Darwazah	2019	1,018,464	83,278	1,879,388	1,403,652	64,152	4,448,934	1.8%
	2018	1,018,464	115,795	2,244,788	1,049,998	72,171	4,501,216	-15.9%
Siggi Olafsson	2019	1,100,000	590,291	2,141,419	0	290,014	4,121,723	0.0%
	2018	943,428	237,340	4,063,690	0	16,500	5,260,957	0.0%
Mazen Darwazah	2019	717,155	92,271	1,312,176	759,804	55,583	2,936,990	1.5%
	2018	717,155	99,405	1,542,690	591,490	56,366	3,007,106	-13.4%

The EIP performance criteria for 2019 are detailed on pages 90 to 95.

### Benefits

Said Darwazah received transportation benefits of \$68,176 (2018: \$97,418) and medical benefits of \$15,102 (2018: \$18,377). Siggi Olafsson received housing benefits of \$123,800 (2018: \$103,013) related to his stay in the UK, transportation benefits of \$20,000 (2018: \$16,660), medical benefits of \$39,105 (2018: \$39,105), life assurance of nil (2018: \$562), and taxation benefits of \$407,386 (2018: \$78,000) to ensure he was not disadvantaged by UK taxation only to the extent that his UK taxation increased his US taxation. Mazen Darwazah received transportation benefits of \$64,604 (2018: \$94,000) and medical benefits of \$27,667 (2018: \$34,802). Social security payments made in Jordan, that are required to be paid by Jordanian law, are not considered to be a benefit.

### Pension

Said Darwazah and Mazen Darwazah participate in the Hikma Pharmaceutical Defined Contribution Retirement Benefit Plan (the Jordan Benefit Plan) on the same basis as other employees located in Jordan. Under the Jordan Benefit Plan, Hikma matches employee contributions made, which are fixed at a maximum of 10% of applicable salary. Participants become entitled to all of Hikma's contributions once they have been employed for ten years. Before that point, there is a staggered scale which starts at three years of employment. Said Darwazah and Mazen Darwazah have served for in excess of ten years and receive their benefits under the Jordan Benefit Plan because they are over 60 years of age. Siggi Olafsson was entitled to a pension contribution of 15% of salary in 2018; however, a contribution of only \$16,500 was made to his 401K plan in the US. In order to correct the under payment, an additional payment of \$125,014 was made in 2019 in lieu of the contractual liability for 2018. Hikma does not and has not operated a defined benefit scheme. The Executive Directors do not receive personal pension contributions from Hikma.

### Additional Information

The following additional information is available in the Remuneration Committee's report:

- CEO and Average Employee Pay: please see page 86
- Relative performance and spend on pay: please see page 86
- AGM voting: please see page 77



### Vested share awards

During 2019, the following share awards vested for the Executive Directors. The total shares vested in 2019 are summarised in the following two tables.

#### EIP

In respect of the awards that vested, under the EIP, performance criteria must be met before grant and the full award vests, providing there have been no forfeiture events.

#### Said Darwazah – EIP

Maximum number of shares capable of vesting – Element B	60,973
Maximum number of shares capable of vesting – Element C	45,100
Forfeiture	Nil
Exercise price	Nil
Number of vested shares	106,073
<b>Total value of vested shares<sup>1</sup></b>	<b>\$2,362,356</b>

1. Share prices on vesting were £17.62 and £16.00 and there were \$1.3065 and \$1.3286 to £1 under Element B and Element C, respectively

#### Mazen Darwazah – EIP

Maximum number of shares capable of vesting – Element B	33,005
Maximum number of shares capable of vesting – Element C	25,406
Forfeiture	Nil
Exercise price	Nil
Number of vested shares	58,411
<b>Total value of vested shares<sup>2</sup></b>	<b>\$1,299,867</b>

2. Share prices on vesting were £17.62 and £16.00 and there were \$1.3065 and \$1.3286 to £1 under Element B and Element C, respectively

# Annual report on remuneration continued

## 2019 Performance outcome: Executive Chairman

Readers are directed to the commentary on business performance that is included in the Chair's letter on pages 75 and 76.

The following table sets out the performance conditions and targets for 2019 and their level of satisfaction:

Performance condition		
Section	Description	Rationale and measurement
<b>Financial</b>	Core revenue	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. See page 18 of the Strategic report for further detail on the performance related to this target.
	Core Operating Profit (COP) before R&D	Ultimately, COP is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. See page 18 of the Strategic report for further detail on the performance related to this target.
<b>Strategic</b>	Return on Invested Capital (ROIC)	Hikma invests significant capital to expand its product portfolio and pipeline and improving its high-quality manufacturing capabilities. Over the longer term, these activities ensure that margins can be maintained through manufacturing more complex/specialty products and capturing greater market share, respectively. The extensive range of capital investments have various timeframes for delivering new capabilities and enhancing Hikma's competitive position. The performance of previous and existing projects is monitored by the Board on a project by project basis. ROIC provides a Group-level method of assessing the time and cost to deliver projects and their ultimate returns over a one-year time frame. See page 18 of the Strategic report for further detail on the performance related to this target.
	Strategic planning	Committee's assessment of the development of the Group's strategy over the course of the year including the strategic planning exercise that was undertaken in October. Strategic planning is assessed as part of the board evaluation exercise.
<b>Total</b>		



Weighting	Performance level				Achievement		Application
	Forfeiture 0% salary awarded	Minimum 75% of salary awarded	Target 250% of salary awarded	Maximum 400% of salary awarded	Results	Achievement	% of salary
30%	Target -30% \$1,503m	Target -10% \$1,932m	Target \$2,147m	Target +10% \$2,362m	Core revenue of \$2,203m	Target to maximum	86.5% of salary
30%	Target -30% \$419m	Target -10% \$539m	Target \$599m	Target +10% \$659m	COP before R&D of \$634m	Target to Maximum	100.5% of salary
30%	Target -40% 9%	Target -26% 11%	Target 15%	Target +47% 22%	ROIC of 17%	Target to maximum	89.8% of salary
10%	The Committee assessed the strategic development plans and determined that they were effective. The Committee took into account the results of the board evaluation exercise which assessed the Group's strategy from several viewpoints and the strategic development requirements that have been identified for 2020				Effective strategic development	Target determined by the Committee	25.0% of salary
<b>100%</b>	<b>Unacceptable</b>	<b>Acceptable</b>	<b>Good</b>	<b>Excellent</b>			<b>301.8%</b>

The above performance results in performance remuneration under the EIP as follows:

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
<b>Executive Chairman</b>	<b>A</b>	\$1,018,464	150%	117.3%	\$1,194,310	Cash now (February 2020)	
	<b>B</b>		150%	117.3%	\$1,194,310	Shares in 2 years from February 2020	All shares vesting are subject to a holding period after vesting.
	<b>C</b>		100%	67.2%	\$685,078	Shares in 3 years from February 2020	These shares may not be sold until 5 years after grant.
<b>Total</b>			<b>400%</b>	<b>301.8%</b>	<b>\$3,073,698</b>		

The information in the above tables has been audited by PwC

# Annual report on remuneration continued

## 2019 Performance outcome: Chief Executive Officer

Readers are directed to the commentary on business performance that is included in the Chair's letter on pages 75 and 76. The following table sets out the performance conditions and targets for 2019 and their level of satisfaction:

### Regular EIP Criteria

Performance condition		
Section	Description	Rationale and measurement
<b>Financial</b>	Core Revenue	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. See page 18 of the Strategic report for further detail on the performance related to this target.
	Core Operating Profit (COP) before R&D	Ultimately, COP is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. See page 18 of the Strategic report for further detail on the performance related to this target.
	People	<p>The Committee directed the CEO to improve employee engagement and undertake measures to ensure the Company and employees operate in a highly effective and symbiotic manner. The elements include:</p> <ul style="list-style-type: none"> <li>– developing plans for executive succession</li> <li>– reviewing the roles of all employees and grading structure</li> <li>– developing a strategy to maximise the value from Hikma's strong and loyal employee culture</li> </ul> <p>The Committee assessed performance against these elements, which are discussed further by the Chairman on page 4.</p>
<b>Strategic</b>	R&D	<p>The Committee provided the CEO with an overall target to ensure the continuous launch of new products that are required to maintain revenue and profitability in Hikma's increasingly competitive markets. The Committee provided the several guidance areas that were designed to ensure the overall objective could be met including:</p> <ul style="list-style-type: none"> <li>– appointing a new Chief Scientific Officer to lead product development</li> <li>– optimising the product portfolio and pipeline and making more effective use of existing capabilities</li> <li>– advancing the approval of generic Advair Diskus® to the point of manufacture</li> <li>– ensuring that the numerous injectable submissions continue to support ongoing profitability</li> </ul>
<b>Total</b>		





Weighting	Forfeiture 0% salary awarded	Performance level			Achievement		Application
		Minimum 75% of salary awarded	Target 250% of salary awarded	Maximum 400% of salary awarded	Results	Achievement	% of salary
30%	Target – 30%	Target -30% \$1,503m	Target -10% \$1,932m	Target \$2,147m	Core revenue of \$2,203m	Target to maximum	86.5% of salary
30%	Target – 30%	Target -30% \$419m	Target -10% \$539m	Target \$599m	COP before R&D of \$634	Target to maximum	100.5% of salary
15%	Committee assessment of enhancement of the engagement and enablement of employees taking into account matters, such as the results of the cultural survey, Board's activities on employee engagement, new plan for executive succession and talent development, enhancement of the reward process and implementation of the new grading structure				Very effective people development	Target to maximum determined by the Committee	48.8% of salary
25%	Committee assessment of new product pipeline from research and development activities taking into account the appointment of new Chief Scientific Officer, restructuring of the R&D team and delivery of new products in 2019 and beyond				Very effective product development	Target to maximum determined by the Committee	81.2% of salary

**100%    Unacceptable    Acceptable    Good    Excellent    317.0%**

The above performance results in performance remuneration under the EIP as follows:

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
<b>Chief Executive Officer</b>	<b>A</b>	\$1,100,000	150%	122.3%	\$1,345,709	Cash now (February 2020)	
	<b>B</b>		150%	122.3%	\$1,345,709	Shares in 2 years from February 2020	All shares vesting are subject to a holding period after vesting.
	<b>C</b>		100%	72.4%	\$795,709	Shares in 3 years from February 2020	These shares may not be sold until 5 years after grant.
<b>Total</b>			<b>400%</b>	<b>317.0%</b>	<b>\$3,487,127</b>		

The information in the above tables has been audited by PwC

## Annual report on remuneration continued

### 2019 Performance outcome: Executive Vice Chairman

Readers are directed to the commentary on business performance that is included in the Chair's letter on pages 75 and 76. The following table sets out the performance conditions and targets for 2019 and their level of satisfaction:

Performance condition		
Section	Description	Rationale and measurement
<b>Financial</b>	Core revenue	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. See page 18 of the Strategic report for further detail on this target.
	Core Operating Profit (COP) before R&D	Ultimately, COP is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. See page 18 of the Strategic report for further detail on this target.
<b>Strategic</b>	MENA revenue	The Executive Director is responsible for this region. The Committee considered financial metrics to be the best method of ensuring delivery of the strategy that could be measured in an objective manner that is readily understandable by investors. Measured by target MENA revenue compared to audited MENA revenue for the year ended 31 December 2019. See pages 26 and 27 of the Business and financial review for further detail on this target.
	MENA COP	The Executive Director is responsible for this region. The Committee considered financial metrics to be the best method of ensuring delivery of the Board-approved strategy that could be measured in an objective manner that is readily understandable by investors. Measured by target MENA COP compared to audited MENA COP for the year ended 31 December 2019. See pages 26 and 27 of the Business and financial review for further detail on this target.
<b>Total</b>		



Weighting	Performance level				Maximum 400% of salary awarded	Achievement		Application
	Forfeiture 0% salary awarded	Minimum 75% of salary awarded	Target 250% of salary awarded	Target 250% of salary awarded		Results	Achievement	% of salary
30%	Target -30% \$1,503m	Target -10% \$1,932m	Target \$2,147m	Target \$2,147m	Target +10% \$2,362m	Core revenue of \$2,203m	Target to maximum	86.5% of salary
30%	Target -30% \$419m	Target -10% \$539m	Target \$599m	Target \$599m	Target +10% \$659m	COP before R&D of \$634m	Target to maximum	100.5% of salary
20%	Target -30% \$511m	Target -10 % \$657m	Target \$730m	Target \$730m	Target +10% \$803m	MENA revenue of \$740m	Target to maximum	54.2% of salary
20%	Target -30% \$126m	Target -10% \$162m	Target \$180m	Target \$180m	Target +10% \$198m	MENA COP of \$185m	Target to maximum	58.3% of salary
<b>100%</b>	<b>Unacceptable</b>	<b>Acceptable</b>	<b>Good</b>	<b>Excellent</b>				<b>299.5%</b>

The above performance results in performance remuneration under the EIP as follows:

Participant		Calculation				Receive	
Executive	EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
<b>Executive Vice Chairman</b>	<b>A</b>	\$717,155	150%	116.5%	\$835,377	Cash now (February 2020)	
	<b>B</b>		150%	116.5%	\$835,377	Shares in 2 years from February 2020	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.
	<b>C</b>		100%	66.5%	\$476,499	Shares in 3 years from February 2020	
<b>Total</b>			<b>400%</b>	<b>299.5%</b>	<b>\$2,147,553</b>		

The information in the above tables has been audited by PwC

## Annual report on remuneration continued

Hikma continued to operate the EIP in 2019. The outstanding share awards under the EIP in respect of each of the Executive Directors are:

Participant	Share scheme					Quantum	
	Scheme description <sup>1</sup>	Type of interest	Date of award	Date of vesting	Basis of award	Shares (max)	Face value <sup>2</sup>
Said Darwazah	EIP Element C	Conditional award	13-Apr-17	13-Apr-20	64% of salary	36,438	\$962,138
	EIP Element B	Conditional award	12-Mar-19	12-Mar-21	135% of salary	61,666	\$1,628,277
	EIP Element C	Conditional award	12-Mar-19	12-Mar-22	85% of salary	38,862	\$1,026,143
<b>Total</b>						<b>136,966</b> (2018: 142,511)	<b>\$3,616,558</b> (2018: \$3,119,710)
Siggi Olafsson	EIP Element B	Conditional award	12-Mar-19	12-Mar-21	137% of salary	67,307	\$1,777,227
	EIP Element C	Conditional award	12-Mar-19	12-Mar-22	87% of salary	42,676	\$1,126,851
	First Year Award (EIP C Equivalent)	Conditional award	12-Mar-19	12-Mar-22	150% of salary	72,000	\$1,901,145
<b>Total</b>						<b>181,983</b> (2018: Nil)	<b>\$4,805,223</b> (2018: Nil)
Mazen Darwazah	EIP Element C	Conditional award	13-Apr-17	13-Apr-20	60% of salary	19,318	\$510,088
	EIP Element B	Conditional award	16-May-18	16-May-20	33% of salary	16,953	\$447,640
	EIP Element C	Conditional award	16-May-18	16-May-21	23% of salary	12,042	\$317,966
	EIP Element B	Conditional award	12-Mar-19	12-Mar-21	133% of salary	42,572	\$1,124,105
	EIP Element C	Conditional award	12-Mar-19	12-Mar-22	83% of salary	26,514	\$700,096
<b>Total</b>						<b>117,399</b> (2018: 106,724)	<b>\$3,099,895</b> (2018: \$2,336,296)

- The performance criteria for Elements B and C of the EIP are assessed before a grant is considered. Additionally, Element B is subject to forfeiture criteria for the first two years after grant, which are detailed each year as part of the next year's EIP performance criteria on pages 90 to 95
- The face value is calculated using the vesting percentages described earlier in this section and the closing share price of 1,991p and foreign exchange rate of \$1.33 to £1 on 31 December 2019. The actual value received by Executive Directors under the share incentive arrangements is dependent upon the share price of Hikma at the time of exercise, the satisfaction of performance criteria and the non-occurrence of forfeiture events (EIP Element B only)
- The minimum value of the awards at vesting will be the share price on the day of vesting multiplied by the number of shares vesting. If the Executive Director leaves employment during the vesting period, the normal position is that zero shares vest. If all the forfeiture conditions occur in each year of the vesting period under Element B only, zero shares will vest. The weighting of each forfeiture condition has a proportional impact on the vesting percentage under Element B only

The information in the table above has been audited by PwC

The applicable share prices for Hikma during the period under review were:

Date	Market price (Closing price)
1 January 2019	1,716p
31 December 2019	1,991p
2019 Range (low to high)	1,510p to 2,220p
26 February 2020	1,826p



## Dilution

In accordance with the guidelines set out by the Investment Association, Hikma can issue a maximum of 10% of its issued share capital in a rolling ten-year period to employees under all its share plans and a maximum of 50% of this (representing 5% of issued share capital) for discretionary share plans. The following table summarises the current level of dilution resulting from Hikma's share plans since 2009:

Type of plan	Granted in a rolling ten-year period	Granted during the year
Discretionary Share Plans (5% Limit)	3.56%	0.53%

## Director share interests

Said Darwazah, Mazen Darwazah and Ali Al-Husry are directors and shareholders of Darhold Limited. Darhold holds 60,000,000 Ordinary Shares in Hikma. The table below breaks down their shareholdings in Hikma by shares effectively owned through Darhold and shares held personally, by HMS Holdings SAL or by connected people. The cancellation and issuance of shares in Darhold and Hikma, as well as changes in the number of Hikma shares held by Darhold, can lead to a degree of variation in the 'Effective Hikma shares'.

Director	Darhold		Personal	Total shareholding
	Interest in Darhold	Effective Hikma shares	Shares (incl. connected people)	
Said Darwazah	21.99%	13,194,000	909,966	14,103,966
Mazen Darwazah <sup>1</sup>	11.08%	6,648,000	1,157,965	7,805,965
Ali Al-Husry <sup>2</sup>	8.13%	4,878,000	1,162,811	6,040,811

1. Mazen Darwazah holds his shares in Darhold Limited through a family trust

2. Ali Al-Husry holds his shares in Hikma and Darhold Limited through a family trust

The information in the table above has been audited by PwC

The following table sets out details of the Directors' shareholdings in Hikma and, where there are shareholding requirements, whether these have been met:

Director	Ownership requirements			Total	Scheme Interests		Total
	Percentage of salary	Number of shares	Requirement fulfilled?	Shares owned <sup>3</sup>	EIP subject to performance (Element B)	EIP subject to service (Element C)	Share interests
Said Darwazah	300%	115,714	Yes	14,103,966	61,666	75,300	14,240,932
Siggi Olafsson	300%	124,977	Yes	20,000	67,307	114,676	201,983
Mazen Darwazah <sup>4</sup>	300%	81,480	Yes	7,805,965	59,525	57,874	7,923,364
Ali Al-Husry <sup>5</sup>				6,040,811			6,040,811
Robert Pickering				10,000			10,000
Pat Butler				3,875			3,875
Dr Pamela Kirby				4,817			4,817
John Castellani				3,500			3,500
Nina Henderson				5,500			5,500
Dr Jochen Gann <sup>6</sup>				0			0
Cynthia Schwalm				0			0

3. Including shares effectively owned through Darhold as per the table above

4. Mazen Darwazah holds his shares in Darhold Limited through a family trust, in which he has a beneficial interest

5. Ali Al-Husry holds his shares in Hikma and Darhold Limited through a family trust, in which he has a beneficial interest

6. Dr Jochen Gann is senior executive in Boehringer Ingelheim who hold 40 million (16.5%) shares in Hikma

There have been no changes in the interests of the Directors in the shares of Hikma between 31 December 2019 and the date of this report. The share price used to calculate whether the shareholding requirements have been met is the price on 31 December 2019 of £19.91p and foreign exchange rate of \$1.33 to £1 on the same date

The information in the above tables has been audited by PwC



# Annual report on remuneration continued

## Director share interests continued

The following table sets out the changes in the share interests of Directors during the year under review and up to the date of this report. Other than as detailed in the table, the Directors' share interests in Hikma did not change during the period.

Director	Date	Event	No. Shares
Said Darwazah	13-Mar-19	Market purchase of shares	20,000
Mazen Darwazah	13-Mar-19	Market purchase of shares	20,000
Dr Pamela Kirby	14-Mar-19	Market purchase of shares	1,500
Nina Henderson	15-Mar-19	Market purchase of shares	2,000
Said Darwazah	17-Mar-19	Vesting of 2016 EIP Element C. Retained all shares.	45,100
Mazen Darwazah	17-Mar-19	Vesting of 2016 EIP Element C. Retained all shares.	25,406
Said Darwazah	15-Apr-19	Vesting of 2017 EIP Element B. Retained all shares.	60,973
Mazen Darwazah	15-Apr-19	Vesting of 2017 EIP Element B. Retained all shares.	33,005
Said Darwazah	06-Sep-19	Market disposal of shares	150,000

The information in the table above has been audited by PwC

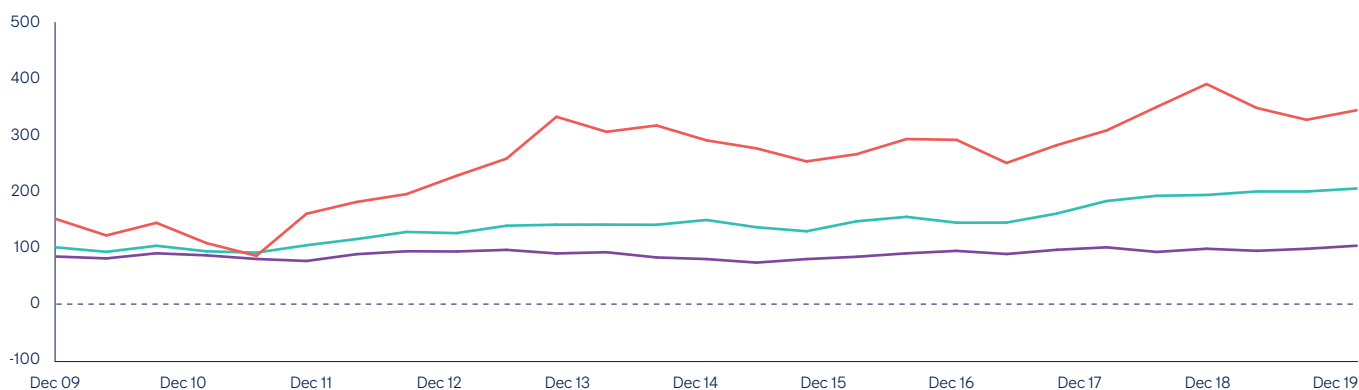
## Scheme interests

The following table sets out details of the 'scheme interests' of the Directors. Element B and C of the EIP have been included because they have service conditions in excess of one year.

Director	Type of interest		Share interests with performance measures		Vested but unexercised
	Shares	Share options	Yes	No	
Said Darwazah	136,966	-	61,666	75,300	-
Siggi Olafsson	181,983	-	67,307	114,676	-
Mazen Darwazah	117,399	-	59,525	57,874	-
All other directors	-	-	-	-	-

## Total shareholder return

During 2019, Hikma performed better than its UK peers in Hikma's index (FTSE 100) and sector (FTSE 350 Pharmaceuticals & Biotechnology segment, a relatively small group of companies that are mainly focused on developing new drugs).



■ Hikma Pharmaceuticals PLC  
■ FTSE 100  
■ FTSE 350/Pharmaceuticals & Biotechnology – SEC



## Remuneration table

The following table sets out the total remuneration, including amounts vesting under short-term and long-term incentive plans, for each financial period in respect of the Directors holding the positions of Executive Chairman and Chief Executive Officer. The total figures for the financial years 2017 and 2016 are higher than would otherwise be the case due to a change of incentive plan. In accordance with the Regulations, the 2016 and 2017 totals include LTIPs vesting during the relevant period (which were granted three years before) and Element C of the EIP which was granted in respect of the relevant period. The Regulations require Element C to be treated in a similar way to the annual bonus, although it is an award of shares that will vest three years after grant. The final LTIP awards vested in 2017 and, therefore, do not impact the Share Awards percentage for 2018 onwards.

Year	Said Darwazah – Executive Chairman			Siggi Olafsson – Chief Executive Officer		
	Total	Bonus as % max <sup>1</sup>	Share awards as % max <sup>2</sup>	Total	Bonus as % max <sup>1</sup>	Share awards as % max <sup>2</sup>
<b>2019</b>	<b>\$4,448,934</b>	<b>74%</b>	<b>78%</b>	<b>\$4,121,723</b>	<b>78%</b>	<b>82%</b>
2018	\$4,501,217	88%	90%	\$5,260,957	89%	91%
2017	\$3,538,646	0%	0%	N/A	N/A	N/A%
2016	\$6,308,238	71%	68%	N/A	N/A	N/A%
2015	\$7,316,042	98%	98%	N/A	N/A	N/A%
2014	\$5,056,255	100%	70%	N/A	N/A	N/A%
2013	\$3,956,836	100%	62%	N/A	N/A	N/A%
2012	\$3,296,000	80%	50%	N/A	N/A	N/A%
2011	\$2,629,000	80%	67%	N/A	N/A	N/A%
2010	\$1,965,000	100%	49%	N/A	N/A	N/A%
2009	\$1,183,000	37%	67%	N/A	N/A	N/A%

1. The 'Bonus as % max' column comprises cash under Element A of the EIP paid immediately and shares under Element C of the EIP that are released three years after grant
2. The 'Share awards as % max' column includes Element B of the EIP, shares that vest in two years from the date of grant

## Non-Executive Directors

During the year, the Executive Directors reviewed the fees paid to Non-Executive Directors. The conclusion from the review was that the base fee should increase from £85,000 to £87,500 (circa 3% in line with the average employee increase) in respect of the 2020 calendar year. The base fee was last increased in 2016. The table below details the fees paid to Non-Executive Directors during the year under review and the prior year. Certain Directors joined, retired or changed roles during the periods and their fees have been pro-rated for time served in the relevant position:

Name	Board position	2019			2018		
		Fee (all elements) £,000	Taxable benefits <sup>1</sup> £,000	Total £,000	Fee (all elements) £,000	Taxable benefits £,000	Total £,000
Robert Pickering	Senior Independent Director	105.0	0.0	105.0	101.0	–	101.0
Pat Butler	Audit Committee Chair	115.0	0.0	115.0	109.0	–	109.0
Dr Ronald Goode	Independent Director	–	–	–	38.5	2.4	40.9
Dr Pamela Kirby	Remuneration Committee Chair	105.0	0.0	105.0	101.0	–	101.0
Ali Al-Husry	Non-Executive Director	85.0	2.6	87.6	85.0	2.5	87.5
Dr Jochen Gann	Non-Executive Director	85.0	6.7	91.7	85.0	1.6	86.6
John Castellani <sup>2</sup>	CRE Committee Chair	105.0	12.8	117.8	104.9	2.4	107.3
Nina Henderson	Independent Director and Employee Engagement Lead	105.0	11.6	116.6	93.0	1.6	94.6
Cynthia Schwalm <sup>3</sup>	Non-Executive Director	55.4	0.0	55.4	–	–	–

1. 'Taxable benefits' includes certain accommodation expenses for Non-Executive Directors that are wholly related to their attendance at Board meetings and are in accordance with normal Hikma expense policy. These expenses are treated as taxable benefits by the UK authorities and, where appropriate, the above figure includes the corresponding tax contribution
  2. John Castellani was underpaid fees of £3,900 in 2017 which were paid in 2018
  3. Cynthia Schwalm joined the Board on 1 June 2019 and, accordingly, her fees have been pro-rated
- The information in the table above has been audited by PwC

# Annual report on remuneration continued

## Payments to past Directors

There were no payments to past Directors during the financial year. The information in this paragraph has been audited by PwC.

## Payments for loss of office

There were no payments for loss of office during the financial year. The information in this paragraph has been audited by PwC.

## Terms of appointment and service

### Service contracts

The details of the service contracts of the Executive Directors of Hikma in force at the end of the year under review, which have not changed during the year and are available for inspection at Hikma's registered office at 1 New Burlington Place, London W1S 2HR, were:

Executive Director	Company notice period	Contract date	Unexpired term of contract	Potential termination payment
Said Darwazah	12 months	1 July 2007	Rolling contract	12 months' salary and benefits
Siggi Olafsson	12 months	20 February 2018	Rolling contract	12 months' salary and benefits
Mazen Darwazah	12 months	25 May 2006	Rolling contract	12 months' salary and benefits

The Executive Directors are not appointed for a specified term and, therefore, do not have an outstanding term that requires disclosure.

### Letters of appointment

The Non-Executive Directors have letters of appointment with Hikma, not service contracts, and which are available for inspection at Hikma's registered office at 1 New Burlington Place, London W1S 2HR. Appointments are made for a period of 36 months and then reviewed.

Non-Executive Director	Date of appointment	Notice payment
Robert Pickering	1 September 2011	1 month
Ali Al-Husry	14 October 2005	1 month
Pat Butler	1 April 2014	1 month
Dr Pamela Kirby	1 December 2014	1 month
Dr Jochen Gann	29 February 2016	1 month
John Castellani	1 March 2016	1 month
Nina Henderson	1 October 2016	1 month
Cynthia Schwalm	1 June 2019	1 month

Hikma complies with the UK Corporate Governance Code requirement that all directors of FTSE 350 companies be subject to annual election by shareholders.

### External appointments

Hikma recognises that Executive Directors may be invited to take up non-executive directorships or public sector and not-for-profit appointments, and that these can broaden the experience, network and knowledge of the Director, from which Hikma can benefit. Executive Directors may accept external appointments as long as they do not lead to a conflict of interest and are allowed to retain any fees. During the year under review, Said Darwazah, Siggi Olafsson and Mazen Darwazah received fees of \$4,100 (2018: \$4,100), \$38,105 (2018: \$114,745) and \$25,000 (2018: \$29,400), respectively, relating to external appointments which are detailed in their Director profiles on page 59. The process for controlling external commitments is described in the governance statement on page 63.

### Closing statement

We have continued to develop our approach to remuneration reporting this year and the Committee hopes that this has aided your understanding of our Remuneration Policy and practices. Please do not hesitate to contact me if you have any questions or observations.

For and on behalf of the Remuneration Committee



**Dr Pamela Kirby**  
Chair of the Remuneration Committee  
26 February 2020

# Directors' report

## Report of the Directors to shareholders and stakeholders

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019. This report forms the management report for the purposes of the Disclosure and Transparency Rules. Readers are asked to cross refer to the other sections of the Annual Report to the extent necessary to meet Hikma's reporting obligations as follows (statements that are not applicable have been excluded):

- Likely future developments of Hikma: Strategic report and the Business and financial review, pages 2 to 31
- Long-term incentive schemes: Directors' remuneration report, pages 89 to 96
- Related party transactions: Note 39 to the financial statements, page 163
- Going concern statement: Risk management report, page 51
- Long-term viability statement: risk management report, page 51
- Names and biographical details of the Directors: corporate governance report, pages 58 and 59
- Independence of Non-Executive Directors: corporate governance report, page 63
- Directors' share interests: Directors' remuneration report, pages 97 and 98
- Greenhouse gas emissions: Sustainability report, pages 42 and 43
- Financial instruments and risk: Note 30 to the financial statements, pages 152 to 156

For the purposes of Listing Rule 9.8.4, shareholders are directed in accordance with the following table:

Item	Reference
Interest capitalised and associated tax relief	This page
Publication of unaudited financial information	None
Details of long-term incentive schemes	See Note 38 on pages 159 to 162
Waiver of emoluments by Directors	None
Allotment of securities for cash, including by major subsidiaries	None
Parent undertakings of Hikma	None
Contracts of significance with a material interest of a director or controlling shareholders	None
Services provided to Hikma by controlling shareholders	None
Arrangements by which shareholders have agreed to waive current or future dividends	See Note 35 on page 157
Controlling shareholder agreements and associated obligations	Hikma does not have any controlling shareholders within the meaning of the Listing Rules

## Principal activity

The principal activities of Hikma are the development, manufacture and marketing of a broad range of generic, branded and in-licensed pharmaceutical products. Hikma's pharmaceutical operations are conducted through three business segments: Injectables, Generics, and Branded. The majority of Hikma's operations are in the MENA region, the US and Europe. Hikma does not have overseas branches within the meaning of the Companies Act 2006 (the Act).

Hikma's net sales, gross profit and operating profit are shown by business segment in Note 5 to the consolidated financial statements on pages 131 and 132.

## Results

Hikma's reported profit for the year in 2019 was \$486 million (2018: \$285 million).

## Dividend

The Board is recommending a final dividend of 30 cents per share (approximately 23 pence per share) (2018: 26 cents per share) bringing the total dividend for the full year to 44 cents per share (approximately 34 pence per share) (2018: 38 cents per share, approximately 29 pence per share). The proposed dividend will be paid on 7 May 2020 to eligible shareholders on the register at the close of business on 20 March 2020, subject to approval at the Annual General Meeting on 30 April 2020.

## Creditor payment policy

Hikma's policy, which is also applied by all subsidiaries and will continue in respect of the 2020 financial year, is to settle terms of payment with all suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of and abide by the terms of payment. The Company is in the process of enhancing its procedures in order to meet the requirements of the Prompt Payment Code. Trade creditors of Hikma at 31 December 2019 were equivalent to 99 days' purchases (2018: 94 days), based on Group trade payables multiplied by 365, divided by trailing 12 months Group cost of goods sold.

## Donations

During the year Hikma made charitable donations of approximately \$5.3 million (2018: \$2.6 million):

Type of donation	Amount donated in 2018 (\$)	Amount donated in 2019 (\$)
Local charities serving communities in which Hikma operates	1,209,550	2,169,549
Medical (donations in kind)	1,398,738	3,131,996
Political donations and expenditure	nil	nil
<b>Total</b>	<b>2,608,288</b>	<b>5,301,545</b>

Hikma's policy prohibits the payment of political donations and expenditure within the meaning of the Act.

## Research and development

Hikma's investment in research and development (R&D) during 2019 represented 5.7% of Group revenue (2018: 5.7%). Further details on Hikma's R&D activities can be found on pages 8, 19 and 28.

## Interest

The interest capitalised during the year under review was \$nil (2018: \$0.1 million). The tax impact related to the capitalised interest was \$nil (2018: \$nil).



## Significant contracts

Due to the nature of Hikma's business, members of Hikma are party to agreements that could alter or be terminated upon a change of control of Hikma following a takeover. However, none of these agreements is individually deemed to be significant in terms of its potential impact on the business of Hikma taken as a whole. The Directors are not aware of any agreements between Hikma and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

There are no persons, with whom Hikma has contractual or other arrangements, who are deemed to be essential to the business of Hikma.

## Stakeholder engagement

The table below summarises Hikma and the Board's activities in relation to stakeholder engagement. Further details are also available on pages 10 to 11.

Stakeholder Group	Our priorities	How we engage	2019 activities
 <p><b>Patients and Healthcare Professionals</b> We strive to put better health within reach every day for healthcare professionals and their patients. This means working to provide access to the medicines people need, when they need them.</p>	<ul style="list-style-type: none"> <li>– On-market portfolio and pipeline that meet patient needs</li> <li>– Safe, effective and accessible medicines</li> </ul>	<ul style="list-style-type: none"> <li>– We engage regularly with our customers, local healthcare providers and healthcare professionals to understand their needs</li> <li>– We make no concessions when it comes to quality – from purchasing raw ingredients and through to the production of finished goods</li> <li>– We ensure our interactions with HCPs comply with applicable laws to ensure that they are not improperly influenced to purchase or prescribe our products</li> <li>– We meet frequently with patient advocacy groups for diseases such as HIV</li> </ul>	<ul style="list-style-type: none"> <li>– One in every six generic injectable medicines used in US hospitals is a Hikma product.</li> <li>– We became aware that a critical treatment for Multiple Sclerosis was not available in multiple MENA countries; between 2018 and 2020 Hikma will make dimethyl fumarate available in ten MENA countries</li> </ul>
 <p><b>Employees</b> As the driving force behind Hikma's growth and success, our people are our most valuable asset. We are committed to developing their skills, protecting their health and safety and promoting a culture of diversity.</p>	<ul style="list-style-type: none"> <li>– Training and development of our people</li> <li>– Focus on employee health and safety</li> <li>– A culture of diversity and inclusion</li> </ul>	<ul style="list-style-type: none"> <li>– We offer continuous learning and development opportunities for our people. Hikma Academy serves as a training hub through which we can coordinate and optimise learning and development activities across our footprint</li> <li>– Our Group-wide health and safety policy helps us secure a safe and healthy workplace for our people</li> <li>– Our Innovation and Leadership Advisory Board (ILAB) has given young employees a voice to influence Hikma's leadership and innovation</li> </ul>	<ul style="list-style-type: none"> <li>– We received 82 calls to our speak up hotline</li> <li>– 100 employees participated in the flagship leadership training programme, Lead Forward</li> </ul>
 <p><b>Communities</b> Tackling social challenges and promoting health and wellbeing. Supporting the communities where we live and work allows us to drive long-term, sustainable growth while positively impacting society.</p>	<ul style="list-style-type: none"> <li>– Providing better health through access and awareness</li> <li>– Supporting education.</li> <li>– Assisting people in need; refugees and low income groups</li> </ul>	<ul style="list-style-type: none"> <li>– We have developed partnerships, volunteering opportunities and a medicine donations programme to ensure that our community engagement activities deliver tangible benefits to those in most need</li> </ul>	<ul style="list-style-type: none"> <li>– Through our annual Breast Cancer Awareness campaign, we raise awareness and provided free medical testing for both our employees and the public</li> <li>– We work to address unmet healthcare needs by providing In-kind medicine donations to refugees and low income groups in the MENA region and patients without sufficient medical insurance or those recovering from natural disasters in the US.</li> </ul>

Stakeholder Group	Our priorities	How we engage	2019 activities
 <p><b>Customers</b> We aim to meet the needs of our customers by anticipating the future health needs of patients and providing a quality, consistent and reliable supply of a broad portfolio of medicines.</p>	<ul style="list-style-type: none"> <li>– Broad product offering</li> <li>– Consistent and reliable supply of medicines</li> </ul>	<ul style="list-style-type: none"> <li>– We work closely with GPOs, hospitals, healthcare professionals, retailers and wholesalers to understand their portfolio needs, build strong relationships and enhance service levels</li> <li>– We maintain a broad portfolio of affordably priced medicines</li> <li>– We are committed to helping address drug shortages, adding extra production lines, hiring staff, going to 24/7 manufacturing and working closely with regulators</li> </ul>	<ul style="list-style-type: none"> <li>– In 2019 we launched more than 75 products globally</li> </ul>
 <p><b>Government &amp; Regulators</b> We operate in highly regulated markets and must operate in accordance with a wide range of government policies and regulations</p>	<ul style="list-style-type: none"> <li>– Compliance with regulatory frameworks</li> <li>– Safe and effective medicines</li> </ul>	<ul style="list-style-type: none"> <li>– Our quality systems operate in full compliance with the regulatory requirements of the US Food and Drug Administration (FDA), and the European Medicines Agency (EMA), as well as will the requirements of the individual regulatory bodies of our other markets</li> <li>– We work closely with local government and regulatory bodies to ensure current and proposed regulations and policies support patients needs and our operations</li> </ul>	<ul style="list-style-type: none"> <li>– We've launched 20 products into shortage situations since 2015 to help hospitals and doctors provide medicines their patients need</li> <li>– The US FDA carried out five inspections at our facilities in 2019 resulting in zero critical observations</li> </ul>
 <p><b>Investors</b> We maintain regular contact with our shareholders through a comprehensive investor relations programme.</p>	<ul style="list-style-type: none"> <li>– Communicating long-term strategy, financial and operational performance and growth drivers</li> <li>– Good corporate governance and alignment with best practice</li> </ul>	<ul style="list-style-type: none"> <li>– The Executive Chairman and the CEO meet major shareholders to discuss governance and strategy issues and to understand investors views on Hikma</li> <li>– Bi-annual investor perception studies provide insight into investor views and allow investors to communicate directly to the Board</li> <li>– Through our fair, balanced and understandable Annual Report and Accounts, interim results and trading statements, we communicate our financial and operational performance</li> </ul>	<ul style="list-style-type: none"> <li>– In addition to hosting face to face meetings with analysts and investors to present our intentions and full year results, we attended 10 conferences and met with more than 100 investors in 2019</li> <li>– At our AGM on 17 May 2019, all of the resolutions put to shareholder passed with percentage ranging from 85.2% to 100%</li> </ul>
 <p><b>Suppliers</b> Operating responsibly and ethically is vital to our long-term success, and we work with our suppliers to ensure the quality, social and ethical standards we require are upheld.</p>	<ul style="list-style-type: none"> <li>– Ensuring quality supplies from our supplier base</li> <li>– Supporting ethical operations throughout Hikma's supply chain</li> </ul>	<ul style="list-style-type: none"> <li>– We conduct quality audits for our API supplier base prior to on-boarding any new supplier and on a regular basis for our current supplier base</li> <li>– We have a Code of Conduct and clear policies on Human Rights and Modern Slavery which are communicated to our suppliers and reflected in our contracts and general purchasing terms and conditions</li> <li>– We conduct initial and periodic due diligence to gain an understanding of the reputation and corruption risks for suppliers</li> </ul>	<ul style="list-style-type: none"> <li>– 72 suppliers were audited in 2019 with an acceptable risk level</li> <li>– Our general purchasing terms and conditions have been updated to require compliance with the General Data Protection Regulation and the Modern Slavery Act</li> <li>– In addition to the initial due diligence, a new risk assessment approach is being developed and planned for rollout in 2020</li> </ul>



## Directors

It is the Board's policy that all Directors should retire and, should the Director wish to continue in office, seek election or re-election on an annual basis. Accordingly, Cynthia Schwalm will seek election, and Said Darwazah, Soggi Olafsson, Mazen Darwazah, Robert Pickering, Ali Al-Husry, Patrick Butler, Dr Pamela Kirby, Dr Jochen Gann, John Castellani and Nina Henderson will seek re-election at the AGM.

## Indemnities and insurance

Hikma maintains an appropriate level of Directors' and Officers' insurance. The Directors' benefit from qualifying third-party indemnities made by Hikma that were in force during the year and as at the date of this report. These indemnities are uncapped in amount in relation to losses and liabilities which Directors may incur to third parties in the course of the performance of their duties.

## Auditors

Each person who was a Director of Hikma at the date when this report was approved confirms that:

- so far as the Director is aware, there is no relevant audit information of which Hikma's auditors are unaware
- the Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that Hikma's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## Employment

During 2019, Nina Henderson undertook the employee engagement activities, as described on page 55. Hikma continued to operate its existing employee engagement mechanisms which include intra-Group communications, social networking, an open door policy for legitimate union representatives and the operation of share incentive arrangements. Hikma does not discriminate against a potential employee on grounds of disability and will make reasonable adjustments to employ and develop disabled people.

## Equity

### Capital structure

Details of the issued share capital, together with movements in the issued share capital during the year, can be found in Note 32 to the financial statements on page 155. Hikma has one class of Ordinary Shares of 10 pence each (Shares) which carries no right to fixed income. Each share carries the right to one vote at general meetings of Hikma.

As at 31 December 2019:

Type	Nominal value	In issue	Issued during the year
Shares	10 pence	242,319,174	863,780

During 2019, Hikma issued Ordinary Shares solely pursuant to the exercise of options under the 2005 Long Term Incentive Plan, 2009 Management Incentive Plan and 2014 Executive Incentive Plan.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provision Hikma's Articles of Association (the Articles) and prevailing legislation.

Other than the shareholder agreement between Boehringer Ingelheim (BI) and Hikma (the Agreement), the Directors are not aware of any agreements between holders of Hikma's shares that may have resulted in restrictions on the transfer of securities or on voting rights. The Agreement restricts BI's voting rights to 28,500,000 shares as long as it holds shares in excess of this level and the onward transfer of shares, as disclosed in the combined Prospectus and Circular posted to shareholders on 21 January 2016. No person has any special rights with regard to the control of Hikma's share capital and all issued shares are fully paid. Hikma has not placed any Shares into treasury during the period under review.

## Share buy-back

At the Annual General Meeting (AGM) on 17 May 2019, shareholders gave the Directors authority to purchase shares from the market up to an amount equal to 10% of Hikma's issued share capital at that time. This authority expires at the earlier of 30 June 2020 or the 2020 AGM, which is scheduled for 30 April 2020. The Directors have not used this authority during the year, but are proposing to renew this authority at the 2020 AGM. Additionally, at the Extraordinary General Meeting held on 19 February 2016, shareholders gave the Directors authority to re-purchase Shares from BI that were issued in respect of the Columbus acquisition. This authority expires on 22 January 2021.

## Share issuance

At the AGM on 17 May 2019, the Directors were authorised to issue relevant securities up to an aggregate nominal amount of £8,054,329 and to be empowered to allot equity securities for cash on a non-pre-emptive basis up to an aggregate nominal amount of £1,208,149 at any time up to the earlier of the date of the 2020 AGM or 30 June 2020. The Directors propose to renew these authorities at the 2020 AGM for a further year. In the year ahead, other than in respect of Hikma's obligations to satisfy rights granted to employees under its various share-based incentive arrangements, the Directors have no present intention of issuing any additional share capital of Hikma.

Details of the employee share schemes are set out in Note 38 to the financial statements on pages 159 and 162. Shares are also held by the Hikma Pharmaceuticals Employee Benefit Trust (EBT) and are detailed in Note 35 to the financial statements on page 157. The EBT has waived its right to vote on the shares it holds and also its entitlement to a dividend. No other shareholder has waived the right to a dividend.

## Annual General Meeting

The AGM of Hikma will be held at Sofitel St James, 6 Waterloo Place, London SW1Y 4AN on Thursday, 30 April 2020, starting at 10.00 am. The Notice convening the meeting is given in a separate document accompanying this document, and includes a commentary on the business of the AGM, and notes to help shareholders exercise their rights at the meeting.

Hikma provides for the vote on each resolution to be by poll rather than by show of hands. This provides for greater transparency and allows the votes of all shareholders to be counted, including those cast by proxy. The level of proxies lodged for each resolution is projected onto a screen as each resolution is put to the meeting. A 'vote withheld' explanation is included on the proxy cards.

The powers of the Directors are determined by the Articles, the UK Code and other relevant UK legislation. The Articles give the Directors the power to appoint and remove Directors. The power to issue and allot shares contained in the Articles is subject to shareholder approval at each AGM. The Articles, which are available on the website, may only be amended by special resolution of the shareholders.

## Substantial shareholdings

As at the date of this document, Hikma had been notified pursuant to sections 89A to 89L of the Financial Services and Markets Act 2000 and Rule 5 of the Disclosure and Transparency Rules of the UKLA of the following interests in the voting rights attaching to the share capital of Hikma:

Name of shareholder	Number of shares	Percentage held
Darhold Limited <sup>1</sup>	60,000,000	24.8%
Boehringer Ingelheim <sup>2</sup>	40,000,000	16.5%
Capital Group International	23,275,396	9.6%
Fidelity International	9,791,950	4.1%

1. Said Darwazah, Mazen Darwazah and Ali Al-Husry, each being a Director and shareholder of Hikma, are shareholders and non-executive directors of Darhold Limited. See page 97 for details of their holdings in Darhold Limited

2. Dr Jochen Gann is a Director of Hikma and a senior executive of Boehringer Ingelheim

There have been no changes in substantial shareholdings notified to Hikma since the year-end.

## Pre-emptive issue of shares

During the year under review, and in the period since the date of Hikma's Initial Public Offering on 1 November 2005, Hikma did not issue any shares pursuant to an authority given by shareholders at an AGM to issue shares for cash on a non-pre-emptive basis, other than in respect of the placing undertaken on 17 January 2008.

## Post balance sheet events

There have been no post balance sheet events.

## Directors' responsibilities statement

Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge that:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Hikma and the undertakings included in the consolidation taken as a whole
- the Strategic report includes a fair review of the development and performance of the business and the position of Hikma and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess Hikma's performance, business model and strategy

## Electronic communications

Hikma's preference is to communicate through Hikma's website, rather than in paper form. Shareholders are encouraged to visit the website to access Hikma's Annual Reports and half-year and final results presentations. Shareholders who wish to receive paper communications can elect to do so through Hikma's registrars, Link Asset Services ([www.hikmashares.com](http://www.hikmashares.com)).

On behalf of the Board



**Said Darwazah**  
Executive Chairman  
26 February 2020



**Sigurdur Olafsson**  
Chief Executive Officer  
26 February 2020

# Financial statements

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

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

## Report on the audit of the financial statements

### 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 2019 and of the Group's profit 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 2019; the consolidated income statement and consolidated 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.

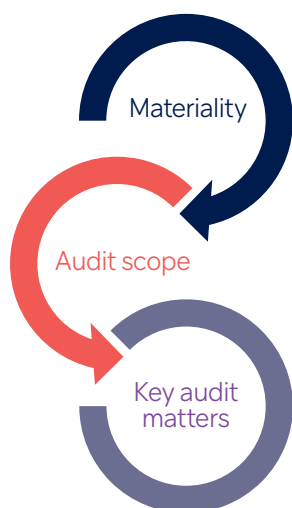
During the period, we identified that three PwC teams in the Middle East and North Africa (MENA) region were involved in supporting the preparation of the local statutory financial statements for prior periods on behalf of Hikma. These teams were involved in some administrative preparation of the local statutory financial statements and were not involved in any management decision-making or bookkeeping. This service does not form part of the group audit and is limited to 12 sets of local statutory accounts. Administrative preparation of statutory financial statements is prohibited by the FRC's Ethical Standard, and therefore upon identifying the breach, the teams immediately ceased providing the service. We confirm that, based on our assessment of this breach, and the subsequent actions taken, we have not, in our view, compromised our independence.

Other than the matter referred to above, and 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 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

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

## Our audit approach



### Overview

- Overall Group materiality: \$21.5 million (2018: \$17 million), based on 5% of profit before tax after adjusting for all exceptional items and other adjustments except for amortisation of intangible assets other than software.
- Overall Company materiality: capped at \$19.35 million (2018: \$10 million), but based on 1% of total assets.
- Our audit included full scope audits of five components, audit procedures on specific financial statement line items of two components and audit procedures performed centrally over certain areas and specific material balances at other locations around the world. Full scope components account for 76% of consolidated revenue, 69% of the adjusted profit measure we used as a basis for determining materiality and 74% of consolidated total assets.
- Valuation and presentation and disclosure of goodwill and intangible assets (Group).
- Valuation and presentation of gross to net rebate, returns and chargeback adjustments in the US (Group).
- Tax including valuation and presentation of both uncertain tax positions and deferred tax assets from transfer pricing (Group).
- No key audit matters specific to the Hikma Pharmaceuticals PLC parent Company financial statements were identified.

## 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.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to regulations set out by the United States Food and Drug Administration (the FDA) and other industry regulators, pricing and practices legislation, taxation and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with management and the Group's legal counsels, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- assessment of matters reported on the Group's whistleblowing hotline and results of management's investigation of such matters;

- challenging assumptions made by management in its significant accounting estimates particularly in relation to estimation of rebate, chargeback and return reserves, valuation of intangible assets, and recognition and measurement of litigation and contingent liabilities and uncertain tax positions (see related key audit matters below); and
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals posted by senior management, journals posted and reviewed by the same individual and consolidation journals.

There are inherent limitations in the audit procedures described above and 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. Also, 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.

### 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.

## Valuation and presentation and disclosure of goodwill and intangible assets (Group)

Key audit matter	How our audit addressed the key audit matter
<p>At 31 December 2019, the Group had goodwill of \$282 million and intangible assets of \$552 million (31 December 2018: \$279 million and \$487 million, respectively) comprising customer relationships, product-related intangible assets, software and other identified intangible assets. This is contained within four cash generating units (CGUs): Generics, Generic Advair Diskus®, Branded and Injectables.</p> <p>All CGUs containing goodwill and indefinite-lived intangible assets must be tested for impairment annually. The Group is also required to complete an impairment review of its portfolio of finite-lived tangible and intangible assets where there are indicators of impairment. Additionally, the Group must consider whether there are indicators of impairment reversal at each reporting date to the extent that this is relevant.</p> <p>The determination of recoverable values requires judgement on the part of management in identifying and then estimating the higher of the value in use and fair value less costs 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. There is a risk that the carrying value of assets may be higher than the recoverable amount. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods as IAS 36 states that impairment losses (excluding goodwill) are reversed if there has been an event or trigger that indicates a significant, discrete and sustained change.</p> <p>We focused on the intangible assets in the Generics and Generic Advair Diskus® CGUs in particular, due to the challenging recent market conditions and significant impairment in 2017, to assess if there were any significant changes in estimates relating to the external market conditions. We further focused specifically on the business plan cash flows and assumptions in the current financial year. An impairment reversal was recognised in 2019 for \$21 million attributable to three specific intangible products that showed a sustained and discrete improvement in performance. An impairment charge of \$3 million was recognised for software and other intangibles.</p> <p><i>Refer to the Audit Committee review of areas of significant judgement on page 71, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3) and goodwill and intangible assets (note 16) in the Group financial statements.</i></p>	<p>We assessed the determination of the CGUs identified for the impairment calculation by considering the CGUs previously used as well as from our understanding of the business as it develops and how it is monitored. We conclude that management's determination of four CGUs in 2019 rather than three CGUs in 2018 is reasonable.</p> <p>With support from our valuations experts, 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. Our valuations experts assessed the reasonableness of the valuation methodology, discount rates, long term growth rate and mathematical accuracy. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry forecasts.</p> <p>We performed the following procedures on the Group's impairment analyses, with significant involvement from senior engagement team members as well as our valuation experts:</p> <ul style="list-style-type: none"> <li>– corroborated the information to Board reviewed budgets and forecasts;</li> <li>– understood management's process for forecasting cash flows, which is underpinned by models that include a product-by-product analysis. We challenged management's market and pricing assumptions by comparing them to historical and third party market data. We also utilised our valuations experts to identify any anomalies or trends that warranted further investigation and corroboration;</li> <li>– 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;</li> <li>– performed look back testing to understand how accurate management had been in its previous forecasting; and</li> <li>– we recalculated the weighted average cost of capital and considered if the amount was within a reasonable range.</li> </ul> <p>For those assets including goodwill where management determined that no impairment was required, we found that these judgements were supportable.</p> <p>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 performed our own sensitivity analyses. We conclude the analyses performed and disclosed in note 16 are reasonable.</p> <p>We also considered management's policy around impairment reversal given the size of the impairment loss recognised in 2017. We considered both the conditions in the US generics market (at a CGU and product level) and factors relating to generic Advair Diskus®. Based on our procedures, we concluded it was appropriate to reverse \$21 million of impairment on three specific marketed products which showed discrete and sustained recovery in performance. On generic Advair Diskus®, Hikma submitted its repeat study in November 2019 and is awaiting the results of the FDA's review of the associated drug application. Any potential reversal will be considered if and when FDA approval is obtained in line with Hikma's policy. This will continue to be monitored closely during 2020.</p> <p>We also validated the appropriateness of the related disclosures in notes 2, 3 and 16 of the financial statements.</p>



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

## Valuation and presentation of gross to net rebate, returns and chargeback adjustments in the US (Group)

Key audit matter	How our audit addressed the key audit matter
<p>Management is required to make estimates in respect of revenue recognition and specifically the level of chargebacks, returns, rebates and other revenue deductions that will be realised against the Group's revenue. These estimates are material to the financial statements, hence the reason for inclusion as an area of focus.</p> <p>The largest of these estimates relates to revenue recognition through chargebacks, rebates and returns in the US for which the Group recorded revenue deductions for the year ended 31 December 2019 of \$2,235 million (2018: \$2,057 million).</p> <p>We focused on this area as chargebacks, returns, rebates and the deductions from gross revenue are complex, material and because establishing an appropriate reserve requires significant estimation by the Directors. This estimate is in a US healthcare environment in which competitive pricing pressure and product discounting are trends. The Directors have determined a reserve of \$442 million to be necessary at 31 December 2019 (2018: \$409 million).</p> <p><i>Refer to the Audit Committee review of areas of significant judgement on page 71, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3), trade and other receivables (note 21) and other current liabilities (note 28) in the Group financial statements.</i></p>	<p>We considered the Group's processes for making judgements in this area and performed the following procedures:</p> <ul style="list-style-type: none"> <li>– 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;</li> <li>– we obtained management's calculations for reserves under the 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;</li> <li>– we compared the assumptions to contracted prices, historical rebates, discounts 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;</li> <li>– we formed an independent expectation of the largest elements of the reserves at 31 December 2019 using third party data and compared this expectation to the actual accrual recognised by the Group; and</li> <li>– We obtained management's sensitivity analyses which showed the impact of reasonably possible changes to key assumptions. We considered whether these were the key assumptions, challenged management on whether the disclosure fully satisfied the requirements on IAS 1 and validated the impact of change in the assumptions disclosed.</li> </ul> <p>Based on the procedures performed, we did not identify any material differences between our independent expectations and the reserves recorded.</p>

## Tax including valuation and presentation of both uncertain tax positions and deferred tax assets from transfer pricing (Group)

Key audit matter	How our audit addressed the key audit matter
<p>The Group operates across many 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 leading to uncertain tax positions.</p> <p>Judgement is required in assessing the outcome, and in estimating the level, of provisions required in respect of uncertain tax positions. At 31 December 2019, the Group has recorded provisions of \$52 million in respect of uncertain tax positions (2018: \$61 million).</p> <p>In 2019 management recorded an exceptional tax credit in the income statement of \$97 million relating to (1) the recognition of US deferred tax assets arising as a result of the transfer of intangible assets from Hikma Pharmaceuticals International Limited (HPIL) to Hikma USA in July 2019 and creating deductible temporary differences in the US and (2) the recognition and utilisation of historic UK tax losses against taxable gains arising on the transfer of those assets and other taxable income in the UK. This has involved estimation of the value of the assets transferred, which determines the gain arising in the UK and future tax deductions in the US as a result. Management has used their own external expert to assist determine the valuation of the assets transferred.</p> <p>At 31 December 2019 total recognised deferred tax assets were \$243 million (2018: \$125 million) and deferred tax assets were not recognised in respect of \$170 million (2018: \$536 million) of tax losses and other deductible temporary differences. There is inherent judgement involved in estimating the period over which tax losses can be utilised and hence the level of deferred tax assets to recognise.</p> <p><i>Refer to the Audit Committee review of areas of significant judgement on page 71, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3), tax (note 12) and deferred tax (note 13) in the Group financial statements.</i></p>	<p>In conjunction with our UK, US and international tax specialists, we evaluated and assessed the potential uncertainties and challenged management's judgements and estimation of the amount of tax provisions booked against the uncertain positions.</p> <p>In understanding and evaluating management's judgements relating to the level of provisioning for uncertain tax positions, and through discussions with management, we (including component teams, where relevant) assessed:</p> <ul style="list-style-type: none"> <li>– the status of ongoing, and outcome of, previous tax authority audits;</li> <li>– the integrity of management's detailed analysis and calculations of provisions recorded, amounting to \$52 million;</li> <li>– the evidence provided by management to support its assumptions underpinning uncertain tax positions at 31 December 2019;</li> <li>– completeness of exposures for periods open to challenge and understanding new areas of enquiry from tax authorities; and</li> <li>– developments in the tax environment and external tax advice received by the Group.</li> </ul> <p>In respect of the exceptional tax credit we:</p> <ul style="list-style-type: none"> <li>– assessed the accuracy of management's estimate of the UK taxable gain arising from the sale of intangible assets from HPIL to Hikma USA and the expected utilisation of tax losses, against this gain;</li> <li>– tested the additional tax deductions arising in the US as a result of differing fair values and tax bases of the intangible assets following their transfer from HPIL to Hikma USA, and the calculation of the deferred tax asset created;</li> <li>– tested the appropriateness of the valuation of the intangible assets by checking the consistency of underlying data supporting the transfer valuation prepared by management's experts. This included reconciling cash flows and forecasts behind the transfer value to those supporting the Group's annual impairment test of goodwill and indefinite-lived intangible assets to ensure consistency of views; and</li> <li>– the appropriateness of the related disclosures in notes 12 and 13 to the financial statements against the requirements of IAS 12. This included assessing the determination of which amounts are disclosed as exceptional items based on the magnitude and the nature of the item.</li> </ul> <p>In respect of assessing recoverability of deferred tax assets, we:</p> <ul style="list-style-type: none"> <li>– assessed whether deferred tax assets were recoverable under IAS 12 with reference to Board approved forecasts including estimated taxable profit forecasts; and</li> <li>– We utilised our specialists to help us assess the presentation of the deferred tax items in accordance with IAS12.</li> </ul> <p>Based on the procedures performed, we considered the valuation and presentation of uncertain tax positions and deferred tax assets to be supportable.</p>

# 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 auditor procedures and controls, and visits were undertaken by senior team members to component auditor locations, to refine the audit approach and ensure sufficient oversight of component auditors.

As at 31 December 2019, Hikma Pharmaceuticals PLC had in total 65 entities (subsidiaries) 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 statement and statement of financial position prepared under Group accounting policies which are in compliance with IFRSs. We requested component teams in the US (Hikma USA), Jordan (Hikma Jordan), Algeria (Hikma Algeria) and Morocco (Hikma Morocco) to audit reporting packages of certain entities in these territories and report the results of their full scope audit work to us; the component audit of Hikma Pharmaceuticals PLC was performed by the Group audit team. This work was supplemented by procedures over specific balances performed on Hikma Pharmaceuticals International Limited (HPIL) and Hikma International Ventures Limited and procedures performed centrally including the consolidation, taxation and certain other component balances not covered by component auditors.

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, Jordan and Morocco.

Full scope components account for 76% of consolidated revenue, 74% of consolidated total assets and 69% of the adjusted profit measure we used as a basis for determining materiality.

## 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
<b>Overall materiality</b>	\$21.5 million (2018: \$17 million).	\$19.35 million (2018: \$10 million).
<b>How we determined it</b>	5% of profit before tax after adjusting for all exceptional items and other adjustments except for amortisation of intangible assets other than software.	1% of total assets. This was capped at \$19.35 million, but calculated based on 1% total assets.
<b>Rationale for benchmark applied</b>	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 the equivalent reported 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.	The Company holds the Group's investments and performs treasury functions on behalf of the Group. 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 \$3,000,000 and \$19,350,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$1,000,000 (Group audit) (2018: \$850,000) and \$1,000,000 (Company audit) (2018: \$850,000) 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. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
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 2019 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 pages 54 to 105) 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. (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 this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 54 to 105) 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. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

## 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 47 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 70 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.

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

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 105, 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 page 71 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' responsibilities statement set out on page 105, 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](http://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 members 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 four years, covering the years ended 31 December 2016 to 31 December 2019.

## Darryl Phillips

(Senior Statutory Auditor)

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

London  
26 February 2020

# Consolidated income statement

> Financial statements

For the year ended 31 December 2019

	Note	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
Revenue	4	2,203	4	2,207	2,076	(6)	2,070
Cost of sales		(1,059)	-	(1,059)	(1,004)	(16)	(1,020)
<b>Gross profit</b>		<b>1,144</b>	<b>4</b>	<b>1,148</b>	1,072	(22)	1,050
Selling, general and administrative expenses <sup>1</sup>		(453)	(41)	(494)	(437)	(33)	(470)
Net impairment reversals on financial assets		-	-	-	11	-	11
Research and development expenses		(126)	(24)	(150)	(118)	(29)	(147)
Other operating income/(expenses), net	9	(57)	46	(11)	(68)	(5)	(73)
Total operating expenses		(636)	(19)	(655)	(612)	(67)	(679)
<b>Operating profit</b>	5	<b>508</b>	<b>(15)</b>	<b>493</b>	460	(89)	371
Finance income	10	7	60	67	3	-	3
Finance expense	11	(52)	(15)	(67)	(54)	(26)	(80)
Gain/(loss) from investment at fair value through profit and loss (FVTPL)		2	-	2	(1)	-	(1)
Loss from investment divestiture		-	(4)	(4)	-	-	-
<b>Profit before tax</b>		<b>465</b>	<b>26</b>	<b>491</b>	408	(115)	293
Tax	12	(100)	96	(4)	(73)	65	(8)
<b>Profit for the year</b>		<b>365</b>	<b>122</b>	<b>487</b>	335	(50)	285
Attributable to:							
Non-controlling interests	33	1	-	1	3	-	3
<b>Equity holders of the parent</b>		<b>364</b>	<b>122</b>	<b>486</b>	332	(50)	282
		<b>365</b>	<b>122</b>	<b>487</b>	335	(50)	285
<b>Earnings per share (cents)</b>							
Basic	15	150.4		200.8	137.8		117.0
Diluted	15	149.8		200.0	137.2		116.5

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

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# Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
<b>Profit for the year</b>		<b>365</b>	<b>122</b>	<b>487</b>	335	(50)	285
<b>Other comprehensive income</b>							
<b>Items that may be reclassified subsequently to the consolidated income statement, net of tax:</b>							
Currency translation gain/(loss)		20	-	20	(29)	-	(29)
<b>Items that will not be reclassified subsequently to the consolidated income statement, net of tax:</b>							
Change in investments at fair value through other comprehensive income (FVTOCI)	19	(2)	-	(2)	7	-	7
<b>Total comprehensive income for the year</b>		<b>383</b>	<b>122</b>	<b>505</b>	313	(50)	263
Attributable to:							
Non-controlling interests		2	-	2	1	-	1
<b>Equity holders of the parent</b>		<b>381</b>	<b>122</b>	<b>503</b>	312	(50)	262
		<b>383</b>	<b>122</b>	<b>505</b>	313	(50)	263

# Consolidated balance sheet

> Financial statements

At 31 December 2019

	Note	2019 \$m	2018 \$m
<b>Non-current assets</b>			
Goodwill	16	282	279
Other intangible assets	16	552	487
Property, plant and equipment	17	912	870
Right-of-use assets	34	50	–
Investment in associates and joint ventures	18	11	11
Deferred tax assets	13	243	125
Financial and other non-current assets	19	32	57
		<b>2,082</b>	1,829
<b>Current assets</b>			
Inventories	20	568	528
Income tax receivable		79	74
Trade and other receivables	21	719	731
Collateralised and restricted cash	22	1	–
Cash and cash equivalents	23	442	276
Other current assets	24	39	59
		<b>1,848</b>	1,668
<b>Total assets</b>		<b>3,930</b>	3,497
<b>Current liabilities</b>			
Short-term financial debts	25	569	74
Leases liabilities	34	9	1
Trade and other payables	26	473	465
Income tax provision		82	68
Other provisions	27	23	23
Other current liabilities	28	315	262
		<b>1,471</b>	893
<b>Net current assets</b>		<b>377</b>	775
<b>Non-current liabilities</b>			
Long-term financial debts	29	48	539
Leases liabilities	34	59	23
Deferred tax liabilities	13	20	16
Other non-current liabilities	31	203	329
		<b>330</b>	907
<b>Total liabilities</b>		<b>1,801</b>	1,800
<b>Net assets</b>		<b>2,129</b>	1,697
<b>Equity</b>			
Share capital	32	41	40
Share premium		282	282
Other reserves		(179)	(217)
Retained earnings		1,973	1,580
<b>Equity attributable to equity holders of the parent</b>		<b>2,117</b>	1,685
Non-controlling interests	33	12	12
<b>Total equity</b>		<b>2,129</b>	1,697

The consolidated financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 115 to 167 were approved by the Board of Directors on 26 February 2020 and signed on its behalf by:

**Said Darwazah**  
Director  
26 February 2020

**Sigurdur Olafsson**  
Director

# Consolidated statement of changes in equity

For the year ended 31 December 2019

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

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

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

3. A net impairment reversal of \$20 million has been allocated from retained earnings to the merger and revaluation reserves in relation to Columbus business impairment reversal (Note 6 and 16)

# Consolidated Cash Flow Statement

> Financial statements

For the year ended 31 December 2019

	Note	2019 \$m	2018 \$m
<b>Cash flows from operating activities</b>			
Cash generated from operations	36	580	493
Income taxes paid		(125)	(63)
Income taxes received		17	-
<b>Net cash inflow from operating activities</b>		<b>472</b>	<b>430</b>
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment		(119)	(107)
Proceeds from disposal of property, plant and equipment		2	13
Purchase of intangible assets		(67)	(32)
Investment in joint ventures		-	(4)
(Increase)/decrease in investment in financial and other non-current assets		(1)	4
Proceeds from sale of investment at FVTOCI		12	-
Additions of investments at FVTOCI		(5)	(4)
Acquisition of business undertakings net of cash acquired		(8)	(14)
Proceeds from investment divestiture		2	-
Contingent consideration receipt		27	45
Interest income received		6	3
<b>Net cash outflow from investing activities</b>		<b>(151)</b>	<b>(96)</b>
<b>Cash flow from financing activities</b>			
(Increase)/decrease in collateralised and restricted cash		(1)	3
Proceeds from issue of long-term financial debts		19	93
Repayment of long-term financial debts		(11)	(224)
Proceeds from short-term borrowings		267	138
Repayment of short-term borrowings		(273)	(148)
Repayment of lease liabilities		(12)	-
Dividends paid		(97)	(84)
Dividends paid to non-controlling shareholders of subsidiaries		(2)	(3)
Interest and bank charges paid		(44)	(51)
Payment to co-development and earnout payment agreement		(1)	(2)
<b>Net cash outflow from financing activities</b>		<b>(155)</b>	<b>(278)</b>
<b>Net increase in cash and cash equivalents</b>		<b>166</b>	<b>56</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>276</b>	<b>227</b>
Foreign exchange translation movements		-	(7)
<b>Cash and cash equivalents at end of year</b>		<b>442</b>	<b>276</b>

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# 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. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group but may impact the accounting for future transactions and arrangements.

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments

### IFRS 16

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

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

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (eg a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

The lessee generally recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

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

The Group has adopted IFRS 16, applying modified retrospective approach on 1 January 2019, and recognised right-of-use assets of \$55 million (including \$10 million reclassified from property, plant and equipment previously recognised as assets held under finance lease and offsetting accrued rent of \$3 million) and lease liabilities of \$48 million, the effect on the current year of adopting IFRS 16 is disclosed in Note 34.

### IFRIC 23

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

The Group adopted IFRIC 23 as of 1 January 2019 and reassessed the effect of uncertainty where applicable. The impact of adoption was a decrease of \$2 million of the amount previously held for uncertain tax positions which was reflected in retained earnings.

## 2. Significant accounting policies

### General information

Hikma Pharmaceuticals PLC is a public limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is given on page 176.

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

### Basis of preparation

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

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

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

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

### Going concern

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and therefore considered the going concern basis as appropriate. Therefore, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements (see page 51).

### 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). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 joint ventures

## 2. Significant accounting policies continued

The consolidated financial statements of entities 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.

Contingent consideration classified as an asset or liability is a financial investment and, within the scope of IFRS 9 'Financial Instruments', is measured at fair value, with changes in fair value recognised in consolidated income statement in line with IFRS 9.

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 (ie 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.

### 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 associate and joint ventures are incorporated in these consolidated 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 associates, 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. The aggregate of Groups' share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit after tax.

### 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.



## 2. Significant accounting policies continued

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 rate prevailing on the balance sheet date. Sudan was considered as a hyperinflationary economy in the year ended 31 December 2019 in which the rate prevailing was 45.2284 Sudanese pound per US dollar as of 31 December 2019. The effect of inflation accounting in Sudan for the year ended 31 December 2019 was not material.

### Revenue recognition

Under IFRS 15 revenue is recognised in the consolidated income statement when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The point at which control passes is determined by each customer arrangement, but generally occurs on delivery to the customer.

The Group manufactures certain medicines on behalf of the customers. The revenue from providing contract manufacturing services is recognised when these medicines are approved by the quality control department. There is no alternative use of these medicines and also the Group has enforceable right to payments once these medicines are quality approved.

The Group has generally concluded that it acts as principal in its revenue arrangements because it typically controls the goods or services before the transfer to customer.

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, returns and price adjustments. 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.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

### Variable consideration

The ultimate net selling price is calculated using variable consideration estimates for certain gross to net adjustments.

### 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 (see Note 21 for chargebacks sensitivity analysis).

### 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 (see Note 28 for return sensitivity analysis).

### Rebates

In the US, rebates are granted to wholesaler distributors and direct customers. Rebates are also granted to healthcare authorities and under contractual arrangements with certain indirect customers. Products sold in the US are covered by various programmes (such as Medicaid) under which products are sold at a discount.

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 (see Note 21 and 28 for rebates sensitivity analysis).

### 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.

## 2. Significant accounting policies continued

### Customer option that provides a material right Free goods

Free goods are issued to customers as sale incentives. Under IFRS 15 an option to acquire additional goods or services gives rise to a separate performance obligation, if the option provides a material right that the customer would not receive without entering into that contract. IFRS 15 requires management to estimate the transaction price to be allocated to the separate performance obligations and to recognise a contract liability for the performance obligations that will be satisfied in the future. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

### 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 Plans (EIP) or the 2009 and 2018 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.

### Dividend income

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

### Leasing

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

- Right-of-use assets: The Group recognises right-of-use assets at the commencement date of the lease (ie the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain or obtaining ownership of leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Right of use of assets are depreciated on a straight-line basis at the following depreciation rates:

Buildings	5% to 50%
Vehicles	25% to 86%

- Lease liabilities: at the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The discount rate used to calculate the lease liabilities is the incremental borrowing rate (IBR) the Group estimates it using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit profile)
- Short-term leases and leases of low-value assets: the Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (ie those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (ie below \$5,000). A lease payment on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term

## 2. Significant accounting policies continued

### 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 consolidated 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 consolidated financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the consolidated 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 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 consolidated 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 intercompany 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 2019, this had a 0.5% favourable impact on the effective tax rate (2018: 1.3% 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 consolidated financial statements.

Our core results exclude the exceptional items and other adjustments set out in Note 6 in the notes to the consolidated 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 as costs associated with business combinations, one-off gains and losses on disposal of businesses assets, reorganisation costs, write-down and impairment charges/reversal 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 consolidated financial statements which is consistent with our industry peers. 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.

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

## 2. Significant accounting policies continued

### Intangible assets

An intangible asset is recognised if all the below conditions are met:

- it is identifiable
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group
- 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 and are amortised on a straight-line basis on the following amortisation rates:

Customer relationships	7%
Product related intangibles	7% to 14%
Trade names	10%
Marketing rights	10% to 50%
Software	10% to 30%

Judgement 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 certain 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) **Product related intangibles:**

- (i) In process product files recognised on acquisition are amortised over the useful economic life once the asset is ready for use.
  - (ii) 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.
- (c) **Purchased software:** is amortised over the useful economic life when the asset is ready for use.

Other identified intangibles are:

- (d) **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.
- (e) **Trade names:** are amortised over their useful lives from the date of acquisition.
- (f) **Marketing rights:** are amortised over their useful lives commencing in the year in which the rights first generate sales.

### 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 5%
Machinery and equipment	5% to 33%
Vehicles, fixtures and equipment	8% to 33%

A unit 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.

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 (CGU)) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 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 in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. In line with IAS 36, previously recognised impairment losses on goodwill are not reversed. see Note 16.

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 and sensitivity analysis in the impairment tests are set out in Note 16.

- (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 consolidated 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 comprise cash at bank and in hand and highly liquid investments with maturities within three months or less. Money market funds comprise of investment in funds that are subject to insignificant risk of changes in fair value and can be readily converted into cash.

### Financial instruments

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

#### Financial assets

The Group classifies its financial assets in the following measurements categories:

##### (i) Financial assets at FVTPL

Listed shares, debt instruments and investment portfolios held by the Group that are traded in an active market are classified as being financial assets at FVTPL and are stated at fair value. Gains and losses arising from changes in fair value are recognised in the consolidated Income Statement, see Note 24.

##### (ii) Financial assets at FVTOCI

The Group's investments in unlisted shares through its venture capital are stated at FVTOCI with no recycling of cumulative gains or losses upon de-recognition, see Note 19.

##### (iii) Financial assets at amortised cost

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Financial assets at amortised cost'. 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.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.



## 2. Significant accounting policies continued

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVTOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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.

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit loss. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### Financial liabilities

Financial liabilities are classified in two categories: financial liabilities 'at FVTPL' or 'Loans and Borrowings'. 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 research and development; and commercialisation milestones. Those payments are recognised as financial liabilities once received
- contingent consideration arising from the Columbus business 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) Loans and borrowings

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 used for calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The calculation of 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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised 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.

### Restructuring provisions

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when:

- (i) There is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline;
- (ii) The employees affected have been notified of the plan's main features

### Decommissioning provisions

The Group records a provision for decommissioning costs of a manufacturing facility. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated income statement as a finance expense. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

### Own shares

The Group provide finance to the trustee of the Employee Benefit Trust (EBT) which is Link Market Apex Financial Services (Trust Company) Limited. Own shares are deducted from equity. These shares are held to be used to satisfy long-term commitments arising from the employee share plan operated by the Company.

### Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. In accordance with the laws of the United Kingdom, a final dividend is binding on the Company when it is approved by the shareholders and an interim dividend obtains this status when it is approved by the Board of Directors.

### 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 and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates 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 estimate (Notes 4 and 5)

The Group's revenue recognition policies require Directors to make estimates of the net selling price, which is made complicated due to chargebacks, product returns and rebates. These arrangements vary by product arrangements and buying groups. Refer to Note 2 for more details on each of the underlying estimates.

### Goodwill (Note 16)

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 and estimates:

#### Critical judgement

- Determination of the cash generating units (CGU)

#### Critical estimate

- Estimating 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
- Estimating future capital expenditures and working capital requirements over the five-year period
- Estimating a discount rate that appropriately reflects the Group's weighted average cost of capital (WACC) as adjusted for specific risk premiums reflecting risks inherent in achieving the projected future cash flows
- Estimating appropriate terminal growth rate beyond the forecast period

### Acquired intangible assets (Note 16)

Valuing intangible assets upon initial recognition as at the acquisition date and testing for impairment require the following judgement and estimates:

#### Critical judgement

- For pipeline products, establishing the launch date and probability of a successful product approval are critical judgements
- Determining whether a 'triggering event' has occurred for intangible assets. In such case we first assess the qualitative factors to determine whether it is more likely than not that the fair value of the intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test
- For previously impaired assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased, if such indication exists, the Group estimates the asset's or CGU's recoverable amount. Refer to Note 2 & 16 for more details

#### Critical estimate

- Estimating revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices)
- Estimating the expected economic useful lives of the product-related intangibles
- Estimating the sales and the allocation of marketing, research and development and other operating costs to the individual product-related intangibles
- Estimating a contributory asset charge (on working capital, fixed assets and workforce)
- Estimating a discount rate and specific risk premiums
- The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 16

### Contingent consideration

The determination of the fair value of contingent consideration is based on discounted cash flows. The critical estimate and assumptions taken into consideration for contingent consideration fair valuation are same as described in acquired intangibles assets' above (See Note 28 and 31).

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

#### Taxation (Notes 12 and 13)

##### 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 consolidated 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 \$281 million (2018: \$219 million), of which \$243 million (2018: \$125 million) has been recognised. In 2019, as part of the internal reorganisation of intangible assets, a deferred tax asset was set up due to the higher amortisable base resulting in a higher tax deduction. The significant decrease of unrecognised deferred tax assets is due to the utilisation of previously unrecognised carried forward losses during the year and the expiration of \$92 million of losses in the UK.

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.

##### Tax audit risk

In common with most international organisations, the Group is 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, intercompany 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.

##### Valuation risk

As part of a reorganisation following the Columbus business acquisition in 2016 and the 2019 business restructuring, 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 consolidated balance sheet date, the Group held an aggregate provision in the sum of \$53 million in respect of liabilities likely to arise from the above estimation uncertainties. Hikma released \$9 million in 2019 due to the statute of limitations and released \$12 million following adjustments to the tax returns. This was offset by new provisions and updates of \$7 million booked in 2019. In 2020, up to \$5 million could be released primarily 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 (see Note 37).

The critical areas of judgement in relation to contingent liabilities is as follows:

- a possible obligation depending on whether some uncertain future event occurs in relation to legal proceedings and/or governmental agencies investigations
- a present obligation but payment is not probable where Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defence of legal proceedings
- a present obligation but the amount cannot be measured reliably

## Notes to the consolidated financial statements continued

### 4. Revenue from contracts with customers

#### Business and geographical markets:

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

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

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

The top selling markets in 2019 are as below:

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

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

The following table provides contract balances related to revenue:

	2019 \$m	2018 \$m
Trade receivables (Note 21)	637	654
Contract liability (Note 28)	142	151

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

Contract liability mainly relates to returns provisions and free goods balance.

## 5. Business segments

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

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

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

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

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
<b>Generics</b>						
Revenue	719	-	719	692	-	692
Cost of sales	(393)	-	(393)	(397)	(16)	(413)
<b>Gross profit</b>	<b>326</b>	<b>-</b>	<b>326</b>	295	(16)	279
Total operating expenses	(202)	27	(175)	(202)	(37)	(239)
<b>Segment result</b>	<b>124</b>	<b>27</b>	<b>151</b>	93	(53)	40

## Notes to the consolidated financial statements continued

### 5. Business segments continued

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

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
<b>Others<sup>1</sup></b>						
Revenue	11	-	11	10	-	10
Cost of sales	(8)	-	(8)	(7)	-	(7)
<b>Gross profit</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>3</b>
Total operating expenses	(3)	-	(3)	(8)	-	(8)
<b>Segment result</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>-</b>	<b>(5)</b>

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

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
<b>Group</b>						
Segment result	591	(15)	576	540	(89)	451
Unallocated expenses <sup>1</sup>	(83)	-	(83)	(80)	-	(80)
<b>Operating profit</b>	<b>508</b>	<b>(15)</b>	<b>493</b>	<b>460</b>	<b>(89)</b>	<b>371</b>
Finance income	7	60	67	3	-	3
Finance expense	(52)	(15)	(67)	(54)	(26)	(80)
Gain/(loss) from investment at FVTPL	2	-	2	(1)	-	(1)
Loss from investment divestiture	-	(4)	(4)	-	-	-
<b>Profit before tax</b>	<b>465</b>	<b>26</b>	<b>491</b>	<b>408</b>	<b>(115)</b>	<b>293</b>
Tax	(100)	96	(4)	(73)	65	(8)
<b>Profit for the year</b>	<b>365</b>	<b>122</b>	<b>487</b>	<b>335</b>	<b>(50)</b>	<b>285</b>
Attributable to:						
Non-controlling interests	1	-	1	3	-	3
<b>Equity holders of the parent</b>	<b>364</b>	<b>122</b>	<b>486</b>	<b>332</b>	<b>(50)</b>	<b>282</b>
	<b>365</b>	<b>122</b>	<b>487</b>	<b>335</b>	<b>(50)</b>	<b>285</b>

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

## 6. 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.

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

Exceptional items have been recognised in accordance with our accounting policy outlined in Note 2, the details are presented below:

### Exceptional items

- Hikma incurred \$24 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. The study was completed in November 2019. The study and certain additional information was submitted to the US FDA for their review
- During the year, a fire broke out in a warehouse at one of Hikma's Jordan facilities which serves the Generics and Branded segments. Production was halted for a period of time and inventory was damaged. The associated loss was \$17 million, mainly comprising damaged inventory and the cost to remediate property, plant and equipment. To date, the Group has received insurance compensation of \$4 million related to the fire incident resulting in a net exceptional expense of \$13 million included in other operating income/(expenses). The Group expects to receive final insurance compensation in 2020 and the amount receivable related to this contingent asset cannot be measured reliably and is dependent on the final outcome of the insurance claim
- Hikma received compensation proceeds of \$32 million in relation to a litigation matter with an external party where one of Hikma's product's sales were halted by a temporary restraining order and an injunction. The litigation was resolved in Hikma's favour and a payment was received from the plaintiff representing lost profit over the affected time period. This is included in other operating income/(expenses)
- The contingent consideration adjustment of \$7 million relates to a change in estimate of the amount of expected contingent payments Hikma was entitled to receive under the terms of the Columbus acquisition agreement. This is included in other operating income/(expenses) and in cash flow from investing activities
- MENA severance and restructuring costs of \$7 million related to one-off organisational restructuring in MENA and are mainly included in selling, general and administrative expenses (SG&A). Management expects to incur further costs in 2020 of approximately \$5 million
- A provision of \$4 million in relation to integration costs of the Columbus business and the consolidation of the distribution centre in the US was released. This was previously provided for in 2018 as exceptional items included in revenue
- \$4 million loss from divestiture of Medlac investment (Note 42)
- \$21 million impairment reversal of product related intangibles related to specific product related assets in Generics segment offset by \$1 million impairment charge. This is included in other operating income/(expenses)
- The Group has benefitted \$49 million from the utilisation of previously unrecognised deferred tax assets following the internal reorganisation of intangible assets (Note 12)
- The Group has recorded a \$48 million tax benefit associated with the internal reorganisation of intangible assets (Note 12)



# Notes to the consolidated financial statements continued

## 6. Exceptional items and other adjustments continued

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

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

### Other adjustments

Remeasurement of contingent consideration, financial liability and asset represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments receivables in respect of the Columbus business acquisition and the financial liability in relation to the co-development earnout payment agreement (Notes 10,11, 24, 28 and 31). The remeasurement is included in finance (expense)/income.

## 7. Audit remuneration

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

	2019 \$m	2018 <sup>2</sup> \$m
Audit of the Company's annual accounts	0.8	0.7
Audit of the Company's subsidiaries pursuant to legislation	1.7	1.8
<b>Total audit fees</b>	<b>2.5</b>	<b>2.5</b>
Assurance services <sup>1</sup>	0.2	0.2
<b>Total audit and assurance fees</b>	<b>2.7</b>	<b>2.7</b>

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

2. Amounts have been restated to reflect final amounts billed in relation to 2018

Nominal non-audit fees were charged in both years. In 2019 non-audit fees relate to a non-audit assurance engagement in connection with a statement of completeness of sales packaging brought to market in Germany. In 2018, non-audit fees relate to subscriptions to a technical accounting portal, general training and services required to be performed by the incumbent in Ireland.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 69 to 72 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

## 8. Staff costs

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

	2019 Number	2018 Number
Production	4,818	4,634
Sales and marketing	2,180	2,246
General and administrative	1,130	1,158
Research and development	450	375
	<b>8,578</b>	<b>8,413</b>

## 8. Staff costs continued

	2019 \$m	2018 \$m
Aggregate remuneration comprised:		
Wages, salaries and bonuses	356	346
Social security costs	36	32
Post-employment benefits	14	13
End of service indemnity	13	18
Share-based payments (Note 38)	24	21
Car and housing allowances	21	20
Health insurance	34	38
Other costs and employee benefits	22	18
	<b>520</b>	<b>506</b>

## 9. Other operating expense/income

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
<b>Other operating expense</b>						
Inventory related provisions	49	11	60	62	–	62
Impairment charge	2	1	3	8	2	10
Damage of property, plant and equipment	–	3	3	–	3	3
Forex losses (net)	4	–	4	5	–	5
Others	5	–	5	–	–	–
	<b>60</b>	<b>15</b>	<b>75</b>	<b>75</b>	<b>5</b>	<b>80</b>

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
<b>Other operating income<sup>1</sup></b>						
Impairment reversal	–	21	21	–	–	–
Others	3	40	43	7	–	7
	<b>3</b>	<b>61</b>	<b>64</b>	<b>7</b>	<b>–</b>	<b>7</b>

1. In 2019, the other operating income of \$43 million mainly comprised \$32 million related to a litigation matter with an external party, which was concluded in Hikma's favour and \$7 million related to a change in estimate of the amount of expected contingent payments Hikma was entitled to receive under the terms of the Columbus acquisition agreement

## Notes to the consolidated financial statements continued

### 10. Finance income

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
Interest income	6	–	6	3	–	3
Remeasurement of contingent consideration and financial liability	–	60	60	–	–	–
Net foreign exchange gain	1	–	1	–	–	–
	<b>7</b>	<b>60</b>	<b>67</b>	<b>3</b>	<b>–</b>	<b>3</b>

### 11. Finance expense

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
Interest on bank overdrafts and loans	13	–	13	18	–	18
Interest on Eurobond	22	–	22	22	–	22
Remeasurement of contingent consideration and financial liability	–	15	15	–	26	26
Other bank charges	13	–	13	13	–	13
Lease accretion of interest	4	–	4	1	–	1
	<b>52</b>	<b>15</b>	<b>67</b>	<b>54</b>	<b>26</b>	<b>80</b>

### 12. Tax

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
Current tax:						
UK corporation tax	16	32	48	1	–	1
Foreign tax	73	(3)	70	36	(9)	27
Deferred tax (Note 13)						
Current year	2	(125)	(123)	39	(43)	(4)
Adjustment to prior year	9	–	9	(3)	(13)	(16)
	<b>100</b>	<b>(96)</b>	<b>4</b>	<b>73</b>	<b>(65)</b>	<b>8</b>

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

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

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

## 12. Tax continued

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

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

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

Permanent differences relate to items which are non-taxable or for which no tax relief is ever likely to be due. The major items are expenses and income disallowed where they are covered by statutory exemptions, foreign exchange differences in some territories and statutory reliefs such as R&D and manufacturing tax credits.

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

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

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

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

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

### Publication of tax strategy

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

## Notes to the consolidated financial statements continued

### 13. Deferred tax

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

	As at 31 December	
	2019 \$m	2018 \$m
Deferred tax liabilities	(20)	(16)
Deferred tax assets	243	125
	<b>223</b>	<b>109</b>

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
<b>At 1 January 2018</b>	3	1	133	(16)	(33)	–	88
Credit/(charge) to income	–	–	(16)	5	31	1	21
<b>At 31 December 2018 and 1 January 2019</b>	3	1	117	(11)	(2)	1	109
Credit/(charge) to income	–	(1)	(3)	126	(8)	–	114
<b>At 31 December 2019</b>	<b>3</b>	<b>–</b>	<b>114</b>	<b>115</b>	<b>(10)</b>	<b>1</b>	<b>223</b>

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

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

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

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

### 14. Dividends

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

The proposed final dividend for the year ended 31 December 2019 is 30.0 cents (2018: 26.0 cents).

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

## 15. Earnings per share (EPS)

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

	2019 Core results \$m	2019 Exceptional items and other adjustments (Note 6) \$m	2019 Reported results \$m	2018 Core results \$m	2018 Exceptional items and other adjustments (Note 6) \$m	2018 Reported results \$m
Earnings for the purposes of basic and diluted EPS being net profit attributable to equity holders of the parent	364	122	486	332	(50)	282

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

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



## Notes to the consolidated financial statements continued

### 16. Goodwill and other intangible assets

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

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

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

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

#### Goodwill

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

	As at 31 December	
	2019 \$m	2018 \$m
Branded	168	166
Injectables	114	113
<b>Total</b>	<b>282</b>	<b>279</b>

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

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

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

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

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

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

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

## 16. Goodwill and other intangible assets continued

### Other intangible assets

#### Product-related intangible

##### IPR&D

During the last quarter, the Group performed its annual review of IPR&D assets. The result of this testing was an impairment charge of \$2 million.

##### Product rights

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

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

##### Software

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

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

### Other identified intangibles

#### Customer relationships

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

#### Trade names

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

#### Marketing rights

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

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

## 17. Property, plant and equipment

Cost	Land and buildings \$m	Machinery and equipment \$m	Vehicles, fixtures and equipment \$m	Projects under construction \$m	Total \$m
<b>Balance at 1 January 2018</b>	<b>592</b>	<b>619</b>	<b>114</b>	<b>164</b>	<b>1,489</b>
Additions	8	15	6	100	129
Acquisition of subsidiaries	7	5	-	-	12
Disposals	(33)	(22)	(4)	(3)	(62)
Transfers	6	18	2	(26)	-
Translation adjustment	(6)	(8)	(1)	(4)	(19)
<b>Balance at 1 January 2019 as previously reported</b>	<b>574</b>	<b>627</b>	<b>117</b>	<b>231</b>	<b>1,549</b>
Impact of IFRS 16 <sup>1</sup>	(14)	(2)	-	-	(16)
<b>Balance at 1 January 2019 as adjusted</b>	<b>560</b>	<b>625</b>	<b>117</b>	<b>231</b>	<b>1,533</b>
Additions	7	12	7	88	114
Disposals	(10)	(3)	(4)	-	(17)
Transfers	34	48	3	(85)	-
Translation adjustment	6	3	2	(1)	10
<b>Balance at 31 December 2019</b>	<b>597</b>	<b>685</b>	<b>125</b>	<b>233</b>	<b>1,640</b>
<b>Accumulated depreciation</b>					
<b>Balance at 1 January 2018</b>	<b>(196)</b>	<b>(379)</b>	<b>(73)</b>	<b>(13)</b>	<b>(661)</b>
Charge for the year	(19)	(38)	(12)	-	(69)
Disposals	19	23	4	-	46
Impairment (Note 6)	-	(3)	-	-	(3)
Translation adjustment	2	5	1	-	8
<b>Balance at 1 January 2019 as previously reported</b>	<b>(194)</b>	<b>(392)</b>	<b>(80)</b>	<b>(13)</b>	<b>(679)</b>
Impact of IFRS 16 <sup>1</sup>	5	1	-	-	6
<b>Balance at 1 January 2019 as adjusted</b>	<b>(189)</b>	<b>(391)</b>	<b>(80)</b>	<b>(13)</b>	<b>(673)</b>
Charge for the year	(16)	(30)	(18)	-	(64)
Disposals	6	2	3	-	11
Translation adjustment	-	(1)	(1)	-	(2)
<b>Balance at 31 December 2019</b>	<b>(199)</b>	<b>(420)</b>	<b>(96)</b>	<b>(13)</b>	<b>(728)</b>
Carrying amount					
<b>At 31 December 2019</b>	<b>398</b>	<b>265</b>	<b>29</b>	<b>220</b>	<b>912</b>
At 31 December 2018	380	235	37	218	870

1. The Group has adopted IFRS 16, applying modified retrospective approach on 1 January 2019, as result \$10 million were reclassified from property, plant, and equipment to right-of-use assets in relation to assets previously recognised as assets held under finance lease

Land is not subject to depreciation.

As at 31 December 2019, the Group had pledged property, plant and equipment with a carrying value of \$8 million (2018: \$8 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 Tunisia (2018: Germany and Tunisia).

Depreciation of \$48 million (2018: \$55 million) is included in the cost of sales, \$12 million (2018: \$9 million) in selling general and administrative expenses and \$4 million (2018: \$5 million) in research and development expenses.

As at 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$21 million (2018: \$27 million).

## Notes to the consolidated financial statements continued

### 18. Investments in associates and joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) is 49% at 31 December 2019 (31 December 2018: 49%) with an investment balance of \$9 million at 31 December 2019 (31 December 2018: \$9 million).

In 2017, Hikma and MIDROC Group agreed not to proceed with the Hikmacure joint venture and to liquidate it. As part of the liquidation process the joint venture granted two loans of \$2 million each to the Group and MIDROC Group. The balance of \$2 million investment in Hikmacure is currently outstanding and the liquidation is still in progress.

Total investment in joint ventures including Hubei Haosun Pharmaceuticals Co Ltd and Hikmacure adds up to \$11 million (2018: \$11 million).

The Group's share of the results of Hubei Haosun Pharmaceutical Co Ltd is \$nil (2018: \$nil).

	For the year ended 31 December 2019		For the year ended 31 December 2018		
	Joint ventures \$m	Total \$m	Joint ventures \$m	Associates \$m	Total \$m
<b>Balance at 1 January</b>	<b>11</b>	<b>11</b>	3	3	6
Additions	-	-	-	5	5
Share of profit	-	-	-	-	-
Reclassification	-	-	8	(8)	-
<b>Balance at 31 December</b>	<b>11</b>	<b>11</b>	11	-	11

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

	As at 31 December 2019 \$m	As at 31 December 2018 \$m
Total assets	17	17
Total liabilities	(2)	(2)
Net assets	15	15
<b>Group's share of net assets of joint ventures</b>	<b>7</b>	<b>7</b>

	For the year ended 31 December 2019 \$m	For the year ended 31 December 2018 \$m
Total revenue	5	6
Net profit	1	1
<b>Group's share of profit of joint ventures</b>	<b>-</b>	<b>-</b>

## 19. Financial and other non-current assets

	As at 31 December	
	2019 \$m	2018 \$m
Investments at FVTOCI	18	27
Other non-current assets	14	30
	<b>32</b>	<b>57</b>

**Investments at FVTOCI** include investments in eight venture capital companies through the Group's venture capital arm Hikma International Ventures Developments LLC and Hikma Ventures Limited. During 2019, the Group sold one of its investments for \$12 million and invested \$5 million in new ventures.

**Other non-current assets** mainly represent inventory that is expected not to be sold within one year.

## 20. Inventories

	As at 31 December	
	2019 \$m	2018 \$m
Finished goods	139	135
Work-in-progress	94	83
Raw and packing materials	279	253
Goods in transit	27	32
Spare parts	29	25
	<b>568</b>	<b>528</b>

Inventories are stated net of provisions as follows:

	As at	Additions	Utilisation	As at
	31 December			31 December
	2018	\$m	\$m	2019
	\$m			\$m
Provisions against inventory	72	60	(47)	85



## Notes to the consolidated financial statements continued

### 21. Trade and other receivables

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

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

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

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

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

### 22. Collateralised and restricted cash

Collateralised and restricted cash amounted to \$1 million (2018: \$nil) mainly represent restricted cash retained against short-term bank transactions granted to the Group's Sudanese and Algerian operations.

### 23. Cash and cash equivalents

	As at 31 December	
	2019 \$m	2018 \$m
Cash at banks and on hand	94	112
Time deposits	309	128
Money market deposits	39	36
	<b>442</b>	<b>276</b>

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

## 24. Other current assets

	As at 31 December	
	2019 \$m	2018 \$m
Price adjustment receivable	-	20
Investment at FVTPL	23	21
Others	16	18
	<b>39</b>	<b>59</b>

**Price adjustment receivable** represents the current portion of the contingent receivable in relation to the Columbus business acquisition, whereby, as part of the acquisition, the Group was reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received \$27 million reimbursement (2018: \$45 million) in cash.

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

## 25. Short-term financial debts

	As at 31 December	
	2019 \$m	2018 \$m
Bank overdrafts	6	-
Import and export financing	52	58
Short-term loans	2	7
Current portion of long-term loans (Note 29) <sup>1</sup>	509	9
	<b>569</b>	<b>74</b>

1. As part of our long-term financing requirements, we are exploring refinancing options for our \$500 million Eurobond which is due for repayment in April 2020, including alternatives in the fixed income markets. The Group may also utilise its cash and unutilised revolving credit facility of \$1,000 million (refer to Note 29) to repay the Eurobond

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

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

## 26. Trade and other payables

	As at 31 December	
	2019 \$m	2018 \$m
Trade payables	286	263
Accrued expenses	173	185
Other payables	14	17
	<b>473</b>	<b>465</b>

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

Other payables mainly comprises employees' provident fund liability of \$5 million (31 December 2018: \$7 million), which mainly represents the outstanding contributions to the Hikma Pharmaceuticals Ltd (Jordan) retirement benefit plan, on which the fund receives 3.5% interest.

## Notes to the consolidated financial statements continued

### 27. 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:

	2019 \$m	2018 \$m
1 January	23	26
Additions	6	5
Utilisation	(6)	(8)
At 31 December	23	23

### 28. Other current liabilities

	As at 31 December	
	2019 \$m	2018 \$m
Contract liability	142	151
Co-development and earnout payment	1	2
Supply manufacturing agreement	5	18
Contingent liability (Note 31)	15	–
Contingent consideration (Note 31)	63	–
Indirect rebate and other allowances	61	65
Others	28	26
	<b>315</b>	<b>262</b>

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

At 31 December 2019, the provision balance relating to returns was \$116 million (2018: \$121 million) within what management believes is a reasonable range for the provision of \$113 million to \$119 million. The key assumptions included in calculating this provision are estimations of revenue estimated to be subject to returns and the estimated returns rate of 1.3% (2018: 1.3%) as informed by both historical return rates and consideration of specific factors like product dating and expiration, new product launches, entrance of new competitors, and changes to contractual terms. Based on the conditions existing at the balance sheet date, a ten basis point increase/decrease in the returns & allowances rate would increase/decrease this provision by approximately \$4 million.

	As at 31 December 2018 \$m	Additions \$m	Utilisation \$m	As at 31 December 2019 \$m
Contract liability	151	96	(105)	142

## 28. Other current liabilities continued

**Supply manufacturing agreement:** as part of the acquisition of the Columbus business, the Group entered into supply and manufacturing contracts with the seller, Boehringer Ingelheim. This balance represents the current portion of the liability.

**Indirect rebate and other allowances:** mainly represents rebates granted to healthcare authorities and other parties under contractual arrangements with certain indirect customers.

At 31 December 2019, provision balance relating to the indirect rebates was \$42 million (2018: \$51 million) within what management believes is a reasonable range for the provision of \$40 million to \$44 million. Included within this balance are provisions for non-customer rebates of \$22 million and government rebates of \$20 million. The key inputs and assumptions included in calculating this provision are historical relationships of rebates and payments to revenue, past payment experience, estimate of 'in channel' inventory at the wholesalers and estimated future trends. Based on the conditions existing at the balance sheet date, a one percentage point increase/decrease in rebates rate of 3.5% would increase/decrease this provision by approximately \$6 million.

## 29. Long-term financial debts

	As at 31 December	
	2019 \$m	2018 \$m
Long-term loans	57	51
Long-term borrowings (Eurobond)	500	497
Less: current portion of long term loans (Note 25)	(509)	(9)
Long-term financial loans	48	539
Breakdown by maturity:		
Within one year	509	9
In the second year	12	509
In the third year	12	8
In the fourth year	15	8
In the fifth year	6	9
In the sixth year	2	5
Thereafter	1	–
	557	548
Breakdown by currency:		
US dollar	508	514
Euro	16	17
Jordanian Dinar	12	–
Algerian dinar	20	16
Tunisian dinar	1	1
	557	548

The loans are held at amortised cost.

Long-term loans amounting to \$1 million (31 December 2018: \$1 million) are secured on certain property, plant and equipment.

Major arrangements entered into by the Group:

- A \$500 million (carrying value of \$500 million, and fair value of \$501 million) 4.25% Eurobond which is due for repayment in April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of the Columbus business acquisition.
- A syndicated revolving credit facility of \$1,175 million was entered into on the 27 of October 2015. \$1,000 million of this facility matures on 24 December 2021 and the remaining \$175 million matured 24 December 2019. The facility has an outstanding balance of \$nil (2018: \$nil) and a \$1,000 million unused available limit (2018: \$1,175 million). The facility can be used for general corporate purposes.
- A ten-year \$150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was no utilisation of the loan as at 31 December 2019. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan will be used in MENA and in other World Bank countries of operation for its general corporate purposes. The facility matures on 15 December 2027.

## Notes to the consolidated financial statements continued

### 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 consolidated balance sheet are net of allowances for doubtful debts, chargebacks and other allowances. A provision for impairment is made based on expected credit losses which are estimated based on previous experience, current events and forecasts of future conditions.

The credit risk on liquid investments 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 2019, the Group's largest two customers in the MENA region represented 6.1% of Group revenue, 3.7% from one customer in Saudi Arabia and 2.4% from another customer in Saudi Arabia. At 31 December 2019, the amount of receivables due from all customers based in Saudi Arabia was \$70 million (2018: \$83 million).

During the year ended 31 December 2019, three key US wholesalers represented 37% of Group revenue (2018: 40%). The amount of receivables due from all US customers at 31 December 2019 was \$280 million (2018: \$298 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 to 90 days, in Europe 30 to 120 days and in MENA 180 to 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 following table provides a summary of the age of trade receivables (Note 21):

	Not past due on the reporting date \$m	Past due				Total \$m
		Less than 90 days \$m	Between 91 and 180 days \$m	Between 181 and 360 days \$m	Over one year \$m	
<b>At 31 December 2019</b>						
Total trade receivables as at 31 December 2019	788	71	12	28	73	972
Related allowance for doubtful debts	-	-	-	(4)	(51)	(55)
	788	71	12	24	22	917
Chargebacks and other allowances						(280)
Net receivables						637

	Not past due on the reporting date \$m	Past due				Total \$m
		Less than 90 days \$m	Between 91 and 180 days \$m	Between 181 and 360 days \$m	Over one year \$m	
<b>At 31 December 2018</b>						
Total trade receivables as at 31 December 2018	739	102	21	21	63	946
Related allowance for doubtful debts	(1)	-	(1)	(1)	(53)	(56)
	738	102	20	20	10	890
Chargebacks and other allowances						(236)
Net receivables						654

## 30. Financial policies for risk management and their objectives continued

### 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, if needed.

### 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 25), Leases liabilities (Note 34), long-term financial debts (Note 29), net of cash and cash equivalents (Note 23) and collateralised and restricted cash (Note 22).

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 consolidated 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 2019, the Group's gearing (total debt/equity) was 32% (2018: 38%). The decrease in the Group's gearing ratio is due to higher profits during 2019 which led to an increase in the Group total equity.

### 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 its risk appetite.

### Foreign exchange risk and currency risk

The Group uses the US dollar as its reporting currency and is therefore exposed to foreign exchange movements primarily in the Euro, Algerian dinar, Sudanese pound, Japanese yen, Egyptian pound, Tunisian dinar, Lebanese pound 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.



## Notes to the consolidated financial statements continued

### 30. Financial policies for risk management and their objectives continued

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

	Period-end rates		Average rates	
	2019	2018	2019	2018
US dollar/Euro	<b>0.8915</b>	0.8719	<b>0.8936</b>	0.8442
US dollar/Sudanese pound	<b>45.2284</b>	47.6190	<b>46.0829</b>	32.6797
US dollar/Algerian dinar	<b>119.1468</b>	118.3304	<b>119.3798</b>	116.6424
US dollar/Saudi riyal	<b>3.7495</b>	3.7495	<b>3.7495</b>	3.7495
US dollar/Pound sterling	<b>0.7551</b>	0.7839	<b>0.7833</b>	0.7464
US dollar/Jordanian dinar	<b>0.7090</b>	0.7090	<b>0.7090</b>	0.7090
US dollar/Egyptian pound	<b>15.9770</b>	17.8571	<b>16.7280</b>	17.7936
US dollar/Japanese yen	<b>109.0193</b>	109.5600	<b>108.6500</b>	110.2800
US dollar/Moroccan dirham	<b>9.5932</b>	9.5655	<b>9.6176</b>	9.3836
US dollar/Tunisian dinar	<b>2.7988</b>	2.9940	<b>2.9360</b>	2.6469
US dollar/Lebanese pound	<b>1,507.5000</b>	1,507.5000	<b>1,507.5000</b>	1,507.5000

2019	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	<b>151</b>	<b>21</b>	–	<b>(5)</b>	<b>13</b>
– Euro	<b>26</b>	–	–	–	–
– Algerian dinar	<b>(4)</b>	<b>(1)</b>	–	–	–
– Saudi riyal	<b>29</b>	<b>(2)</b>	–	<b>(1)</b>	–
– Sudanese pound	<b>(2)</b>	–	–	–	–
– Egyptian pound	<b>(11)</b>	–	–	–	–
– Tunisian dinar	<b>(1)</b>	<b>2</b>	–	–	<b>1</b>
– Moroccan dirham	<b>(4)</b>	<b>(5)</b>	–	–	–
– Lebanese pound	<b>(3)</b>	–	–	–	<b>(4)</b>
– US dollar	–	<b>1</b>	–	–	<b>1</b>
	<b>181</b>	<b>16</b>	–	<b>(6)</b>	<b>11</b>

1. Others include Saudi riyal, Jordanian dinar and Pound sterling

2018	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	89	43	(21)	(3)	9
– Euro	6	–	–	–	–
– Algerian dinar	(6)	(1)	–	–	–
– Saudi riyal	27	(1)	–	–	–
– Sudanese pound	(27)	–	–	–	–
– Egyptian pound	(42)	(1)	–	–	–
– Tunisian dinar	(1)	2	–	–	–
– Moroccan dirham	(3)	(6)	–	–	–
– Lebanese pound	(2)	–	–	–	(1)
– US dollar	–	1	–	–	2
	41	37	(21)	(3)	10

1. Others include Saudi riyal, Jordanian dinar and Pound sterling

### 30. Financial policies for risk management and their objectives continued

A sensitivity analysis based on a 10% movement in foreign exchange rates would result in a \$20 million increase/decrease on the Group results.

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

#### Interest rate risk

	As at 31 December 2019			As at 31 December 2018		
	Fixed rate \$m	Floating rate \$m	Total \$m	Fixed rate \$m	Floating rate \$m	Total \$m
<b>Financial liabilities</b>						
Interest-bearing loans and borrowings	513	104	617	497	116	613
Lease liabilities	68	-	68	24	-	24
<b>Financial assets</b>						
Cash and cash equivalents	-	348	348	-	164	164

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2019, with all other variables held constant. Based on the composition of the Group's debt portfolio as at 31 December 2019, a 1% increase/decrease in interest rates would result in \$2 million decrease/increase in net finance cost per year (2018: \$nil million increase/decrease).

#### 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 at bank and on hand, time deposit and collateralised and restricted cash – due to the short-term maturities of these financial instruments and given that generally they have negligible credit risk, management considers the carrying amounts to be not significantly different from their fair values
- Short-term loans and overdrafts – approximates to their fair value because of the short maturity of these instruments
- Long-term loans – loans with variable rates are re-priced in response to any changes in market rates and so management considers the carrying amount to be not significantly different from their fair market value
- Loans with fixed rates relate to the \$500 million Eurobond accounted through amortised cost. The fair value is determined with reference to quoted price in an active market on the consolidated balance sheet date (Notes 25 and 29)
- Receivables and payables – the fair values of receivables and payables are estimated to be equal to the respective carrying amounts
- Lease obligations – are valued at the present value of the minimum lease payments

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

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

Financial assets and liabilities that fall under Level 1 are:

- Investment at FVTPL amounted to \$23 million (Note 24)
- Money market deposit (Note 23)

Financial assets and liabilities that fall under Level 3 are:

- Co-development and earnout payment liabilities (Note 28)
- Contingent consideration asset and liability resulting from the acquisition of the Columbus business (Notes 24, 28 and 31)
- Investment at FVTOCI (Note 19)

## Notes to the consolidated financial statements continued

### 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 2019 and the year ended 31 December 2018:

	Financial assets \$m	Financial liabilities \$m
<b>Balance at 1 January 2018</b>	83	190
Received/settled	(45)	(2)
Additions	4	-
Remeasurement through income statement	-	26
Fair value adjustments recognised in equity	7	-
<b>Balance at 31 December 2018 and 1 January 2019</b>	<b>49</b>	<b>214</b>
Received/settlement	(40)	(1)
Remeasurement through income statement	7	(35)
Additions	4	-
Fair value adjustments recognised in equity	(2)	-
<b>Balance at 31 December 2019</b>	<b>18</b>	<b>178</b>

The remeasurement through the income statement is included within the finance income in the consolidated income statement.

The critical areas of judgement in relation to the contingent liability are the probabilities assigned to reaching the success-based milestones and management's estimate of future sales.

If the future sales were 5% higher or lower, the fair value of the contingent liability will increase/decrease by \$5 million.

If the probability assigned to reaching the success-based milestones were 5% higher or lower, the fair value of the contingent liability will increase/decrease by \$4 million.

#### Liquidity risk

	Less than one year \$m	One to five years \$m	More than five years \$m	Total \$m
<b>2019</b>				
Cash and cash equivalents	442	-	-	442
Trade receivables	637	-	-	637
Interest-bearing loans and borrowings <sup>1</sup>	(522)	(48)	(3)	(573)
Interest-bearing overdrafts <sup>1</sup>	(2)	-	-	(2)
Interest-bearing import and export loans <sup>1</sup>	(59)	-	-	(59)
Interest bearing finance lease	(13)	(53)	(18)	(84)
Trade payables and accruals	(459)	-	-	(459)
	24	(101)	(21)	(98)
<b>2018</b>				
Cash and cash equivalents	276	-	-	276
Trade receivables	654	-	-	654
Interest-bearing loans and borrowings <sup>1</sup>	(32)	(548)	(6)	(586)
Interest-bearing import and export loans <sup>1</sup>	(68)	-	-	(68)
Interest-bearing finance lease	(2)	(24)	-	(26)
Trade payables and accruals	(448)	-	-	(448)
	380	(572)	(6)	(198)

1. As these are interest bearing liabilities, expected interest expense have 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 2019, the Group had undrawn facilities of \$1,544 million (2018: \$1,724 million). Of these facilities, \$1,230 million (2018: \$1,391 million) were committed and the remainder were uncommitted. See page 51.

### 31. Other non-current liabilities

	As at 31 December	
	2019 \$m	2018 \$m
Contingent consideration	111	204
Contingent liability	83	109
Supply manufacturing agreement (Note 28)	-	4
Co-development and earnout payment (Note 28)	3	7
Others	6	5
	<b>203</b>	<b>329</b>

**Contingent consideration and contingent liability** represent contractual liability to make payments to third parties in the form of milestone payments that depend on the achievement of certain US FDA approval milestones; and royalty payments based on future sales of certain products that are currently under development. These liabilities were recognised as part of Columbus business acquisition. In 2019, a \$78 million of this balance was reclassified to other current liabilities.

### 32. Share capital

Issued and fully paid – included in shareholders' equity:

	2019		2018	
	Number	\$m	Number	\$m
<b>At 1 January</b>	<b>241,455,394</b>	<b>40</b>	240,678,894	40
Issued during the year (Ordinary Shares of 10p each)	<b>863,780</b>	<b>1</b>	776,500	-
<b>At 31 December</b>	<b>242,319,174</b>	<b>41</b>	241,455,394	40

### 33. Non-controlling interests

	2019 \$m	2018 \$m
<b>At 1 January</b>	<b>12</b>	14
Share of profit	1	3
Dividends paid	(2)	(3)
Currency translation gain/(loss)	1	(2)
<b>At 31 December</b>	<b>12</b>	12

## Notes to the consolidated financial statements continued

### 34. Leases

IFRS 16 'Leases' was implemented by the Group from 1 January 2019. It replaces IAS 17 'Leases' and requires lease liabilities and right-of-use assets to be recognised on the consolidated balance sheet for all leases except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised in addition to the assets previously recognised under finance lease. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application in addition to the liabilities previously recognised for assets under finance leases. The Group did not change the initial carrying amounts of previous finance leases (ie the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17).

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

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

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

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

- increase in depreciation expense of \$7 million
- increase in interest expense of \$3 million
- decrease in rental expense of \$10 million

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

- increase in cash inflow from operating activities of \$10 million
- increase in cash outflow from financing activities \$10 million

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

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

### 34. Leases continued

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

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

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

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

The maturity analysis of lease liabilities:

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

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

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

### 35. Own shares

The Employee Benefit Trust (EBT) of Hikma holds 40,831 (2018: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Link Market Apex Financial Services (Trust Company) Limited, an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2019 was \$1 million (2018: \$0.9 million). The book value of the retained own shares at 31 December 2019 are \$0.6 million (2018: \$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.



## Notes to the consolidated financial statements continued

### 36. Net cash generated from operating activities

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

### 37. Contingent liabilities

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

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

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

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

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

## 37. Contingent liabilities continued

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

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

## 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) schemes. 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 forfeiture conditions. 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 Executives Committee must retain 100% of the shares received from elements B and C for a period of five years from the date of grant.

Year 2019	2019 grants 17 May	2019 grants 12 March	2018 grants 7 June	2018 grants 16 May	2017 grants 11 May	2016 grants 11 May	2016 grants 17 March	2015 grants 10 April	Total Number
Beginning balance	-	-	28,818	553,741	548,046	30,115	212,403	24,024	1,397,147
Granted during the year	246,076	593,819	-	-	-	-	-	-	839,895
Exercised during the year	-	-	(28,818)	(50,281)	(351,128)	(11,944)	(161,053)	-	(603,224)
Outstanding at 31 December	<b>246,076</b>	<b>593,819</b>	<b>-</b>	<b>503,460</b>	<b>196,918</b>	<b>18,171</b>	<b>51,350</b>	<b>24,024</b>	<b>1,633,818</b>
Exercisable at 31 December	-	-	-	-	36,630	18,171	51,350	24,024	130,175
Weighted average remaining contractual life (years)	1.38	1.67	-	2.91	2.70	6.36	6.21	5.28	3.13

Year 2018	2018 grants 7 June	2018 grants 16 May	2017 grants 11 May	2016 grants 11 May	2016 grants 17 March	2015 grants 15 May	2015 grants 10 April	Total Number
Beginning balance	-	-	608,376	149,579	448,875	47,000	114,430	1,368,260
Granted during the year	28,818	553,741	-	-	-	-	-	582,559
Exercised during the year	-	-	(60,330)	(119,464)	(236,472)	(47,000)	(90,406)	(553,672)
Outstanding at 31 December	28,818	553,741	548,046	30,115	212,403	-	24,024	1,397,147
Exercisable at 31 December	-	-	-	30,115	35,620	-	24,024	89,759
Weighted average remaining contractual life (years)	9.40	3.66	2.63	0.36	2.36	-	6.28	2.84

The cost of the EIP of \$15 million (2018: \$13 million) has been recorded in the consolidated income statement as part of general and administrative and sales and marketing 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 2019 is \$23.24 (2018: \$19.59).

## Notes to the consolidated financial statements continued

### 38. Share-based payments continued

	Date of grants	Number granted	The estimated fair value of each share option granted \$	The share price at grant date \$
EIP 1	10/04/2015	338,808	32.78	33.24216
EIP 2	15/05/2015	118,000	32.42	33.11449
EIP 3 B	17/03/2016	242,608	26.21	26.97918
EIP 3 C	17/03/2016	206,267	26.21	26.97918
EIP 4	11/05/2016	165,553	31.69	32.15333
EIP 5 B	13/04/2017	428,528	23.52	23.97771
EIP 5 C	13/04/2017	184,741	23.29	23.97771
EIP 6 B	16/05/2018	440,231	18.45	19.09082
EIP 6 C	16/05/2018	113,456	18.14	19.09082
EIP 7	07/06/2018	28,818	17.89	18.83410
EIP7 B	12/03/2019	313,288	21.00	21.75408
EIP7 C	12/03/2019	208,529	20.63	21.75408
EIP8	17/05/2019	246,076	21.41	22.17868
EIP9	12/03/2019	72,000	20.63	21.75408

The exercise price of the share award is \$nil.

#### Management incentive plan

The 2009 Management Incentive Plan (MIP) was approved by shareholders at the 2010 Annual General Meeting and the 2018 MIP was approved by shareholders at the 2018 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 from 2011 onwards the awards are made at the end of the KPI performance period.

Details of the grants under the plan are shown below:

Year 2019	2019 grants 17 May Number	2018 grants 16 May Number	2017 grants 19 May Number	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 June Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	-	436,362	238,466	8,254	10,563	8,149	4,787	706,581
Granted during the year	436,107	-	-	-	-	-	-	436,107
Exercised during the year	(3,646)	(22,666)	(200,631)	-	(1,709)	(2,259)	(1,774)	(232,685)
Expired during the year	(23,675)	(12,826)	(845)	-	-	-	-	(37,346)
<b>Outstanding at 31 December</b>	<b>408,786</b>	<b>400,870</b>	<b>36,990</b>	<b>8,254</b>	<b>8,854</b>	<b>5,890</b>	<b>3,013</b>	<b>872,657</b>
Weighted average remaining contractual life (years)	1.38	1.03	6.14	6.36	5.37	4.45	3.38	1.28

Year 2018	2018 grants 16 May Number	2017 grants 19 May Number	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 June Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	-	259,099	173,725	10,563	8,149	4,787	456,323
Granted during the year	443,288	-	-	-	-	-	443,288
Exercised during the year	(3,960)	(17,270)	(165,471)	-	-	-	(186,701)
Expired during the year	(2,966)	(3,363)	-	-	-	-	(6,329)
<b>Outstanding at 31 December</b>	<b>436,362</b>	<b>238,466</b>	<b>8,254</b>	<b>10,563</b>	<b>8,149</b>	<b>4,787</b>	<b>706,581</b>
Weighted average remaining contractual life (years)	1.76	0.37	7.34	6.37	5.45	4.38	1.28

The cost of the MIP of \$9 million (2018: \$8 million) has been recorded in the consolidated income statement as part of general and administrative, sales and marketing, cost of sales and research and development 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.

### 38. Share-based payments continued

The weighted average share price for 2019 is \$23.24 (2018: \$19.59).

	Date of grants	Number granted	The estimated fair value of each share option granted \$	The share price at grant date \$	Expected dividends yield %
MIP 1	19/03/2009	340,000	4.89	5.11	1.47
MIP 2	28/03/2010	147,561	9.15	9.36	1.15
MIP 3	11/05/2011	356,894	12.96	13.23	1.00
MIP 4	18/05/2012	412,056	9.47	9.72	1.29
MIP 5	17/05/2013	252,482	14.61	14.93	1.10
MIP 6	11/06/2014	225,904	27.73	28.33	0.71
MIP 7	11/05/2015	145,918	32.17	32.63	0.71
MIP 8	11/05/2016	196,373	31.73	32.20	0.73
MIP 9	19/05/2017	273,724	22.09	22.54	1.01
MIP 10	16/05/2018	443,288	18.45	19.09	1.71
MIP 11	17/05/2018	436,107	21.41	22.18	1.79

The exercise price of the share award is \$nil.

#### 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 a 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.

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.

## Notes to the consolidated financial statements continued

### 38. Share-based payments continued

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.

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

	2014 grants 11 June Number	2013 grants 17 May Number	2012 grant 16 March Number	Total Number
<b>Year 2019</b>				
Outstanding at 1 January	19,470	26,630	22,220	68,320
Exercised during the year	(4,347)	(4,637)	(6,030)	(15,014)
Expired during the year	(903)	(718)	(16,190)	(17,811)
<b>Outstanding at 31 December</b>	<b>14,220</b>	<b>21,275</b>	<b>–</b>	<b>35,495</b>
Exercisable at 31 December	14,220	21,275	–	35,495
Weighted average remaining contractual life (years)	4.45	3.38	–	4.30

	2014 grants 11 June Number	2013 grants 17 May Number	2012 grant 16 March Number	Total Number
<b>Year 2018</b>				
Outstanding at 1 January	24,720	26,630	22,220	73,570
Exercised during the year	(4,347)	–	–	(4,347)
Expired during the year	(903)	–	–	(903)
Outstanding at 31 December	19,470	26,630	22,220	68,320
Exercisable at 31 December	19,470	26,630	22,220	68,320
Weighted average remaining contractual life (years)	5.45	4.38	3.21	4.30

No costs for LTIPs were recognised in the consolidated income statement (2018: \$nil credited to profit and loss).

The weighted average share price for 2019 is \$23.24 (2018: \$19.95).

## 39. 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 2019, the Group entered into the following transactions with related parties:

**Boehringer Ingelheim GmbH (BI):** is a related party of Hikma because BI owns 16.5% (2018: 16.6%) of the share capital of Hikma, controls 11.8% (2018: 11.8%) of the voting capital of Hikma, has the right to appoint a director of Hikma and a senior executive of BI holds a directorship of Hikma. The Group total sales to BI amounted to \$64.7 million (2018: \$66.6 million) and the Group total purchases from BI amounted to \$1 million (2018: \$5.1 million). As at the year end, the amount owed from BI to the Group was \$7.3 million (2018: \$18.1 million). Additionally, balances arising from the acquisition of the Columbus business from BI relating to contingent consideration are disclosed in Notes 24, 28 and 31.

**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 \$8 million (2018: \$7.5 million) and utilisation of facilities granted by Capital Bank to the Group amounted to \$nil (2018: \$nil). The interest expenses/commissions amounted to \$0.8 million (2018: \$0.7 million). The interest 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 24.76% (2018: 24.85%) 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 (2018: \$2.5 million). During 2017 Hikma and MIDROC have agreed not to proceed with and to liquidate the venture. During 2018, 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 49% joint venture (JV) with Haosun (2018: 49%). During 2019, total purchases from Haosun were \$3 million (2018: \$2.3 million). At 31 December 2019, the amount owed from Hubei Haosun Pharmaceutical to the Group amounted to \$0.2million (2018: \$0.2 million).

**Labatec Pharma (Labatec):** is a related party of the Group because Labatec is owned by the family of two directors of Hikma. During 2019, total Group sales to Labatec amounted to \$2 million (2018: \$2.9 million), and total Group purchases amounted to \$0.3 million (2018: \$nil). As at the year end, the amount owed by Labatec to the Group was \$0.4 million (2018: \$0.3 million).

### Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive Directors, Non-Executive Directors and the senior management as set out in the Governances' 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 75 to 103.

	2019 \$m	2018 \$m
Short-term employee benefits	16.3	17.4
Share-based payments	9.5	8.0
Post-employment benefits	0.2	0.1
Other benefits	0.8	0.8
	<b>26.8</b>	<b>26.3</b>



## Notes to the consolidated financial statements continued

### 40. Subsidiaries, associates and joint ventures

The subsidiaries, associates and joint ventures of Hikma Pharmaceuticals PLC are as follows:

Company's name	Incorporated in	Address of the registered office	Owned by the Group		Owned by PLC 'the Company'	
			Ownership% Ordinary shares At 31 December 2019	Ownership% Ordinary shares At 31 December 2018	Ownership% Ordinary shares At 31 December 2019	Ownership% Ordinary shares At 31 December 2018
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	97%	97%	-	-
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	49%	49%	-	-
Hikma Canada Limited	Canada	Blaney McMurtry LLP, Suite 15000 2 Queen Street, Toronto ON M5C 3G5	100%	-	-	-
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 Pharmazie GmbH	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Deutschland	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 OBD, 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%	-	-

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

## 40. Subsidiaries, associates and joint ventures continued

Company's name	Incorporated in	Address of the registered office	Owned by the Group		Owned by PLC 'the Company'	
			Ownership% Ordinary shares At 31 December 2019	Ownership% Ordinary shares At 31 December 2018	Ownership% Ordinary shares At 31 December 2019	Ownership% Ordinary shares At 31 December 2018
International Pharmaceutical Research Centre LLC	Jordan	P.O. Box 963166, Amman, 11196, Jordan	51%	51%	-	-
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 (Kazakhstan) 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 Pharma Benelux B.V	Netherlands	Nieuwe Steen 36, 1625 HV, Hoor, Netherlands	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, Fervenca, São João das Lampas e Terrugem, Sintra, Portugal	100%	100%	-	-
Hikma Shefaa for Pharmaceuticals and Medical Supplies PSC	Palestine	West Bank Al Birah, Ramallah	51%	51%	-	-
Hikma Pharmaceuticals	Palestine	West Bank Al Birah, Ramallah	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 Batoirs 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'Industrie Pharmaceutique Ibn Al Baytar*	Tunisia	11 Rue 8610 Charguia 1-2035 Tunis-Carthage, Tunisia	100%	100%	-	-
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%	-	-

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

## Notes to the consolidated financial statements continued

### 40. Subsidiaries, associates and joint ventures continued

Company's name	Incorporated in	Address of the registered office	Owned by the Group		Owned by PLC 'the Company'	
			Ownership% Ordinary shares At 31 December 2019	Ownership% Ordinary shares At 31 December 2018	Ownership% Ordinary shares At 31 December 2019	Ownership% Ordinary shares At 31 December 2018
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%
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 FZE*	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%	–	–
Hikma 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 Speciality USA, Inc.	United States	C T Corporation System, 800 S Gay Street, Suite Knoxville TN 2021 37929-9710, United States	100%	100%	–	–
Hikma Labs 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%	–	–
Hikma Injectables, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
Hikma Pharmaceuticals USA Inc.	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 Hikma Pharmaceuticals PLC, and are consolidated in line with IFRS 10.

The investments in associates and joint ventures are accounted for using the equity method in the Group (Note 18).

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

## 41. 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 Limited (Jordan), Arab Pharmaceutical Manufacturing Co, Hikma Pharmaceuticals USA Inc. and West-Ward Columbus Inc. The details of each contribution plan are as follows:

### Hikma Pharmaceuticals PLC

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 2019 were \$0.3 million (2018: \$0.4 million).

### Hikma Pharmaceuticals LLC

The Group currently has an employee savings plan whereby the Group fully matches employees' contributions, which are fixed at 10% of basic salary. Employees are entitled to 100% of the Group contributions after three years of employment with the Company. The Group's contributions for the year ended 31 December 2019 were \$3 million (2018: \$3 million).

### Arab Pharmaceutical Manufacturing PSC

The Group currently has an employee saving plan whereby the employees contribute at 10%, and the Company at 10% 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 2019 were \$0.6 million (2018: \$0.9 million).

### Hikma Pharmaceuticals USA Inc. & West-Ward Columbus Inc: (401(k) salary saving plan)

Hikma Pharmaceuticals USA Inc. & West-Ward Columbus Inc had 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 \$19,000 (2018: \$18,500), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The Company matches the employees' eligible contribution dollar-for-dollar on the first 6% of eligible pay contributed to the plan. Employer contributions vest 50% after two years of service and 100% 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 2019 were \$8.7 million (2018: \$10.5 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.

## 42. Business combinations

### Acquisition and selling of Medlac Pharma

On 2 January 2019, the Group acquired 100% of the share capital of Medlac Pharma Italy Co Ltd (Medlac), an injectable manufacturing company in Vietnam. As part of the consideration the Group paid an initial upfront payment of \$8 million and incurred \$1 million acquisition cost. On 29 April 2019, the Group sold Medlac back to the original seller for a consideration of \$5 million, resulting in a total loss of \$4 million (Note 6).

# Company balance sheet

At 31 December 2019

	Note	2019 \$m	2018 \$m
<b>Non-current assets</b>			
Property, plant and equipment		2	3
Right-of-use assets <sup>1</sup>		11	–
Intangible assets	45	33	23
Investments in subsidiaries	46	3,331	3,328
Due from subsidiaries	47	383	177
Financial and other non-current assets		–	1
		<b>3,760</b>	<b>3,532</b>
<b>Current assets</b>			
Other receivables		10	5
Due from subsidiaries	47	87	41
Cash and cash equivalents	49	176	50
Other current assets	48	24	41
		<b>297</b>	<b>137</b>
<b>Total assets</b>		<b>4,057</b>	<b>3,669</b>
<b>Current liabilities</b>			
Other payables		3	3
Due to subsidiaries	50	32	39
Short-term financial debts	51	500	–
Other current liabilities		16	13
		<b>551</b>	<b>55</b>
<b>Net current assets</b>		<b>(254)</b>	<b>82</b>
<b>Non-current liabilities</b>			
Long-term financial debts	51	–	500
Due to subsidiaries	50	59	77
Finance lease obligations		13	–
		<b>72</b>	<b>577</b>
<b>Total liabilities</b>		<b>623</b>	<b>632</b>
<b>Net assets</b>		<b>3,434</b>	<b>3,037</b>
<b>Equity</b>			
Share capital	53	41	40
Share premium	54	282	282
Other reserves		1,745	1,745
Profit/(loss) for the year	55	470	(16)
Retained earnings		896	986
<b>Equity attributable to equity holders of the parent</b>		<b>3,434</b>	<b>3,037</b>

1. The effect of the adoption of IFRS 16 is immaterial (Note 34)

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 168 to 174 were approved by the Board of Directors on 26 February 2020 and signed on its behalf by:

**Said Darwazah**  
Director  
26 February 2020

**Sigurdur Olafsson**  
Director

# Company statements of changes in equity

For the year ended 31 December 2019

	Share capital \$m	Share premium \$m	Own shares \$m	Merger reserve \$m	Retained earnings \$m	Total \$m
<b>Balance at 1 January 2018</b>	40	282	(1)	1,746	1,049	3,116
Loss for the year	-	-	-	-	(16)	(16)
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>(16)</b>	<b>(16)</b>
Cost of equity settled employee share scheme	-	-	-	-	21	21
Dividends paid	-	-	-	-	(84)	(84)
<b>Balance at 31 December 2018 and 1 January 2019</b>	40	282	(1)	1,746	970	3,037
Profit for the year	-	-	-	-	470	470
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>470</b>	<b>470</b>
Cost of equity settled employee share scheme	-	-	-	-	24	24
Exercise of employees share scheme	1	-	-	-	(1)	-
Dividends paid	-	-	-	-	(97)	(97)
<b>Balance at 31 December 2019</b>	<b>41</b>	<b>282</b>	<b>(1)</b>	<b>1,746</b>	<b>1,366</b>	<b>3,434</b>

# Notes to the Company financial statements

For the year ended 31 December 2019

## 43. Adoption of new and revised standards

The nature of 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.

## 44. Significant accounting policies

### Basis of accounting

These financial statements, for the year ended 31 December 2019 has prepared in accordance with FRS 101.

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)
- 45B and 46 to 52 Share based payment
- IFRS 7 financial instruments disclosure
- IAS 24 (paragraph 17)
- IAS 8 (paragraphs 30 and 31)
- 111 (cash flow statement information)
- 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 principle 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.

The carrying value of investments are reviewed for impairment when there is an indication that the investment might be impaired. Any provision resulting from an impairment review is charged to the income statement.

Intercompany receivables are classified as financial assets at amortised cost and are measured at amortised cost using the effective interest method less any impairment.

The company applies a simplified approach in calculating expected credit loss. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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



## 45. Intangible assets

	Software \$m	Total \$m
<b>Cost</b>		
Balance at 1 January 2018	21	21
Additions	8	8
Transfer	(2)	(2)
<b>Balance at 1 January 2019</b>	<b>27</b>	<b>27</b>
Additions	12	12
<b>Balance at 31 December 2019</b>	<b>39</b>	<b>39</b>
<b>Amortisation</b>		
Balance at 1 January 2018	(1)	(1)
Charge for the year	(1)	(1)
Transfers to subsidiaries	(2)	(2)
<b>Balance at 1 January 2019</b>	<b>(4)</b>	<b>(4)</b>
Charge for the year	(1)	(1)
Impairment	(1)	(1)
<b>Balance at 31 December 2019</b>	<b>(6)</b>	<b>(6)</b>
Carrying amount		
<b>At 31 December 2019</b>	<b>33</b>	<b>33</b>
At 31 December 2018	23	23

Details of useful lives are included in Note 16.

## 46. Investments in subsidiaries

The details of Investment in subsidiaries are mentioned in Note 40.

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

	2019 \$m	2018 \$m
Beginning balance	3,328	3,323
Additions to subsidiaries	3	5
<b>Ending balance</b>	<b>3,331</b>	3,328

## Notes to the Company financial statements continued

### 47. Due from subsidiaries

#### Non-current assets

	2019 \$m	2018 \$m
Hikma Pharmaceuticals USA	343	8
Hikma Italia S. P. A	–	1
Hikma Hong Kong	–	10
Hikma Pharmaceuticals International Limited	–	54
Hikma Emerging Markets and Asia Pacific FZ-LLC	6	–
Hikma UK Limited	34	104
	<b>383</b>	<b>177</b>

#### Current assets

	2019 \$m	2018 \$m
Hikma Pharmaceuticals LLC	–	2
Hikma MENA Holdings Limited	33	19
Hikma Pharmaceuticals USA	38	9
Hikma Pharma SAE	1	4
Hikma Farmaceutica, (Portugal) S.A.	3	1
Hikma Pharmaceuticals International Limited	2	–
Hikma Emerging Markets and Asia Pacific FZ-LLC	7	5
Others	3	1
	<b>87</b>	<b>41</b>

The Company does not expect any credit losses from inter group receivables.

## 48. Other current assets

	2019 \$m	2018 \$m
Price adjustment receivable	–	20
Investments at FVTPL	23	21
Others	1	–
	<b>24</b>	<b>41</b>

**Price adjustment receivable** represents the current portion of the contingent receivable in relation to the Columbus business acquisition, whereby as part of the acquisition, the Group was reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received \$27 million reimbursement (2018: \$45 million) in cash.

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

## 49. Cash and cash equivalents

	2019 \$m	2018 \$m
Cash at banks and on hand	13	7
Time deposits	163	43
	<b>176</b>	<b>50</b>

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

## 50. Due to subsidiaries

### Non-current liabilities

	2019 \$m	2018 \$m
Hikma Investment LLC	–	1
Hikma MENA Holdings Limited	59	59
Hikma Pharma Limited	–	17
	<b>59</b>	<b>77</b>

## Notes to the Company financial statements continued

### 50. Due to subsidiaries continued

#### Current liabilities

	2019 \$m	2018 \$m
Hikma Investment LLC	17	17
Hikma Pharmaceuticals International Limited	–	18
Hikma Pharma Limited	2	2
Hikma UK Limited	1	2
Hikma Pharmaceuticals LLC	11	–
Other	1	–
	<b>32</b>	<b>39</b>

### 51. Financial debts

The balance comprises mainly of a \$500 million (carrying value of \$500 million, and fair value of \$501 million) 4.25% Eurobond which is due for repayment in April 2020 with the rating of (BB+/Ba1) (Note 29).

A syndicated revolving credit facility of \$1,175 million was entered into on the 27 of October 2015. \$1,000 million of this facility matures on 24 December 2021 and the remaining \$175 million matured 24 December 2019. The facility has an outstanding balance of \$nil (2018: \$nil) and a \$1,000 million unused available limit (2018: \$1,175 million). The facility can be used for general corporate purposes (Note 29).

### 52. Staff costs

Hikma Pharmaceuticals PLC currently has an average of 37 employees (2018: 36 employees) (excluding Executive Directors); total compensation paid to them amounted to \$10 million (2018: \$10 million) of which salaries and bonuses comprise an amount of \$8 million (2018: \$8 million) the remaining balance of \$2 million (2018: \$2 million) represents national insurance contributions.

### 53. Share capital

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

	2019 Number	2019 \$m	2018 Number	2018 \$m
<b>At 1 January</b>	<b>241,455,394</b>	<b>40</b>	240,678,894	40
Issued during the year (ordinary shares of 10p each)	863,780	1	776,500	–
<b>At 31 December</b>	<b>242,319,174</b>	<b>41</b>	241,455,394	40

### 54. Share premium

	Share premium \$m
<b>Balance at 31 December 2019</b>	<b>282</b>

### 55. Profit/loss for the year

The net profit in the Company for the year is \$470 million (2018: loss \$16 million). Included in the net profit for the year is an amount of \$509 million (2018: \$47 million) representing dividends received, and \$7 million (2018: \$4 million) representing the current year charge of share based payments and \$7 million in other operating income resulting from BI R&D reimbursement. The remaining income statement components represents general and administrative expenses and net financing expenses. Audit fees for the Company are disclosed in Note 7.

### 56. Contingent liabilities

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

# Shareholder information

## 2020 financial calendar

19 March	2019 final dividend ex-dividend date
20 March	2019 final dividend record date
30 April	Annual General Meeting
6 May	2019 final dividend paid to shareholders
7 August*	2020 interim results and interim dividend announced
20 August*	2020 interim dividend ex-dividend date
21 August*	2020 interim dividend record date
10 September*	2020 interim dividend paid to shareholders

\* Provisional dates

## Shareholding enquiries

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

- in writing to Shareholder Services, Link Asset Services, 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

Hikma 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 Hikma's website [www.hikma.com](http://www.hikma.com).

## Share listings

### London Stock Exchange

Hikma's Ordinary Shares of 10 pence each (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's shares can be found on the London Stock Exchange website [www.londonstockexchange.com](http://www.londonstockexchange.com).

### Global Depository Receipts

Hikma 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's GDRs can be found on the website [www.nasdaqdubai.com](http://www.nasdaqdubai.com).

### American Depository Receipts (ADR)

Hikma has an ADR programme for which BNY Mellon acts as Depository. One ADR equates to two shares. ADR 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](mailto:shrrelations@bnymellon.com)

### Shareholder fraud

The Financial Conduct Authority has issued a number of warnings to shareholders regarding boiler room scams. Shareholders may 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](http://www.fca.org.uk/register)
- report the matter to the FCA either by calling 0800 111 6768 or visit [www.fca.org.uk/consumers](http://www.fca.org.uk/consumers)
- if the caller persists, hang up

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

Hikma's website is [www.hikma.com](http://www.hikma.com) and the registered office is 1 New Burlington Place, London W1S 2HR. Telephone number + 44 207 399 2760.

# Principal Group Companies and Advisers

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UK

### **Registrars**

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Design and production

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**hikma.**