

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



**hikma.**

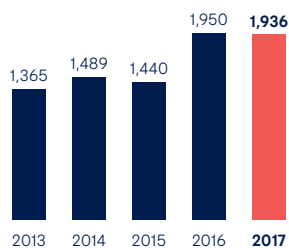
# Who we are

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, transforming cutting-edge science into innovative solutions that transform people's lives, for a healthier world wherever we are.

## How we have performed

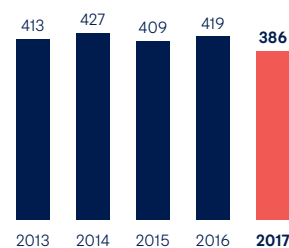
Revenue  
(\$m)

**\$1,936m**



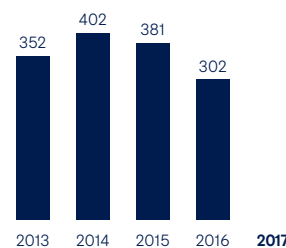
Core<sup>1</sup> operating profit  
(\$m)

**\$386m**



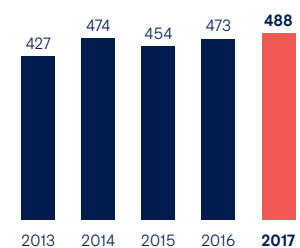
Reported operating profit/(loss)  
(\$m)

**\$(747)m**



Reported EBITDA<sup>2</sup>  
(\$m)

**\$488m**



1. Core results are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 5 in the Notes to the Financial Statements.
2. Earnings before interest, tax, depreciation, amortisation and impairment charges.
3. Core basic earnings per share is reconciled to basic earnings per share in Note 13 in the Notes to the Financial Statements.

2017  
**(747)**

## What's inside

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### Corporate governance

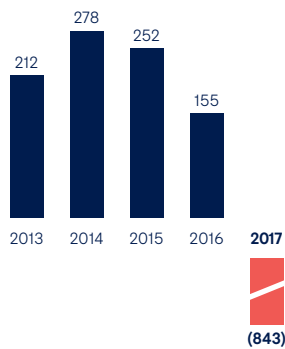
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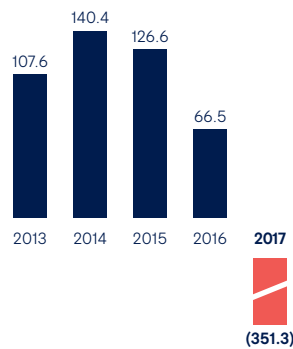
**Profit/(loss) to Shareholders**  
(\$m)

**\$(843)m**



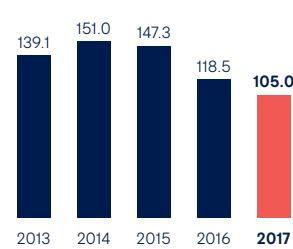
**Basic earnings/(loss) per share**  
(cents)

**(351.3)c**



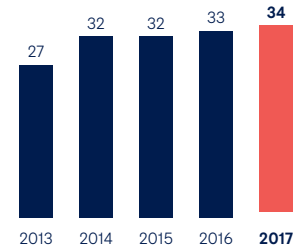
**Core basic earnings per share<sup>3</sup>**  
(cents)

**105.0c**



**Dividend per share**  
(cents)

**34c**



See the Group performance on page 40

**Shareholder information**

- 180 Shareholder information
- 181 Principal Group Companies – Advisers

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



**hikma.**

# What we do

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

## Our markets

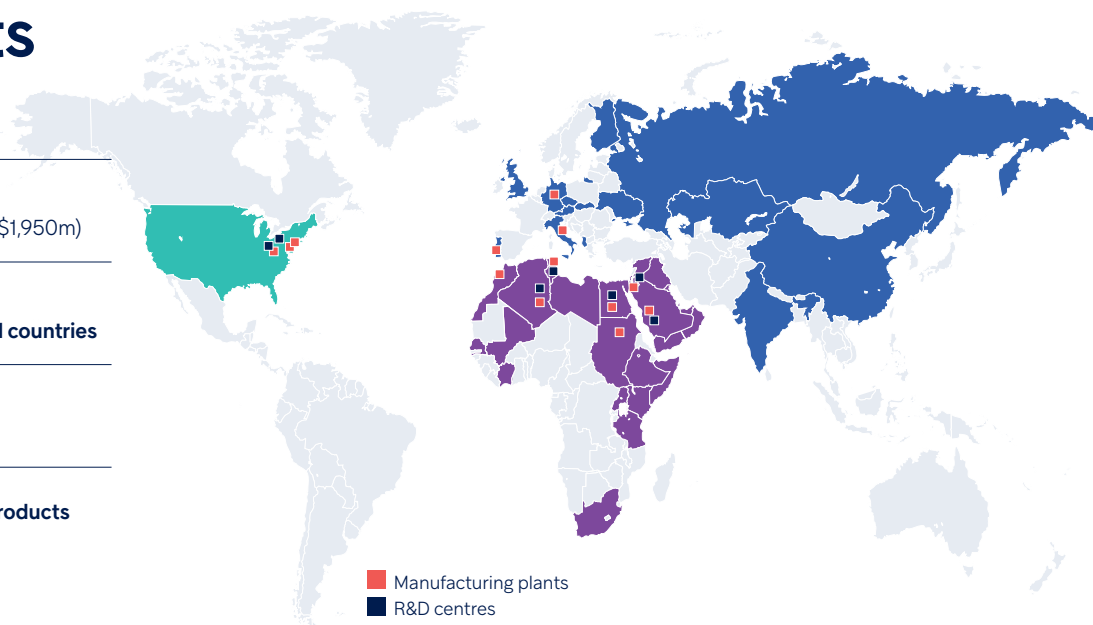
Group Revenue

**\$1,936m** (2016: \$1,950m)

**29** manufacturing plants in 11 countries

**7** R&D centres

**>50** markets where our products are sold



## Our operations

### Injectables

Our Injectables business manufactures, markets and sells generic injectable products globally, with state-of-the-art manufacturing facilities in the US and Europe.



### Key highlights

- Third largest manufacturer of injectable generics in the US market by volume
- A range of manufacturing capabilities, including sterile liquid, powder, lyophilised and cytotoxic products, in a broad range of forms, including vials, ampules, bags and pre-filled syringes
- Broad product portfolio including controlled substances, anti-infective, cardiovascular and oncology products

### Segmental revenue

**\$776m** (2016: \$781m)



 For more information see page 29

### United States

Our large manufacturing facilities – one for sterile injectables and two 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 sustained growth.

**62%**  
of Group revenue  
(2016: 62%)



**2,133**  
employees



### MENA

We sell branded generics and in-licensed products across the region. We have local manufacturing facilities in seven markets, including FDA-approved facilities in Jordan and Saudi Arabia. More than 2,000 representatives market our brands to doctors and pharmacists across 17 markets.

**33%**  
of Group revenue  
(2016: 33%)



**5,547**  
employees



### Europe and the rest of the world

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

**5%**  
of Group revenue  
(2016: 5%)



**784**  
employees



#### Generics

Our Generics business develops and sells oral and other non-injectable generic products across the United States.



##### Key highlights

- Twelfth largest non-injectable generic manufacturer in the US market by volume
- State-of-the-art facilities with a broad range of capabilities, including oral solid dosage technologies, as well as dedicated respiratory, nasal spray, suspension, liquid solution and high-containment areas
- Lower-cost US FDA-approved facilities in Jordan and Saudi Arabia supplying the US market

#### Branded

Our Branded business develops and sells generics, branded generics and in-licensed patented products across the MENA region and other emerging markets.



##### Key highlights

- Leading pharmaceutical manufacturer in the MENA with operations in 17 markets
- Partnership agreements with leading multinational pharmaceutical companies
- Strong anti-infective franchise and growing market presence in chronic therapeutic areas

#### Segmental revenue

**\$615m** (2016: \$604m)



For more information see page 33

#### Segmental revenue

**\$536m** (2016: \$556m)



For more information see page 37

# Chairman and Chief Executive's statement

'Whilst 2017 was a challenging year for the Group as we faced significant headwinds in our US Generics business, we delivered a solid performance in our Branded and Injectable businesses and our balance sheet remains strong. I am confident in the prospects for the Group both in the short term and the long term.'

## 40 years of better health

2018 marks our 40th anniversary and gives us an important opportunity to reflect not only on our past successes and the millions of lives upon which we've had a positive impact, but also to ready ourselves for the future. We need to remain competitive in today's fast-changing environment, and the next four decades will no doubt require different things of us and our business – new ways of working, of innovating and of enabling more and more people to live healthy, productive lives. In this letter, I outline some of our recent challenges, but also our progress and some of the steps we are taking to achieve our ambitious goals.

## A challenging year

2017 was a challenging year. With more than 62% of our revenues now generated in the US, we are increasingly impacted by the changing dynamics of the US market. The consolidation of our customers and the increase in the pace of ANDA approvals by the FDA have led to more significant price erosion and more intense competition than the industry has seen in recent years and than we anticipated. This had a material impact on our results in 2017 and, in particular, on our West-Ward Columbus business, which was further impacted by the delay in approval of our ANDA for our generic version of Advair Diskus®.

As a result of these many headwinds, we have had to re-evaluate the potential of the West-Ward Columbus product portfolio and R&D pipeline, which we now believe will deliver less than we anticipated at the time of the acquisition in February 2016. As a result, we are taking an impairment charge of \$1,084 million to reflect our updated view of the fair value of this business.

Across our other businesses, we delivered a solid performance. Our Injectables business was resilient, maintaining exceptionally strong margins despite new competitors for our top products and benefiting from our strong market position in the US hospital segment. Revenue and profitability in our Branded business remained stable and we reinforced our position as the partner of choice in the MENA region, signing new licensing agreements.

Overall, the Group delivered revenue of \$1.9 billion and core operating profit of \$386 million, down from \$419 million last year. We generated record cash flow from operations of \$443 million, lowering our net debt and strengthening our balance sheet, which remains one of the strongest in the industry.

## Transforming our business

To ensure we can continue to overcome obstacles and deliver growth, we are making some transformational changes across our organisation. We have strengthened our leadership team in the US, bringing in new heads of research and development, sales and marketing, business development and a new plant manager. We have a newly-appointed Chief Scientific Officer and we have started the rollout of our new brand.

As part of this transformation, we recently announced the appointment of Siggí Olafsson as Chief Executive Officer. Siggí is an exceptional leader with extensive experience in the industry. He is the right person to take the business to the next level.

## Progress and recognition

Despite the challenges we faced in 2017, it was also a year of progress and recognition. In the MENA region, we continue to be the partner of choice for leading biotech and pharmaceutical companies looking to expand into the region.

In 2017, we expanded our long-standing relationship with Takeda, and likewise broadened our partnership with Celtrion, the Korean biopharmaceutical company, to distribute select products in the region. Our venture capital arm, Hikma Ventures, took us into exciting new businesses in the areas of artificial intelligence, biosensor technology and online healthcare.

The Institute of Directors in London ranked Hikma first among the FTSE100 pharmaceutical companies for corporate governance (17th overall in the FTSE100). We were also awarded 'Company of the Year' by the trade publication Generics Bulletin, and are proud to remain a constituent of the FTSE4Good. Investing in our communities and improving access to medicine has been a long-established principle of this company since its founding day, and we continue to support the many communities in which we live and work with donations, fundraising and volunteering.

## Enabling collaboration

People have always been at the heart of our business – the people we employ and the people whose lives we improve through the medicines we make. In addition to bolstering our leadership, we put in place a new human capital management system and new global intranet to help colleagues work faster, more collaboratively and have access to better information. Our successful pilot of the Hikma Young Professionals programme in Jordan, a two-year rotational programme developed for high-potential and high-performing recent graduates, was expanded across our global network. It aims to attract talented individuals and instill in them Hikma leadership values through a series of rotations in finance, operations and commercial roles.



Bringing together all we've learned in the past 40 years, and with our new talent, technologies and expertise, we will continue to deliver on our purpose of providing quality affordable medicines to people who need them."

Last year, we said goodbye to Mike Raya who led and grew our US business for more than 20 years. In his career at Hikma, Mike showed great leadership and commitment in the many different roles he held, across operations, quality and ultimately as CEO of the US business. While Mike will be missed, he leaves a strong team behind in the US, bolstered by several new leaders who I know will help carry on Mike's legacy.

#### Value for shareholders

We have a strong track record of delivering value for shareholders. Since Hikma listed on the London Stock Exchange in 2005, we have delivered a total shareholder return of 361%. This exceeds the FTSE250 and FTSE Pharmaceuticals indices. In 2017, however, the challenges we faced in the US had a material impact on our share price, which closed the year at 1,134p, down from 1,893p on 31 December 2016. I am confident that the transformational changes we are making across the Group will enable us to deliver positive returns to shareholders in the near term.

#### Looking ahead

As we look ahead to 2018, I expect we will continue to be impacted by the challenges facing our industry. I am confident that our new leadership and our strategy built on five growth pillars will enable us to meet these challenges head on. In 2018, we are also implementing a single enterprise brand strategy that will bring the entire family of Hikma companies under a revitalised and more relevant Hikma brand. We expect this investment in a new brand to be a catalyst for change within our organisation, helping to

drive efficiencies and improving engagement with customers and employees. You can read more about our new brand in this report and on our website, hikma.com.

I will end where I started, which is to emphasise my optimism and confidence of the future of this business, particularly with the introduction of our new CEO, Soggi Olafsson, earlier this year.

Thank you to my colleagues across the Hikma family for your hard work, loyalty and integrity.

**Said Darwazah**  
Chairman



# A strong investment case

Our broad product portfolio, extensive manufacturing capabilities and clear strategy for growth offer a strong investment case.

## Creating long-term sustainable value

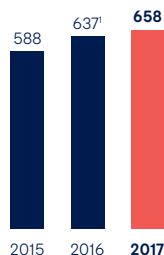
### Broad global portfolio across diverse markets

Our portfolio of more than 650 compounds, available in thousands of strengths and dosage forms, makes us a leader in key markets.



Compounds on the market

**658**



1. In 2016, we overstated the total number of marketed compounds by 70. The correct number was 637.

### High-quality and efficient global manufacturing operations

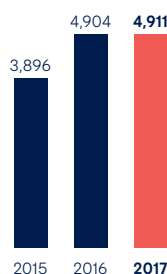
We operate a network of high-quality and efficient manufacturing facilities, the majority of which are EU or FDA-approved. As a result of our continued investment in our manufacturing network, we have the capability and capacity to capture new market opportunities.

At Hikma, quality defines everything we do and we ensure it is consistently delivered in all the communities we serve. Our excellent track record of regulatory compliance has made us a trusted partner to our customers and patients.



Manufacturing employees

**4,911**



### Established commercial capabilities

Our experienced teams in the US, the MENA region and Europe mean we can confidently navigate local challenges and capitalise on opportunities.

In the US, customer consolidation and increased competition has made it more important than ever to maintain strong customer relationships. We have strengthened our Generic and Injectable commercial teams to ensure that our business is able to respond to these challenges.

In the MENA region, we have a sales and marketing team of more than 2,000 people that support our position as the fifth largest pharmaceutical manufacturer. As a local player, we have extensive networks on the ground that enable us to perform well, even in times of political or economic instability.



Sales and marketing employees

**2,123**





## Specialised R&D teams and a large, differentiated pipeline

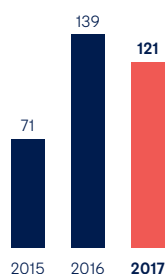
Through investment and strategic acquisitions, we have developed and strengthened our R&D capabilities to support sustainable long-term growth. We have dedicated and experienced R&D teams, with the ability to execute and replenish our large and growing product pipeline.

We have 224 compounds pending approval from global regulatory authorities and 147 compounds under active development. We have the expertise and resources to focus on more complex and differentiated products across a range of therapeutic categories, dosage forms and delivery systems.



R&D and product-related investment

**\$121m**



## Experienced leadership and a strong financial position

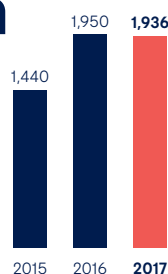
Our experienced management teams have a history of growing the business. They have delivered this growth over time whilst ensuring, through a balance of organic growth and acquisitions, that we maintain a strong balance sheet. In an increasingly challenging environment, this has provided our business with stability and financial flexibility.

We continue to set ourselves ambitious targets for future growth, which will continue to be delivered through organic growth and further strategic acquisitions.



Revenue

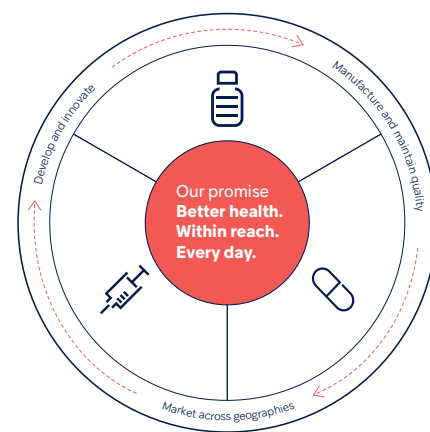
**\$1,936m**



## Our diversified business model

We have a business model that is diversified across business segments, regions and products. This provides both opportunities and resilience during challenging times.

For a full explanation of our business model, see page 22.



# Better health. Within reach. Every day.

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For our 40th anniversary, we are introducing a new brand built on the promise of putting better health within reach every day.

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

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## **Our vision and values**

Our vision is of a healthier world that enriches all of our communities. For the past 40 years, we've been guided by the simple belief that when world-class medicine is put within people's reach, it has the ability to transform their lives and their communities.

Today, we now have the reach, insight and expertise to transform so many more people's lives.

And in a fast-changing world, our commitment to our vision is as important as ever, not only for Hikma but also the millions of people we serve around the world.



We're building a world-class brand at Hikma. One with an inspiring promise, bold vision, distinctive personality, and a recognisable identity."

### Quality without boundaries

 For more information see page 46



### Global expertise, local solutions

 For more information see page 48



### Practical creativity

 For more information see page 50



### Committed to people

 For more information see page 52



# For us, quality knows no boundaries

We've built our global reputation on bringing high-quality medicines to customers.


When we talk about quality, we're not simply talking about our products. We're talking about our people, our relationships, and our thinking.

## Hikma in action

As well as adhering to the highest standards in everything we do, our customers and partners know they can rely on us to deliver it consistently, in all our markets.

By working with strategic partners around the world, we not only strengthen our product portfolio, but also reinforce our commitment to providing access to important medicines for those who need them. Building on our long-standing partnership with Takeda, in 2017

we forged an agreement that gives us the right to register, manufacture, market, distribute and sell four of their leading primary care products in 17 markets in the MENA region. Our experienced sales and marketing teams, and expertise in promoting cardiovascular and diabetes treatments, make us perfectly positioned to help ensure that the right medicines are reaching the right people, in the right places.

 For more information see page 46



Wherever you are in the world,  
and whatever your contact  
with Hikma, you can rely  
on us at every step."

# Where worldwide expertise meets local solutions

We use our global expertise to develop solutions for the specific challenges of our markets to ensure reliable access to our medicines.

## Hikma in action

Whatever the market needs, we apply our expertise to put better health within reach every day.

We believe that people everywhere should have access to the latest medicines. From our world-class manufacturing facility in Germany, we are exporting oncology products to more than a dozen countries in MENA, where they meet a significant patient need.

From our FDA-approved facilities in Jordan and Saudi Arabia, we are exporting products to the US. Across all our facilities, our colleagues are sharing knowledge and training, enabling us to achieve the same high-quality operations around the world.

From global expertise, to local solutions.



In our connected world, we believe everyone should be able to benefit from breakthrough advances in medicine."

# We think creatively and act practically

Our dedication to practicality, creativity and innovation comes through in the way we think and the way we work. We are always questioning and improving, because as the world changes and develops, there's always a better and more efficient way to make better health more accessible and affordable.

## Hikma in action

From developing new dosing solutions to devising delivery mechanisms that simply work better, we use practical creativity to solve the many and varied challenges facing us and our customers and patients.

When our facility in Amman needed replacement parts for one of the blistering machines, a group of young Hikma employees used their initiative. Rather than ordering them from Italy, they decided to manufacture the parts using 3D printing technology.

By thinking creatively and exploring new technology, they demonstrated the capabilities of customisation and on-demand production, and substantially reduced the costs of the spare parts and machine down-time.





“

For us, innovation is a way of thinking and working, looking at new solutions to old problems.”

# A genuine commitment to people

Since its inception, our company has been dedicated to transforming people's lives by providing the medicine and support they need every day.

We feel a real duty of care towards everyone with whom we come into contact – the people who use our medicines, our customers, suppliers, employees and the wider community.

## Hikma in action

We are working to improve medical awareness, health standards and access to medical care, everywhere we operate around the world. Our customers and suppliers know this and collaborate with us to put better health within everyone's reach.

Our commitment to people was recently recognised by the US FDA, who awarded us with a Drug Shortage Assistance Award for our role in alleviating shortages of Thiotepa for Injection and Phentolamine Mesylate

for Injection. In 2014, when we acquired these products, they were in short supply. We transferred them to our FDA-compliant manufacturing facilities and expedited the submission of post-approval supplements to the FDA, before re-launching the products in 2015. And while we were pleased to be honoured with the award, we're even more delighted to know that these critical care products were able to reach the patients who needed them.



We're here to serve people – from those who use our medicines, to our customers, suppliers, employees and the wider community."

# Our strategic approach

Our diversified business model enables us to compete successfully across our markets. Through our strategy for growth and focus on five strategic pillars, we are striving to deliver value to our shareholders whilst managing the risks inherent in our business.

## Our markets

Demand for pharmaceuticals continues to grow across the markets in which we operate, while at the same time governments are working to make healthcare more accessible and more affordable.

### Increased life expectancy



### Better access to healthcare



### Rise in chronic diseases




### Competitive market dynamics



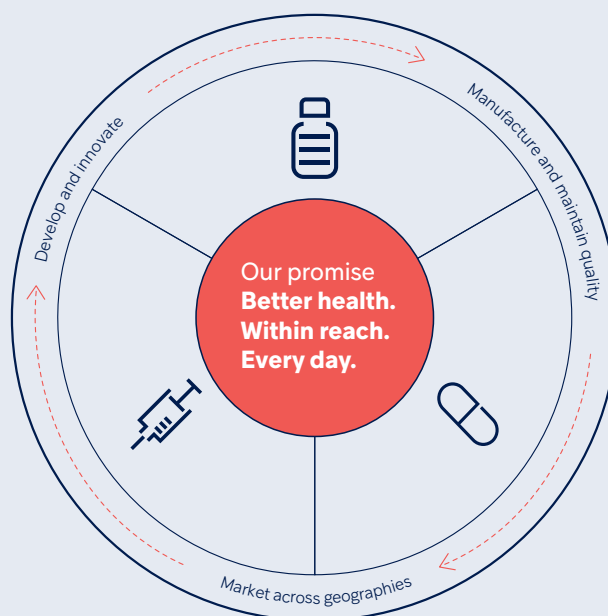
### Constrained healthcare budgets




 For a full explanation of our markets, see page 20.

## Our diversified business model

We have a business model that is diversified across business segments, regions and products. This provides both opportunities and resilience during challenging times.



 For a full explanation of our business model, see page 22.

## Our growth strategy

### Commercial excellence

Maximise the potential of our existing portfolio our across our markets



### Productivity

Optimise operations and drive efficiencies



### Research and innovation

Develop more complex and differentiated products and use innovative technologies to address doctor/patient needs



### People

Ensure effective organisation, leadership, talent management and recruitment



### Business development

Expand into new geographies; acquire new products, capabilities and technologies



For a full explanation of our strategy, see page 24.

## Measuring our progress

### Group revenue

**\$1,936m**

### Core operating profit

**\$386m**

### Product approvals

**297**

### Product submissions

**226**

Products refer to dosage forms and strengths, across all markets.

### Number of employees with length of service of more than five years

**4,616**

### Return on invested capital

**15.1%**

Return on invested capital (ROIC) has increased due to the revaluation of the West-Ward Columbus business. Using the 2016 asset valuation, ROIC is 9.9%.

For a full explanation of our KPIs, see page 26.

## Managing risks

- Industry earnings
- Product quality

- Industry earnings
- Product quality
- Supply chain and API sourcing

- Product pipeline
- Supply chain and API sourcing
- Industry earnings

- Organisational growth
- Reputation

- Inorganic growth

For a full explanation of our risks, see page 58.

# Our markets

Strong demand for high-quality, affordable generics is expected to increase as governments look for cost effective ways to manage their healthcare budgets.

## Global generics market

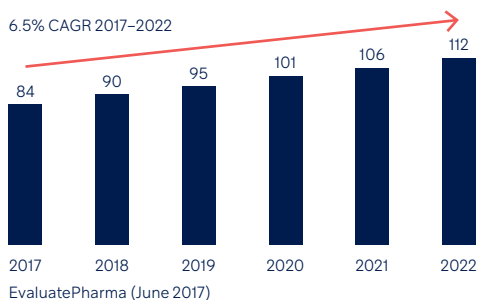
The global generic prescription market is expected to reach \$112 billion by 2022.<sup>1</sup>

The global pharmaceutical market has been impacted by key trends in recent years, including buying consolidation, macroeconomic instability in key markets and reduced government healthcare budgets. These changing dynamics are creating opportunities for generic pharmaceutical companies, as the need for more affordable healthcare solutions is driving an increase in generic penetration.

### Key drivers

- Scientific advances and improved access to healthcare are contributing to a rise in life expectancy and an expanding older population. According to United Nations' projections, the world's population is expected to grow by more than two billion people in the next 30 years, with the number of individuals aged 60 and above expected to double to more than two billion people.<sup>2</sup>
- Changes in lifestyle are contributing to a rise in chronic diseases, particularly cancer, respiratory and cardiovascular diseases. By 2020, it is expected that 50% of global healthcare expenditure will be directed at these therapeutic areas.<sup>3</sup>
- Most governments are now focused on tightly managing their healthcare budgets. As a result, generic market share continues to grow as generic substitution is increasingly encouraged. This trend is expected to continue. By 2022, generic prescription drug sales are expected to reach \$112 billion.<sup>4</sup>

### Worldwide generic prescription drug sales (2017–2022)



**\$112 billion**  
by 2022

expected size of the global generic prescription market

**6.5%<sup>5</sup>**  
CAGR

expected market growth (2017–2022)

## Our markets

### US

**62%**  
of Group revenue (2016: 62%)



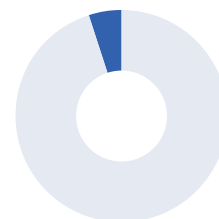
### MENA

**33%**  
of Group revenue (2016: 33%)



### Europe and ROW

**5%**  
of Group revenue (2016: 5%)



1. EvaluatePharma (June 2017)  
2. United Nations (June 2017)  
3. Deloitte (October 2016)  
4. EvaluatePharma (June 2017)  
5. EvaluatePharma (June 2017)

## Key trends shaping our markets

## Our response

### Despite recent pricing pressures, the US generics market remains the largest in the world

- The US generics market is the largest in the world. Eighty-nine per cent of prescription medicines dispensed in the US are generic, accounting for 26 per cent of total drug costs.<sup>6</sup>
- The pricing environment for generics in the US has become increasingly challenging with double-digit price erosion across the oral generics market in 2017 due to both cyclical and structural changes.
- A higher rate of ANDA approvals for generic products is leading to increased competition. In 2017, 767 ANDAs were approved, 18% more than in 2016.<sup>7</sup>
- At the same time, increased customer consolidation across the industry is putting pressure on manufacturers. In 2017, the three largest purchasing groups represent 90% of all generic purchases in the US.<sup>8</sup>

- In this challenging environment, we are focused on optimising the potential of our product portfolio and driving cost savings across our US business. In 2017, we put in place a new management team to support these efforts.
- To offset price erosion on our base portfolio, it is critical that we have a steady stream of new launches. In 2017, we undertook a detailed review of the pipeline to ensure we are focusing on products with the highest opportunity, whilst balancing the risk profile of the pipeline.

### Economic uncertainty has impacted growth in MENA markets but the fundamental growth drivers remain intact

- In recent years, many markets in the MENA region have been impacted by economic and political instability.
- Despite these challenges, the long-term growth outlook remains positive and there are signs of improvement. Currency fluctuations in our key markets, such as Egypt, are beginning to stabilise and oil prices are recovering.
- In line with global trends, the ageing population in MENA is growing and lifestyles are changing. Diabetes is expected to be the fastest growing disease in the region, with cancer and cardiovascular diseases also forecast to grow rapidly.<sup>9</sup>
- Governments are committed to improving access to healthcare. In our largest MENA market, the GCC, pharmaceutical expenditure is forecast to grow by around 66% between 2016 and 2021.<sup>10</sup>

- Thanks to our experienced local management, operating teams and sales and marketing teams, we are successfully navigating the challenging market conditions in the MENA region.
- In response to our patients' changing needs, we have developed a portfolio of products in chronic therapeutic categories.

### Demand for generics in European markets continues to grow steadily

- In recent years, increased healthcare demand, driven primarily by new innovative drug launches, an ageing population and an increase in chronic illnesses, coupled with relatively weak economic growth, led to increased pressures on European healthcare budgets.<sup>11</sup>
- Governments have adopted austerity measures and put in place cost containment policies to maintain sustainable healthcare budgets. These policies have impacted the generics industry by driving down prices.
- At the same time, governments are encouraging an uptake of generic products, driving volumes higher. Generic products now make-up around 56% of dispensed medicines in the region. This is expected to grow to 70–80% by 2020.<sup>12</sup>

- We are well positioned to capture growth opportunities in Europe, with injectable manufacturing facilities located in Germany, Italy and Portugal.
- To strengthen our position as a pan-European player, we are increasing our product portfolio, focusing on the EU5 markets (Germany, France, Italy, Spain and the UK).

6. Association for Accessible Medicines (2017)

7. IQVIA (February 2018)

8. IQVIA (February 2018)

9. PwC (2013)

10. BMI Research (July 2017)

11. Quintiles IMS (December 2016)

12. Medicines for Europe (2017)

# Our business model

We operate in a competitive, highly regulated industry, across many markets. Our diversified business model enables us to respond to the many opportunities and challenges we face, whilst delivering value for our customers, patients, employees, shareholders and our wider communities.

## Our inputs

### Financial

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

### People

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

### Values

We are committed to conducting business ethically and strive to achieve the highest quality standards. This approach helps ensure our business is sustainable.

### Relationships

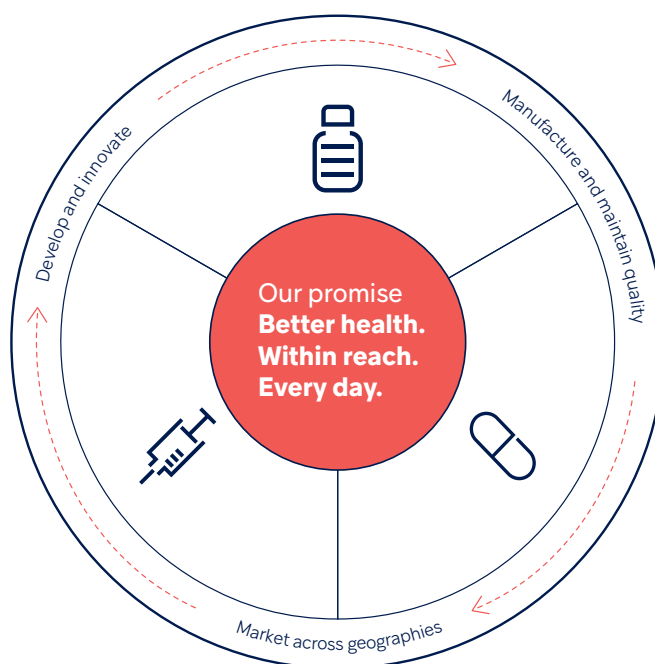
Strong relationships with regulators and health authorities across all our markets, and successful collaborations with industry partners, enable us to achieve our growth objectives.

### Capabilities

We have extensive manufacturing capabilities across our global markets focused on operational excellence and efficiency.

## Our activities

While our activities are diversified across our business segments and our markets, they are aligned with our purpose – to make quality medicines accessible to the people who need them.



Our business segments:

Injectables 

Generics 

Branded 





**Find out more about our strategy and key performance indicators**

Strategy page 24  
KPIs page 26

**Find out more about how we are managing risk**

Risk page 58

**Develop and innovate**

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



**6%**

Revenue invested in R&D (2016: 7%)

**Manufacture and maintain quality**

We are committed to maintaining the highest quality standards in all of our manufacturing facilities. We have 29 plants across the Group that supply our global markets with a broad range of injectable and non-injectable products, including 12 US FDA-approved facilities and nine EU-approved facilities.



**29**

manufacturing plants

**12**

US FDA-approved facilities

**9**

EU-approved facilities

**Market across geographies**

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



**2,000+**

sales professionals market our products across our markets

**The value we create**

**Patient benefits**

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

**658**

Number of compounds

**Employee benefits**

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

**>\$1m**

Investment in employees' education since 2010

**Shareholder returns**

Economic and financial returns are reinvested for future growth.

**361%**

Total shareholder return since IPO listing

**Sustainable business**

By conducting our business well and acting responsibly, we are benefiting the communities in which we operate.

**340,000**

Units of medicine donated in 2017

# Delivering our strategy

Our 5-year strategy is to establish Hikma as a leader across our markets by providing best value to customers.

Strategic priorities	2017 highlights
<p><b>1 Commercial excellence</b> Maximise the potential of our existing portfolio across our markets</p> 	<ul style="list-style-type: none"> <li>– Group revenue of \$1,936 million</li> <li>– Leveraged broad Injectables portfolio and remained resilient in the face of new competition</li> <li>– Focused on building customer relationships and improving service levels in our Generics business</li> <li>– Launched eight new products in Saudi Arabia, including six first generics</li> <li>– Drove strong demand for higher value products in Egypt, delivering more than 20% revenue growth in local currency</li> </ul>
<p><b>2 Productivity</b> Optimise operations and drive efficiencies</p> 	<ul style="list-style-type: none"> <li>– Maintained Injectables operating margin above 40%, despite increased competition on key products</li> <li>– Initiated cost cutting programme and identified opportunities for further cost savings in our Generics business</li> <li>– Leveraged our manufacturing facilities in Sudan to meet increased demand for our marketed portfolio</li> </ul>
<p><b>3 Research and innovation</b> Develop more complex and differentiated products and use innovative technologies to address doctor/patient needs</p> 	<ul style="list-style-type: none"> <li>– Invested \$121 million, or 6% of revenue, in R&amp;D and product-related investments</li> <li>– 17 injectable compounds in 23 dosage forms and strength approved in the US, and eight new compound submissions in 11 dosage forms and strengths</li> <li>– 53 branded compounds in 126 dosage forms and strengths approved, and 42 new compound submissions in 127 dosage forms and strengths</li> <li>– Restructured Generics R&amp;D team and implemented new product selection review and management process</li> </ul>
<p><b>4 People</b> Ensure effective organisation, leadership, talent management and recruitment</p> 	<ul style="list-style-type: none"> <li>– Strengthened management team across the Group through external recruitment and internal promotion</li> <li>– Undertook first global Employee Effectiveness Survey</li> <li>– Continued to develop leadership training and succession planning programmes</li> <li>– Initiated programmes to promote diversity across the Group</li> </ul>
<p><b>5 Business development</b> Expand into new geographies, acquire new products, capabilities and technologies</p> 	<ul style="list-style-type: none"> <li>– Invested in our manufacturing capacity and capabilities for our Injectable and Generics businesses</li> <li>– Expanded our partnership agreements with key partners, Celltrion and Takeda, reinforcing our position as partner of choice in MENA</li> </ul>

2017 challenges	Outlook for 2018
<ul style="list-style-type: none"> <li>– Continued price erosion in the US generics market</li> <li>– Customer consolidation into larger buying groups</li> <li>– Accelerated FDA approval of ANDAs</li> <li>– Volatility in emerging market economies</li> </ul>	<ul style="list-style-type: none"> <li>– Challenging market conditions in the US expected to continue</li> <li>– Enhanced customer focus leading to market share gains</li> <li>– New launches across all our markets to help offset price and volume erosion</li> </ul>
<ul style="list-style-type: none"> <li>– Increased demand for controlled drugs in the US led to supply pressures</li> <li>– Increased costs related to the development of generic Advair Diskus®</li> </ul>	<ul style="list-style-type: none"> <li>– Ongoing implementation of cost control programmes across the Group</li> <li>– Increased utilisation of lower-cost Injectables manufacturing facility in Portugal</li> <li>– Consolidation of Generics manufacturing and distribution facilities in the US</li> <li>– Development of new global systems and standardised processes</li> </ul>
<ul style="list-style-type: none"> <li>– Product launch delays impacted our ability to offset price erosion</li> <li>– Received a CRL from the FDA for our generic version of Advair Diskus®, delaying potential approval and launch</li> <li>– Increasingly competitive dynamics in the US negatively impacted the potential of our Generics pipeline</li> </ul>	<ul style="list-style-type: none"> <li>– Appointed Group Chief Scientific Officer and Global Head of R&amp;D</li> <li>– Continued focus on development of more differentiated products across our markets</li> </ul>
<ul style="list-style-type: none"> <li>– Alignment of Group values and work practices across global organisation, following integration of West-Ward Columbus</li> </ul>	<ul style="list-style-type: none"> <li>– Appointed Siggí Olafsson as Chief Executive Officer</li> <li>– Continue roll-out of new Human Capital Management system</li> <li>– Address opportunities identified through Employee Effectiveness Survey</li> </ul>
<ul style="list-style-type: none"> <li>– Focused capital investment on essential projects to maintain balance sheet strength</li> <li>– Limited opportunity for product acquisitions, reflecting increasingly competitive market dynamics</li> </ul>	<ul style="list-style-type: none"> <li>– Continue to evaluate investment opportunities in new and existing markets</li> <li>– Complete construction of dedicated oncology manufacturing facility in Portugal</li> <li>– Pursue acquisitions of new products and technologies to support strategic objectives</li> </ul>

# Measuring our progress

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

<p><b>Group revenue</b> (\$m)</p> <p><b>\$1,936m</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Revenue (\$m)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>1,365</td> </tr> <tr> <td>2014</td> <td>1,489</td> </tr> <tr> <td>2015</td> <td>1,440</td> </tr> <tr> <td>2016</td> <td>1,950</td> </tr> <tr> <td>2017</td> <td>1,936</td> </tr> </tbody> </table> <p><b>Description</b></p> <p>Total annual revenue generated across all businesses within the Group</p> <p><b>Why is it a KPI?</b></p> <p>This measures our ability to extract value from our product portfolio across our global markets</p> <p><b>2017 performance</b></p> <p>Group revenue decrease of 1% primarily due to price erosion in US generics industry and continued impact of currency headwinds in MENA</p> <p><b>1 R</b></p>	Year	Revenue (\$m)	2013	1,365	2014	1,489	2015	1,440	2016	1,950	2017	1,936	<p><b>Core operating profit</b> (\$m)</p> <p><b>\$386m</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Profit (\$m)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>413</td> </tr> <tr> <td>2014</td> <td>427</td> </tr> <tr> <td>2015</td> <td>409</td> </tr> <tr> <td>2016</td> <td>419</td> </tr> <tr> <td>2017</td> <td>386</td> </tr> </tbody> </table> <p><b>Description</b></p> <p>Core operating profit generated by the Group</p> <p><b>Why is it a KPI?</b></p> <p>This measures our ability to grow revenue, deliver efficiencies and ensure cost control, while maintaining high-quality manufacturing facilities</p> <p><b>2017 performance</b></p> <p>The decrease in core operating profit reflects challenging conditions in the US generics market and increased competition on certain injectable products</p> <p><b>2 R</b></p>	Year	Profit (\$m)	2013	413	2014	427	2015	409	2016	419	2017	386	<p><b>Product approvals</b></p> <p><b>297</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Approvals</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>132</td> </tr> <tr> <td>2014</td> <td>298</td> </tr> <tr> <td>2015</td> <td>362</td> </tr> <tr> <td>2016</td> <td>343</td> </tr> <tr> <td>2017</td> <td>297</td> </tr> </tbody> </table> <p><b>Description</b></p> <p>The total number of products across the Group approved by regulatory authorities</p> <p><b>Why is it a KPI?</b></p> <p>This measures our ability to successfully execute our product pipeline across the Group</p> <p><b>2017 performance</b></p> <p>We maintained a steady pace of product approvals in our Injectables and Branded businesses, but Generic approvals were below target</p> <p><b>3</b></p>	Year	Approvals	2013	132	2014	298	2015	362	2016	343	2017	297
Year	Revenue (\$m)																																					
2013	1,365																																					
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**Key to strategic priorities**

- 1** Maximise the potential of our existing portfolio across our markets
- 2** Optimise operations and drive efficiencies
- 3** Develop more complex and differentiated products and use innovative technologies to address doctor/patient needs
- 4** Ensure effective organisation, leadership, talent management and recruitment
- 5** Expand into new geographies, acquire new products, capabilities and technologies

**R** Linked to Remuneration see page 86

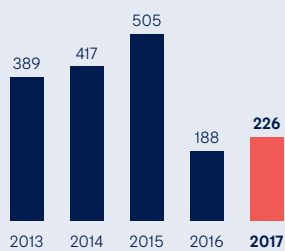


**Find out more about our strategy and key performance indicators**  
 Strategy page 24

**Find out more about how we are managing risk**  
 Risk page 58

**Product submissions**

**226**



**Description**

The number of products submitted to regulatory authorities for approval across the Group

**Why is it a KPI?**

This measures our R&D capabilities in new product development across the Group

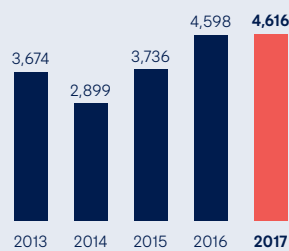
**2017 performance**

Increased submissions across our MENA markets more than offset lower submissions in our Generics business

**3**

**Employees with more than five years' service**

**4,616**



**Description**

The number of employees who have been employed by the Group for more than five years

**Why is it a KPI?**

This measures our ability to retain a talented workforce across the Group

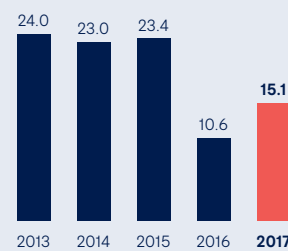
**2017 performance**

Slight improvement in number of employees with a length of service above five years, reflecting our continued focus on initiatives to retain talented employees

**4 R**

**Return on invested capital (%)**

**15.1%**



**Description**

Operating profit after interest and tax divided by invested capital (calculated as total equity plus total debt and obligations under finance leases)

**Why is it a KPI?**

This measures our efficiency in allocating capital to profitable investments

**2017 performance**

The significant increase in ROIC reflects the reduction in our asset value as a result of the revaluation of the West-Ward Columbus business. Using the 2016 asset valuation, ROIC is 9.9%

**5 R**

# Injectables



Our Injectables business manufactures, markets and sells generic injectable products in the US, the MENA region and Europe. In the US, we are the third largest manufacturer of injectables by volume.

We manufacture, market and sell generic injectable products in the US, the MENA region and Europe. Our portfolio covers a diverse range of therapeutic categories, including anti-infectives, anaesthetic, CNS, oncology and pain management.

We have injectables manufacturing facilities in the US, Portugal, Germany and Italy, with a broad range of capabilities, including sterile liquid, powder, lyophilised and cytotoxic products. In recent years, we have added significant capacity and developed new capabilities to respond to health care providers and patients' needs. We are further expanding our Portugal campus and expect to open a dedicated, state-of-the-art oncology facility in 2019.

We have been building our R&D capabilities in recent years. We have a dedicated R&D facility and an experienced scientific team in Bedford, Ohio, where we are developing global files to efficiently access all our markets. We supplement our internal R&D with external partnerships, product file acquisitions and M&A.

## Overview

### Highlights

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

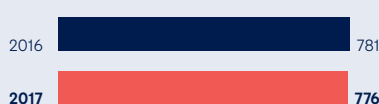
### Financial highlights

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

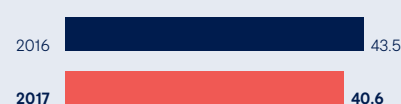
### Injectables revenue by region

\$ million	2017		2016	
US	<b>586</b>	76%	607	78%
MENA	<b>103</b>	13%	91	12%
Europe and ROW	<b>87</b>	11%	83	10%
Total	<b>776</b>		781	

### Revenue (\$m)



### Core operating margin (%)



# Injectables continued

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

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

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

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

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

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

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

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

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





While competition is increasing on certain products in the US, we are seeing a good contribution from recently launched new products and strong growth in Europe and the MENA region."



#### Case study: Tailoring our products to meet patients' needs

We are focused on providing patients with the products that they need. For our Injectable portfolio, hospital clinicians determine what and how medicines are administered to patients within the clinical setting.

In 2017, we held focus groups with hospital pharmacists to increase our understanding of how clinicians currently administer injectable products and to identify their unmet needs. This increased understanding will enable us to develop products that improve workflow efficiencies and ultimately support hospitals in their quest to provide better and safer patient care.

# Generics



Our Generics business manufactures and markets oral and non-injectable generic products for sale in the United States. We have two manufacturing facilities in the US and US FDA-approved facilities in Jordan and Saudi Arabia. We are the twelfth largest manufacturer of oral generics by volume in the US.

We have a diversified portfolio of more than 100 products in specialised market segments, such as oncology and pain management. We have a broad range of manufacturing technologies and capabilities, including the ability to manufacture solids, liquids, nasal sprays and dry powder inhalers.

We are focused on growing our product portfolio in niche market segments with high-entry barriers through investment in R&D, focused business development and selective acquisitions.

## Overview

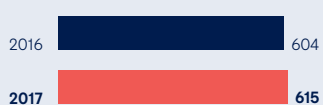
### Highlights

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

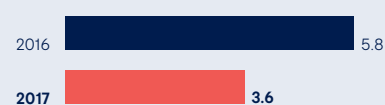
### Financial highlights

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

#### Revenue (\$m)



#### Core operating margin (%)



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

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

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

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

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

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

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

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

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

1. See Notes 14 and 15 of the consolidated financial statements for more details.



We have put in place a new management team to improve our operations, customer relationships and R&D programme.”



#### Case study: Investing in complex products

Our experienced Generics R&D team is developing a pipeline of products to drive long-term growth in the US market to provide broader choice to customers and patients. Our team of more than 100 scientists is focusing on technically complex products that other manufacturers find difficult to execute.

We have significantly invested in our respiratory capability, building a dedicated manufacturing area for respiratory products. Due to the significant investment required, very few generic manufacturers have this capability.

In particular, we are focused on developing dry powder inhalers (DPI). Despite the fact that many patents on Branded dry powder inhalers have expired, there are no generic DPIs on the market. We have three DPIs in our pipeline, including generic Advair®, Flovent®, and Serevent Diskus®. Developing these products supports our vision of bringing more affordable generic pharmaceuticals to the market.

# Branded



Our Branded business develops, manufactures and markets branded generics and in-licensed products across 17 MENA markets. We are the fifth largest generic pharmaceutical company in the MENA region and the largest regional player. Our largest markets are Saudi Arabia, Algeria, Egypt, Morocco and Jordan.

Our Branded business develops, manufactures and markets branded generics and in-licensed products across 17 MENA markets. Historically, we focused on anti-infective products. In recent years, in response to changing patients' demands, we have developed a portfolio of products in chronic therapeutic categories, such as cardiovascular, diabetes, central nervous system and oncology products.

We are proud to be a local player. We employ experienced local management, operating teams and sales and marketing teams who have a deep understanding of their respective markets. We have invested in manufacturing facilities in Algeria, Egypt, Jordan, Morocco, Saudi Arabia, Sudan and Tunisia. Our local expertise and established position allows us to capture attractive growth opportunities in these markets and navigate more challenging conditions if they arise.

We are committed to bringing new medicines to the MENA region. To do this, we are investing in R&D, strengthening our local R&D centres and establishing new licensing partnerships for innovative, patented products.

## Overview

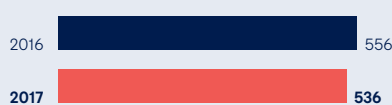
### Highlights

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

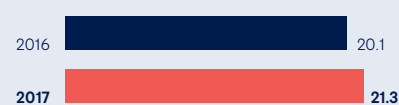
### Financial highlights

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

#### Revenue (\$m)



#### Core operating margin (%)



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

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

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

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

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

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

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

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

## Other businesses

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

1. In November 2016, the Egyptian pound had devalued against the US dollar from its peg of 8.8 EGP:USD to 18.2 EGP:USD as of 31 December 2016.





We saw a strong acceleration in sales during the second half, and a strong performance in Egypt, the GCC and Sudan leading to growth in constant currency."



#### Case study: Providing patients with access to high-quality affordable medicines

Around 40 per cent of the products we sell in the MENA region are innovative products that we in-license from global partners. These products enhance our portfolio in key therapeutic areas and increase patients' access to high-quality, affordable medicines.

Celltrion is one of our long-standing partners in MENA and in 2017, we signed a licensing agreement for the first biosimilar monoclonal Antibody (mAb) in oncology to be granted European marketing authorisation, Truxima™ (rituximab). We now have exclusive agreements with Celltrion for three biosimilar products – Truxima™ (rituximab), Remsima® (infliximab) and Herzuma® (trastuzumab) – in all our MENA markets. This strengthens our product portfolio in the strategic therapeutic areas of oncology, autoimmune diseases, rheumatology and dermatology and reinforces our position as a partner of choice in the MENA region. It also means we are meeting important patient needs.

# Group performance

## 2017 highlights – core

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

## 2017 highlights – reported

- Reported Group operating loss of \$747 million, down from income of \$302 million, primarily due to the impairment of West-Ward Columbus' intangible assets of \$920 million and property plant and equipment of \$164 million<sup>3</sup>
- Basic loss per share of 351.3 cents, compared to basic earnings per share of 66.5 cents in 2016
- Proposed full year dividend of 34 cents per share, up from 33 cents per share

## Summary financial results

Core results	2017 \$ million	Growth		2016 \$ million
		Constant currency	\$	
Core revenue	1,936	1%	-1%	1,950
Core operating profit	386	-4%	-8%	419
Core EBITDA <sup>3</sup>	468	-1%	-5%	493
Core profit attributable to shareholders	252	-5%	-9%	276
Core basic earnings per share (cents)	105.0	-8%	-11%	118.5

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

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

2. Core results are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 5 in the Notes to the Financial Statements.

3. See Notes 14 and 15 of the consolidated financial statements for more details.



To ensure the continuous development of our product pipeline, we submitted 226 regulatory filings in 2017 across all regions and markets.”

## Group

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

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

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

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

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

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

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

## Research & Development

The Group's product portfolio continues to grow as a result of our product development efforts. During 2017, we launched 44 new compounds.<sup>2</sup> The Group's portfolio now stands at 658 compounds.

Across all businesses and markets, a total of 214 products<sup>3</sup> were launched during 2017. In addition, the Group received 297 product approvals.

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




1. See Notes 14 and 15 of the consolidated financial statements for more details.

2. Compounds are defined as pharmaceutical compounds in the Group's portfolio and pipeline.

3. Products refer to dosage forms and strengths, across all markets.

# Group performance continued

## Hikma product pipeline

		Products launched in 2017			Products approved in 2017		Products pending approval as at 31 December 2017	
		New compounds <sup>1</sup>	New dosage forms and strengths	Total launches, across all countries <sup>2</sup>	Compounds	Total approvals, across all countries <sup>3</sup>	Compounds	Total pending approvals, across all countries <sup>3</sup>
Injectables		34	36	88	61	149	138	506
Generics		4	9	13	9	22	20	39
Branded		6	13	113	53	126	66	301
<b>Group</b>		<b>44</b>	<b>58</b>	<b>214</b>	<b>123</b>	<b>297</b>	<b>224</b>	<b>846</b>

1. New compounds are defined as pharmaceutical compounds being introduced for the first time during the period.

2. Total launches include all dosage forms and strengths that are new product launches, new geographic launches, as well as relaunches.

3. Totals include all dosage forms and strengths that are either approved or pending approval across all markets.

### Net finance expense

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

### Profit/(loss) before tax

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

### Tax

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

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

### Profit/(loss) attributable to shareholders

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

### Earnings per share

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

### Dividend

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

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

The Group generated operating cash flow of \$443 million in 2017, compared with \$293 million in 2016. In 2016, Group operating cash flow was negatively impacted by the investment in working capital required to support West-Ward Columbus following the acquisition in February 2016. Group working capital days were 225 days at December 2017, down from 240 days at December 2016, primarily driven by an improvement in receivables in the US, following the integration of West-Ward Columbus.<sup>4</sup>

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

The Group's net debt (excluding co-development agreements and contingent liabilities) stood at \$546 million at the end of December 2017, compared with \$697 million at the end of December 2016. The reduction reflects the increase in cash flow from operations.<sup>5</sup>

### Balance sheet

Net assets at 31 December 2017 were \$1,528 million, compared to \$2,411 million at 31 December 2016. The decrease in net assets reflects the impairment of the West-Ward Columbus business.<sup>6</sup> Net current assets were \$777 million, compared to \$530 million at 31 December 2016.

### Definitions

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

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

### Core results

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

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

### Constant currency

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

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

### Working capital days

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

### Group net debt

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

4. Group working capital days are calculated as Group receivable days plus Group inventory days, less Group payable days.

5. Group net debt is calculated as Group total debt less Group total cash.

6. See Notes 14 and 15 of the consolidated financial statements for more details.

## Outlook



### Injectables

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



### Generics

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



### Branded

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

### Group

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

# Sustainability

Our brand promise, to put better health within reach every day, is embedded within our sustainability strategy.

Our essentials	What this means for our approach to sustainability
<p><b>Quality without boundaries</b></p> 	<p>Our organisation is dedicated to achieving best practices across our operations. This is a standard which we extend to our supply chain. We work alongside our industry partners to uphold ethical labour practices and safeguard human rights.</p>
<p><b>Global expertise, local solutions</b></p> 	<p>Ensuring that our products are available and accessible to those that need them is the essence of our brand promise. Across our operations, we remain dedicated to affordability and inclusivity so that the people in need in our communities can benefit from high-quality healthcare products and information.</p>
<p><b>Practical creativity</b></p> 	<p>We are continuously exploring new and creative ways to serve our communities. From the introduction of novel products to the support for new research, we consider ingenuity to be embedded within our organisation. Key to this is the empowerment of our employees, who we provide with platforms and channels to express and develop their ideas.</p>
<p><b>Committed to people</b></p> 	<p><b>Our employees:</b> Our employees are central to our success. We take measures to engage and empower them and ensure their safety.</p> <p><b>Our communities:</b> We are committed to serving our communities. In all of our markets, we engage with those around us, helping to improve lives and address social needs.</p> <p><b>The environment:</b> We take measures to minimise our environmental impacts and enhance environmental compliance and regulations.</p>

Some notable achievements	Highlights	More information
<ul style="list-style-type: none"> <li>– Maintained our position in the FTSE4Good sustainability index</li> <li>– Strengthened our commitment to safeguarding ethical business practices across our supply chain by incorporating modern slavery clauses into our Supplier Audit Questionnaires</li> <li>– Worked alongside leading educational institutions to improve the quality of information available to doctors in the MENA region</li> </ul>	<b>3</b> FTSE4Good ESG Score	 See page 46
<ul style="list-style-type: none"> <li>– Established a specialised oncology unit in Egypt, increasing the availability of affordable oncology products in the country and across the MENA region</li> <li>– Donated in-kind medicine to those in need in Jordan, Libya, Sudan, Gaza and the US</li> <li>– Provided access to information about the growing challenge of Anti-Microbial Resistance (AMR) through multiple awareness campaigns targeting HCPs, policymakers and the general public</li> </ul>	<b>+340k</b> units of medicine donated across five countries	 See page 48
<ul style="list-style-type: none"> <li>– Distributed more than 500,000 'smart syringes' across Jordan and trained doctors and nurses to combat syringe reuse and prevent needle-stick injuries</li> <li>– Introduced the Hikma Innovation Competition, which provided employees with an opportunity to share innovative ideas and solutions with executive management</li> </ul>	<b>400</b> doctors and nurses in Jordan trained to effectively use 'smart syringes' and improve patient safety	 See page 50
<ul style="list-style-type: none"> <li>– Undertook our first global employee survey to enable all employees to express their views</li> <li>– Undertook several drug disposal programmes to remove and dispose of unwanted or expired medications</li> <li>– Completed our wastewater treatment facility in Egypt, our contribution to address the country's shortage of clean water</li> </ul>	<b>6.4m</b> unwanted or expired tablets disposed of in Columbus  <b>200m<sup>3</sup></b> of water treated per day in Egypt through our wastewater treatment facility	 See page 52

## Delivering quality in everything we do

At Hikma, we are committed to providing quality in everything we do. We believe that building trustworthy, transparent relationships are key to sustainable long-term partnerships. In 2017 we took steps to build on our governance frameworks and broadened the scope of our partnerships with major suppliers to uphold the ethical foundations of our organisation.

### Maintained inclusion in the FTSE4Good

As recognition of our quality standards in our sustainability practices, we are pleased to have maintained our inclusion in the FTSE4Good sustainability index in 2017. The FTSE4Good recognises companies listed on the London Stock Exchange that demonstrate strong Environmental, Social and Governance (ESG) practices as measured against internationally recognised best practices. The focus areas include: anti-corruption, climate change, health and safety, and customer responsibility.



FTSE4Good



### Maintained ethical standards and minimised the risk of corruption

We are committed to upholding ethical standards, including honesty, integrity and transparency. As a publicly-listed company on the London Stock Exchange, we abide by the UK Anti-Bribery Act 2010 and the Share Dealing Code and Disclosure Policies. We are also a founding member of the Partnering Against Corruption Initiative (PACI), an offshoot of the World Economic Forum (WEF), and a leading voice on promoting anti-corruption and transparency across different industries. In 2015 we joined the Business 20 (B20) Anti-Corruption Working Group (ACWG), which operates under the umbrella of the G20 international forum and is tasked with helping companies improve their ethical conduct.

Our culture at Hikma is one of transparency and respect, which we support through our 'open-door' policy and 'Speak Up' whistleblowing platform. 'Speak Up' is an independent service that enables stakeholders inside or outside the company to anonymously raise concerns about incidents that do not align with our values such as corruption or discrimination.

Various risks arise for companies that do not develop effective anti-bribery and corruption (ABC) policies. These can include reputational, financial, licensing or regulatory implications, as well as difficulty receiving financing, attracting and keeping talent or developing business partnerships. As such, we continue to take measures to strengthen our

### Case study: A firm stance against modern slavery

We are wholly committed to defending the universal principles of human rights and ensuring that modern slavery in the form of forced or compulsory labour and human trafficking does not take place in any of our businesses or supply chains around the world. We have taken measures to guard against all forms of modern slavery within our sphere of influence. These include:

- training our people on local and universal labour standards, as well as how to recognise and respond to incidences of modern slavery;
- undertaking periodic evaluations to identify and address modern slavery risks in our businesses or supply chains; and
- carrying out appropriate due diligence when engaging new supply chain partners.





**Case study: Our commitment to education**  
Speaking at our first 'Hikma Cancer Network – Middle East Forum of Hematologic Malignancies,' our Vice Chairman and CEO of MENA and Emerging Markets, Mazen Darwazah explained, 'This collaboration reinforces our commitment to continuous medical education, and enables us to fulfil our obligation to the communities in which we operate by allowing us to meet the needs of our patients and help create sustainable healthcare.'

# 100



Cancer specialists participated in our first annual 'Hikma Cancer Network' forum

governance and manage risks by reinforcing our ABC protocols. Our Compliance, Responsibility and Ethics Committee (CREC) – a Board Committee which is chaired by an independent, non-executive director – has formalised, developed and implemented an ABC business integrity programme based on thorough risk assessment and understanding of our business. In addition, our Code of Conduct provides all employees with a clear understanding of the principles of business conduct, standards, and ethical behaviours. We implement frequent ABC programmes which are monitored through internal compliance assessments, and carry out third-party due diligence and oversight when necessary.

This year, we introduced an e-learning training module to more effectively train our employees on how to identify and act on instances of bribery and corruption. The module was rolled out globally and will be updated on an annual basis.

## Extended our commitment to ethics across our supply chain

In order to ensure our suppliers and partners uphold our standards, our supply chain management team conducts regular audits that assess compliance in areas including business ethics, labour standards and environmental protection. We have ensured that all of our suppliers follow Good Manufacturing Practices (GMP) and that our major suppliers are ISO 14001 and OHSAS 18001 certified or equivalent.

In 2016, we introduced staff training measures and the development of specific standard operating procedures (SOPs) to ensure that we, and our partners, are not involved in forced or compulsory labour or human trafficking. In 2017, we strengthened our ability to address this issue, incorporating modern slavery Supplier Audit Questionnaires – the latter being mandatory for all of our new and major-spend suppliers. Currently, we do not screen all suppliers. We are working to increase the number of those that we engage through our questionnaires.

## Supported continued education of doctors and pharmacists

We provide education to doctors and pharmacists to improve the delivery of healthcare to patients. In 2017, we collaborated with the Department of Leukemia at the University of Texas MD Anderson Cancer Center to host our first annual 'Hikma Cancer Network – Middle East Forum of Hematologic Malignancies.' Through the forum we succeeded in attracting more than 100 blood cancer specialists from around the MENA region. We provided information on new technologies and treatments.

In Tunisia, we launched a series of training programmes for pharmacists and their support staff. Our training programmes addressed issues such as improved stock management, finance and accounting basics, human resource management, as well as the soft skills necessary to improve the overall patient experience.

# Meeting patient needs through accessibility and affordability

We were founded on the principles of access and affordability nearly 40 years ago, and these principles are still central to our approach today. We are committed to meeting the healthcare needs of patients, doctors and customers, and work hard to ensure continued access to quality, safe and reliable medicines.

In 2017, we expanded several strategic partnerships that will increase patient access to vital products in the MENA region. In addition, we expanded our manufacturing capability in the MENA to ensure the reliability and stability of supply for essential products. This year, we developed a comprehensive global in-kind donations policy through which we delivered more than 340,000 units of medications to those in need around the world.

## Improved patient access to oncology products

Cancer is a prevalent disease in the MENA region and is growing. In Egypt, one of our largest markets, it is expected that the prevalence of cancer will increase three-fold between 2013 and 2050.

In 2016, we launched Hikma Specialized and became the only local manufacturer of oncology products in Egypt. Hikma Specialized addresses major local and regional cancer needs. The facility's comprehensive portfolio includes products to treat a wide variety of cancer types including breast, colorectal, lung, leukemia, multiple myeloma and thalassemia.

## Strategic partnerships

The expansion of our partnerships with Celltrion and Takeda has increased access for patients across MENA to high-quality, affordable medicines in key therapeutic areas, such as cancer, cardiovascular and diabetes.

## Developing a global donations policy

It is important to us to support the communities in which we operate. Every year, we donate medical supplies to institutions and agencies that are responding to natural disasters or addressing other difficulties. This year, we developed a donations policy through which we streamline the medicine donation process across our sites. In 2017, our donations exceeded 340,000 units – valued at more than \$2.5 million – which were distributed to people in need across Jordan, Libya, Sudan, Gaza and the US. We are working to expand our donations to assist more people across more of our markets.



**In the US, generics make up 89% of prescriptions dispensed but only 26% of total medicine spending."**

The Association for Accessible Medicines (2017)

**340,000**



Units of medicine donated to people in Jordan, Libya, Sudan, Gaza and the US

**\$2.5m**



Value of medicine donated to people in Jordan, Libya, Sudan, Gaza and the US

## Improved access to information

We consider it our responsibility to provide access to information about the risks and dangers related to major medical issues and diseases.

As the second largest manufacturer of anti-infective medications in the MENA region, we believe that we have a responsibility to raise awareness of the risks and dangers of the rising threat of AMR.

Over the course of the year, we sought to address this challenge by organising several activities targeting multiple stakeholders:

- We believe that the correct usage of antibiotics by patients is critical to controlling AMR. We have developed simple instructions, which we include inside our packaging, to ensure patients understand how to use our products.
- In November, we participated in the World Health Organisation's (WHO) 'World Antibiotic Awareness Week' by promoting their campaign on our social media channels and distributing awareness posters.
- We held numerous events for healthcare professionals, where we invited experts to present on AMR and related issues.
- We are the Jordanian Association of Pharmaceutical Manufacturers (JAPM) representative in a committee responsible for developing a local action plan to manage AMR in Jordan.



## Partnering for good: Direct Relief



In 2017, we agreed a global partnership with Direct Relief – one that is based on our shared values and purpose of delivering quality medicines to those around the world who need them. Direct Relief is a global NGO dedicated to providing tailored medical solutions for vulnerable and at-risk populations by improving maternal and child health, preventing and treating diseases and assisting emergency preparedness and response.

Our collaboration begins in 2018 and will address unmet healthcare needs of people in the Middle East and the US. In Jordan, we will work with refugees across the region to improve their access to medicines. In the US, we will support Direct Relief's community pharmacies, set up to aid those without adequate medical insurance.

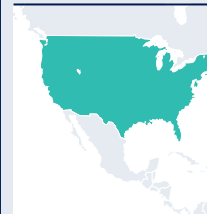
Our partnership with Direct Relief emphasises the importance of creating tangible health benefits on the ground, which we will do by providing our employees with volunteering opportunities as well as leveraging our logistics expertise to deliver regular and timely in-kind donations to those that need it most.

In future years, we will look to expand the scope of our collaboration beyond Jordan and the US.

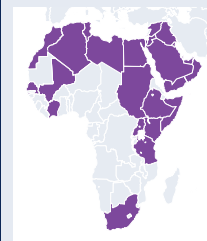


### Our contribution

#### Where we are helping



**US**  
Supporting Direct Relief's community pharmacies with volunteers and medicine



**MENA**  
Working with refugees across the region, with a particular focus on refugee camps in Jordan

#### How we are helping



#### Volunteers assisting on the ground



#### Donation of medicine



#### Financial contributions



## Innovation as part of our sustainability strategy

Innovation is integrated into both our employee and community outreach agendas. By empowering and enabling the creative potential of our employees, we are able to develop tailored solutions that address company challenges, while encouraging employees to think creatively and develop new skills. We also incorporate innovation in our community engagement by supporting young people within the community to develop their creative skills. We believe that this can contribute to socio-economic development.

### Encouraged innovation

We recognise the importance of expanding communication channels and platforms for our employees to share and develop their ideas. Our Innovation and Leadership Advisory Board (ILAB) was established in 2014 with the purpose of empowering young employees and tapping into their creative potential. Since its inception, ILAB has achieved success, developing and nurturing ideas. One notable achievement of ILAB was the introduction of the Hikma Innovation Competition (HIC), a company-wide competition that included contestants from all our markets designed to find innovative ideas on how to improve businesses processes.

The competition committee prioritised proposals that presented innovative yet practical and feasible solutions to company challenges. The winning proposal for 'Real-time Statistical in-Process Control on Tablet Compression' is expected to result in \$7.5 million in savings from an investment of around \$70,000. The project will leverage statistical in-process control during manufacturing and warn operators of impending in-process product rejects in real-time. The warning will enable operators to make immediate adjustments to reduce the number of rejected products.

Contestants in our newly-established Hikma Innovation Competition (HIC) stand alongside our Executive Chairman, Said Darwazah, during the competition awards ceremony. HIC provides a platform through which our people can share their ideas with executive management in a competition format, with the winning team given the opportunity to implement their idea.





We trained 400 doctors and nurses on the use of 'smart syringes' as part of our campaign to address syringe reuse and reduce the spread of blood-borne diseases.

### Encouraged the use of innovative 'smart syringes'

Needle reuse is often responsible for the spread of blood-borne diseases such as hepatitis B, hepatitis C and HIV. In order to address this challenge in Jordan, we undertook a multi-faceted campaign of awareness and distribution of 'smart syringes' around the country in collaboration with the Ministry of Health. The innovative design of 'smart syringes' includes a retractable safety feature that makes it impossible for healthcare professionals to inadvertently use the same syringe more than once, protecting patients from needle-stick injuries, possible infections and the spread of blood-borne diseases. To promote greater use of 'smart syringes,' we distributed 500,000 of them to public and private hospitals around the country, and trained 400 doctors and nurses on their use. We hope that by encouraging the use of 'smart syringes' we can more effectively protect the health and safety of patients in our markets.

### Our collaboration with the Injaz Innovation Camp

As part of our commitment to drive socio-economic growth in our communities, our employees in Algeria participated in the Injaz Innovation Camp – an initiative aimed at challenging university students to develop innovative business solutions through leadership, critical thinking and teamwork. Our employees volunteered to mentor and work with more than 50 students from universities across the country. We hope that by participating in activities such as this, we can encourage greater entrepreneurship and socio-economic development in our communities.

**500,000**



Smart syringes distributed to public and private hospitals in Jordan

**400**



Doctors and nurses trained on their use

# Committed to people, community and the environment

We remain committed to meeting the needs of our people, our communities and our environment. We consider the prosperity of our surroundings, human and environmental, to be linked to our organisational growth. We have therefore directed substantial resources towards addressing social challenges in our communities and take active measures to reduce emissions and minimise the environmental impacts of our operations.

## People

The health and safety as well as engagement of our people is a key focus of our sustainability strategy.

### Prioritised occupational health and safety

Protecting the health, safety and welfare of our people is paramount, and as a result, we have a focus on Occupational Health, Safety, Environmental and Energy (OHSEE) management. We provide information, training and support to all our employees to increase their level of awareness of the hazards and risks that are associated with our operations. Our OHSEE group-wide corporate policy is endorsed by the Vice President of Corporate Communication and communicated to all our employees.

We monitor targets for health and safety to review our performance and identify areas where we can improve our approach. Our OHSEE policy dictates that all our units comply with stringent industry standards of OHSEE management to ensure the well-being of our employees and business partners and to minimise environmental impacts of our operations.

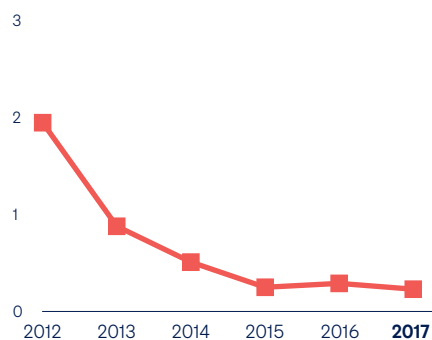
We are continuously refining our production processes, equipment and training to minimise potentially harmful situations and to prevent and manage environmental accidents and emergencies. This is reflected in the overall reduction in Lost Time Injury Rates (LTIR) across our US locations (see chart below). Going forward, we will expand monitoring and reporting of LTIRs to include our facilities in MENA and Europe.



#### Case study: Bringing our people together through the 'You are Hikma' campaign

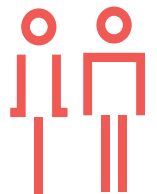
The 'You are Hikma' campaign is held every year across all our locations, bringing employees together to promote health and safety both internally and across our wider communities. This year, more than 80 employees in our Jordan locations and 250 employees from across our US locations volunteered and took part in the campaign's activities which included awareness lectures on waste recycling and occupational health and safety. The event also included a blood drive, firefighting training and medical testing.

#### Lost Time Injury Rate – US Facilities



■ All US Facilities

- LTIR defined as injuries resulting in one or more days away from work per 100 employees
- Data for Bedford and Columbus collected as of 2015
- Data for Creekside collected as of 2016
- In 2017, we sustained no LTIRs in Bedford, Creekside, Eatontown or Memphis



250



'You are Hikma' volunteers from across our US locations

**Our first global employee survey**

In 2017, we undertook our first global Employee Effectiveness Survey (EES) to measure and address employee engagement and better understand their positions on a range of issues.

Our intention is to conduct this survey on a regular basis. This will help us to gauge our performance internally and benchmark ourselves against industry best practices. This year, we achieved a response rate of 70%, and we will aim to improve this in future years.

**Encouraged inclusivity and diversity**

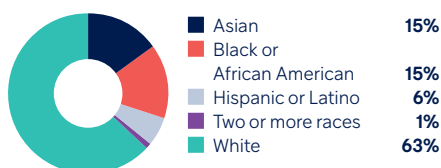
We believe in equality for all employees, and pride ourselves on being an equal opportunity employer and do not discriminate on the basis of race, age, religion, sexual orientation or any other characteristic. We consider the diversity of our people to be a source of strength that contributes to our creativity and effectiveness as an organisation.

**Ethnic and gender diversity**

Our merit-based and inclusive corporate culture helps foster a diverse workplace. Whilst we do not set quotas, we actively monitor ethnic diversity at all our US locations.

Approximately 33 per cent of our global workforce is female.

**Ethnicity breakdown – our US locations**



Monthly lectures organised through our 'Dare to Dream Big' programme promote capacity-building and leadership skills for our female employees in the MENA region.

**Women's empowerment**

We have developed various programmes and policies to encourage gender diversity and women's empowerment. Through our 'Dare to Dream Big Programme', we hold monthly lectures that promote capacity-building and leadership development for our female employees in the MENA region. We also established a formal committee tasked with addressing women-specific issues within the Company. The Women's Committee comprises females from across the organisation, offering an inclusive platform where issues can be addressed openly. The Committee contributed to the development of several important company policies such as the provision of a nursery allowance for parents and an extended maternity leave option for mothers in Jordan.

In Saudi Arabia, our efforts to reduce gender disparity, while at the same time accommodate cultural sensitivities, enabled us to increase the number of women in the Company from two in 2012 to 54 in 2017. This was achieved by establishing 'women-only' packaging and packing lines and including more women in our training and development agenda.

Gender diversity remains a challenge in certain locations, and to address this we will continue to introduce programmes that enable women to attain leadership roles, and address barriers to achieving a more inclusive workforce.

33%



Percentage of female employees at Hikma

## Employee development: Our continuing education programme

We offer employees multiple ways to develop their skills and capabilities, and we believe that supporting employees' training enables us to develop future leaders internally. This was the rationale behind the establishment of our Continuing Education programme in 2010. Every year, we accept up to eight employees into the Programme, which provides financial scholarships for education. More than 50 employees have received full scholarships since the programme's establishment.

### Case study: Ibrahim Shihadeh

Ibrahim Shihadeh began his career with us in 1978 as a maintenance engineer after completing a two-year Diploma in mechanical engineering. After ten years of employment, our founder, Dr Samih Darwazah, proposed that the Company sponsor Ibrahim's continued education and his pursuit of a bachelor's degree. In what became a precursor to our Continuing Education Programme, Ibrahim was able to further his education, enabling him to assume the role of Production Manager and eventually Head of Engineering. Ibrahim continued to progress within the organisation, earning the position of General Manager of Algeria and Senior Director of Special Projects. Ibrahim worked at Hikma until his retirement in July 2017. Ibrahim's journey within Hikma embodies our spirit of employee development and his success was the driving force behind the establishment of our Continuing Education Programme.

## Communities

Across our communities we support programmes focused on social challenges and health and wellbeing.

### Drug disposal campaigns

This year, we undertook several drug disposal initiatives to address the challenge of prescription drug abuse. In Columbus, our employee volunteers worked alongside local grocery store and pharmacy chain, Kroger, to collect and remove unwanted and expired medications from customers and dispose of them safely. Over the course of the campaign, we successfully disposed of more than 4,300 pounds (1,950kg) of medications, equating to more than 6.4 million tablets.

In Saudi Arabia, volunteers participated in the 'Dawaona Amanah' (Our Medicine, Our Responsibility) Campaign, which aims to spread awareness about the importance of proper drug disposal. The campaign took place across several locations, including hospitals, universities, malls and stadiums.

# 6.4m

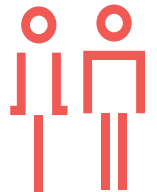


Safely disposed of more than 4,300 pounds (1,950kg) of unwanted or expired medications, equating to more than 6.4 million tablets



Volunteers in Columbus came together to dispose of unwanted or expired medications.





Our employees are keen to take advantage of opportunities to volunteer and give back to their communities. Every year, we organise several campaigns that bring people together to assist those in need and improve our communities.

In Jordan, we continued our support for the Charity Clothes Bank, which developed a charity distribution centre in the Al Karak Governorate. Through our contributions, which totalled more than 93,000 items, we were able to help more than 26,000 people.

We conducted several activities to help improve education infrastructure. In Sudan, volunteers from our Savannah facility participated in a comprehensive effort to refurbish the Al-Mahlaj Higher Secondary School in Khartoum, helping repair critical infrastructure and complete maintenance work to improve the learning setting for students. The school was subsequently renamed the Pharmaland Higher Secondary School.

In Columbus, we donated a van to assist the mobile outreach programme of the Mount Carmel Foundation. The Foundation is a non-profit organisation dedicated to funding health and education programmes in Ohio. It provides extensive healthcare and resources to those that are not supported by other healthcare providers.



Volunteers in Cherry Hill participated in the 'Give Back' campaign, where they collected and helped to distribute food and beverages to those in need.

### Helped those in need across our communities

Across our locations, our employees organised multiple campaigns to assist people in need. Some of the many activities undertaken during the year included collecting and distributing food and supplies and helping to improve infrastructure for several schools.

We organised multiple food drives across the US, bringing volunteers together to collect and distribute food to those in need. In both Memphis and Cherry Hill, our teams collected food for their local food banks, helping thousands gain access to basic supplies.

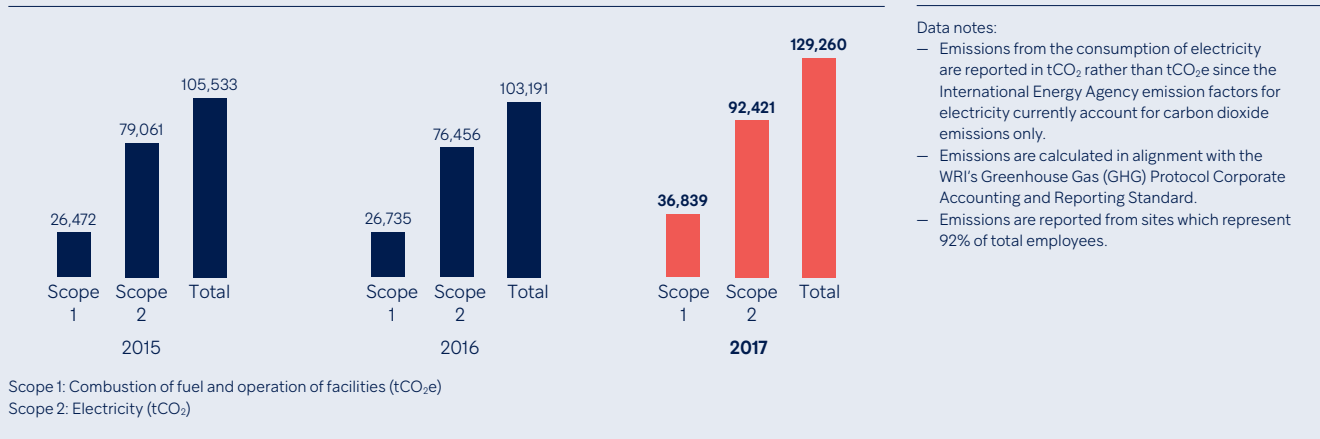
During the month of Ramadan, our employees in Egypt carried out a healthy meal distribution campaign, delivering food to more than 100 people in the village of Khair Allah. In collaboration with the Kheir W Baraka Institution, our volunteers were able to visit the village and offer hands-on assistance to those in need.

### Assisted those affected by natural disasters

After the devastating hurricanes Harvey, Irma and Maria, employees from across five US facilities came together to donate supplies and assist in relief efforts. Through these donations, more than 500 people that were affected by the hurricanes were provided with access to essential items.

## Measuring our emissions

The table below shows our emissions performance for the last three years.



Data notes:

- Emissions from the consumption of electricity are reported in 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 WRI's Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
- Emissions are reported from sites which represent 92% of total employees.

### Performance

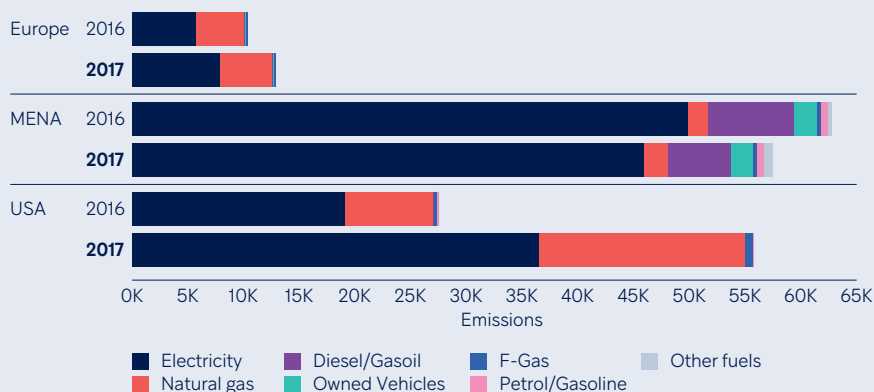
Our reported greenhouse gas emissions increased by 25% in 2017, compared with 2016. The increase was primarily due to the inclusion of West-Ward Columbus, our largest manufacturing facility, in our analysis for the first time. It accounts for 23% of total emissions in 2017. Excluding West-Ward Columbus from our US results, our greenhouse gas emissions decreased by 5% in 2017.

Our emissions per full-time equivalent (FTE) employee increased by 3.6%. This was primarily driven by increased manufacturing in Portugal and Germany. For example, a production increase of 40% in Germany led to a 16% increase in emissions from electricity at the site.

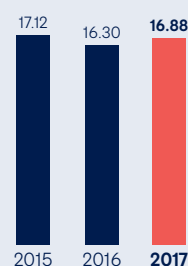
There was a slight increase in Europe due to the expansion of our Portugal manufacturing facility. In the MENA region, our emissions decreased by 8% due to investments made in energy efficiency.

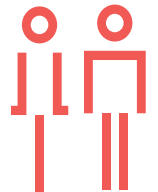
We are focused on reducing our emissions and have implemented several initiatives this year, which are discussed in more detail throughout the section.

### Year-on-year change by fuel type



### Emissions/FTE employee from reported sites (tCO<sub>2</sub>e)





## Environment

We are committed to doing our part to ensure that our environment is protected for future generations. Every year we take steps to improve our energy efficiency and minimise adverse impacts.

### Achieved cleaner manufacturing

In 2017, we finalised agreements that will enable our Jordan-based facilities as well as our manufacturing facility in Tunisia to convert from using diesel fuel to liquefied petroleum gas (LPG). This will result in significant improvements to our environmental performance by reducing the carbon emissions of our production processes. The switch will also reduce overhead costs since, unlike diesel fuel, natural gas boilers have a longer service life and require less maintenance.

Through the agreement with the energy company Central Gas, our Jordanian facilities will be provided with a capacity of up to 30,000 litres of LPG per year, an amount that will reduce production costs by 7–15% based on estimated gas prices. In addition to reducing our carbon emissions, using natural gas will improve safety.

In Tunisia, our substitution to natural gas use was the pretext for the Tunisian government to develop underground gas pipelines for the entire village of Sidi Thabet. This investment will enable other businesses and households to access natural gas, substantially extending the environmental return of our investment.

The pursuit of cleaner energy in our production and manufacturing is part of our wider effort to consider the environmental impacts of our business, reduce our carbon footprint in cost-effective ways and to maximise the efficiency of our production.

### Developed wastewater treatment in Egypt

As part of our efforts to improve environmental stewardship, we completed construction of a wastewater treatment unit in Egypt that will enable the manufacturing facility to reduce wastewater effluents by up to 90%. The wastewater treatment unit, operating at a maximum capacity of 200m<sup>3</sup> of treated water per day, uses the treated water for irrigation purposes, reducing use of domestic water consumption by 15%. We are seen as a leader in environmental compliance in Egypt.

90%



Potential reduction of wastewater effluents in our Egypt facility through wastewater treatment

### Upgraded lighting fixtures

This year, our Columbus facility undertook multiple projects to improve energy efficiency and lower carbon emissions. The most notable was the installation of LED lighting fixtures. By investing in the replacement of 32W fluorescent tubes with more efficient substitutes, we have halved the energy consumed in lighting the facility.

The installation of 1,625 fixtures (6,500 tubes) will result in energy savings of 789,690 kWh per year, equating to annual savings of around 360 tCO<sub>2</sub>e.<sup>1</sup>

### Upgraded sewage treatment infrastructure

At our facility in Tunisia, we successfully upgraded and renovated our sewage infrastructure to reduce water consumption and mitigate the environmental impact of our operations. The treatment unit will isolate industrial water from rainwater and sanitary water, enabling us to recover industrial wastewater for treatment and reuse. Our sewage treatment project will improve the environmental footprint of our facility and reduce operating costs.

### Our goals going forward



- Continue engaging our communities with activities that address health-related needs and promote accessibility, awareness and education
- Refine data collection for employee training and development and injury rates
- Expand our in-kind medicine donations to assist more people
- Continue to explore new channels of employee engagement that encourage innovation
- Ensure our supply chain is aligned with the principles of the Modern Slavery Act by expanding the scope of our supplier audits
- Continue to seek opportunities to promote energy efficiency and the use of renewable energy technology

1. Based on IEA 2015 US electricity grid emission factor of 0.4556 tCO<sub>2</sub>e/kWh.

# Risk management

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## Managing the uncertainties

In 2016, we introduced an Enterprise Risk Management framework. This year, we have focused on embedding it using new technologies.

- 
- 59 Risk management framework
  - 60 Risk management activities
  - 61 Principal risks and uncertainties
  - 65 Longer-term viability
  - 65 Going concern



We recognise that effective management of risk is fundamental to delivering long-term success for the Group."

## Risk management framework

### Risk context

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

Risks are inherent for our business. They may be associated with meeting the expectations of our stakeholders, establishing and achieving our strategic objectives, the efficient execution of our core processes, or through key relationships and dependencies.

See the Our markets section on page 20 and the Our business model section on page 22 for more detail on the external and internal context for risk management.

### Risk strategy

We recognise that effective management of risk is fundamental to delivering long-term success for the Group. We are embedding an enterprise risk management approach to ensure that we fulfil our obligations, have assurance that our activities are appropriately controlled, consider risk in our decisions, and establish effective and efficient strategic, tactical, operational and compliance processes.

### 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 approaches and details limits and tolerances on risk exposure for each of the principal risks. The risk appetite is monitored on an ongoing basis, and reviewed and updated annually. The risk appetite forms the foundation of the enterprise risk management framework, and guides management decision making across the Group.

### Risk governance

The Board has ultimate responsibility for the Group's overall approach to risk management and internal control.

On behalf of the Board, the Audit Committee oversees risk management for the Group in the context of its responsibilities for internal control. The Audit Committee reviews the material risks facing the Group taking into account different sources of assurance including executive risk management, internal audit and external audit.

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 80.

The enterprise risk management office facilitates and monitors the implementation of effective risk management practices by management and assists global risk owners in reporting their risks.

Compliance and control functions are in place across the organisation that have specialist expertise in managing risk in particular areas.

The CEO and Executive Committee have direct ownership of risk management for the Group and risk considerations are incorporated into their management responsibilities and decision making.

As part of the risk governance framework, senior executives are assigned global risk owner responsibility for each of the principal risks.

Global risk owners coordinate risk management activities across the organisation to ensure risk exposure is managed to the risk appetite.

### Risk governance

<b>Board of Directors</b>	<ul style="list-style-type: none"> <li>Define the Group's risk appetite</li> <li>Determine principal risks and uncertainties</li> <li>Responsible for effectiveness of the risk management framework</li> <li>Review risk management key outcomes</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>Oversee design and implementation of risk management framework and report to the Board</li> <li>Review risk and assurance reports from management, internal audit and external audit</li> <li>Consider risks highlighted by Compliance, Responsibility and Ethics Committee</li> <li>Review external communications and disclosures</li> </ul>
<b>Executive Committee</b>	<ul style="list-style-type: none"> <li>Review regular risk and assurance reports to ensure Group operates within risk appetite</li> <li>Take portfolio view of exposure for the organisation and consider interrelation of risks and significant emerging risks</li> <li>Make decisions on prioritisation for risk response</li> </ul>
<b>Internal audit</b>	<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>
<b>Enterprise risk management office</b>	<ul style="list-style-type: none"> <li>Facilitate and monitor the implementation of effective risk management practices by management and assist global risk owners in reporting their risks</li> </ul>
<b>Compliance and control functions</b>	<ul style="list-style-type: none"> <li>Support management policies, defining roles and responsibilities, and setting goals for implementation</li> </ul>
<b>Global risk owners</b>	<ul style="list-style-type: none"> <li>Implement the risk management process and identify, assess and manage risks within the business on a daily basis</li> <li>Coordinate risk management activities across the organisation</li> <li>Report on risk management status</li> </ul>
<b>Divisional risk owners and management teams</b>	<ul style="list-style-type: none"> <li>Own and manage risks</li> <li>Implement group wide policies and procedures</li> <li>Implement and monitor internal controls</li> </ul>

Communication

Reporting

# Risk management continued

## Risk management activities

Risk management activities occur at all levels of the organisation on an ongoing basis. The risk governance framework provides structure for these activities to ensure consistency of approach, alignment to the risk appetite and monitoring of risk management performance. In addition to the core reporting and communication processes described through the risk governance framework, key risk management activities during the year included:



### Brexit



Our risk assessment for the UK withdrawal from the European Union considers different Brexit scenarios and the wide range of implications that may impact our business. Our current view is that the exposure for Hikma is low and manageable. We have a small footprint in the UK, and as a result limited dependence on movement of people, goods, services and capital between the UK and Europe. We continue to monitor the situation as it develops and assess implications for our business.

### Priorities for 2018



In addition to our core risk management activities, in 2018 we will strengthen our global risk management process, further deploy our risk management technology, develop our risk culture, and strengthen partnerships between compliance and control functions to enhance our risk management capability and bring greater assurance for the Group.

## Principal risks and uncertainties

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

### Industry earnings

Description	Mitigating 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>– Securing of key talent to manage complex commercial environment and develop business</li> <li>– Growth and expansion in new markets, with new products and in new therapeutic areas</li> <li>– Portfolio management programme to focus on strategic products that support revenue, profit and margin targets</li> <li>– Development of capacity, diversification of capability through differentiated technology, and investment in local markets</li> <li>– Active product life cycle and pricing management across all regions</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

Description	Mitigating actions
Identifying, developing and registering supply of new products from the pipeline that meet market needs to provide continuous source of future growth.	<ul style="list-style-type: none"> <li>– Partner marketing and business development departments to monitor and assess the market for arising opportunities</li> <li>– Expansive global product portfolio with increased focus on high value and differentiated products</li> <li>– Experienced internal R&amp;D teams developing products and overseeing joint venture activities</li> <li>– Product related acquisitions bolster pipeline</li> <li>– Third party pharmaceutical product specialists brought in to assist in the development of manufacturing processes for new generic products</li> </ul>

### Organisational development

Description	Mitigating 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>– Strengthening executive experience with key talent appointed to fill strategic global positions, including appointment of new CEO</li> <li>– Investment in Group-wide human capital management system</li> <li>– Developing global HR programmes that attract, manage and develop talent within the organisation</li> <li>– Review of 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

Description	Mitigating actions
Building and maintaining trusting and successful partnerships with our many stakeholders relies on developing and sustaining our reputation as one of our most valuable assets.	<ul style="list-style-type: none"> <li>– Launch of new corporate brand to better communicate our values, purpose and strategy (see page 8 for more details)</li> <li>– Internal and external monitoring for early detection and monitoring of issues that may impact reputation</li> <li>– Investment and group alignment of corporate responsibility and ethics through transparent reporting and compliance with global best practices and strategic industry and community partnerships</li> <li>– Communication and engagement programmes on appropriate use of products</li> <li>– Globalising communication and corporate affairs capabilities</li> </ul>

### Ethics and compliance

Description	Mitigating actions
Maintaining a culture underpinned by ethical decision making, with appropriate internal controls to ensure staff and third parties comply with our Code of Conduct, associated principles and standards, as well as all applicable legislation.	<ul style="list-style-type: none"> <li>– Board level oversight from the Compliance, Responsibility and Ethics Committee (see page 84 for details)</li> <li>– Code of Conduct approved by the Board, translated into seven languages and rolled out to all employees</li> <li>– Active participation in international anti-corruption initiatives</li> <li>– Anti-bribery and corruption, sales and marketing, and other compliance programmes implemented and monitored through internal compliance assessments</li> <li>– Development of third party due diligence and oversight programme</li> </ul>

### Information, technology and infrastructure

Description	Mitigating actions
Ensuring integrity, confidentiality and resilience of data, securing information stored and/or processed internally or externally, maintaining and developing technology systems that enable business processes, and in ensuring infrastructure supports the organisation effectively.	<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 changes implemented as necessary 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>– Investment in enterprise-wide standardisation initiative incorporating data management, access and process control and risk management</li> </ul>



## Legal, regulatory and intellectual property

Description	Mitigating actions
Adapting to changes in laws, regulations and their application, managing litigation, governmental investigations, sanctions, contractual terms and conditions and potential business disruptions.	<ul style="list-style-type: none"> <li>– Internal expertise drives awareness and understanding through policies, processes, and compliance culture</li> <li>– Staff trained and contractual terms established to mitigate or lower risks where possible</li> <li>– Expert external advice procured to provide independent services and ensure highest standards</li> <li>– Board of Directors and executive management provide leadership and take action</li> </ul>

## Inorganic growth

Description	Mitigating actions
Identifying, accurately pricing and/or realising expected benefits from acquisitions or divestments, licensing, or other business development activities.	<ul style="list-style-type: none"> <li>– The mergers and acquisitions team undertake extensive due diligence of each acquisition in partnership with external advisers including financial and legal advisers, investment banks, and industry specialists in order to strategically identify, value, and execute transactions</li> <li>– Executive Committee reviews major acquisitions before they are considered by the Board</li> <li>– The Board is willing and has demonstrated its ability to refuse acquisitions where it considers the price or risk is too high</li> <li>– Dedicated integration project teams are assigned for the acquisition, which are led by the business head responsible for proposing the opportunity. Following the acquisition of a target, the finance team, the management team and the Audit Committee closely monitor its financial and non-financial performance</li> <li>– Post transaction reviews highlight opportunities to improve effectiveness of processes</li> </ul>

## Supply chain and API sourcing

Description	Mitigating actions
<p>Maintaining continuity of supply of finished product and managing cost, quality and appropriate oversight of third parties in our supply chain.</p> <p>API and raw materials represent one of the Group's largest cost components. As is typical in the pharmaceuticals industry, a significant proportion of the Group's API requirements is provided by a small number of API suppliers.</p>	<ul style="list-style-type: none"> <li>– Implementing comprehensive Group-wide third party management solution for suppliers</li> <li>– Maintaining alternative API suppliers for the Group's top strategic products, where possible</li> <li>– Rigorous selection process for API suppliers and focus on building long-term supply contracts</li> <li>– The Group has a dedicated plant in Jordan that can synthesise strategic injectable APIs where appropriate</li> <li>– Utilising supply chain models to maintain adequate API levels</li> <li>– Strengthening trade compliance capability to ensure compliance and drive efficiency</li> <li>– Serialisation programme ensuring roll out across the Group</li> </ul>

## Principal risks and uncertainties continued

### Crisis response and continuity management

Description	Mitigating actions
Preparedness, response, continuity and recovery from crisis events such as natural catastrophe, economic turmoil, operational issues, political crisis, regulatory intervention.	<ul style="list-style-type: none"> <li>– Central oversight being established of systems, processes, and capabilities to enhance our Group-wide resilience and preparedness</li> <li>– Programme being rolled out to enhance our ability to respond effectively to crises, and to expedite the restoration of critical processes after disruption</li> <li>– Engagement with key third parties involved in preparedness, response and recovery</li> <li>– Corporate insurance programme reviewed and updated to ensure appropriate coverage of high impact low likelihood events</li> </ul>

### Product quality

Description	Mitigating actions
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.	<ul style="list-style-type: none"> <li>– Quality culture driven throughout the organisation by global Quality office initiatives, and regularly reinforced by communication from senior executives</li> <li>– Global implementation of quality systems that guarantee valid consistent manufacturing processes leading to the production of quality products</li> <li>– Facilities are maintained as inspection ready for assessment by relevant regulators</li> <li>– Documented procedures are continuously improved and staff receive training on those procedures on a regular basis</li> <li>– Continued environment and health certifications</li> <li>– Global pharmacovigilance programme in place and being enhanced</li> </ul>

### Financial control and reporting

Description	Mitigating actions
Effectively managing treasury activities, tax position, income, expenditure, assets and liabilities, and debtors, and reporting accurately and in a timely manner in compliance with statutory requirements and accounting standards.	<ul style="list-style-type: none"> <li>– Extensive financial control procedures implemented and assessed annually as part of the internal audit programme</li> <li>– A 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>– Where it is economic and possible to do so, the Group hedges its exchange rate and interest rate exposure</li> <li>– Management obtains external advice to help manage tax exposures and has upgraded internal tax control systems</li> <li>– Introduction of new automated financial consolidation module</li> </ul>

## 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, 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. This is the timeframe for acquisitions and business opportunities to mature and to become integrated businesses, and for pipeline products that have been transferred or developed to contribute as marketed products. As such, three years is considered to be the most appropriate period. We recognise that the accuracy is greater in the nearer term than it is towards the end of the viability period.

### Assessment of position and prospects

Hikma operates in the relatively defensive generic pharmaceuticals industry which we expect to be less affected by economic downturns compared to other industries. There are a range of specific risks to the industry and the business which are set out on pages 61 to 64. We are well diversified due to our geographic spread, product diversity and large customer and supplier base – see the Our market section on page 20 and the Our business model section on page 22 for further details.

The position and prospects of the Group are assessed at each Executive Committee meeting and at the end of the financial year considering strategic and operational updates from each member of the executive team, financial reporting and forecasting from the Chief Financial Officer, and through the development of a business plan that takes into account our current position, an assessment of uncertainty facing the business, and known changes to our organisation and business model.

These assessments are presented to the Audit Committee and Board of Directors. The Directors also receive regular updates on operational, strategic and financial matters from executives.

### Assumptions

The financial modelling over the viability period 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
- The effective tax rate being within the current guidance range

### Assessment of viability, stress testing and sensitivity analysis

Management defined several realistic risk scenarios that could impact the business adversely and modelled the potential financial impact of these over the forecast period. The risk scenarios were chosen considering the Group's strategic objectives, the principal risks and uncertainties (see pages 61 to 64), and the financial modelling

assumptions listed above. Realistic but extremely severe adjustments were applied to the financial models for the viability assessment, and for stress testing and sensitivity analysis:

- Scenario 1: Industry earnings: significant adverse changes to the pricing environment in the US
- Scenario 2: Product pipeline: failure of pipeline to deliver strategic new products
- Scenario 3: Product quality: prolonged closure of one of our major US-FDA approved facilities
- Scenario 4: Crisis response and continuity management: escalation of political or social instability in one of our major MENA markets
- Scenario 5: Industry earnings: devaluation of key currencies
- Scenario 6: Supply chain and API: long-term shortage of API for strategic product from supplier

The assessment and analysis considered the availability and likely effectiveness of mitigating actions that could be taken in the circumstances to manage the impact of the risks.

Ongoing implementation of enterprise risk management and investment in infrastructure and change programmes are not included in the modelling, but are anticipated to enhance organisational resilience and support longer-term viability.

### Board of Directors' viability statement

The Directors, having considered the above matters, confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the viability period.

## Going concern

The Directors considered the going concern position of the Group during the year and at the financial year-end. The Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite current uncertainties. 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.

In confirming the going concern position, the Directors took into account a full assessment of the Group's position, including the following matters:

- Cash flow: Net cash flow from operating activities in 2017 was \$443 million (2016: \$293 million).
- Net debt: The Group's overall net debt position was \$546 million at 31 December 2017 (2016: \$698 million) and is circa 1.2 times EBITDA (2016: 1.4 times).
- Borrowing capacity: The Group has \$1,063 million (2016: \$1,109 million) of undrawn short-term and long-term banking facilities, in addition to \$238 million (2016: \$180 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.
- 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.

# Corporate governance

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During the year, we continued to uphold our Hikma values, which are transparency, respect, trust and quality.

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# Message from our Chair

## Evolving governance

### Dear Shareholders

During 2017 and in the early months of 2018, your Board has initiated a series of important governance developments for the Group, which are outlined below.

### Executive Chairman

As I mentioned in the beginning of the report, I have stepped down from my combined role as Chairman and Chief Executive Officer, to become the Executive Chairman. My primary responsibilities as Chief Executive Officer have been handed over to Siggí Olafsson, who is dedicated to leading the Group and the executive leadership team. I am continuing in an executive capacity to assist strategic thinking, to develop our entrepreneurial advantages and to guide Siggí in his role as the first non-family Chief Executive Officer in the Group's history.

### Executive leadership

The appointment of Siggí as our new Chief Executive Officer builds on our desire to obtain the maximum value from our combined Group

by focusing our strategy on key medium-term deliverables. Siggí's appointment is part of a broader effort to expand our leadership capabilities, which includes appointments to our Executive Committee. Siggí and I will work together over the next few years to further develop our strategy and maximise the competitive advantage from our team.

I would like to take a moment to note the retirement of Mike Raya, our long serving and highly successful US Chief Executive. Whilst I would have been delighted had Mike chosen to continue with Hikma, as a friend I wish him a happy and fulfilling retirement.

### Board composition

This year we will be saying farewell to Ron Goode, who is retiring at the AGM. Ron's retirement brings to a close the era of the independent directors who joined early in the Company's listed life and were instrumental in developing our group capabilities and leadership. Under Ron's guidance, the CREC and our business integrity programme

were created. We owe him a great deal and I would like to thank him personally for all that he has done.

As we move forward, our succession priorities are to ensure that the independent directors continue to represent a majority of the Board members and to gain further advantage from increasing boardroom diversity, as we did over the past few years with the appointments of Dr Pamela Kirby and Nina Henderson.

### Effectiveness

During 2017 we undertook our first interview-based board evaluation. It was a very rewarding and valuable experience, which helped to contribute towards some of the governance changes that I have outlined today and it will contribute to our plans to further develop our Board and Group structure.

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



**Said Darwazah**  
Executive Chairman



“

My primary responsibilities as Chief Executive Officer have been handed over to Siggí Olafsson, who is dedicated to leading the Group and executive leadership team.”

# Corporate governance at a glance

## Highlights 2017



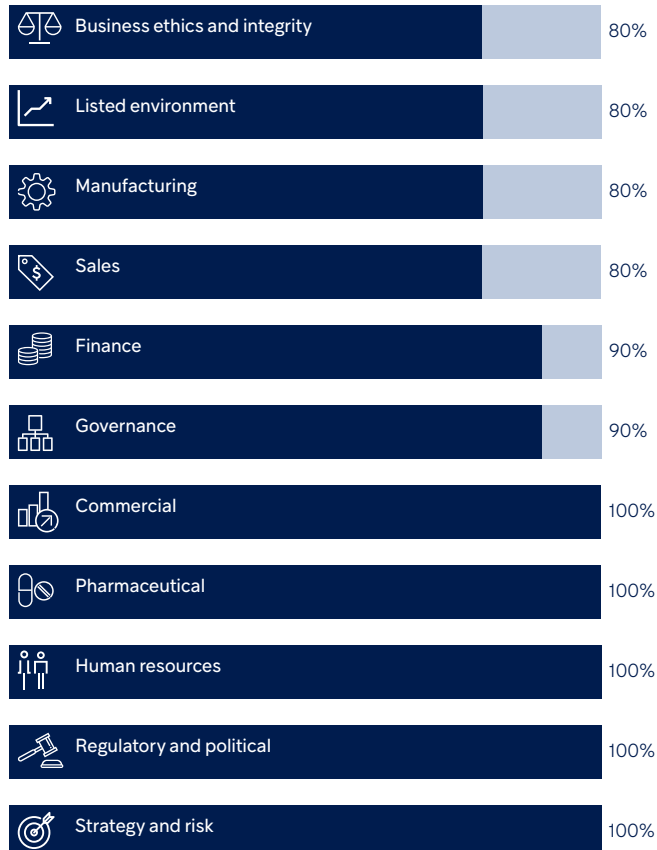
- Undertook an executive search process that led to the appointment of our first external Chief Executive Officer in February 2018
- Closely aligned remuneration outcomes with performance
- Developed new objectives for the executive directors, focusing on the delivery of strategic and operational priorities
- Developed a new executive succession plan
- Undertook our first interview-based board evaluation
- Completed the succession plan for Independent Directors and Committee Chairs
- Integrated US compliance into the global programme
- Embedded and enhanced the Enterprise Risk Management programme

## Priorities 2018



- Increase the level of independent representation on the Board
- Seek to enhance diversity at the Board and Executive Committee level
- Enhance oversight of employee working conditions and improving employee engagement
- Implement recommendations arising from the externally facilitated board evaluation

## Board experience



## Geographical experience



## Country of origin



## 2017 Board attendance



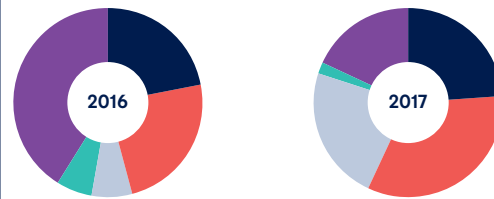
Directors during 2017	Meetings attended (7 scheduled and 1 unscheduled)	%
Said Darwazah	8/8	100%
Mazen Darwazah	8/8	100%
Ali Al-Husry	8/8	100%
Dr Jochen Gann <sup>1</sup>	6/8	75%
Robert Pickering	8/8	100%
Dr Pamela Kirby <sup>2</sup>	7/8	88%
Dr Ronald Goode	8/8	100%
Pat Butler	8/8	100%
John Castellani	8/8	100%
Nina Henderson	8/8	100%
Michael Ashton <sup>3</sup>	3/3	100%

1. Dr Jochen Gann was unable to attend two board meetings, one due to a time conflict with obligations to his primary employer and one called at short notice.
2. Dr Pamela Kirby was unable to attend one board meeting due to changes to the meeting timing which caused a conflict with another meeting.
3. Michael Ashton retired following the May 2017 AGM.

## The Board's time



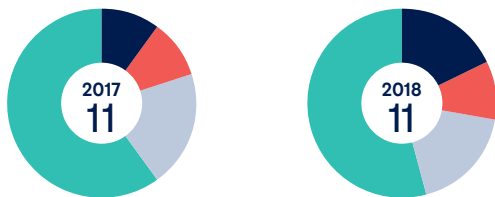
	2016	2017
Corporate governance	22%	24%
Financial	24%	33%
Operational developments	7%	23%
Risk	6%	2%
Strategy and acquisitions	41%	18%



## March 2017/March 2018 Board composition



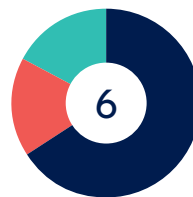
	2017	2018
Chairman and Chief Executive Officer	9%	18%
Executive Directors	9%	9%
Non-Independent NED	18%	18%
Independent NED	64%	55%



## Tenure range (as at 13 March 2018)



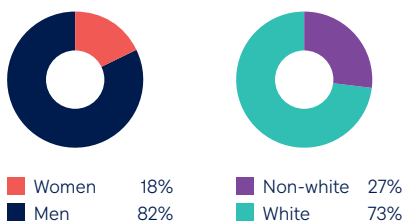
	Independent NED	No	%
0 - 3 years	4	66%	
4 - 6 years	1	17%	
7 - 9 years	0	0%	
9+ years	1	17%	



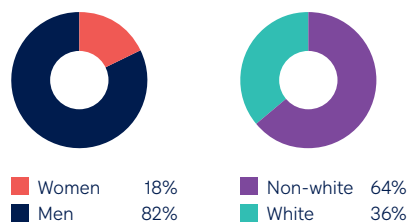
## Gender diversity (as at 13 March 2018)



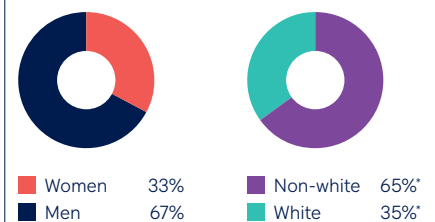
### Board



### Exco



### Group



\*Estimated

# Board of Directors



## Said Darwazah, 60

Executive Chairman

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

**Nationality:** Jordanian

**Board experience:**



**Committee membership:** None

**Experience:** Said has served as Chief Executive since July 2007 and Chairman since May 2014.

Said has over 36 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:** Unchanged since prior year. Includes Chairman of the Queen Rania Foundation and Royal Jordanian Airlines. Director of the Central Bank of Jordan and Dash Ventures Limited.



## Sigurdur 'Siggi' Olafsson, 49

Chief Executive Officer

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

**Nationality:** Icelandic

**Board experience:**



**Committee membership:** None

**Experience:** Siggi has a wealth of international experience in the pharmaceutical industry, having held senior roles with Actavis Pharma Inc., Pfizer Inc. and Omega Farma. Siggi 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:** Independent Director of Pfenex Inc., a biologics company listed on the New York Stock Exchange and a Director at Elucida Oncology.



## Mazen Darwazah, 59

Executive Vice Chairman, Chief Executive of MENA and Emerging Markets

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

**Nationality:** Jordanian

**Board experience:**



**Committee membership:**



**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. Since 2014, he became responsible for the Group's expansion into emerging markets.

**Qualifications:** BA in Business Administration from the Lebanese American University, AMP 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 King Abdullah Policy Board.



## Dr Pamela Kirby, 64

Independent Non-Executive Director

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

**Nationality:** British

**Board experience:**



**Committee membership:**



**Experience:** Dr Kirby was Chief Executive 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, Novo Nordisk, Curalogic, and Oscient Pharmaceuticals Corp.

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

**Other appointments:** Director of DCC PLC, Reckitt Benckiser Group PLC and Victrex PLC. Supervisory Board Member of Akzo Nobel NV.



## Dr Ronald Goode, 74

Independent Non-Executive Director

**Appointed:** 12 December 2006 | **Joined Hikma:** 2006

**Nationality:** American

**Board experience:**



**Committee membership:**



**Experience:** Ron's executive career focused on the international pharmaceutical industry, including roles as Chief Executive, President of International Operations at Searle, Vice President of Clinical and Scientific Affairs at Pfizer, and adviser to companies in the pharmaceutical industry.

**Qualifications:** PhD from the University of Georgia, MS and BS from the University of Memphis.

**Other appointments:** President of The Goode Group. Director of Mercy Ships International. Senior Business Advisor to The Kinsella Group. Advisory Board Member of Private Access, Inc.



## Patrick Butler, 57

Independent Non-Executive Director

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

**Nationality:** Irish

**Board experience:**



**Committee membership:**



**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, postgraduate diploma in Accounting and Corporate Finance from University College Dublin.

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



**Ali Al-Husry, 60**

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 of the 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.

**Dr Jochen Gann, 53**

Non-Executive Director

**Appointed:** 29 February 2016 | **Joined Hikma:** 2016**Nationality:** German**Board experience:****Committee membership:** None

**Experience:** Jochen is Global Head of Corporate Finance/M&A and Corporate Vice President at Boehringer Ingelheim GmbH. In his M&A role he leads Boehringer Ingelheim's mergers and acquisitions activities across all businesses.

**Qualifications:** Doctorate Degree in International Finance from the University of Hoheinheim. 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.

**Robert Pickering, 58**

Senior Independent Director

**Appointed:** 1 September 2011 | **Joined Hikma:** 2011**Nationality:** British**Board experience:****Committee membership:**

**Experience:** Robert became Senior Independent Director in May 2014. Robert was Chief Executive of Cazenove Group PLC and subsequently JP 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, Oxford.

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

**John Castellani, 67**

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.

**Nina Henderson, 67**

Independent Non-Executive Director

**Appointed:** 1 October 2016 | **Joined Hikma:** 2016**Nationality:** American**Board experience:****Committee membership:**

**Experience:** 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, Trustee of Drexel University, Director of the Foreign Policy Association and Visiting Nurse Service of New York, Inc.

**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 Institute of Chartered Secretaries and Administrators. Law degree from the University of East Anglia.

**Board experience:**

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

**Committees:**

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



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

# Executive Committee



**Said Darwazah**

Executive Chairman

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

**Nationality:** Jordanian

For further biographical details please see page 70.



**Sigurdur 'Siggí' Olafsson**

Chief Executive Officer

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

**Nationality:** Icelandic

For further biographical details please see page 70.



**Mazen Darwazah**

Executive Vice Chairman, Chief Executive of MENA and Emerging Markets

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

**Nationality:** Jordanian

For further biographical details please see page 70.



**Bassam Kanaan**

Chief Strategy and Corporate Development Officer

**Appointed:** 2014 | **Joined Hikma:** 2001

**Nationality:** Jordanian

**Role:** Bassam has Group level responsibility for strategic development, acquisitions, alliances, product development, and risk. Bassam has held several executive positions during 17 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.



**Majda Labadi**

Chief Human Capital Officer

**Appointed:** 2009 | **Joined Hikma:** 1985

**Nationality:** Jordanian

**Role:** Majda has Group level responsibility for human resources, including people development and structuring. Majda has held several executive positions during 32 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.



**Khalid Nablisi**

Chief Financial Officer

**Appointed:** 2011 | **Joined Hikma:** 2001

**Nationality:** Jordanian

**Role:** Khalid is responsible for Group finance, including reporting and capital management, and information technology. Khalid has held several financial positions during 17 years with Hikma, including VP Finance.

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



#### Susan Ringdal

Vice President, Corporate Strategy and Investor Relations

**Appointed:** 2012 | **Joined Hikma:** 2005

**Nationality:** American

**Role:** Susan is responsible for investor relations, corporate affairs, the executive committee and corporate strategy. Prior to joining Hikma, Susan worked for Alliance Unichem and Morgan Stanley.

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



#### Riad Mishlawi

CEO, Injectables Division

**Appointed:** 2011 | **Joined Hikma:** 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 Master's in Engineering and Management from George Washington University.



#### Brian Hoffmann

President, US Generics Division

**Appointed:** 2015 | **Joined Hikma:** 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.



#### Hussein Arkhagha

General Counsel

**Appointed:** 2013 | **Joined Hikma:** 2001

**Nationality:** Jordanian

**Role:** Hussein has Group level responsibility for legal, regulatory and taxation related matters. During 17 years at Hikma, Hussein has held several legal leadership roles, including heading legal in MENA, the shareholders' department and tax.

**Qualifications:** Qualified lawyer in Jordan. Master's degree in International Business Law from the University of Manchester, under a UK Chevening Scholarship.



#### Bryan Hotston

Chief Information Officer

**Appointed:** 2015 | **Joined Hikma:** 2014

**Nationality:** British

**Role:** Bryan has Group wide responsibility for information technology and systems enhancement. Prior to joining Hikma, Bryan held IT leadership positions with Barclays Capital and JP Morgan Cazenove, where he was a member of the Executive and Risk committees.



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/)

# Governance report

## Explanations under the UK Corporate Governance Code

### Governance principles

The Board is committed to the standards of corporate governance set out in the UK Corporate Governance Code (the 'UK Code') adopted in April 2016 and the Markets Law of the Dubai Financial Services Authority. The report on pages 66 to 111 describes how the Board has applied the Main Principles of the UK Code and Markets Law throughout the year ended 31 December 2017. 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 during 2017 and from February 2018 Executive Chairman, and the continuation of Independent Non-Executive Directors who have served more than nine years require explanation under the UK Code. Hikma is committed to an open dialogue regarding these matters. Questions may be directed to, and further information may be requested from the Company Secretary. Otherwise, throughout the year and up until the date of this report, Hikma was in full compliance with the UK Code.

### Executive Chairman position

The Board acknowledges that Said Darwazah's position as Executive Chairman is a departure from the UK Code. The 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 significant reduction in Said Darwazah's executive responsibilities. However the Board considers that, as the Company moves into a new era, it is essential to retain Said Darwazah's services in an executive capacity for a time period sufficient to ensure a controlled and orderly transfer of responsibilities.

The Board consulted shareholders prior to his appointment in May 2014 and following the change of role in February 2018. The Independent Non-Executive Directors met twice during the year to review the Board structure including consideration of whether the combined role should continue. As a result of these meetings and discussions with the Chairman and Chief Executive, a new CEO was appointed and the role of Executive Chairman was created.

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:

- **Chairman's role:** The Chairman position is highly visible inside and outside Hikma, acting as an ambassador with business partners and adviser to the divisions. It is essential the Chairman intimately understands MENA culture and has strong relationships in the region, can speak Arabic and has extensive pharmaceutical knowledge.
- **Business partners:** A significant number of the Company'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 Chairman remains key.

- **Continuity of success:** Said Darwazah has been a driving force behind the operational success of the business since 2007 and the Board believes that it is important to the continued success of the Group that he remains in the lead executive role.

### Control enhancements

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 and safeguards for shareholders.
- **Committee Chair roles:** The Chairs of the Board Committees, all of whom are Independent Non-Executive Directors, undertake a significant amount of work in the oversight of the functions that report to their Committees and have in-depth relationships with the relevant executives.
- **Transparency and engagement:** Hikma has always had the highest regard for external shareholders. Many of the original investors from before listing still invest and support Hikma today. Over 13 years since flotation the Company has maintained the highest standards of shareholder engagement, which is reflective of the importance placed in maintaining strong investor relations and governance. Hikma has won and been shortlisted for several transparency and governance awards.
- **Senior Independent 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.

### Independence

The Board considers Robert Pickering, Dr Ronald Goode, Pat Butler, Dr Pamela Kirby, John Castellani and Nina Henderson 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 its listing in 2005.

The Board reviewed and considered the independence of the Non-Executive Directors during the year as part of the annual corporate governance review. It recognises that Dr Ronald Goode has served in excess of nine years and therefore this constitutes a departure from the UK Code. However, in accordance with the previously communicated succession plan, Dr Ronald Goode will retire from the Board in May 2018. A full explanation describing the reasons for retaining his services and how the Board considers him to be independent are available on the Hikma website at [www.hikma.com/investors/corporate-governance/explanations-under-the-uk-corporate-governance-code/](http://www.hikma.com/investors/corporate-governance/explanations-under-the-uk-corporate-governance-code/) and on page 77 of the 2016 Annual Report.

The Board does not view Ali Al-Husry as an Independent Director due to the length of his association with the Company, because he was an executive with Hikma prior to listing and because of his involvement with Darhold Limited, Hikma's largest shareholder. However, he continues to bring to the Board broad corporate financial experience 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 Jochen Gann as an Independent Director as his appointment was part of 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.

## Evaluation and performance

The Board re-assessed its approach to its external evaluation during the first quarter of the year. The conclusion from this exercise was that a full, externally moderated, interview-based evaluation should be conducted every three years. The first such evaluation took place during the second and third quarter of 2017.

### Process

The process was co-ordinated by the Senior Independent Director at the request of the Chairman. Lintstock, an external moderator which has no other connection with the Company, led the process with a thematic questionnaire and interview process. Lintstock reported independently to the Chairman and the Senior Independent Director. The results were discussed at the Board and action points agreed.

The results of the evaluation process formed part of the Chairman's appraisal of the overall effectiveness of the Board and its members. The Directors suggest and promote improvements that they consider should be progressed outside the evaluation timetable.

### Conclusions and action

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

- Board composition
- Understanding of the key markets in North America and the MENA region
- Interaction and atmosphere providing for good, healthy discussions and challenges
- Non-Executive Directors provide support and constructive challenge to management
- Oversight of risk management

### New action points

Observations	Action being undertaken
<b>Operational focus</b>	In order to enhance the executives' focus on operations, the Board separated the combined role of Chairman and Chief Executive Officer. The Executive Chairman role enables the entrepreneurial talents of the Chairman to be retained.
<b>Stretched management</b>	The executive team has been enhanced by the appointment of dedicated personnel in the scientific and information areas. The new Chief Executive Officer will be reviewing and further enhancing the team over the medium-term.
<b>Communication lines</b>	To enhance the communication of and discussion around more challenging matters, the Board has allocated more time for meetings without executives present. The Board is considering specific meetings between the Chairman and the Independent Directors.
<b>West-Ward Columbus integration</b>	The Board has requested that management undertake a review of the status of the WWC integration and the successes and challenges of the acquisition project.

## Progress on prior year

Observations	Action taken
<b>Strategic oversight</b>	A dedicated annual strategy session was once again held providing an opportunity for the Board to discuss important strategic issues with management.
<b>Review of past decisions</b>	Further time was dedicated to reviewing past decisions after meetings giving greater insight into areas for improvement.
<b>Length of reports and presentations</b>	Board materials were refined to further enhance the quality of discussion, use of time, and ability for Directors to focus on key issues.
<b>Risk management</b>	Processes supporting the risk management framework were enhanced. A new risk director was appointed to ensure a greater focus on risk identification and mitigation.
<b>Executive and management succession</b>	A series of new internal and external assessments and training programmes were put in place across the Group to develop executive and management capability.

### Chairman's appraisal

The Independent Non-Executive Directors regularly met in private during the course of the year. The performance of the Chairman and the Board was discussed during these meetings. Additionally, the Senior Independent Director met with the Independent Non-Executive Directors to undertake a formal appraisal of the performance of the Chairman and subsequently fed back comments to him. The conclusion of this process was that the Chairman gave clear leadership and direction to the Board, and that the Board is run in an appropriate and effective manner.

### Director appraisal

The Chairman 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 Nomination and Governance Committee considered the evaluation and concluded that each Director, with the exception of Dr Ronald Goode who is due to retire, be recommended to shareholders for re-election at the 2018 AGM.

## Board and Committees


### Board

For additional information on the Board:


#### Board responsibility

 [www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/](http://www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/)


#### Board regular items and responsibilities

 [www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/](http://www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/)

#### Full schedule of matters reserved

 [www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/](http://www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/)

#### Internal and external advisers

 [www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/](http://www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/)

### Board Roles

#### Executive Chairman and Chief Executive Officer ('CEO')

As part of the succession process, the Board created new role profiles for the positions of Executive Chairman and CEO. The Group's executives report to the CEO, who reports to the Executive Chairman. 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/):

#### Senior Independent Director

The Senior Independent Director responsibilities include:

- Involvement in setting the Board agenda, actions points and the minutes
- Leading the Board in matters of board composition, effectiveness and evaluation, particularly in relation to the performance of the Chairman
- Providing a communication channel between the Executive Chairman and the Non-Executive Directors
- 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

#### 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 Directors.

#### Company Secretary

The Company Secretary reports to the Chairman and supports him and the Senior Independent Director in the delivery of their roles, particularly in relation to information flow and setting the Board agenda.


### Board Committees

The Board has an extensive workload and, therefore, has delegated the detailed oversight of certain items to four Board Committees: Audit; Nomination and Governance; Compliance, Responsibility and Ethics Committee ('CREC'); and Remuneration. Each Committee has terms of reference which were reviewed during the year. Copies are published on the Hikma website at [www.hikma.com/investors/corporate-governance/key-committees/](http://www.hikma.com/investors/corporate-governance/key-committees/) and are available for inspection at the registered office at 1 New Burlington Place, London, W1S 2HR or by contacting [cosec@hikma.uk.com](mailto:cosec@hikma.uk.com).



#### Audit:

- Financial reporting and performance
- Internal controls
- Risk management
- Internal audit
- External audit

 See page 78



#### Nomination and Governance:

- Appointments
- Training and induction
- Board composition
- Succession planning
- Board evaluation
- Corporate governance

 See page 82



#### CREC

- Anti-money laundering, bribery and corruption
- Compliance
- Speak-Up
- Code of Conduct

 See page 84



#### Remuneration:

- Remuneration policy
- Executive remuneration
- Performance plans
- Management incentivisation

 See page 86

### Executive Committee

The CEO chairs the Group Executive Committee, which develops strategic proposals to the Board, makes operational decisions and oversees risk control.

## Governance

### Shareholder engagement

Further to the announced appointment of a Chief Executive Officer and changes to the Chairman's role, the Board undertook a series of meetings with major investors and relevant bodies in order to discuss the governance and remuneration aspects of the change. The Board is taking these comments into consideration in its plans for further development over the course of 2018 and beyond.

Hikma is committed to clear and open communication with shareholders and stakeholders. If there are matters on which additional explanation is required, Hikma is always happy to discuss them. Please contact the Company Secretary in the first instance by writing to cosec@hikma.uk.com.

The Board maintains regular dialogue with shareholders through its investor relations programme, directed towards ensuring a mutual understanding of objectives. The principal ongoing communications with shareholders are through the publication of Hikma's Annual Report and Accounts, interim results and trading statements. The Chairman meets major shareholders periodically to discuss governance and strategy issues in order to understand their views on the Company and to ensure their views are communicated to the Board as a whole. Shareholders are encouraged to attend the Annual General Meeting ('AGM') and if unable to do so are encouraged to vote by proxy. Copies of presentations made at the AGM are available on the website after the event, together with the results of the voting. All Directors are expected to attend the AGM and full attendance has been achieved other than when exceptional personal circumstances have intervened.

### Electronic communications

Hikma recently wrote to shareholders to provide them with an opportunity to confirm how they wish to receive communications from the Company to help reduce its environmental impact. Hikma's preference is to use the Company website for communications, rather than in paper form. Shareholders are encouraged to visit the website to access the Company's Annual Reports and half-year and final results presentations.

For and on behalf of the Board of Directors of Hikma Pharmaceuticals PLC



**Peter Speirs**  
Company Secretary  
13 March 2018

## 2017 key events





## Assessing and quantifying

### 2017 Highlights

- Re-assessed our medium-term projections, longer-term prospects and adjusted asset valuations accordingly
- Supported management's assessment and enhancement proposal for information system and operational processes
- Reviewed the effectiveness of the Enterprise Risk Management and developed an enhancement programme
- Deepened the relationship with both the internal and external auditors
- Focused management on delivering the process enhancements from the internal audit programme

### 2018 Priorities

- Continuing to develop the risk controls and reporting capabilities
- Optimising the financial reporting, processing and forecasting capabilities

### Allocation of time



### Members and attendance

Member	Meetings	Attendance
Pat Butler (Chair)	6/6	100%
Dr Ronald Goode	6/6	100%
Robert Pickering	6/6	100%
Dr Pamela Kirby <sup>1</sup>	5/6	83%
John Castellani	6/6	100%
Nina Henderson <sup>2</sup>	5/6	83%
Michael Ashton <sup>3</sup>	3/3	100%

1. Dr Pamela Kirby was unable to attend one meeting due to changes to the meeting timing which caused a conflict with another commitment.
2. Nina Henderson was unable to attend one meeting due to a commitment that had been scheduled prior to joining the Board.
3. Michael Ashton retired following the 2017 May AGM.

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 the Company is operating. Dr Ronald Goode, Dr Pamela Kirby and John Castellani all have extensive pharmaceutical experience.

### Dear Shareholders

This report, summarises the work of the Committee over the last year, including the matters that we have found challenging, where careful judgement has been required.

### Impairment

The most significant financial issue that the Committee considered during the year and up to the date of this report was the impairment of the West-Ward Columbus ('WWC') assets, which amounted to \$1,084bn. The Group and divisional management undertook an extensive impairment review in advance of the final results for the year ended 31 December 2017.

The Committee focused on scrutinising the business and financial projections that underpin the assessment of the asset's value. The key judgemental areas for the Committee were the timing of launch for products in development and the projections of revenue and margins associated with those products. The Committee also considered the longer-term prospects for the business in light of changing industry and market environment in US generics. Management's expectations from the WWC existing products and pipeline worsened during the year chiefly as a result of feedback from regulatory authorities relating to key products in development, the changing pricing environment in the US market, and the relative positions of generic competitors.

As part of the exercise, the Committee requested that management consider particular worst-case scenarios, and extend sensitivity on revenue and margin assumptions. It also challenged the probability assumptions of other scenarios in order to ensure appropriate stress-testing of the key assumptions. As a result of the exercise, the Committee determined that the impairment value was appropriate.

### Significant judgements

The Audit Committee considered and discussed the following important financial matters:

- **Impairment and fair value:** Further details are provided above. The Committee reviewed and challenged the estimate of the fair value of assets and liabilities. Changes to management's medium-term expectations for the Group primarily relating to WWC, including sales, products under development, co-development agreements and contract manufacturing agreements, led to an impairment of \$1,105bn.
- **Revenue recognition:** The Committee reviewed policies for revenue recognition and the application by management of the policies in relation to significant products where the potential for returns and rebates was high. The Committee was satisfied that the review by management validated the approach to revenue recognition and took account of changes in the environment for those products during the year.





- **Taxation:** The Group's worldwide operations are highly integrated and involve a number of cross-border supply chains. There is complexity and judgement in estimating the potential tax liabilities in various jurisdictions. The Committee reviewed the appropriateness of the disclosures in the Annual Report and considered the advice from professional services firms and management in this regard.
- **Accounts receivable and inventory:** The Committee reviewed the reports on major receivables and inventory provisions. The Committee considered management's valuation of inventory, plans to ensure payment and relevant provisions.
- **Rebates and chargebacks:** The Committee assessed the reports on the processing of chargebacks and rebates in the US. This is a highly judgemental area and applies to a significant proportion of Group revenue. The Committee considered the control and modelling environment and the appropriateness of associated provisions.
- **Going concern:** The Committee assessed the going concern position when preparing the annual and half-yearly financial statements. The Committee took into account Hikma's forecasts and budget, borrowing facilities, contingent liabilities, medium and long-term plans, and financial and operational risk management.
- **Viability:** The Committee received the medium-term business projections and considered the scenarios that could impact those projects and the ability of the Company to remain viable.

### 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, and governance and is supported by divisional and functional heads, as required. The Reporting Committee's activities include:

- Initiating the first review of the Annual Report in October, considering external developments, issuing guidance to contributors and identifying areas for improvement
- Obtaining input from external advisers, including the auditors, brokers and public relations advisers
- Reviewing the disclosures as a whole
- Overseeing a verification process to ensure the accuracy of disclosures

Each member of the Audit Committee and the Reporting Committee was satisfied that the 2017 Annual Report is fair, balanced and understandable and recommended the adoption of the report and accounts to the Board.



The most significant financial issue that the Committee considered was the impairment of the WWC assets."

### External audit

The external audit was undertaken by PricewaterhouseCoopers LLP ("PwC") as it has been since their appointment in May 2016, following a competitive tender process. Following a review of the effectiveness and the efficiency of the 2016 year-end process, Mr Mark Gill was appointed as the senior statutory auditor in May 2017. As in previous years, the Committee maintained regular contact with the auditors throughout the year. The Committee regularly reviews the work of the external auditors and undertook an assessment of the auditors' performance and independence and in doing so examined the following issues during the year:

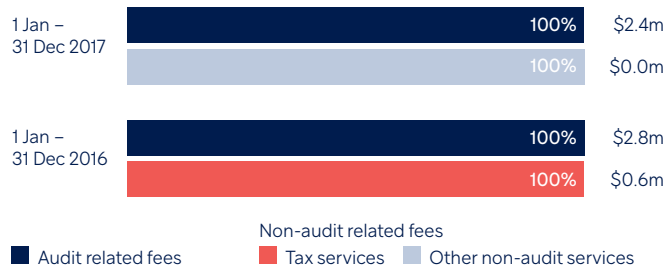
- **Audit quality and technical capabilities:** The Committee evaluation and review of the 2016 year-end includes an assessment of the work of the auditors. The Committee considered that the auditors undertook a highly effective and in-depth assessment and verification exercise and that the level of expertise was very high. The Committee considered that improvements could be made in communication channels and process timing. The Committee feeds back its comments on the auditors' performance as part of the regular meetings it has with them without management present, and believes that there is a strong, appropriate and open relationship between the audit team leadership, 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.
- **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. PwC provided training on IFRS 15, 9 and 16 and services related to the reduction in the capital of an Irish subsidiary that must be provided by the auditor for a cost of \$33,000.

Statutory audit services are conducted in compliance with the Competition and Markets Authority Order, and a competitive audit tender process was undertaken in 2015.

### Auditors' fee (\$m)

# \$2.4m

#### PwC



## Internal control

The Board confirms that it is ultimately responsible for the effectiveness of the Group's systems of internal controls and risk management and that those systems remain effective. The Board is satisfied that the Group's systems for internal control 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:** The principal risks and uncertainties and risk management report, detailed on pages 58 to 65 form a fundamental part of the Company's approach to designing and implementing new and enhancements to existing controls.
- **Internal audit:** The Committee receives regular reports from the internal auditors who assess the Company's process, identify areas for improvement, monitor progress, and undertake their own risk assessment.
- **Financial performance:** The Group reporting and forecasting reports reviewed by the Board highlight deviations from expectations and management's operational commentary.
- **Ethics:** The business integrity and ethics procedures and controls that are led by the Compliance, Responsibility and Ethics Committee.
- **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 auditors:** The Committee and Chair have a regular and confidential dialogue with the external auditors.

The Board monitors the ongoing effectiveness of the system and encourages continuous improvement. In the previous report, the Committee identified two areas for improvement. The first, related to ABC activities in the US, has been completed. The second, related to enhancing the Company's approach to information technology and associated standardising and streamlining processes is a significant project. During the year, the Board reviewed and approved management's plans for making these enhancements which will take place during 2018 and 2019.

The Committee received regular reports from the Company's internal auditors, EY, regarding their assessment of the Company's internal control environment and has identified the following key areas for management to advance:

- Improving the processes and data that support the automated financial accounting platform
- Developing the business partner capabilities of the finance function
- Processing of returns and rebates in a more timely manner
- Ensuring that payroll responsibilities are segregated in all sites, including those with low numbers of staff
- Assigning research and development costs on a product specific basis

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 our joint ventures and associates together with direct support from the Hikma finance function
- Annual budgets, updated forecasts and long-term business plans for the Group 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

## Internal audit

EY has continued to perform the Group's global internal audit function and feedback into the enhancement to Group internal controls, as detailed above. EY assess all group facilities and all relevant processes over a three year period. For major sites, assessments are more frequent. Management is required to respond to findings within a short period and, where necessary, complete all process improvements within two years, with 80% of high risk items being completed within one year. There is a regular programme of interaction between EY and the Committee:

## Key internal audit events

May	August
The Committee Chair meets EY at the Hikma head office in order to undertake a thorough review of the internal audit findings to date and the management responses.	EY report their initial findings to the full Committee. The Committee meets with EY without management present.
November	December
The Committee Chair has a further meeting with EY to undertake an in-depth review of the full year audit findings, review the results of the risk assessment that is undertaken in conjunction with management and consider the plan for the following year.	EY report their full year findings, risk assessment and plan for the following year to the Committee. The Committee meets with EY without management present.



### Going concern and viability

The Committee oversees the Group's going concern and viability position, which is reported on page 65.

### Taxation

The Committee received reports from the Head of Tax regarding the tax implications of changes in the structure of the business. These structural changes were in response to the Board's desire to ensure close operational oversight of certain facilities by the divisional leadership and to move responsibility for core operational functions to a global level. The Committee considered the resulting impact on the effective tax rate and the deferred tax assets in key markets. The Committee reviewed management's proposals to deliver sufficient financial resources for certain subsidiaries. In accordance with the governance principles for the Group, compliance related taxation matters are considered by the CREC.

### Financing

The Committee received and considered reports from management regarding the financial assets and liabilities of the Group. The Group has reduced its overall debt using free cash flow, whilst ensuring that sufficient facilities are available to fund future capital projects.

### IT capability

The Committee received reports from the Chief Information Officer regarding the current status of the Group's information infrastructure and the medium-term plan to enhance the operational processes to enable the Group to maximise the value from the platforms. The Committee supported efforts to centralise group processes and encouraged the appointment of new personnel for newly centralised functions.

### Risk

The Committee oversees the work of the Group's risk function, which is reported on pages 58 to 65. The Committee has ensured that the Board has been fully involved in the annual review of the principal risks and uncertainties on pages 61 to 64 and the Group's risk appetite on page 59.

As ever, if you have any questions, please do not hesitate to contact me.


**Pat Butler**  
Chair of the Audit Committee  
13 March 2018

### Additional information

Copies on the work and policies of the Committee are available at the Company's registered office, 1 New Burlington Place, London W1S 2HR or by contacting cosec@hikma.uk.com.

Alternatively please visit our website for more information of the below.

- **Calendar of events**
- **Internal and external advisers**
- **Responsibilities and terms of reference**

 [www.hikma.com/investors/corporate-governance/key-committees/audit-committee/](http://www.hikma.com/investors/corporate-governance/key-committees/audit-committee/)

# Nomination and Governance Committee

## Letter from the Chair



## Enhancing leadership

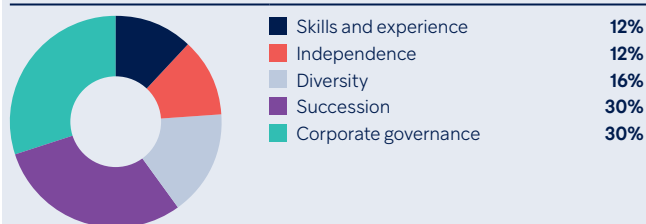
### 2017 Highlights

- Undertook an extensive search process resulting in the appointment of a new Chief Executive Officer in February 2018
- Completed the implementation of the succession plan for Independent Directors and Committee Chairs
- Undertook an assessment of the Company and executive management in order to further develop succession planning
- Enhanced the controls related to the delegation of authority and reporting to the Board

### 2018 Priorities

- Developing a new plan for independent succession
- Considering additional board experience requirements
- Renewing the executive succession plan

### Allocation of time



### Members and attendance

Member	Meetings	Attendance
Robert Pickering (Chair)	4/4	100%
Mazen Darwazah	4/4	100%
Pat Butler <sup>1</sup>	3/4	75%
Nina Henderson	4/4	100%
Michael Ashton <sup>2</sup>	2/2	100%

1. Pat Butler was unable to attend one meeting due to a prior commitment with another organisation.

2. Michael Ashton retired following the 2017 May AGM.

### Dear Shareholders

As in previous years, the Nomination and Governance Committee has considered succession planning for Independent Directors and executive management, governance, board structure and board effectiveness.

### Executive succession

During 2016, the Committee considered potential internal candidates for the position of Chief Executive Officer ('CEO'). Following discussions with the Chairman and CEO regarding his desire to reduce his executive involvement, the Committee concluded that the Group should undertake an external search process in 2017. The Committee focused the search on candidates with the necessary depth of pharmaceutical experience, vision of where to lead the Company and ability to further develop the executive team.

The Committee spent a significant amount of time developing and implementing its plan to find a new CEO. The Committee oversaw the executive search process that was undertaken by Spencer Stuart and ensured that the Board and executive team had a thorough understanding of how the final candidate would fit into the organisation. Role profiles for the CEO and Executive Chairman were carefully developed. The profiles allow an appropriate sharing of responsibilities whilst ensuring that the CEO is responsible for delivering the Group's strategy.

### Independent succession

With the retirement of Dr Ronald Goode in May 2018, the Company will have completed the 2014 succession plan for the orderly replacement of longer-serving independent directors who joined when the Company listed. The Committee is cognisant that, following the appointment of an additional executive director and Dr Ronald Goode's retirement, there will be an equal balance of independent and non-independent directors. During 2018, the Committee will develop arrangements for further succession of independent directors and will consider additional appointments in order to ensure an independent majority and the right mix of skills and experience.

Independent Non-Executive Directors are normally expected to serve for up to nine years. They may be invited to serve for longer, but additional service beyond nine years is subject to particularly rigorous review.

### Experience and training

The Committee continues to believe that a longer induction period is desirable for new independent directors to allow for building understanding of the business and the transfer of knowledge and relationships associated with chairing committees. The Committee 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 experiences that the Board requires as a whole, which focuses on the following areas:

- Business environment in both the US and the MENA
- Pharmaceutical manufacturing and distribution
- Development of new generic pharmaceutical capabilities
- Listing regulation and governance

The Company supports Directors in their continued development. As the Directors are highly experienced, their training needs tend to be either ensuring awareness of changes in the business, political and regulatory environment, or bespoke training and mentoring on a particular area for development. Therefore, the Company financially supports specific training requests and ensures that Directors are briefed by internal and external advisers on a regular basis.

### 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 has concluded that all Directors are fully dedicated, commit an appropriate amount of time to their roles, and are readily available at short notice. When seeking new directors with the experience required, there are occasions when limited compromises on availability are required in order to strengthen the Board. 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.

### Governance

As part of the Committee's responsibilities, it regularly reviews the internal governance and control processes and keeps abreast of external governance developments. This year, the Committee focused on enhancing the matters reserved to the Board in terms of the coverage of activities, clarity of the powers delegated, and management focus on reporting and situations requiring referral. Additionally, the Committee reviewed and enhanced the Group's defence arrangements.

### Re-election

Each member of the Board will stand for election or re-election at the 2018 AGM, with the exception of Dr Ronald Goode who will step down at the close of the meeting. The position of each Board member was closely reviewed during the year as part of the consideration of succession arrangements, consideration of independence issues, the Board and Committee evaluation processes and the ongoing dialogue between the Executive Chairman and the Senior Independent Director.

### Diversity

Hikma's inclusive workplace welcomes different cultures, perspectives, and experiences from across the globe. Hikma welcomes variety and treats all employees equally regardless of any actual or perceived characteristic. Hikma is committed to employing and engaging talented people, irrespective of their race, colour, religious creed, age, sex, 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. Since its founding, Hikma has actively promoted gender diversity across its operations and continues to have excellent diversity in terms of culture, age, background, skills and experience. Hikma has successful empowerment and talent development programmes to help all employees make the most of their potential.



**The Committee focused on depth of pharmaceutical experience, a vision of where to lead the Company and the ability to further develop the executive team."**

The Board has not set specific, measurable diversity objectives because it needs flexibility to recruit the right candidates. The Board considers that it has always demonstrated strong ethnic diversity. The Committee was pleased to be able to improve gender diversity over the past few years but recognises that the current level of female representation is not sufficient for a leading international organisation. As the Committee considers appointing an additional independent director over the course of 2018, it will seek to identify candidates who bring the right skills and experience, as well as the potential to improve the gender balance. The Committee continues to require the external search consultants to actively seek female candidates and to ensure that a significant proportion of long and shortlisted candidates are female.

As Senior Independent Director, I am available at any time to discuss with shareholders any matter of concern.

For and on behalf of the Nomination and Governance Committee

**Robert Pickering**  
Chair of the Nomination and Governance Committee  
13 March 2018

### Additional information

Copies on the work and policies of the Committee are available at the Company's registered office, 1 New Burlington Place, London W1S 2HR or by contacting cosec@hikma.uk.com.

Alternatively please visit our website for more information of the below.

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- **Calendar of events**
- **Internal and external advisers**
- **Responsibilities and terms of reference**

[www.hikma.com/investors/corporate-governance/key-committees/nomination-and-governance-committee/](http://www.hikma.com/investors/corporate-governance/key-committees/nomination-and-governance-committee/)

# Compliance, Responsibility and Ethics Committee

## Letter from the Chair



## Strengthening integrity and human dignity

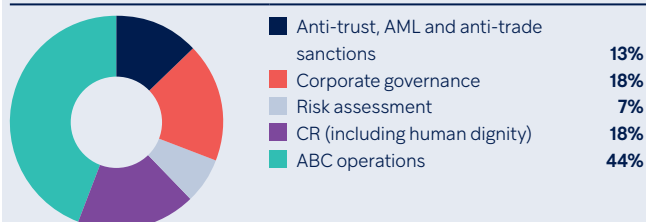
### 2017 Highlights

- Successful transition of Committee Chair
- Integrated US compliance into the global programme
- Implemented ABC enhancements from a recent risk assessment
- Promoted and further developed online training tools for all employees
- Advanced the anti-trust, anti-money laundering and trade sanctions programme

### 2018 Priorities

- Promote continued ABC and CR activities across the Group
- Further develop our human dignity programme
- Test and improve the systems that we have implemented

### Allocation of time



### Members and attendance

Member	Meetings	Attendance
John Castellani (Chair)	5/5	100%
Mazen Darwazah	5/5	100%
Pat Butler	5/5	100%
Dr Ronald Goode	5/5	100%
Dr Pamela Kirby	5/5	100%

### Dear Shareholders

This is my first letter to you as Chair of the Compliance, Responsibility and Ethics Committee. My first task is to thank Dr Ronald Goode, both for establishing this Committee and our Anti-bribery and Compliance ('ABC') programme, as well as providing excellent support and advice during the transition of the CREC Chair.

This year we have focused the report on the matters that occurred during the year. Further detail on the structure of our ABC compliance and integrity programme is available on our website.

### Commitment to integrity

The Committee is very proud of Hikma's commitment to the highest standards of business integrity, including the zero tolerance of bribery and corruption and being a founding member of the World Economic Forum's Partnering Against Corruption Initiative. Whilst the Company operates in some markets that are considered high risk, it has been pleasing to note that Hikma's performance and leadership on business integrity is admired amongst our regulators, customers and suppliers.

### ABC programme

Due to the 'top-down' commitment of our senior management and the effectiveness of our compliance team, our ABC programme is now well embedded into the organisation. The Committee receives regular reports on issues arising and oversees the continued improvement of the programme. Further to the report last year, the team has addressed the issues identified in our most recent risk assessment by enhancing the relevant processes in our US businesses. I am pleased to report that our US ABC efforts are now fully integrated into our global programme.

Under the guidance of the General Counsel, we have brought the ABC activities into the internal audit programme. The ongoing monitoring and review by the internal auditors ensures that the ABC programme continuously improves. In the view of the Committee, the implementation of internal audit practices demonstrates that we have successfully taken our ABC programme from initiation to the current fully operational phase.

During the year, the Compliance department developed and tested a new process and platform for dealing with the complicated challenges associated with third-party risks. The system will be implemented during 2018.



## Training

Following the development of an online ABC training module last year, the Compliance department have rolled out the application to all Group sites and integrated it with our HR on-boarding activities. Additionally, the application has been further enhanced with the addition of new modules which enhance understanding of our commitment to integrity.

The Board has fully supported the training programme, which all directors, officers and senior executives have completed.

## Code of Conduct

The Committee continues to oversee the development and promotion of the Group's Code of Conduct, which embodies the important moral and ethical values that the Company seeks to promote. The Code guides all the Committee's activities and is the key reference point for all our employees.

## Speak-up

The Committee continued to receive regular reports on issues identified through the Group's well-established speak-up arrangements, which include anonymous reporting lines that report directly to the Compliance department and Chair of the CREC. The Committee remains satisfied that the procedures, which include a committee of senior Group employees that undertake proportionate investigations and implements corrective action, are appropriate and effective. The Committee is pleased to report that the regional speak-up facilities were consolidated into one group-wide application during the year.

## Anti-trust, anti-money laundering and trade sanctions

The General Counsel oversees the Group's compliance within the anti-trust, anti-money laundering ('AML') and trade sanctions legislation and reports to the Committee in this regard. The Group has established extensive policies and procedures to ensure compliance, which have been reviewed by the Committee during the year. Over the course of the year, the General Counsel provided advice to the Committee on the changing sanctions landscape and how this affects the Company's operations and strategy.

## Compliance with Criminal Finances Act

During the year, the Committee undertook a risk assessment exercise in response to recently introduced tax evasion legislation from the UK government. The Group has started implementing processes and procedures that are proportionate to its risk of failure to prevent the facilitation of tax evasion. The Group is steadfast in applying the principles of the UK tax evasion legislation across all its businesses within the Group and will continue to oversee matters of compliance.

## 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 and management of any modern slavery risk in Hikma's businesses or supply chains, carrying out appropriate due diligence and engaging on the issue with supply chain partners.

## Corporate responsibility

The Committee has overseen, encouraged and supported the Corporate Responsibility 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 Corporate Responsibility report is contained on pages 44 to 57.



**We have successfully taken our ABC programme from initiation to the current fully operational phase."**

## Ethical issues

The Committee oversaw the Company's response to ethical issues arising during the year, including the potential misuse of products by Departments of Corrections in the US.

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  
13 March 2018

## Additional information

Copies on the work and policies of the Committee are available at the Company's registered office, 1 New Burlington Place, London W1S 2HR or by contacting cosec@hikma.uk.com.

Alternatively please visit our website for more information of the below.

- **Calendar of events**
- **Internal and external advisers**
- **Responsibilities and terms of reference**  
[www.hikma.com/investors/corporate-governance/key-committees/cre-committee/](http://www.hikma.com/investors/corporate-governance/key-committees/cre-committee/)
- **Commitment to integrity**  
[www.hikma.com/sustainability/global-frameworks/](http://www.hikma.com/sustainability/global-frameworks/)
- **Code of Conduct**  
[www.hikma.com/about/ethics-and-compliance/code-of-conduct/](http://www.hikma.com/about/ethics-and-compliance/code-of-conduct/)

# Remuneration Committee

## Letter from the Chair



## Aligning achievement and performance with pay

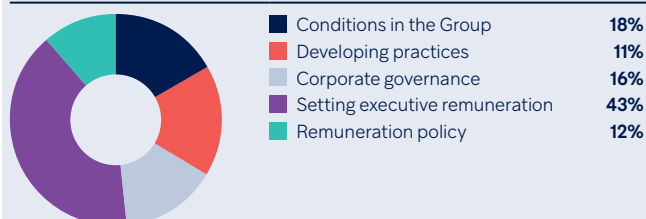
### 2017 Highlights

- Fine tuned the performance metrics and their alignment with strategy
- Extended the 5 year holding period to 100% of shares vesting
- Restrained executive salary increases
- Reviewed management incentivisation leading to the recommendation to renew the MIP
- Continued to embed the talent management programme
- Considered and responded to issues raised by shareholders

### 2018 Priorities

- Enhancing oversight of employee conditions and employee engagement

### Allocation of time



### Members and attendance

Member	Meetings	Attendance
Dr Pamela Kirby (Chair)	6/6	100%
Pat Butler <sup>1</sup>	5/6	83%
John Castellani	6/6	100%
Dr Ronald Goode	6/6	100%
Nina Henderson <sup>2</sup>	5/6	83%
Robert Pickering	6/6	100%
Michael Ashton <sup>3</sup>	3/3	100%

1. Pat Butler was unable to attend one meeting due to a prior commitment with another organisation.
2. Nina Henderson was unable to attend one meeting due to a commitment that had been scheduled prior to joining the Board.
3. Michael Ashton retired following the 2017 May AGM.

### Dear Shareholders

As outlined in the Chairman's statement, 2017 was a challenging year for the business and our shareholders. The pay and incentive outcomes for 2017 reflect this, reinforcing the Committee's pay for performance policy. We do, however, enter 2018 with optimism following the appointment of Siggj Olafsson as Chief Executive Officer (CEO) and with Said transitioning to Executive Chairman. In appointing a candidate of Siggj's calibre, the Committee sought to balance the need to secure his appointment without paying more than is necessary and, importantly, on terms allowed by our policy as it was approved by shareholders at the 2017 AGM. I provide further detail on the remuneration arrangements for the executive directors along with other pay related matters below.

### Chief Executive compensation

The Committee expended a significant effort developing a package that was designed to attract and motivate a new CEO, whilst taking into account the UK governance and remuneration environment. Siggj Olafsson brings extensive experience and leadership skills that are essential to Hikma's future success. For an executive of his calibre, the Committee had to take account of comparable packages in the US based pharmaceutical companies. The Committee also determined that the position of US CEO should not be retained following the incumbent's retirement in December 2017, thereby reducing the total compensation paid to all executives. Whilst the potential performance remuneration in the first year is within approved policy, the Committee considered it necessary to provide the CEO with an enhanced award for 2018 only, that is limited to the lesser of 150% of base salary or 72,000 shares. Attaching to this award are stretching and specific targets that the Board has identified as critical to our ongoing success. A sale restriction will apply such that the full value of the shares subject to the enhanced award will not be realisable for five years.

### Performance remuneration

Following approval of policy at the 2017 AGM, the Committee has continued to monitor and refine the performance criteria attaching to performance remuneration in order to provide the optimum balance between short-term financial objectives and longer-term strategic imperatives.

In order to generate adequate returns for shareholders, the strategy of generic pharmaceutical companies relies on a relatively small proportion of their product portfolio. This niche portion is dominated by products that have high barriers to entry, recently ceased to be patent protected, or where there is a shortage in supply. Therefore, developing these new product capabilities is critical to the Group's success. The financial performance targets are set at a level that requires the delivery of new product capabilities and certain strategic targets require the delivery of specific new product capabilities.





The year under review has been challenging for the Group and has resulted in a significant reduction in shareholder value. Whilst the generics environment has been challenging for us and our competitors, management has experienced some difficulties in delivering new product capabilities that were considered strategically critical. In light of the Group's performance, Said Darwazah has elected not to receive any performance remuneration for the year ended 31 December 2017.

The MENA business has been one of the strongest-performing parts of the Group, which has led to greater performance remuneration for Mazen Darwazah. However, in light of the above mentioned challenges for the Group as a whole, remuneration related to Group performance has also been waived by the Executive Vice Chairman.

### Salaries

There will be no annual base salary increases for executive directors for 2018. Following the appointment of the CEO, and the change in Said Darwazah's role to Executive Chairman, the salary of the Executive Chairman has been reduced by 20%, commensurate with the change in his responsibilities. The Committee supported management's decision to apply only selective salary increases and bonus payments to employees below the executive level to retain talent and the delivery of strategy.

### Holding periods

In response to the changing governance environment and by way of demonstrating the Committee and management's positive long-term view, we have decided to extend the five year holding period for Executive Directors and members of the Executive Committee from 50% of shares vesting to 100% of shares vesting. This change will affect grants under the Executive Incentive Plan ('EIP') from 2019, therefore applying to performance periods from the beginning of 2018.

### Management incentivisation

During the year, the Committee reviewed the incentivisation arrangements for management below the executive level. The existing Management Incentive Plan ('MIP') is very well understood throughout the organisation, strongly aligns individual and group performance with the compensation outcome, and was the foundation for the development of the executive performance remuneration arrangements. Therefore, the Committee recommends to shareholders the renewal of the MIP and asks for their support at the AGM. A summary of the key terms of this plan is included in the AGM circular.

### External views

When considering 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, having undertaken four shareholder consultations over seven years.



**In light of the Group's performance, Said Darwazah has elected not to receive any performance remuneration for the year ended 31 December 2017."**

In April 2018, members of the Board will be consulting shareholders in order to receive views and guidance on the governance and remuneration changes that were necessary to accommodate the appointment of the CEO and the role change for the Executive Chairman.

### Internal views

The Committee does not directly consult employees on the Policy contained in this Report, but receives regular updates on employee feedback through the Group HR department and the employee engagement survey, which is conducted by an external organisation and includes views on remuneration. The Committee considers it is very important to ensure alignment between the compensation for Executive Directors and all employees.

### Advice and support

The Committee seeks the assistance of senior management on matters relating to policy, performance and remuneration, but ensures that no director or employee takes part in discussions relating to their own remuneration or benefits.

Following a competitive tender process in 2016, Willis Towers Watson ('WTW') were appointed by the Committee. WTW continued to provide independent advice to the Committee in relation to market practice, UK corporate governance best practice, incentive plan review and target setting and 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 \$74k (2016: \$178k, as part of the remuneration policy review). 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 to the Committee. WTW adheres to the Remuneration Consultants Group Code of Conduct.

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.

**Dr Pamela Kirby**  
Chair of the Remuneration Committee

### Additional information

Copies on the work and policies of the Committee are available at the Company's registered office, 1 New Burlington Place, London W1S 2HR or by contacting cosec@hikma.uk.com.

Alternatively please visit our website for more information of the below.

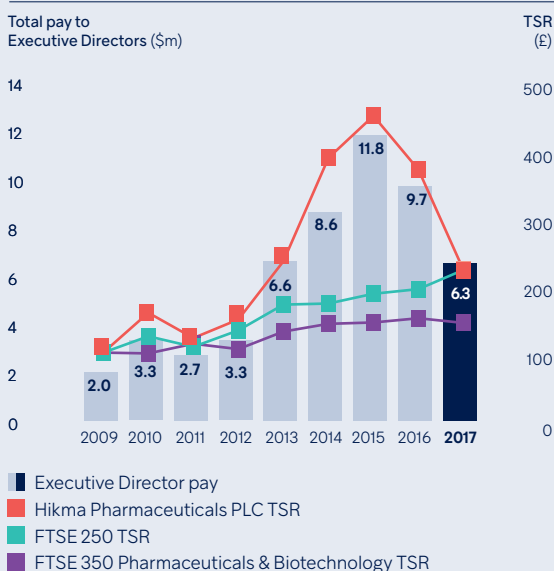
- Remuneration Policy: on pages 109 to 118 of the Annual Report 2016
- Calendar of events
- Internal and external advisers
- Responsibilities and terms of reference

[www.hikma.com/investors/corporate-governance/key-committees/remuneration-committee/](http://www.hikma.com/investors/corporate-governance/key-committees/remuneration-committee/)

## Remuneration dashboard

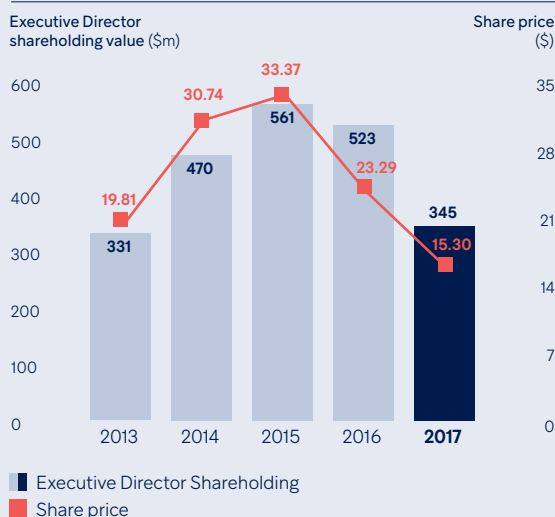
### TSR and total executive pay (\$m)

The Committee seeks to ensure that executive pay reflects the shareholder experience, including the experience compared to the Company's index (FTSE 250) and sector (FTSE 350 pharmaceuticals) which influence remuneration decisions. The graph below shows the growth in value of £100 invested in Hikma ordinary shares against its comparators.



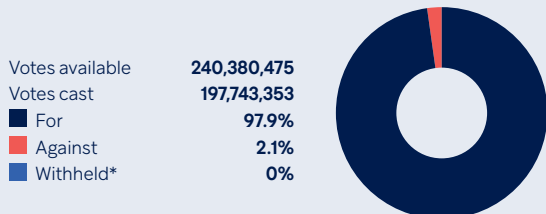
### Value of executive holdings (\$m)

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



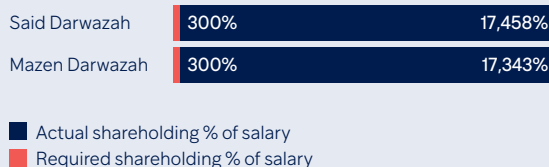
### Shareholder approval

#### Annual Report on Remuneration (19 May 2017 AGM)

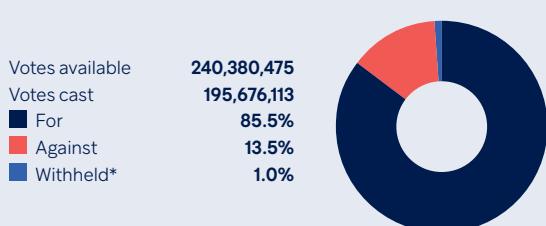


### Executive equity

Executive directors are required to build and maintain a minimum shareholding equal to at least three times base salary.

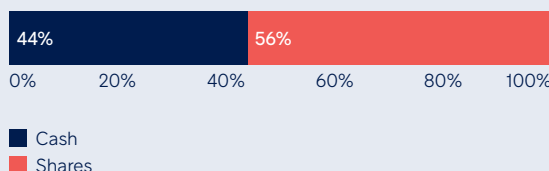


#### Remuneration Policy (19 May 2017 AGM)



### Share-based pay

Remuneration is weighted towards equity to further align management and shareholders.



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



## Employees

### 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 2016 and 2017 compared with the percentage change in the average of each of those components of pay for employees (excluding the Executive Directors). The CEO data reflects the position of Said Darwazah as Chairman and CEO.

	Salary			Benefits			Bonus		
	2017	2016	Percentage change	2017	2016	Percentage change	2017	2016	Percentage change
CEO	\$1,273,080	\$1,236,000	3.0%	\$101,295	\$85,000	19.2%	\$0	\$2,116,299	-100.0%
Employees (\$m)	284	278	2.2%	112	94	19.1%	37	42	-11.9%
Number of employees	8,521	8,339	2.2%	8,521	8,339	2.2%	8,521	8,339	2.2%
Average per employee	\$33,329	\$33,337	0.0%	\$13,144	\$11,272	16.6%	\$4,342	\$5,037	-13.8%

The Group's pay review which took effect from 1 January 2018 awarded average percentage increases in wages and salaries of 2.0 to 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 2017 were broadly similar to those in the previous year. The increased level of benefits for the Chairman and CEO relates to a re-assessment of medical benefits received. The total amount of bonuses paid to employees (excluding the Executive Directors) in respect of the year ended 31 December 2017 was 11.9% lower than in 2016.

### Relative importance of spend on pay

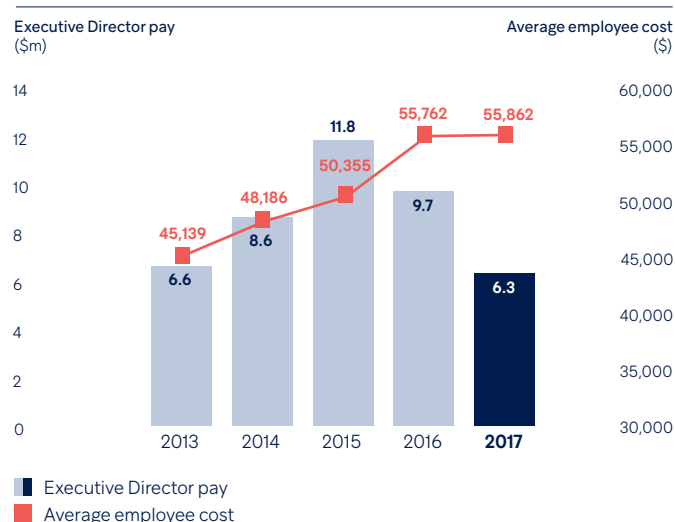
The following table sets out the total amount spent in 2017 and 2016 on remuneration of the Group's employees and major distributions to shareholders.

Distribution expense	2017	2016	% change from 2016 to 2017
Employee remuneration	\$485	\$465m	4.3%
Distributions to shareholders	\$79m	\$79m	0.0%

### Employment conditions

All employees receive a salary, pension and medical insurance on a similar basis to 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.

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



## Remuneration Committee continued

### Remuneration and performance summary

References in this document 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

	2016		2017
Sales	\$1,950m	-1%	<b>\$1,936m</b>
Core Profit	\$359m	-9%	<b>\$328m</b>
Share price	1,893p	-40%	<b>1,134p</b>
Dividend	33 cents	3%	<b>34 cents</b>
Employee compensation	\$465m	4%	<b>\$485m</b>
Shareholder implementation approval	88.97%		<b>97.93%</b>
Shareholder policy approval	N/A		<b>85.49%</b>

### Total remuneration

Executive Director	2016 (\$000)		2017 (\$000)		2018 (\$000) (estimate)
Said Darwazah	6,308	-44%	3,522	19%	4,185
Siggi Olafsson	N/A	N/A	N/A	N/A	3,840
Mazen Darwazah	3,419	-18%	2,796	3%	2,867

### Components

	2016 (\$000)		2017 (\$000)		2018 (\$000) (estimate)
<b>Salary<sup>1</sup></b>					
Said Darwazah	1,236	3%	1,273	-20%	1,018
Siggi Olafsson	N/A	N/A	N/A	N/A	1,100
Mazen Darwazah	696	3%	717	0%	717
<b>Bonus<sup>2</sup></b>					
Said Darwazah	2,116	-100%	0	N/A	1,528
Siggi Olafsson	N/A	N/A	N/A	N/A	2,475
Mazen Darwazah	1,137	-65%	402	168%	1,076
<b>Share awards<sup>3</sup></b>					
Said Darwazah	2,871	-29%	2,050	-29%	1,459
Siggi Olafsson	N/A	N/A	N/A	N/A	0
Mazen Darwazah	1,492	0%	1,498	-40%	895
<b>Pensions<sup>4</sup></b>					
Said Darwazah	0	N/A	98	-19%	79
Siggi Olafsson	N/A	N/A	N/A	N/A	165
Mazen Darwazah	0	N/A	56	0%	56
<b>Other benefits<sup>5</sup></b>					
Said Darwazah	85	-19%	101	0%	101
Siggi Olafsson	N/A	N/A	N/A	N/A	100
Mazen Darwazah	94	31%	123	0%	123



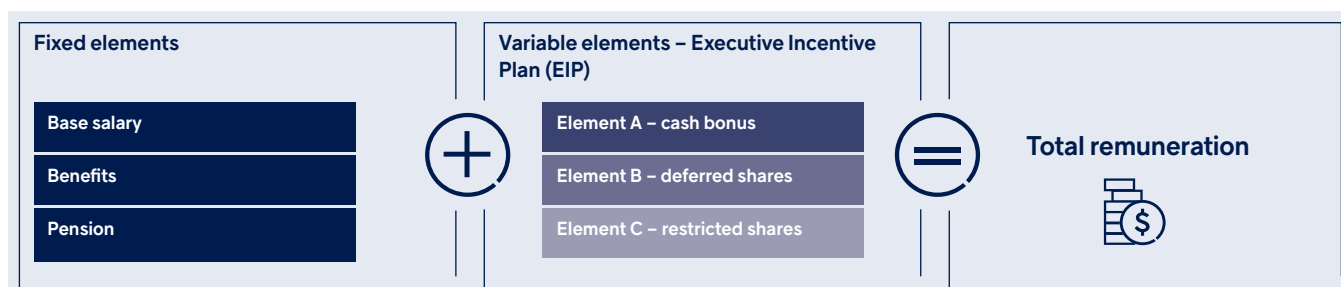
## Non-Executive Directors' fees

Non-Executives	2016 (£000)		2017 (£000)		2018 (£000) (estimate)
Non-Executive Directors' average total fee <sup>5</sup>	96.2	-12%	84.6	-3.2%	81.9

1. Salary: The average rise for salaries across the Group in 2017 was 2-3%. Said Darwazah's salary has been reduced in line with his change of responsibilities on becoming Executive Chairman in February 2018.
2. Bonus: The bonus figure comprises Elements A and C of the EIP. See page 92 for further explanation. The 2018 estimate is based on target performance.
3. Share awards: 2016 figures represent 2013 LTIPs exercised during the year. 2017 figures represent 2014 LTIP and Element B of the 2015 EIP exercised during the year. 2018 is an estimation of the value of Element B of the 2016 EIP and Element C of the 2015 EIP that are to vest in that year, using 31 December 2017 vesting percentages, share prices and exchange rates.
4. Pension: The Company did not contribute to the Executive Directors' pensions during 2016, but has contributed in all other years. Said Darwazah and Mazen Darwazah participate in the same pension plan as Jordanian employees, their country of employment.
5. NED fees: The average Non-Executive Director's fee includes basic fee and Committee membership and Chair fees. Full breakdown of fees on page 107.

## Remuneration Policy Summary

The Directors' Remuneration Policy (the 'Policy') is summarised below and is detailed in full on pages 109 to 118 of the 2016 Annual Report and can also be found on the website at: [www.hikma.com/investors/corporate-governance/key-committees/remuneration-committee/](http://www.hikma.com/investors/corporate-governance/key-committees/remuneration-committee/). The Policy in full was approved at the AGM held on the 19 May 2017. The Policy took effect from this date and may operate for up to three years.



### Fixed elements: operational overview

	Purpose and link to strategy	Operation
<b>Fixed elements</b>	<b>Base 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.	Base salaries for individual Executive Directors are reviewed annually by the Committee, but not necessarily increased. Any changes normally take effect from 1 January. Salaries are set with reference to: <ul style="list-style-type: none"> <li>– Pay increases for the general workforce; individual performance, experience and contribution; market pay in UK listed companies of a similar size, and relevant peer companies from the pharmaceutical sector; Company performance; and affordability.</li> </ul> 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.
	<b>Benefits</b> Provides competitive benefits in the market to enable the recruitment and retention of directors.	Benefits may include, but are not limited to: healthcare, school fees, company cars, and life insurance.
	<b>Pension</b> Provides a minimum level of pension contribution to support a low fixed cost and highly entrepreneurial remuneration policy.	A defined contribution scheme and/or cash supplement in lieu of pension may be provided. Executives currently participate on the same basis as employees in the Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (the 'Benefit Plan'), which operates in accordance with the rules relevant to employees in Jordan. Participants are entitled to 30% of the Group's contributions to the Benefit Plan after three years of employment with the Group, and an additional 10% in each subsequent year.  Should a new executive be appointed to the Board, they would normally participate in the Benefit Plan, according to the rules relevant to employees in the appropriate jurisdiction.

### Variable elements: operational overview (EIP)

Element	Maximum award % of salary	Payout mechanism	Vesting period	Risks after award	Additional requirements	Treatment under the remuneration regulations
<b>A</b>	150%	Cash bonus	Immediate	– Clawback	None	Cash bonus
<b>B</b>	150%	Deferred Shares	2 years	– Forfeiture – Clawback – Share price – Employed	50% of the total Share Award is subject to a holding period after vesting. These shares may not be sold until 5 years after grant.	Share award
<b>C</b>	100%	Restricted Shares	3 years	– Clawback – Share price – Employed		Bonus* deferred in shares

\* The Regulations require Element C to be included in the 'Bonus' component for reporting purposes, although it is an award of shares that will vest three years after grant.

The Company discloses the nature and weighting of the 2018 performance targets in the Policy Implementation report on pages 93 to 97. Details of the 2017 performance targets, their level of satisfaction and the resulting performance remuneration are disclosed on pages 100 to 103.



## Policy implementation 2018

### Salaries, benefits and pension

The Committee considered that there should be no increases to salary in 2018. The application of benefits and pension is unchanged. Said Darwazah's salary has been reduced in line with his change of responsibilities on becoming Executive Chairman in February 2018.

Executive Director	Salary		Change
	2018	2017	%
Executive Chairman	\$1,018,464	\$1,273,080	-20%
Chief Executive Officer	\$1,100,000	N/A	N/A
Executive Vice Chairman	\$717,155	\$717,155	0%

### CEO additional remuneration

In respect of Siggí Olafsson's first year of appointment only, he is eligible for an additional potential performance related award of up to 150% of salary or 72,000 shares (whichever is the lesser) under a bespoke deferred bonus arrangement in accordance with the policy for recruitment (see page 114 of the 2016 reports and accounts).

#### Rationale

The Committee had a challenging task balancing competing factors when considering the potential additional award:

- The Board believes that it was essential to gain the experience and leadership skills of the CEO, particularly in ensuring that the Group's operations globally aligned and maximise the US business, which represents a substantial proportion of revenue;
- There was unanimous agreement that Siggí Olafsson was the ideal candidate;
- UK governance and remuneration practice has a strong bearing on the Committee's position; and
- Other global generics companies, particularly those with significant US operations, have recently awarded highly competitive up-front packages to Chief Executives who are in a comparable position.

#### Operation

The award will operate on a similar basis to Element C of the EIP. The key features are:

- The award is subject to stretching performance criteria that require the CEO to achieve priorities that have been identified by the Board as strategically and operationally critical;
- The performance criteria are measured over the year to 31 December 2018;
- The potential award would be a deferred bonus by way of an award of shares that would vest three years from the date of grant;
- The price used to determine the number of shares uses the same mechanism as the EIP;
- The award is subject to Malus and Clawback provisions in accordance with the Company's policy; and
- The entire potential award is subject to a holding period of five years from the date of grant.

#### Performance targets

Due to the commercial sensitivity of the targets, a summary of the performance criteria for the potential award are detailed below. Full details will be provided following assessment of performance:

Section	Description	Performance Condition		Performance Condition		
		Measurement	Weight	Threshold	Target	Max
Financial	Generics EBIT	Target EBIT before R&D costs for the Generics division compared to the outcome for the year ending 31 December 2018	35%	Target -10%	Target	Target +10%
	Generics Revenue	Target Revenue for the Generics division compared to the outcome for year ending 31 December 2018	35%	Target -10%	Target	Target +10%
Strategic	R&D	Restructuring the Company's approach to R&D and ensuring that new products are delivered	30%	Disclosed on measurement		

#### Executive Incentive Plan (EIP)

The 2018 performance conditions and their weighting are set out on the following three pages.

## 2018 Performance criteria: Executive Chairman

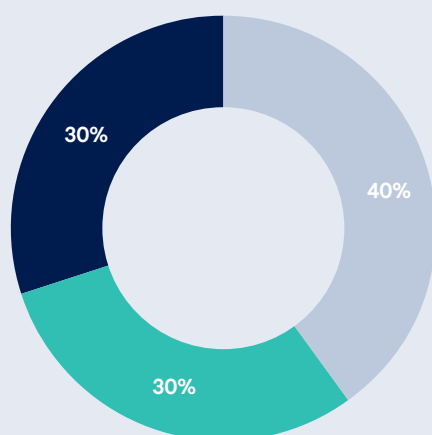
### Financial

#### ■ Group EBIT

Target Group Core EBIT before R&D costs compared to actual audited Group Core EBIT before R&D costs for the year ended 31 December 2018

#### ■ Group revenue

Target Group Revenue compared to actual audited Group Revenue for the year ended 31 December 2018



### Strategic

#### ■ Alignment

Realigning the Group's strategy, operations and cost-base

Performance level

Performance level

### Detailed targets

<b>Forfeiture</b>	Budget -30%
<b>Threshold</b>	Budget -10%
<b>Target</b>	Budget
<b>Max</b>	Budget +10%

### 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 the Company 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.

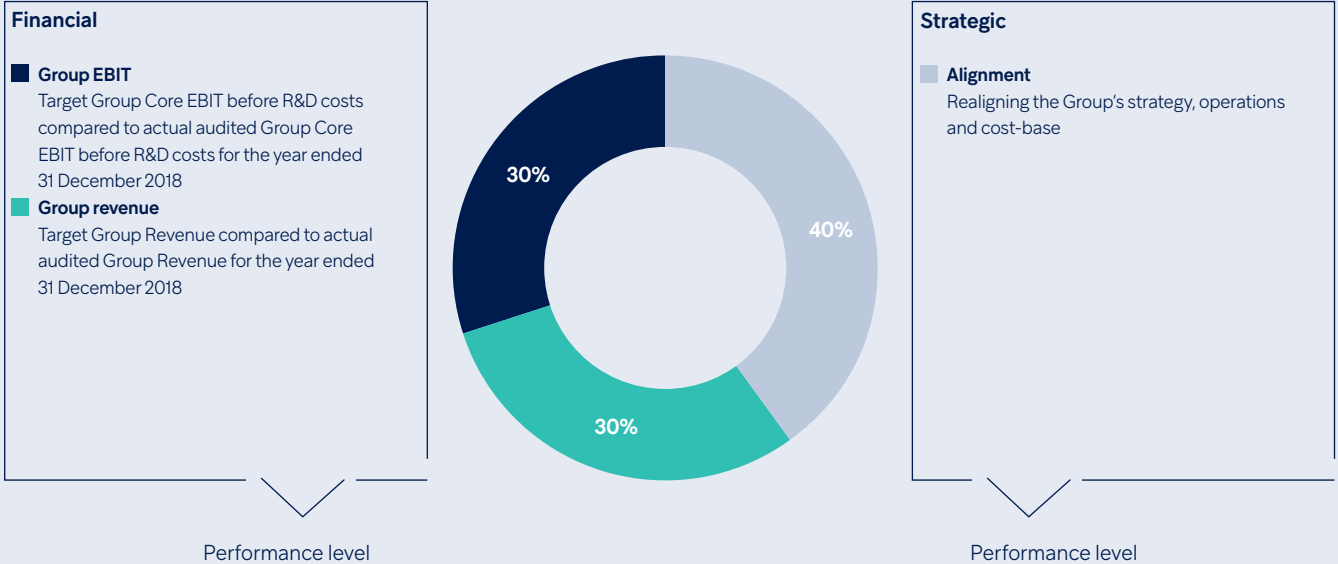
### Outcome

	Elements			Total
	A Cash bonus	B Deferred shares	C Restricted shares	
<b>Forfeiture</b>	0%	0%	0%	0% award + lose 50% outstanding Element B
<b>Threshold</b>	25%	25%	50%	100% award
<b>Target</b>	100%	100%	50%	250% award
<b>Max</b>	150%	150%	100%	400% award





### 2018 Performance criteria: Chief Executive Officer



**Detailed targets**

<b>Forfeiture</b>	Budget -30%
<b>Threshold</b>	Budget -10%
<b>Target</b>	Budget
<b>Max</b>	Budget +10%

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 the Company 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.

**Outcome**

	Elements				Total
	A Cash bonus	B Deferred shares	C Restricted shares		
<b>Forfeiture</b>	0%	0%	0%	=	0% award + lose 50% outstanding Element B
<b>Threshold</b>	25%	25%	50%	=	100% award
<b>Target</b>	100%	100%	50%	=	250% award
<b>Max</b>	150%	150%	100%	=	400% award

## 2018 Performance criteria: Executive Vice Chairman

### Financial

#### Group EBIT

Target Group Core EBIT before R&D costs compared to actual audited Group Core EBIT before R&D costs for the year ended 31 December 2018

#### Group Revenue

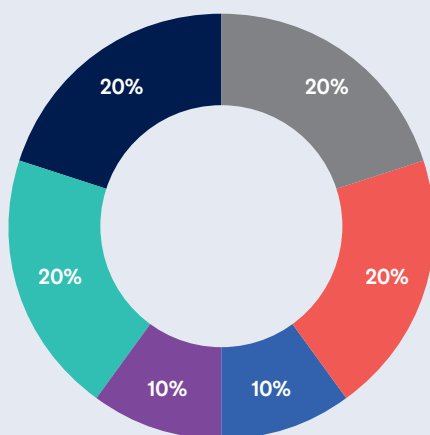
Target Group Revenue compared to actual audited Group Revenue for the year ended 31 December 2018

#### Branded EBITDA

Target Branded EBITDA compared to audited EBITDA for the year ended 31 December 2018

#### Branded Revenue

Target Branded Revenue for the year ended 31 December 2018



### Strategic

#### Branded EBIT

Targeted Branded division EBIT before R&D costs compared to the outcome for the year ended 31 December 2018

#### Branded Revenue

Targeted Branded division Revenue compared to the outcome for the year ended 31 December 2018

Performance level

Performance level

### Detailed targets

<b>Forfeiture</b>	Budget -30%
<b>Threshold</b>	Budget -10%
<b>Target</b>	Budget
<b>Max</b>	Budget +10%

### 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 the Company 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.

### Outcome

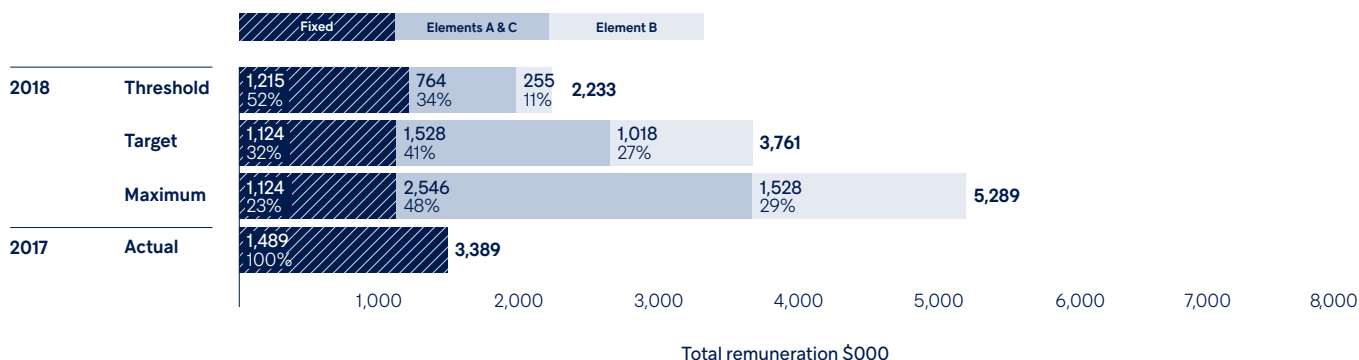
	Elements			Total
	A Cash bonus	B Deferred shares	C Restricted shares	
<b>Forfeiture</b>	0%	0%	0%	0% award + lose 50% outstanding Element B
<b>Threshold</b>	25%	25%	50%	100% award
<b>Target</b>	100%	100%	50%	250% award
<b>Max</b>	150%	150%	100%	400% award



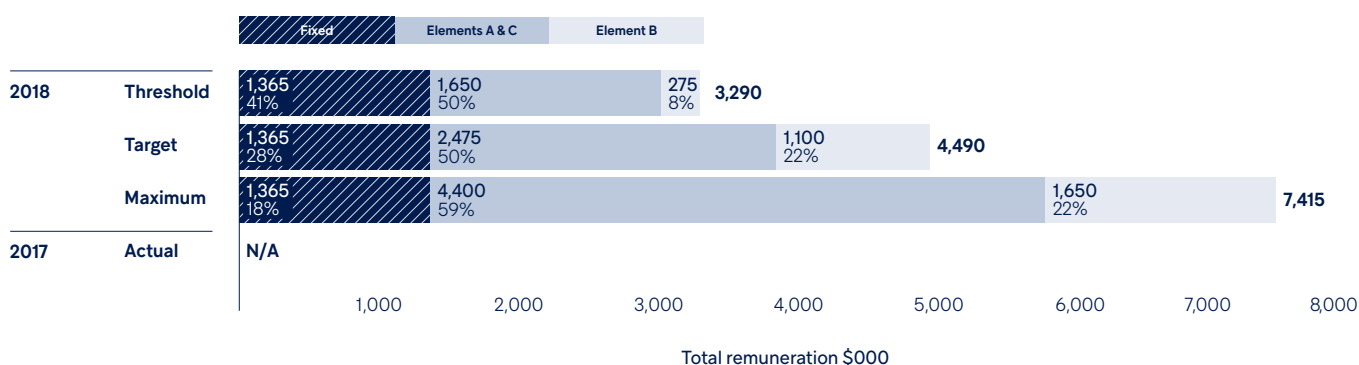
### Illustration of policy

The following charts show the value of each of the main elements of the compensation package provided to the Executive Directors during 2017 and the potential available for 2018 (dependent upon performance).

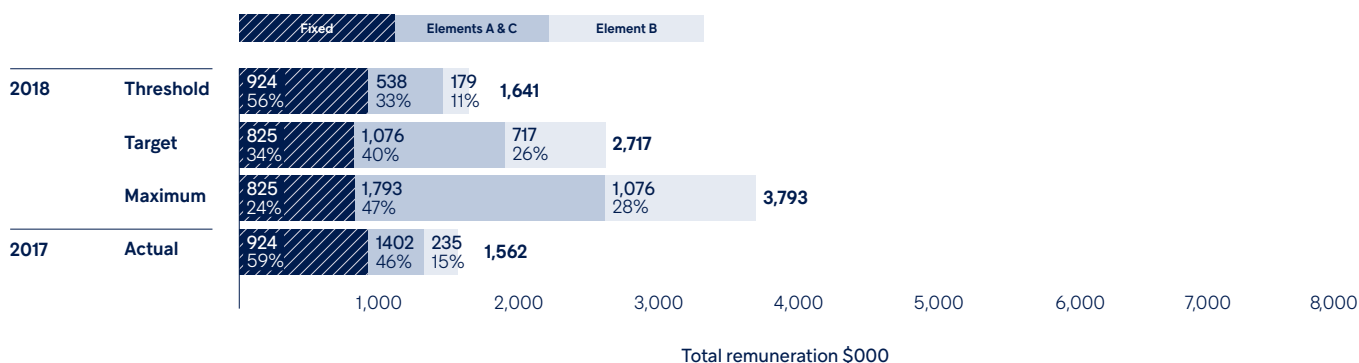
#### Said Darwazah



#### 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 (e.g. for the 2018 illustration, the bonus would be paid and the share awards be made in 2019. The share awards would vest two to three years later). Please note that the Remuneration and performance summary on page 90 uses share awards vesting (i.e. 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.

## Remuneration Committee continued

### Annual report on remuneration

All of the information presented on the following two pages have been audited by PwC. For the year ended 31 December 2017, the Group's policy on remuneration was implemented as set out below.

### Single total figure

The following table shows a single total figure of remuneration in respect of qualifying services for the 2017 financial year for each Executive Director, together with comparative figures for 2016.

Director	Year	Salary \$	Benefits \$	Bonus (EIP Elements A & C) \$	Shares (LTIP and EIP Element B) \$	Pension \$	Total \$
Said Darwazah	2017	1,273,080	101,295	0	2,049,637	98,330	3,522,346
	2016	1,236,000	85,000	2,116,299	2,870,939	Nil	6,308,238
Mazen Darwazah	2017	717,155	122,500	402,324	1,497,983	55,871	2,795,833
	2016	696,267	94,000	1,136,753	1,491,746	Nil	3,418,766

The EIP performance criteria for 2017 are detailed on pages 100 to 103 and criteria for the LTIP that vested on 29 May 2017 are on page 99.

### Benefits

Said Darwazah received transportation benefits of \$85,000 (2016: \$85,000) and medical benefits of \$16,295 (2016: \$nil). Mazen Darwazah received transportation benefits of \$94,000 (2016: \$94,000) and medical benefits of \$22,500 (2016: \$nil). Social security payments made in Jordan, that are required to be paid by Jordanian law, are not considered to be a benefit.

### Pension

The Company did not contribute to the Executive Directors' pension during 2016, but resumed contributions in 2017 on the same basis as previous years. Said Darwazah and Mazen Darwazah participate in the Hikma Pharmaceutical Defined Contribution Retirement Benefit Plan (the 'Benefit Plan') on the same basis as other employees located in Jordan. The Executive Directors do not receive personal pension contributions from the Group. Under the Benefit Plan the Group matches employee contributions made, which are fixed at a maximum of 10% of applicable salary. Participants become entitled to all of the Group's contributions once they have been employed for 10 years. Before that point, there is a staggered scale which starts at three years of employment. The Executive Directors have served for in excess of ten years and will receive their benefits under the Benefit Plan when they reach their 60th birthday. The Company does not and has not operated a defined benefit scheme.

### Vested share awards

During 2017, the following share awards vested for the Executive Directors. The total shares vested in 2017 are summarised in the following two tables.

#### Executive Chairman

Scheme	Shares	Value
LTIP 2014	52,164	\$1,130,724*
EIP Element B 2015	41,000	\$918,913**
<b>Total</b>	<b>93,164</b>	<b>\$2,049,637</b>

\* Share price on LTIP vesting was £16.88 and there were \$1.28393 to £1. \*\*Share price on EIP vesting was £17.38 and there were \$1.28806 to £1.

#### Executive Vice Chairman

Scheme	Shares	Value
LTIP 2014	38,088	\$825,608*
EIP Element B 2015	30,000	\$672,375**
<b>Total</b>	<b>68,088</b>	<b>\$1,497,983</b>

\* Share price on LTIP vesting was £16.88 and there were \$1.28393 to £1. \*\*Share price on EIP vesting was £17.38 and there were \$1.28806 to £1.

### EIP

During 2017, the first grant vested under the EIP, Element B from the award in 2015. The first Element C award and the 2016 Element B award will vest in 2018. Under the EIP, performance criteria must be met before grant and the full award vests, providing there have been no forfeiture events.

#### Executive Chairman – EIP

Maximum number of shares capable of vesting	41,000
Forfeiture	Nil
Number of vested shares	41,000
<b>Total value of vested shares*</b>	<b>£712,580</b> <b>(\$918,913)</b>

\* Share price on vesting was £17.38 and there were \$1.28806 to £1.



### Executive Vice Chairman – EIP

Maximum number of shares capable of vesting	30,000
Forfeiture	Nil
Number of vested shares	30,000
<b>Total value of vested shares*</b>	<b>£521,400</b> <b>(\$672,375)</b>

\* Share price on vesting was £17.38 and there were \$1.28806 to £1.

### LTIP

During 2017, the final award vested under the Long Term Incentive Plan ('LTIP'). Further details regarding the operation of the LTIP can be found in the 2012 report and accounts on pages 97 to 99 or on request from cosec@hikma.uk.com. The LTIP amount included in the 2017 single total figure of remuneration is the conditional share award granted in 2014. The performance achieved against the performance targets is shown below.

Description	Condition	Weighting	Requirements		Practice	
			Threshold	Maximum	Actual performance	Award vested % of maximum
TSR*		50%	50th percentile 20% of award element	75th percentile 100% of award element	<b>94th percentile</b>	<b>100%</b>
Sales growth		17%	9% 20% of award element	13% 100% of award element	<b>13%</b>	<b>97%</b>
EPS growth		17%	15% 20% of award element	20% 100% of award element	<b>-5%</b>	<b>0%</b>
Return on invested capital		17%	10% 20% of award element	12% 100% of award element	<b>17%</b>	<b>100%</b>

\* TSR is total shareholder return comparative performance against the Company's Comparator Group.

### Executive Chairman – LTIP

Performance condition	Financial performance			
	TSR	Sales growth	EPS growth	Return on invested capital
Maximum number of shares capable of vesting	31,500	10,500	10,500	10,500
Percentage of maximum vesting	100%	97%	0%	100%
Number of vested shares	31,500	10,164	0	10,500
Value of vested shares*	£531,720	£171,567	£0	£177,240
<b>Total value</b>			<b>£880,527</b> <b>(\$1,130,724)</b>	

\* Share price on LTIP vesting was £16.88 and there were \$1.28393 to £1.

### Executive Vice Chairman – LTIP

Performance condition	Financial performance			
	TSR	Sales growth	EPS growth	Return on invested capital
Maximum number of shares capable of vesting	23,000	7,667	7,667	7,667
Percentage of maximum vesting	100%	97%	0%	100%
Number of vested shares	23,000	7,421	0	7,667
Value of vested shares*	£388,240	£125,268	£0	£129,419
<b>Total value</b>			<b>£642,927</b> <b>(\$825,608)</b>	

\* Share price on LTIP vesting was £16.88 and there were \$1.28393 to £1.

## Remuneration Committee continued

### 2017 Performance outcome: Executive Chairman (role of Chairman and Chief Executive during 2017)

The following table sets out the performance conditions and targets for 2017 and their level of satisfaction:

Performance Condition		
Section	Description	Measurement
<b>Financial</b>	Profit Before Tax	Target Core Profit Before Tax compared to audited Core Profit Before Tax for the year ended 31 December 2017.
	Group Revenue	Target Group Revenue compared to audited Core Group Revenue for the year ended 31 December 2017.
<b>Strategic</b>	Return on Investment	Enhance profitability by delivering on the opportunities from the capital investment in the product pipelines and manufacturing facilities. Measured by Return on Invested Capital.
	Product Capability	Delivering the capability to manufacture or distribute identified additional products through targeted research and development activities and the acquisition of product files and licences.
	Group Structure Optimisation	Reorganise the group to ensure that it is best placed to deliver the board-approved, medium-term strategic objectives and business plan.

**Total**



Weighting	Forfeiture	Performance Level			Achievement		Application
		Threshold	Target	Max	Results	Achievement	Said % of salary
30%	Target -30% \$252m	Target -10% \$324m	Target \$360m	Target +10% \$396m	Core PBT of \$328m	Threshold to Target	35.0% of salary
30%	Target -30% \$1,463m without GxA or \$1,544m with GxA	Target -10% \$1,881m without GxA or \$1,985m with GxA	Target \$2,090m without GxA or \$2,205m with GxA	Target +10% \$2,299m without GxA or \$2,426m with GxA	Group Revenue of \$1,936m	Threshold to Target	41.8% of salary
20%	Target -50% 6%	Target -20% 10%	Target 12%	Target +20% 14%	ROIC of 9.89%	Below Threshold	0.0% of salary
10%	Zero increase in product capability	Injectables: – 8 product tech transfer – 5 submissions of new molecules Orals: 4 new submissions	Injectables: – 12 product tech transfer – 6 submissions of new molecules Orals: 5 new submissions	Injectables: – 15 product tech transfer – 7 submissions of new molecules Orals: 6 new submissions	Key product not delivered. However: – 17 Injectables transfers – 7 Injectables submissions – 1 Generics submissions	– Below Threshold determined by the Committee	0.0% of salary
10%	Non-aligned structure and strategy	Partially aligned structure and strategy	Aligned structure and strategy	Optimised structure and strategy	Changes to structure during the year were deemed insufficient – Global roles for supply chain and R&D – Clarified divisional structure in US	– Below Threshold determined by the Committee	0.0% of salary
		<b>Unacceptable</b>	<b>Acceptable</b>	<b>Good</b>	<b>Excellent</b>		<b>76.8%</b>

The Chairman has waived his right to performance remuneration in respect of the year ended 31 December 2017:

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Achievement	Value of bonus/shares	Receive	Notes
<b>Chairman and Chief Executive</b>	<b>A</b>	\$1,273,080	150%	25.9%	\$0	Cash now (March 2018)	
	<b>B</b>		150%	25.9%	\$0	Shares in 2 years from March 2018	Performance remuneration waived
	<b>C</b>		100%	30.0%	\$0	Shares in 3 years from March 2018	

The information in the table above has been audited by PwC.

## Remuneration Committee continued

### 2017 Performance outcome: Executive Vice Chairman

Performance Condition		
Section	Description	Measurement
<b>Financial</b>	Profit Before Tax	Target Core Profit Before Tax compared to audited Core Profit Before Tax for the year ended 31 December 2017.
	Group Revenue	Target Group Revenue compared to audited Core Group Revenue for the year ended 31 December 2017.
	MENA Profit Before Tax	Target MENA Profit Before Tax compared to audited MENA Core Profit Before Tax for the year ended 31 December 2017.
	MENA Revenue	Target MENA Revenue compared to audited MENA revenue for the year ended 31 December 2017.
<b>Strategic</b>	Emerging Markets	Initiate revenue generation in Emerging Markets before year ended 31 December 2017.
	MENA Structure Optimisation	Reorganise the structure of the MENA division to ensure it is best positioned for growth and margin improvements. Ensure internal development for the MENA management team by end of 2017.
	Strategic Partnerships/ Product Capability	Expand product capability through the execution of strategic partnerships and licensing agreements.

### Total





Weighting	Forfeiture	Performance Level			Max	Results	Achievement	Application
		Threshold	Target	Achievement			Mazen % of salary	
20%	Target -30% \$252m	Target -10% \$324m	Target \$360m	Target +10% \$396m	Core PBT of \$328m	Threshold to Target	23.2% of salary	
20%	Target -30% \$1,463m	Target -10% \$1,881m	Target \$2,090m	Target +10% \$2,299m	Group Revenue of \$1,936m	Threshold to Target	27.9% of salary	
10%	Target -30% \$84m	Target -10% \$108m	Target \$120m	Target +10% \$132m	MENA Profit Before Tax of \$128m	Threshold to Target	34.9% of salary	
10%	Target -30% \$466m	Target -10% \$599m	Target \$665m	Target +10% \$732m	MENA Revenue of \$639m	Threshold to Target	19.0% of salary	
10%	Target revenue less 40%	Target revenue less 20%	Target revenue achieved	Target revenue exceeded +20%	Threshold Revenue	Threshold determined by the Committee	10.0% of salary	
20%	Nil structural and development changes	Some structural and development changes	Structural and development changes are fully implemented	Structural and development changes lead to superior MENA performance	Structural and development changes deemed insufficient	Below Threshold determined by the Committee	0.0% of salary	
10%	Zero partnerships or licences are finalised by end of 2017	One partnership or licence is finalised by end of 2017	Two partnerships or licences are finalised by end of 2017	Three partnerships or licences were finalised by end of 2017	Five partnerships deemed strategically important	Target determined by the Committee.	25.0% of salary	
	<b>Unacceptable</b>	<b>Acceptable</b>	<b>Good</b>	<b>Excellent</b>			<b>140.0%</b>	

The Vice Chairman waived his right to potential performance remuneration from the Group Profit Before Tax and Group Revenue elements. Accordingly, the following awards will be made in respect of the 2017 performance year:

Participant	Calculation				Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Achievement	Value of bonus/shares	Receive	Notes
<b>Executive Vice Chairman</b>	<b>A</b>	\$717,155	150%	48.4% 32.8%	\$235,227	Cash now (March 2018)	50% of total shares unsaleable until five years after grant
	<b>B</b>		150%	48.4% 32.8%		Shares in 2 years from March 2018	
	<b>C</b>		100%	43.3% 23.3%	\$167,097	Shares in 3 years from March 2018	

The information in the table above has been audited by PwC.

## Remuneration Committee continued

The Company continued to operate the EIP in 2017. 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	15-May-15	15-May-18	100% salary	27,000	\$413,154
	EIP Element B	Conditional award	17-Mar-16	17-Mar-18	147% salary	68,346	\$1,045,830
	EIP Element C	Conditional award	17-Mar-16	17-Mar-19	97% salary	45,100	\$690,120
	EIP Element B	Conditional award	13-Apr-17	13-Apr-19	107% of salary	60,973	\$933,008
	EIP Element C	Conditional award	13-Apr-17	13-Apr-20	64% of salary	36,438	\$557,574
<b>Total</b>						<b>237,857</b> <b>(2016: 244,446)</b>	<b>\$3,639,686</b> <b>(2016: \$2,807,165)</b>
Mazen Darwazah	EIP Element C	Conditional award	15-May-15	15-May-18	100% salary	20,000	\$306,040
	EIP Element B	Conditional award	17-Mar-16	17-Mar-18	147% salary	38,501	\$589,142
	EIP Element C	Conditional award	17-Mar-16	17-Mar-19	97% salary	25,406	\$388,762
	EIP Element B	Conditional award	13-Apr-17	13-Apr-19	103% of salary	33,005	\$505,042
	EIP Element C	Conditional award	13-Apr-17	13-Apr-20	60% of salary	19,318	\$295,604
<b>Total</b>						<b>136,230</b> <b>(2016: 159,907)</b>	<b>\$2,084,590</b> <b>(2016: 2,057,810)</b>

- 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 100 to 103.
- The face value is calculated using the vesting percentages described earlier in this section and the closing share price of £11.34p and foreign exchange rates of \$1.34912 to £1 on 31 December 2017. 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).

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 2017	1,893p
31 December 2017	1,134p
2017 Range (low to high)	2,300p to 950p
13 March 2018	872p



## 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 Company share plans since 2006:

Type of plan	Granted in a rolling ten-year period	Granted during the year
Discretionary Share Plans (5% Limit)	4.39%	0.37%

## 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	21.76%	13,054,419	1,232,207	14,286,626
Mazen Darwazah*	10.96%	6,577,199	1,414,713	7,991,912
Ali Al-Husry**	8.05%	4,827,553	1,162,811	5,990,364

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

\*\* 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 and, where there are shareholding requirements, whether these have been met:

Director	Ownership requirements			Total	EIP subject to performance (Element B)	EIP subject to service (Element C)	Total
	Percentage of salary	Number of shares	Requirement fulfilled?	Shares owned			Share interests
Said Darwazah	300%	249,591	Yes	14,286,626	129,319	108,538	14,524,483
Mazen Darwazah <sup>1</sup>	300%	140,600	Yes	7,991,912	71,506	64,724	8,128,142
Ali Al-Husry <sup>2</sup>				5,990,364			5,990,364
Robert Pickering				10,000			10,000
Dr Ronald Goode				12,000			12,000
Pat Butler				3,875			3,875
Dr Pamela Kirby				3,317			3,317
Dr Jochen Gann <sup>3</sup>				0			0
John Castellani				2,500			2,500
Nina Henderson				3,500			3,500

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.

3. Dr Jochen Gann is senior executive in Boehringer Ingelheim who hold 40m (16.6%) shares in Hikma.

There have been no changes in the interests of the Directors in the shares of the Company between 31 December 2017 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 2017 of £11.34p and foreign exchange rates of \$1.34912 to £1 on the same date.

The information in the table above has been audited by PwC.

## Remuneration Committee continued

The following table sets out the changes in interests of Directors during the year under review and up to the date of this report. Directors not listed in the table did not change their share interests during the period.

Director	Date	Event	No. Shares
Nina Henderson	24 April 2017	Purchase of shares.	3,500
Said Darwazah	15 May 2017	Exercise of 2015 EIP Element B. Retained all shares.	41,000
Mazen Darwazah	15 May 2017	Exercise of 2015 EIP Element B. Retained all shares.	30,000
Said Darwazah	30 May 2017	Exercise of 2014 LTIP. Retained all shares.	52,164
Mazen Darwazah	30 May 2017	Exercise of 2014 LTIP. Retained all shares.	38,088

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. The LTIP and Element B of the EIP have been included because they have performance periods of three years and one year plus a two-year forfeiture condition, respectively:

Director	Type of interest		Performance measures		Vested but unexercised
	Shares	Share options	Yes	No	
Said Darwazah	237,857	–	129,319	108,538	–
Mazen Darwazah	136,230	–	71,506	64,724	–
All other directors	–	–	–	–	–

### 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 Chief Executive and Executive Vice Chairman.

Year	Said Darwazah – Executive Chairman (Chairman & Chief Executive during 2017)			Mazen Darwazah – Executive Vice Chairman		
	Total	Bonus as % max	Share awards as % max	Total	Bonus as % max	Share awards as % max
<b>2017</b>	<b>\$3,538,646</b>	<b>0%</b>	<b>0%</b>	<b>\$2,795,833</b>	<b>22%</b>	<b>22%</b>
2016	\$6,308,238	71%	68%	\$3,418,766	69%	65%
2015	\$7,316,042	98%	98%	\$4,465,386	98%	98%
2014	\$5,056,255	100%	70%	\$3,572,764	100%	70%
2013	\$3,956,836	100%	62%	\$2,646,280	100%	47%
2012	\$3,296,000	80%	50%	\$2,114,000	80%	50%
2011	\$2,629,000	80%	67%	\$1,748,000	80%	67%
2010	\$1,965,000	100%	49%	\$1,296,000	100%	49%
2009	\$1,183,000	37%	67%	\$797,000	37%	67%

**Important note:** 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, after which point the totals in the above table will include Element C only.

**Additional information:** The 'Bonus as % max' column comprises cash under Element A of the EIP paid immediately. The 'Share awards as % max' column includes Element B of the EIP, shares that vest in two years from the date of grant and shares under Element C of the EIP, shares that vest in three years from the date of the grant.



## Non-Executive Directors

The table below details the fees paid to Non-Executive Directors during the year under review and the prior year. Several Directors (marked \*) 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	2017			2016		
		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	101.0	–	101.0	101.0	–	101.0
Pat Butler	Audit Committee Chair	109.0	–	109.0	109.0	–	109.0
Michael Ashton	Independent Director	43.5	–	43.5	96.7	11.5	108.2
Dr Ronald Goode <sup>2</sup>	Independent Director	98.7	8.4	107.1	101.0	10.7	111.7
Dr Pamela Kirby	Remuneration Committee Chair	101.0	–	101.0	97.3	–	97.3
Breffni Byrne*	Independent Director	–	–	–	34.9	–	34.9
Ali Al-Husry	Non-Executive Director	85.0	1.3	86.3	85.0	–	85.0
Dr Jochen Gann*	Non-Executive Director	85.0	–	85.0	70.8	–	70.8
John Castellani*	CRE Committee Chair	96.8	1.3	98.1	77.5	0.9	78.4
Nina Henderson* <sup>2</sup>	Independent Director	116.3	–	116.3	–	–	–

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 may be treated as taxable benefits by the UK authorities and, where appropriate, the above figure includes the corresponding tax contribution.

2. Nina Henderson was due to receive fees of £23,300 for services during 2016. These fees were paid in 2017 and, in accordance with regulations, have been included in the 2017 table.

The information in the table above has been audited by PwC.

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

## Remuneration Committee continued

### Letters of appointment

The Non-Executive Directors have letters of appointment with Hikma, not service contracts and which are available for inspection at the Company'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
Dr Ronald Goode	12 December 2006	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

The Company requires all Directors be subject to annual election by shareholders.

### External appointments

The Committee 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 and Mazen Darwazah received fees of \$4,100 (2016: \$28,000) and \$32,000 (2016: \$10,000) respectively relating to external appointments which are detailed in their Director profiles on page 70. The process for controlling these appointments is described in the governance statement on page 83.

### 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  
13 March 2018

# 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 2017. 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 the Group: Strategic report, pages 2 to 58
- Long-term incentive schemes: Directors' remuneration report, pages 98 to 104
- Related party transactions: Note 40 of the financial statements, page 167
- Going concern statement: Risk Management Report, page 65
- Names and biographical details of the Directors: corporate governance report, pages 70 and 71
- Independence of Non-Executive Directors: corporate governance report, page 74
- Directors' share interests: Directors' remuneration report, pages 105 and 106
- Greenhouse gas emissions: Sustainability report, page 56
- Financial instruments and risk: Notes 30 and 31 of the financial statements, pages 160 and 161

## Principal activity

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

The Group's net sales, gross profit and operating profit are shown by business segment in Note 4 to the consolidated financial statements on pages 137 and 138.

## Results

The Group's reported loss for the year in 2017 was \$(839) million (2016: Profit of \$158 million).

## Dividend

The Board is recommending a final dividend of 23 cents per share (approximately 16 pence) (2016: 22 cents). The proposed dividend will be paid on 24 May 2018 to shareholders on the register on 6 April 2018, subject to approval at the Annual General Meeting ('AGM') on 18 May 2018. An interim dividend of 11 cents per share was paid on 22 September 2017 (2016: 11 cents). The total dividend for the year 2017 is 34.0 cents per share (2016: 33.0 cents).

## Creditor payment policy

Hikma's policy, which is also applied by the Group and will continue in respect of the 2018 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. Trade creditors of Hikma at 31 December 2017 were equivalent to 82 days' purchases (2016: 65 days), based on the average daily amount invoiced by suppliers during the year.

## Donations

During the year the Group made charitable donations of approximately \$3.2 million (2016: \$2.3 million):

Type of donation	Amount donated in 2016 (\$)	Amount donated in 2017 (\$)
Local charities serving communities in which the Group operates	1,611,657	1,441,861
Medical (donations in kind)	665,851	1,780,625
Political donations and expenditure	Nil	Nil
<b>Total</b>	<b>2,277,508</b>	<b>3,222,486</b>

Group policy prohibits the payment of political donations and expenditure within the meaning of the Act.

## Research and development

The Group's investment in research and development (R&D) during 2017 represented 6.3% of Group revenue (2016: 7.7%). Further details on the Group's R&D activities can be found on page 41.

## Interest

The interest capitalised during the year under review was \$0.3m (2016: \$0.3m). The tax impact related to the capitalised interest was \$Nil (2016: \$0.1m).

## Significant contracts

Due to the nature of the Group's business, members of the Group are party to agreements that could alter or be terminated upon a change of control of the Group following a takeover. However, none of these agreements is individually deemed to be significant in terms of its potential impact on the business of the Group 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, other than as follows. The Company had an agreement with one senior executive, below Board level, which allows for compensation for loss of office with an estimated value of \$10.3m, based on share and foreign exchange values on 31 December 2017. During early 2018, this agreement became obsolete.

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

## 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, Said Darwazah, Siggí Olafsson, Mazen Darwazah, Robert Pickering, Ali Al-Husry, Patrick Butler, Dr Pamela Kirby, Dr Jochen Gann, John Castellani and Nina Henderson will seek election or re-election as appropriate at the AGM. Dr Ronald Goode will retire from the Board at the close of 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 this year, the Company 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. The Company does not discriminate against a potential employee on grounds of disability and will make reasonable adjustments to employ and develop such persons.

## 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 33 to the financial statements. 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 2017:

Type	Nominal value	In issue	Issued during the year
Ordinary	10 pence	240,678,894	724,362

During 2017, 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 provisions of 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 18 May 2017, 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 2018 or the 2018 AGM, which is scheduled for 18 May 2018. The Directors have not used this authority during the year, but are proposing to renew this authority at the 2018 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 West-Ward Columbus acquisition. This authority expires on 22 January 2021.

## Share issuance

At the AGM on 19 May 2017, the Directors were authorised to issue relevant securities up to an aggregate nominal amount of £7,999,293 and to be empowered to allot equity securities for cash on a non pre-emptive basis up to an aggregate nominal amount of £1,199,894 at any time up to the earlier of the date of the 2018 AGM or 30 June 2018. The Directors propose to renew these authorities at the 2018 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. Shares are also held by the Hikma Pharmaceuticals Employee Benefit Trust ('EBT') and are detailed in Note 35 to the financial statements. The EBT has waived its right to vote on the Shares it holds and also to 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 Friday, 18 May 2018, starting at 10.00 a.m. 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.

The Company 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	24.9%
Boehringer Ingelheim GmbH <sup>2</sup>	40,000,000	16.6%
Capital Group International	25,950,451	10.8%
Fidelity International	9,791,950	4.1%
Vanguard Healthcare Fund	7,284,981	3.0%

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 105 for details of their holdings in Darhold Limited.

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

There have been no changes in substantial shareholdings 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 ordinary shares pursuant to an authority given by shareholders at an AGM to issue ordinary 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 significant post balance sheet events.

## Directors' responsibility 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under FRS 101 'Reduced Disclosure Framework' and applicable law. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for protecting shareholder investments and safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on 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:

- 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 the Company 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 the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

On behalf of the Board



**Said Darwazah**  
Executive Chairman  
13 March 2018



**Mazen Darwazah**  
Executive Vice Chairman  
13 March 2018

# Financial statements

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We continue to 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 Our opinion

In our opinion:

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

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

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

## Separate opinion in relation to IFRSs as issued by the IASB

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

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

## Basis for opinion

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

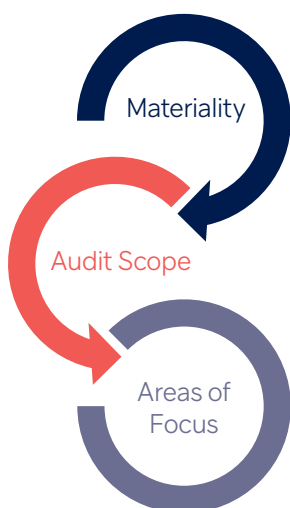
## Independence

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

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

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

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



## Our audit approach

### Overview

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

### The scope of our audit

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

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

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

### Key audit matters

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

## Impairment of goodwill and intangible assets

Key audit matter	How our audit addressed the key audit matter
<p>The Group has goodwill of \$282 million and intangible assets of \$503 million (31 December 2016: \$682 million and \$1,037 million, respectively) comprising customer relationships, product related intangible assets, software and other identified intangible assets. This is contained within three cash generating units ('CGUs').</p> <p>All CGUs containing goodwill and indefinite-lived intangible assets must be tested for impairment annually.</p> <p>The determination of carrying values, requires judgement on the part of management in identifying and then estimating the higher of the value in use and a fair value less cost to dispose for the relevant CGUs. These amounts are based on management's view of future cash flow forecasts and external market conditions such as future pricing probability of technical and regulatory success and the most appropriate discount rate.</p> <p>For the year ended 31 December 2017, the Group has recorded \$1,105 million as an exceptional impairment charge, principally in relation to a number of events that occurred in the second half of 2017 including the continued delay in approval of its application for its generic version of Advair Diskus® and sustained pricing pressures and erosion in the US generics market. This impairment charge was recorded in respect of goodwill, marketed products and products under development in the Group's US segment, as well as fixed assets underpinning the manufacturing process in this segment.</p> <p>As the carrying values of goodwill and intangible assets are contingent on future cash flows, there is a risk that the assets will be further impaired if these cash flows do not meet the Group's expectations. The impairment reviews performed by the Group contained a number of significant judgements and estimates including revenue growth, the success of new product launches, profit margins, cash conversion, terminal values and discount rate. In particular the assumptions made in respect of its version of generic Advair Diskus® are particularly sensitive. Changes in these assumptions could lead to further impairment to the carrying value of intangible assets and goodwill.</p> <p>We focused on intangible assets in the Westward Columbus Cash Generating Unit which were largely acquired from Boehringer Ingelheim in February 2016 given the events detailed above.</p> <p><i>Refer to Notes 3 and 14 in the Group financial statements and the audit committee review of areas of significant judgement pages 78 and 79.</i></p>	<p>With support from our valuations specialists, we obtained the Group's impairment analyses and tested the integrity of the calculations, reasonableness of key assumptions, including product profit and cash flow growth or decline, terminal values and discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry forecasts.</p> <p>We assessed the determination of the CGUs identified for the impairment calculation by considering the CGU's previously used as well as from our understanding of the business and how it is monitored.</p> <p>In particular, given the key sensitivity around future cash flows we performed the following procedures, with significant involvement from senior engagement team members:</p> <ul style="list-style-type: none"> <li>– corroborated the information to board approved budgets and forecasts;</li> <li>– understood management's process for forecasting cash flows, which is underpinned by a model that encompasses a product by product analysis, and we challenged management's market and pricing assumptions by comparing them to historical and third party market data. We also utilised our valuations specialists to identify any anomalies or trends that warranted further investigation and corroboration;</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>– undertook look back testing to understand how accurate management had been in its previous forecasting;</li> <li>– took into account that historically the Group has faced challenges in respect of reliably forecasting cash flows and challenged the rate used to discount the cash flows to appropriately assess the supportability of the forecast, as well as management's process for building up a forecast through detailed testing of revenue, cost, margin and other inputs, including performing sensitivity analyses on these assumptions to understand the resulting impact on the impairment charge;</li> <li>– in respect of generic Advair Diskus®, we obtained and reviewed correspondence from the FDA, engaged in discussions with management to understand how its key assumptions around expected launch date and anticipated market share impacted forecast cash flows and examined external data to corroborate management's views;</li> <li>– for impairment charged against the Group's In Process Research &amp; Development ('IPRD') in 2017 we corroborated products included in the valuation model to minutes from the Product Review Committee meetings, where decisions on pipeline and IPRD opportunities are made;</li> <li>– considered analysts' reports and other market information over expected future market shares and pricing; and</li> <li>– recalculated the weighted average cost of capital and considered if the amount was within a reasonable range.</li> </ul> <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 compared the output to a reasonable range based on the evidence available.</p> <p>We validated the appropriateness of the related disclosures in Note 14 of the financial statements. We considered the presentation of the impairment charge as an exceptional charge in 2017 in the context of the nature and magnitude of the charge itself, giving consideration to the Group's policy for exceptional items. We reviewed the Annual Report to form a view on whether the disclosures contained therein are fair, balanced and understandable.</p> <p>Based on our procedures we consider management's key assumptions to be within a reasonable range and the overall impairment charge, whilst judgemental, to also lie within an acceptable range. For those intangible assets including goodwill where management determined that no impairment was required, we found that these judgements were supported by reasonable assumptions.</p>

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

## Revenue recognition

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

## Taxation

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

## Carrying value of investments in subsidiaries (Company only)

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

As at 31 December 2017, Hikma Pharmaceuticals plc had in total 66 entities (subsidiaries and associates) as part of the Group. These entities may operate solely in one segment but more commonly operate across two. Each territory ('component') submits a Group reporting package to Hikma's central accounting team including its income and financial position prepared under Group accounting policies which are in compliance with IFRSs. We requested component teams in the US (West-Ward Pharmaceuticals and West-Ward Columbus), Jordan (Hikma Pharmaceuticals), Saudi Arabia (Hikma Al Jazeera Pharmaceuticals Industries), Algeria (Hikma Pharma Algeria) and Portugal (Hikma Farmaceutica) to audit reporting packages of certain entities in these territories and report the results of their full scope audit work to us. This work was supplemented by procedures

over specific balances performed on West-Ward Pharmaceuticals International Limited (WWPIL) and procedures performed centrally including the consolidation, taxation and certain component balances not covered by local component teams.

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

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

## Materiality

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

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

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

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

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



**Going concern**

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

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

**Reporting on other information**

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

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

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

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

**Strategic Report and Directors' Report**

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

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

**Corporate Governance Statement**

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

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

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

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

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

## The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

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

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

## Other Code Provisions

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

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

## Directors' Remuneration

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

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](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 directors on 11 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2016 to 31 December 2017.

**Mark Gill**  
Senior Statutory Auditor

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

London

13 March 2018

# Consolidated income statement

For the year ended 31 December 2017

	Note	2017 Core results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported results \$m
Revenue	4	1,936	–	1,936	1,950	–	1,950
Cost of sales	4	(963)	(6)	(969)	(932)	(32)	(964)
<b>Gross profit</b>	4	<b>973</b>	<b>(6)</b>	<b>967</b>	1,018	(32)	986
Sales and marketing expenses		(188)	(48)	(236)	(184)	(37)	(221)
General and administrative expenses		(238)	(1)	(239)	(208)	(36)	(244)
Research and development expenses		(115)	(6)	(121)	(126)	(24)	(150)
Other operating expenses (net)	8	(46)	(1,072)	(1,118)	(81)	12	(69)
Total operating expenses		(587)	(1,127)	(1,714)	(599)	(85)	(684)
<b>Operating profit/(loss)</b>	4	<b>386</b>	<b>(1,133)</b>	<b>(747)</b>	419	(117)	302
Finance income	9	2	93	95	3	9	12
Finance expense	10	(60)	(26)	(86)	(63)	(41)	(104)
<b>Profit/(loss) before tax</b>		<b>328</b>	<b>(1,066)</b>	<b>(738)</b>	359	(149)	210
Tax	11	(72)	(29)	(101)	(80)	28	(52)
<b>Profit/(loss) for the year</b>	6	<b>256</b>	<b>(1,095)</b>	<b>(839)</b>	279	(121)	158
Attributable to:							
Non-controlling interests	34	4	–	4	3	–	3
<b>Equity holders of the parent</b>		<b>252</b>	<b>(1,095)</b>	<b>(843)</b>	276	(121)	155
		<b>256</b>	<b>(1,095)</b>	<b>(839)</b>	279	(121)	158
<b>Earnings/(loss) per share (cents)</b>							
Basic	13	105.0		(351.3)	118.5		66.5
Diluted	13	104.6		(349.8)	117.9		66.2

# Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 Core Results \$m	2017 Exceptional Items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core results \$m	2016 Exceptional Items and other adjustments (Note 5) \$m	2016 Reported results \$m
<b>Profit/(loss) for the year</b>		<b>256</b>	<b>(1,095)</b>	<b>(839)</b>	<b>279</b>	<b>(121)</b>	<b>158</b>
<b>Other Comprehensive Income/(loss)</b>							
Items that may be reclassified subsequently to the income statement, net of tax:							
Effect of change in investment designated at fair value	23	2	-	2	1	-	1
Exchange difference on translation of foreign operations		20	-	20	(90)	-	(90)
<b>Total comprehensive income/(loss) for the year</b>		<b>278</b>	<b>(1,095)</b>	<b>(817)</b>	<b>190</b>	<b>(121)</b>	<b>69</b>
Attributable to:							
Non-controlling interests	34	3	-	3	-	-	-
<b>Equity holders of the parent</b>		<b>275</b>	<b>(1,095)</b>	<b>(820)</b>	<b>190</b>	<b>(121)</b>	<b>69</b>
		<b>278</b>	<b>(1,095)</b>	<b>(817)</b>	<b>190</b>	<b>(121)</b>	<b>69</b>

# Consolidated balance sheet

At 31 December 2017

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

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



**Said Darwazah**  
Director  
13 March 2018



**Mazen Darwazah**  
Director

# Consolidated statement of changes in equity

For the year ended 31 December 2017

	Merger and Revaluation reserves \$m	Translation reserves \$m	Retained earnings \$m	Total reserves \$m	Share capital \$m	Share premium \$m	Own shares \$m	Equity attributable to equity shareholders of the parent \$m	Non- controlling interests \$m	Total equity \$m
<b>Balance at 1 January 2016</b>	38	(161)	1,144	1,021	35	282	(1)	1,337	15	1,352
Profit for the year	-	-	155	155	-	-	-	155	3	158
Effect of change in investment designated at fair value (Note 23)	-	-	1	1	-	-	-	1	-	1
Currency translation loss	-	(87)	-	(87)	-	-	-	(87)	(3)	(90)
<b>Total comprehensive income/(loss) for the year</b>	-	(87)	156	69	-	-	-	69	-	69
<b>Total transactions with owners, recognised directly in equity</b>										
Issue of equity shares for acquisition of a subsidiary	1,039	-	-	1,039	5	-	-	1,044	-	1,044
Cost of equity-settled employee share scheme (Note 38)	-	-	22	22	-	-	-	22	-	22
Deferred tax arising on share-based payments	-	-	1	1	-	-	-	1	-	1
Dividends on ordinary shares (Note 12)	-	-	(77)	(77)	-	-	-	(77)	(1)	(78)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	1	1
<b>Balance at 31 December 2016 and 1 January 2017</b>	1,077	(248)	1,246	2,075	40	282	(1)	2,396	15	2,411
Loss for the year**	(1,039)	-	196	(843)	-	-	-	(843)	4	(839)
Effect of change in investment designated at fair value (Note 23)	-	-	1	1	-	-	-	1	-	1
Currency translation gain/(loss)	-	21	-	21	-	-	-	21	(1)	20
<b>Total comprehensive (loss)/income for the year</b>	(1,039)	21	197	(821)	-	-	-	(821)	3	(818)
<b>Total transactions with owners, recognised directly in equity</b>										
Cost of equity-settled employee share scheme (Note 38)	-	-	22	22	-	-	-	22	-	22
Dividends on ordinary shares (Note 12)	-	-	(79)	(79)	-	-	-	(79)	(2)	(81)
Adjustment arising from change in non-controlling interests*	-	-	(4)	(4)	-	-	-	(4)	(2)	(6)
<b>Balance at 31 December 2017</b>	<b>38</b>	<b>(227)</b>	<b>1,382</b>	<b>1,193</b>	<b>40</b>	<b>282</b>	<b>(1)</b>	<b>1,514</b>	<b>14</b>	<b>1,528</b>

\* During the year the Group acquired the remaining stake in Ibn Al Baytar bringing the total ownership to 100%. This was completed in April 2017.

\*\* A loss of \$1,039 million has been allocated from retained earnings to the merger and revaluation reserves in relation to West-Ward Columbus impairment (Notes 5, 14 and 15).

# Consolidated cash flow statement

For the year ended 31 December 2017

	Note	2017 \$m	2016 \$m
<b>Cash generated from operating activities</b>	36	<b>546</b>	369
Income tax paid		(103)	(76)
<b>Net cash generated from operating activities</b>		<b>443</b>	293
<b>Investing activities</b>			
Purchases of property, plant and equipment		(107)	(122)
Proceeds from disposal of property, plant and equipment		4	1
Purchase of intangible assets		(44)	(68)
Proceeds from disposal of intangible assets		-	24
Cash received from investment in joint ventures		2	-
Investment in financial and other non-current assets		(2)	(11)
Investment in available for sale investments		(8)	(6)
Acquisition of business undertakings net of cash acquired*		3	(515)
Finance income		1	2
<b>Net cash used in investing activities</b>		<b>(151)</b>	(695)
<b>Financing activities</b>			
Increase/(decrease) in collateralised and restricted cash		3	(4)
Proceeds from issue of long-term financial debts		349	471
Repayment of long-term financial debts		(401)	(326)
Proceeds from short-term borrowings		323	345
Repayment of short-term borrowings		(349)	(337)
Dividends paid		(79)	(77)
Dividends paid to non-controlling shareholders of subsidiaries		(2)	(1)
Interest paid		(57)	(54)
Purchase of non-controlling interest in subsidiary		(6)	-
(Payment)/proceeds from co-development and earnout payment agreement, net		(1)	2
<b>Net cash (used in)/generated by financing activities</b>		<b>(220)</b>	19
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>72</b>	(383)
<b>Cash and cash equivalents at beginning of year</b>		<b>155</b>	553
Foreign exchange translation movements		-	(15)
<b>Cash and cash equivalents at end of year</b>		<b>227</b>	155

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



# Notes to the consolidated financial statements

## 1. Adoption of new and revised standards

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

IAS 7 (Amendments)	Statement of cash flows on disclosure initiative
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The following Standards and Interpretations have not been applied in these financial statements because while in issue, are not yet effective (and in some cases have not yet been adopted by the EU):

IFRS 9	Financial instruments
IAS 12 (Amendments)	Income taxes on Recognition of deferred tax assets for unrealised losses
IFRS 15	Revenue from contracts with customers
IFRS 15 (Amendments)	Revenue from contracts with customers
IFRS 40 (Amendments)	Investment property
IFRS 4 (Amendments)	Insurance contracts
IFRS 16	Leases
IFRS 2 (Amendments)	Share based payment
IFRIC 22	Foreign currency transactions and advance considerations
IFRIC 23	Uncertainty over income tax treatments
IFRS 17	Insurance contracts
Annual improvements 2014-2016	
Annual improvements 2015-2017	

### IFRS 9 Financial instruments

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

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

#### (a) Classification and measurement

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

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

#### (b) Impairment

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

### IFRS 15 Revenue from contracts with customers

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

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

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

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

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

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

# Notes to the consolidated financial statements continued

## 2. Significant accounting policies

### General Information

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

### Basis of preparation

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

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

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

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

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

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

### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and therefore considered the going concern basis as appropriate. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements (see page 65).

### Basis of consolidation

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

The consolidated financial statements include:

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

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

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

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

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

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

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

### Business combinations

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

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

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

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

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

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

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

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

## 2. Significant accounting policies continued

### Investment in associates and joint ventures

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

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

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

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

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

### Foreign currencies

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

### Hyperinflationary economies

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

### Revenue recognition

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

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

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

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

### Chargebacks

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

### Returns

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

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

### Rebates

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

## 2. Significant accounting policies continued

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

### Price adjustments

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

### Free goods

Free goods are issued to customers as sale incentives, reimbursement of agreed upon expenses incurred by the customer or as compensation for expired or returned goods. Free goods are recognised at cost at the date at which one of the above conditions is met. The costs associated with free goods are classified as cost of sales.

### Share-based payments

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

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

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

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

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

### Retirement benefit costs

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

### Borrowing costs

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

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

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

### Dividend income

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

### Leasing

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

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

## 2. Significant accounting policies continued

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

### Government grants

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

### Tax

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

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

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

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

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

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

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

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

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

### Exceptional items and other adjustments

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

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

### Core results

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

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

### Exceptional items

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

### Other adjustments

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

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

# Notes to the consolidated financial statements continued

## 2. Significant accounting policies continued

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

### Intangible assets

An intangible asset is recognised if:

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

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

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

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

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

Principal intangible assets are:

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

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

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

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

### (c) Product related intangibles:

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

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

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

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

### Property, plant and equipment

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

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

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

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

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

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

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

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

## 2. Significant accounting policies continued

### Impairment of property, plant and equipment and intangible assets

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

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

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

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

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

- (a) Goodwill is allocated to each of the Group's cash-generating units. These cash-generating units are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.
- The assumptions used in the impairment tests are set out in Note 14.
- (b) Intangible assets that are not yet ready for use are not subject to amortisation, and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### Inventories

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

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

### Cash and cash equivalents

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

### Financial instruments

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

#### Financial assets

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

Financial Assets within the Group are:

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

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

#### (ii) Loans and receivables

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

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

# Notes to the consolidated financial statements continued

## 2. Significant accounting policies continued

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

### Financial liabilities

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

#### (i) Financial liabilities 'at FVTPL'

The Group currently has two financial liabilities at FVTPL as below:

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

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

#### (ii) Other financial liabilities

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

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

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

### Derivative financial instruments

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

### Hedge accounting

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

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

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

### Cash flow hedge

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

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

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

### Provisions

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

### Equity instruments

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

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

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

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

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

### Revenue recognition (Note 2)

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



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

#### Accounts receivable and bad debts (Note 20)

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

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

#### Goodwill and intangible assets (Note 14)

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

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

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

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

- establishing revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices)
- establishing the expected economic useful lives of the product-related intangibles
- determining the sales and the allocation of marketing, R&D and other operating costs to the individual product-related intangibles
- calculating a contributory asset charge (on working capital, fixed assets and workforce)
- determining a discount rate and specific risk premiums
- for pipeline products, establishing the launch date and probability of a successful product approval are also critical judgements

- taking into consideration potential scenarios when determining forecast revenues
- determining whether a 'triggering event' has occurred for intangible assets with finite lives. In such case we first assess the qualitative factors to determine whether it is more likely than not that the fair value of a finite asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test

#### Contingent liabilities related to acquisitions (Notes 27, 32)

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

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

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

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

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

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

#### Taxation (Notes 11, 17)

##### Critical judgements in applying the Group's accounting policies

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

##### Recognition of deferred tax assets

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

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

##### Key sources of estimation uncertainty

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

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

### Tax audit risk

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

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

### Other Risks

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

### Transfer Pricing Risk

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

### Export Exemption Withdrawal Risk

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

### Legislative Change Risks

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

### Valuation Risk

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

### Sensitivity

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

### Contingent liabilities

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

## 4. Business and geographical segments

For management reporting purposes, the Group is organised into three principal operating divisions – Injectables, Generics and Branded. These divisions are the basis on which the Group reports its segmental information.

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

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

	2017 Core Results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported results \$m
<b>Injectables</b> Year ended 31 December 2017						
Revenue	776	–	776	781	–	781
Cost of sales	(296)	–	(296)	(276)	–	(276)
<b>Gross profit</b>	<b>480</b>	<b>–</b>	<b>480</b>	<b>505</b>	<b>–</b>	<b>505</b>
Total operating expenses	(165)	(22)	(187)	(165)	(28)	(193)
<b>Segment result</b>	<b>315</b>	<b>(22)</b>	<b>293</b>	<b>340</b>	<b>(28)</b>	<b>312</b>

	2017 Core Results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported results \$m
<b>Generics</b> Year ended 31 December 2017						
Revenue	615	–	615	604	–	604
Cost of sales	(390)	(6)	(396)	(376)	(32)	(408)
<b>Gross profit</b>	<b>225</b>	<b>(6)</b>	<b>219</b>	<b>228</b>	<b>(32)</b>	<b>196</b>
Total operating expenses	(203)	(1,098)	(1,301)	(193)	(17)	(210)
<b>Segment result</b>	<b>22</b>	<b>(1,104)</b>	<b>(1,082)</b>	<b>35</b>	<b>(49)</b>	<b>(14)</b>

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

	2017 Core Results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core Results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported results \$m
<b>Branded</b> Year ended 31 December 2017						
Revenue	536	–	536	556	–	556
Cost of sales	(271)	–	(271)	(274)	–	(274)
<b>Gross profit</b>	<b>265</b>	<b>–</b>	<b>265</b>	<b>282</b>	<b>–</b>	<b>282</b>
Total operating expenses	(151)	(7)	(158)	(170)	(8)	(178)
<b>Segment result</b>	<b>114</b>	<b>(7)</b>	<b>107</b>	<b>112</b>	<b>(8)</b>	<b>104</b>

	2017 Core results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core Results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported results \$m
<b>Others</b> Year ended 31 December 2017						
Revenue	9	–	9	9	–	9
Cost of sales	(6)	–	(6)	(6)	–	(6)
<b>Gross profit</b>	<b>3</b>	<b>–</b>	<b>3</b>	<b>3</b>	<b>–</b>	<b>3</b>
Total operating expenses	(7)	–	(7)	(5)	–	(5)
<b>Segment result</b>	<b>(4)</b>	<b>–</b>	<b>(4)</b>	<b>(2)</b>	<b>–</b>	<b>(2)</b>

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

## Notes to the consolidated financial statements continued

### 4. Business and geographical segments continued

Group	2017 Core Results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported results \$m
Year ended 31 December 2017						
Revenue	1,936	–	1,936	1,950	–	1,950
Cost of sales	(963)	(6)	(969)	(932)	(32)	(964)
<b>Gross profit</b>	<b>973</b>	<b>(6)</b>	<b>967</b>	1,018	(32)	986
Total operating expense	(526)	(1,127)	(1,653)	(533)	(53)	(586)
<b>Segment result</b>	<b>447</b>	<b>(1,133)</b>	<b>(686)</b>	485	(85)	400
Unallocated expenses	(61)	–	(61)	(66)	(32)	(98)
<b>Operating profit/(loss)</b>	<b>386</b>	<b>(1,133)</b>	<b>(747)</b>	419	(117)	302
Finance income	2	93	95	3	9	12
Finance expense	(60)	(26)	(86)	(63)	(41)	(104)
<b>Profit/(loss) before tax</b>	<b>328</b>	<b>(1,066)</b>	<b>(738)</b>	359	(149)	210
Tax	(72)	(29)	(101)	(80)	28	(52)
<b>Profit/(loss) for the year</b>	<b>256</b>	<b>(1,095)</b>	<b>(839)</b>	279	(121)	158
Attributable to:						
Non-controlling interests	4	–	4	3	–	3
<b>Equity holders of the parent</b>	<b>252</b>	<b>(1,095)</b>	<b>(843)</b>	276	(121)	155
	<b>256</b>	<b>(1,095)</b>	<b>(839)</b>	279	(121)	158

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

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

	2017 \$m	2016 \$m
United States	1,201	1,211
Middle East and North Africa	630	641
Europe and Rest of the World	103	95
United Kingdom	2	3
	<b>1,936</b>	1,950

The top selling markets were as below:

	2017 \$m	2016 \$m
United States	1,201	1,211
Saudi Arabia	157	143
Algeria	106	115
	<b>1,464</b>	1,469

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

## 5. Exceptional items and other adjustments

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

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

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

### Exceptional items:

- Impairment of West-Ward Columbus goodwill relates to the unfavourable industry developments in the US Generics industry in the second half of 2017 and is included in other operating expenses (Note 14)
- Impairment of product related intangible assets, property, plant and equipment and others, relates to the impairment of West-Ward Columbus other assets, including product rights, in process R&D, software and property, plant and equipment, and is included in other operating expenses (Notes 14, 15). In addition, impairment of other product related intangible assets of \$4 million which is included in research and development expenses (Note 14)
- Impairment of property, plant and equipment mainly relates to the planned disposal of the Eatontown, NJ manufacturing facility which is included in other operating expenses (Notes 8, 15)
- Contingent consideration gain represents an adjustment to a refund of the West-Ward Columbus purchase price, given certain regulatory conditions did not occur as expected by 24 December 2017 and is included in the other operating expenses (Notes 8, 23)
- Acquisition, integration and other costs were incurred in relation to the acquisition of West-Ward Columbus and Eatontown planned disposal and are included in the overhead, general and administrative, sales and marketing, and research and development expenses
- US tax reform bill represents the estimated impact on the US deferred tax asset of lowering the US federal tax rate which was signed in December 2017, and is effective from 1 January 2018 (Note 11)

The details of impairment losses are presented below:

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

## Notes to the consolidated financial statements continued

### 5. Exceptional items and other adjustments continued

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

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

#### Other adjustments:

Remeasurement of contingent consideration, financial liability and asset represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments receivable in respect of the West-Ward Columbus acquisition and the financial liability in relation to the co-development earnout payment agreement (Notes 18, 23, 27, 32). The remeasurement is included in finance expense/income.

### 6. Profit/(loss) for the year

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

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

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

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

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

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

## 7. Staff costs

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

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

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

## 8. Other operating expense/income

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

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

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

## Notes to the consolidated financial statements continued

### 9. Finance income

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

### 10. Finance expense

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

### 11. Tax

	2017 Core Results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported Results \$m	2016 Core Results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported Results \$m
Current tax:						
Foreign tax	50	(20)	30	143	(28)	115
Adjustment to prior year	-	-	-	2	-	2
Deferred tax (Note 17)						
Current year	22	49	71	(57)	-	(57)
Adjustment to prior year	-	-	-	(8)	-	(8)
	<b>72</b>	<b>29</b>	<b>101</b>	<b>80</b>	<b>(28)</b>	<b>52</b>

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

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

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



## 11. Tax continued

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

	2017 \$m	2016 \$m
<b>Profit/(loss) before tax</b>	<b>(738)</b>	210
Tax at the UK corporation tax rate of 19.25% (2016: 20.0%)	<b>(142)</b>	42
Profits taxed at different rates	<b>13</b>	13
Permanent differences		
– non-taxable income	<b>(13)</b>	(17)
– non-deductible expenditures	<b>6</b>	13
– adjustment on intercompany inventory	<b>(7)</b>	(14)
– Other	<b>(7)</b>	(1)
– Impairment of goodwill	<b>78</b>	–
State and local taxes	<b>(4)</b>	2
Temporary differences		
– Tax losses and other deductible temporary differences for which no benefit is recognised	<b>119</b>	11
– Tax rate changes (US tax reform)	<b>49</b>	–
– Other	<b>–</b>	2
Change in provision for uncertain tax positions	<b>7</b>	5
Unremitted earnings	<b>2</b>	2
Prior year adjustments	<b>–</b>	(6)
<b>Tax expense for the year</b>	<b>101</b>	52

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

Permanent differences relate to items which are non-taxable or no tax relief is ever likely to be due. The major items are differences in GAAP between IFRS and local territory GAAP, expenses and income disallowed where they are covered by statutory exemptions, foreign exchange differences in some territories and statutory reliefs such as R&D and manufacturing tax credits.

Temporary differences for which no benefit is recognised includes items on which it is not possible to book deferred tax and comprise mainly unrecognised tax losses. The tax losses have mainly arisen from the impairment of the West-Ward Columbus. Management has not recognised a benefit for the losses on the basis that there are insufficient forecasted taxable profits in the foreseeable future.

The change in provision for uncertain tax positions relates to the provisions the Group holds in the event of a revenue authority successfully taking an adverse view of the positions adopted by the Group in 2017 and primarily relates to a transfer pricing adjustment.

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

### US tax reform

The impact of the US Tax Cuts and Jobs Act of 2017 has been restricted to the reduction of the US deferred tax asset, as a result of the fall in the federal corporate income tax rate from 35% to 21%, by \$49 million.

### State Aid

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

### Publication of tax strategy

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

## Notes to the consolidated financial statements continued

### 12. Dividends

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

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

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

### 13. Earnings/(loss) per share

Earnings/(loss) per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares. The number of ordinary shares used for the basic and diluted calculations is shown in the table below. Core basic earnings per share and Core diluted earnings per share are intended to highlight the Core results of the Group before exceptional items and other adjustments.

	2017 Core results \$m	2017 Exceptional items and other adjustments (Note 5) \$m	2017 Reported results \$m	2016 Core results \$m	2016 Exceptional items and other adjustments (Note 5) \$m	2016 Reported results \$m
Earnings/(loss) for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	252	(1,095)	(843)	276	(121)	155

	2017 Number 'm	2016 Number 'm
<b>Number of shares</b>		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	240	233
Effect of dilutive potential Ordinary Shares:		
Share-based awards	1	1
<b>Weighted average number of Ordinary Shares for the purposes of diluted earnings per share</b>	<b>241</b>	<b>234</b>

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

## 14. Goodwill and Other intangible assets

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

	Goodwill \$m	Product-related intangibles \$m	Software \$m	Other identified intangibles \$m	Total \$m
<b>Cost</b>					
<b>Balance at 1 January 2016</b>	293	287	52	96	728
Additions	–	18	35	19	72
Acquisition of subsidiaries*	420	743	1	–	1,164
Write-down (Note 5)	–	(18)	–	–	(18)
Disposals	–	(5)	–	(1)	(6)
Translation adjustments	(30)	(19)	(1)	(8)	(58)
<b>Balance at 1 January 2017</b>	683	1,006	87	106	1,882
Additions	–	7	31	1	39
Translation adjustments	7	2	–	4	13
<b>Balance at 31 December 2017</b>	690	1,015	118	111	1,934
<b>Amortisation</b>					
<b>Balance at 1 January 2016</b>	(1)	(52)	(22)	(46)	(121)
Charge for the year	–	(30)	(7)	(7)	(44)
Adjustments to beginning balance	–	(2)	–	2	–
Impairment (Note 5)	–	(6)	–	–	(6)
Translation adjustments	–	3	1	4	8
<b>Balance at 1 January 2017</b>	(1)	(87)	(28)	(47)	(163)
Charge for the year	–	(41)	(11)	(7)	(59)
Impairment (Note 5)	(407)	(505)	(12)	–	(924)
Translation adjustments	–	–	–	(3)	(3)
<b>Balance at 31 December 2017</b>	(408)	(633)	(51)	(57)	(1,149)
Carrying amount					
<b>At 31 December 2017</b>	<b>282</b>	<b>382</b>	<b>67</b>	<b>54</b>	<b>785</b>
At 31 December 2016	682	919	59	59	1,719

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

In 2017, the Group recorded a total intangible impairment charge of \$924 million related to goodwill of \$407 million, product-related intangibles of \$505 million and software of \$12 million. Of this amount \$920 million relates to the impairment of the intangible assets related to West-Ward Columbus (Note 5).

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

### Goodwill

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

	As at 31 December	
	2017 \$m	2016 \$m
Branded	169	164
Injectables	113	111
West-Ward Columbus	–	407
<b>Total</b>	<b>282</b>	<b>682</b>

## Notes to the consolidated financial statements continued

### 14. Goodwill and Other intangible assets continued

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

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

Valuation basis	Higher of fair value less costs of disposal and value in use		
Key assumptions	Sales growth rates		
	Profit margins		
	Terminal growth rate		
	Discount rate		
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information		
	Margins reflect past experience, adjusted for expected changes		
	Terminal growth rates based on management's estimate of future long-term average growth rates		
	Discount rates based on Group WACC, adjusted where appropriate		
Period of specific projected cash flows	5 years		
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)	Pre-tax discount rate
	Branded	2%	18%
	Injectables	2%	13%
	West-Ward Columbus	2%	13%

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

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

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

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

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

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

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

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

## 14. Goodwill and Other intangible assets continued

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

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

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

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

### Other Intangible Assets

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

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

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

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

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

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

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

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

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

### 14. Goodwill and Other intangible assets continued

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

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

#### **Other Intangible assets:**

**Software:** Software intangibles mainly represent the Enterprise Resource Planning solutions that are being implemented in different operations across the Group in addition to other software applications. The software has an average estimated useful life that varies from three to ten years. As noted above, \$12 million of the West-Ward Columbus CGU impairment charge was allocated to software intangibles.

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

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

**Marketing rights** are amortised over their useful lives commencing in the year in which the rights are ready for use with estimated useful lives that varies from 2 to 10 years.

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

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

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

## 15. Property, plant and equipment

Cost	Land and buildings \$m	Machinery and equipment \$m	Vehicles, fixtures and equipment \$m	Projects under construction \$m	Total \$m
<b>Balance at 1 January 2016</b>	<b>298</b>	<b>360</b>	<b>84</b>	<b>90</b>	<b>832</b>
Additions	8	7	6	97	118
Acquisition of subsidiaries	180	144	9	125	458
Adjustments to opening balance	-	8	-	2	10
Disposals	-	(3)	(1)	(1)	(5)
Transfers	64	44	9	(117)	-
Translation adjustment	(20)	(21)	(9)	(4)	(54)
<b>Balance at 1 January 2017</b>	<b>530</b>	<b>539</b>	<b>98</b>	<b>192</b>	<b>1,359</b>
Additions	2	7	8	95	112
Adjustments to opening balance	2	1	1	-	4
Disposals	(1)	(4)	(2)	(2)	(9)
Transfers	52	64	7	(123)	-
Translation adjustment	7	12	2	2	23
<b>Balance at 31 December 2017</b>	<b>592</b>	<b>619</b>	<b>114</b>	<b>164</b>	<b>1,489</b>
<b>Accumulated depreciation</b>					
<b>Balance at 1 January 2016</b>	(70)	(198)	(53)	(4)	(325)
Charge for the year	(18)	(39)	(11)	-	(68)
Adjustments to opening balance	-	(7)	-	(3)	(10)
Disposals	-	2	2	-	4
Impairment (Note 5)	-	(10)	-	-	(10)
Translation adjustment	4	10	5	-	19
<b>Balance at 1 January 2017</b>	<b>(84)</b>	<b>(242)</b>	<b>(57)</b>	<b>(7)</b>	<b>(390)</b>
Charge for the year	(21)	(45)	(11)	-	(77)
Adjustments to opening balance	(2)	(1)	(1)	-	(4)
Disposals	-	1	2	-	3
Impairment (Note 5)	(86)	(84)	(5)	(6)	(181)
Translation adjustment	(3)	(8)	(1)	-	(12)
<b>Balance at 31 December 2017</b>	<b>(196)</b>	<b>(379)</b>	<b>(73)</b>	<b>(13)</b>	<b>(661)</b>
Carrying amount					
<b>At 31 December 2017</b>	<b>396</b>	<b>240</b>	<b>41</b>	<b>151</b>	<b>828</b>
<b>At 31 December 2016</b>	<b>446</b>	<b>297</b>	<b>41</b>	<b>185</b>	<b>969</b>

Land is not subject to depreciation.

During the year the Group reported an impairment charge of \$181 million, of which \$164 million related to the West-Ward Columbus CGU impairment, in addition to \$17 million resulted from the decision to consolidate certain manufacturing facilities in the US (Notes 5, 14).

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

As at 31 December 2017, the Group had pledged property, plant and equipment having a carrying value of \$11 million (2016: \$42 million) as collateral for various long-term loans. This amount includes both specific items around the Group and the net property, plant and equipment of the Group's businesses in Germany, Tunisia and Egypt (2016: Portugal, Germany and Tunisia).

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

## Notes to the consolidated financial statements continued

### 16. Investments in associates and joint ventures

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

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

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Joint ventures \$m	Associates \$m	Total \$m	Joint ventures \$m	Associates \$m	Total \$m
<b>Balance at 1 January</b>	<b>3</b>	<b>4</b>	<b>7</b>	3	4	7
Share of loss	-	(1)	(1)	-	-	-
<b>Balance at 31 December</b>	<b>3</b>	<b>3</b>	<b>6</b>	3	4	7

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

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

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

	For the year ended 31 December 2017 \$m	For the year ended 31 December 2016 \$m
Total revenue	3	4
Net loss	(1)	-
<b>Group's share of loss of associates</b>	<b>(1)</b>	-

### 17. Deferred tax

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

	As at 31 December	
	2017 \$m	2016 \$m
Deferred tax liabilities	(49)	(15)
Deferred tax assets	135	172
	<b>86</b>	157



## 17. Deferred tax continued

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

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

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

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

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

## 18. Financial and other non-current assets

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

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

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

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

## 19. Inventories

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

## Notes to the consolidated financial statements continued

### 19. Inventories continued

Inventories are stated net of provision as follows:

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

### 20. Trade and other receivables

	As at 31 December	
	2017 \$m	2016 \$m
Trade receivables	650	699
Prepayments	41	44
VAT and sales tax recoverable	13	14
Employee advances	3	2
	<b>707</b>	759

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

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

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

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

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

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

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

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

## 21. Collateralised and restricted cash

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

## 22. Cash and cash equivalents

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

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

## 23. Other current assets

	As at 31 December	
	2017 \$m	2016 \$m
Price adjustment receivable	61	34
Investment designated at fair value	22	20
Others	12	12
	<b>95</b>	66

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

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

## 24. Bank overdrafts and loans

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

	As at 31 December	
	2017 %	2016 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	4.55	4.32
Bank loans (including the non-current bank loans)	3.65	3.26
Eurobond	4.25	4.25
Import and export financing	4.58	3.75

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

## Notes to the consolidated financial statements continued

### 25. Trade and other payables

	As at 31 December	
	2017 \$m	2016 \$m
Trade payables	218	172
Accrued expenses	134	157
Other payables	13	14
	<b>365</b>	<b>343</b>

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

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

### 26. Other provisions

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

Movements on the provision for end of service indemnity:

	2017 \$m	2016 \$m
1 January	27	28
Additions	3	1
Utilisation	(4)	(2)
At 31 December	<b>26</b>	<b>27</b>

### 27. Other current liabilities

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

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

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

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

**Co-development and earnout payment agreement:** The liability mainly relates to the present value of future payments on a co-development and earnout agreement. As part of this agreement, milestone payments dependent on successful clinical development of defined products are received by the Group. In return of receiving such milestone payments, the Group has agreed to pay the contracting party a certain percentage of future sales of those products. As at 31 December 2017, the liability associated with these earnout payments was adjusted to reflect the present value of the expected future cash outflows and the difference is presented as a finance expense/income. This balance represents the current portion of the liability and the non-current portion is disclosed in Note 32.

## 27. Other current liabilities continued

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

**Contingent consideration:** This contingent consideration results from the acquisition accounting of West-Ward Columbus and represents future estimated consideration payable to the seller, which is in the form of milestones that are dependent on the achievement of certain US FDA approval targets. As of 31 December 2017, the balance was moved to other non-current liabilities (Note 32).

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

**Contingent liability:** This contingent liability results from the acquisition accounting of West-Ward Columbus and represents a contractual obligation assumed at the time of the acquisition from a third party, which is in the form of royalty payments based on future sales of certain products that are currently under development. As of 31 December 2017, the balance was moved to other non-current liabilities (Note 32).

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

## 28. Long-term financial debts

	As at 31 December	
	2017 \$m	2016 \$m
Long-term loans	201	270
Long-term borrowings (Eurobond)	496	495
Less: current portion of long-term loans (Note 24)	(27)	(44)
Long-term financial loans	670	721
Breakdown by maturity:		
Within one year	27	44
In the second year	139	29
In the third year	520	171
In the fourth year	4	519
In the fifth year	2	2
In the sixth year	5	-
	697	765
Breakdown by currency:		
US Dollar	673	746
Euro	12	1
Algerian Dinar	-	2
Saudi Riyal	1	1
Egyptian Pound	9	13
Tunisian Dinar	2	2
	697	765

The loans are held at amortised cost.

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

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

- A \$500 million (carrying value of \$496 million, and fair value of \$502 million) 4.25% Eurobond due in April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of the West-Ward Columbus acquisition.
- A syndicated revolving credit facility of \$1,175 million was entered into on 27 October 2015. The facility has an outstanding balance of \$112 million at 31 December 2017 (with a fair value of \$112 million) (2016: \$145 million with a fair value of \$145 million) and a \$1,063 million unused available limit (2016: \$1,030). The facility matures on 24 December 2019 and can be used for general corporate purposes.
- A nine-year \$110 million loan from the International Finance Corporation was entered into on 19 December 2011. The loan has an outstanding balance of \$54 million at 31 December 2017 with a fair value of \$54 million (2016: \$74 million with a fair value of \$73 million). Quarterly equal repayments of the term loan commenced on 15 November 2013 and will continue until 15 August 2020. The loan has been used to finance acquisitions in the MENA region and MENA's capital expenditure.
- A ten-year \$150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was no utilisation of the loan as at 31 December 2017. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan will be used in the MENA region and in other World Bank countries of operations for its general corporate purposes.

## Notes to the consolidated financial statements continued

### 29. Obligations under finance leases

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

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

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

### 30. Financial policies for risk management and their objectives

#### Credit and concentration of risk

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

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

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

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

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

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

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

#### Market risk

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

### 30. Financial policies for risk management and their objectives continued

#### Capital risk management

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

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

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

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

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

#### Cash management

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

#### Foreign exchange risk and currency risk

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

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

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

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

## Notes to the consolidated financial statements continued

### 30. Financial policies for risk management and their objectives continued

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

\* Others include Saudi Riyal and Jordanian Dinar.

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

\* Others include Saudi Riyal and Jordanian Dinar.

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

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



### 30. Financial policies for risk management and their objectives continued

#### Interest rate risk

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

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

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

#### Fair Value of Financial assets and liabilities

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

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

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

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

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

Financial assets and liabilities that fall under Level 1 are:

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

Financial assets and liabilities that fall under Level 3 are:

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

## 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 2017 and the year ended 31 December 2016:

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

#### Liquidity risk of assets/(liabilities)

##### Liquidity risk

	Less than one year \$m	One to five years \$m	More than five years \$m	Total \$m
<b>2017</b>				
Cash and cash equivalents	227	–	–	227
Trade receivables	650	–	–	650
Interest-bearing loans and borrowings*	(52)	(700)	(6)	(758)
Interest-bearing overdrafts*	(10)	–	–	(10)
Interest-bearing Import and Export loans*	(51)	–	–	(51)
Interest bearing finance lease	(2)	(21)	–	(23)
Trade payables and accruals	(352)	–	–	(352)
	410	(721)	(6)	(317)
<b>2016</b>				
Cash and cash equivalents	155	–	–	155
Trade receivables	699	–	–	699
Interest-bearing loans and borrowings*	(73)	(787)	–	(860)
Interest-bearing overdrafts*	(10)	–	–	(10)
Interest-bearing Import and Export loans*	(64)	–	–	(64)
Interest-bearing finance lease	(2)	(22)	–	(24)
Trade payables and accruals	(329)	–	–	(329)
	376	(809)	–	(433)

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

### 30. Financial policies for risk management and their objectives continued

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

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

### 31. Derivative financial instruments

#### Foreign exchange forward contracts

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

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

#### Interest rate swaps

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

### 32. Other non-current liabilities

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

### 33. Share capital

Issued and fully paid – included in shareholders' equity:

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

## Notes to the consolidated financial statements continued

### 34. Non-controlling interests

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

### 35. Own shares

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

### 36. Net cash generated from operating activities

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

## 37. Contingent liabilities

### Contingent liability

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

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

## 38. Share-based payments

### Executive Incentive Plan

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

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

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

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

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

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

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

The exercise price of the share award is \$nil.

## Notes to the consolidated financial statements continued

### 38. Share-based payments continued

#### Management Incentive Plan

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

Details of the grants under the plan are shown below:

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

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

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

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

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

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

The exercise price of the share award is \$nil.

## 38. Share-based payments continued

### Long-Term Incentive Plan

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

Details of the grants under the plan are shown below:

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

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

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

The exercise price of the share award is \$nil.

## Notes to the consolidated financial statements continued

### 38. Share-based payments continued

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

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

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

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

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

### 39. Operating lease arrangements

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

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

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

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



## 40. Related parties

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

### Trading transactions:

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

**Boehringer Ingelheim GmbH ('BI')**: is a related party of Hikma because BI owns 16.6% (2016: 16.7%) of the share capital of Hikma, controls 11.7% (2016: 11.7%) of the voting capital of Hikma, has the right to appoint a director of Hikma and a senior executive of BI holds a directorship of Hikma. During the year, the Group acquired six products from BI which amounted to an aggregate consideration of \$3.0 million, the Group total sales to BI amounted to \$79.1 million (2016: \$90.1 million) and the Group total purchases from BI amounted to \$10.6 million (2016: \$10.3 million). As at the year end, the amount owed from BI to the Group was \$43.8 million (2016: \$45.2 million). Additionally, balances arising from the acquisition of West-Ward Columbus from BI relating to contingent consideration are disclosed in Notes 18, 23, 27, 30 and 32.

**Capital Bank, Jordan**: is a related party of Hikma because one director of Hikma is the founder and former Chief Executive Officer of Capital Bank. At the year end, total cash balance at Capital Bank was \$11.8 million (2016: \$11.3 million) and utilisation of facilities granted by Capital Bank to the Group amounted to \$nil (2016: \$8.3 million). The interest expense/income is within market rate.

**Darhold Limited ('Darhold')**: is a related party of Hikma because three directors of Hikma jointly constitute the majority of directors and shareholders (with immediate family members) in Darhold and because Darhold owns 24.93% (2016: 25.00%) of the share and voting capital of Hikma. Other than dividends (as paid to all shareholders), there were no transactions between the Group and Darhold Limited during the year.

**HikmaCure Limited ('HikmaCure')**: is a related party of Hikma because HikmaCure is a 50:50 joint venture (JV) with MIDROC Pharmaceuticals Limited (MIDROC). Hikma and MIDROC have invested in HikmaCure in equal proportions of \$2.5 million each in cash (2016: \$2.5 million). During 2017 Hikma and MIDROC have agreed not to proceed with and to liquidate the venture. During the year, HikmaCure granted two loans of \$2.3 million each to the Group and MIDROC.

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

**Hubei Haosun Pharmaceutical Co. Ltd ('Haosun')**: is a related party of Hikma because the Group holds a non-controlling interest of 30.1% (2016: 30.1%) in Haosun. During 2017, total purchases from Haosun were \$1.4 million (2016: \$0.4 million). At 31 December 2017, the amount owed from Hubei Haosun Pharmaceutical to the Group amounted to \$1.6 million (2016: \$1.7 million). On 13 February 2018, Hikma acquired an additional stake in Hubei Haosun Pharmaceutical Co. Ltd bringing the total ownership to 49% (Note 43).

**Labatec Pharma ('Labatec')**: is a related party of the Group because Labatec is owned by the family of two directors of Hikma. During 2017, total Group sales to Labatec amounted to \$1.8 million (2016: \$1.4 million). As at the year end, the amount owed by Labatec to the Group was \$0.3 million (2016: \$0.3 million).

### Remuneration of key management personnel

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

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

## Notes to the consolidated financial statements continued

### 41. Subsidiaries, associate and joint venture

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

## 41. Subsidiaries, associate and joint venture continued

Company's name	Incorporated in	Address of the registered office	Owned by the Group		Owned by PLC 'the Company'	
			Ownership % Ordinary shares At 31 December 2017	Ownership % Ordinary shares At 31 December 2016	Ownership % Ordinary shares At 31 December 2017	Ownership % Ordinary shares At 31 December 2016
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 International N.V	Netherlands	Luna Arena, Herikerberweg 238, 1101 CM, Amsterdam Zuidoost, Netherlands	100%	100%	100%	100%
Hikma Pharma Benelux B.V	Netherlands	Nieuwe Steen 36, 1625 HV, Hoor, Netherlands	100%	100%	-	-
Eurohealth N.V	Netherlands Antilles	Pareraweg 45, P.O. Box 4914, Curacao, (Netherlands Antilles)	100%	100%	-	-
Hikma Farmaceutica, (Portugal) S.A	Portugal	Estrada Rio Da Mo no.8, 8a, 8B-Fervenca, 2705-906, Terugem SNT, Portugal	100%	100%	-	-
Lifotec Farmaceutica S.G.P.S.S.A.*	Portugal	Estrada Nacional 9, Fervenca, São João das Lampas e Terrugem, Sintra, Portugal	100%	100%	-	-
Al Jazeerah Pharmaceutical Industries Ltd*	Saudi Arabia	Riyadh Gallery, Olaya Street, P.O. Box 106229, Riyadh-11666, Kingdom of Saudi Arabia	100%	100%	52.5%	52.5%
Hikma Slovakia s.r.o	Slovakia	Seberiniho 1, 821 03 Bratislava, Slovakia	100%	100%	-	-
Pharma Ixir Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	51%	51%	-	-
Savannah Pharmaceutical Industries Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	100%	100%	-	-
Eurohealth International S.A.R.L.	Switzerland	Rue des Battoirs 7, 1205 Genève, Switzerland	100%	100%	100%	100%
APM Tunisie S.A.R.L.	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Chargaia 1, Tunis-Carthage, 2035, Tunisia	99%	99%	-	-
STE D'Industrie Pharmaceutique Ibn Al Baytar*	Tunisia	11 Rue 8610 Chargaia 1-2035 Tunis-Carthage, Tunisia	100%	66%	-	-
STE Hikma Pharma Tunisie	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Chargaia 1, Tunis-Carthage 2035, Tunisia	100%	100%	-	-
STE Medicef	Tunisia	Avenue Habib Bourguiba, Sidi Thabet, 2020 Ariana, Tunisia	100%	100%	-	-
Hikma Emerging Markets and Asia Pacific FZ-LLC	United Arab Emirates	Premises 202-204, Floor 2, Building 26, Dubai, United Arab Emirates	100%	100%	100%	100%

## Notes to the consolidated financial statements continued

### 41. Subsidiaries, associate and joint venture 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 2017	Ownership % Ordinary shares At 31 December 2016	Ownership % Ordinary shares At 31 December 2017	Ownership % Ordinary shares At 31 December 2016
Hikma International Trading Limited	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma MENA Holdings Limited*	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma (Maple) Limited	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Acquisitions (UK) Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikma Holdings (UK) Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma UK Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Ventures Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
HikmaCure Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	50%	50%	–	–
West-Ward Holdings Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
West-Ward Pharmaceuticals International Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Bedford Property Holdings, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Eurohealth (U.S.A.) Inc*	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Hikma Americas, Inc.	United States	C T Corporation System, 800 S Gay Street, Suite Knoxville TN 2021 37929-9710, United States	100%	100%	–	–
Roxane Laboratories, Inc.	United States	Corporation Trust Company of Nevada 701 S Carson Street Suite 200, Carson City, NV 89701, United States	100%	100%	–	–
West-Ward Columbus Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
West-Ward Injectables, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
West-Ward Pharmaceuticals Corp	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–

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

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

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

## 42. Defined contribution retirement benefit plan

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

### Hikma Pharmaceuticals PLC – United Kingdom

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

### Hikma Pharmaceuticals LLC – Jordan

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

### Arab Pharmaceutical Manufacturing PSC – Jordan

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

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

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

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

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

## 43. Subsequent Events

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

# Company balance sheet

At 31 December 2017

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

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



**Said Darwazah**  
Director  
13 March 2018



**Mazen Darwazah**  
Director

# Company statement of changes in equity

For the year ended 31 December 2017

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

# Notes to the Company financial statements

For the year ended 31 December 2017

## 44. Adoption of new and revised standards

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

## 45. Significant accounting policies

### Basis of accounting

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

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

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

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

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

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

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

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

## 46. Intangible assets

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

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



## 47. Investments in subsidiaries

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

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

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

\* This category relates to an intragroup restructuring following the acquisition of West-Ward Columbus Inc.

\*\* In 2016, the capital of Hikma Finance (Luxembourg) SARL was reduced by \$10 million.

## 48. Due from subsidiaries

### Non-current assets

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

### Current assets

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

## Notes to the Company financial statements continued

### 49. Other current assets

	2017 \$m	2016 \$m
Price adjustment receivable	61	34
Investment designated at fair value	22	20
Co-development and earnout receivable	-	3
Others	3	2
	<b>86</b>	<b>59</b>

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

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

### 50. Cash and cash equivalents

	As at 31 December	
	2017 \$m	2016 \$m
Cash at banks and on hand	5	5
Time deposits	20	27
	<b>25</b>	<b>32</b>

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

### 51. Other payables

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

### 52. Due to subsidiaries

#### Non-current liabilities

	2017 \$m	2016 \$m
Hikma (Maple) Limited	44	44
Hikma Investment LLC	1	1
Hikma Pharmaceuticals LLC	10	-
Eurohealth International SARL	-	10
Hikma MENA Holdings Limited	60	-
	<b>115</b>	<b>55</b>

## 52. Due to subsidiaries continued

### Current liabilities

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

## 53. Long-term financial debts

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

## 54. Financial policies for risk management and their objectives

### Currency risk

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

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

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

### Interest rate risk

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

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

## Notes to the Company financial statements continued

### 54. Financial policies for risk management and their objectives continued

#### Liquidity risk

	Less than one year \$m	Two to five years \$m	Total \$m
<b>2017</b>			
Cash and cash equivalents	25	–	25
Other receivables	3	–	3
Interest bearing loans and borrowings	(22)	(643)	(665)
Other payables	(4)	–	(4)
	2	(643)	(641)
<b>2016</b>			
Cash and cash equivalents	32	–	32
Other receivables	2	–	2
Interest bearing loans and borrowings	(24)	(702)	(726)
Other payables	(4)	–	(4)
	6	(702)	(696)

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

### 55. Staff costs

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

### 56. Share based payment

#### Executive incentive plans ('EIPs')

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

#### Management incentive plans ('MIPs')

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

#### Long-term incentive plans ('LTIPs')

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

## 57. Share capital

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

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

## 58. Share premium

	Share premium \$m
<b>Balance at 1 January and 31 December 2017</b>	<b>282</b>

## 59. Profit for the year

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

## 60. Related Parties

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

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

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

## 61. Contingent liabilities

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

## 2018 financial calendar

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

\* Provisional dates

## Shareholding enquiries

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

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

## Dividend payments – Currency

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

## Dividend payments – Bank Transfer

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

## Dividend payments – International Payment System

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

## Website

Press releases, the share price and other information on the Group are available on the Company's website [www.hikma.com](http://www.hikma.com).

## Share listings

### London Stock Exchange

The Company's Ordinary Shares are admitted to the Official List of the London Stock Exchange. They are listed under EPIC – HIK, SEDOL – B0LCW08 GB and ISIN – GBO0B0LCW083.

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

### Global Depository Receipts

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

### American Depository Receipts (ADRs)

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

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

### Shareholder fraud

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

Obtain the correct name of the person and organisations;

- Check they are authorised by the FCA by looking the firm up on [www.fca.org.uk/register](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 the Company are included in Company mailings and are on the Company website.

The Company'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

## Hikma Pharmaceuticals PLC

Registered in England and Wales number 5557934

Registered office:  
1 New Burlington Place  
London W1S 2HR  
UK

Telephone: +44 (0)20 7399 2760  
Facsimile: +44 (0)20 7399 2761  
E-mail: [investors@hikma.uk.com](mailto:investors@hikma.uk.com)

## West-Ward Pharmaceutical Corp.

401 Industrial Way West  
Eatontown  
New Jersey 07724  
US

Telephone: +1 732 542 1191  
Facsimile: +1 732 542 6150

## Hikma Pharmaceuticals LLC

P.O. Box 182400  
11118 Amman  
Jordan

Telephone: +962 6 5802900  
Facsimile: +962 6 5827102

## Hikma Farmacêutica (Portugal) S.A.

Estrada Rio Da Mo no. 8  
8A, 8B – Fervença  
2705 – 906 Terrugem SNT  
Portugal

Telephone: +351 21 9608410  
Facsimile: +351 21 9615102

## Advisers

### Auditors

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1 Embankment Place  
London WC2N 6RH  
UK

### Brokers

Citigroup Global Markets Limited  
Canada Square  
London E14 5LB  
UK

Bank of America Merrill Lynch  
2 King Edward Street  
London EC1A 1HQ  
UK

### Media Relations

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Aldersgate Street  
London EC1A 4HD  
UK

### Registrars

Link Registrars  
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BR34 4TU



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[www.hikma.com](http://www.hikma.com)

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**hikma.**