HIKMA
QUALITY

# for *life*

HIKMA PHARMACEUTICALS PLC
ANNUAL REPORT 2014

## STRATEGIC REPORT

### OVERVIEW



### OUR BUSINESS



### BUSINESS AND FINANCIAL REVIEW



### SUSTAINABILITY



## CORPORATE GOVERNANCE



## FINANCIAL STATEMENTS

Every day we focus on providing high quality, affordable generic and branded medicines to help improve the quality of life for patients across our global markets

*This is just one day...*

*07:45* Sintra, Portugal

# Working to develop new products

By continuously increasing our investment in our product portfolio and pipeline, we are ensuring that we meet the changing needs of patients across our global markets

*11:22* Khartoum, Sudan

# Making sure we understand what doctors and patients need

Through daily visits to doctors and pharmacies, our large and experienced sales force is sharing healthcare information to help improve the lives of patients

*12:15* Amman, Jordan

## Ensuring our products are available to patients when they need them

By investing to maintain the highest quality standards and by working closely with distributors, pharmacies and hospitals, we ensure that our products are available to our patients when they need them

*14:20* Cherry Hill, New Jersey, US

# Providing high quality medicines that are affordable

By continuously expanding our large and broad portfolio of high quality, affordable generic medicines, we are helping to improve the lives of patients across our markets


*15:12 Amman,* Jordan

## Continuously expanding our sales coverage to reach more patients

By increasing our sales coverage in over 50 countries and expanding into new markets, we are enabling our products to reach more patients

*16:45 Eatontown, New Jersey,* US

## Investing in our manufacturing facilities to provide high quality products for patients

Quality is central to everything we do. Our culture, people, processes and facilities reflect this commitment and enable us to ensure the safety of our patients

# STRATEGIC REPORT

Hikma has delivered an excellent performance in 2014, significantly increasing profitability and shareholder return. Strong cash flow generation supported our continuous investment in future growth, allowing increased investment in R&D, targeted business development and strategic acquisitions

## OVERVIEW



## OUR BUSINESS



## BUSINESS AND FINANCIAL REVIEW



## SUSTAINABILITY

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S INTRODUCTION

# A year of continued strong growth and strategic progress

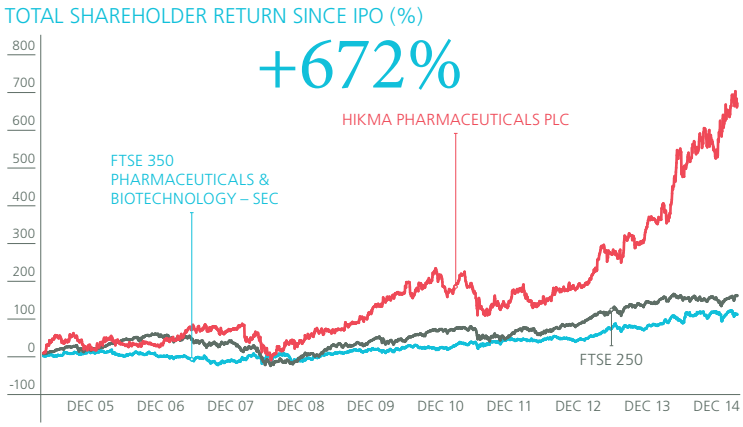
## Revenue up 9% and EPS up 30%

Said Darwazah, Chairman and Chief Executive Officer

In May this year, I assumed my responsibilities as Chairman when my father, Samih Darwazah, retired from Hikma. Since founding the company in 1978, Samih oversaw Hikma's growth from a small pharmaceutical company in Jordan to the multinational Group that we are today, employing more than 7,000 people and reaching patients in over 50 countries. This is a remarkable achievement.

As I take the Group forward, we will leverage our historical success. While many things have changed at Hikma over the years, our core commitment to delivering high quality, affordable products to patients has endured. This is made possible by the hard work and dedication of our people and I would like to thank each and every one of them.

Hikma has delivered an excellent performance in 2014, significantly increasing profitability and shareholder return. Strong cash flow generation supported our continuous investment in future growth, allowing increased investment in R&D, targeted business development and strategic acquisitions. Our diversified business model continues to serve us well, enabling us to leverage the strength of our presence and resources in the Middle East and North Africa ('MENA'), whilst rapidly building a leading global Injectables business and developing our portfolio of non-injectable products for the US market. I am very proud that our achievements were recognised at the Generics and Biosimilar awards in October 2014, where Hikma received the 'Company of the Year, EMEA Award'.




Our business in MENA has faced some challenges in 2014, specifically in Algeria, where we undertook some significant restructuring, and in Iraq and Libya where political disruptions impacted our businesses this year. However, our businesses in other markets, such as Egypt and the GCC continued to grow very strongly in 2014 and we believe the actions we have taken in Algeria will enable the overall Branded business to return to stronger growth in 2015 and beyond. We continue to see excellent growth opportunities across our existing markets and we are actively working to develop our presence in emerging markets such as sub-Saharan Africa and the CIS countries, while exploring the potential to enter other emerging markets.

Our Injectables business had another excellent year, growing revenue by 33% and significantly improving profitability. I am very pleased to have completed our acquisition of Bedford Laboratories ('Bedford') and the manufacturing facility of Ben Venue Laboratories, Inc. ('Ben Venue'). This gives us the broadest portfolio of generic injectable products in the US, meaningfully enhances our R&D capabilities and expands our capacity, taking us a step further to achieving our ambition to be a global market leader in generic injectables. Our non-injectables business in the US has also been performing very well this year and we are very pleased to have brought the Eatontown facility back into compliance with the US Food and Drugs Administration ('FDA') in April 2014. Our recent investments have significantly strengthened this business for future growth and we are actively developing a differentiated product pipeline through business development and acquisitions.

I am extremely grateful to our experienced Board of Directors for their continued commitment to Hikma. Succession has remained a focus this year and we have taken further steps to develop a diverse and well balanced Board that can take Hikma forward through our next phase of growth. On 1 April 2014, Patrick (Pat) Butler joined the Board as a Non-Executive Director, bringing extensive experience in strategy implementation, acquisition integration, performance improvement and a range of financial functions. At the Annual General Meeting ('AGM') in May, Sir David Rowe-Ham, Senior Independent Director, retired from the Board. Sir David provided a constant source of wisdom and guidance to Hikma during his long service since the IPO and we are very grateful to him. Robert Pickering, who has been a valued member of the Board of Hikma since joining as a Non-Executive Director in 2011, was appointed Senior Independent Director. On 1 December 2014, Pam Kirby joined the Board as a Non-Executive Director, bringing a wealth of pharmaceutical, international, strategic and listed company experience which will further enhance the capabilities of our Board.

Our experienced management teams across the Group remain focused on our key strategic priorities to drive sustainable long-term growth and deliver increasing shareholder value. As we focus on rapidly growing the Group, it is important that we can support this through a continuously evolving corporate structure and effective leadership development.

In 2014, we established a Global Management Committee ('GMC'), comprising senior managers from across our three businesses and key corporate functions. The GMC will support the Executive Committee in implementing and monitoring the Group's strategic plan.

Since Hikma listed in November 2005, through to the end of 2014, we have delivered a total shareholder return of 672%. We are delighted with this performance, which exceeds that of the FTSE 250 index and the FTSE Pharmaceutical index, which gave a total shareholder return of 163% and 112% respectively, over the same period.

The Board has recommended a full year dividend of 22.0 cents per share (approximately 14.6 pence per share), up from 20.0 cents per share in 2013, plus a special full year dividend of 10.0 cents per share (approximately 6.6 pence per share) up from 7.0 cents per share in 2013 to reflect the continued excellent performance of the Group in 2014. This makes a total dividend of 32.0 cents per share (approximately 21.2 pence per share). The proposed final dividend and final special dividend will be paid on 21 May 2015 to shareholders on the register on 17 April 2015, subject to approval by shareholders at the AGM.

Said Darwazah
*Chairman and Chief Executive Officer*

HOW WE PERFORMED IN 2014

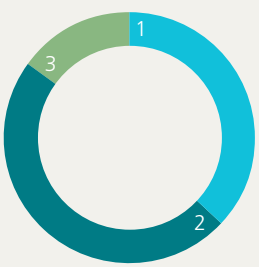
# Another excellent year

Hikma delivered strong revenue and earnings growth

| 2014 REVENUE | 2009-14 REVENUE CAGR | 2014 ADJUSTED OPERATING MARGIN[1] |
|---|---|---|
| $1,489m | +19% | 28.7% |

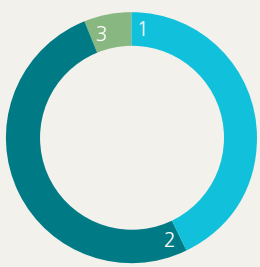
| 2014 PRODUCTS MARKETED | 2014 OPERATING CASH FLOW | 2014 EMPLOYEES |
|---|---|---|
| 582 | $425m | 7,248 |

2014 REVENUE BY SEGMENT (%)




| | |
|---|---|
| 1. Branded | 37% |
| 2. Injectables | 48% |
| 3. Generics | 15% |

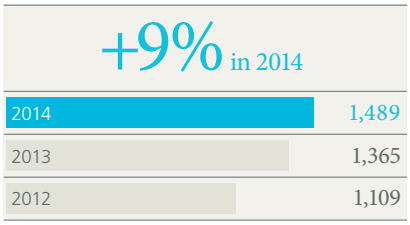
2014 REVENUE BY REGION (%)



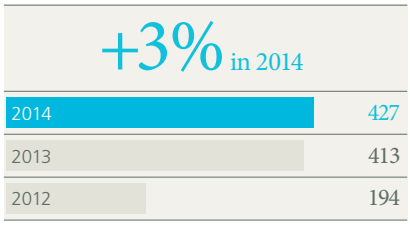

| | |
|---|---|
| 1. MENA | 43% |
| 2. US | 51% |
| 3. Europe and rest of the world | 6% |

1 Before the amortisation of intangible assets (excluding software) and exceptional items, as set out in Note 5 to the consolidated financial statements

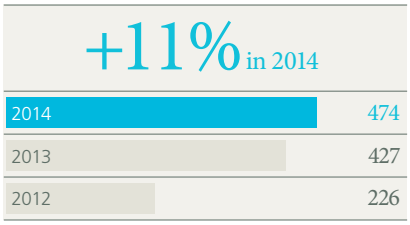
REVENUE ($ MILLION)



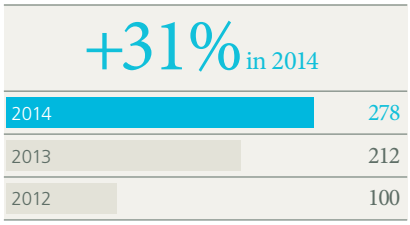

ADJUSTED OPERATING PROFIT[1] ($ MILLION)



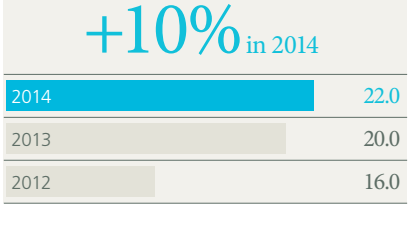

EBITDA[2] ($ MILLION)



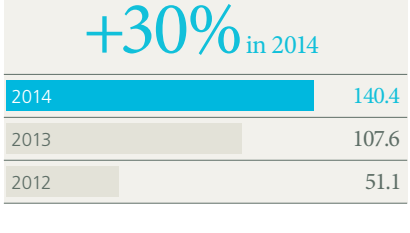

PROFIT ATTRIBUTABLE TO SHAREHOLDERS ($ MILLION)




DIVIDEND PER SHARE[3] (CENTS)




BASIC EARNINGS PER SHARE (CENTS)




1 Before the amortisation of intangible assets (excluding software) and exceptional items, as set out in Note 5 to the consolidated financial statements

2 Earnings before interest, tax, depreciation and amortisation. EBITDA is stated before impairment charges and share of results from associated companies

3 In addition, the Board has recommended a special full year dividend of 10.0 cents per share in 2014 (2013: 7.0 cents) to reflect the excellent performance of the Group in 2014

BUSINESS MODEL

# Creating value and helping to improve the lives of our patients

Our robust and diversified business model enables us to drive strong, sustainable growth, increase patients' access to high quality, affordable medicines and create shareholder value

## GLOBAL PHARMACEUTICAL MARKET

- INNOVATIVE, R&D FOCUSED PHARMACEUTICAL MANUFACTURERS
- GENERIC PHARMACEUTICAL MANUFACTURERS

## GENERIC DRUGS

IMPROVE PATIENT ACCESS TO MEDICINES

HIKMA QUALITY

OPERATING ACROSS THREE CORE BUSINESS SEGMENTS

- INJECTABLES
  LEADING GLOBAL INJECTABLES MANUFACTURER
- BRANDED
  LEADING PHARMACEUTICAL MANUFACTURER IN MENA AND EMERGING MARKETS
- GENERICS
  HIGH QUALITY PROVIDER OF GENERICS IN THE US

## HIGH QUALITY, AFFORDABLE MEDICINES

- PATIENT BENEFITS
- SHAREHOLDER VALUE

OUR STRATEGY

# Our strategy for growth

Our strategy is to deliver high quality, affordable generic and branded generic medicines to patients by leveraging our position as a leading pharmaceutical manufacturer in MENA and emerging markets, rapidly strengthening our position as a leading global injectables manufacturer and developing our portfolio of non-injectable products for the US market

We are delivering our strategy by focusing on six key strategic priorities and measuring our performance using relevant key performance indicators ('KPIs'). A review of how we have delivered our strategy in 2014 is provided on pages 16 to 23

| STRATEGIC PRIORITY | COMMITMENTS | PERFORMANCE IN 2014 | KPIs |
|---|---|---|---|
| Maximising portfolio opportunities | We are focusing on higher value product launches tailored to market needs, training skilled sales and marketing people and developing strong customer relationships | Group revenue growth of 9% in 2014 reflects our success in focusing on higher value products, particularly in the US | GROUP REVENUE GROWTH ($ MILLION)<br>+9%<br>14 1,489<br>13 1,365<br>12 1,109 |
| Strengthening and broadening our product portfolio | We are broadening our product offering, while increasing our focus on differentiated products, by leveraging in-house R&D, developing external partnerships and completing product acquisitions | The 263 new product approvals received in 2014 are the result of our increased annual investment in R&D and strengthened business development and M&A activities | TOTAL PRODUCT APPROVALS<br>263 approvals<br>14 263<br>13 241<br>12 81 |
| Maintaining high quality and efficient manufacturing facilities to maximise profitability | We are continuously investing in our high quality manufacturing facilities to improve the efficiency of our processes, while maintaining tight control of overheads | The significant growth in Group profit before tax of 21% reflects our continuous investment in efficient manufacturing through increased automation and process improvements | GROUP PROFIT BEFORE TAX GROWTH ($ MILLION)<br>+21%<br>14 362<br>13 298<br>12 132 |
| Investing for growth | We are investing to expand our product portfolio, technological capabilities, geographic reach and manufacturing capacity, through capital investment and M&A | Our disciplined capital investment approach is enabling us to generate a high return on investment while continuing to increase our investment in capex and M&A | RETURN ON INVESTED CAPITAL (%)<br>23%<br>14 23<br>13 24<br>12 13 |
| Developing a highly skilled and effective workforce | We are continuously investing in the training and development of our people while hiring talented new employees to support our future growth plans | Our commitment to investing in our people through enhanced employee benefits, training and career development, is ensuring a good level of employee retention | NUMBER OF EMPLOYEES WITH LENGTH OF SERVICE OF MORE THAN FIVE YEARS (%)<br>40%<br>14 2,899<br>13 3,674<br>12 2,107 |
| Ensuring sustainable long-term growth | We are continuously evolving our product portfolio to address changing patient needs and expanding into new markets | Continued strong momentum in launches of key new products is enabling us to increase patient access to high quality, important medicines across our markets | TOTAL PRODUCT LAUNCHES<br>75 launches<br>14 75<br>13 104<br>12 77 |

DELIVERING OUR STRATEGY

# Delivering our strategy for growth

We have made excellent strategic progress this year, taking actions to strengthen our operations in the MENA region, significantly enhancing and expanding our global Injectables business and developing a product portfolio for our non-injectable generics business in the US. This has been achieved by focusing on our key strategic priorities across our three businesses

Said Darwazah, Chairman and Chief Executive Officer

2014 HIGHLIGHTS

GROUP REVENUE INCREASED BY

**9%**

TO

**$1,489m**

BASIC EPS INCREASED

**30%**

TO 140.4 CENTS PER SHARE

LAUNCHED

**75**

PRODUCTS AND RECEIVED

**263**

TOTAL PRODUCT APPROVALS

## Leading pharmaceutical company in MENA and emerging markets

### Maximising portfolio opportunities

The strength of our market position in MENA, where we are the fifth largest pharmaceutical company and the leading regional player, is enabling us to maximise the potential of our product portfolio. We are benefiting from the breadth of our geographic reach and the expertise and scale of our sales team. Our team of 1,892 sales people across the region detail doctors on a daily basis to drive prescriptions of our products. In 2014, we have continued to invest in promotional activities, expanded our coverage of doctors, deepened the expertise of our sales teams, strengthened our relationships with doctors and key opinion leaders in the region and enhanced our Customer Relationship Management ('CRM') capabilities.

Future sales growth will depend on the quality of our product portfolio. We are focused on improving the mix of sales towards higher value products in the fastest growing therapeutic categories, such as cardiovascular, diabetes, central nervous system and oncology. We target to be the first or second generic on the market, ensuring the best price for our products and strengthening our brand with doctors. Continued new product launches enable us to offset the impact of price erosion in certain markets. During 2014, we launched 59 new products across our MENA markets, helping to address changing patient needs in the region.

### Strengthening and broadening our product portfolio

Continued momentum in new product launches reflects a focused investment in R&D to develop a strong pipeline. In 2014, we submitted 245 products across MENA, including 38 products for the treatment of diabetes and heart disease and 16 oncology products. Markets such as Egypt and Algeria have strong local R&D centres, which are enabling us to accelerate new launches in those markets and address specific market opportunities.

We continue to build and grow our relationships with in-licensing partners, signing six new agreements in 2014, which will support us in bringing innovative, patented products to MENA and increasing patients' access to affordable medicines.

### Maintaining high quality and efficient manufacturing facilities to maximise profitability

A key strategic priority is to maintain facilities which meet the highest quality standards, while driving operational efficiencies and tight cost control. In 2014, we continued to focus on initiatives to reduce procurement costs throughout our supply chain and improve manufacturing processes. We increased the production output in our local facilities across MENA, enabling better utilisation, greater manufacturing flexibility and security of supply. We are making gradual progress with our programme of cutting tail products to streamline our portfolio and maximise manufacturing efficiencies.

"Our team of 1,892 sales people across the MENA region detail doctors on a daily basis."


STRATEGIC PRIORITY

## MAXIMISING PORTFOLIO OPPORTUNITIES

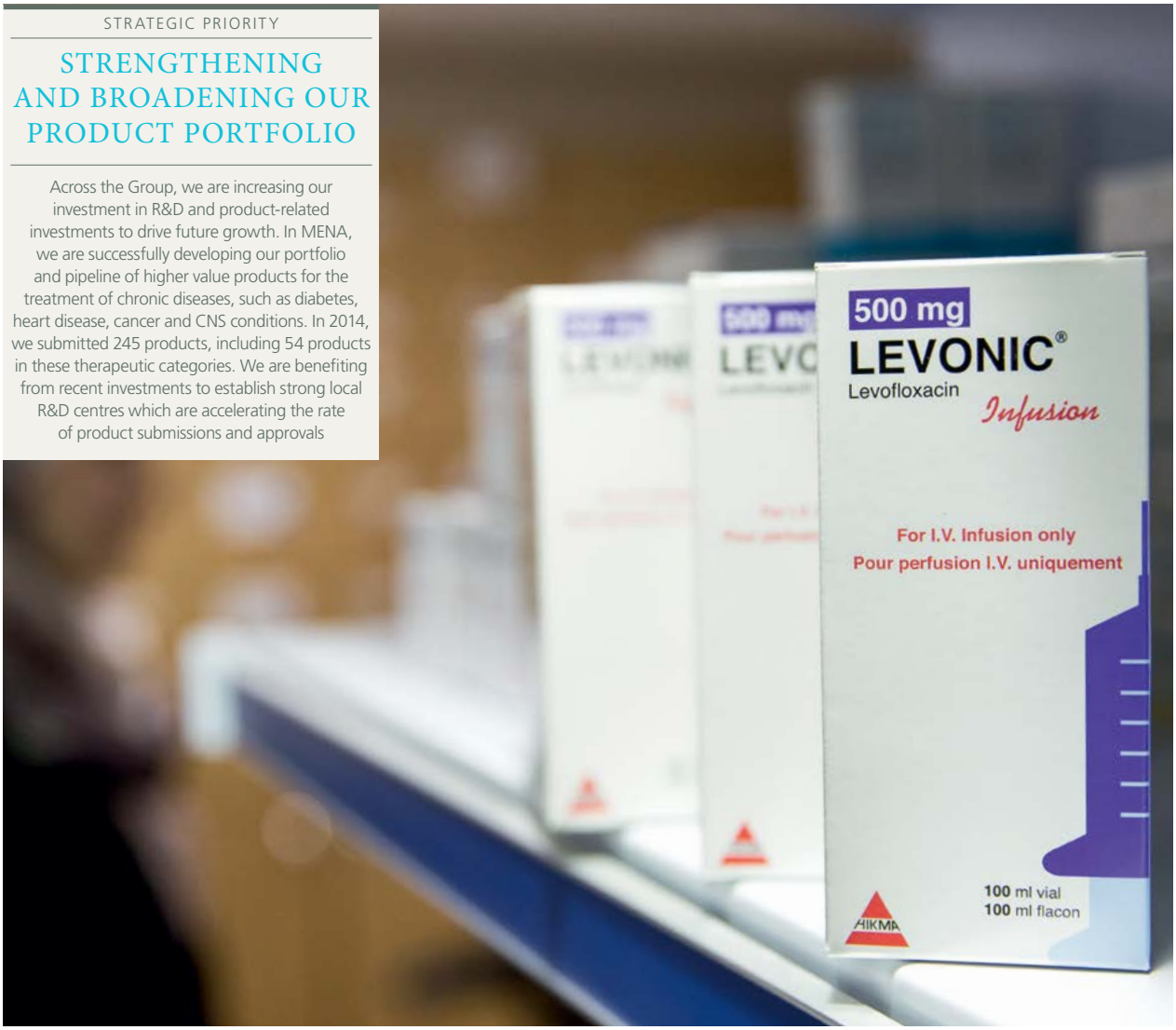
Across our MENA markets, we continue to invest to strengthen our sales teams and enhance our promotional activities. In recent years we have restructured our teams to enable an increased focus on key strategic products and to develop the expertise of our reps in the fastest growing therapeutic categories. We are leveraging our recently implemented CRM system to optimise the focus and frequency of doctor visits, helping to maximise the potential of our product portfolio in the region

DELIVERING OUR STRATEGY
*continued*

STRATEGIC PRIORITY

## STRENGTHENING AND BROADENING OUR PRODUCT PORTFOLIO

Across the Group, we are increasing our investment in R&D and product-related investments to drive future growth. In MENA, we are successfully developing our portfolio and pipeline of higher value products for the treatment of chronic diseases, such as diabetes, heart disease, cancer and CNS conditions. In 2014, we submitted 245 products, including 54 products in these therapeutic categories. We are benefiting from recent investments to establish strong local R&D centres which are accelerating the rate of product submissions and approvals




"Continued momentum in new product launches reflects a focused investment in R&D to develop a strong pipeline."

### Investing for growth

The success of our operating model in MENA has come from investing in strong local businesses in each of our markets and in 2014, we invested a further $60 million in maintaining and expanding our manufacturing facilities across the region. As well as continuing to grow our businesses in existing markets, we are actively looking at entry points into new emerging markets. As we've done historically, we will use a combination of greenfield expansion and acquisitions to enter these new markets.

### Developing a highly skilled and effective workforce

The quality and commitment of our employees is a key differentiator and is supported by our operating model of employing local people to build strong local businesses in each of our MENA markets. In 2014, we continued our long track record of investing to train and develop our people across the region.

### Ensuring sustainable long-term growth by addressing changing patient needs

The healthcare market in the MENA region continues to grow very strongly, driven by changing demographics such as increasing life expectancy and greater health awareness. We are continuously evolving our product portfolio to address changing patient needs, such as the increased incidence of heart disease, diabetes and cancer in the region. In 2014, we launched 59 oral products in MENA, of which 36 were in these newer therapies. This investment in products, combined with our commitment to investing in strong local businesses in our markets will help to drive sustainable growth in the medium and long term.

## Leading global injectables manufacturer

### Maximising portfolio opportunities

The breadth of our global product portfolio, our strong market positions in the US, MENA and Europe and the expertise of our sales teams are enabling us to maximise the potential of our portfolio. In 2014, our focus has been on enhancing the mix of sales towards higher value, more differentiated products. Our success in capturing specific market opportunities has also helped to accelerate growth this year.

In July 2014, we completed the acquisition of Bedford, adding 82 products and giving us the largest portfolio of generic injectable products in the US. This significantly strengthens our market position and brings a large number of niche, differentiated products, including lyophilised and oncology products. We are transferring an initial tranche of 20 of the Bedford products to our other injectables manufacturing facilities in the US, Portugal and Germany and we expect to have re-launched the first of these products by the end of 2015. We have added a team of eight sales people from Bedford, which will help to enhance and deepen our US market coverage.

In MENA, we undertook extensive restructuring of our sales teams during 2014, which will enable us to increase the focus and resource that we dedicate to promoting our injectable products going forward. Following lower sales in 2014, we expect these actions to drive a stronger performance in 2015 and beyond. Our sales team in Europe, which includes a specialised oncology division, continues to drive strong sales growth from our portfolio despite very strong price erosion.

### Strengthening and broadening our product portfolio

Developing a strong product portfolio and pipeline is the key to ensuring sustainable long-term growth for our global Injectables business. In recent years, we have increased our investment in internal R&D, whilst broadening our R&D model to include external partnerships and product file acquisitions. We are seeing the benefits of this investment and in 2014 we submitted 165 products across our global markets, including some more complex regulatory filings, such as 505(b)2s. The dedicated R&D line that is currently being installed in Portugal will further increase our annual submission capabilities.

The acquisition of Bedford significantly strengthens and deepens our pipeline, bringing 13 products pending approval and 11 under development. A number of these are more differentiated products, including complex filings such as Paragraph IVs, in line with our strategic focus on higher value products. We are delighted that Bedford's large and experienced R&D team have joined Hikma, significantly enhancing our capabilities for developing our future product pipeline.

Oncology remains a key area of focus in all of our geographies. We are growing our portfolio and we submitted a further 43 injectable oncology products across our markets during 2014. Bedford's large oncology portfolio will accelerate this strategy and, whilst the priority will be to launch those products in the US market, we plan to register them in MENA and Europe thereafter. We are successfully leveraging our strategic investment in Haosun, a manufacturer of oncology APIs in China, to support new product development and in 2014 we added a dedicated API manufacturing plant to our Jordan facility.

DELIVERING OUR STRATEGY
*continued*

STRATEGIC PRIORITY

## INVESTING FOR GROWTH

Our acquisition of the assets of Bedford and the Ben Venue manufacturing facility will significantly increase the scale and scope of our Injectables business. As well as adding a large portfolio of high value, niche and differentiated products, Bedford brings a deep pipeline and an experienced R&D team of 39 employees. We have also begun transferring equipment from the Ben Venue manufacturing site to expand capacity at our facilities in the US and Europe to support medium-term growth. The acquisition will be a key driver of future growth and takes us a step further to achieving our ambition to be a global market leader in generic injectables

"Our continued investment in capacity expansion and M&A will support future growth."

### Maintaining high quality and efficient manufacturing facilities to maximise profitability

In 2014, we continued our long track record of investing in the maintenance and expansion of our high quality injectable manufacturing facilities and, by successfully leveraging our global manufacturing footprint, we are optimising the allocation of production and maximising efficiencies.

Our broad manufacturing capabilities and significant capacity meant we were well positioned to complete the Bedford acquisition. The transfer of the Bedford products to our own facilities will enable us to enhance capacity utilisation and reduce unit costs. Operational excellence remains a focus across our facilities and continuous efficiency improvements are reflected in increased profitability.

In October 2014, we received a warning letter from the US FDA relating to our Portuguese facility. We do not believe that the warning letter will impact the manufacturing or distribution of the products from this facility and we do not expect the remediation costs to be material. We have dedicated significant management time to addressing the issues raised and we are working hard to enable a swift resolution.

### Investing for growth

Our continued investment in products and capacity and our strong track record of successful M&A will support long-term growth. We are completing the installation of a new high volume, high speed line to add capacity in Portugal and we are broadening our manufacturing capabilities in the US with the installation of a pre-filled syringe line. In 2014, we submitted our first product in a pre-filled syringe and our programme of submissions will continue in 2015.

Our acquisition of the generic injectables manufacturing site of Ben Venue in Bedford, Ohio, reflects our commitment to long-term growth. The site includes a state-of-the-art Quality and Development Centre ('QDC'), which will meaningfully strengthen our existing R&D capabilities. The manufacturing facilities on the site will remain dormant; however, we have begun transferring certain equipment to our other facilities to expand capacity.

We are also assessing the potential to use equipment from Ben Venue to establish local injectable manufacturing facilities in certain MENA markets.

### Developing a highly skilled and effective workforce

In 2014, we continued to invest in the development and expansion of our highly skilled team of employees. In the US, we have expanded our sales and marketing capabilities through the addition of eight former Bedford employees and we are already seeing the benefits from the sharing of knowledge and best practice. We have also been developing our sales and marketing capabilities in MENA this year, increasing the number of employees dedicated to the Injectables business to build a stronger route to market through greater expertise and specialism in our teams. The Bedford acquisition has enabled us to significantly develop the capabilities of our R&D team, adding 39 experienced employees with expertise in more complex product development.

### Ensuring sustainable long-term growth by addressing changing patient needs

Our overarching strategic priority for the Injectables business is to drive sustainable growth by continuously evolving our product portfolio in response to the changing needs of doctors and patients across our different geographies. By developing products in fast growing therapeutic areas such as oncology and combining our products with advanced delivery systems, such as pre-filled syringes, we are addressing the needs of patients and increasing access to high quality, affordable medicine.

## High quality provider of generics in the US

### Maximising portfolio opportunities

In the last couple of years, we have been working hard to re-launch our legacy portfolio to the market and we have done an excellent job of re-establishing market positions for those products. At the same time, we have been successful in maximising the potential of specific market opportunities, which have contributed to strong revenue and profitability.

STRATEGIC PRIORITY

## MAINTAINING HIGH QUALITY, EFFICIENT MANUFACTURING FACILITIES TO MAXIMISE PROFITABILITY

Our commitment to maintaining the highest quality standards across our global manufacturing facilities is enabling us to provide consistent supply of our products to the market. Our continuous drive to improve our operations is generating efficiencies and we are investing to maintain and upgrade all of our facilities. We invested around $91 million in our facilities during 2014. In MENA, we are gradually progressing our programme of cutting tail products to maximise efficiencies and in our global Injectables business we are optimising the allocation of production between our facilities and maximising efficiencies

DELIVERING OUR STRATEGY
*continued*

STRATEGIC PRIORITY

## ENSURING SUSTAINABLE LONG-TERM GROWTH

Across the Group, we are building businesses that can deliver sustainable long-term growth. Through continuous investment in our products, people and manufacturing facilities, we will be able to address the changing demands of doctors and patients in our different markets. Our continued momentum in new product launches in MENA in 2014 will help us to build strong franchises in the fastest growing therapeutic areas. In the US, we are meeting doctors' growing concerns for greater safety in the administration of injectable products through our recent investment in technology, including pre-filled syringes

By the end of 2014, we had re-launched 27 products from our Eatontown facility, adding to the 39 products being supplied to the US market from our US FDA approved facilities in MENA. Our strategy for the Generics business is to continue maximising the potential of our existing portfolio, to re-launch a further five legacy products during 2015 and to drive further growth through new product launches.

### Strengthening and broadening our product portfolio

Our key strategic priority is to develop a strong product pipeline, with a focus on niche, differentiated products. In part, this is being achieved through increased investment in internal R&D, including more complex regulatory filings such as the 505(b)2 approval we received for Mitigare™ (colchicine) in 2014. Our business development team is also expanding our portfolio through external partnerships and product acquisitions. In the last two years we have signed six agreements for seven products which will provide the potential for good market opportunities in 2016 onwards. In 2014, the first of several products being developed by Unimark, the Indian company in which we hold a strategic investment, received approval.

As well as building our portfolio of oral products, we are expanding into other non-injectable product forms, such as transdermal patches, creams and ointments and moving into more niche therapeutic areas, such as dermatologicals and opthalmics.

### Maintaining high quality and efficient manufacturing facilities to maximise profitability

In April 2014, we were pleased to be notified by the US FDA that the warning letter received in respect of our Eatontown facility in February 2012 had been lifted. This followed their review of our corrective actions and reflects the significant investment we made to complete the remediation work, upgrade our manufacturing processes and strengthen our operations. We are committed to maintaining the highest quality standards of regulatory compliance and efficient manufacturing and we continuously invest in equipment upgrades and process improvements.

### Investing for growth

We continue to see attractive opportunities in the US generics market for both oral and other non-injectable product forms. We are investing to develop our product portfolio and pipeline, including expansion into new therapeutic categories and product forms. We will continue to take a broad approach to new product development, investing through a combination of focused business development activities and targeted M&A.

### Developing a highly skilled and effective workforce

In recent years, we have made significant investments to strengthen our operations in the US, adding high calibre talent across key business functions, including sales and marketing, R&D, manufacturing and quality control. The continuous training and development across our workforce is providing a strong platform to drive future growth.

### Ensuring sustainable long-term growth by addressing changing patient needs

We are actively developing our strategy for the US market to ensure that we can address the fastest growing areas of patient demand. We believe that supplementing our legacy business with focused diversification into new areas of the market with attractive competitive dynamics will enable us to drive sustainable long-term growth.

## Looking ahead

I am very pleased with the excellent performance that the Group has delivered in 2014. It reflects the strength of our diversified business model and our success in delivering our strategy for growth. The continuous investment we are making across our businesses to develop strong product portfolios and pipelines and to maintain high quality manufacturing facilities will drive continued growth in 2015 and beyond.

"Continuous training and development across our workforce is providing a platform to drive future growth."

STRATEGIC PRIORITY

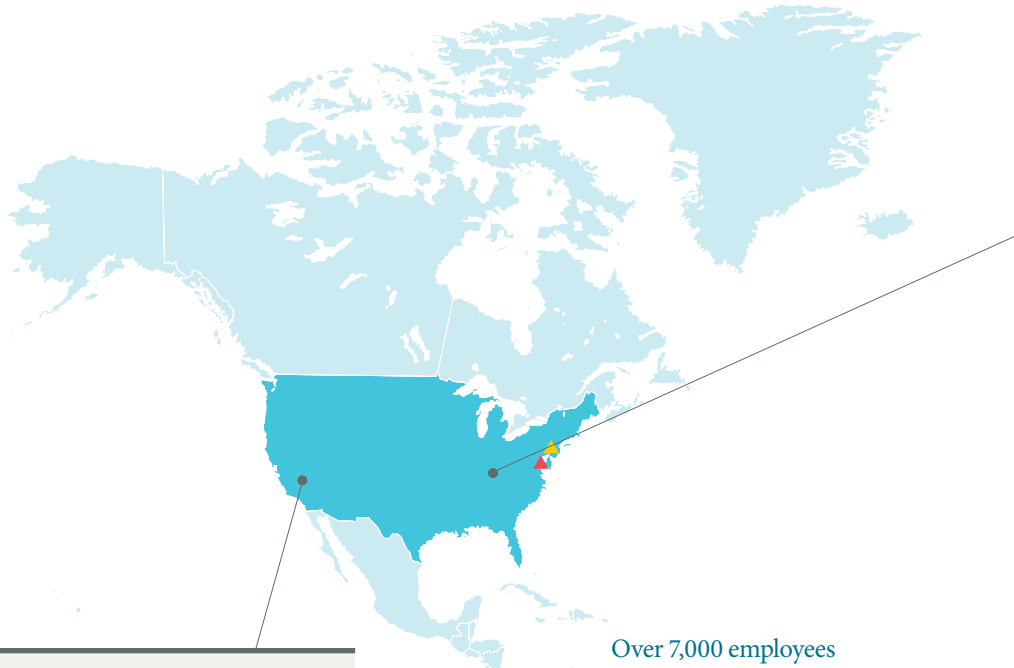
## DEVELOPING A HIGHLY SKILLED AND EFFECTIVE WORKFORCE

As we rapidly grow our businesses across the Group, it is important that we can underpin this with the continuous development of our people and capabilities. On the job training, advanced education programmes and overseas assignments are some of the ways we are building expertise across the Group. In addition, we hired 87 experienced new hires into managerial roles during 2014

GROUP AT A GLANCE

# What we do and where

We develop, manufacture and market a broad range of branded and non-branded generic pharmaceutical products across MENA, the US and Europe. We are also a leading licensing partner in the MENA region. Our operations span over 50 countries and are conducted through three business segments



## GENERICS

▸ SELLING NON-INJECTABLE GENERIC PRODUCTS ACROSS THE US

2014 REVENUE:


- Long-standing presence in the US oral generics market
- Focus on quality manufacturing and high service levels
- Strong emphasis on niche products
- Leveraging our efficient and lower-cost US FDA approved manufacturing facilities in Jordan and Saudi Arabia
- 24 products in 66 dosage strengths and forms

GEOGRAPHICAL AREA:

US

TOP PRODUCTS:

Amoxicillin, Captopril, Doxycycline, Isosorbide mononitrate, Prednisone

*More information see page 34*
*View our business model on page 14*

### Over 7,000 employees across 21 countries

| | |
|---|---|
| ALGERIA | 721 |
| CHINA | 4 |
| EGYPT | 1,091 |
| GCC | 80 |
| GERMANY | 97 |
| INDIA | 4 |
| IRAQ | 53 |
| ITALY | 80 |
| JORDAN | 1,829 |
| KAZAKHSTAN | 9 |
| SAUDI ARABIA | 717 |
| LEBANON | 107 |
| LIBYA | 19 |
| MOROCCO | 372 |
| PORTUGAL | 407 |
| SLOVAKIA | 10 |
| SUDAN | 219 |
| TUNISIA | 303 |
| UK | 14 |
| US | 1,098 |
| YEMEN | 14 |

# INJECTABLES

► SELLING SPECIALISED INJECTABLE PRODUCTS GLOBALLY

2014 REVENUE:


A leading global manufacturer of quality sterile injectables

US FDA approved manufacturing facilities in the US, Portugal and Germany

Range of manufacturing capabilities, including sterile liquid, powder, lyophilised and cytotoxic products

Broad product portfolio including CNS, anti-infective, cardiovascular and oncology products

182 products in 483 dosage strengths and forms

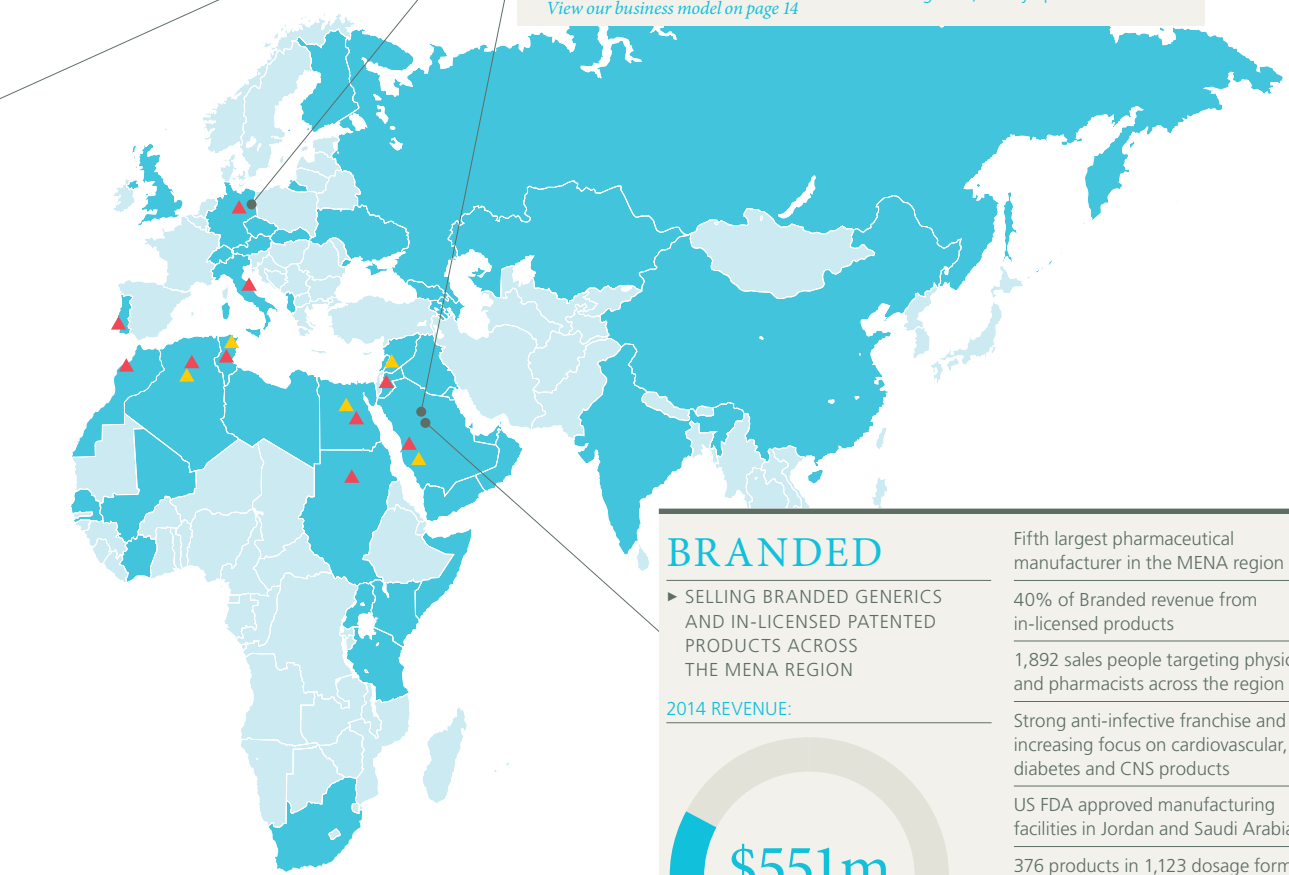
GEOGRAPHICAL AREA:

US, Europe, MENA

TOP PRODUCTS:

Argatroban, Fentanyl, Glycopyrrolate, Neostigmine, Phenylephrine

*More information see page 30*
*View our business model on page 14*



# BRANDED

► SELLING BRANDED GENERICS AND IN-LICENSED PATENTED PRODUCTS ACROSS THE MENA REGION

2014 REVENUE:


Fifth largest pharmaceutical manufacturer in the MENA region

40% of Branded revenue from in-licensed products

1,892 sales people targeting physicians and pharmacists across the region

Strong anti-infective franchise and increasing focus on cardiovascular, diabetes and CNS products

US FDA approved manufacturing facilities in Jordan and Saudi Arabia

376 products in 1,123 dosage forms and strengths

GEOGRAPHICAL AREA:

MENA

TOP PRODUCTS:

Amoclan®, Blopress®, Omnicef® Prograf®, Suprax®

*More information see page 26*
*View our business model on page 14*

KEY:

▲ 27 MANUFACTURING PLANTS
▲ 6 R&D CENTRES

BUSINESS AND FINANCIAL REVIEW

# Branded

Strong growth across most markets was offset by restructuring in Algeria and disruptions in Iraq and Libya

| STRATEGIC PRIORITY | 2014 ACHIEVEMENTS | 2015 TARGETS |
|---|---|---|
| Maximising portfolio opportunities | ▸ Maintained position as the fifth largest pharmaceutical company in MENA<br>▸ Leveraged experienced team of over 1,892 sales people to maximise portfolio potential<br>▸ Increased investment in promotional activities to drive future growth in key therapeutic areas<br>▸ Strengthened business and operations in Algeria | ▸ Improve performance in Algeria, following restructuring in 2014<br>▸ Focus on promotion of higher value products in fast growing therapeutic categories<br>▸ Further leverage CRM system to enhance targeting of key doctors and improve sales productivity |
| Strengthening and broadening our product portfolio | ▸ Submitted 245 products across all markets, including 16 oncology products<br>▸ Signed six new licensing agreements<br>▸ Leveraged local R&D capabilities in Algeria, Egypt, Saudi Arabia and Tunisia to accelerate product launches | ▸ Continue to sign licensing and partnership agreements to add new, innovative products<br>▸ Leverage local R&D centres to accelerate new product launches and tailor pipeline to specific market opportunities |
| Maintaining high quality and efficient manufacturing facilities to maximise profitability | ▸ Successfully cut tail products<br>▸ Completed renovation of EPCI facility in Egypt | ▸ Continue cutting tail products<br>▸ Complete global review of our manufacturing facilities to identify regulatory compliance risks<br>▸ Increase utilisation of ERP ('Enterprise Resource Planning') system across our MENA facilities to maximise optimisation and increase efficiency |
| Investing for growth | ▸ Invested $60 million in capex across our MENA facilities<br>▸ Inaugurated chemical plant for the manufacture of oncology API, ensuring accelerated development and security of supply for key cancer products | ▸ Continue to invest in maintaining and expanding local manufacturing facilities<br>▸ Targeted expansion in emerging markets such as sub-Saharan Africa and the CIS countries |
| Developing a highly skilled and effective workforce | ▸ Increased training hours for our sales people<br>▸ Established a 'Development Centre' for the assessment of high performers across our management teams and sales people<br>▸ Around 100 managers completed the American University of Beirut ('AUB') training programme for middle management | ▸ Continue to invest in developing and training our large workforce across the region<br>▸ Launch 'Hikma's Women Empowerment' programme across key markets<br>▸ Further leverage the Development Centre to continue assessment of our managers across all MENA markets |
| Ensuring sustainable long-term growth | ▸ Launched 59 oral products across our MENA markets | ▸ Maintain strong momentum in new product launches from our pipeline |

KPIs: HOW WE MEASURE OUR PERFORMANCE

BRANDED REVENUE ($ MILLION)

–1%

| | |
|---|---|
| 14 | 551 |
| 13 | 554 |

BRANDED ADJUSTED OPERATING MARGIN (%)[1]

–430bps

| | |
|---|---|
| 14 | 20.1 |
| 13 | 24.4 |

BRANDED MARKETED PRODUCTS

376 products

| | |
|---|---|
| 14 | 376[2] |
| 13 | 499 |

1 Before the amortisation of intangible assets (excluding software) and exceptional items
2 In 2014, the Group changed its methodology for counting Branded marketed products to eliminate overlap across markets

## The MENA[1] pharmaceutical market

| | 2014 value $m | Growth |
|---|---|---|
| **Top 9 MENA markets** | **11,951** | **+8%** |
| Saudi Arabia | 2,897 | +8% |
| Egypt | 2,675 | +10% |
| Algeria | 2,594 | +11% |
| UAE | 1,140 | +12% |
| Morocco | 985 | (3)% |
| Lebanon | 683 | 7% |
| Tunisia | 524 | (5)% |
| Jordan | 231 | (7)% |
| Kuwait | 222 | 7% |

1 All market data sourced from IMS Health YTD December 2014. Figures reflect private retail sales only

## Overview of the marketplace

Hikma's Branded business manufactures and markets generic and in-licensed originator products across the MENA region. The pharmaceutical markets in MENA tend to be branded markets in which products, both generic and patented, are marketed under specific brand names through large sales and marketing teams.

Pharmaceutical sales for the top nine private retail markets in the MENA region grew by 8% in 2014, to reach $12.0 billion, according to IMS Health. This figure does not capture the additional value of sales from government tenders or from other smaller but fast growing MENA markets such as Iraq, Libya and Sudan.

The growth in the MENA pharmaceutical market continues to be underpinned by the favourable demographics of a young, fast growing population. At the same time, increasing life expectancy is creating a sizeable elderly population. Whilst the historically strong demand for anti-infective products remains, economic development in MENA and changes in lifestyle are driving higher incidences of chronic diseases such as diabetes. Pharmaceutical companies in the region are rapidly developing their portfolios to meet the growing demand for cardiovascular, diabetes, central nervous system and oncology products.

## 2014 highlights:

- Branded revenue of $551 million, broadly in line with 2013, and an increase of 1% in constant currency
- Branded adjusted operating profit decreased by 18%, with an adjusted operating margin of 20.1%, down from 24.4%
- 59 product launches and six new in-license agreements signed

Branded revenue decreased by 1% in 2014 to $551 million, compared with $554 million in 2013. On a constant currency basis, Branded revenue was $561 million, up 1%. We grew strongly in most markets through our continued focus on strategic, higher value products and new product launches, although this was offset by lower sales in Algeria, due to restructuring, and in Iraq and Libya due to the political disruptions.

Saudi Arabia and the other GCC markets grew in the mid-teens from good demand for recent product launches and actions we took to enhance both our sales and marketing and distribution structures. Our Egyptian business had an excellent year, with revenue growth of around 11%, or 14% in constant currency, reflecting a strong focus on strategic products and successful new product launches. Growth in most other markets, including Jordan and Tunisia, was strong, although sales in Iraq and Libya were lower due to ongoing political disruptions. Morocco delivered good growth in local currency driven by new product launches and a strengthened sales and marketing function, which more than offset the adverse impact from government-mandated price cuts.

BUSINESS AND FINANCIAL REVIEW
*continued*

In Algeria, sales were significantly lower than in 2013 due to a restructuring of our business and operations, as previously highlighted in our interim results. We have upgraded our management team in Algeria across all key functions and the business is already benefiting from the implementation of better operational processes, including a re-organisation of the sales and marketing function. We expect the Algerian business to deliver good revenue growth in 2015.

During 2014, the Branded business launched a total of 59 products across all markets, including five new compounds and eight new dosage forms and strengths. The Branded business also received 176 regulatory approvals across the region.

Revenue from in-licensed products increased from $210 million to $219 million in 2014, reflecting a strong demand for key products. In-licensed products represented 40% of Branded revenue compared with 38% in 2013. We signed six new licensing agreements for innovative products during 2014 which will help us to grow our portfolio of higher value products in growing therapeutic categories.

Branded gross profit fell by 3% to $267 million in 2014 and gross margin was 48.5%, compared with 49.8% in 2013, reflecting the mix of sales during the year. Operating profit decreased by 18% to $102 million, compared with $124 million in 2013. Adjusted operating margin was 20.1%, down from 24.4% in 2013. The lower margin reflects the reduction in gross margin combined with continued investment in sales and marketing, a significant increase in transactional foreign exchange losses and a higher doubtful debt expense in disrupted markets.

On a constant currency basis, we expect Branded revenue to grow in the low-teens in 2015, driven by strong underlying market growth, our focus on strategic products, an improved performance in Algeria and the strength of our sales and marketing teams. Adjusted operating margin is expected to improve by around 200 basis points, driven by revenue growth and operational leverage. Taking into account exchange rate movements since the beginning of 2015, and assuming these rates prevail, we would expect reported Branded revenue to be lower by around $30 million.

"During 2014, the Branded business launched a total of 59 products across all markets, including five new compounds and eight new dosage forms and strengths."

BUSINESS AND FINANCIAL REVIEW

# Injectables

Excellent revenue growth with significant margin improvement

| STRATEGIC PRIORITY | 2014 ACHIEVEMENTS | 2015 TARGETS |
|---|---|---|
| Maximising portfolio opportunities | ▸ Launched 16 products across our markets<br>▸ Successfully captured specific market opportunities in the US<br>▸ Restructured our sales teams in MENA to increase the resources dedicated to injectable products | ▸ Continue to launch more differentiated, higher value products<br>▸ Drive stronger sales in MENA, leveraging the increased sales and marketing focus on injectable products |
| Strengthening and broadening our product portfolio | ▸ Submitted 165 products across all our markets<br>▸ Signed three new in-licence agreements<br>▸ Received approval for first biosimilar product, Remsima, in-licensed from Celltrion<br>▸ Submitted first product in a pre-filled syringe to the US FDA | ▸ Increase investment in internal R&D<br>▸ Re-launch the first Bedford products to the US market<br>▸ Submit additional products in pre-filled syringes |
| Maintaining high quality and efficient manufacturing facilities to maximise profitability | ▸ Leveraged vertically integrated API capabilities on selected products to ensure security of supply for customers<br>▸ Leveraged strong quality track record to strengthen customer relationships in the US<br>▸ Drove operational efficiencies to support continued improvement in profitability | ▸ Return Portuguese facility to full FDA compliance<br>▸ Continue to invest in quality, including employee training<br>▸ Drive continued operational efficiencies |
| Investing for growth | ▸ Acquired assets of Bedford and Ben Venue for an upfront consideration of $225 million<br>▸ Invested over $30 million to expand injectables manufacturing capacity in the US and Portugal, including the installation of a pre-filled syringe line<br>▸ Acquired Bedford's experienced R&D team, comprising 39 employees, and a state-of-the-art QDC in Bedford, Ohio<br>▸ Acquired the Ben Venue manufacturing facility, enabling the transfer of equipment to our facilities in the US and Europe | ▸ Pursue opportunities across our geographies to add new products, technologies and markets through business development and acquisitions<br>▸ Transfer and install Ben Venue equipment in our US and European facilities<br>▸ Assess the business case to establish injectables manufacturing in certain MENA markets, utilising manufacturing equipment from the Ben Venue site |
| Developing a highly skilled, effective and diverse workforce | ▸ Added a total of 72 Bedford employees in the US, strengthening R&D, business development and sales and marketing capabilities for the Injectables business<br>▸ Restructured MENA team to increase the resource dedicated to sales and marketing and other business functions for the Injectables business | ▸ Integrate Bedford employees across business functions and ensure maximum benefit from best practice and knowledge sharing<br>▸ Leverage increased resource in MENA to drive a stronger performance |
| Ensuring sustainable long-term growth | ▸ Continued evolving our product portfolio through new launches and increased investment in R&D<br>▸ Began integrating the Bedford R&D team to strengthen our global R&D capabilities | ▸ Focus on patients' and doctors' needs to continue bringing high quality, affordable products to our global markets |

KPIs: HOW WE MEASURE OUR PERFORMANCE

INJECTABLES REVENUE ($ MILLION)

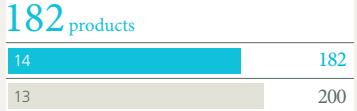
+33%


INJECTABLES ADJUSTED OPERATING MARGIN (%)[1]

+620bps


INJECTABLES MARKETED PRODUCTS

182 products




1 Before the amortisation of intangible assets (excluding software) and exceptional items

## Injectables performance

| | 2014 | 2013 |
|---|---|---|
| US | **77%** | 68% |
| MENA | **13%** | 17% |
| Europe | **10%** | 15% |

## Overview of the marketplace

Hikma's Injectables business manufactures and markets branded and non-branded generic injectable products in the US, Europe and MENA. Injectable products represent the second largest segment of the global pharmaceutical market in terms of delivery mechanism after oral products. The value of the global generic injectables market is estimated to exceed $12 billion.[1]

Injectable products are produced in liquid, powder and lyophilised (freeze-dried) forms. The manufacture of injectable products requires specialised and sterile manufacturing facilities and techniques, which must meet the strict quality standards imposed by the regulatory authorities. These factors have created a market with high barriers to entry and, as a result, a limited number of competitors.

The global injectables market is expected to benefit from the key drivers of generic growth as well as from the patent expiries of a number of high value injectable products.

## 2014 highlights:

- Injectables revenue grew by 33% to $713 million, with an adjusted operating margin of 37.2%, up from 31.0%
- Excellent performance in US Injectables, with revenue up 51%, reflects our success in capturing specific market opportunities
- Acquisition of Bedford and Ben Venue assets strengthens our portfolio and pipeline for future growth

Revenue in our global Injectables business increased by 33% to $713 million, compared with $536 million in 2013.

US Injectables revenue grew by $185 million, or 51%, to $548 million. This excellent performance reflects strong underlying growth and our success in capturing specific market opportunities. We benefited from our focus on improving the mix of sales, with our higher value products delivering strong performances in 2014. In 2015, we expect increasing competition for a number of these products; however, good demand across our broad product portfolio should enable us to sustain underlying revenue. We also expect the contribution from certain specific market opportunities to continue in 2015.

In 2014, MENA Injectables revenue was $90 million, a decrease of 3% compared with $93 million in 2013. Whilst revenue grew in most of our markets, this was offset by lower than expected sales in Algeria. During the year, we restructured our MENA sales teams to increase the resources dedicated to injectable products and we expect this to drive stronger growth going forward.

1 Espicom Business Intelligence

BUSINESS AND FINANCIAL REVIEW
*continued*

"A key contributor to future growth for our Injectables business will be the acquisition of Bedford Laboratories."

In Europe, revenue decreased by 7% to $75 million, reflecting a shift in contract manufacturing from European to US customers. Own drug sales continued to grow steadily, with strong volumes more than offsetting double-digit price erosion. In October 2014, we received a warning letter from the US Food and Drug Administration ('FDA') relating to an inspection of our Portuguese facility in March 2014. We do not believe that the warning letter will impact the manufacturing or distribution of the products manufactured at this facility and we do not expect the remediation costs to be material. We have dedicated significant management time to addressing the issues raised by the FDA and we are working hard to bring the facility back into compliance as quickly as possible.

Injectables gross profit increased by 53% to $431 million, compared with $282 million in 2013. Gross margin increased significantly to 60.4%, compared with 52.6% in 2013. This reflects extremely strong sales from certain market opportunities in the US, a good performance from other higher value products and efficient management of manufacturing overhead.

Operating profit increased by 68% to $260 million. Adjusted operating profit increased by 60% to $265 million. Adjusted operating margin increased from 31.0% to 37.2%. This excellent margin improvement reflects the increase in gross margin and was achieved while making investments across the business, including a significant increase in R&D spend and the expansion of our US sales team.

During 2014, the Injectables business launched a total of 16 products across all markets, including six new compounds and eight new dosage forms and strengths. The Injectables business also received a total of 83 regulatory approvals across all regions and markets, namely 31 in MENA and 52 in Europe. We signed three new licensing agreements during 2014, adding innovative injectable products to our portfolio.

A key contributor to future growth for our Injectables business will be the acquisition of Bedford Laboratories ('Bedford'), which we acquired on 15 July 2014 for an upfront cash consideration of $225 million. The assets acquired include a portfolio of 82 products, a strong R&D and business development pipeline and a number of employees across key business functions, such as R&D and sales and marketing. We have begun the process of transferring an initial tranche of around 20 of Bedford's products to our global manufacturing facilities in the US, Germany and Portugal (all manufacturing at the Ben Venue site ceased in December 2013) and we will begin re-launching these products towards the end of 2015. In 2017, we expect to have all 20 of the products back on the market, generating revenue of around $150 million.

On 17 September 2014, we acquired the Ben Venue Laboratories ('Ben Venue') manufacturing facility in Bedford, Ohio. The Ben Venue site includes four manufacturing plants and a QDC with excellent capabilities. No incremental consideration was paid. We are using the QDC and Bedford's strong R&D team to expedite the transfer and reactivation of Bedford's products. The four manufacturing sites remain dormant, but we have begun the process of transferring equipment, including lyophilisers and filling lines, to our other global manufacturing facilities in the US and Europe to support our future growth plans.

Following the extremely strong performance in 2014, which included the benefit from a number of higher value products, we expect to maintain Injectables revenue at the same level in 2015. This will be supported by strong performances across our geographies and a continued benefit from specific market opportunities in the US. We expect a robust adjusted operating margin of around 35%, even after the slight dilution from Bedford R&D costs.

BUSINESS AND FINANCIAL REVIEW

# Generics

Strong underlying growth in legacy products and a decline, as expected, in revenue from specific market opportunities

| STRATEGIC PRIORITY | 2014 ACHIEVEMENTS | 2015 TARGETS |
|---|---|---|
| Maximising portfolio opportunities | ▸ Continued to benefit from specific market opportunities<br>▸ Re-introduced 21 legacy products to the US market | ▸ Re-introduce a further five legacy products<br>▸ Increase market share of existing portfolio<br>▸ Maximise the potential of new and recent launches |
| Strengthening and broadening our product portfolio | ▸ Submitted seven products for US FDA approval<br>▸ Received four approvals, including a New Drug Application ('NDA') for Mitigare™ (colchicine)<br>▸ Added employees to our office in India to support business development | ▸ Continue to add differentiated products to our pipeline<br>▸ Expand technological capabilities through partnerships |
| Maintaining high quality and efficient manufacturing facilities to maximise profitability | ▸ Returned Eatontown facility to full FDA compliance<br>▸ Strengthened operations, adding new hires in manufacturing and quality roles<br>▸ Leveraged US FDA approved facilities in MENA to supply the US market with around 39 products | ▸ Continue to optimise manufacturing flexibility by leveraging MENA facilities<br>▸ Reduce operating costs through increased productivity and efficiencies |
| Investing for growth | ▸ Invested in strengthening our business and operations to support future growth plans | ▸ Pursue product and company acquisition opportunities to expand our portfolio and pipeline and add new technological capabilities |
| Developing a highly skilled and effective workforce | ▸ Strengthened key business functions with a total of 49 new hires, including manufacturing, quality, regulatory and business development<br>▸ Hired intellectual property specialist to support our US legal team<br>▸ Funded 22 employees to obtain certifications in further education | ▸ Continue to develop our capabilities through the successful integration of new hires and continuous training |
| Ensuring sustainable long-term growth | ▸ Added to our portfolio and pipeline to support sustainable long-term growth | ▸ Actively develop product pipeline through increased investment in R&D, product acquisitions and third party partnerships<br>▸ Expand and strengthen the business through capital investments in R&D, packaging and manufacturing |

KPIs: HOW WE MEASURE OUR PERFORMANCE

GENERICS REVENUE ($ MILLION)

–19%

| | |
|---|---|
| 14 | 216 |
| 13 | 268 |

GENERICS ADJUSTED OPERATING MARGIN (%)[1]

–960bps

| | |
|---|---|
| 14 | 52.3 |
| 13 | 61.9 |

GENERICS MARKETED PRODUCTS

24 products

| | |
|---|---|
| 14 | 24 |
| 13 | 11 |

1 Before the amortisation of intangible assets (excluding software) and exceptional items

## Overview of the marketplace

Hikma's Generics business manufactures non-branded oral generic products for sale in the US market. The US represents the world's largest generic market and oral generics now account for around 84% of all retail prescriptions dispensed in the US.[1] According to IMS, the market for oral generic products in the US grew by 15% in 2014, reaching a total market value of $41 billion, and the number of oral generic prescriptions written grew by 4%. The growth in the generics market results from the greater availability of molecules in generic form as patents expire, along with patients choosing lower-cost options. The US generic pharmaceutical industry is very competitive and has experienced significant pricing pressure in recent years. Going forward, we expect that significant patent expiries and increased demand for cost-effective medicines will offset pricing pressures and drive future generic market growth.

## 2014 highlights:

- Generics revenue of $216 million
- Adjusted operating profit of $113 million, with an adjusted operating margin of 52.3%

Generics revenue was $216 million, compared to $268 million in 2013. The continued re-launch of legacy products during 2014 drove good growth in underlying sales. As expected, the specific market opportunities that contributed to the very strong performance in 2013 gradually declined over the course of the year due to increased competition.

Generics gross profit was $150 million, compared with $206 million in 2013, and gross margin was 69.4%, compared with 76.9% in 2013, reflecting the change in the mix of revenue. Operating profit was $113 million, compared with $127 million in 2013. On an adjusted basis, operating profit was $113 million, compared with $166 million in 2013, which excludes the adverse impact of remediation-related and other exceptional costs of $39 million in 2013. Adjusted operating margin was 52.3% in 2014, compared with 61.9% in 2013.

1 IMS Health, YTD December 2014

BUSINESS AND FINANCIAL REVIEW
*continued*

During 2014, the Generics business received a total of four product approvals. This included a New Drug Application ('NDA') for colchicine 0.6mg capsules, which was approved by the US FDA under Section 505(b)2 of the US Federal Food Drug and Cosmetic Act and launched in September 2014. Following this approval and our subsequent launch, Takeda Pharmaceuticals U.S.A., Inc. ('Takeda') filed a motion for a preliminary injunction and was granted a temporary restraining order restricting us from manufacturing and distributing the product while the court considered this motion. In November 2014, Takeda's motion was denied, but the restraining order remained in place pending their subsequent appeal, which was denied on 9 January 2015.[1] Immediately following the Court's decision in January, Hikma re-entered the market with its colchicine product marketed under the brand name Mitigare™, as well as an authorised generic of Mitigare™. At the same time, Prasco Laboratories launched an authorised generic of Takeda's colchicine product, Colcrys. While the litigation process severely disrupted our initial launch and sales plans, we expect demand for our colchicine products to increase gradually over the course of the year.

We currently expect the Generics business to deliver revenue of around $200 million in 2015, reflecting the continued decline in certain market opportunities, largely offset by a strong contribution from new product launches.

Takeda and Elliot Associates also filed a motion for summary judgement against the US FDA and Hikma, as intervener defendant, claiming that the FDA's approval of Mitigare™ without a Colcrys reference or related patent certifications violated the Administrative Procedure Act and that such approval was arbitrary and capricious. On 12 January 2015, these motions were denied by the US District Court and Takeda and Elliot filed for an appeal.

### 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 2014, compared with $7 million in 2013. These other businesses delivered an operating loss of $5 million in 2014, compared with a loss of $9 million in 2013.

"During 2014, the Generics business received a total of four product approvals. This included a New Drug Application for colchicine 0.6mg capsules."

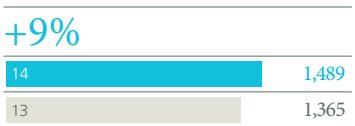
1 Takeda and Elliot Associates also filed a motion for summary judgement against the US FDA and Hikma, as intervener defendant, claiming that the FDA's approval of Mitigare™ without a Colcrys reference or related patent certifications violated the Administrative Procedure Act and that such approval was arbitrary and capricious. On 12 January 2015, these motions were denied by the US District Court and Takeda and Elliot filed for an appeal

BUSINESS AND FINANCIAL REVIEW

# Group performance

We continue to benefit from our diversified business model, combining our strength as a leading pharmaceutical company in MENA, our fast growing global Injectables business and our wider business in the US generics market

GROUP REVENUE ($ MILLION)




Group revenue increased by 9% to $1,489 million in 2014. Group gross profit increased by 11% to $851 million, compared with $764 million in 2013. Group gross margin was 57.2%, compared with 56.0%, reflecting strong margins in our Injectables and Generics businesses.

Group operating expenses grew by 9% to $449 million, compared with $412 million in 2013. Excluding the amortisation of intangible assets (excluding software) and exceptional items,[1] Group operating expenses grew by 21% to $424 million. The paragraphs below address the Group's main operating expenses in turn.

Sales and marketing expenses were $171 million, or 11% of revenue, compared with $160 million and 12% of revenue in 2013. The growth in sales and marketing costs primarily reflects continued investment in our sales teams and promotional activities in MENA and the expansion of our sales team in the US through the Bedford acquisition.

General and administrative expenses increased by $34 million to $185 million in 2014. Excluding exceptional items, these expenses increased by $24 million, or 16%, to $174 million and represented 12% of revenue in 2014, in line with 2013. The increase in expenses is principally due to investments we have made to strengthen key business functions in the US, increased doubtful debt provisions for disrupted markets in MENA and higher consultancy and legal fees across the Group.

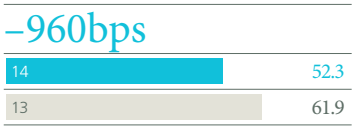
Group R&D expenditure was $55 million in 2014, compared with $39 million in 2013, reflecting a continued focus on developing a strong product pipeline across our businesses. Part of the increase relates to the cost of transferring Bedford products to our manufacturing facilities. These costs will be ongoing as we transfer additional products over the next two years. We invested a further $24 million in product acquisitions and partnership agreements. This has been capitalised on the balance sheet. Through the Bedford acquisition, we acquired a further $123 million of product-related intangible assets, which have also been capitalised on the balance sheet. Total R&D and product-related investments, including the Bedford intangibles, represented 14% of Group revenue in 2014.

Other net operating expenses reduced by $24 million to $38 million. Excluding exceptional items, these expenses increased by $13 million, primarily reflecting an increase in foreign exchange losses related to the Euro, the Algerian Dinar and the Sudanese Pound and an increase in slow-moving inventory provisions.

Operating profit for the Group increased by 14% to $402 million in 2014. Group operating margin increased to 27.0%, compared with 25.8% in 2013. On an adjusted basis, Group operating profit increased by $14 million, or 3%, to $427 million and operating margin was 28.7% compared with 30.3% in 2013.

1 In 2014, amortisation of intangible assets (excluding software) was $14 million (2013: $15 million). In 2014, exceptional items included within operating expenses were $11 million (2013: $46 million) and related to the Bedford acquisition

GROUP ADJUSTED OPERATING MARGIN (%)[1]




1 Before the amortisation of intangible assets (excluding software) and exceptional items

## Research and development[2]

The Group's product portfolio continues to grow as a result of our product development efforts. During 2014, we launched 11 new compounds. The Group's portfolio now stands at 582 compounds in 1,672 dosage forms and strengths.[3] We manufacture and/or sell 78 of these compounds under licence from the licensor.

Across all businesses and markets, a total of 75 products were launched during 2014. In addition, the Group received 263 approvals.

To ensure the continuous development of our product pipeline, we submitted 417 regulatory filings in 2014 across all regions and markets. As of 31 December 2014, we had a total of 912 pending approvals across all regions and markets. At 31 December 2014, we had a total of 198 new products under development.

## Share of results of associated companies

In 2014, we recognised a loss from associated companies of $6 million, which primarily relates to our minority interest in Unimark Remedies Limited ('Unimark'). During the year, we received our first approval for a product developed by Unimark for our US Generics business. We will continue to leverage this relationship to support our future pipeline development.

## Net finance expense

Net finance expense was $34 million, broadly in line with $35 million in 2013. In 2015, we expect a net finance expense of around $40 million, reflecting the annualisation of the cost of financing the Bedford acquisition completed in July 2014 and expected debt restructuring costs.

## Profit before tax

Profit before tax for the Group increased by 21% to $362 million, compared with $298 million in 2013. Adjusted profit before tax increased by 3% to $387 million.

## Summary P&L

| $ million | **2014** | 2013 | Change |
|---|---|---|---|
| **Revenue** | **1,489** | 1,365 | +9% |
| **Gross profit** | **851** | 764 | +11% |
| Gross margin | *57.2%* | *56.0%* | *+1.2* |
| **Operating profit** | **402** | 352 | +14% |
| **Adjusted operating profit[4]** | **427** | 413 | +3% |
| Adjusted operating margin[4] | *28.7%* | *30.3%* | *–1.6* |
| **EBITDA[5]** | **474** | 427 | +11% |
| **Adjusted EBITDA[4,5]** | **485** | 463 | +5% |
| **Profit attributable to shareholders** | **278** | 212 | +31% |
| **Adjusted profit attributable to shareholders[4]** | **299** | 274 | +9% |
| Adjusted profit attributable to shareholders margin[4] | *20.1%* | *20.1%* | – |
| **Basic earnings per share (cents)** | **140.4** | 107.6 | +30% |
| **Adjusted basic earnings per share (cents)[4]** | **151.0** | 139.1 | +9% |
| **Dividend per share (cents)** | **22.0** | 20.0 | +10% |
| **Special dividend per share (cents)** | **10.0** | 7.0 | +43% |
| **Total dividend per share (cents)** | **32.0** | 27.0 | +19% |
| **Net cash flow from operating activities** | **425** | 337 | +26% |

2 Products are defined as pharmaceutical compounds sold by the Group. New compounds are defined as pharmaceutical compounds being introduced for the first time during the period and existing compounds being introduced into a new segment

3 Totals include 71 dermatological and cosmetic compounds in 282 dosage forms and strengths that are only sold in Morocco

4 Before the amortisation of intangible assets (excluding software) and exceptional items, as set out in Note 5 to the consolidated financial statements

5 Earnings before interest, tax, depreciation and amortisation. EBITDA is stated before impairment charges and share of results from associated companies

BUSINESS AND FINANCIAL REVIEW
*continued*

## Hikma's product portfolio and pipeline

| | Total marketed products | | | | Products launched in 2014 | Products approved in 2014 | Products pending approval as at 31 December 2014 |
|---|---|---|---|---|---|---|---|
| | Compounds | Dosage forms and strengths | New compounds | New dosage forms and strengths | Total launches across all countries[2] | Total approvals across all countries[2] | Total pending approvals across all countries[2] |
| Branded | 376[1] | 1,123[1] | 5 | 8 | 59 | 176 | 426 |
| Injectables | 182 | 483 | 6 | 8 | 16 | 83 | 427 |
| Generics | 24 | 66 | – | – | – | 4 | 59 |
| **Group** | **582** | **1,672** | **11** | **16** | **75** | **263** | **912** |

1 Totals include 71 dermatological and cosmetic compounds in 282 dosage forms and strengths that are only sold in Morocco

2 Totals include all compounds and formulations that are either launched or approved or pending approval across all markets, as relevant

### Tax

The Group incurred a tax expense of $80 million, compared with $82 million in 2013. The effective tax rate was 22%, compared with 28% in 2013. The reduction in the effective tax rate reflects increased profitability in jurisdictions that have a lower tax rate. In 2015, we expect the effective tax rate to be between 21% and 23%.

### Profit attributable to shareholders

The Group's profit attributable to shareholders increased by 31% to $278 million in 2014. Adjusted profit attributable to shareholders increased by 9% to $299 million.

### Earnings per share

Basic earnings per share increased by 30% to 140.4 cents, compared with 107.6 cents in 2013. Diluted earnings per share increased by 30% to 139.0 cents, compared with 107.1 cents in 2013. Adjusted diluted earnings per share was 149.5 cents, an increase of 8% over 2013.

### Dividend

The Board of Directors of Hikma ('Board') has recommended a final dividend of 15.0 cents per share (approximately 9.9 pence per share) for 2014, which brings the dividend for the full year to 22.0 cents per share (approximately 14.6 pence per share), an increase of 10% compared with 2013. In addition, the Board has recommended a special final dividend of 6.0 cents per share (approximately 4.0 pence per share), which brings the full year special dividend to 10.0 cents per share (approximately 6.6 pence per share).

The combined total dividend for the year is 32.0 cents per share (approximately 21.2 pence per share). This distribution to shareholders comes after the allocation of capital to debt repayment and capital expenditure.

The proposed final dividend and final special dividend will be paid on 21 May 2015 to eligible shareholders on the register of Hikma at the close of business on 17 April 2015, subject to approval by shareholders at Hikma's Annual General Meeting. The ex-dividend date is 16 April 2015 and the final date for currency elections is 8 May 2015.

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

The Group generated operating cash flow of $425 million in 2014, up $88 million from $337 million in 2013. This strong improvement in operating cash flow reflects the significant increase in profitability. Working capital days decreased by 21 days from 198 days in 2013 to 177 days in 2014, reflecting strong cash collection and inventory management.

Capital expenditure was $91 million, compared with $59 million in 2013. Of this, $60 million was spent in MENA to upgrade and maintain our equipment and facilities across a number of markets. The remaining $31 million was spent in the US and Europe, primarily to expand our Injectables manufacturing capacity, including the installation of a pre-filled syringe line. In 2015, we expect capital expenditure to be around $100 million to $115 million.

In July 2014, we completed the acquisition of Bedford. The upfront cash consideration of $225 million was financed through a new debt facility. While this increased the Group's total debt, the Group's overall net debt position of $274 million at 31 December 2014 was broadly in line with the position of $267 million at 31 December 2013, reflecting strong cash flow generation in 2014.

### Balance sheet

During the period, shareholder equity was negatively impacted by an unrealised foreign exchange translation loss of $52 million, primarily reflecting movements in the Euro, the Algerian Dinar and the Sudanese Pound against the US Dollar and the translation of net assets denominated in these currencies.

### Summary and outlook

The Group delivered an excellent overall performance in 2014, with a 9% increase in revenue and a 30% increase in basic earnings per share. We have made a good start to 2015 and we are expecting Group revenue growth of around 6% for the full year on a constant currency basis.

Adverse movements in exchange rates against the US dollar since the beginning of 2015 could reduce reported Group revenue by 3%, or $45 million, if the current exchange rates prevail.

In 2015, the Branded business, on a constant currency basis, is expected to deliver revenue growth in the low-teens, driven by continued strong growth in the underlying markets, our focus on strategic products, improved sales in Algeria and the strength of our sales and marketing teams. Adjusted operating margin is expected to improve by around 200 basis points, driven by revenue growth and continuous improvements in operational efficiency. Taking into account exchange rate movements since the beginning of 2015, and assuming these rates prevail, we would expect reported Branded revenue growth in the high single digits and a slight improvement in adjusted operating margin.

Following the extremely strong performance in 2014, which included the benefit from a number of higher value products, we expect to maintain Injectables revenue at the same level in 2015. This will be supported by strong performances across our geographies and a continued benefit from specific market opportunities in the US.

We expect a robust adjusted operating margin of around 35%, even after slight dilution from Bedford R&D costs.

We currently expect the Generics business to deliver revenue of around $200 million in 2015, reflecting the continued decline in certain market opportunities, partially offset by a strong contribution from new product launches. We are continuing to develop our Generics product portfolio through the re-introduction of products, investing in our R&D pipeline and targeted M&A.

We have a very strong balance sheet, which gives us the financial capacity to pursue acquisition opportunities across our businesses. In 2015, our focus will remain on strengthening our product portfolio and pipeline, building our manufacturing and product development capabilities, enhancing our sales and marketing activities and expanding our geographic footprint. These investments will ensure we continue our strong track record of growth and give us confidence in the outlook for the medium-term.

BUSINESS AND FINANCIAL REVIEW

# Principal risks and uncertainties

The Group's business faces risks and uncertainties that could have a significant effect on its financial condition, results of operations or future performance and could cause actual results to differ materially from expected and historical results. The Board has resolved that the principal risks and uncertainties facing the Group are:

| RISK | DESCRIPTION | MITIGATION AND CONTROL |
|---|---|---|
| Manufacturing quality | ▶ Situations resulting in poor manufacturing quality of products have the potential to lead to:<br>– Harm to end users resulting in liability and reputational issues<br>– Regulatory action that could result in the closure of facilities and consequential loss of opportunity and potential failure to supply obligations<br>– Delayed or denied approvals for new products<br>– Product recalls | ▶ Global quality programme which leads the manufacturing processes in all sites<br>▶ The 11 US FDA approved facilities are regularly assessed by the regulator<br>▶ Documented procedures are continuously improved and staff receive training on those procedures on a regular basis<br>▶ Global quality issues team with extensive experience of implementing corrective action when issues arise<br>▶ Global product liability insurance and crisis management team |
| API sourcing | ▶ API and raw materials represent one of the Group's largest cost components<br>▶ 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<br>▶ There is a risk that it will not be possible to secure or maintain adequate levels of API supplies in the future<br>▶ Regulatory approval of a new supplier can be lengthy and supplies may be disrupted if the Group is forced to replace a supplier which failed to meet applicable regulatory standards or terminated its arrangements with the Group | ▶ Maintaining alternative API suppliers for each of the Group's products, where possible<br>▶ API suppliers are carefully selected and the Group endeavours to build long-term partnerships with exclusive supply<br>▶ The Group has a dedicated plant in Jordan which can synthesise API, where appropriate |
| Political and social | ▶ Hikma operates in MENA and emerging markets which have historically higher levels of political and social instability which can result in an inability to conduct business in those markets for a substantial period of time | ▶ Geographic diversity reduces the impact of issues arising in one jurisdiction<br>▶ Extensive experience of operating in these environments and developing opportunities from change<br>▶ Contingency plans in place to transfer manufacture if key sites are affected |
| Product concentration | ▶ A significant proportion of Group profits derive from a relatively small portfolio of higher margin products<br>▶ Prices of these products are subject to market and regulatory forces, which are often difficult to predict<br>▶ Prices can change suddenly, which could lead to significant fluctuations in profitability and uncertainty about the level of rebates to suppliers | ▶ Internal marketing and business development departments monitor and assess the market for arising opportunities<br>▶ Expansive product portfolio<br>▶ Experienced internal regulatory teams developing products and overseeing joint venture activities<br>▶ Product-related acquisitions (e.g. Bedford Laboratories in 2014)<br>▶ Third party pharmaceutical product specialists are assisting in the development of manufacturing processes for new generic products where the patent has recently expired |

| RISK | DESCRIPTION | MITIGATION AND CONTROL |
|---|---|---|
| Acquisitions | ▶ The Group's strategy is to pursue value-adding acquisitions to expand the product portfolio, acquire manufacturing capabilities and expand in existing and emerging markets. There is risk of misjudging key elements of an acquisition or failing to integrate the assets, particularly where they are distressed<br>▶ An acquisition of a large-scale target may entail financing-related risks and operating expenses and significantly increase the Group's leverage if financed with debt | ▶ The mergers and acquisitions team undertake extensive due diligence of each acquisition, including legal, financial and compliance<br>▶ The Executive Committee reviews and tests major acquisitions before they are considered by the Board<br>▶ The Board is willing and has demonstrated its ability to refuse acquisitions where it considers the price is too high<br>▶ Dedicated integration project teams are assigned for the acquisition, which are led by the business head responsible for proposing the opportunity<br>▶ Following the acquisition of a target, the finance team, the management team and the Audit Committee closely monitor its financial and non-financial performance<br>▶ A variety of funding options are available to the Group to finance acquisitions |
| Conduct | ▶ The pharmaceutical industry and certain MENA markets are considered to be higher risk in relation to sales practices. Improper conduct by employees could seriously damage the reputation and licence to do business | ▶ Code of Conduct approved by the Board, translated into seven languages and signed by all employees<br>▶ ABC compliance programme monitored by the Compliance, Responsibility and Ethics Committee<br>▶ 2,200 employees received ABC compliance training in 2014 |
| Financial | ▶ The Group is exposed to a variety of financial risks similar to most major international manufacturers such as liquidity, exchange rates, tax uncertainty and debtor default | ▶ Extensive financial control procedures have been implemented and are assessed annually as part of the internal audit programme<br>▶ A network of banking partners is maintained for lending and deposits<br>▶ Management monitors debtor payments and takes action where necessary<br>▶ Expert external advice is procured to test and enhance processes and ensure compliance<br>▶ Where it is economic and possible to do so, the Group hedges its exchange rate and interest rate exposure |

SUSTAINABILITY

# Our approach to sustainability

Using a materiality assessment, we have identified the topics and key initiatives that are of most importance and relevance to the long-term sustainability of our business model, summarised in the matrix below

## WHAT IS IMPORTANT TO THE LONG-TERM SUSTAINABILITY OF HIKMA'S BUSINESS MODEL?

### OUR APPROACH

As a pharmaceutical company, our primary objective is to provide patients with high quality, affordable medicines tailored to their needs. We aim to do this in a sustainable way, by working to ensure our products deliver the maximum benefit to patients in as many markets as possible, while managing the impact of our operations. At the same time, we are continuously preparing for the future so that we can strengthen and grow our business to create shareholder value while operating in the best interests of our other stakeholders.[1]

We have used a risk assessment to identify and prioritise the sustainability issues that are of the greatest significance to our business and that are of most importance and relevance to our stakeholders. This process identified the following areas of focus: addressing patients' needs, managing the impact of our operations in all markets, promoting good business ethics, supporting our local communities and minimising our environmental impact.

This sustainability report focuses on these key areas and does not provide information on other sustainability initiatives we have undertaken across the Group. Additional information is provided on our website.

The matrix opposite provides a summary of the focus areas and examples of key initiatives that are covered within this report.

## 2014 HIGHLIGHTS

| | WHAT WE'VE BEEN DOING |
|---|---|
| **PATIENTS** | |
| TREATING MAJOR HEALTH ISSUES | ► Continued to address chronic diseases, such as heart disease, cancer and diabetes<br>► Maintained secure supply of critical medicines to patients in areas of strife in the MENA |
| DELIVERING HIGH QUALITY, AFFORDABLE PRODUCTS | ► Launched 75 products across all our markets<br>► Received a total of 263 approvals |
| ENHANCING DOCTOR AND PATIENT AWARENESS AND EDUCATION | ► Organised medical workshops for neuroscience, cancer, organ transplant, cardiovascular and diabetes<br>► Arranged awareness campaigns across different therapeutic areas to raise awareness and help improve the health of our patients |
| **ECONOMIC** | |
| BROADENING OUR ECONOMIC CONTRIBUTION | ► Strengthened our Injectables business through the acquisition of the Bedford and Ben Venue assets |
| **ETHICS** | |
| PROMOTING GOOD BUSINESS ETHICS | ► Ensured strong ethical practices across the Group<br>► Management completed anti-bribery and anti-corruption training |
| **PEOPLE AND COMMUNITIES** | |
| SUPPORTING PEOPLE AND COMMUNITIES | ► Awarded the 'Smoke-free Zone Certificate'<br>► Addressed various community needs across our geographies through employee participation in the Hikma Volunteering Campaigns |
| **ENVIRONMENT** | |
| MINIMISING OUR ENVIRONMENTAL IMPACT | ► Used our global sustainability software to streamline our reporting<br>► Received recognition for implementing Environmental Stewardship Initiatives at West-Ward Pharmaceuticals in the US |

1 Includes Hikma's employees, customers, suppliers and shareholders

# Treating major health issues

## Why this is important

The global pharmaceutical market continues to grow, driven by strong patient demand for medicines to treat major health issues. The sustainability of our business model depends on our ability to meet the needs of doctors and patients, adapting our portfolio and capabilities to address their changing requirements over time. We achieve this through continuous investment in the development of a relevant product portfolio for each of our markets, providing both innovative products under licence and high quality, affordable generic alternatives across a broad range of therapeutic categories. Our focus on maintaining a secure supply of products in markets where demand is highest, will enable us to deliver sustainable long-term growth across our businesses.

## What we're doing

As the global population ages and lifestyles are changing, we are seeing a higher incidence of chronic and non-communicable diseases ('NCDs'). We are continuing to address the demand for treatment for conditions such as diabetes and cardiovascular disease, through new product launches and patient activities.

In 2014, we successfully launched Superstat® (rosuvastatin) and Torvast® 80mg (atorvastatin) in Tunisa and Algeria respectively, in line with our strategy to enrich our cardiovascular portfolio with leading treatments.

Hikma celebrated World Heart Day ('WHD') by organising activities focusing on the 2014 WHD global theme of creating healthy-heart environments. A number of our employees participated in a cycling event 'Cycling Towards a Healthier Heart' to generate awareness for a heart-healthy lifestyle and we distributed heart-healthy gifts to doctors and employees. We also raised awareness for World Diabetes Day through the distribution of vouchers to obtain free blood tests and by providing health advice from various credible sources.

Cancer is a major health issue worldwide and it is becoming increasingly prevalent across all of our markets. We continue to develop our global portfolio of high quality, affordable oncology products to increase patients' access to these critical medicines. As part of our focus on raising doctors' awareness and confidence in the quality and effectiveness of our oncology products, we undertook a clinical research programme in 2014 for our product Cemivil® (imatinib), completing the interim data analysis and study report. Eighty-seven patients were recruited and followed up for one full year from three haematology sites in Jordan. The study provides evidence to the medical community on the effectiveness and safety of our generic product, Imatinib. We are planning to publish the study results in 2015 and to conduct similar studies in other MENA countries.

The continued growth of our global Injectables business is helping us to address the growing needs of hospitalised patients and we made significant advancements in 2014. In the US, the acquisition of Bedford significantly enhances our R&D capabilities in generic injectable products and will accelerate our ability to develop a strong portfolio and pipeline. While our short-term focus is on making the Bedford products available to patients in the US, we plan to take these products to our MENA markets over time. In the MENA, we have recently restructured the way we manage the business and we have increased the resource we are dedicating to injectables in terms of sales and marketing and other business functions. This will position us to drive stronger future growth.

STRATEGIC PRIORITY

### SUPPORTING LEUKAEMIA AND LYMPHOMA IN THE US

We partnered with the Leukaemia and Lymphoma Society ('LLS') in New Jersey, US to raise funds and generate awareness for LLS' work with cancer patients. Our employees participated in weekly fundraising events which were followed by Light the Night Walks, joined by hundreds of other enthusiasts walking to support the society's achievements

STRATEGIC PRIORITY

### MAINTAINING SECURE SUPPLY OF CRITICAL MEDICINES THROUGH DONATIONS TO GAZA

Hikma made substantial donations of medicines to the people who are suffering in the Gaza Strip. Hikma collaborated with the Jordan Hashemite Charity Organisation and with the United Nations Relief and Works Agency for Palestine Refugees in the Near East ('UNRWA') to supply critical medicines including antibiotics and treatments for patients suffering from diabetes and hypertension

Secure supply of medications is essential for our patients. In 2014, we continued to address product shortages in areas facing conflict by donating antibiotics, immunosuppressants, cardiovascular products and other medicines to patients in markets such as Gaza, Syria, Libya and Algeria. We worked with reliable non-governmental organisations ('NGOs') to ensure a secure delivery.

In 2014, we started utilising new mediums to enhance our support for patients, such as social media and apps for mobile devices. Our recently developed 'Hikma Health' smartphone app offers helpful tools to enable patients to improve their adherence to medicines. We also supplemented our annual health campaigns, such as the obesity, diabetes and cardiovascular programmes, with social media awareness events, enabling health information to reach a global audience.

# Delivering high quality, affordable products

### Why this is important

The challenge for governments and other customers across our global markets is how to meet the ever-increasing demand for healthcare with limited resources, particularly as populations are ageing and a growing number of patients require hospital care. Our aim is to offer customers a cost-effective solution to healthcare provision by developing a broad portfolio of high quality and affordable products. This is particularly relevant in developing markets, including the MENA region and sub-Saharan Africa, where healthcare spend per capita is significantly lower than more developed markets and generic penetration is limited.

### What we're doing

In 2014, we increased our investment in R&D across the Group to support the continuous development of our pipeline and broaden our product offering to patients. Across our markets, we are successfully driving new product launches, adding new dosage forms and strengths, expanding into new therapeutic categories and developing new delivery systems. Our focused investment is enabling us to offer a greater number of products to patients.

As a provider of generic products, we are facilitating greater healthcare coverage through more affordable access to medicines. Particularly in MENA, we aim to focus our pipeline on the newer, fastest growing therapeutic categories and to accelerate the speed at which patients can access new treatments by targeting to launch the first or second generic on the market.

In the US in 2014, we provided around 13% of the total volume of generic injectable pharmaceutical products sold in the market. Our broad and growing portfolio of critical care injectable products is helping us to address the rapidly increasing demand for hospital products at more affordable prices than originator products. This is helping providers to reduce the cost of healthcare and is facilitating an increase in patient coverage. Following our acquisition of Bedford's product portfolio in 2014, we have begun the process of transferring those products to our facilities so that we can begin re-launching them to the market. We expect to have an initial tranche of 20 of the Bedford products back on the US market by 2017. By re-introducing the products, we are helping to address critical supply shortages in the US market.

STRATEGIC PRIORITY

## INCREASING PATIENT ACCESS

We aim to be the first to bring a more affordable version of innovative products to the market. In Algeria in 2014, we launched two central nervous system products, Arini® (aripiprazole) and Gabatrex® (gabapentin), which were the first generics on that market. In Egypt, we launched Durjoy® (dapoxetine), a selective serotonin reuptake inhibitor, and first generic. This demonstrates our ability to help improve patient access to new treatments and increase healthcare coverage at more affordable prices

STRATEGIC PRIORITY

## FOCUSING ON DOCTOR AND PATIENT SAFETY

In 2013, we signed a long-term supply agreement with Unilife to bring differentiated, advanced technology pre-filled syringes to the market. These products have been designed to greatly enhance the safety of both doctors and patients in the delivery of drugs. In 2014, we submitted our first product in a pre-filled syringe to the US FDA for approval and we have identified a total of 20 products to be manufactured in this form

It is critical to the safety of our patients that we operate high quality manufacturing facilities and can maintain secure supply of our products. We continuously invest in the maintenance of our facilities to ensure compliance with the appropriate regulatory standards. Our plants are subject to regular inspections by regional regulatory authorities (including the US FDA for a number of our global facilities), our licensing partners and our contract manufacturing customers. The emphasis we place on quality ensures we invest in the long-term sustainability of our businesses.

# Enhancing patient and doctor awareness and education

### Why this is important

Providing holistic treatment for our patients is a key component of the way we do business. In the communities where we operate, we focus on raising public awareness of critical health issues and helping people to improve their lives by making healthy choices. In the MENA region, our sales representatives provide an important source of information for doctors, making them aware of new advancements in research and diagnosis to improve treatment. Our mission to improve lives depends on sharing knowledge and promoting healthy practices to improve the treatment and care available to our patients.

### What we're doing

This year, we continued to organise education programmes for doctors. These included a number of events for top physicians in critical therapeutic categories such as diabetes, cardiovascular disease, central nervous system conditions and transplant surgery.

As part of this programme, we held a Hikma Oriented Psychiatric Education ('HOPE') workshop in 2014 to support doctors in addressing the high level of unmet needs in neurological and psychiatric care. The meeting was accredited by the European bipolar forum, bringing together around 125 psychiatrists in Istanbul, Turkey to be taught by notable international speakers and discuss new findings in neuroscience.

In 2014, we held a Hikma Cardiovascular Forum in Portugal. Cardiologists were provided with new information and perspectives on effective strategies to help patients reach their treatment goals. The scientific programme was endorsed by the Jordanian Cardiac Society, the Saudi Heart Association and the Egyptian Society of Cardiology. Also in Portugal, more than 100 Ear, Nose and Throat ('ENT') specialists and pulmonologists attended the CURE symposium held by Hikma, which focused on new findings in the field of anti-infectives.

In 2014, we sponsored key doctors from the MENA region to participate in the European Association for the Study of Diabetes ('EASD') congress that was held in Vienna, Austria. The EASD is the world's leading international forum for diabetes research, not only for individual scientists but also for the pharmaceutical industry worldwide.

We care for our cancer patients' needs and work with NGOs to improve cancer care and critical knowledge. In the US, we co-operated with the Susan Komen Foundation which we have a long-standing relationship with. This year, our employees participated in the Race for the Cure Campaign.

The sustainability of our business relies upon an open dialogue with our stakeholders to achieve shared knowledge and education. We continuously work on advancing the efficacy and safety of our products. In 2014, Hikma signed a service agreement with PrimeVigilance, a leading international company that provides pharmacovigilance and medical information services. In June, our Global Pharmacovigilance System went live, marking the beginning of a new phase in the way we manage safety information and case reports from patients and doctors.

STRATEGIC PRIORITY

## RAISING DIABETES AWARENESS

In recognition of World Diabetes Day, we conducted a series of health activities to benefit our people, doctors and communities. Internally, we educated our people with health advice to lead more active and healthy lifestyles. Our different businesses participated in various ways; for example, in Morocco, we provided continuous medical education for endocrinologists by organising a diabetes forum, bringing together diabetologists from all the MENA countries. The forum was sponsored by the Jordan Society of Endocrinologists, the American Association of Clinical Endocrinologists (Gulf chapter) and the Arabic diabetes forum. In Jordan, we also offered free public screening to serve the local community

STRATEGIC PRIORITY

## SUPPORTING IMPROVED TRANSPLANT OUTCOMES

Our focus on working more closely with transplant surgeons across our markets is increasing, fuelled by the higher demand in Syria, Libya and other countries in MENA. In 2014, we organised group meetings for surgeons in Egypt and Algeria to discuss the optimisation of transplant treatments. In Saudi Arabia, we addressed the risk of non-adherence of immunosuppressant regimens to transplant patients. We also sponsored a kidney transplant workshop and symposium in Sudan. A clinical study began for Myora® (mycophenolate mofetil), an immunosuppressant used for renal transplants. The study was funded by Hikma based on a request from the Jordan Food and Drug Administration as part of the Myora risk management plan to assess the safety and efficacy of the product, covering 25 patients from two hospitals over a one-year period

# Broadening our economic contribution

### Why this is important

Hikma's business model of developing strong local businesses in each of our markets ensures that we bring significant economic benefits to the countries in which we operate. The investments we make to recruit and train a skilled local workforce, build local manufacturing facilities and transfer technology and knowledge between our different geographies help to grow successful local businesses, while at the same time contributing to the sustainable growth of the local pharmaceutical markets and economies where we operate.

### What we're doing

Within Hikma, we believe that our employees are our most important and valuable asset. Hikma now employs around 7,250 people in over 45 countries. Across the Group, we continuously invest in our employee benefits, including providing quality healthcare, supporting personal growth through training, and consistent reviews of remuneration packages and salaries. In 2014, we spent around $338 million on salaries and employee benefits across our businesses.

We ensure that we enhance the skills and capabilities of all our employees through training and we are also continuously identifying and developing future managers across our businesses. In 2014, we continued with our middle management training programme in co-operation with the American University of Beirut ('AUB'). The programme focused on various topics such as strategic thinking, change and innovation management, developing and empowering people, decision making and leadership. Additionally, Hikma organised a mass training programme for its managers in Jordan on Efficient Meetings Training, which addressed crucial steps in planning and conducting business meetings. As part of this initiative, we established a Global Management Committee in 2014, comprising senior managers from across our three businesses and key corporate functions. The GMC will support the Executive Committee in implementing and monitoring the Group's strategic plan.

In 2014, we continued to invest in maintaining, upgrading and expanding our facilities to support future growth. We invested a total of $91 million across our multiple locations. This investment is strengthening our businesses, improving the quality of our products and ensuring that our facilities are capable of meeting the growth in demand for our products. In MENA, the key investment projects were in Sudan and Egypt. In Sudan, we invested $7 million in 2014 to upgrade the local facility we purchased in 2011 to be compliant with current Good Manufacturing Practices ('cGMP'). Once completed, this plant will significantly increase the number of products we are able to supply to the Sudanese market and will enable us to export to our other markets in the region. In Egypt, we completed the build of a state-of-the-art finished product warehouse which can accommodate 3,200 pallets and completed the renovation of the packaging area. These investments will increase the annual production output of our Egyptian plant.

Since entering the field of oncology, Hikma has invested more than $50 million in developing capabilities for the manufacturing of oncology products. These investments include the acquisition of Thymoorgan in Germany, the joint venture with Haosun in China and the recent establishment of the new oncology chemicals plant in Jordan. This plant has been designed and built to meet local and international regulatory requirements and operates under strict safety regulations.

We have strengthened our global footprint in the Injectables business with the recent installation of the pre-filled syringe line in the US, thus offering patients access to more innovative products. In 2014, we completed the acquisition of Bedford and the Ben Venue manufacturing facility. The Ben Venue site has a state-of-the-art QDC which will significantly strengthen our existing R&D capabilities and support the development of a strong product pipeline.

# Promoting good business ethics

### Why this is important

Since Hikma's inception, it has been embedded in our culture to promote good business ethics across our businesses and geographies. We believe that a solid reputation for ethical values such as integrity and honesty in how we conduct our business are vital to our company's reputation and success. Hikma has a zero tolerance policy for bribery and corruption and does not conduct business with any company that fails to meet its standards.

### What we're doing

Our Code of Conduct was reviewed, updated and approved for 2014. The Code has now been translated into seven languages to support Hikma's broad operating footprint: Arabic, English, French, German, Portuguese, Russian and Slovakian.

In 2014, we renewed our membership of the United Nations Global Compact ('UNGC') for the seventh consecutive year. This required Hikma to demonstrate that its strategies and operations continue to be aligned with the ten principles of the UNGC across four key ethical areas, in all of our locations. This year we focused on raising internal awareness and further educating employees about the importance of human rights, labour laws, the environment and anti-corruption.

Across the Group this year, we placed a strong emphasis on increasing awareness of our employees' rights by educating them on the available policies and schemes associated with potential claims and benefits. Several labour unions were established and developed across the Group's geographies, enhancing communication channels between these unions and employees to ensure transparency and fairness.


STRATEGIC PRIORITY

## INVESTING IN CONTINUOUS EXPANSION ACROSS OUR GLOBAL MARKETS

In 2014, we invested around $91 million of capital expenditure across our global markets. Our continuous investment to maintain, expand and upgrade our manufacturing plants across the MENA, Europe and US will support sustainable long-term growth and benefit the markets in which we are located. By expanding our geographic reach we are providing access to affordable medicines for a greater number of patients

Over the past few years, Hikma has operated a web-based compliance reporting system called 'Speak-Up' through which employees can voice their concerns in a confidential manner. Hikma has an open door policy in regards to communication with its employees and when employees are seeking a more discrete or anonymous method of reporting, they can use the Speak-Up system.

Hikma has previously installed anonymous reporting platforms across the US and European operations, and in 2014 Hikma introduced a web-reporting system for the MENA region. All Speak-Up reports are received by the compliance team, the VP of Corporate HR as well as the General Counsel.

### Hikma's corporate values

- Integrity: acting honestly and truthfully
- Drive for Excellence: achieving the highest standards
- Respect: recognising differences, needs and expectations
- Transparency: being accountable and open
- Quality: maintaining best-in-class manufacturing standards

### Anti-bribery and anti-corruption training

In 2014, all managers in all Hikma locations underwent face-to-face roll-out training sessions on compliance and conduct, with over 600 managers receiving the training. After completing the training courses, the managers in turn trained their teams and support staff, with over 1,600 employees receiving the training from their managers. The Sales and Marketing session covered the policy for gifts, hospitality and entertainment as well as interaction with healthcare professionals ('HCPs'). The training sessions covered the following:

- Code of Conduct
- Compliance Overview
- Sales and Marketing Policy
- Speak-Up
- Conflict of Interest

# Supporting people and communities

## Why this is important

Our focus at Hikma is on improving lives, not just through the products we sell, but by investing in our people and by advancing and building communities through developing and investing in the healthcare sectors across our global markets. We support our global team of around 7,250 employees and their families and seek to instil in them a spirit of responsibility and altruism to benefit their communities. We also work directly with organisations in the communities where we are located through corporate responsibility events and medical donations, with a focus on initiatives related to education and welfare. A positive and healthy relationship between our people and our communities results in a synergy that ensures the sustainability of our business.

## What we're doing

Over the years, Hikma has found that raising community awareness about health issues has had a significant impact. From 2013 through to 2015, Hikma committed to supporting the Jordanian Royal Health Society ('RHAS') through establishing Healthy Community Clinics in two comprehensive health centres in Jordan to provide medical attention and promote preventative measures to patients suffering from chronic diseases. The patients are offered a special diet, physical activity training and awareness sessions on related diseases, alongside continuous follow-up on the progression of their treatment programme.

Hikma believes in the promotion of education across the region as a key sustainability priority. Across our businesses we work closely with local schools and universities and we offer internship placements in a number of our markets. In 2014, we provided internship roles for students across a number of our businesses, including Jordan, the UK and Germany, enabling these individuals to gain practical and relevant experience for their future career goals. We regularly partner with entities that invest in educating young people across the globe and in 2014 we supported a pan-Arab initiative to offer a not-for-profit platform for massive open online courses ('MOOCs') from Harvard, MIT and UC Berkeley. Hikma's support for such initiatives will help to ensure that the Arab world is at the forefront of educational innovation.

To encourage our people to be active members of their communities and to instil the spirit of volunteerism, Hikma held its annual global volunteering day across the Group in 2014. The activities varied across our global markets. For example, in Jordan, we partnered in an 'Earth Hour' campaign to raise awareness for climate change alongside participants in over 150 countries. Employees also volunteered in the preparation and distribution of food packages for over 250 underprivileged families consisting of more than 2,000 family members. In Tunisia, our employees volunteered in the renovation of school classrooms in a rural village near our manufacturing plant and in Algeria, our employees volunteered in a 'Clean up the Environment Campaign', participating in various activities in the neighbourhood of our facilities. In Portugal, our employees hosted an educational event for children in foster homes. In New Jersey, US, our employees collected a significant amount of clothing and raised funds which were matched by West-Ward Pharmaceuticals. Proceeds went to the Lanoka Harbor Emergency Medical Services to help with repairs and damages caused by Hurricane Sandy.

STRATEGIC PRIORITY

### RAISING BREAST CANCER AWARENESS

In 2014, we organised a breast cancer campaign to support cancer patients in Jordan. Our employees hosted cancer survivors to speak at an awareness discussion about their personal experiences and how to deal with the disease in a positive and healthy manner. The discussion was also directed towards the family members of patients with the disease to help them in providing patient support

We believe that investing in our employees' wellbeing and happiness is the key to building a successful and sustainable business. Since its founding, Hikma has strived to ensure a positive and healthy work environment. In 2014, our annual employee welfare week, 'You are Hikma', was held across our global locations. The campaign reflects Hikma's dedication to improving the quality of life of its employees through personal empowerment, encouraging corporate citizenship and improving wellbeing through educational activities. The focus of this year's campaign was on health and safety and the environment. Over 500 employees participated in activities, including medical testing, blood donations and awareness lectures on topics such as work-related injuries and the safe use of drugs.

In 1994, Hikma officially enforced a smoke-free policy across all of its premises. Since then, Hikma has expanded its initiatives in fighting tobacco use by holding several sessions for companies located in Jordan about the hazards of smoking, offering practical guidance for corporations on how to become smoke-free and on how to expand their smoke-free experience beyond their workplace. In June 2014, Hikma was awarded the 'Smoke-free Zone Certificate' by the King Hussein Cancer Center and Foundation for its efforts in implementing a strict anti-smoking policy in all of its premises, cafeterias, vehicles and meetings.

# Minimising our environmental impact

## Why this is important

Our role as a healthcare provider is not limited to providing medications for patients. We recognise that the environment that people live in is as much a part of our care as is treating illness. As a pharmaceutical manufacturing company, we take an active role towards limiting our impact on the various elements of the environment including GHG emissions, water and energy use. Through closely monitoring, reporting and improving our operations, we follow a systematic approach that ensures the sustainability of our business and the continued health of our communities.

## What we're doing

Across the Group we are conscious of our global footprint and are continuously assessing ways to minimise our environmental impact. We promote good practices of responsible use of energy and electricity consumption.

As part of our reporting practices, we have been actively committed to the Carbon Disclosure Project ('CDP'), which provides valuable insight into our greenhouse gas emissions and climate change strategy. The CDP holds the largest collection globally of climate change data and aims to use the power of information disclosure to improve the management of environmental risk. This year, Hikma scored 82 'B' in the rating of healthcare sector responding companies in the CDP 2013 report, a great improvement over our previous scores.

After successfully passing the audit, our site in Amman is now the first Jordanian site to achieve such certification and among the first in the MENA region. This achievement will help improve our management and consumption of energy.

West-Ward Pharmaceuticals received the Environmental Stewardship Award from the New Jersey Department of Environmental Protection for taking voluntary and proactive steps that exceeded compliance guidelines. These included installing light sensors in warehouses and offices to reduce energy costs and energy consumption. Moreover, new raw material purchasing systems were installed to mitigate the environmental impact of extraction, processing and transportation of raw materials to help minimise West-Ward's carbon footprint.

Hikma signed a service agreement with Credit 360, a global sustainability software company. This was an important step for us as it facilitates the move to the next level in our data gathering capabilities in order to collect and process complex and important information across the Group.

## Greenhouse gas inventory

| Category | **2014** | 2013 |
|---|---|---|
| **Scope 1** – Combustion of fuel and operation of facilities ($tCO_2e$) | **18,931** | 20,831 |
| $tCO_2e$ per FTE employee | **3.42** | 3.76 |
| **Scope 2** – Electricity purchased for our own use ($tCO_2$) | **58,435** | 51,424 |
| $tCO_2$ per FTE employee | **10.56** | 9.29 |

| Segment | Scope 1 ($tCO_2e$) | Scope 2 ($tCO_2$) |
|---|---|---|
| MENA | 8,182 | 39,212 |
| US | 6,525 | 13,582 |
| Europe | 4,224 | 5,640 |

## Reporting boundaries and exclusions

| Category | GHG source | 2014 disclosure |
|---|---|---|
| Scope 1 direct | Facility diesel combustion | Included |
| | Facility natural gas combustion | Included |
| | Facility LPG combustion | Included |
| | Vehicle fuel combustion | Included |
| | Fugitive emissions from RAC equipment | Included |
| | Facility wastewater treatment | Excluded, due to data collection issues |
| Scope 2 indirect | Purchased electricity for own consumption | Included |

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas emissions pursuant to Section 7 of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the year ended 31 December 2014, Hikma Pharmaceuticals PLC emitted 18,931 $tCO_2e$ from the combustion of fuel (Scope 1 direct) and 58,435 $tCO_2$ from electricity purchased for our own use (Scope 2 indirect). This is equal to 3.42 $tCO_2e$ per full-time equivalent ('FTE') employee and 10.56 $tCO_2$ per FTE employee respectively.

Compared with 2013, our total Scope 1 emissions have decreased almost 10%. This is due to greater awareness of our climate change impact as a result of improved measurement and monitoring of organisational greenhouse gases since last year. Emissions from Scope 2 electricity usage increased 13%, largely due to increased production at certain sites, including Algeria and Eatontown, New Jersey.

### Methodology

We quantify and report our organisational greenhouse gas emissions according to the Defra Environmental Reporting Guidelines 2013 and have utilised the UK Government 2014 Conversion Factors for Company Reporting in order to calculate emissions from corresponding activity data. Results are reported in $tCO_2e$ for Scope 1 emissions and $tCO_2$ for Scope 2 emissions, as UK Government emission factors for overseas electricity currently account for carbon dioxide emissions only.

In order to improve monitoring and management of our carbon impact, we have also begun to implement a global sustainability data programme during 2014. This has improved oversight around our energy consumption and increased the quality and availability of performance information for decision making.

### Reporting boundaries and exclusions

We consolidate our organisational boundary according to the operational control approach and have adopted a materiality threshold of 10% for GHG reporting purposes. This approach includes all Hikma subsidiaries and corresponding facilities/assets.

JVs with a less than 50% holding have been excluded from our GHG disclosure as it is considered that we do not have operational control over these emission sources. In addition, non-manufacturing facilities with less than 100 staff at the end of the reporting period are not included within our emissions disclosure on the grounds of materiality. Emissions from our Morocco and Sudan locations are excluded due to an absence of available data.

The GHG sources that constitute our operational boundary for the 2014 reporting period are as follows:

- Scope 1: Facility diesel combustion, facility natural gas combustion, facility LPG combustion, fugitive refrigerants from air-conditioning equipment and vehicle fuel combustion
- Scope 2: Purchased electricity consumption for our own use

### Assumptions and estimations

In some cases, missing information has been estimated using data from the nearest reporting period as a proxy. Furthermore, due to the inclusion of additional emission sources this year, we have decided to restate last year's emissions figures. This allows us to make a more accurate performance comparison between 2013 and 2014.

# CORPORATE GOVERNANCE

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

GOVERNANCE REPORT

# Governance in Hikma

## Message from our Chairman

GOVERNANCE IN HIKMA



### Dear Shareholders and Stakeholders

Having taken on the chairmanship during this year, this is my first letter to you regarding governance. I am pleased to say that I already know many of you and I look forward to meeting more of you. Here at Hikma, we choose to maintain the highest standards of corporate governance as we believe these underpin the success of the Company in the long-term. As in previous years, we will continue to provide a genuine understanding of how governance supports and protects the Hikma business and we use the key themes of the Corporate Governance Code as a framework for articulating this narrative.

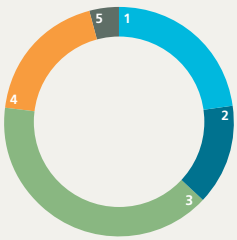
During 2014 we said goodbye to our dear friends Samih Darwazah, Chairman, and Sir David Rowe-Ham, Senior Independent Director. We owe both of them a huge debt. Robert Pickering has kindly taken on the Senior Independent role and he is using his own focused and precise style to continue the development of our Board and investor practices. Pat Butler joined us in April and has been rapidly learning the Hikma way and engaging with management on risk and finance, ready to take on the Audit Committee chair.

I am delighted that Pamela Kirby has also joined our Board. All of us can see the massive value in diversity across the Board, but we have always been committed to maintaining quality while expanding diversity. With Pamela we have advanced both.

The effectiveness of the Board is vital to the success of the Group and the Company undertakes a rigorous evaluation each year in order to assess how well the Board, its Committees, the Directors and the Chairman are performing. Overall I am pleased that the Board continues to function well, though there are particular areas for greater focus for the year ahead. This process and its outcomes are developed in more detail on pages 69 to 70. During the year we have continued to promote our Hikma values, which are transparency, respect, trust and quality. These were set by my father as the fundamental values on which our Company is based. They have helped us grow our business in a sustainable and balanced way since formation and they continue to be our guiding principles.

Said Darwazah, *Chairman and Chief Executive*

## THE BOARD'S TIME




| | |
|---|---|
| 1. Financial | 23% |
| 2. Operational developments | 14% |
| 3. Strategy | 40% |
| 4. Corporate governance | 19% |
| 5. Training | 4% |

## HIGHLIGHTS OF 2014

- We made significant strides in developing and implementing of our succession plans:
  - Said Darwazah became Chairman and Chief Executive
  - Samih Darwazah retired as Chairman
  - Robert Pickering became Senior Independent Director and Chairman of the Nomination Committee
  - Sir David Rowe-Ham retired as Senior Independent Director
  - Pat Butler was appointed as a Non-Executive Director and will take over the chairmanship of the Audit Committee in May 2015
  - Dr Pamela Kirby was appointed as a Non-Executive Director and joined the Audit, Remuneration and CRE Committees
- Enhanced diversity across the organisation in terms of gender, experience and background
- Further enhanced non-executive oversight of, and relationships with, senior management
- Nominated for the BPT Award for Best Remuneration Disclosure in the FTSE 250
- Continued to promote the Hikma values of transparency, respect, trust and quality
- Developed our Anti-Bribery and Anti-Corruption programme
- Strengthened our Code of Conduct and associated procedures
- Once again reviewed and improved our disclosure policy and practice

### Governance principles

The Board is committed to the standards of corporate governance set out in the UK Corporate Governance Code (the "Code") and the Markets Law of the Dubai Financial Services Authority. This report on pages 54 to 114 describes how the Board applied the Code and Markets Law during the year under review. The current Code is available at www.frc.org.uk

The Board acknowledges that Said Darwazah holding the positions of Chairman and Chief Executive and the continuation of independent non-executive directors who have served more than nine years requires explanation under the Code, which has been provided in this document. 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 Code.

## PRIORITIES IN 2015

- Reviewing the delivery of our strategic plans that were considered in detail during 2014
- Embedding the changes in the Board which are identified above
- Further developing and implementing our risk control framework
- Continuing to contribute to governance practice and thought leadership throughout our jurisdictions of operation
- Further advancing our commitment to business integrity through the implementation of relevant procedures, policies and training
- Ensuring an orderly handover of responsibilities from Breffni Byrne to Pat Butler as Chairman of the Audit Committee

### Dialogue with stakeholders

Hikma is committed to communicating with shareholders and stakeholders in a clear and open manner. We take account of the views of our stakeholders in our decision making process and policy development. If there are matters on which additional explanation is required, we are always happy to discuss them. Please contact the Company Secretary in the first instance by writing to info@hikma.uk.com.

The principal ongoing communication with shareholders is through the publication of Hikma's Annual Report and Accounts, interim results and interim management statements, together with the opportunity to question the Board and Committees at the Annual General Meeting ('AGM'). Shareholders are encouraged to attend the 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. The Chairman, Senior Independent Director and Committee Chairmen remain open for discussion on matters under their areas of responsibility, either through contacting Hikma or at the AGM.

GOVERNANCE REPORT
*continued*

# The Board

## Said Darwazah
*Chairman and Chief Executive*

Age: 57
Appointed: 1 July 2007
Joined Hikma: 1981
Nationality: Jordanian

**Skills and experience:**
Said has served as Chief Executive since July 2007 and Chairman since May 2014. Said was Chairman and Chief Executive of Hikma's group holding company from 1994 to 2003 and Minister of Health for the Hashemite Kingdom of Jordan from 2003 to 2006.

During his 33 years at Hikma, Said has undertaken several executive roles which have provided him with extensive experience in each functional area of Hikma's global generic pharmaceuticals business and in the broader strategic leadership of an international and entrepreneurial organisation. Said has led the development of the Group strategy, the Injectables business in Europe and the MENA region and acquisitions including West-Ward Pharmaceuticals and Baxter's injectable business. Under Said's leadership, Hikma's facilities in the US, Jordan and Portugal received US FDA approval, the leading international pharmaceutical regulatory standard.

Said has a degree in industrial engineering from Purdue University and an MBA from INSEAD.

**Other appointments:**
Said holds various public and charitable positions. During 2014, HM Queen Rania of Jordan requested that Said become the Chairman of the Queen Rania Foundation, a major charitable project. He is Chairman of the Dead Sea Touristic and Real Estate Investments and a member of the Central Bank of Jordan Board. He is a Director of Endeavour Jordan, a charitable organisation that assists in the development of entrepreneurs, and a Trustee of Jordan River Foundation, a charitable organisation that aims to empower Jordanian society.

**Committee membership:**
Executive Committee (Chairman)

## Mazen Darwazah
*Executive Vice Chairman, Chief Executive of MENA and Emerging Markets*

Age: 56
Appointed: 8 September 2005
Joined Hikma: 1985
Nationality: Jordanian

**Skills and experience:**
Mazen was appointed Group Executive Vice Chairman and MENA Chief Executive in 2005 and became President and Chief Executive of MENA and Emerging Markets in 2014. During his 29 years' service at Hikma he has held an extensive range of positions within the Group starting as a medical representative and working in different capacities including Chairman and Chief Executive of Hikma Pharmaceuticals Limited, a major group operational and holding company.

Mazen is responsible for the strategic and operational direction of the MENA business. He is also responsible for the expansion of the Group into emerging markets outside of the MENA region, global alliances, business relationships, CSR and business integrity.

Mazen holds a BA in Business Administration from the Lebanese American University and an AMP from INSEAD. He has served as the President of the Jordanian Association of Manufacturers of Pharmaceuticals and Medical Appliances.

**Other appointments:**
Mazen holds various public and charitable positions. Mazen is the Chairman of the Jordan International Insurance Company and Vice Chairman of the Capital Bank of Jordan. Mazen is also a Member of the Board of Trustees of Yarmouk University (Jordan). He is on the advisory Board for the Lebanese American University (LAU), Lebanon, and the Buck Institute for Education, San Francisco.

**Committee membership:**
Compliance, Responsibility and Ethics Committee
Corporate Responsibility Committee (Chairman)
Executive Committee
Nomination Committee

## Robert Pickering
*Senior Independent Director*

Age: 55

Appointed: 1 September 2011

Joined Hikma: 2011

Nationality: British

### Skills and experience:

Robert joined the Board as a Non-Executive Director in September 2011 and became Senior Independent Director in May 2014. Robert spent 23 years at Cazenove and Co., becoming the first Chief Executive of Cazenove Group PLC in 2001. He subsequently served as Chief Executive of JP Morgan Cazenove, until his retirement in 2008. He has extensive experience of capital raising, mergers and acquisitions and of the relationship between quoted companies and investors.

Robert is a qualified solicitor with a law degree from Lincoln College, Oxford.

### Other appointments:

Robert is a Non-Executive Director of Neptune Investment Management, a fund management company, and Itau BBA International PLC, the investment bank of the Itaú Unibanco group. He is Chairman of the Trustees of Lincoln College Oxford 2027 Trust.

### Committee membership:

Audit Committee

Nomination Committee (Chairman)

Remuneration Committee

## Dr Pamela Kirby
*Independent Non-Executive Director*

Age: 61

Appointed: 1 December 2014

Joined Hikma: 2014

Nationality: British

### Skills and experience:

Dr Pamela Kirby was Chief Executive of Quintiles Transnational Corp and has held senior executive positions in F Hoffmann-La Roche Ltd and AstraZeneca plc. Dr Kirby has chaired Oxford Immunotec Ltd and was Senior Independent Director of Informa plc. Dr Kirby has previously held Non-Executive Director positions with Smith & Nephew plc, Novo Nordisk A/S, Curalogic A/S and Oscient Pharmaceuticals Corp.

Dr Kirby holds a first-class Bachelor of Science degree in Pharmacology and a PhD in Clinical Pharmacology from the University of London.

### Other appointments:

Dr Kirby is Chairman of Scynexis Inc and a Non-Executive Director of DCC plc, Victrex plc and Reckitt Benckiser Group PLC.

### Committee membership:

Audit Committee

Compliance, Responsibility and Ethics Committee

Remuneration Committee

GOVERNANCE REPORT
*continued*

# The Board

## Ali Al-Husry
*Non-Executive Director*

Age: 57
Appointed: 14 October 2005
Joined Hikma: 1981
Nationality: Jordanian

**Skills and experience:**
Ali joined Hikma as Director of Hikma Pharma Limited in 1981 and has held various directorships within the Group. Ali brings great financial experience to the Board as well as an in-depth knowledge of the MENA region and Hikma Pharmaceuticals. Ali was a founder of The Capital Bank of Jordan, which offers commercial and investment banking services, and served as Chief Executive of the Bank until 2007.

Ali has a degree in Mechanical Engineering from the University of Southern California and an MBA from INSEAD.

**Other appointments:**
Ali is Chairman of Endeavour Jordan, a not for profit organisation that assists in the development of entrepreneurs and a Director of the Microfund for Women, which provides microfinance to low-income female entrepreneurs. Additionally, Ali is a Director of the Capital Bank of Jordan.

## Michael Ashton
*Independent Non-Executive Director*

Age: 69
Appointed: 14 October 2005
Joined Hikma: 2005
Nationality: Australian

**Skills and experience:**
Michael has over 30 years' experience in the pharmaceutical industry, holding senior executive positions with Pfizer and Merck. Michael was Chief Executive of SkyePharma PLC from November 1998 to March 2006 and prior to that was Chairman, President and Chief Executive of Faulding. He has held a number of non-executive and advisory positions across the pharmaceutical industry.

Michael has a Bachelor of Pharmacy degree from Sydney University, and an MBA degree from Rutgers University, New Jersey.

**Other appointments:**
Michael is a Non-Executive Director at Transition Therapeutics, a therapeutics biopharmaceutical company. He is also Chief Executive of PuriCore plc, a water-based clean technology company, and Komix, a children's educational organisation.

**Committee membership:**
Audit Committee

Nomination Committee

Remuneration Committee (Chairman)

## Breffni Byrne
*Independent Non-Executive Director*

Age: 69
Appointed: 14 October 2005
Joined Hikma: 2005
Nationality: Irish

**Skills and experience:**
Breffni is a chartered accountant with over 30 years of experience in public practice, including significant international responsibilities. Breffni served as the Managing Partner of the Audit and Business Advisory practice of Arthur Andersen in Ireland and as Director of Risk Management of Andersen's audit practice in the Middle East, India, Africa and the Nordic countries. Breffni has extensive experience in financial reporting, international operations, corporate governance and general financial and commercial matters. Breffni is a former Non-Executive Director of Irish Life, Permanent plc and Coillte Teoranta, the Irish state-owned forestry company. Breffni was Chairman of Aviva's life insurance operations in Ireland. Breffni is considered by the Board to have recent and relevant financial experience.

Breffni holds a Masters degree in Economic Science from University College Dublin and is a chartered accountant.

**Other appointments:**
Breffni is Chairman of Tedcastles Holdings, an oil distribution company. Breffni is also a Non-Executive Director of Citibank Europe plc and Cpl Resources plc, a human resources company. Breffni has been a member of the Audit Committee of all of the above companies, in most cases the Chairman.

**Committee membership:**
Audit Committee (Chairman)

Compliance, Responsibility and Ethics Committee

Remuneration Committee

## Dr Ronald Goode
*Independent Non-Executive Director*

Age: 71

Appointed: 12 December 2006

Joined Hikma: 2006

Nationality: American

Skills and experience:

Ron has spent over 30 years in the international pharmaceutical industry, including roles as President of International Operations at Searle and Vice President of Clinical and Scientific Affairs at Pfizer. Ron's extensive experience includes leading companies as Chief Executive and acting as an adviser to companies in the pharmaceutical industry. Ron also advises companies involved in nanotechnology and in the information technology business sectors.

Ron was formerly President and Chief Executive of Unimed Pharmaceuticals, Inc. and eXegenics Inc. Ron was a Trustee of Thunderbird School of Global Management, which was ranked by the Financial Times as the premier international business school.

Ron has a PhD from the University of Georgia and a MS and BS from the University of Memphis.

Other appointments:

Ron is the Chairman of The Goode Group, advisers to the pharmaceutical industry. Ron is a Director of Mercy Ships International, a medical services charity. Ron is a Senior Business Advisor to The Kinsella Group, an investment banking company.

Committee membership:

Audit Committee

Compliance, Responsibility and Ethics Committee (Chairman)

Remuneration Committee

## Pat Butler
*Independent Non-Executive Director*

Age: 54

Appointed: 1 April 2014

Joined Hikma: 2014

Nationality: Irish

Skills and experience:

Pat is a former Senior Director at Mckinsey & Co. During his 25 years at McKinsey, he focused on advising large corporations in the EU, US and MENA on strategic, acquisition and organisational issues. Pat has extensive experience in strategy implementation, integrating acquisitions, performance improvement and a range of finance functions including treasury and risk management. Pat is considered to have recent and relevant financial experience.

Prior to McKinsey, Pat qualified as a chartered accountant with the audit and tax practice of Arthur Andersen. He has a first class honours degree in Commerce and a postgraduate diploma in Accounting and Corporate Finance from University College Dublin.

Other appointments:

Pat is a Non-Executive Director of the Bank of Ireland and British Business Bank Investments Limited. He is also a Governor of the British Film Institute and a trustee of the Resolution Foundation.

Committee membership:

Audit Committee (Chairman from May 2015)

Compliance, Responsibility and Ethics Committee

Nomination Committee

GOVERNANCE REPORT
*continued*

# Senior Management

## Bassam Kanaan
*Chief Strategy and Corporate Development Officer*

Appointed to current role: 2014
Joined Hikma: 2001
Nationality: Jordanian

**Skills and experience:**
Bassam joined Hikma as Chief Financial Officer in 2001 and played a leading role in preparing for Hikma's IPO in 2005 and in its subsequent M&A activity. In January 2011 Bassam was promoted to the position of President and Chief Operating Officer for the MENA and EU regions, where he led the implementation of important organisational and operational improvements. In 2014 he was promoted to the newly created role of Chief Strategy and Corporate Development Officer, with Group-level responsibility for strategic development, acquisitions, alliances and product development. Bassam is responsible for delivering the expansion vision of the Chief Executive.

Bassam is qualified as a US Certified Public Accountant (CPA) and Chartered Financial Analyst (CFA). Bassam has a BA from Claremont McKenna College and an International Executive MBA from Kellogg/Recanati Schools of Management.

**Other appointments:**
Bassam currently holds a Non-Executive Directorship in Arab Bank. Bassam has served on the Boards of Aqaba Development Co., Jordan Dubai Properties, Zara Holding, Capital Bank of Jordan, CEGCO and Paltel. Bassam is active in several non-profit and charity organisations and is currently a member of the Board of Trustees of the Welfare Association in Jordan.

**Committee membership:**
Executive Committee

Global Management Committee (Chair)

## Majda Labadi
*Corporate Vice President for Human Resources and Head of Operations, MENA*

Appointed to current role: 2009
Joined Hikma: 1985
Nationality: Jordanian

**Skills and experience:**
During her 28 years at Hikma, Majda has held a variety of roles including Purchasing Manager at Hikma Pharmaceuticals Limited, Strategy Manager at Hikma Investment, General Manager of Hikma Farmacêutica and Vice President of Injectables. In February 2009 Majda assumed her current position as Corporate Vice President, Human Resources and she took on additional responsibility for MENA operations in January 2015. She has been responsible for establishing a central human resource practice and leading the development of several Group-wide initiatives, including the grading structure, performance evaluation process and the Group bonus scheme.

Majda has completed the Advanced Management Program (AMP) programme at INSEAD, holds a BA from the American University of Beirut and a Masters degree from Hochschule Fur Okonomie in Berlin, Germany.

**Committee membership:**
Executive Committee

## Khalid Nabilsi
*Chief Financial Officer*

Appointed to current role: 2011
Joined Hikma: 2001
Nationality: Jordanian

**Skills and experience:**
Prior to assuming his current role, Khalid held several senior positions in the Hikma finance department including Corporate Vice President, Finance and was a key member of the IPO team in 2005. Following qualification as a CPA he held a variety of roles in financial accounting, reporting and financial advisory services, and with Atlas Investment Group (now AB Invest) where he was involved in mergers and acquisitions advisory services. Prior to Atlas, Khalid had managed several multinational audit engagements at Arthur Andersen in Amman, Jordan. As Chief Financial Officer, Khalid has integrated several acquisitions into the financial reporting structure, developed the Group internal control framework and implemented new leverage arrangements to fund acquisitions and capital investment.

Khalid qualified as a US Certified Public Accountant and has an MBA from the University of Hull.

**Other appointments:**
Khalid is a founder of the Jordan Association for Management Accountants and a Board member of the Jordan Armed Forces and Security Apparatuses Credit Union.

**Committee membership:**
Executive Committee

## Susan Ringdal
*Vice President, Corporate Strategy and Investor Relations*

Appointed to current role: 2012

Joined Hikma: 2005

Nationality: American

Skills and experience:

Susan joined Hikma as Investor Relations Director, having previously worked for the pharmaceutical distribution and retail pharmacy group Alliance UniChem plc as Investor Relations Manager. She also has experience as an Equity Analyst at Morgan Stanley in London. In early 2012 Susan assumed responsibility for corporate strategy.

Susan holds a BA in History from Cornell University and an MBA from London Business School.

Committee membership:

Executive Committee

Global Management Committee

## Michael Raya
*President and Chief Executive of the US*

Appointed to current role: 2008

Joined Hikma: 1992

Nationality: American

Skills and experience:

Michael joined Hikma's US subsidiary West-Ward Pharmaceuticals from Vitarine Pharmaceuticals where he had worked from 1984 until 1992 in various roles, including Vice President, Quality Control. Prior to this, Michael worked at Schering-Plough and Hoffman LaRoche. At Hikma, Michael was responsible for all West-Ward Pharmaceuticals' operations as well as quality/compliance for all worldwide Hikma facilities until his appointment as President and Chief Executive of West-Ward Pharmaceuticals in 2008.

Michael holds a Masters degree in Industrial Pharmacy from Long Island University and a Bachelor's degree in Chemistry from St. Francis College. Michael is also a graduate of INSEAD's International Executive Program.

Committee membership:

Executive Committee

## Riad Mishlawi
*EU Vice President and Global Head of Injectables*

Appointed to current role: 2011

Joined Hikma: 1990

Nationality: Lebanese

Skills and experience:

Riad joined Hikma as a Project Engineer in the engineering department where he was involved in the construction of Hikma's facility in Portugal. Riad spent a significant period in the manufacturing operations of many Hikma sites, was General Manager of Hikma Italy and became Head of Injectables Manufacturing Operations before assuming his current role. Riad was an Executive Director at Watson Pharmaceuticals from 1998 to 2005, responsible for Injectables operations. Riad has led Hikma's Injectables division through a period of rapid growth and has integrated operations into a global operation.

Riad has a BSc in Engineering and a Masters in Engineering and Management from George Washington University.

Committee membership:

Executive Committee

GOVERNANCE REPORT
*continued*

# Senior Management

## Hussein Arkhagha
*General Counsel*

Appointed to current role: 2013
Joined Hikma: 2001
Nationality: Jordanian

Skills and experience:

Hussein joined Hikma in July 2001 as a Legal Counsel. Since then, Hussein has occupied several positions at Hikma, including Head of Tax, Head of MENA Legal and Head of The Shareholders' Department.

Hussein is a qualified lawyer in Jordan and holds a Masters degree in International Business Law from the University of Manchester, under a UK Chevening Scholarship.

## Peter Speirs
*Company Secretary*

Appointed to current role: 2012
Joined Hikma: 2010
Nationality: British

Skills and experience:

Peter joined Hikma as a Deputy Company Secretary in 2010 and assumed the role of Company Secretary in 2012. Prior to joining Hikma he worked in the Corporate Secretariat of Barclays and Pool Re, the UK terrorism re-insurer. Peter also worked at Manifest, a leading corporate governance and proxy advisory agency. Peter is responsible for advising on governance and listing matters at the Board and across the Group and ensuring the smooth management of the Board and Committees.

Peter is a Fellow of the Institute of Chartered Secretaries and Administrators and holds a Law degree from the University of East Anglia.

Peter is a Governor of the Lime Tree Trust.

## Dr Ibrahim Jalal
*Senior Corporate Vice President, Technical Affairs*

Appointed to current role: 1979
Joined Hikma: 1979
Nationality: Jordanian

Skills and experience:

Ibrahim joined Hikma as Technical Director and has held a variety of roles including Corporate Technical Vice President for Compliance and Senior Corporate Vice President for R&D. He has played a leading role in Hikma securing FDA approval for its manufacturing units.

Ibrahim holds a PhD in Pharmacy from the University of Wisconsin-Madison.

## Fadi Nassar
*Corporate Vice President, Active Pharmaceutical Ingredients*

Appointed to current role: 2007

Joined Hikma: 1988

Nationality: Jordanian

Skills and experience:

Fadi has worked in various roles within the Group including Operations, Purchasing and Business Development. He was promoted to Corporate Vice President, API in 2007. Fadi is a Director of Hubei Haosun Pharmaceutical Co. Ltd., an Active Pharmaceutical Ingredient manufacturing company in which Hikma purchased a significant minority interest in 2011.

Fadi holds a BSc in Chemical Engineering from Newcastle University and an MSc in Chemical Engineering from Leeds University. Fadi is also a graduate of INSEAD's International Executive Program.

Committee membership:

Global Management Committee

## Ragheb Al-Shakhshir
*Corporate Vice President, Research and Development*

Appointed to current role: 2009

Joined Hikma: 2000

Nationality: Jordanian

Skills and experience:

Ragheb joined Hikma as a Research and Development Manager. Prior to joining Hikma he held a variety of roles as Senior Scientist at Novartis Pharmaceuticals, and at Alcon Labs in the US. From 2003–2008 Ragheb led the Hikma R&D Injectables team and from February 2009 assumed the responsibility of Corporate Vice President, Research and Development.

Ragheb has a PhD in Industrial and Physical Pharmacy from Purdue University, a Masters in Engineering from the University of Massachusetts-Amherst and a BSc in Chemical Engineering from the University of Wisconsin-Madison.

Committee membership:

Global Management Committee

## Board Responsibility

The Board is the ultimate decision-making and control authority in Hikma. The Board sets the strategic direction, monitors financial performance and challenges management ideas and performance. The Board promotes good governance within the Group, and seeks to ensure that Hikma meets its responsibilities to shareholders, employees, suppliers, customers and other stakeholders. There is a formal schedule of matters reserved for the Board, which was reviewed in early 2015 as part of the annual corporate governance review conducted by the Audit Committee and approved by the Board. A summary of the schedule is included on page 72.
The Chief Executive is responsible for delivering Hikma's strategic and operational objectives and has authority from the Board to deliver those objectives through matters which are not reserved and where authority has been delegated specifically. The Chief Executive is assisted in this task by the Executive Committee, the members of which meet with the Chief Executive to develop strategy and report on the delivery of key objectives in their areas of responsibility. The Chief Executive reports on operational progress and corporate actions to the Board at each meeting. Where appropriate, the Chief Executive is assisted by internal and external advisers in presenting operational progress and key strategic decisions to the Board.

### INTERNAL ADVISERS

- President and CEO, MENA
- Chief Financial Officer
- CEO US
- Chief Strategy Officer
- General Counsel
- VP Human Resources
- Company Secretary
- VP EU and Injectables
- VP IR and Strategy

### EXTERNAL ADVISERS

- Bank of America Merrill Lynch
- CenterView Partners
- Citigroup
- Deloitte
- E&Y
- Lintstock
- PwC

### BOARD COMPOSITION

The charts below compares the Board composition as at the 2013 and 2014 year ends

**As at 31 December 2013**

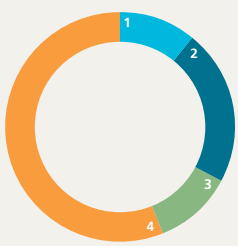
- One Non-Executive Chairman
- Two Executive Directors
- One Non-Executive Director
- Five Independent Non-Executive Directors

**As at 31 December 2014**

- One Chairman and Chief Executive
- One Executive Director
- One Non-Executive Director
- Six Independent Non-Executive Directors

### BOARD COMPOSITION

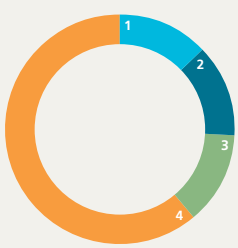
**AS AT 31 DECEMBER 2013**




| | |
|---|---|
| 1. Chairman | 11% |
| 2. Executive Directors | 22% |
| 3. Non-Independent NED | 11% |
| 4. Independent NEDs | 56% |

- One Non-Executive Chairman
- Two Executive Directors
- One Non-Independent Non-Executive Director
- Five Independent Non-Executive Directors

**AS AT 15 MAY 2014**




| | |
|---|---|
| 1. Chairman & Chief Executive | 13% |
| 2. Executive Directors | 13% |
| 3. Non-Independent NED | 13% |
| 4. Independent NEDs | 61% |

- One Chairman and Chief Executive
- One Executive Director
- One Non-Independent Non-Executive Director
- Five Independent Non-Executive Directors

The names of the Directors, their biographical details and dates of appointment are set out on pages 56 to 59.

## Chairman and Chief Executive Appointment

The Board is aware that Said Darwazah's position as Chairman and Chief Executive constitutes a departure from the Code, provision A.3.1. Therefore, the Board has detailed below the rationale for the departure which formed part of the shareholder consultation exercise completed in early 2014.

### REASONS FOR THE DECISION

The Board is focused on continuing the commercial success of Hikma and believes that the continuing position of Chairman and Chief Executive is the best way to achieve this objective for Hikma because:

- Chairman's role: The Chairman position is highly visible within 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 the 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. Furthermore, having discussed succession planning over several years the Board does not believe that there is currently an appropriate Chief Executive successor within the Company and an external appointment would not be in the best interests of the Group given its heritage and management structure. It is expected that Said Darwazah will continue to combine his role as Chairman and Chief Executive for the medium term. The Board would like to highlight the following controls:

- Governance structure review: The Independent Directors meet at least bi-annually in a separate session chaired by the Senior Independent Director. This meeting includes consideration of the appropriateness of the governance structure and safeguards for shareholders
- Committee Chairmen roles: The chairmen 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 business partners from before listing still invest and support Hikma today. Over 10 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, particularly over the past four years
- Enhanced Senior Independent role: The Board has increased the responsibilities of the Senior Independent Director to assume joint responsibility, with the Chairman and Chief Executive, for setting the Board agenda, agreeing actions points and the minutes of the meeting

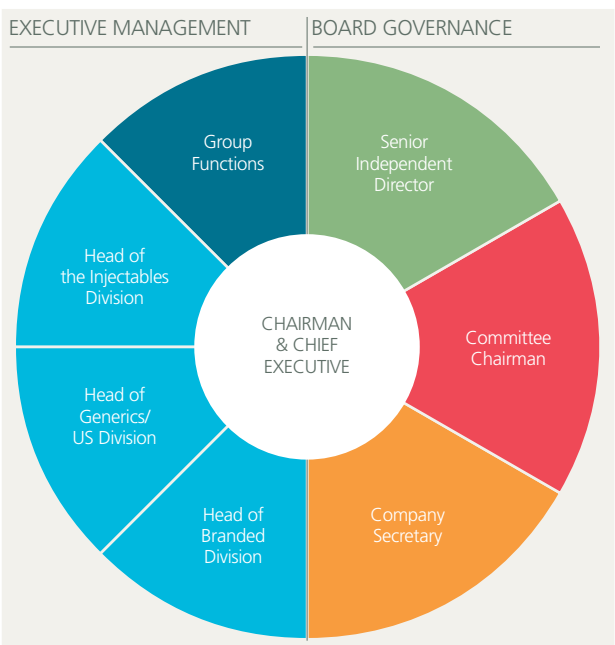
## Roles and Responsibilities

The division of Board responsibilities can be summarised as follows:

### Chairman and Chief Executive

The Board has approved separate statements of the Chairman and the Chief Executive responsibilities in writing, which are reviewed annually and include:

- Providing an appropriate environment for the Board to scrutinise and challenge the actions of management in a constructive manner
- Ensuring that the opinions of Directors and executives are fully taken into account
- Keeping the Senior Independent Director fully informed of all matters of importance to the Group
- Ensuring that the Board considers all matters that are relevant to it and has appropriate information
- Setting the agenda for the Board, in consultation with the Senior Independent Director
- Providing the strategic vision and implementation capability to ensure the Company achieves its full potential
- Leading the executive team and supporting the business heads in the delivery of the divisional strategies




### Vice Chairman

When required, the Vice Chairman acts as alternate to the Chairman and Chief Executive and is another point of contact and sounding board for management and Directors. The Vice Chairman advances the executive agenda and supports the Chairman and Chief Executive in setting and delivering strategy. The Vice Chairman is also responsible for leading the Board on Hikma's anti-bribery and corruption, business integrity and ethics and corporate social responsibility programmes.

### Senior Independent Director

The Senior Independent Director responsibilities include:

- Together with the Chairman and Chief Executive, setting the Board agenda, agreeing actions points and the minutes of the meetings
- Leading the Board in matters of Board composition, effectiveness and evaluation, particularly in relation to the performance of the Chairman and Chief Executive
- Providing a communication channel between the Chairman and Chief Executive and the Non-Executive Directors
- Leading the bi-annual meetings of Non-Executive Directors to assess the appropriateness of the governance structure and safeguards for shareholders
- Providing a sounding board for executive management and the Company Secretary
- Acting as an alternate point of contact for shareholders and maintaining contact with principal investors and representative bodies

## Non-Executive Directors

The Non-Executive Directors scrutinise the strategy, risk planning and operations of executives, providing advice and external perspective. They engage with management across the Group to ensure they are fully aware of the Group's activities and issues it faces. The Non-Executive Directors also keep Hikma's governance structure under review and ensure that appropriate safeguards are in place. The Board holds meetings without the executive management present to discuss issues affecting the Group.

## Company Secretary

The Company Secretary reports to the Chairman and Chief Executive and supports him and the Senior Independent Director and Chairman in the delivery of their roles, particularly in relation to information flow and setting the Board agenda. The Company Secretary keeps the Board apprised of matters of governance and policy and all Directors have access to his advice and services. The Company Secretary also acts as secretary to the Board and Committees, supporting the Committee Chairmen in the governance aspects of their responsibilities. The appointment and removal of the Company Secretary is a matter reserved for the Board.

## Independence

The Board considers Robert Pickering, Michael Ashton, Ronald Goode, Breffni Byrne, Pat Butler and Dr Pamela Kirby 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 the listing of Hikma in 2005.

| | Independent NED | |
|---|---|---|
| Tenure range | No. | Percentage |
| 0–3 years | 2 | 33% |
| 4–6 years | 1 | 17% |
| 7–9 years | 1 | 17% |
| 9+ years | 2 | 33% |

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 Mr Breffni Byrne and Mr Michael Ashton have served in excess of nine years and therefore this constitutes a departure from the Code, provision B.1.1, but wishes to retain their services because:

- The Board believes that the skills, experience and in-depth knowledge of the Company that Mr Ashton and Mr Byrne bring are essential for continuity
- Hikma is a maturing company in which historical knowledge and personal relationships are important to the successful oversight of the business
- The Board is committed to ensuring an orderly succession and considers it is important to allow time for Committee chair roles to be handed over fully. Therefore succession will occur within a timeframe that is appropriate for the Company

The Board is of the view that Mr Ashton and Mr Byrne remain independent because:

- Their character and the manner in which they perform their role clearly demonstrate independent thought and judgement
- They ask difficult and challenging questions of management and request additional information when they feel it is required
- None of the Independent Directors receives additional remuneration apart from Directors' fees, and they do not participate in the Group's share plans or pension schemes
- There are no conflicts of interest between any independent non-executive and management or the controlling shareholder. The Independent Directors do not serve as Directors of any subsidiary companies or affiliates of the Group

The Board does not view Ali Al-Husry as an Independent Director because of his involvement with Darhold Limited, Hikma's largest shareholder, and because he was an executive of Hikma prior to listing. However, he continues to bring to the Board broad financial experience and a detailed knowledge of the MENA region which is an important and specialist part of the Group's business.

## Effectiveness

### Skills and experience

The Board keeps the skills and experience of its members under constant review. The Directors believe in the necessity for challenge and debate in the boardroom and consider that existing Board dynamics and processes encourage honest and open debate with the Executive Directors.

### Hikma knowledge

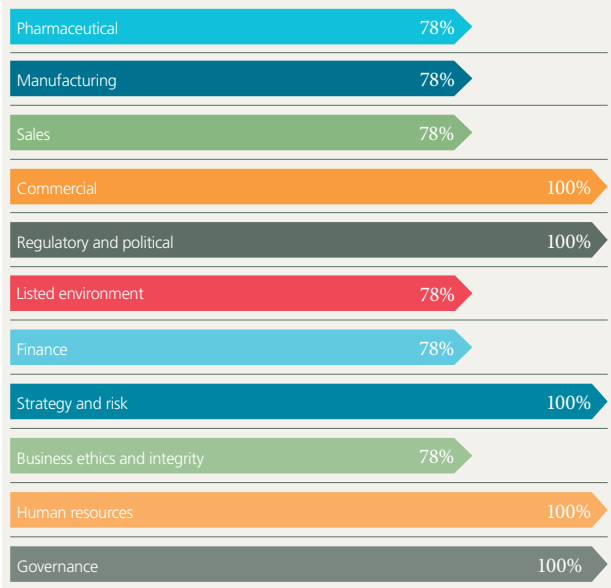
Board members frequently visit the business units and meet management teams to fully understand and advise on the key issues facing the Group. During the year Non-Executive Directors visited facilities in Jordan, Germany, Italy, Morocco, Portugal and the US. The Chairman, Ali Al-Husry and the Executive Directors have extensive experience of Hikma from its earliest days to today. The Directors maintain regular contact with senior management and the Company Secretary ensures that Directors are kept up to date with major developments in the Group's business.

### Training

The main Board training and development activities this year were:

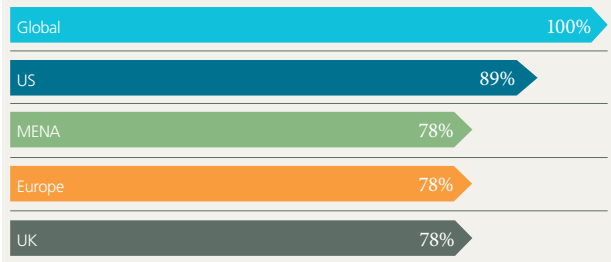
- External advisers provided the Board with training sessions on takeover defence, the potential for tax inversions, and the implications of moving into the FTSE 100
- Directors attended several externally provided seminars and discussion forums. Further training is scheduled for 2015
- Hikma's brokers and financial advisers presented industry and market updates to the Board on several occasions
- The Company Secretary made regular updates to the Directors on relevant regulatory and governance matters

### Board Experience




### COUNTRY OF ORIGIN

### Geographical Experience



## Induction

Two additional Independent Non-Executive Directors joined the Board during the year end and received a full and tailored induction programme, which included:

- Induction sessions with all Group senior and divisional executive management, including human resources, legal, finance, communications and investor relations
- Visiting the Jordan and US facilities which included one-on-one meetings with local management on sales and marketing, supply chain, research and development, and manufacturing
- Meetings with the Senior Independent Director, Committee Chairmen and other Non-Executive Directors to better understand Board dynamics and the issues facing the Group
- A briefing and full induction pack from the Company Secretary on the governance, control framework and policies and procedures
- A briefing from the US CEO to explain US FDA regulatory and quality issues

## Evaluation and performance

The Board and the Committees undertake an externally moderated evaluation each year. A summary of the evaluation process and the issues identified are summarised in the table below.

### Process

- The process is 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, prepared online questionnaires for both the Directors and senior management, designed to build on previously identified themes
- Lintstock managed the process and reported independently to the Chairman and the Senior Independent Director
- Lintstock presented the results and findings to the full Board in the context of Hikma's business and that of its peers in the FTSE and international markets and provided their independent feedback on the results
- A similar process was followed for each Committee of the Board
- The results of the evaluation process formed part of the Chairman's appraisal of the overall effectiveness of the Board and its members
- Regularly during the year the Directors fed back to the Company Secretary improvements and enhancements that they considered should be progressed outside of the evaluation timetable

### ELEMENTS ASSESSED

- Board composition
- Time management
- Board information
- Strategic oversight
- Operational oversight
- Succession planning
- Human resource management
- Priorities for change

### CONCLUSIONS AND ACTION

Key conclusions and observations from the 2014 evaluation:

- The open dialogue and respect for diversity of opinion are particular strengths
- The Board continues to operate effectively and all members actively participate in all discussions
- The Board is well balanced in terms of skills, experience and independence
- The flow, timeliness and quality of information was appropriate
- Further work was required in certain areas, detailed below

## Chairman's appraisal

The Non-Executive Directors regularly meet in private during the course of the year and the performance of the Chairman and the Board is discussed during these meetings. Additionally, the Senior Independent Director met with the Non-Executive Directors to undertake a formal appraisal of the performance of the Chairman. 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. This review addressed:

- The effectiveness of the Chairman's leadership
- The setting of the Board agenda
- Communication with shareholders
- Internal communication and Board efficiency

## PROGRESS ON PREVIOUSLY IDENTIFIED ISSUES

| OBSERVATIONS | ACTION TAKEN |
|---|---|
| *Greater clarity on Board succession* | The Board has established a medium-term succession plan, providing clear succession for Non-Independent Directors, Committee Chairmen and key members of executive management. Additional Directors have been recruited during 2014 and are being fully inducted in advance of handover of Committee chair roles. |
| *Identification and development of executives for the Chief Executive role* | The Chairman and Chief Executive has identified certain individuals with the potential to take on the Chief Executive role in the fullness of time. These individuals have been considered by the Nomination Committee and soundings taken from the Directors. Development plans have been put in place. |
| *Consolidate and develop the Hikma strategy* | Group strategy has been given additional focus through the creation of the Chief Strategy Officer role and the formation of a centralised business development, M&A and R&D departments under that position. The overall Group strategy was consolidated into one succinct document that was presented to the Board as part of the strategy session in Morocco. The management team have further enhanced the five-year business plan, which has been reviewed by the Board at appropriate intervals. |
| *Focus meeting time on adding value* | Greater use of the Executive Committee has removed management considerations from the Board agenda and ensured that fully developed proposals are put to the Board. The agendas for meetings has been refined to focus on Board-level issues and the Committee Chairmen have continued to provide close oversight and guidance to relevant executives. The level of duplication between the Board and the Committees has decreased. |

## Meetings

During the year under review the Board held eight scheduled meetings and five unscheduled meetings. All Directors attended each scheduled meeting. Through no fault of their own, Dr Ronald Goode and Mr Pat Butler were unable to attend one meeting each which were called on short notice. Both Directors read the papers for consideration at those meetings and relayed their comments in advance through the Senior Independent Director and directly with relevant executives. In each case, the Director contacted the Company Secretary as soon possible, in order to establish the outcome and key points considered. In each case, the outcome of the meeting reflected the position of the relevant Director.
The table below shows attendance at the Board and Committee meetings. The Company Secretary attended all Board meetings and Committee meetings. At the discretion of the Board or relevant Committee, senior management are invited to attend meetings and make presentations on developments and results in their business divisions. The annual cycle of the Board's work is detailed in the Calendar section opposite.

| Director | Board | Audit | Remuneration | Nomination | Compliance |
|---|---|---|---|---|---|
| Samih Darwazah | 100% | – | – | – | – |
| Said Darwazah | 100% | – | – | – | – |
| Mazen Darwazah | 100% | – | – | 100% | 100% |
| Ali Al-Husry | 100% | – | – | – | – |
| Sir David Rowe-Ham | 100% | 100% | 100% | 100% | – |
| Breffni Byrne | 100% | 100% | 100% | – | 100% |
| Michael Ashton | 100% | 100% | 100% | 100% | – |
| Dr Ronald Goode | 92% | 100% | 100% | – | 100% |
| Robert Pickering | 100% | 100% | 100% | 100% | 100% |
| Pat Butler | 91% | 100% | – | 100% | 100% |
| Dr Pamela Kirby | 100% | 100% | 100% | – | 100% |
| **Total meetings held** | **13** | **7** | **6** | **5** | **6** |

## 2014 BOARD KEY BUSINESS

2014

### FEBRUARY
- Initial business performance
- Board evaluation

### MARCH
- Forecast I
- Preliminary statements and Report and Account 2013
- Performance evaluation

### APRIL
- AGM notice
- Potential acquisition/business venture
- Strategy review and discussion
- Morocco site visit

### MAY
- AGM
- Forecast II
- Interim management statement
- Potential acquisition/business venture
- Launched the search for a Director

### JULY
- Potential acquisition/business venture

### AUGUST
- Potential acquisition/business venture
- Proposed interim dividend
- Forecast III

### SEPTEMBER
- Potential acquisition/business venture

### NOVEMBER
- Forecast IV
- Major Injectables investment
- Interim management statement
- Dr Pamela Kirby appointment consideration

### DECEMBER
- Budget for 2015
- Financing

## ITEMS SPECIFICALLY DISCUSSED AT BOARD MEETINGS

| ITEM ON THE AGENDA | RESPONSIBLE PERSON |
|---|---|
| Committee reports | Committee Chairmen |
| Financial performance | Chief Financial Officer |
| Business operational update | Head of business divisions |
| Acquisitions and JV opportunities | Head of M&A |
| Strategic review | Chairman and Chief Executive |
| Corporate governance update | Company Secretary |
| Legal update | General Counsel |
| Investor relations review | VP Investor Relations |
| Business development | Head of Business Development |
| Directors' external commitments | Directors |

## Directors

### Terms of appointment

Details of the Executive Directors' service arrangements and Non-Executive Directors' letters of appointment are contained in the Remuneration Report on pages 90 to 109. They are made available for inspection before the Annual General Meeting and during business hours at Hikma's registered office at 13 Hanover Square, London.

### External commitments

The Directors' external commitments are detailed in their profiles on pages 56 to 59. The Audit Committee operates, monitors and reviews the conflicts of interest procedures, which have operated effectively during the year. A register of external commitments is maintained by the Company Secretary and is reviewed at each Audit Committee and Board meeting. Where new commitments are proposed, these are reviewed in advance by the Audit Committee and where appropriate, recommendations on necessary controls are made to the Board. The Board considers that a degree of outside commitments enhances a Director's ability to perform the role.

### Time commitment and duties

The Directors commit an appropriate amount of time to their roles and are readily available at short notice. The Non-Executive Directors are required to commit 20 days during each year to the execution of their duties. However, all of the Non-Executive Directors devote at least 30 days per annum to their Hikma responsibilities. In addition, the Committee Chairmen spend a significant amount of time on their respective areas of responsibility and Non-Executive Directors take time to meet with management and visit operations where there are particular areas of interest. Consequently, the Independent Non-Executive Directors dedicate substantially more time to Hikma than their appointment requires. The duties of the Directors, Chief Executive, Chairman and Committee Chairmen are set out in the Board Governance Manual.

### Indemnities and insurance

Hikma maintains an appropriate level of Directors' and officers' insurance. The Directors benefit from qualifying third-party indemnities made by Hikma which 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.

## Delegation of Authority

### MATTERS RESERVED TO THE BOARD

Hikma maintains a formal schedule of matters reserved to the Board in the Board Governance Manual. This includes the following items:

- Operational management: Approval of strategy, operations oversight, performance review
- Structure and capital: Approval of changes to Group structure or changes to capital structure
- Financial reporting and controls: Approval of financial announcements, accounts, dividends; significant changes to treasury and accountancy practice
- Internal controls: Reviewing effectiveness of Group's risk and control processes, and for reviewing its effectiveness including an annual assessment
- Contracts: Approval of significant contracts, investments and projects which meet pre-set monetary thresholds
- Communication: Approval of certain press releases, and all circulars and prospectuses
- Board membership and other appointments: Approval of changes to Board structure and composition, succession, auditors and Company Secretary
- Remuneration: Determining remuneration policy for senior management and Directors and officers and amending or introducing share incentive plans
- Corporate governance: Annually reviewing Board, Committees and individual Director performance, and reviewing corporate governance arrangements

## Introduction to the Committees

The Board has an extensive workload and, therefore, has delegated the detailed oversight of certain items to five Committees:

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Compliance, Responsibility and Ethics Committee ('CREC')
- Group Executive Committee, which considers and develops proposals to the Board, reviews operational performance and oversees strategic and risk activities. This Committee is supported by the Global Management Committee

Each Board Committee has terms of reference which were reviewed during the year. Copies are published on the Group's website and are available for inspection at the registered office at 13 Hanover Square, London. The Chairmen of each Board Committee report on that Committee's business at every Board meeting. The minutes of each Committee are made available to the entire Board. Each Committee makes a formal annual report to shareholders in the Annual Report.

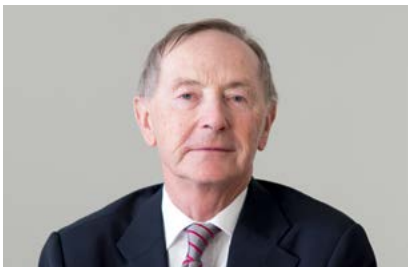
For and on behalf of the Board of Directors of Hikma Pharmaceuticals PLC

Peter Speirs, *Company Secretary*
11 March 2015

COMMITTEE REPORTS

# Audit

## Letter from The Chairman



AUDIT REPORT



Dear Shareholders

This is my final letter to you as Chairman of the Committee. I have very much enjoyed my time chairing the Committee and I am proud of the work it has done. We have come a long way since Hikma listed and I have enjoyed my part in the development journey of the finance department. There is more to be done in the future and I am sure that Pat and Khalid will do an excellent job continuing on the upwards path. Pat will become Chairman of the Committee at the May 2015 AGM.

Pat joined us as a Committee member and chair designate in April 2014. Pat, Khalid and I have spent a significant amount of time over the past year ensuring that there is a smooth handover of responsibilities and that relationships and historical background are passed on. I will be continuing to serve on the Committee, to ensure the process is completed and that there is an additional sounding board for Pat and Khalid.

Dr Pamela Kirby joined the Committee during the year. I welcome her to Hikma and the Committee; she is a valuable addition. Sir David Rowe-Ham retired from the Committee during the year; I have greatly enjoyed working with him, the Committee has benefited greatly from his wisdom and experience and we wish him the best for the future.

This letter and the following report should provide you with an overview of the operation and scope of the Audit Committee and report on its work over the past year. The Committee's written terms of reference are available on Hikma's website. We invited the Chief Executive, Chief Financial Officer, VP for Investor Relations, Group Financial Controller, Auditors, Internal Auditors and certain members of the finance team to attend meetings as required. As in previous years, the Committee met with the internal and external auditors without management present and I met with each team separately as part of my review of their work.

As you will see from our highlights, we have undertaken extensive work during the year, including enhancing our approach to risk appetite, identification and management. In line with current guidance, we have provided more detail on the accounting judgements and issues considered by the finance team and Committee during the year.

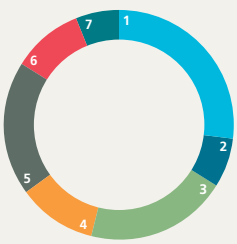
As an organisation Hikma is committed to clear and open communication. As I mentioned last year, I remain open to discussion with shareholders should they have any matters that they wish to raise directly with me.

Breffni Byrne, *Chairman of the Audit Committee*

## OUR HIGHLIGHTS

- Risk management – We have thoroughly reviewed our risk appetite and principal risks
- Audit tendering – We have considered guidance on audit tendering and have decided to conduct a tender over 2015–2016
- Non-audit fees – We have reviewed the position on non-audit fees and have resolved to minimise the level of non-audit services
- Governance – Monitored and reviewed the corporate governance arrangements and made recommendations for enhancement
- Auditing – Monitored the performance and findings of the external and internal auditors
- Evaluation – Implemented the results of the 2014 Audit Committee's evaluation exercise resulting in refocusing the Committee meetings to avoid duplication

## ALLOCATION OF COMMITTEE'S TIME




| | |
|---|---|
| 1. Financial performance | 27% |
| 2. Announcements/results | 7% |
| 3. Forecasts | 20% |
| 4. Internal audit | 11% |
| 5. External audit | 19% |
| 6. Corporate governance | 10% |
| 7. Risk | 6% |

## MEMBERSHIP AND ATTENDANCE

The Audit Committee consists of six Independent Non-Executive Directors: Breffni Byrne (Committee Chairman), Michael Ashton, Ronald Goode, Robert Pickering, Pat Butler and Dr Pamela Kirby. All members of the Committee have extensive financial experience, including international operations.

The Chairman has over 30 years' experience as a public accountant and is considered by the Board to have recent and relevant financial experience. Pat Butler, the Chairman designate, has extensive experience of financing, accounting, risk and internal control matters from his 30 years at McKinsey and Arthur Andersen. All members have spent a significant portion of their careers in leading positions at financial, advisory and pharmaceutical companies.

| Members | Member since | Attended | Potential | Meeting attendance |
|---|---|---|---|---|
| Breffni Byrne (Chairman) | 14 October 2005 | 7 | 7 | 100% |
| Pat Butler (Chairman designate) | 1 April 2014 | 5 | 5 | 100% |
| Michael Ashton | 14 October 2005 | 7 | 7 | 100% |
| Dr Ronald Goode | 12 December 2006 | 7 | 7 | 100% |
| Dr Pamela Kirby | 1 December 2014 | 1 | 1 | 100% |
| Robert Pickering | 1 September 2011 | 7 | 7 | 100% |
| Sir David Rowe-Ham (retired 15 May 2014) | 14 October 2005 | 3 | 3 | 100% |
| TOTAL MEETINGS | | | | 7 |

### INTERNAL ADVISERS

- Chief Financial Officer
- Company Secretary
- VP Investor Relations and Strategy
- VP of Reporting and Financial Compliance

### EXTERNAL ADVISERS

- Deloitte (Audit)
- Ernst & Young (Internal Audit)

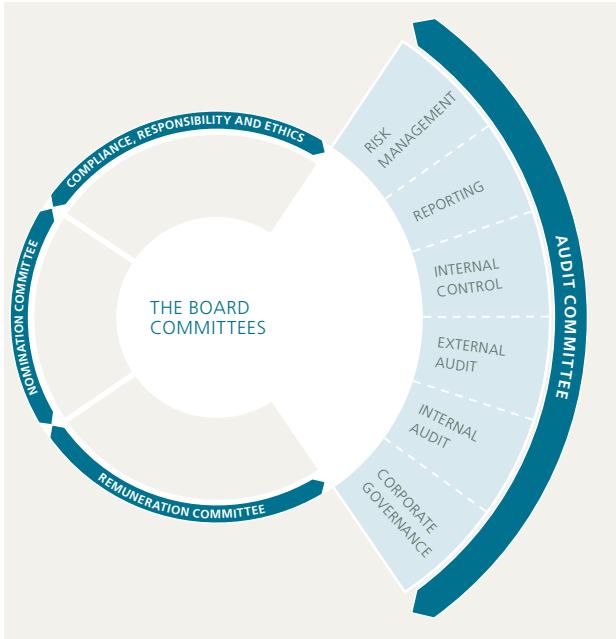
COMMITTEE REPORTS – AUDIT
*continued*

## SIGNIFICANT ACCOUNTING JUDGEMENTS

During 2014 and up until the date of this report, the Audit Committee also considered and discussed the following financial matters:

- Revenue recognition: The Committee reviewed the judgements and recommendations of management made in respect of revenue recognition for higher-margin products where the potential for returns and rebates was also high. The Committee was satisfied that the review by local and Group management validated the approach
- Rebates and chargebacks: The Committee assessed the financial 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 noted the improvements in the control and modelling environment and considered the appropriateness of associated provisions
- Taxation: The Group's worldwide operations are highly integrated and involve a number of cross-border transactions. As a result there is complexity and judgement regarding the potential tax liabilities in various jurisdictions. The Committee reviewed and considered the advice of and presentations from professional services firms and management in this regard
- Acquisitions: The Group acquired tangible and intangible assets from Bedford Laboratories during the year. There are significant judgemental issues regarding valuation of assets and allocation of consideration. The Committee reviewed and considered recommendations of management and support analysis from external advisers
- Accounts receivable and inventory: Reviewed the reports on major receivables and considered management's relationships with those parties, plans to ensure payment and relevant provisions. Assessed the potential impact of remediation and other factors on the impairment of inventory
- Asset impairment: The Group has significant investment in fixed assets relating to its manufacturing operations and intangible assets relating to marketing authorisations and acquisitions. The Committee continuously monitors the application of the Group's policies in relation to impairment and valuation of those assets and considers and challenges management's recommendations regarding the appropriate impairment
- Going concern: Conducted a rigorous assessment of whether Hikma is a going concern when preparing the annual and half-yearly financial statements. In reaching its conclusion, the Committee took into account Hikma's forecasts and budget, borrowing facilities, contingent liabilities, medium and long-term plan, and financial and operational risk management

## Responsibilities




The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external audit, internal audit, internal control, corporate governance and risk management. The Committee reviews Hikma's Annual Report, financial statements, interim report, interim management statements and trading updates and monitors all audit and non-audit work undertaken by external auditors. The Committee monitors the effectiveness and output of Hikma's internal and external audit activities, internal controls and risk management systems. The Committee is responsible for overseeing corporate governance arrangements across the Group, including the annual corporate governance review. The Audit Committee advises the Board on the appointment, reappointment and removal of the external auditors, as well as the effectiveness of the audit process. The Committee operates Hikma's policies on monitoring Directors' conflicts of interest. The Audit Committee terms of reference include all matters indicated by the Code and clearly set out its authority and duties. They are reviewed by the Board as part of the annual corporate governance review. The terms of reference are available on the Hikma website and by contacting investors@hikma.uk.com.

## Fair, Balanced and Understandable

Hikma is committed to clear and transparent disclosure and has embedded the procedures that were developed last year to improve the clarity of its reporting. In producing the Annual Report and Accounts, the focus of management, the auditors and the Committee is on ensuring that the disclosures are in clear language, reflect the underlying situation and that appropriate information is disclosed that allows readers to form a reasoned opinion. The process of reporting is an extensive exercise both from an internal management perspective and in the use of advisers.

At the request of the Board, the Audit Committee considers whether Hikma's Annual Report is fair, balanced and understandable and whether it provides the necessary information for shareholders to assess Hikma's performance, business model and strategy. The Audit Committee builds its recommendation based on a comprehensive review conducted by a committee of senior management (the 'Reporting Committee'), which consists of the:

- Chief Financial Officer
- Vice President Corporate Strategy and Investor Relations
- Company Secretary
- General Counsel
- Deputy Director of Investor Relations
- Vice President for Human Resources*
- Divisional Heads*
- VP of Reporting and Financial Compliance*
- Chief Compliance Officer*

* Where the matters on the agenda relate to their areas of responsibility

The Reporting Committee, which meets regularly during the year:

- Initiates the first review of the Annual Report in November, at which point areas for improvement are identified and enhancements recommended
- Discusses the proposed disclosures with external auditors, brokers and public relations advisers to obtain their input
- Meets to review and refine disclosure and ensure the opinions of the adviser continue to be sought
- Instructs a verification process to ensure the accuracy of disclosures
- Issues guidance to contributors at the beginning and throughout the process and reports on actions and significant areas of judgement to the Audit Committee as appropriate

The Audit Committee closely oversees the work of the Reporting Committee, which is responsible for ensuring the accuracy of the information submitted in the Annual Report and assessing whether the narrative section of the report is consistent with the accounting information. Each of the members of the Audit Committee and the Reporting Committee was satisfied that the 2014 Annual Report is fair, balanced and understandable and recommended the adoption of the report and accounts to the Board.

## External Audit

The external audit is undertaken by Deloitte LLP. The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit and for monitoring the independence and objectivity of the external auditors. The Audit Committee is the primary point of contact for the auditors and the auditors have direct access to all Committee members, without management involvement. The Committee regularly reviews the work of the external auditors and in doing so examined the following issues during the year:

### Audit quality and technical capabilities

The Committee formally reviewed the quality of the audit and capabilities of the team during the year and concluded that the existing team continues to conduct an effective audit. The Committee considered that the team's in-depth knowledge of the Group, particularly the Group's diverse international operations, is advantageous in terms of its ability to identify issues of importance and relay them clearly to the Committee. The Committee feeds back its comments on the auditors' performance as part of the regular meetings with them that occur without management present. The Committee evaluation process, which is anonymous and externally facilitated, includes an assessment of the work of the auditors, which was rated positively. The auditors ensure that experienced specialists assist management and present to the Committee where there are issues of a more complex nature, such as international taxation. The Committee believes that there is a strong, appropriate and open relationship between the audit team leadership, the Audit Committee and management.

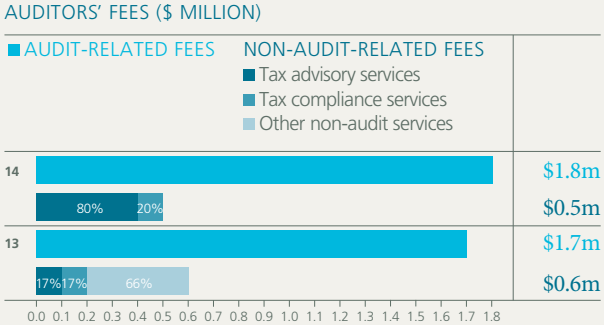
### Independence

The Committee regularly reviews the independence safeguards of Deloitte. The auditors are not allowed to undertake work that involves promoting Hikma, installing systems, making management decisions, supporting litigation or tasks that would involve review or reliance upon their audit work. The Committee aims to minimise non-audit work and only authorises such activities where the appointment is in the best interests of the Group and:

- The independence of the auditors is maintained both in terms of the type of work undertaken and the overall level of the non-audit fee
- The service quality and experience of the team are significantly ahead of potential competitors
- The services of other major providers is limited due to issues such as conflicts of interest

Fees paid in respect of audit, audit-related and non-audit services are outlined in Note 6 to the consolidated financial statements and in the chart below. Audit-related services are services carried out by the external audit team by virtue of the role and principally include assurance-related work.

AUDITORS' FEES ($ MILLION)



The prior approval of the Audit Committee is required for the recruitment of a senior member of the audit team or the recruitment of an employee of the external auditors to a senior finance position within the Group. The Committee did not receive a request to exercise its discretion under that policy during the year.

### Tendering

Deloitte LLP were appointed as auditors in advance of when Hikma listed on the London Stock Exchange in November 2005. Since that point there have been three senior audit partners. Following changes to regulations during the year, Hikma will now be required to put the audit out to tender by 2017. Mr Paul Franek, the current senior audit partner, assumed responsibility in 2011 and will complete his term after the audit of the 31 December 2015 financial statements. The Committee considers it prudent to undertake the tender exercise during late 2015 and early 2016, with a view to making a recommendation in time for the end of Mr Franek's tenure. There are no contractual provisions that restrict the Committee's choice of auditors.

### Reappointment

As in previous years, the Committee maintained regular contact with the auditors throughout the year and undertook an assessment of the auditor's performance and independence. The Committee recommended to the Board the reappointment of Deloitte as external auditor. The re-election and remuneration of Deloitte LLP as Hikma's auditors will be proposed to shareholders at the 2015 Annual General Meeting. Should shareholders wish to discuss the auditor, the Chairman of the Audit Committee will make himself available.

## Internal Audit

During the year under review and up to the date of this report, Ernst and Young ('E&Y') continued its management and execution of the Group's internal audit function on a global basis under a contract that originally commenced in 2006. There is a regular programme of interaction between E&Y and the Committee detailed at the bottom of this page.

## Internal Control

The Board is ultimately responsible for the effectiveness of the Group's systems of internal controls and risk management during the year and for reviewing its effectiveness. The Board confirms that it is in accordance with the Code and the Turnbull guidance on Internal Control. The system for identifying, evaluating and managing the risks the Group faces draws on the on-going output of the finance department on Group performance, the work of the internal auditors and issues identified by the external auditors to the extent covered by their audit work. The Board monitors the on-going effectiveness of the system and formally reviews the Group's policies on internal control on an annual basis including all material controls, including financial, operational and compliance control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board confirms that the necessary actions will be taken to remedy any significant failings or weaknesses identified from this review.

**MAY**

- The Committee Chairman meets E&Y at the Hikma head office in order to undertake a thorough review of the internal audit findings to date and the management responses.

**JULY**

- E&Y report their initial findings to the full Committee. The Committee meets with E&Y without management present.

**OCTOBER**

- The Committee Chairman has a further meeting with E&Y 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.

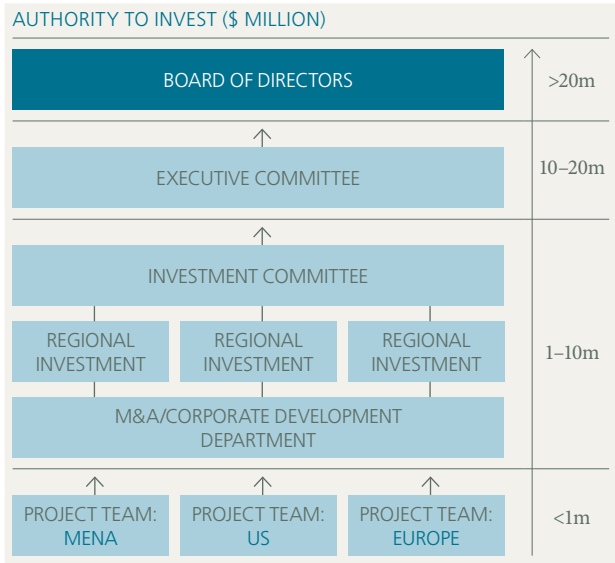
**DECEMBER**

- E&Y report their full-year findings, risk assessment and plan for the following year to the Committee. The Committee meets with E&Y without management present.

## COMMITTEE REPORTS – AUDIT
*continued*

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

- A documented and disseminated reporting structure with clear procedures, authorisation limits, segregation of duties and delegated authorities
- Annual budgets, updated forecasting and long-term business plans for the Group that identify risks and opportunities and that are reviewed and approved by the Board
- 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
- Written policies and procedures for material functional areas with specific responsibility allocated to individual managers
- A defined process for controlling capital expenditure which is detailed in the governance framework




### Risk Management

The Committee oversees Hikma's risk management framework in the context of its responsibilities for internal control and annually reviews the strategic risks facing the Group. The Audit Committee reviews business and operational risks with the internal and external auditors which arise through the audit work that they perform, including risk interviews with all executive management.

During the year the Board resolved to further enhance its approach to risk management. The process is being led by the Audit Committee and extensively involved the Chief Financial Officer, Company Secretary and executive management team.

### Principal Risks and Uncertainties

A detailed description of the principal risks and uncertainties facing Hikma are detailed on pages 42 and 43.

For and on behalf of the Audit Committee

Breffni Byrne, *Audit Committee Chairman*
11 March 2015

COMMITTEE REPORTS

# Nomination

## Letter from the Chairman

NOMINATION REPORT



Dear Shareholder

I am pleased to be writing my first letter to you, having assumed the role previously performed by Sir David Rowe-Ham following his retirement in May. In the last report we focused on the process behind and the reasons for the change to the chairmanship and Senior Independent position. I am pleased to say that these changes have worked smoothly and we continue to have a Board that functions very effectively. The relationship between myself, as Senior Independent, and Said Darwazah, as Chairman, is very strong; we meet regularly, listen to each other and work together closely to achieve joint aims.

For some time the Board has desired to improve its gender balance, while ensuring that we only appoint the best candidate for the role. During 2014 we undertook a search process for an additional non-executive with a focus on pharmaceutical experience, to ensure that we are well positioned for medium-term succession. We were very fortunate to find Pamela Kirby, who has extensive experience both in the leadership of pharmaceutical organisations and as an independent non-executive. We were delighted to be able to improve diversity while ensuring that we met our aim of appointing the best candidate.

Our medium-term succession plans are to allow for the gradual rotation of independent non-executives. We will bring on board new Directors with a view to ensuring that they are fully inducted into the Company and their roles in advance of the retirement of the Director they are replacing. This also allows us to consider the rotation of the Committee chairs over a longer period, getting to know the individuals better and allowing for the orderly transition of these roles. We are cognisant of the risks of changing too much and too quickly and the potential to lose Company and market-specific knowledge. We also realise the potential independence issues of extended service and I confirm that no Independent Director will serve in excess of 12 years. We aim to consider Independent director succession further over the course of 2015 and beyond, with a view to enhancing diversity further.

Over the course of 2015 and with the assistance of our executive and human resources department, we will be further developing our executive succession arrangements, expanding the number of positions considered.

As an organisation, Hikma is committed to clear and open communication and, as the Senior Independent Director, I am open at any time to discussion with shareholders should they have matters which they wish to discuss.

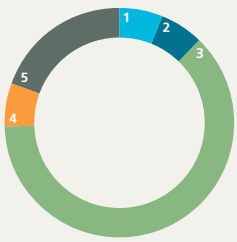
Robert Pickering, *Chairman of the Nomination Committee*

# COMMITTEE REPORTS – NOMINATION
*continued*

## OUR HIGHLIGHTS

- Successful transition of the chairmanship and Senior Independent Director positions
- Undertook a non-executive search process leading to the appointment of Dr Pamela Kirby
- Enhanced Board gender diversity
- Inducted two new Non-Executive Directors and commenced the handover of relevant positions
- Further developed our medium-term succession plan
- Reviewed the composition, diversity and balance of skills on the Board

## ALLOCATION OF COMMITTEE'S TIME




| | |
|---|---|
| 1. Diversity | 6% |
| 2. Skills and experience | 6% |
| 3. Succession | 61% |
| 4. Independence | 6% |
| 5. Corporate governance | 19% |

## MEMBERSHIP AND ATTENDANCE

The Nomination Committee consists of four Directors. Three are Independent Non-Executive Directors: Robert Pickering, Michael Ashton and Pat Butler. The fourth is Mazen Darwazah, the Executive Vice Chairman. Pat Butler, Independent Non-Executive Director, joined on 1 April 2014. Sir David Rowe-Ham retired from the chair on 15 May 2014 and Robert Pickering became the Committee Chairman on that date. The Committee met six times during the year. Full attendance was achieved.

| Members | Member since | Attended | Potential | Meeting attendance |
|---|---|---|---|---|
| Robert Pickering (Chairman) | 1 September 2011 | 6 | 6 | 100% |
| Michael Ashton | 14 October 2005 | 6 | 6 | 100% |
| Pat Butler | 1 April 2014 | 5 | 5 | 100% |
| Mazen Darwazah | 14 October 2005 | 6 | 6 | 100% |
| Sir David Rowe-Ham (retired 15 May 2014) | 14 October 2005 | 2 | 2 | 100% |
| TOTAL MEETINGS | | | | 6 |

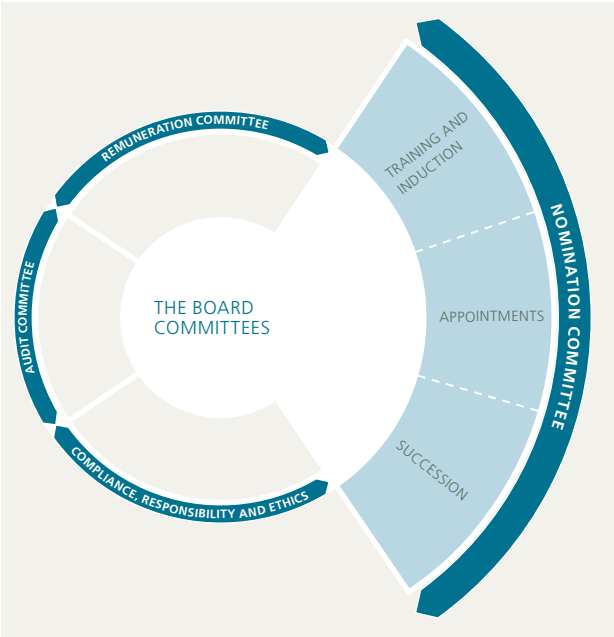
### INTERNAL ADVISERS

- Chairman and Chief Executive
- Company Secretary
- VP Human Resources

### EXTERNAL ADVISERS

- Korn Ferry
- Odgers Berndtson
- Lintstock

## Responsibilities




The Nomination Committee is responsible for succession planning, including the progressive refreshing of the Board and ensuring that all appointments to the Board are made on objective criteria and that candidates have sufficient time to devote to their prospective responsibilities. It is also charged with reviewing the appropriateness of the size, structure and composition of the Board. The Nomination Committee terms of reference include all matters indicated by the corporate governance principles and clearly set out its authority and duties. The Committee's terms of reference are approved and reviewed by the Board on a regular basis. The terms of reference are available on the Hikma website and by contacting investors@hikma.uk.com.

## Succession

At the end of 2013 and during early 2014 the Committee consulted shareholders on the appointment of the Chairman and Chief Executive, as well as the change to the Senior Independent Director. The process undertaken was reported in the 2013 Annual Report on page 79.

During 2014 the Committee further developed the medium-term succession arrangements for the Independent Non-Executive Directors. The Committee considered it was important that the medium-term succession plans allow for the gradual rotation of independent non-executives, to allow for a full induction and the transfer of knowledge and relationships. The Committee has resolved that no Independent Director would serve in excess of 12 years. The medium-term plan allows for the orderly transition of Committee chairmanship roles, allowing time to ensure parties on the Board and within management are best placed for the change. The Committee will implement the changes necessary to ensure that the plan is met over a three- to five-year timeframe and will keep shareholders updated as decisions are made.

### Appointments

The appointment of Dr Pamela Kirby followed the established and tested Hikma process, which is summarised below. Korn Ferry were used for the appointment of Dr Kirby. Korn Ferry did not and does not have any further connection with the Company. In terms of the process for identifying candidates, the Committee has the necessary authority to advance the search process to the extent that a shortlist of candidates or a candidate is proposed to the Board. The final decision on any Director's appointment rests with the Board. While the selection process may differ depending on the nature of the appointment, the main elements of the selection process are:

- It is led by the Senior Independent Director, in consultation with the Board Chairman
- A role and experience profile is established
- An appropriate process for internal and external search is selected
- A longlist of candidates is considered by a sub-committee
- A shortlist of candidates is created and considered by the Committee
- The identified candidates are interviewed
- The Committee makes a proposal to the Board

COMMITTEE REPORTS – NOMINATION
*continued*

## Skills and Experience

The broad range of skills and experience of Board members has greatly assisted in the success of Hikma. In view of the current succession plans, the Nomination Committee undertook an in-depth analysis of each role on the Board before considering new candidates. The Committee aims to preserve the Board's very broad spread of experience, which provides the necessary checks and balances for safeguarding the interests of the Group. While each Director possesses different skills, the Committee believes that all Directors at Hikma share the following important characteristics:

- Challenging yet consensual style
- Independence of mind and clarity of thought
- Significant experience at an executive management level
- International business exposure

Additionally, the Committee considers that across the Board as a whole and on the executive and non-executive teams it is important to ensure at least two members have significant experience in the following areas:

- Middle East and North Africa, particularly the business and political environment
- US pharmaceutical and regulatory environment
- Pharmaceutical manufacturing, quality and sales processes
- Business ethics and business integrity programmes
- Strategy and risk management
- UK and international listed environment
- Human resources and remuneration governance

For further information on the diverse skills and experience of our current Directors, please see the biographical details on pages 56 to 59.

## Chairman and Chief Executive

The Committee and the independent Non-Executive Directors keep under review the position of Chairman and Chief Executive and the governance safeguards that were implemented at the time of the combination of roles in May 2014. The Independent Non-Executive Directors met regularly during the year without management present and discussed, among other issues, the safeguards and functioning of the Board. The Independent Directors considered that the safeguards are effective and that the combined position continued to be appropriate, chiefly due to the nature of the relationship between the Chairman and the Senior Independent Director and the culture of considered and consensual approach that is evident throughout Hikma. The Committee noted the Independent Directors' position and concluded that the combined position continues to be appropriate.

## Re-election

Each member of the Board will submit himself or herself for election or re-election (as appropriate) at the 2015 AGM. The positions of each Board member were considered in detail during the year as part of the review of succession arrangements, consideration of independence issues, the Board and Committee evaluation processes and the on-going dialogue between the Chairman and the Senior Independent Director.

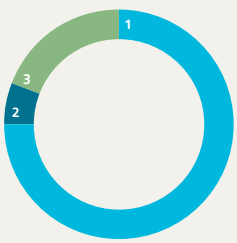
## Diversity

Hikma is committed to employing and engaging the best people, irrespective of background, gender, orientation, race, age or disability. Hikma has always operated a discrimination-free working environment and is committed to gender diversity at all levels and in all areas of its business. We consider that our diversity continues to be demonstrated by the broad range of people in our organisation.

Hikma has a long history of a significant number of women being present in executive management positions, a number of whom have worked for the Company for the majority of their careers. This is illustrated in the charts accompanying this page.

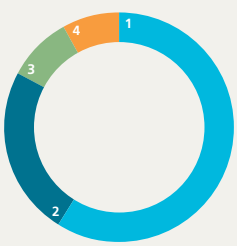
The Chief Executive's letter to staff for 2015 stated that one of the two strategic priorities is the "Advancement of women across the Group". The letter stated that "Supporting women to achieve their professional goals is an integral part of the Hikma culture. Women at Hikma have leveraged their broad capabilities and strong leadership skills to help drive Hikma's growth. Together we must take the right steps to ensure that women at Hikma have even more input into current and future projects and encourage them to take on more responsibilities."

### CULTURAL DIVERSITY



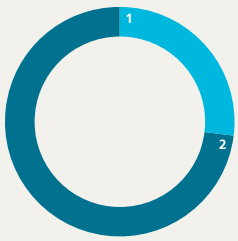

| | |
|---|---|
| 1. Middle Eastern | 75% |
| 2. European | 6% |
| 3. US | 19% |

### AGE DIVERSITY



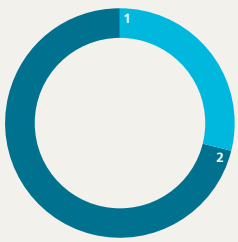

| | |
|---|---|
| 1. 19–30 | 59% |
| 2. 31–40 | 24% |
| 3. 41–50 | 9% |
| 4. 50+ | 8% |

### GENDER DIVERSITY OVERALL




| | |
|---|---|
| 1. Women | 27% |
| 2. Men | 73% |

### GENDER DIVERSITY IN EXECUTIVE MANAGEMENT




| | |
|---|---|
| 1. Women | 29% |
| 2. Men | 71% |

## Board Diversity

The Committee considered Board diversity at several stages through the year. Since the listing of Hikma the Board has excellent diversity in terms of culture, age, background, skills and experience. The Committee was pleased to be able to improve gender diversity during 2014 and is cognisant of the need to make further enhancements in this area as the succession plan develops over the medium-term. The Committee requires the external search consultants actively to seek female candidates and ensures that a significant proportion of long and shortlisted candidates are female. The Committee continues to believe that diversity targets are inappropriate.

For and on behalf of the Nomination Committee

Robert Pickering, *Nomination Committee Chairman*
11 March 2015

COMMITTEE REPORTS

# Compliance, Responsibility and Ethics

## Letter from the Chairman

COMPLIANCE, RESPONSIBILITY AND ETHICS REPORT



Dear Shareholder

The Compliance, Responsibility and Ethics Committee ('CREC') has now been established for four years and I have been particularly pleased with the progress we have made over this period and the commitment of everyone in the Hikma Group to our efforts in the anti-bribery and anti-corruption ('ABC') compliance and corporate responsibility ('CR') programme.

It has been a year in which a number of companies have faced serious ABC issues. From the Committee's perspective, this highlights the importance of our ABC programme and that Hikma must continue to be ever vigilant. I am confident that Hikma has excellent people with the right values in all the jurisdictions in which we operate and that we clearly communicate the Board's commitment to business integrity to all our people. We know it is important to keep communicating those values and to check that our people are doing what Hikma believes they are.

I would like to thank Dr Othman Abu Gheida who took over the Chief Compliance Officer ('CCO') role in 2013, the training and implementation of our ABC policies and procedures, and resourced the Compliance Department during 2014. Thanks to Dr Othman, all of our management (circa 2,200 people across the US, MENA and EU) have received training on ABC and our Code of Conduct and these members of management are now in the process of training their people. As a specialist in training and communication, he was invaluable over the past year.

I am pleased to welcome Mr Waleed Hamam as the new CCO. Waleed has been working with Hikma for 24 years and has significant operational experience leading different markets across MENA; including Jordan, KSA, Tunisia and Sudan. Waleed is the right person to fully implement our ABC procedures in each jurisdiction, delivering the medium-term ABC strategy that was set by the Committee during the year. Waleed is supported by local compliance departments in each of our major operational jurisdictions and local representatives at the smaller sites.

In December 2014, we welcomed Dr Pamela Kirby as a new member of the Committee. Dr Kirby has led the development and oversight of ABC programmes for major pharmaceutical corporations; as such, she is an important addition to the Committee and has already demonstrated her ability to add value. I would like to thank Robert Pickering for his excellent contribution to the Committee, he has now moved on to focus on his role as Senior Independent Director.

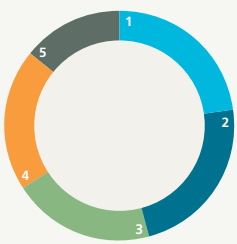
As an organisation Hikma is committed to clear and open communication. I remain open to discussion with shareholders should there be any concerns that they wish to raise directly.

Dr Ronald Goode, *Chairman of the Compliance, Responsibility and Ethics Committee*

## OUR HIGHLIGHTS

- The setting of a medium-term ABC strategy, with specific and ambitious targets for the Compliance Department that are being monitored by the Committee
- Significant increases in compliance resources, to ensure that there is a dedicated person in each of our major markets and a strengthened central team
- Circa 600 of our senior people, comprising all managers at all the major facilities of the Company, have received direct training on ABC, including how to train their subordinates. As a result, a further 1,600 of our people (mostly supervisors) have received training from their managers
- The Compliance Department being fully involved in the assessment of ABC aspects of Hikma's M&A and business development activities
- Full disclosure of GHG (greenhouse gas) emissions across all our sites
- Being one of the first companies in Jordan to be awarded a smoke free workplace certificate by the King Hussein Cancer Centre
- The successful launch of the first phase of the Hikma health app which provides patient support through a symptom checker and a medical organiser
- Benchmarking of our corporate responsibility practices to ensure Hikma CR strategy is competitive with industry peers

## ALLOCATION OF COMMITTEE'S TIME




| | |
|---|---|
| 1. Policies | 23% |
| 2. Implementation | 23% |
| 3. Operational | 20% |
| 4. CSR | 20% |
| 5. Corporate governance | 14% |

## MEMBERSHIP AND ATTENDANCE

The Compliance, Responsibility and Ethics Committee ('CREC') consists of five members. Four are Independent Non-Executive Directors: Dr Ronald Goode (Committee Chairman), Breffni Byrne, Pat Butler and Dr Pamela Kirby. The fifth member is the Executive Vice Chairman, Mazen Darwazah. Robert Pickering served on the Committee during the year, but has recently stepped down due to the changes in his role. The CREC met six times during the year, and full attendance was achieved. As the CREC is not a committee mandated by the Code, its membership is not subject to published requirements. However, Hikma believes that the requisite challenge to operational effectiveness is achieved by having an Independent Non-Executive Director membership majority. The Chairmanship of the CREC is held by an Independent Non-Executive Director, Dr Ronald Goode, and the Chairman of the Audit Committee is a standing member. Within the Company, the Executive Vice Chairman champions Hikma's anti-bribery and corruption ('ABC') and corporate responsibility ('CR') programmes.

| Members | Member since | Attended | Potential | Meeting attendance |
|---|---|---|---|---|
| Dr Ronald Goode (Chairman) | 1 November 2010 | 6 | 6 | 100% |
| Mazen Darwazah | 1 November 2010 | 6 | 6 | 100% |
| Breffni Byrne | 1 November 2010 | 6 | 6 | 100% |
| Pat Butler | 1 April 2014 | 5 | 5 | 100% |
| Dr Pamela Kirby | 1 December 2014 | 1 | 1 | 100% |
| Robert Pickering | 1 September 2011 | 1 | 1 | 100% |
| TOTAL MEETINGS | | | | 6 |

### INTERNAL ADVISERS

- Chief Compliance Officer
- Company Secretary
- VP for Corporate Communications
- General Counsel
- Group Compliance Officer

### EXTERNAL ADVISERS

- PwC
- Ernst and Young

## Responsibilities

The CREC sets the overall strategy for the Group's response to bribery and corruption risks and is responsible for approving the contents of all of Hikma's policies in areas where ethical judgements are important. The CREC oversees the Group's ABC compliance programme, policies on ethics and business conduct and the development of the Code of Conduct (the 'Code'). The CREC also oversees Hikma's speak-up process for employees to raise ethical concerns, and, where relevant, oversees their investigation. The CREC reviews and monitors policy in the area of CR at Board level and is supported in this work by the CR Committee. The CREC's terms of reference are reviewed by the Board on a regular basis. The terms of reference are available on the Hikma website and by contacting investors@hikma.uk.com.

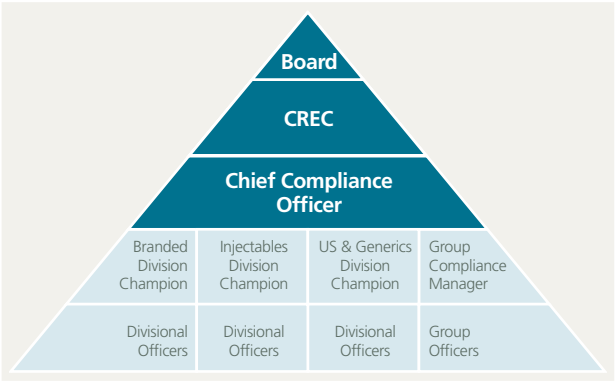
## Anti-Bribery and Anti-Corruption ('ABC')

Mr Samih Darwazah, the founder of Hikma, chose 'wisdom' ('Hikma' in Arabic) and quality as the founding principles of the organisation. Integrity and doing the right thing are at the heart of these values. Since its foundation Hikma has and continues to be committed to the highest standards of integrity and ethics in the conduct of its business. Hikma has communicated its zero tolerance of bribery and corruption to its employees and made sure that they are aware that Hikma will not penalise any individual for complying with the principles enshrined in the Code or in the ABC policies, even at the cost of forgoing a business opportunity, losing revenue or profit or disobeying a superior's instructions. Hikma disciplines staff for any ethical breaches of its standards of integrity.

## ABC Strategy and Resources

During the year, the Compliance Department developed a medium-term global strategy for the delivery of the CREC's commitment to business integrity and ABC. The CREC Chairman was fully involved in the strategy development process with internal and external advisers. Following the review and approval of the strategy by the CREC, the department re-assessed resource requirements to deliver the KPIs and requested a significant increase in resources. The CREC requested further resources from the Board and was pleased that the proposal was fully supported without amendment.

## ABC Architecture




Hikma has created a new framework that sets out the structure of leadership, delegated authority and ownership for the ABC compliance programme. Operational responsibility and oversight for ABC is assigned by the Board to the Executive Vice Chairman, who then delegates responsibility to his management team.
The CCO reports directly to the CREC on ABC matters affecting all the jurisdictions in which Hikma operates. The CCO's leadership of ABC issues is overseen by the CREC Chairman and the Executive Vice Chairman. The head of each business division has taken responsibility to be the compliance champion for their division:

- Mazen Darwazah (Branded)
- Riad Mechlaoui (Injectables)
- Michael Raya (US and Generics)

The CCO is supported by Group and regional compliance officers at the operational level. The legal, financial and company secretarial departments also advise and provide implementation support to the Compliance Department. This new structure better aligns the ownership of good ABC behaviours with the day-to-day business operations.

## ABC Risk Assessment

During 2011 and 2012, Hikma undertook a full and global ABC risk assessment. This was performed by the Good Corporation, an independent body who have specialised in business ethics and integrity for over a decade. Good Corporation visited each of our major areas of operation to perform this risk assessment. The process was overseen at a group level and each site by the General Counsel and the Chairman of the CREC.

The conclusion from the exercise was that Hikma has a strong ethical culture that is deeply embedded within its operations. In order to support that culture, process enhancements were identified which the Compliance Department are addressing as part of the medium-term ABC strategy.

## Code of Conduct

Following on from the risk assessment, the existing Group Code of Conduct was fully reviewed and approved by the CREC and the Board. Hikma benchmarked the Code against good industry practice and a peer group of international companies. Hikma also undertook a full internal consultation, encompassing a broad cross-section of management and benefited from the input of an external compliance consultant. Further enhancements have been made during each subsequent year. The Code has now been translated into the major functional languages of Hikma: Arabic, English, French, German, Portuguese, Italian and Russian. Each year all Hikma employees are required to confirm that they have read the Code, have understood it and will abide by its terms. Employees also confirm in writing that they understand their obligations to report events of suspected non-compliance with Code. The training plan for the Code includes face-to-face training for top managers, training and discussion sessions at department level for employees and lower management. The Code is available on our website: www.hikma.com/en/corporate-responsibility/code-of-conduct.

## ABC Policies and Procedures

In response to points highlighted in the risk assessment exercise, Hikma created a full set of ABC policies during 2012 and 2013. The policies were fully reviewed by external advisers and internal management. The final policies were approved by the CREC in late 2013. These policies were developed into procedures and the compliance strategy set out the delivery of implementation of those policies and worked commenced on local implementation in the MENA, EU and US. The target is for the process to be substantially complete by the end of 2015, with testing, monitoring and enhancing thereafter.

## Training

Hikma's policies have been developed in conjunction with its on-going focus on education and dissemination of ABC compliance information across the business. Hikma's employee induction programmes ensure that each new employee can clearly understand the Group's ethical expectations. In addition, increasing awareness has been built within the business for the processes and issues of ABC compliance, with awareness sessions given to functional and geographical teams across the Group.

## Speak-up

Hikma has an open-door policy regarding communication so that it can hear from those who have any questions or concerns about the ethics and integrity of the business. Where employees believe that it is not possible or appropriate to report to line management, they may make reports confidentially to any senior manager within the business. Additionally, Hikma has anonymous web and telephone reporting lines in place across all operations, which report directly to the Compliance Department, VP of Corporate HR and the General Counsel. All speak-up items are reported to the CREC. As part of their commitment to the Code employees understand that they have a duty to report any suspected violations. Hikma investigates all reports of non-compliance and takes appropriate action.

## Corporate Responsibility

The Executive Vice Chairman is the champion of Hikma's CR programme within the Company and is Chairman of Hikma's CR Committee. The VP of Communications is responsible for CR at an operational level. The CREC Chairman, Director of Communications, divisional and functional heads and Company Secretary are members of the CR Committee. The CR Committee reviews, supports and promotes Hikma's CR activities and reports directly to the CREC. The CR team, led by the VP of Communications, regularly presents developments to the CREC. Please see pages 44 to 52 for the Group's corporate responsibility report.

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

Ronald Goode, *CREC Chairman*
11 March 2015

REMUNERATION REPORT

# Remuneration Report

## Letter from the Chairman

REMUNERATION REPORT



Dear Shareholder

During the year, we have made steady progress across our remuneration and human resources practices. I am delighted to welcome Dr Pamela Kirby to the Committee, who brings extensive experience of human resources and remuneration issues.

Our remuneration policy has remained unchanged and we have more closely aligned the comparator group characteristics with those of Hikma. In respect of executive remuneration, there have been no departures from normal policy or use of special discretion during the year.

We realise that one of the most significant issues for shareholders this year will be the rise in the salary of the Chairman and Chief Executive. I would like to assure you that it was not a decision that we took lightly and only after we had consulted our major shareholders and stakeholders. The increase reflects the outstanding business and share price performance and the need for continuity to deliver our medium-term strategy, and ensures that his salary is competitive with our peer position in the FTSE and pharmaceutical industry. Further details are provided in this report.

The Committee was delighted to be nominated for a third year for the Building Public Trust Award for the best remuneration disclosure in the FTSE 250. We aim to be entirely transparent in our remuneration practices and provide shareholders and stakeholders with the information they need to make informed decisions about our Company. We have, again, sought to develop our disclosure further this year and hope that you find this useful.

One of the matters on which the Committee is most pleased to report is that our executives directly below Board level have built up shareholdings averaging 1,289% of salary. We believe that the best alignment of interests is achieved by investment at a meaningful level and are delighted that our executives demonstrate such a clear commitment to the Company.

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

Michael Ashton, *Chairman of the Remuneration Committee*

## Responsibilities

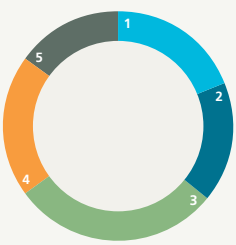
The Committee is responsible for developing and setting Group remuneration policy and overseeing its application. The Committee sets the remuneration of the Executive Directors and makes recommendations on reward for the senior management team. The Committee reviews executive performance and strives to ensure Hikma's remuneration structures align the interests of management and shareholders.

The Remuneration Committee's terms of reference include all matters indicated by the corporate governance principles and clearly set out its authority and duties. The Committee's terms of reference are reviewed by the Board on an annual basis. The terms of reference are available on the Hikma website and by contacting investors@hikma.uk.com.

### HIGHLIGHTS OF 2014

- Conducted a full shareholder consultation on executive salary arrangements
- Finalised and implemented the new Executive Incentive Plan
- Reviewed the comparator group to reduce the weight of pharmaceuticals companies with a larger market capitalisation and better align it to the Company's size and market position
- Nominated for the Building Trust Award for best Remuneration Disclosure in the FTSE 250 for the third year
- Further developed advice and guidance regarding remuneration below board level
- Considered developments in the business and governance arena
- Fully implemented our policies in respect of minimum shareholdings at 300% of salary for Executive Directors and 200% for other executives
- Benchmarked Executive Director, Non-Executive and senior management compensation
- Acted as a sounding board for significant projects undertaken by the Human Resources department
- Reviewed executive performance base incentives
- Developed the usage of KPIs, the bonus plan and share scheme usage for employees below executive level
- Reviewed the performance and competitiveness of our Remuneration Advisers

### ALLOCATION OF COMMITTEE'S TIME




| | |
|---|---|
| 1. Setting executive remuneration | 19% |
| 2. Remuneration policy | 17% |
| 3. Conditions in the Group | 29% |
| 4. Developing practices | 20% |
| 5. Corporate governance | 15% |

### MEMBERSHIP AND ATTENDANCE

The Remuneration Committee consists of five Independent Non-Executive Directors, with an Independent Non-Executive Director holding the chairmanship of the Committee. All members of the Committee have held positions at the highest levels in multinational organisations and hence have experienced business and resource issues at all levels. The members have spent a significant proportion of their careers leading teams and in executive management. The members understand the need to incentivise top management appropriately, while ensuring that rewards are fair throughout all levels of Hikma's business.

| Members | Member since | Attended | Potential | Meeting attendance |
|---|---|---|---|---|
| Michael Ashton (Chairman) | 14 October 2005 | 6 | 6 | 100% |
| Breffni Byrne | 14 October 2005 | 6 | 6 | 100% |
| Ronald Goode | 12 December 2006 | 6 | 6 | 100% |
| Dr Pamela Kirby | 1 December 2014 | 1 | 1 | 100% |
| Robert Pickering | 1 March 2014 | 5 | 5 | 100% |
| Sir David Rowe-Ham (retired 15 May 2014) | 14 October 2005 | 2 | 2 | 100% |
| TOTAL MEETINGS | | | | 6 |

**INTERNAL ADVISERS**

- Chairman and Chief Executive
- VP Human Resources
- Company Secretary

**EXTERNAL ADVISERS**

- PwC

REMUNERATION REPORT
*continued*

## Remuneration and Performance Summary

### PERFORMANCE COMPONENTS

| | 2013 | | 2014 | Notes |
|---|---|---|---|---|
| Sales | $1,365m | 9% | $1,489m | |
| Profit | $413m | 3% | $427m | ▶ Adjusted operating profit |
| Share price | 1,201p | 65% | 1,979p | |
| Dividend | 27 cents | 19% | 32 cents | ▶ Includes special dividends |
| Employee compensation | $28,951 | 9% | $31,531 | ▶ Average per employee |
| Shareholder policy approval | 99.3% | | 92.5% | ▶ Votes withheld have been discounted |
| Shareholder implementation approval | 99.3% | | 98.8% | ▶ Votes withheld have been discounted |

### TOTAL REMUNERATION

| Executive Director | 2013 ($000) | | 2014 ($000) | | 2015 ($000) (estimated) | Notes |
|---|---|---|---|---|---|---|
| Said Darwazah | 3,958 | 6% | 4,213 | 22% | 5,142 | ▶ Below policy position<br>▶ Policy range $7.4m to $12.6m |
| Mazen Darwazah | 2,646 | 12% | 2,953 | 9% | 3,216 | ▶ Within policy position<br>▶ Policy range $2.9m to $4.6m |

### COMPONENTS

| Salary | 2013 ($000) | | 2014 ($000) | | 2015 ($000) (estimated) | Notes |
|---|---|---|---|---|---|---|
| Said Darwazah | 803 | 5% | 842 | 43% | 1,200 | ▶ Please see page 97 for commentary on Said Darwazah's salary |
| Mazen Darwazah | 539 | 15% | 620 | 9% | 676 | |
| **Bonus** | | | | | | |
| Said Darwazah | 1,605 | –21% | 1,263 | –29% | 900 | ▶ 2013 figures are under the previous incentive arrangement. 2014 and 2015 figures are element A of the EIP. The 2015 estimate is based on target performance |
| Mazen Darwazah | 1,078 | –14% | 930 | –45% | 507 | |
| **Share awards** | | | | | | |
| Said Darwazah | 1,528 | 37% | 2,086 | 44% | 3,014 | ▶ 2013 and 2014 figures represent LTIPs exercised during the year<br>▶ 2015 is an estimation of the value of the LTIP to vest in that year, using current vesting percentages, share prices and exchange rates |
| Mazen Darwazah | 1,019 | 37% | 1,391 | 45% | 2,020 | |

## COMPONENTS continued

| Pensions | 2013 ($000) | | 2014 ($000) | | 2015 ($000) (estimated) | Notes |
|---|---|---|---|---|---|---|
| Said Darwazah | 11 | 0% | 11 | 45% | 16 | ▶ Pension contributions are up to 10% of salary<br>▶ Executives participate in the same pension plan as Jordanian employees, their country of employment |
| Mazen Darwazah | 10 | 20% | 12 | 8% | 13 | |

| Other benefits | | | | | | |
|---|---|---|---|---|---|---|
| Said Darwazah | 11 | 0% | 11 | 9% | 12 | ▶ School fees only |
| Mazen Darwazah | 0 | 0% | 0 | 0% | 0 | |

## NON-EXECUTIVE DIRECTORS' FEES

| Non-Executives | 2013 ($000) | | 2014 ($000) | | 2015 ($000) (estimated) | Notes |
|---|---|---|---|---|---|---|
| Non-Executive Directors' average total fee | 88.5 | 4% | 92.3 | 3% | 95.1 | ▶ Below policy position (policy range £120k to £247k)<br>▶ Average Director's fee includes basic fee, Committee and Chairmanship fee<br>▶ Full breakdown of fees on page 100 |

The information in the table above has been audited by Deloitte

REMUNERATION REPORT
*continued*

## Directors' Remuneration Policy Summary

The full remuneration policy can be found on pages 90 to 99 of the Annual Report 2013 which is available at www.hikma.com.

### Effective period

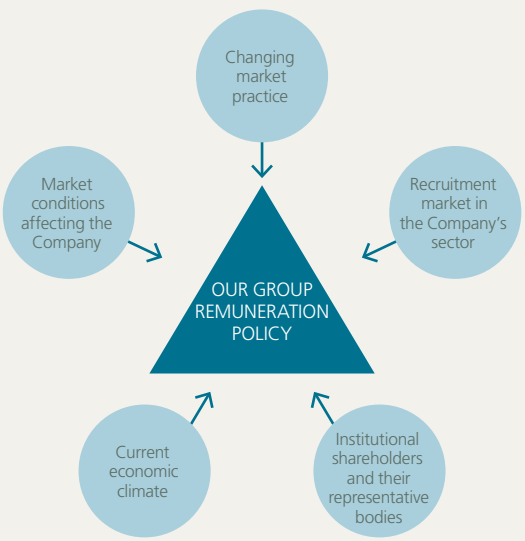
The Directors' Remuneration Policy was approved at the 2014 AGM and will be effective until the 2016 AGM. It has not been adjusted during the year.

### Our core principles

The Remuneration Committee reviews Group remuneration policy on an annual basis to ensure it remains appropriate. The Committee aims to ensure that remuneration for the Executive Directors and senior management:

- Enhances the achievement of Hikma's strategic aims
- Takes account of employment conditions both inside and outside Hikma
- Aligns the interests of all employees, management and Directors with those of shareholders
- Takes account of Hikma's Corporate Social Responsibility programme, including environmental, social and governance issues
- Is aligned with Hikma's founding principle of Business Integrity

FACTORS AFFECTING REMUNERATION POLICY




### Employment conditions

The Committee ensures that employees' remuneration across the Group is taken into consideration when reviewing executive remuneration policy. There is a balance to be achieved with disclosure, as this may give rise to ever greater remuneration demands increases across the whole of Hikma and reduce the ability to reward for superior performance and in line with market practice. The Committee reviews detailed internal data and is satisfied that the level of remuneration is proportionate across the HR grades.

The following table details the maximum performance remuneration available at each level in the Group:

| | Maximum award (% of salary) | | |
|---|---|---|---|
| | Element A cash | Element B deferred shares | Element C restricted shares |
| Executive Director | 150 | 150 | 100 |
| Executive Committee | 100 | 100 | 100 |
| Senior management | 75 | 75 | – |
| Management | 50 | 50 | – |
| Other employees | 30 | – | – |

### Discretion

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

## Remuneration Policy for Executive Directors


- The maximum that can be paid to each Director is up to the median position for the Fixed Compensation elements and the Upper Quartile position for the Performance Based Compensation against the Comparator Group
- The Committee encourages executives to perform to the highest of their abilities through a strong bias on Performance Based Compensation
- The Committee benchmarks compensation against comparable companies ('Comparator Group'), which currently consists of:

| | | |
|---|---|---|
| Actavis | Endo International | Novozymes |
| Actelion | Genus | Pacira Pharmaceuticals |
| Akorn Pharmaceuticals | Hospira | Perrigo |
| Alexion Pharmaceuticals | Impax Laboratories | Qiagen |
| Alkermes | Jazz Pharmaceuticals | Regeneron Pharmaceuticals |
| Almirall | Lonza Group | Salix Pharmaceuticals |
| Biogen Idec | Medicines Company | UCB |
| Biomarin Pharmaceutical | Merck KGaA | United Therapeutics |
| Celgene | Mylan | Vertex Pharmaceuticals |
| Cubist Pharmaceuticals | Myriad Genetics | |

- The Committee has within the policy the discretion to amend this Comparator Group and did so during the year. Further details are included on page 96. The criteria taken into account when selecting the current Comparator Group included the:
  - Type of pharmaceutical specialism
  - International nature of Hikma's operations
  - International nature of the executive team
  - Market capitalisation and turnover
  - Number of employees
  - Consolidation in the pharmaceutical industry affecting the number of comparable companies
  - UK listing environment
- The Committee is cognisant of the limitations of benchmarking. While it forms the upper limit of compensation, other factors are taken into account when determining awards and rises
- The Comparator Group is used to assess the Total Shareholder Return ('TSR') of Hikma in relation to the performance target for the Long Term Incentive Plan ('LTIP')

REMUNERATION REPORT
*continued*

## Policy Implementation 2015

### Comparator Group

In accordance with the authority granted to the Committee by shareholders, the Committee instructed a review of the comparator group during 2014 which led to changes that will apply in 2015. The rationale for the review was:

- **Increased pool:** The previous pool of 19 companies was frequently reduced by mergers and acquisitions. The current pool has been increased to 29 companies
- **Market capitalisation:** The average market capitalisation has been reduced while Hikma's has increased by 105%
- **Revenue:** Under the previous group the average revenue was three times the level of Hikma. Under the current group, Hikma's revenue is 7% above average
- **US and MENA focus:** Hikma is increasingly orientated to the US and MENA markets and does not operate in the UK. Hikma's European sales are minimal. In order to achieve greater alignment between the comparator and Hikma, some of the UK and Western European focused companies were removed and US and emerging markets companies were added
- **FTSE position:** To ensure that the UK market is taken into consideration, the Committee requested a separate benchmarking exercise assessing the 25 FTSE companies on either side of Hikma in market capitalisation

The changes were:

| Removed | Added |
|---|---|
| Adcock Ingram Holdings Ltd | Actelion |
| Aspen Healthcare Limited | Akorn Pharmaceuticals |
| AstraZeneca PLC | Alexion Pharmaceuticals |
| BTG PLC | Alkermes |
| EGIS PLC | Almirall |
| Forest Laboratories Inc | Biogen Idec |
| Gedeon Richter Plc | Biomarin Pharmaceutical |
| Grilfols SA | Celgene |
| Krka | Cubist Pharmaceuticals |
| Novartis AG | Genus |
| Sanofi Aventis | Jazz Pharmaceuticals |
| Shire Pharmaceuticals PLC | Lonza Group |
| STADA Arzneimittel AG | Medicines Company |
| | Myriad Genetics |
| | Novozymes |
| | Pacira Pharmaceuticals |
| | Perrigo |
| | Qiagen |
| | Regeneron Pharmaceuticals |
| | Salix Pharmaceuticals |
| | United Therapeutics |
| | Vertex Pharmaceuticals |

## Salaries

During 2014, the Committee undertook the annual benchmarking of executive packages and concluded that a significant increase in the Chairman and Chief Executive's salary to $1,200,000 was required for 2015.

| | Salary | | Increase |
|---|---|---|---|
| Name | 2015 | 2014 | % |
| Chief Executive | $1,200,000 | $842,265 | 42% |
| Vice Chairman | $675,987 | $620,172 | 9% |

The information in the table above has been audited by Deloitte

The Committee's rationale for the increase was:

- **Complexity:** Hikma operates in the developed US market and the less developed Middle East and North African markets. These have different and unique characteristics which require a skill set which is bespoke
- **Strategic Delivery:** Hikma is very acquisitive and has delivered significant shareholder value through the integration of distressed assets. The current medium-term plans include the integration of such assets purchased in September 2014 and which requires consistency of leadership. For example during 2014, Hikma acquired circa 300 injectable products and the US injectable manufacturing facilities of Bedford Laboratories. In order to obtain value, Hikma must transfer the products and tangible assets to its existing facilities and integrate them into the manufacturing and marketing processes over the next three to five years
- **Growth:** Since 2011, the Hikma market capitalisation has grown 225%, without issuing shares to fund acquisitions. The entrepreneurial spirit of the existing team needs to be retained and encouraged for the future
- **US Focus:** Since 2011, the US business has grown from approximately 34% to 49% of revenue and the integration of the injectable products (see 'Strategic Delivery' above) acquired during 2014 is likely to further increase the significance of this geographical area. The US market is very competitive for executive talent and Hikma needs to protect its position
- **Overall Package:** The current package is significantly behind the comparator group. A significant one-off increase was required to achieve an overall package that was commensurate with organisations of a similar size and business
- **FTSE Positioning:** The significant increase in shareholder value over the past three years has resulted in Hikma being on the verge of entering the FTSE 100. The Committee benchmarked the packages of Chief Executives in the 25 companies on either side of Hikma at the time of the consideration and concluded that the new package would be in line with peers

The Committee realised that the scale of the salary increase was significant and the Chairman of the Committee consulted with the Company's major shareholders as outlined in the table below.

| Steps | Details | Timeframe |
|---|---|---|
| **1 Comparator Review** | The Committee instructed the remuneration adviser to review the comparator group to more closely align it with the current business dynamic. The main changes were a reduction in the average market capitalisation and revenue comparables, an increased pool of companies and greater US and emerging market focus. | August 2014 |
| **2 Benchmarking** | The Committee instructed the remuneration adviser to benchmark the packages of the executives in the comparator group and, to ensure that the UK market context was taken into consideration, the 25 FTSE companies on either side of Hikma by market capitalisation. | October 2014 |
| **3 Review** | The adviser presented the comparator group adjustment and the benchmarking to the Committee. After considerable debate, it was agreed that a significant one-off increase was required. | November 2014 |
| **4 Shareholder Consultation** | The Remuneration Committee Chairman wrote to major shareholders and the UK governance bodies to outline the change and rationale. The Chairman, Remuneration Adviser and Company Secretary met the consultation group in order to answer questions and receive feedback on the proposal. | January 2015 |
| **5 Approval** | The Committee reviewed the comments received as part of the consultation process. Following further consideration, the final salary adjustment was approved. | February 2015 |

REMUNERATION REPORT
*continued*

### Benefits and Pension

No change from 2014.

### Executive Incentive Plan (EIP)

During 2015, the EIP will be operated on the same basis as 2014, as described in the Annual Report on Remuneration on pages 103 to 104. The performance conditions and their weighting, which are unchanged, are set out below:

| Performance condition | Weighting (% of maximum subject to performance condition) | Percentage of element of award payable for threshold performance | Percentage of element of award payable for on target performance | Percentage of element of award payable for maximum performance |
|---|---|---|---|---|
| Group PBT | 50% | 25% | 50% | 100% |
| Operational/Strategic milestones | 40% | 25% | 50% | 100% |
| Personal objectives | 10% | 25% | 50% | 100% |

Maximum levels of rewards that executives may receive are dependent on performance, as follows:

| | Basis of measurement | Forfeiture | Threshold | Target | Max |
|---|---|---|---|---|---|
| **Profit Before Tax** | Budget | Budget –30% | Budget –10% | Budget | Budget +10% |
| **Strategic** | ▶ Maximising portfolio opportunities<br>▶ Strengthening and broadening our product portfolio<br>▶ Maintaining high quality and efficient manufacturing facilities to maximise profitability<br>▶ Investing for growth<br>▶ Developing a highly skilled, effective and diverse workforce<br>▶ Ensuring sustainable long-term growth | No strategic development | Some strategic targets met | Most strategic targets met | All strategic targets met |
| **Personal** | ▶ Hikma culture<br>▶ Personal development<br>▶ Employee satisfaction | No personal development | Some personal targets met | Most personal targets met | All personal targets met |
| | | 0% award + lose 50% prior two years' shares | 100% award | 250% award | 400% award |
| **Award breakdown** | Element A | 0% | 25% | 100% | 150% |
| | Element B | 0% | 25% | 100% | 150% |
| | Element C | 0% | 50% | 50% | 100% |

The Remuneration Committee is of the opinion that given the commercial sensitivity of the detailed financial, operational 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 giving international competitors an unfair advantage because they are not required to report to the same disclosure standard as a UK listed company. Actual targets, performance achieved and awards made are published at the end of the performance period in order that shareholders can fully assess the basis for any pay-outs under the EIP.

## 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 2014 and the potential available for 2015 (dependent upon performance).

### Said Darwazah

| | | Fixed $000 | Bonus $000 | Share award $000 | Total $000 | Policy position $000 |
|---|---|---|---|---|---|---|
| **2015** | THRESHOLD | **1,228/51%** | **300/12%** | **900/37%** | **2,428** | |
| | TARGET | **1,228/29%** | **1,200/28%** | **1,800/43%** | **4,228** | **7,414 to 12,594** |
| | MAX | **1,228/20%** | **1,800/30%** | **3,000/50%** | **6,028** | |
| 2014 | ACTUAL | **865/20%** | **1,263/30%** | **2,106/50%** | **4,234** | **5,870 to 7,316** |

### Mazen Darwazah

| | | Fixed $000 | Bonus $000 | Share award $000 | Total $000 | Policy position $000 |
|---|---|---|---|---|---|---|
| **2015** | THRESHOLD | **689/50%** | **169/12%** | **507/37%** | **1,365** | |
| | TARGET | **689/29%** | **676/28%** | **1,014/43%** | **2,378** | **2,857 to 4,584** |
| | MAX | **689/20%** | **1,014/30%** | **1,690/50%** | **3,392** | |
| 2014 | ACTUAL | **632/20%** | **930/30%** | **1,550/50%** | **3,112** | **2,123 to 5,175** |

The information in the table above has been audited by Deloitte

The following notes are applicable to the above calculations:

- Salary, benefits and pension are fixed
- Element A of the EIP comprises the Bonus and Elements B and C comprise the Share Award. Elements A, B and C of the EIP are made in the following year (i.e. for the 2015 illustration awards will be made in 2016). Elements B and C vest in 2018 and 2019, respectively. Please note that the Remuneration and Performance Summary on page 92 uses Share Awards vesting (i.e. actual shares received, not those granted) during the period

REMUNERATION REPORT
*continued*

## NED fees

The Board has determined that the Basic Fees for the Non-Executive Directors will be increased by 3% in line with the general salary rises for employees in the Group. The Committee membership and Chairmanship Fees were implemented in 2010 and have remained unchanged since that time. In respect of 2015, the Board determined that these fees will increase by £500 per annum (£1,000 in respect of the Audit Committee chair):

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| Director | Total fee £000 | Basic fee £000 | Chairmanship fee £000 | Committee fee £000 | Total fee £000 | Basic fee £000 | Chairmanship fee £000 | Committee fee £000 |
| Robert Pickering* | 98.5 | 82.5 | 8.0 | 8.0 | 95.0 | 80.0 | 7.5 | 7.5 |
| Breffni Byrne* | 106.5 | 82.5 | 16.0 | 8.0 | 102.5 | 80.0 | 15.0 | 7.5 |
| Michael Ashton | 98.5 | 82.5 | 8.0 | 8.0 | 95.0 | 80.0 | 7.5 | 7.5 |
| Ali Al-Husry | 82.5 | 82.5 | – | – | 80.0 | 80.0 | – | – |
| Ronald Goode | 98.5 | 82.5 | 8.0 | 8.0 | 95.0 | 80.0 | 7.5 | 7.5 |
| Pat Butler* | 106.5 | 82.5 | 16.0 | 8.0 | 87.5 | 80.0 | – | 7.5 |
| Dr Pamela Kirby* | 90.5 | 82.5 | – | 8.0 | 87.5 | 80.0 | – | 7.5 |

* Fee will be pro-rated for time served in the relevant position. The information in the table above has been audited by Deloitte

## Advice and support

As in previous years, the Remuneration Committee received independent advice on executive compensation from PricewaterhouseCoopers LLP ('PwC') appointed by the Committee, which supports the Committee and Corporate HR department in the delivery and development of our reward and human resources strategy. PwC has also provided some taxation and business integrity advice. PwC adheres to the Remuneration Consultants Group Code of Conduct, which provides a clear framework for our relationship with our advisers while setting high professional standards. The Committee reviewed the performance of the remuneration advisers during the year and the fees received, which are set out below. The Committee concluded that PwC remained independent and continued to provide high quality service to the Committee. The total fees for advice to the Committee during the year were $160k (2013: $138k). The Committee seeks the assistance of senior management on matters relating to policy performance and remuneration and maintains a strong link with management to ensure that its deliberations are fully informed. The Committee ensures that no Director, executive or employee takes part in discussions or advice relating to his own remuneration or benefits.

## Shareholder approval

The Committee actively seeks the engagement of shareholders in the setting of remuneration policy and practice. The voting patterns are as follows:

| | For | Against | Withheld | Votes cast | Votes available |
|---|---|---|---|---|---|
| 2014 Policy | 90.8% | 7.5% | 1.8% | 159,312,293 | 198,167,997 |
| 2014 Implementation | 97.0% | 1.2% | 1.8% | 159,312,293 | 198,167,997 |
| 2013 Policy | 95.4% | 0.7% | 3.9% | 152,903,166 | 197,907,228 |
| 2013 Implementation | 95.4% | 0.7% | 3.9% | 152,903,166 | 197,907,228 |

The information in the table above has been audited by Deloitte

Note: During 2013 the Committee sought shareholder approval for its remuneration policy on a voluntary basis

## Annual Report on Remuneration

For the year ended 31 December 2014, 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 2014 financial year for each Executive Director, together with comparative figures for 2013.

| Director | Year | Salary $ | Benefits $ | Pension $ | Bonus $ | LTIP $ | Total $ | Policy range $ |
|---|---|---|---|---|---|---|---|---|
| Said Darwazah | 2014 | 842,265 | 11,000 | 11,335 | 1,263,398 | 2,085,993 | 4,213,990 | 5,870,000 to 7,316,000 |
| | 2013 | 802,500 | 10,536 | 10,800 | 1,605,000 | 1,528,000 | 3,956,836 | 5,787,000 to 7,180,000 |
| Mazen Darwazah | 2014 | 620,172 | 0 | 11,500 | 930,258 | 1,390,662 | 2,952,592 | 2,123,000 to 5,175,000 |
| | 2013 | 539,280 | 0 | 10,000 | 1,078,000 | 1,019,000 | 2,646,280 | 2,028,000 to 4,812,000 |

The information in the table above has been audited by Deloitte

### Salary

This is the basic annual salary paid monthly in arrears. Further details on future salaries are available on page 97.

### Benefits

Hikma makes available the normal benefits in kind for executives of their level in a company of Hikma's size, such as company cars, healthcare and life insurance. The benefits received related to school fees.

### Pension

This is a pension payment paid to the Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (the 'Benefit Plan') on behalf of the Executive Directors 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 5% of applicable salary. 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. The participant's interest in the Group's contribution fully vests after 10 years of employment. The Executive Directors have served for in excess of 10 years and will receive their benefits under the scheme when they reach their 60th birthday.

### Bonus

During 2013, Hikma operated a cash bonus plan with a 200% of salary maximum. In 2014, this was replaced with element A of the EIP, which has a 150% of salary maximum. The EIP and awards made under it in respect of the 2014 performance year are described further below.

### Share awards

During 2013 and 2014 awards vested under the Long Term Incentive Plan ('LTIP') which were granted in 2010 and 2011, respectively. The LTIP operated with a 300% of salary maximum, a three-year vesting period and performance conditions based on total shareholder return and financial metrics. Further details can be found in the 2012 report and accounts on pages 97 to 99 or on request from investors@hikma.com. In 2014 the LTIP was replaced with Elements B and C of the EIP which have 150% and 100% of salary maximums, respectively. The EIP and awards made under it in respect of the 2014 performance year are described further below.

REMUNERATION REPORT
*continued*

## LTIP

The LTIP amount included in the 2014 single total figure of remuneration is the conditional share award granted in 2011. The performance achieved against the performance targets is shown below.

| Performance condition | Weighting | Threshold | Maximum | Actual performance | Award vested % of maximum |
|---|---|---|---|---|---|
| TSR | 50% | 50th percentile<br>20% of award element | 75th percentile<br>100% of award element | 60% | 86% |
| Sales growth | 17% | 9%<br>20% of award element | 13%<br>100% of award element | 20% | 100% |
| EPS growth | 17% | 15%<br>20% of award element | 20%<br>100% of award element | 12% | 0% |
| Return on invested capital | 17% | 10%<br>20% of award element | 12%<br>100% of award element | 13% | 100% |

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

The information in the table above has been audited by Deloitte

## Chief Executive

| Performance condition | TSR | Sales growth | EPS growth | Return on invested capital |
|---|---|---|---|---|
| Maximum number of shares capable of vesting | 54,000 | 18,000 | 18,000 | 18,000 |
| Percentage of maximum vesting | 40% | 100% | 100% | 100% |
| Number of vested shares | 21,762 | 18,000 | 18,000 | 18,000 |
| Value of vested shares* | £355,156 | £293,760 | £293,760 | £293,760 |
| Total value | | | | £1,236,436 ($2,085,993) |

* Share price on vesting was £16.32 and there were $0.594 to £1

The information in the table above has been audited by Deloitte

## Vice Chairman

| Performance condition | TSR | Sales growth | EPS growth | Return on invested capital |
|---|---|---|---|---|
| Maximum number of shares capable of vesting | 36,000 | 12,000 | 12,000 | 12,000 |
| Percentage of maximum vesting | 40% | 100% | 100% | 100% |
| Number of vested shares | 14,508 | 12,000 | 12,000 | 12,000 |
| Value of vested shares* | £236,771 | £195,840 | £195,840 | £195,840 |
| Total value | | | | £824,291 ($1,390,662) |

* Share price on vesting was £16.32 and there were £0.594 to $1

The information in the table above has been audited by Deloitte

## Executive Incentive Plan

The EIP was approved by shareholders at the 2014 AGM and is the sole incentive arrangement for Executive Directors. The EIP is composed of three elements:

| | Maximum award % of salary | Pay-out mechanism | Vesting period | Risks after award | Additional requirements |
|---|---|---|---|---|---|
| A | 150% | Cash bonus | Immediate | None | None |
| B | 150% | Deferred shares | 2 years | ▶ Forfeiture/clawback<br>▶ Share price<br>▶ Employed | 50% of the total share award is subject to a holding period after vesting. These shares may not be sold until five years after grant. |
| C | 100% | Restricted shares | 3 years | ▶ Clawback<br>▶ Share price<br>▶ Employed | |

The level of award made under the EIP depends on the achievement of performance conditions:

- ▶ 50% Profit Before Tax
- ▶ 40% Strategic and Operational Targets (sub-conditions apply)
- ▶ 10% Personal Targets (sub-conditions apply)

The following table sets out the performance conditions and targets for 2014 and their level of satisfaction:

| | Basis of measurement | Threshold | Target | Max | Results | Achievement | Said % of salary | Mazen % of salary |
|---|---|---|---|---|---|---|---|---|
| PROFIT BEFORE TAX ('PBT') | ▶ Budget | $212m PBT | $235m PBT | $259m PBT | $362m PBT versus budget of $235m PBT – 154% of budget | Max | 200% | 200% |
| STRATEGIC AND OPERATIONAL TARGETS | ▶ Maximising portfolio opportunities | –5% revenue growth | 0% revenue growth | 5% revenue growth | Group revenue growth of 9% in 2014 on top of the exceptional performance in 2013<br>Significant expansion of oral generic and injectables in US | Max | 20% | 20% |
| | ▶ Strengthening and broadening our product portfolio | 100 new product approvals | 150 new product approvals | 200 new product approvals | 263 new product approvals | Max | 40% | 40% |
| | ▶ Maintaining high quality and efficient manufacturing facilities to maximise profitability | Maintain quality base | Maintain and improve quality base | Significantly enhance quality and manufacturing base | Excellent quality record<br>Acquired significant new high quality equipment that is being transferred to existing fully approved facilities | Max | 20% | 20% |
| | ▶ Investing for growth | 12% ROIC | 15% ROIC | 20% ROIC | Our disciplined capital investment approach held ROIC to 23% | Max | 40% | 20% |
| | ▶ Developing a highly skilled, effective and diverse workforce | Some people development | Significant people development | Maximise people development | 100 management employees undertook a mini MBA<br>12% increase in female management<br>15% increase in international assignees | Max | 20% | 40% |
| | ▶ Ensuring sustainable long-term growth | 55 new product marketing launches | 65 new product marketing launches | 75 new product marketing launches | 75 new product marketing launches | Max | 20% | 20% |

| | Basis of measurement | Threshold | Target | Max | Results | Achievement | Said % of salary | Mazen % of salary |
|---|---|---|---|---|---|---|---|---|
| PERSONAL | ▶ Hikma culture<br>Personal development<br>Employee satisfaction | Not quantifiable | Not quantifiable | Not quantifiable | Implemented changes arising from the first employee satisfaction survey<br>Updated and expanded the Code of Conduct to seven functional languages<br>Achieved certain personal development targets set by the Remuneration Committee and Board | Max | 40% | 40% |
| TOTAL | | | | | | Max | 400% | 400% |

In accordance with the EIP rules, the following awards have been made in respect of the 2014 performance year:

| Executive | EIP Element | Salary | Maximum potential (% of salary) | Level of satisfaction | Value of bonus/shares | Receive | Additional |
|---|---|---|---|---|---|---|---|
| Chairman and Chief Executive | A – Cash Bonus | $842,265 | 150% | 100% | $1,263,398 | Cash now (March 2015) | None |
| | B – Deferred Shares | | 150% | | $1,263,398 | Shares in 2 years from May 2015 | 50% of total shares unsaleable until five years after grant |
| | C – Restricted Shares | | 100% | | $842,265 | Shares in 3 years from May 2015 | |
| Vice Chairman | A – Cash Bonus | $620,172 | 150% | 100% | $930,258 | Cash now (March 2015) | None |
| | B – Deferred Shares | | 150% | | $930,258 | Shares in 2 years from May 2015 | 50% of total shares unsaleable until five years after grant |
| | C – Restricted Shares | | 100% | | $620,172 | Shares in 3 years from May 2015 | |

The information in the table above has been audited by Deloitte

Note: Elements B and C will be granted on 15 May 2015, subject to approval at the AGM. Subject to meeting the vesting criteria, these elements will be disclosed as remuneration received in the years 2017 and 2018, respectively. This is consistent with the methodology used throughout this report and previously

## Non-Executive Directors

The Non-Executive Directors earned the following fees during the year under review and the prior year (these figures have been pro-rated for time served in the relevant position):

| | | 2013 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| Name | Position | Total fee £000 | Taxable Accommodation £000 | Total £000 | Total fee £000 | Taxable Accommodation £000 | Total £000 |
| Robert Pickering | Senior Independent Director | 83.5 | 2.2 | 85.7 | 91.6 | 2.2 | 93.8 |
| Breffni Byrne | Audit Committee Chairman | 98.5 | 10.4 | 108.9 | 102.5 | 4.3 | 106.8 |
| Michael Ashton | Remuneration Committee Chairman | 91.0 | 12.3 | 103.3 | 95.0 | 8.1 | 103.1 |
| Ali Al-Husry | Non-Executive Director | 76.0 | 0.0 | 76.0 | 80.0 | 0.0 | 80.0 |
| Ronald Goode | CRE Committee Chairman | 91.0 | 12.8 | 103.8 | 95.0 | 7.6 | 102.6 |
| Pat Butler | Audit Committee Chairman Designate | 0.0 | 0.0 | 0.0 | 58.3 | 0.0 | 58.3 |
| Dr Pamela Kirby | Independent Director | 0.0 | 0.0 | 0.0 | 7.3 | 0.0 | 7.3 |
| Samih Darwazah | Chairman (retired) | 157.5 | 0.0 | 157.5 | 91.7 | 0.0 | 91.7 |
| Sir David Rowe-Ham | Senior Independent Director (retired) | 91.0 | 0.0 | 91.0 | 43.5 | 0.0 | 43.5 |

Note: 'Taxable Accommodation' refers to certain accommodation expenses for Non-Executive Directors that are wholly related to their attendance at Board meetings and are in accordance with normal Hikma expense policy. These expenses are treated as a taxable benefit by the UK authorities and the above figure includes the corresponding tax contribution

The information in the table above has been audited by Deloitte

## Payments to past Directors and for loss of office

There were no payments to past Directors and no payments for loss of office during the financial year.

## Outstanding share awards

| | TSR | Sales growth | EPS growth | ROIC | TOTAL |
|---|---|---|---|---|---|
| 2012 LTIP GRANT | 50.0% | 16.7% | 16.7% | 16.7% | 100.0% |
| 2013 LTIP GRANT | 49.0% | 16.7% | 16.7% | 16.7% | 98.9% |
| 2014 LTIP GRANT | 50.0% | 3.3% | 0.0% | 16.7% | 70.0% |

In respect of each of the Executive Directors, the aggregate number of shares outstanding at the year end under option was:

| Director | Shares (max) | Type of interest | Basis of award | Exercise price | Date of award | Date of vesting | Face value* |
|---|---|---|---|---|---|---|---|
| Said Darwazah | 97,000 | Conditional award | 150% salary | Nil | 18 May 2012 | 18 May 2015 | $2,087,099 |
| | 102,000 | Conditional award | 187% salary | Nil | 16 May 2013 | 16 May 2016 | $3,102,155 |
| | 63,000 | Conditional award | 200% salary | Nil | 16 May 2014 | 16 May 2017 | $1,936,373 |
| **Total** | 262,000 | | | | | | **(2013: 307,000)** |
| Mazen Darwazah | 65,000 | Conditional award | 150% salary | Nil | 18 May 2012 | 13 May 2015 | $1,398,571 |
| | 53,000 | Conditional award | 140% salary | Nil | 16 May 2013 | 18 May 2016 | $1,611,904 |
| | 46,000 | Conditional award | 200% salary | Nil | 16 May 2014 | 16 May 2017 | $1,413,860 |
| **Total** | 164,000 | | | | | | **(2013: 190,000)** |

* The face value is calculated using the vesting percentages described earlier in this section and the share price of £19.79 and foreign exchange rates of $0.64374 to £1 on 31 December 2014. The information in the table above has been audited by Deloitte

It should be noted that the real value received by Executive Directors under the share incentive arrangements is dependent upon satisfaction of performance conditions and the share price of Hikma at that time.

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

| | Market price (Closing price) |
|---|---|
| 1 January 2014 | 1,197.5p |
| 31 December 2014 | 1,979.0p |
| 2014 Range (low to high) | 1,170.62p to 2,072.0p |
| 10 March 2015 | 2,136.0p |

The information in the table above has been audited by Deloitte

## Dilution

In accordance with the guidelines set out by the Investment Association of British Insurers, Hikma can issue a maximum of 10% of its issued share capital in a rolling 10-year period to employees under all its share plans and a maximum of 5% of this 10% for discretionary share plans. The following table summarises the current level of dilution resulting from Company share plans following the Listing of Hikma in 2005:

| Type of Plan | Granted in a rolling 10-year period | Granted during the year |
|---|---|---|
| Discretionary Share Plans (5% Limit) | 4.37% | 0.35% |

## Share ownership

The Committee believes that its share ownership policy strongly links executive and shareholders' interests. All Executive Directors are required to build and maintain a minimum shareholding equal to three times base salary. The limits under and compliance with this policy are reviewed periodically by the Committee. The table below demonstrates that the target shareholdings as a percentage of salary were met in full by the Executive Directors.

| Executive Director | Target | Actual | Requirement fulfilled? |
|---|---|---|---|
| Said Darwazah | 300% | 295x | Yes |
| Mazen Darwazah | 300% | 293x | Yes |

The information in the table above has been audited by Deloitte

Share ownership requirements also apply to Hikma executive management who are required to build and maintain a minimum shareholding equal to at least two times base salary. In certain cases the shareholding requirement has been increased in order to reflect local executive remuneration practice. Executive management's shareholdings as a percentage of salary were:

| Date | Requirement | Lowest | Highest | Average | Total shares | Requirement fulfilled? |
|---|---|---|---|---|---|---|
| 9 March 2015 | 200% | 395% | 2,578% | 1,289% | 1,020,961 | Yes |
| 11 March 2014 | 200% | 224% | 2,236% | 1,071% | 954,607 | Yes |

The information in the table above has been audited by Deloitte

Compliance with the shareholding requirement is measured annually at the time of this report. Should executives have an insufficient number of shares, any options vesting under any Hikma share scheme will be retained in a nominee facility which is managed by Hikma. The executive will receive dividends but will not be able to dispose of his/her shares until the requirement is met and then only to the extent of shares in excess of the requirement.

## Director share interests

Said Darwazah, Mazen Darwazah and Ali Al-Husry are Directors and shareholders of Darhold Limited. Darhold Limited holds 57,183,028 ordinary shares of Hikma. The table below breaks down their shareholding in Hikma by shares effectively owned through Darhold and shares held personally.

| Director | % of Darhold | Effective no. of Hikma shares | Holding in own name/Nominee | Total shareholding |
|---|---|---|---|---|
| Said Darwazah | 18.90% | 10,807,592 | 190,000 | 10,997,592 |
| Mazen Darwazah | 9.52% | 5,443,824 | 695,225 | 6,139,049 |
| Ali Al Husry | 7.00% | 4,002,812 | 1,109,748 | 5,112,560 |

The information in the table above has been audited by Deloitte

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

| Name | Share ownership requirements (% of salary) | Number of shares required to hold | Number of shares owned outright (including connected persons) | Conditional shares under the LTIP | Total number of shares or interests in shares |
|---|---|---|---|---|---|
| Said Darwazah | 300% | 115,864 | 10,997,592 | 262,000 | 11,375,456 |
| Mazen Darwazah | 300% | 65,269 | 6,139,049 | 164,000 | 6,368,318 |
| Robert Pickering | | | 7,500 | | 7,500 |
| Breffni Byrne | | | 10,000 | | 10,000 |
| Michael Ashton | | | 18,566 | | 18,566 |
| Ali Al-Husry* | | | 5,112,560 | | 5,112,560 |
| Ronald Goode | | | 10,000 | | 10,000 |
| Pat Butler | | | 1,375 | | 1,375 |
| Dr Pamela Kirby | | | 0 | | 0 |

The information in the table above has been audited by Deloitte. The share price used to calculate whether the shareholding requirements have been met is the price on 9 March 2015 of £23.31 and foreign exchange rates of $0.66451 to £1 on the same date

The following table sets out details of the Directors' shareholdings and performance measures that apply to those holdings:

| | Shares | | Options | | | |
|---|---|---|---|---|---|---|
| Name | With performance measures | Without | With performance measures | Without | Vested but unexercised | Exercised During year |
| Said Darwazah | – | 10,997,592 | 115,864 | – | – | 75,924 |
| Mazen Darwazah | – | 6,139,049 | 65,269 | – | – | 50,616 |
| Robert Pickering | – | 7,500 | – | – | – | – |
| Breffni Byrne | – | 10,000 | – | – | – | – |
| Michael Ashton | – | 18,566 | – | – | – | – |
| Ali Al-Husry* | – | 5,112,560 | – | – | – | – |
| Ronald Goode | – | 10,000 | – | – | – | – |
| Pat Butler | – | 1,375 | – | – | – | – |
| Dr Pamela Kirby | – | 0 | – | – | – | – |

The information in the table above has been audited by Deloitte

* Ali Al Husry holds his shares in Hikma and Darhold Limited through a vehicle called DYKB Limited

The information in the table above has been audited by Deloitte. The share price used to calculate whether the shareholding requirements have been met is the price on 9 March 2015 of £23.31 and foreign exchange rates of $0.66451 to £1 on the same date

## Remuneration table and performance graph

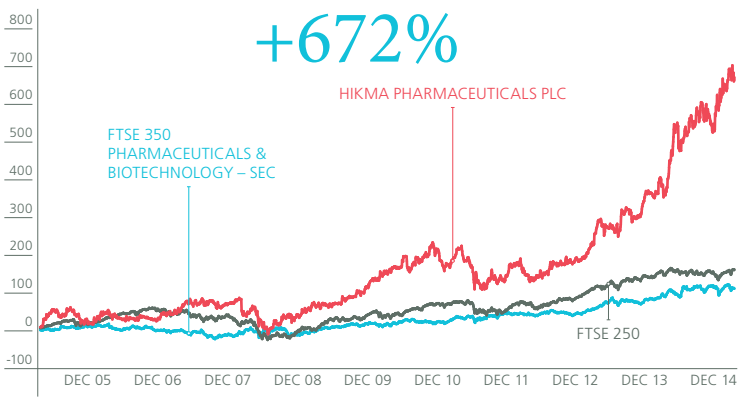
The following table sets out the total remuneration and amounts vesting under short term and long term incentive plans for the same period in respect of the Directors holding the positions of Chief Executive and Vice Chairman.

| | Said Darwazah – Chief Executive | | | Mazen Darwazah – Vice Chairman | | |
|---|---|---|---|---|---|---|
| Year | Total | Bonus as % max | LTIP as % max | Total | Bonus as % max | LTIP as % max |
| 2014 | $4,213,990 | 100% | 70% | $2,952,592 | 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% |

The information in the table above has been audited by Deloitte

The graph below shows Hikma's performance, measured by Total Shareholder Return ('TSR') compared to the FTSE 250 and FTSE 350 Pharmaceutical sector from 31 December 2005 to 31 December 2014.

TOTAL SHAREHOLDER RETURN SINCE IPO (%)




## CEO and average employee change

The table below shows how the percentage change in the Chief Executive's ('CEO's') salary, benefits and bonus between 2013 and 2014 compares with the percentage change in the average of each of those components of pay for employees.

| | Salary | | | Bonus | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Percentage increase | 2014 | 2013 | Percentage increase |
| CEO | $842,265 | $802,500 | 4.7% | $1,263,398 | $1,605,000 | –27.0% |
| Employees ($m) | 178 | 160 | 10.1% | 47.1 | 44.6 | 5.3% |
| Number of employees | 7,139 | 7,067 | 1.0% | 7,139 | 7,067 | 1.0% |
| Average per employee | $24,933 | $22,640 | 9.2% | $6,598 | $6,311 | 4.3% |

The information in the table above has been audited by Deloitte

The Group's pay review which took effect from 1 January 2014 awarded average percentage increases in wages and salaries of 9% for existing employees. The nature and level of benefits to employees in the year ended 31 December 2014 was broadly similar to that in the previous year. The total amount of bonuses paid to employees (excluding the Executive Directors) in respect of the year ended 31 December 2014 was 4% higher than in 2013.

## Relative importance of spend on pay

The following table sets out the total amount spent in 2014 and 2013 on remuneration of the Group's employees and major distributions to shareholders.

| Distribution expense | 2014 Total | 2013 Total | % increase from 2013 to 2014 |
|---|---|---|---|
| Employee remuneration | $344m | $319m | 7.84% |
| Distributions to shareholders | $55m | $39m | 41.03% |

The information in the table above has been audited by Deloitte

## 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, were:

| Name | 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 |
| Mazen Darwazah | 12 months | 25 May 2006 | Rolling contract | 12 months' salary and benefits |

### Letters of appointment

The Non-Executive Directors have letters of appointment with Hikma, not service contracts. It is envisaged that each initial appointment period is for 36 months.

| Name | Date of appointment | Notice payment |
|---|---|---|
| Robert Pickering | 1 September 2011 | 1 month |
| Michael Ashton | 14 October 2005 | 1 month |
| Ali Al-Husry | 14 October 2005 | 1 month |
| Breffni Byrne | 14 October 2005 | 1 month |
| Ronald Goode | 12 December 2006 | 1 month |
| Pat Butler | 1 April 2014 | 1 month |
| Dr Pamela Kirby | 1 December 2014 | 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 $10,000 (2013: $10,000) and $10,000 (2013: $10,000) respectively relating to external appointments which are detailed in their Director profiles on page 56. The process for controlling these appointments is described in the governance statement on page 72.

### Closing statement

We have further developed our approach to remuneration reporting this year and the Committee hopes that this has aided shareholder and stakeholder 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

Michael Ashton, *Remuneration Committee Chairman*
11 March 2015

DIRECTORS' REPORT

# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2014. 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):
Details of long term incentive schemes: Directors' remuneration report, page 105

## Financial

### Principal activity

The principal activities of the Group are the development, manufacture and marketing of a broad range of generic 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 Group does not have overseas branches within the meaning of the Companies Act 2006.

The Group's net sales, gross profit and operating profit are shown by business segment in Note 4 to the consolidated financial statements. Hikma has not capitalised any interest payments.

### Results

The Group's profit for the year in 2014 was $282 million (2013: $216 million).

### Dividend

The Board is recommending a final dividend of 15 cents per share (approximately 9.94 pence) (2013: 13 cents) and a special dividend of 6 cents per share (approximately 4.0 pence). The special dividend reflects the exceptional performance of the Generics and Injectables segments over the period. The proposed dividends will be paid on 21 May 2015 to shareholders on the register on 17 April 2015, subject to approval at the Annual General Meeting on 14 May 2015. An interim dividend of 7.0 cents per share plus a special dividend of 3.0 cents was paid on 26 September 2014 ((together approximately 6.75 pence per ordinary share) (2013: 10 cents)). The total dividend for the year 2014 is 31 cents per share (2013: 27.0 cents), of which 10 cents is a special dividend.

### Creditor payment policy

Hikma's policy, which is also applied by the Group and will continue in respect of the 2015 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 2014 were equivalent to 74 days' purchases (2013: 73 days), based on the average daily amount invoiced by suppliers during the year.

### Donations

During the year the Group made charitable donations of approximately $2.0 million (2013: $6.2 million):

| Type of donation | Amount donated in 2013 ($) | Amount donated in 2014 ($) |
|---|---|---|
| Local charities serving communities in which the Group operates | 5,098,321 | 1,489,484 |
| Medical (donations in kind) | 1,105,773 | 518,189 |
| Political | Nil | Nil |
| Total | 6,204,094 | 2,007,673 |

Group policy prohibits the payment of political donations.

### Research and development

The Group's investment in research and development ('R&D') during 2014 represented 3.7% of Group revenue (2013: 2.9%). Additionally, the Group invested extensively in the purchase of certain products. Further details on the Group's R&D activities can be found on page 39.

### Related party transactions

Details of related party transactions are included in Note 38 of the financial statements on page 162.

## Going concern

The Directors of Hikma ('Directors') believe that the Group is well diversified due to its geographic spread, product diversity and large customer and supplier base. The Group operates in the relatively defensive generic pharmaceuticals industry which the Directors expect to be less affected by economic downturns compared to other industries. While a new bridge loan facility, which was used to finance the cash consideration of $225 million for the Bedford acquisition in July, increased the Group's total debt, the Group's overall net debt position of $274 million at 31 December 2014 was broadly in line with the position of $267 million at 31 December 2013, reflecting strong cash flow generation in 2014. Operating cash flow in 2014 was $425 million (2013: $337 million). The Group has $839 million (2013: $234 million) of undrawn short-term and long-term banking facilities, in addition to $180 million (2013: $142 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. 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.

After making enquiries, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite the current uncertain economic and political outlook. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors therefore continue to adopt the going concern basis in preparing the financial statements.

## 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.

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

## 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 ought to have taken as a Director to make himself 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.

Deloitte LLP has expressed its willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

## Directors

The names of the Directors as at the date of this report, together with details of their roles, backgrounds and abilities, are set out in the Directors' biographies on pages 56 to 59. Details of the independence of Non-Executive Directors are set out in the report on corporate governance on page 67. Mr Pat Butler was appointed as a Director effective 1 April 2014, Sir David Rowe-Ham and Mr Samih Darwazah retired as Directors on 15 May 2014 and Dr Pamela Kirby was appointed as a Director effective from 1 December 2014. Otherwise, all the Executive and Non-Executive Directors served Hikma throughout the year.

It is the Board's policy that all Directors should retire and seek re-election on an annual basis. Accordingly, Mr Said Darwazah, Mr Mazen Darwazah, Mr Robert Pickering, Mr Ali Al-Husry, Mr Breffni Byrne, Mr Michael Ashton, Dr Ronald Goode, Mr Pat Butler and Dr Pamela Kirby will retire at the Annual General Meeting. All Directors will seek election or re-election at the Annual General Meeting. Shareholders are referred to the Effectiveness report on pages 68 to 69, which provides further detail on the balance of skills and experience on the Board.

### Indemnities

The Directors benefit from qualifying third-party indemnities made by Hikma which 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.

## 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 31 to the financial statements. Hikma has one class of ordinary 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 2014:

| Type | Nominal value | In issue | Issued during the year |
|---|---|---|---|
| Ordinary | 10 pence | 198,632,039 | 587,711 |

During 2014, Hikma issued ordinary shares solely pursuant to the exercise of options under the Stock Option Plan, 2005 Long Term Incentive Plan and 2009 Management 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. 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. 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 on 15 May 2014, 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 2015 or the 2015 Annual General Meeting, which is scheduled for 14 May 2015. The Directors have not used this authority during the year, but are proposing to renew this authority at the 2015 Annual General Meeting.

### Share issuance

At the Annual General Meeting on 15 May 2014, the Directors were authorised to issue relevant securities up to an aggregate nominal amount of £6,605,233, and to be empowered to allot equity securities for cash on a non pre-emptive basis up to an aggregate nominal amount of £990,785, at any time up to the earlier of the date of the 2015 Annual General Meeting or 30 June 2015. The Directors propose to renew these authorities at the 2015 Annual General Meeting 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 share capital of Hikma.

Details of the employee share schemes are set out in Note 36 to the financial statements. Shares are also held by the Hikma Pharmaceuticals Employee Benefit Trust ('EBT') and are detailed in Note 33 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 Annual General Meeting of Hikma will be held at The Westbury, Bond Street, Mayfair, London W1S 2YF on Thursday, 14 May 2015, starting at 11.00 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 powers of the Directors are determined by the Articles, the 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 Annual General Meeting. The Articles, which are available on the website, may only be amended by special resolution of the shareholders.

## Directors' interests

Details of Directors' share-based incentives and interests in the ordinary shares of Hikma are provided in the Directors' remuneration report on pages 105 and 107.

## 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* | 57,183,028 | 28.79% |
| Capita Group International | 17,558,981 | 8.84% |
| Fidelity International | 9,873,932 | 4.97% |

* Messrs 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 107 for details of their holdings in Darhold Limited

## Controlling shareholder

During 2014, the Listing Rules were amended to introduce additional requirements for companies with controlling shareholders. Darhold Limited and the Concert Party (as detailed in the Notice of Annual General Meeting, which accompanies this document) are a controlling shareholder in Hikma. Accordingly, in advance of the provisions coming into force, the Company put in place a relationship agreement with them which complies with the required provisions, including the necessary independent undertakings. This includes transactions and arrangements with the controlling shareholder will be conducted at arm's length and on normal commercial terms; neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended (or appears to be intended) to circumvent the proper application of the Listing Rules. The terms of the relationship agreement have been complied with throughout the year under review and up to the date of this report, and so far as the Company is aware, the independence provisions included in the relationship agreement with the Company's controlling shareholder have also been complied with during the period under review by the controlling shareholder. Additionally, the Independent Directors will be subject to approval at the 2015 Annual General Meeting by both the shareholders of the Company as a whole and by a majority of the independent shareholders.

## 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 Annual General Meeting to issue ordinary shares for cash on a non pre-emptive basis, other than in respect of the placing undertaken on 17 January 2008.

## Takeover panel – Rule 9

| | LTIP granted 16 May 2014 | MIP granted 11 June 2014 |
|---|---|---|
| Said Darwazah | 97,000 | – |
| Mazen Darwazah | 65,000 | – |
| May Darwazah | – | 444 |
| Hana Ramadan | 4,773 | – |
| Tareq Darwazah | – | 1,729 |
| Zeena Murad | – | 1,290 |

At the Annual General Meeting held on 15 May 2014, a vote of the independent shareholders of Hikma approved the award of up to an aggregate of 150,600 ordinary shares pursuant to Hikma's 2005 Long Term Incentive Plan to Said Darwazah, Mazen Darwazah and Hana Ramadan (the 'LTIP Holders') and 15,000 ordinary shares pursuant to the Management Incentive Plan to May Darwazah, Zeena Murad, Tareq Darwazah and Walid Darwazah (the 'MIP Holders'). Because of the relationship of the LTIP Holders and the MIP Holders with Darhold Limited, who at the time of the Annual General Meeting held 57,183,028 ordinary shares (at 8 April 2014 representing 28.76% of the issued share capital of Hikma, and as at 10 March 2015 being the latest practicable date prior to the publication of this document, holding 57,183,028 ordinary shares, representing 28.76% of the issued share capital of Hikma), each of the LTIP Holders and the MIP Holders (together with certain other identified individuals at that date) was treated as acting in concert with Darhold Limited for the purposes of the Takeover Code (the 'Concert Party'). As at 8 April 2014, the Concert Party held, in aggregate, interests in 62,743,049 ordinary shares in the capital of Hikma (then representing 31.66% of the then issued share capital of Hikma). As at 10 March 2015 being the latest practicable date prior to the publication of this document, the Concert Party held, in aggregate, interests in 62,743,049 ordinary shares in the capital of Hikma (representing 31.66% of the then issued share capital of Hikma).

| | Holding, 8 April 2014 | | Holding, 10 March 2015 | | Holding if all existing SOP, MIP, LTIP are exercised | | Holding if maximum award granted in 2014 exercised | |
|---|---|---|---|---|---|---|---|---|
| | No. of ordinary shares | Percentage of issued share capital | No. of ordinary shares | Percentage of issued share capital | No. of ordinary shares | Percentage of issued share capital | No. of ordinary shares | Percentage of issued share capital |
| Darhold Limited | 57,183,028 | 57,183,028 | 28.76% | 57,183,028 | 28.79% | – | – | – |
| Concert Party | 62,743,049 | 62,743,049 | 31.66% | 62,075,779 | 31.25% | 62,554,931 | 31.49% | 62,672,931 |

On full exercise of the options under the Hikma Pharmaceuticals 2004 Stock Option Plan (the '2004 Plan') and full vesting of the LTIPs and the MIPs, the Concert Party would potentially have, in aggregate, interests in 62,075,779 shares in the capital of Hikma (representing 31.25% of the enlarged issued share capital of Hikma, on the basis that no ordinary shares were issued other than pursuant to the exercise of such options or vesting of LTIPs/MIPs).

During the period from the Annual General Meeting in 2014 to 10 March 2015, the LTIP/MIP Holders together with other members of the Concert Party who hold options over ordinary shares pursuant to Hikma's 2005 Long Term Incentive Plan and 2009 Management Incentive Plan (each an 'Option Holder') exercised, in aggregate, options over 133,095 ordinary shares in the capital of Hikma.

## Directors' Responsibility Statement

Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law 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 IFRSs as adopted by the EU. 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

By order of the Board

Said Darwazah, *Chief Executive Officer*
11 March 2015

Mazen Darwazah, *Executive Vice Chairman*
11 March 2015

# FINANCIAL STATEMENTS

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIKMA PHARMACEUTICALS PLC

## Opinion on financial statements of Hikma Pharmaceuticals PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit 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 Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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.

The financial statements comprise the Group Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related Notes 1 to 59. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

## Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained on page 111 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

| *Risk* | *How the scope of our audit responded to the risk* |
|---|---|
| *Revenue recognition*<br>The Group's revenue recognition policies require Directors to make a number of estimates, with the most significant relating to provisions for chargebacks, product returns, rebates and price adjustments (see Notes 2 and 3) which vary by product arrangements and buying groups.<br>Additionally, for certain pharmaceutical products there may be uncertainty over the ultimate net selling price. Due to price volatility and the length of time that products can take to reach the end customer, revenue cannot always be reliably measured at the time of shipment. In these circumstances, revenue recognition is delayed until a reliable estimate can be made.<br>As there is significant management judgement in determining the level of inventory within the distribution network, this is an area of audit focus. | We assessed the revenue recognition policies applied in the Group, including the valuation and timing of revenue recognition with reference to the relevant revenue recognition criteria in IFRSs. We challenged the key judgements such as the expected value of chargebacks, product returns and price adjustments by performing analytical and substantive procedures. Substantive procedures included examining third party statements and data (e.g. external prescription data), sampling chargeback payments processed subsequent to the year end to assess run rates and challenging management estimates of channel inventory. |

| *Risk* | *How the scope of our audit responded to the risk* |
|---|---|
| *Impairment of goodwill and intangible assets*<br>The Group holds goodwill and intangible assets totalling $602 million (see Notes 3 and 14). These relate to Hikma's acquired manufacturing operations and investments in associates which management is required to assess for impairment. The significant value of these items and the judgemental nature of assumptions included within the impairment models, in particular the growth rates inherent in the forecasts and the discount rate assumption, make this an area of audit focus. | Management completed impairment reviews where indicators of impairment existed or where an annual impairment review was required for assets with an indefinite useful life or goodwill. We assessed each of the impairment reviews by critically reviewing the estimated future cash flows by considering the historical accuracy of budgeting and through our understanding of the future prospects of the business or investment. We worked with internal valuation specialists to challenge the discount rates, comparing assumptions to external market data. Where significant judgements were made we also carried out sensitivity analyses to assess their impact. |
| *Taxation*<br>The Group's worldwide operations are highly integrated and involve a number of cross-border transactions. As a result there is complexity and judgement surrounding the tax liabilities due to the authorities in the various tax jurisdictions, including transfer pricing considerations (see Notes 2, 11 and 17). | We challenged the judgements made by the Directors and evaluated the appropriateness of the provisions for both known and uncertain tax positions and their related disclosures. Working with our own taxation specialists, we obtained the latest correspondence between the Group and the relevant tax authorities, understood the judgements made by the Directors in respect of the various open issues, held meetings with senior management and consulted the Group's external tax advisers to assess their views on these. |
| *Inventory valuation*<br>At 31 December 2014, the Group held gross inventories of $273 million and inventory provisions of $50 million (see Note 19). The Directors make significant judgements regarding the value of inventory provisions for obsolescence and short-dated items. | We challenged the assumptions over inventory provisions by:<br>▶ reviewing the historical ageing of inventory;<br>▶ identifying and assessing aged and obsolete inventory when attending inventory counts;<br>▶ analysing the level of short-dated inventory and the associated provision;<br>▶ testing the expected volume and price of future sales of the stock by reviewing the price of inventory sold after the balance sheet date; and<br>▶ reviewing the historical accuracy of inventory provisioning and the level of inventory write-offs during the year. |
| *Acquisition accounting*<br>The Group acquired the assets of Bedford Laboratories during the period for total consideration of $229 million (see Note 41). There are a number of significant management judgements and assumptions used in the valuation of assets acquired, liabilities assumed and any non-controlling interests in the acquiree; and the recognition and measurement of any goodwill. Assumptions included discount rates, economic useful lives, inflation and growth rates. | We worked with our internal valuation specialists to evaluate management's judgements in determining the fair value estimates and the valuation of acquired intangibles. We also tested the validity and completeness of the consideration paid. |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 76.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

INDEPENDENT AUDITOR'S REPORT
*continued*

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be $18 million (2013: $15 million), which is 5% (2013: 5%) of pre-tax profit, and below 1.5% (2013: 1.5%) of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $360,000 (2013: $300,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 13 locations, all of which were subject to a full audit. In 2013, we selected the same locations and all but one were subject to a full scope audit; the other was subject to an audit of certain specified accounts balances. These locations include Jordan and the US, represent the principal business units and account for 82% (2013: 84%) of the Group's net assets, 97% (2013: 96%) of the Group's revenue and 88% (2013: 100%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 13 locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality, ranging from $6 million to $9 million (2013: $6 million to $9 million).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations where the Group audit scope was focused at least once every two years and the most significant of them including Jordan and the US at least once a year. In 2014, the Group Partners visited the US, Jordan and Portugal. In years when we do not visit a significant component we will include the component audit team in our team briefing, discuss their risk assessment and review documentation of the findings from their work.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

#### *Adequacy of explanations received and accounting records*

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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### Our duty to read other information in the annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul Franek FCA
(Senior statutory auditor)
*for and on behalf of Deloitte LLP*
*Chartered Accountants and Statutory Auditor*
*London, UK*
11 March 2015

# CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2014*

| | Note | 2014 $m | 2013 $m |
|---|---|---|---|
| *Continuing operations* | | | |
| Revenue | 4 | 1,489 | 1,365 |
| Cost of sales | 4 | (638) | (601) |
| *Gross profit* | 4 | 851 | 764 |
| Sales and marketing expenses | | (171) | (160) |
| General and administrative expenses | | (185) | (151) |
| Research and development expenses | | (55) | (39) |
| Other operating expenses (net) | 8 | (38) | (62) |
| *Total operating expenses* | | (449) | (412) |
| *Adjusted operating profit* | | 427 | 413 |
| Exceptional items: | | | |
| – Acquisition-related costs | 5 | (11) | – |
| – Severance costs | 5 | – | (1) |
| – Plant remediation costs | 5 | – | (24) |
| – Impairment losses | 5 | – | (10) |
| – Other claims provisions | 5 | – | (11) |
| Other adjustments: | | | |
| Intangible amortisation* | 5 | (14) | (15) |
| *Operating profit* | 4 | 402 | 352 |
| Associated companies | 16 | | |
| – share of results | | (6) | (3) |
| – exceptional impairment of investment | | – | (16) |
| Finance income | 9 | 4 | 2 |
| Finance expense | 10 | (38) | (37) |
| *Profit before tax* | | 362 | 298 |
| Tax | 11 | (80) | (82) |
| *Profit for the year* | 6 | 282 | 216 |
| Attributable to: | | | |
| Non-controlling interests | 32 | 4 | 4 |
| *Equity holders of the parent* | | 278 | 212 |
| | | 282 | 216 |
| *Earnings per share (cents)* | | | |
| Basic | 13 | 140.4 | 107.6 |
| Diluted | 13 | 139.0 | 107.1 |
| Adjusted basic | 13 | 151.0 | 139.1 |
| Adjusted diluted | 13 | 149.5 | 138.4 |

* Intangible amortisation comprises the amortisation of intangible assets other than software

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 31 December 2014*

| | Note | 2014 $m | 2013 $m |
|---|---|---|---|
| *Profit for the year* | | 282 | 216 |
| Items that may be reclassified subsequently to the income statement: | | | |
| Cumulative effect of change in fair value of financial derivatives | 30 | 1 | 3 |
| Exchange difference on translation of foreign operations | | (53) | 3 |
| *Total comprehensive income for the year* | | 230 | 222 |
| | | | |
| Attributable to: | | | |
| Non-controlling interests | | 3 | 5 |
| *Equity holders of the parent* | | 227 | 217 |
| | | 230 | 222 |

# CONSOLIDATED BALANCE SHEET

*at 31 December 2014*

| | Note | 2014 $m | 2013 $m |
|---|---|---|---|
| *Non-current assets* | | | |
| Intangible assets | 14 | 602 | 447 |
| Property, plant and equipment | 15 | 514 | 443 |
| Investment in associates and joint ventures | 16 | 16 | 22 |
| Deferred tax assets | 17 | 67 | 86 |
| Financial and other non-current assets | 18 | 39 | 34 |
| | | 1,238 | 1,032 |
| *Current assets* | | | |
| Inventories | 19 | 273 | 276 |
| Income tax asset | | 10 | 4 |
| Trade and other receivables | 20 | 439 | 439 |
| Collateralised and restricted cash | 21 | 8 | 7 |
| Cash and cash equivalents | 22 | 280 | 168 |
| Other current assets | | 3 | 3 |
| | | 1,013 | 897 |
| *Total assets* | | 2,251 | 1,929 |
| *Current liabilities* | | | |
| Bank overdrafts and loans | 23 | 393 | 159 |
| Obligations under finance leases | 28 | 1 | 1 |
| Trade and other payables | 24 | 248 | 241 |
| Income tax provision | | 65 | 65 |
| Other provisions | 25 | 25 | 20 |
| Other current liabilities | 26 | 109 | 100 |
| | | 841 | 586 |
| *Net current assets* | | 172 | 311 |
| *Non-current liabilities* | | | |
| Long-term financial debts | 27 | 145 | 263 |
| Obligations under finance leases | 28 | 23 | 19 |
| Deferred tax liabilities | 17 | 25 | 26 |
| Derivative financial instruments | 30 | – | 1 |
| Other non-current liabilities | | 1 | – |
| | | 194 | 309 |
| *Total liabilities* | | 1,035 | 895 |
| *Net assets* | | 1,216 | 1,034 |
| *Equity* | | | |
| Share capital | 31 | 35 | 35 |
| Share premium | | 281 | 281 |
| Own shares | 33 | (1) | (3) |
| Other reserves | | 882 | 704 |
| *Equity attributable to equity holders of the parent* | | 1,197 | 1,017 |
| Non-controlling interests | 32 | 19 | 17 |
| *Total equity* | | 1,216 | 1,034 |

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, were approved by the Board of Directors and signed on its behalf by:

Said Darwazah
*Director*

Mazen Darwazah
*Director*

11 March 2015

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2014*

| | Merger and Revaluation reserves $m | Translation reserves $m | Retained earnings $m | Total reserves $m | Share capital $m | Share premium $m | Own shares $m | Total equity attributable to equity shareholders of the parent $m | Non-controlling interests $m | Total equity $m |
|---|---|---|---|---|---|---|---|---|---|---|
| *Balance at 1 January 2013* | 38 | (48) | 529 | 519 | 35 | 279 | – | 833 | 15 | 848 |
| Profit for the year | – | – | 212 | 212 | – | – | – | 212 | 4 | 216 |
| Cumulative effect of change in fair value of financial derivatives | – | – | 3 | 3 | – | – | – | 3 | – | 3 |
| Currency translation gain | – | 2 | – | 2 | – | – | – | 2 | 1 | 3 |
| *Total comprehensive income for the year* | – | 2 | 215 | 217 | – | – | – | 217 | 5 | 222 |
| Issue of Equity Shares | – | – | – | – | – | 2 | – | 2 | – | 2 |
| Own shares acquired | – | – | – | – | – | – | (3) | (3) | – | (3) |
| Cost of equity-settled employee share scheme | – | – | 7 | 7 | – | – | – | 7 | – | 7 |
| Dividends on ordinary shares (Note 12) | – | – | (39) | (39) | – | – | – | (39) | (3) | (42) |
| *Balance at 31 December 2013 and 1 January 2014* | 38 | (46) | 712 | 704 | 35 | 281 | (3) | 1,017 | 17 | 1,034 |
| Profit for the year | – | – | 278 | 278 | – | – | – | 278 | 4 | 282 |
| Cumulative effect of change in fair value of financial derivatives | – | – | 1 | 1 | – | – | – | 1 | – | 1 |
| Currency translation (loss) | – | (52) | – | (52) | – | – | – | (52) | (1) | (53) |
| *Total comprehensive income for the year* | – | (52) | 279 | 227 | – | – | – | 227 | 3 | 230 |
| Cost of equity-settled employee share scheme | – | – | 8 | 8 | – | – | – | 8 | – | 8 |
| Exercise of equity-settled employee share scheme | – | – | (2) | (2) | – | – | 2 | – | – | – |
| Dividends on ordinary shares (Note 12) | – | – | (55) | (55) | – | – | – | (55) | (1) | (56) |
| *Balance at 31 December 2014* | 38 | (98) | 942 | 882 | 35 | 281 | (1) | 1,197 | 19 | 1,216 |

# CONSOLIDATED CASH FLOW STATEMENT

*for the year ended 31 December 2014*

| | Note | 2014 $m | 2013 $m |
|---|---|---|---|
| *Net cash from operating activities* | 34 | 425 | 337 |
| *Investing activities* | | | |
| Purchases of property, plant and equipment | | (91) | (59) |
| Proceeds from disposal of property, plant and equipment | | 1 | 1 |
| Purchase of intangible assets | | (27) | (16) |
| Proceeds from disposal of intangible assets | | 1 | – |
| Acquisition of interest in joint ventures | | – | (3) |
| Investment in financial and other non-current assets | | (5) | (22) |
| Acquisition of business undertakings net of cash acquired | | (225) | (18) |
| Finance income | | 4 | 2 |
| *Net cash used in investing activities* | | (342) | (115) |
| *Financing activities* | | | |
| Decrease in collateralised and restricted cash | | (1) | (5) |
| Increase in long-term financial debts | | 5 | 7 |
| Repayment of long-term financial debts | | (121) | (117) |
| Increase/(decrease) in short-term borrowings | | 241 | (34) |
| Increase in obligations under finance leases | | – | 1 |
| Dividends paid | | (55) | (39) |
| Dividends paid to non-controlling shareholders of subsidiaries | | (1) | (3) |
| Purchase of own shares | | – | (4) |
| Interest paid | | (38) | (37) |
| Proceeds from issue of new shares | | – | 2 |
| *Net cash generated by/(used in) financing activities* | | 30 | (229) |
| *Net increase/(decrease) in cash and cash equivalents* | | 113 | (7) |
| *Cash and cash equivalents at beginning of year* | | 168 | 177 |
| Foreign exchange translation movements | | (1) | (2) |
| *Cash and cash equivalents at end of year* | | 280 | 168 |

# 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; however, they may impact the accounting for future transactions and arrangements.

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment entities |
| Amendments to IAS 36 | Recoverable amount disclosures for non-financial assets |

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 11 | Joint arrangements |
| IFRS 14 | Regulatory deferral accounts |
| IAS 16 and IAS 38 (amendments) | Property, plant and equipment and intangible assets |
| IAS 16 and IAS 41 (amendments) | Property, plant and equipment and agriculture (impact to be evaluated) |
| IFRS 15 | Revenue from contracts with customers |
| IAS 19 (amendments) | Employee benefits |
| IAS 27 (amendments) | Investment Entities |
| IFRS 10 and IAS 28 (amendments) | Sales or contribution of assets between an investor and its associate/Joint venture |
| Annual improvements to IFRSs: 2010 – 2012 | |
| Annual improvements to IFRSs: 2011 – 2013 | |
| Annual improvements to IFRSs: 2012 – 2014 Cycle | |

Except as noted above, the Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### General information

Hikma Pharmaceuticals PLC is a company incorporated in the UK under the Companies Act. The address of the registered office is given on *page 172*.

### Basis of accounting

Hikma Pharmaceuticals PLC's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB'). The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and, therefore, comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared under the historical cost convention, except for the revaluation to market of certain financial assets and liabilities.

The 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 for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements (see *page 111*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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").

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any 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 is recognised as goodwill. Non-controlling interests in the net assets of consolidated subsidiaries may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount initially recognised plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity shareholders of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

### Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in 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) and the resulting gain or loss, if any, is recognised in the consolidated income statement.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

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

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee revenue but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates 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 excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is 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.

### 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.

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

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

*(a) Goodwill:* arising in a business combination 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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units. Cash-generating units to which goodwill has been allocated 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.

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

*(b) Marketing rights:* are amortised over their useful lives commencing in the year in which the rights first generate sales (see Note 14).

*(c) 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.

*(d) Product-related intangibles:*

(i) Product files and under-licensed products are assigned indefinite useful lives which are reviewed for impairment at least annually; and

(ii) Under-licence agreements and product dossiers are amortised over their useful lives from the date of acquisition. Intangible assets recognised from development activities are amortised over their useful economic life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

*(e) Purchased software:* is amortised over the useful economic life when the asset is available for use.
*(f) In-process research and development recognised on acquisition:* is amortised over the useful life from the date of acquisition.
*(g) Trade name:* some trade names are assigned indefinite useful lives and others have definite useful lives over which they are amortised where applicable, in the period from acquisition.

### Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, the functional currency of Hikma Pharmaceuticals PLC and the presentational currency of the consolidated financial statements.

Transactions in currencies other than a company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on retranslation of monetary assets and liabilities are recognised in the consolidated income statement in the period in which they arise.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve. Such cumulative translation differences are recognised as income or as expenses in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Revenue recognition

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

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 title and risk of loss 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.

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.

### 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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Returns

In certain countries 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 in the period in which the underlying sales are recognised, as a reduction of sales revenue.

The Group estimates its provision for returns based on historical experience, representing management's best estimate. While such experience has allowed for 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 US are covered by various programmes (such as Medicaid) under which products are sold at a discount.

The Group estimates its provision for rebates based on current contractual terms and conditions as well as historical experience, changes to business practices and credit terms. While such experience has allowed for 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 sales 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.

### 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.

To the extent that variable-rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to the consolidated income statement when the qualifying asset impacts profit or loss. To the extent that fixed-rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

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

#### *The Group as lessee*

Leases are classified as finance leases whenever the terms of the lease transfer substantially 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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.

### 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.

### 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 tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the 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 liability for current tax 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 be utilised. Such assets and liabilities are not recognised if 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.

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.

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 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.

### Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Share-based payments

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 equity-settled stock options scheme is determined using a binomial model. The fair value of the management incentive plan is determined based on the share price as at the date of grant discounted by dividend yield. The fair value of the Long Term Incentive Plan is determined using a Monte Carlo valuation model; for Long Term Incentive Plan awards made from 2010, 50% of the award is subject to a TSR performance condition which is valued by applying the Monte Carlo simulation methodology; the remaining 50% of the award is subject to financial metrics and valued by applying a Black-Scholes model.

The expected life used in the models has 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 36). 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 (except for failure to satisfy a market vesting condition) 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 a 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.

### 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% |
| Vehicles | 10% to 20% |
| Machinery | 5% to 33% |
| 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 of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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 cost of own-manufactured products comprises 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. Provisions are made for inventories with net realisable value lower than cost or for slow-moving inventory.

### 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*

All financial assets are recognised and derecognised on a trade date, where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the consolidated income statement, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at Fair Value Through Profit or Loss' ('FVTPL'), 'held-to-maturity' investments, 'Available-For-Sale' ('AFS') financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Effective interest method*

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

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

#### *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'. 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.

#### *Available for sale financial assets*

Listed shares and listed redeemable notes 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 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. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments 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, which is taken to the consolidated income statement.

#### *Financial liabilities and equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

*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 yield basis.

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 documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 30 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 derivatives that are designated and qualify as cash flow hedges 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.

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.

Equity instruments

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Impairment of property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets 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). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that it does not exceed the previous revaluation surplus, and any excess is recognised in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Exceptional items

The Group presents adjusted earnings by making 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 would include costs associated with business combinations, one-off gains and losses on disposal of businesses, assets, finance costs and similar items of a non-recurring nature together with reorganisation costs and similar charges and by adding back impairment of goodwill and amortisation and impairment of intangible assets arising on business combinations, net of any tax impact.

## 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, among others, 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

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 (see 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. Deferred revenue is included in other current liabilities in the consolidated balance sheet (see Note 26).

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

### Accounts receivable and bad debts

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

The critical areas of judgement in relation to goodwill and intangible assets are the useful economic lives of the product-related intangibles, the growth rates used in the impairment tests and the discount rates used to determine net present values.

### 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 Department of Justice. As a result, the Group is subject to certain ongoing investigations by governmental agencies as well as other various legal proceedings considered typical to its business relating to employment, product liability and commercial disputes. Often this litigation is subject to substantial uncertainties, and therefore the probability of a loss, if any, being incurred or an estimate of the amount of any loss is difficult to ascertain. Consequently, it is often not practicable to make a reasonable estimate of the possible financial effect, if any, that could arise from the ultimate resolution of legal proceedings. In such cases, where the Group believes that disclosure is required, information regarding the nature and facts of the case is disclosed. For current matters see Note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 4. SEGMENTAL REPORTING

For management purposes, the Group is currently organised into three principal operating divisions: Branded, Injectables and Generics. These divisions are the basis on which the Group reports its segmental information.

The Group discloses underlying operating profit as the measure of segmental result, as this is the 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.

The following is an analysis of the Group's revenue and results by reportable segment in 2014:

| Year ended 31 December 2014 | Branded $m | Injectables $m | Generics $m | Others $m | Group $m |
|---|---|---|---|---|---|
| Revenue | 551 | 713 | 216 | 9 | 1,489 |
| Cost of sales | (284) | (282) | (66) | (6) | (638) |
| *Gross profit* | 267 | 431 | 150 | 3 | 851 |
| *Adjusted segment result* | 111 | 265 | 113 | (5) | 484 |
| Exceptional items: | | | | | |
| Intangible amortisation* | (9) | (5) | – | – | (14) |
| Segment result | 102 | 260 | 113 | (5) | 470 |
| *Adjusted unallocated corporate expenses* | | | | | (57) |
| Exceptional items: | | | | | |
| – Acquisition-related expenses | | | | | (11) |
| Unallocated corporate expenses | | | | | (68) |
| *Adjusted operating profit* | | | | | 427 |
| Operating profit | | | | | 402 |
| Associated companies | | | | | |
| – Share of results | | | | | (6) |
| Finance income | | | | | 4 |
| Finance expense | | | | | (38) |
| Profit before tax | | | | | 362 |
| Tax | | | | | (80) |
| Profit for the year | | | | | 282 |
| Attributable to: | | | | | |
| Non-controlling interest | | | | | 4 |
| Equity holders of the parent | | | | | 278 |
| | | | | | 282 |

Segment result is defined as operating profit for each segment.

* Intangible amortisation comprises the amortisation on intangible assets other than software

"Others" mainly comprises Arab Medical Containers Ltd, International Pharmaceutical Research Center Ltd and the chemicals division of Hikma Pharmaceuticals Ltd (Jordan).

Unallocated corporate expenses are primarily made up of employee costs, professional fees, travel expenses and donations.

## 4. SEGMENTAL REPORTING CONTINUED

| Segment assets and liabilities 2014 | Branded $m | Injectables $m | Generics $m | Corporate and Others $m | Group $m |
|---|---|---|---|---|---|
| Additions to property, plant and equipment (cost) | 48 | 31 | 8 | 2 | 89 |
| Acquisition of subsidiaries' property, plant and equipment (net book value) | – | 53 | – | – | 53 |
| Additions to intangible assets | 4 | 16 | 4 | 1 | 25 |
| Intangible assets arising on acquisition | – | 174 | – | – | 174 |
| Total property, plant and equipment and intangible assets (net book value) | 511 | 528 | 70 | 7 | 1,116 |
| Depreciation and impairment | 22 | 18 | 7 | 2 | 49 |
| Amortisation and impairment (including software) | 10 | 13 | – | – | 23 |
| Investment in associates and joint ventures | – | – | – | 16 | 16 |
| *Balance sheet* | | | | | |
| Total assets | 1,123 | 770 | 175 | 183 | 2,251 |
| Total liabilities | 481 | 405 | 92 | 57 | 1,035 |

The following is an analysis of the Group's revenue and results by reportable segment in 2013:

| Year ended 31 December 2013 | Branded $m | Injectables $m | Generics $m | Others $m | Group $m |
|---|---|---|---|---|---|
| Revenue | 554 | 536 | 268 | 7 | 1,365 |
| Cost of sales | (278) | (254) | (62) | (7) | (601) |
| Gross profit | 276 | 282 | 206 | – | 764 |
| *Adjusted segment result* | 135 | 166 | 166 | (9) | 458 |
| Exceptional items: | | | | | |
| – Severance costs | (1) | – | – | – | (1) |
| – Plant remediation costs | – | – | (24) | – | (24) |
| – Impairment losses | – | (6) | (4) | – | (10) |
| – Other claims provisions | – | – | (11) | – | (11) |
| Intangible amortisation* | (10) | (5) | – | – | (15) |
| Segment result | 124 | 155 | 127 | (9) | 397 |
| Unallocated corporate expenses | | | | | (45) |
| *Adjusted operating profit* | | | | | 413 |
| Operating profit | | | | | 352 |
| Associated companies | | | | | |
| – Share of results | | | | | (3) |
| – Exceptional impairment of investment | | | | | (16) |
| Finance income | | | | | 2 |
| Finance expense | | | | | (37) |
| Profit before tax | | | | | 298 |
| Tax | | | | | (82) |
| Profit for the year | | | | | 216 |
| Attributable to: | | | | | |
| Non-controlling interest | | | | | 4 |
| Equity holders of the parent | | | | | 212 |
| | | | | | 216 |

Segment result is defined as operating profit for each segment.

* Intangible amortisation comprises the amortisation of intangible assets other than software

"Others" mainly comprise Arab Medical Containers Ltd, International Pharmaceutical Research Center Ltd and the chemicals division of Hikma Pharmaceuticals Ltd (Jordan).

Unallocated corporate expenses are primarily made up of employee costs, office costs, professional fees, donations and travel expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 4. SEGMENTAL REPORTING CONTINUED

| Segment assets and liabilities 2013 | Branded $m | Injectables $m | Generics $m | Corporate and Others $m | Group $m |
|---|---|---|---|---|---|
| Additions to property, plant and equipment (cost) | 25 | 31 | 10 | – | 66 |
| Acquisition of subsidiaries' property, plant and equipment (net book value) | 6 | – | – | – | 6 |
| Additions to intangible assets | 3 | 13 | 2 | – | 18 |
| Intangible assets arising on acquisition | 20 | – | – | – | 20 |
| Total property, plant and equipment and intangible assets (net book value) | 519 | 314 | 51 | 6 | 890 |
| Depreciation and impairment | 22 | 17 | 8 | 2 | 49 |
| Amortisation and impairment (including software) | 10 | 12 | 4 | – | 26 |
| Investment in associates and joint ventures | – | – | – | 22 | 22 |
| *Balance sheet* | | | | | |
| Total assets | 1,138 | 592 | 141 | 58 | 1,929 |
| Total liabilities | 551 | 259 | 25 | 60 | 895 |

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

| | 2014 $m | 2013 $m |
|---|---|---|
| Middle East and North Africa | 633 | 638 |
| US | 763 | 631 |
| Europe and Rest of the World | 89 | 89 |
| UK | 4 | 7 |
| | 1,489 | 1,365 |

The top-selling markets were as below:

| | 2014 $m | 2013 $m |
|---|---|---|
| US | 763 | 631 |
| Saudi Arabia | 146 | 132 |
| Algeria | 86 | 125 |
| | 995 | 888 |

Generics and Injectables revenue were $216 million and $713 million, respectively (2013: $268 million and $536 million) including strong sales of doxycycline and glycopyrrolate. Included in revenues arising from the Generics and Injectables segments are revenues of approximately $221 million (2013: $172 million) which arose from the Group's largest customer which is located in the US.

The following is an analysis of the total non-current assets excluding deferred tax and financial instruments and an analysis of total assets by the geographical area in which the assets are located:

| | Total non-current assets excluding deferred tax and financial instruments as at 31 December | | Total assets as at 31 December | |
|---|---|---|---|---|
| | 2014 $m | 2013 $m | 2014 $m | 2013 $m |
| Middle East and North Africa | 606 | 624 | 1,202 | 1,255 |
| Europe | 141 | 156 | 195 | 217 |
| US | 368 | 163 | 648 | 437 |
| UK | 55 | 3 | 206 | 20 |
| | 1,170 | 946 | 2,251 | 1,929 |

## 5. EXCEPTIONAL ITEMS AND INTANGIBLE AMORTISATION

Exceptional items are disclosed separately in the consolidated income statement to assist in the understanding of the Group's underlying performance.

| | 2014 $m | 2013 $m |
|---|---|---|
| Acquisition-related costs | (11) | – |
| Other costs: | | |
| Severance costs | – | (1) |
| Plant remediation costs | – | (24) |
| Impairment losses | – | (10) |
| Other claims provisions | – | (11) |
| *Exceptional items included in operating profit* | (11) | (46) |
| Impairment of investment in associates | – | (16) |
| *Exceptional items included in profit* | (11) | (62) |
| Intangible amortisation* | (14) | (15) |
| *Exceptional items and intangible amortisation* | (25) | (77) |
| Tax effect | 4 | 15 |
| *Impact on profit for the year* | (21) | (62) |

* Intangible amortisation comprises the amortisation of intangible assets other than software

### *Acquisition-related expenses*

Acquisition-related expenses are costs incurred in acquiring Bedford Laboratories (see Note 41).

Acquisition-related expenses are included in the unallocated corporate expenses and mainly comprise third party consulting services, legal and professional fees.

### *In previous periods exceptional items related to the following:*

### *Other costs*

Severance expenses in 2013 related to restructuring of management teams in MENA.

Plant remediation costs were related to the write-down of inventory of some products and costs that were incurred for compliance work at our Eatontown facility in response to observations made by the US FDA. Remediation costs were included in other operating expenses.

Impairment losses were related to the write-off of intangible product rights of $8 million, in addition to the write-off of certain property, plant and equipment of $2 million. Impairment of intangible assets was included in research and development. Impairment of fixed assets was included in other operating expenses.

Other claims provisions related to the Group's best estimate of the ultimate settlement amount of claims outstanding in 2013 and was included in other operating expenses.

### *Impairment of investment in associates*

During 2011, Hikma acquired a minority interest in Unimark Remedies Limited ('Unimark') in India for a cash consideration of $34 million. Unimark manufactures Active Pharmaceutical Ingredients ('API') and API intermediates. Unimark has been impacted by a decline in prices in its API manufacturing business. During 2013, the Group recognised an impairment charge of $16 million in respect of Unimark.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 6. PROFIT FOR THE YEAR

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

| | 2014 $m | 2013 $m |
|---|---|---|
| Net foreign exchange losses/(gain) | 6 | (2) |
| Depreciation and impairment of property, plant and equipment | 49 | 49 |
| Amortisation of intangible assets (including software) | 18 | 18 |
| Impairment of investment | – | 16 |
| Inventories: | | |
| Cost of inventories recognised as an expense | 378 | 354 |
| Write-down of inventories | 32 | 47 |
| Staff costs (see Note 7) | 344 | 319 |

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

| | 2014 $m | 2013 $m |
|---|---|---|
| Audit of the Company's annual accounts | 0.4 | 0.3 |
| Audit of the Company's subsidiaries pursuant to legislation | 1.2 | 1.2 |
| *Total audit fees* | 1.6 | 1.5 |
| Audit-related services* | 0.2 | 0.2 |
| *Total audit and audit-related fees* | 1.8 | 1.7 |
| – Tax compliance services | 0.1 | 0.1 |
| – Tax advisory services | 0.4 | 0.1 |
| – Other services** | – | 0.4 |
| *Total non-audit fees* | 0.5 | 0.6 |
| *Total fees* | 2.3 | 2.3 |

* Audit-related services relate to review procedures in respect of the interim financial information

** Other services include transaction services related to corporate transactions

A description of the work of the Audit Committee is set out in the Audit Committee report on *pages 74 to 80* 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:

| | 2014 Number | 2013 Number |
|---|---|---|
| Production | 3,986 | 3,942 |
| Sales and marketing | 2,089 | 2,097 |
| Research and development | 223 | 205 |
| General and administrative | 841 | 823 |
| | 7,139 | 7,067 |

## 7. STAFF COSTS CONTINUED

| | 2014 $m | 2013 $m |
|---|---|---|
| Their aggregate remuneration comprised: | | |
| Wages, salaries and bonuses | 242 | 221 |
| Social security costs | 22 | 20 |
| Post-employment benefits | 7 | 6 |
| End of service indemnity | 10 | 15 |
| Share-based payments | 8 | 7 |
| Car and housing allowances | 18 | 16 |
| Health insurance | 18 | 17 |
| Other costs and employee benefits | 19 | 17 |
| | 344 | 319 |

## 8. OTHER OPERATING EXPENSES (NET)

| | 2014 $m | 2013 $m |
|---|---|---|
| Other operating expense | (55) | (71) |
| Other operating income | 17 | 9 |
| | (38) | (62) |

Other operating expenses consist mainly of write-down of inventories (see Note 19) and foreign exchange losses, while in previous periods other operating expenses also included plant remediation costs (see Note 5). Other operating income consists mainly of foreign exchange gains, other product-related income, and commissions and royalties.

## 9. FINANCE INCOME

| | 2014 $m | 2013 $m |
|---|---|---|
| Interest income | 4 | 1 |
| Other financial income | – | 1 |
| | 4 | 2 |

## 10. FINANCE EXPENSE

| | 2014 $m | 2013 $m |
|---|---|---|
| Interest on bank overdrafts and loans | 19 | 21 |
| Interest on obligations under finance leases | 1 | 1 |
| Other bank charges | 18 | 15 |
| | 38 | 37 |

## 11. TAX

| | 2014 $m | 2013 $m |
|---|---|---|
| Current tax: | | |
| Foreign tax | 82 | 123 |
| Adjustments to prior year | (9) | – |
| Deferred tax (Note 17) | 7 | (41) |
| | 80 | 82 |

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profit made in the UK for the year.

The effective tax rate for the Group is 22.1% (2013: 27.7%).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 11. TAX CONTINUED

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

| | 2014 $m | 2013 $m |
|---|---|---|
| Profit before tax: | 362 | 298 |
| Tax at the UK corporation tax rate of 21.5% (2013: 23.25%) | 78 | 69 |
| Profits taxed at different rates | (1) | 3 |
| Permanent differences | 8 | 7 |
| Temporary differences for which no benefit is recognised | 4 | 3 |
| Adjustments to prior year | (9) | – |
| Tax expense for the year | 80 | 82 |

## 12. DIVIDENDS

| | 2014 $m | 2013 $m |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2013 of 13.0 cents (2012: 10.0 cents) per share | 25 | 19 |
| Interim dividend for the year ended 31 December 2014 of 7.0 cents (2013: 7.0 cents) per share | 14 | 14 |
| Special final dividend for the year ended 31 December 2013 of 4.0 cents (2012: nil) per share | 8 | – |
| Special interim dividend for the year ended 31 December 2014 of 4.0 cents (2013: 3.0 cents) per share | 8 | 6 |
| | 55 | 39 |

The proposed final dividend for the year ended 31 December 2014 is 15.0 cents (2013: 13.0 cents) per share plus a special dividend of 6.0 cents (2013: 4.0 cents) per share that reflect the exceptional performance of the Generics and Injectables businesses during the year. This brings the full-year dividend to 22.0 cents (2013: 20.0 cents) per share plus a special full-year dividend of 10.0 cents (2013: 7.0 cents) per share.

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 14 May 2015 and has not been included as a liability in these financial statements. Based on the number of shares in issue at 31 December 2014 (198,632,000), the unrecognised liability is $42 million.

## 13. EARNINGS PER SHARE

Earnings 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. Adjusted basic earnings per share and adjusted diluted earnings per share are intended to highlight the adjusted results of the Group before exceptional items and intangible amortisation (excluding software). A reconciliation of the basic and adjusted earnings used is also set out below:

| | 2014 $m | 2013 $m |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent | 278 | 212 |
| Exceptional items (see Note 5) | 11 | 62 |
| Intangible amortisation* | 14 | 15 |
| Tax effect of adjustments | (4) | (15) |
| Adjusted earnings for the purposes of adjusted basic and diluted earnings per share being adjusted net profit attributable to equity holders of the parent | 299 | 274 |

* Intangible amortisation comprises the amortisation of intangible assets other than software

## 13. EARNINGS PER SHARE CONTINUED

| Number of shares | Number m | Number m |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 198 | 197 |
| Effect of dilutive potential ordinary shares: | | |
| Share-based awards | 2 | 1 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 200 | 198 |

| | 2014 Earnings per share Cents | 2013 Earnings per share Cents |
|---|---|---|
| Basic | 140.4 | 107.6 |
| Diluted | 139.0 | 107.1 |
| Adjusted basic | 151.0 | 139.1 |
| Adjusted diluted | 149.5 | 138.4 |

## 14. INTANGIBLE ASSETS

| | Goodwill $m | Customer relationships $m | Product-related intangibles $m | Trade names $m | Marketing rights and others $m | Software $m | Total $m |
|---|---|---|---|---|---|---|---|
| *Cost* | | | | | | | |
| *Balance at 1 January 2013* | 268 | 78 | 93 | 11 | 16 | 27 | 493 |
| Additions | – | – | 14 | – | 1 | 3 | 18 |
| Acquisition of subsidiaries | 10 | – | 10 | – | – | – | 20 |
| Translation adjustments | 1 | – | 1 | – | – | – | 2 |
| *Balance at 1 January 2014* | 279 | 78 | 118 | 11 | 17 | 30 | 533 |
| Additions | – | – | 19 | – | 1 | 5 | 25 |
| Acquisition of business | 51 | – | 123 | – | – | – | 174 |
| Translation adjustments | (15) | (3) | (4) | (1) | (1) | (1) | (25) |
| *Balance at 31 December 2014* | 315 | 75 | 256 | 10 | 17 | 34 | 707 |
| *Amortisation* | | | | | | | |
| *Balance at 1 January 2013* | (1) | (24) | (14) | (1) | (7) | (13) | (60) |
| Charge for the year | – | (5) | (8) | (1) | (1) | (3) | (18) |
| Impairment | – | – | (8) | – | – | – | (8) |
| *Balance at 1 January 2014* | (1) | (29) | (30) | (2) | (8) | (16) | (86) |
| Charge for the year | – | (5) | (8) | – | (1) | (4) | (18) |
| Impairment | – | – | (5) | – | – | – | (5) |
| Translation adjustments | – | 1 | 1 | – | 1 | 1 | 4 |
| *Balance at 31 December 2014* | (1) | (33) | (42) | (2) | (8) | (19) | (105) |
| *Carrying amount* | | | | | | | |
| *At 31 December 2014* | 314 | 42 | 214 | 8 | 9 | 15 | 602 |
| *At 31 December 2013* | 278 | 49 | 88 | 9 | 9 | 14 | 447 |

The current-year additions include licences and new products under development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

14. INTANGIBLE ASSETS CONTINUED

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 | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Branded | 199 | 209 |
| Injectables: | 83 | 32 |
| – MSI | 32 | 32 |
| – Bedford | 51 | – |
| Oncology | 32 | 37 |
| Total | 314 | 278 |

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The value-in-use calculations are based on cash flows over five years and then grown at 2% in perpetuity. The key assumptions for the value-in-use calculations are those regarding the discount rates and compound annual cash flow growth rate for the five-year business plan.

Management estimates discount rates using WACC rates that reflect the current market assessments of the time value of money and the risks specific to the CGUs. The discount rates used varied between 9.0% and 38.6% based on the markets in which the CGUs operate. The compound annual cash flow growth rates range 4.1% decline to 27.9% growth.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill. While there is some uncertainty regarding the short-term impact of the political events in MENA, the Group does not consider that the likelihood of impairment losses in the long-term has increased.

*Other intangible assets*

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

*Customer relationships:* customer relationships represent the value attributed to the existing direct customers that the Company acquired on the acquisition of subsidiaries. The customer relationships have an average estimated useful life of 15 years (2013: 15 years).

*Product-related intangibles:* product-related intangibles include four types:

*a. Product files and under-licensed products:* $20 million (2013: $20 million) of the product files and under-licensed products intangibles are assessed as having indefinite useful lives due to the expected longevity of the products.

*b. Under-licence agreements:* the estimated useful life of under-licence agreements varies from five to eleven years (2013: five to eleven years).

*c. Product dossiers:* product dossiers have an average estimated useful life of 15 years (2013: 15 years).

*d. In-process product files:* mainly represent files acquired from Bedford that are in the process of being transferred to our manufacturing facilities.

*Trade name:* trade names were mainly recognised on the acquisition of Hikma Germany GmbH (Germany), Arab Pharmaceutical Manufacturing Company, Promopharm and Ibn Al Baytar.

The trade name recognised on the acquisition of Hikma Germany GmbH (Germany) is expected to have an indefinite economic useful life due to its expected longevity. The carrying value of the Hikma Germany GmbH (Germany) trade name is $5 million (2013: $6 million). The trade names recognised on the acquisition of the other subsidiaries have useful lives that vary from three to twenty years.

*Marketing rights and others*

*a. Marketing rights:* marketing rights are amortised over their useful lives commencing in the year in which the rights are ready for use. The estimated useful life of marketing rights varies from five to ten years.

*b. In-process R&D:* in-process R&D represents mainly the pipeline of products under development that were recognised on the acquisition of Arab Pharmaceutical Manufacturing Company and Hikma Pharma SAE-Egypt. The in-process R&D has an average estimated useful life of 15 years (2013: 15 years).

*c. 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 varies from 10 years to an indefinite useful life. The carrying value of assets with indefinite lives is $1 million (2013: $1 million).

*Software:* software intangibles mainly represent the Enterprise Resource Planning solutions that are being implemented in different operations across the Group. The software has an average estimated useful life of five years.

As at 31 December 2014, the Group had entered into contractual commitments for the acquisition of intangible assets of $25 million (2013: $94 million).

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings $m | Vehicles $m | Machinery and equipment $m | Fixtures and equipment $m | Projects under construction $m | Total $m |
|---|---|---|---|---|---|---|
| *Cost* | | | | | | |
| *Balance at 1 January 2013* | 237 | 15 | 288 | 51 | 61 | 652 |
| Additions | 6 | 1 | 14 | 4 | 41 | 66 |
| Acquisition of subsidiaries | 3 | – | 2 | 1 | – | 6 |
| Disposals | (1) | (1) | (3) | – | – | (5) |
| Transfers | 17 | 1 | 24 | 2 | (44) | – |
| Translation adjustment | 1 | – | 3 | – | – | 4 |
| *Balance at 1 January 2014* | 263 | 16 | 328 | 58 | 58 | 723 |
| Additions | 17 | 2 | 14 | 5 | 51 | 89 |
| Acquisition of business | 20 | – | 26 | 7 | – | 53 |
| Disposals | – | (2) | (6) | (1) | – | (9) |
| Transfers | 14 | – | 19 | 2 | (35) | – |
| Translation adjustment | (12) | (1) | (17) | (2) | (3) | (35) |
| *Balance at 31 December 2014* | 302 | 15 | 364 | 69 | 71 | 821 |
| *Accumulated depreciation* | | | | | | |
| *Balance at 1 January 2013* | (47) | (9) | (143) | (33) | – | (232) |
| Charge for the year | (10) | (2) | (28) | (7) | – | (47) |
| Impairment | – | – | – | – | (2) | (2) |
| Disposals | – | 1 | 2 | – | – | 3 |
| Translation adjustment | (1) | – | (1) | – | – | (2) |
| *Balance at 1 January 2014* | (58) | (10) | (170) | (40) | (2) | (280) |
| Charge for the year | (10) | (2) | (29) | (7) | – | (48) |
| Impairment | – | – | – | – | (1) | (1) |
| Disposals | – | 2 | 4 | 1 | – | 7 |
| Translation adjustment | 4 | – | 9 | 2 | – | 15 |
| *Balance at 31 December 2014* | (64) | (10) | (186) | (44) | (3) | (307) |
| *Carrying amount* | | | | | | |
| *At 31 December 2014* | 238 | 5 | 178 | 25 | 68 | 514 |
| *Carrying amount* | | | | | | |
| *At 31 December 2013* | 205 | 6 | 158 | 18 | 56 | 443 |

The net book value of the Group's property, plant and equipment includes an amount of $7 million (2013: $10 million) in respect of assets held under finance lease.

As at 31 December 2014, the Group had pledged property, plant and equipment having a carrying value of $47 million (2013: $49 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 Portugal, Germany and Tunisia (2013: Portugal, Egypt, Germany and Tunisia).

As at 31 December 2014, the Group entered into contractual commitments for the acquisition of property, plant and equipment amounting to $23 million (2013: $18 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

A loss of $6 million (2013: $3 million), representing the Group's share of the result of Unimark Remedies Limited and Hubei Haosun Pharmaceutical Co., Ltd, is included in the consolidated income statement.

| | For the year ended 31 December 2014 | | | For the year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | Joint ventures $m | Associates $m | Total $m | Joint ventures $m | Associates $m | Total $m |
| *Balance at 1 January* | 3 | 19 | 22 | – | 38 | 38 |
| Additions | – | – | – | 3 | – | 3 |
| Share of loss | – | (6) | (6) | – | (3) | (3) |
| Impairment of investment (as explained in Note 5) | – | – | – | – | (16) | (16) |
| *Balance at 31 December* | 3 | 13 | 16 | 3 | 19 | 22 |

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

| | For the year ended 31 December 2014 $m | For the year ended 31 December 2013 $m |
|---|---|---|
| Total assets | 220 | 226 |
| Total liabilities | 148 | 141 |
| Net assets | 72 | 85 |
| *Group's share of net assets of associates* | 17 | 20 |
| Total revenues | 50 | 106 |
| Net loss | (27) | (14) |
| *Group's share of loss of associates* | (6) | (3) |

## 17. DEFERRED TAX

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

| | Tax losses $m | Deferred R&D costs $m | Other short-term temporary differences $m | Amortisable assets $m | Fixed assets $m | Share-based payments $m | Total $m |
|---|---|---|---|---|---|---|---|
| *At 1 January 2013* | – | 1 | 49 | (19) | (9) | 1 | 23 |
| Credit to income | – | – | 40 | 1 | – | – | 41 |
| Acquisition of subsidiaries | – | – | – | (4) | – | – | (4) |
| *At 1 January 2014* | – | 1 | 89 | (22) | (9) | 1 | 60 |
| (Charge) Credit to income | 4 | – | (12) | – | – | 1 | (7) |
| Acquisition of business | – | – | – | – | (13) | – | (13) |
| Exchange differences | – | – | – | 2 | – | – | 2 |
| *At 31 December 2014* | 4 | 1 | 77 | (20) | (22) | 2 | 42 |

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 | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Deferred tax liabilities | (25) | (26) |
| Deferred tax assets | 67 | 86 |
| | 42 | 60 |

17. DEFERRED TAX CONTINUED

No deferred tax asset has been recognised on temporary differences totalling $41 million (2013: $51 million) due to the unpredictability of the related future profit streams.

Of these temporary differences, $31 million relate to unrecognised deferred tax on UK share-based payments. The remaining temporary differences of $10 million relate to losses on which no deferred tax is recognised. None of these losses are expected to expire.

No deferred tax liability is recognised on temporary differences of $96 million (2013: $62 million) relating to the unremitted earnings of overseas subsidiaries, 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 | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Other financial assets | 1 | 1 |
| Available for sale investments | 1 | 1 |
| Other non-current assets | 37 | 32 |
| | 39 | 34 |

Other non-current assets represent advance payments made to acquire products and product-related technologies from third parties. These payments will be reclassified to intangible assets and inventory from the point where the products are available for use.

## 19. INVENTORIES

| | As at 31 December | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Finished goods | 60 | 77 |
| Work-in-progress | 33 | 30 |
| Raw and packing materials | 159 | 149 |
| Goods in transit | 21 | 20 |
| | 273 | 276 |

Goods in transit includes inventory held at third parties while in transit between Group companies.

| | As at 31 December 2013 $m | Additions $m | Utilisation $m | As at 31 December 2014 $m |
|---|---|---|---|---|
| Provisions against inventory | 45 | 32 | (27) | 50 |

The total expense in the consolidated income statement for the write-off of inventory, including provisions for such write-offs, was $32 million (2013: $47 million).

## 20. TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Trade receivables | 384 | 385 |
| Prepayments | 42 | 40 |
| VAT and sales tax recoverable | 12 | 11 |
| Employee advances | 1 | 3 |
| | 439 | 439 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 20. TRADE AND OTHER RECEIVABLES CONTINUED

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

| | As at 31 December 2013 $m | Additions $m | Utilisation $m | Translation adjustments $m | As at 31 December 2014 $m |
|---|---|---|---|---|---|
| Chargebacks and other allowances | 96 | 638 | (649) | – | 85 |
| Doubtful debts | 27 | 10 | (1) | (1) | 35 |
| | 123 | 648 | (650) | (1) | 120 |

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

| | | Past due | | | | | |
|---|---|---|---|---|---|---|---|
| At 31 December 2014 | 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 | Over one year $m | Impaired $m | Total $m |
| Total trade receivables as at 31 December 2014 | 334 | 60 | 26 | 22 | 27 | 35 | 504 |
| Related allowance for doubtful debts | | | | | | (35) | (35) |
| | 334 | 60 | 26 | 22 | 27 | – | 469 |
| Chargebacks and other allowances | | | | | | | (85) |
| Net receivables | | | | | | | 384 |

| | | Past due | | | | | |
|---|---|---|---|---|---|---|---|
| At 31 December 2013 | 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 | Over one year $m | Impaired $m | Total $m |
| Total trade receivables as at 31 December 2013 | 379 | 53 | 13 | 23 | 13 | 27 | 508 |
| Related allowance for doubtful debts | | | | | | (27) | (27) |
| | 379 | 53 | 13 | 23 | 13 | – | 481 |
| Chargebacks and other allowances | | | | | | | (96) |
| Net receivables | | | | | | | 385 |

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 of risk management are provided in Note 29.

## 21. COLLATERALISED AND RESTRICTED CASH

Collateralised and restricted cash of $8 million primarily represent an amount retained against short-term bank transactions granted to the Group's Sudanese, Algerian, Jordanian and US operations, in addition to cash restricted in Hikma Pharmaceuticals PLC for the Stamp Duty Deposit Account against its long-term debt (2013: Sudanese, Egyptian, Algerian, Jordanian and US operations of $7 million).

## 22. CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Cash at banks and on hand | 81 | 59 |
| Time deposits | 183 | 85 |
| Money market deposits | 16 | 24 |
| | 280 | 168 |

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

## 23. BANK OVERDRAFTS AND LOANS

| | As at 31 December | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Bank overdrafts | 19 | 6 |
| Import and export financing | 83 | 89 |
| Short-term loans | 227 | 4 |
| Current portion of long-term loans (Note 27) | 64 | 60 |
| | 393 | 159 |

| | 2014 % | 2013 % |
|---|---|---|
| The weighted average interest rates paid were as follows: | | |
| Bank overdrafts | 5.50 | 5.49 |
| Bank loans (including the non-current bank loans) | 2.50 | 2.96 |
| Import and export financing | 3.34 | 3.62 |

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

Short-term loans mainly represents a one-year syndicated bridge loan of $225 million which was entered into on 7 July 2014. The bridge loan has been used to finance the acquisition of Bedford Laboratories (see Note 41).

## 24. TRADE AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Trade payables | 129 | 120 |
| Accrued expenses | 105 | 105 |
| Other payables | 14 | 16 |
| | 248 | 241 |

Other payables includes employees' provident fund liability of $5 million (31 December 2013: $5 million), which mainly represents the outstanding contributions to the Hikma Pharmaceuticals Ltd (Jordan) retirement benefit plan, on which the fund receives 5% interest.

## 25. OTHER PROVISIONS

Other provisions represent the end of service indemnity provisions 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:

| | 2014 $m | 2013 $m |
|---|---|---|
| *1 January* | 20 | 11 |
| Additions | 7 | 11 |
| Utilisation | (2) | (2) |
| *31 December* | 25 | 20 |

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## 26. OTHER CURRENT LIABILITIES

| | As at 31 December | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Deferred revenue | 46 | 47 |
| Return and free goods provision | 35 | 29 |
| Other provisions | 28 | 24 |
| | 109 | 100 |

## 27. LONG-TERM FINANCIAL DEBTS

| | As at 31 December | |
|---|---|---|
| | 2014 $m | 2013 $m |
| Total loans | 209 | 323 |
| Less: current portion of loans (Note 23) | (64) | (60) |
| Long-term financial loans | 145 | 263 |
| Breakdown by maturity: | | |
| Within one year | 64 | 60 |
| In the second year | 65 | 61 |
| In the third year | 51 | 60 |
| In the fourth year | 13 | 51 |
| In the fifth year | 9 | 76 |
| Thereafter | 7 | 15 |
| | 209 | 323 |
| Breakdown by currency: | | |
| US Dollar | 173 | 280 |
| Euro | 6 | 10 |
| Jordanian Dinar | 4 | 5 |
| Algerian Dinar | 13 | 21 |
| Egyptian Pound | 8 | 5 |
| Tunisian Dinar | 5 | 2 |
| | 209 | 323 |

The loans are held at amortised cost.

Long-term loans amounting to $12 million (2013: $14 million) are secured.

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

*a)* A seven-year syndicated term loan of $180 million which was entered into on 27 September 2011. The loan has an outstanding balance at year end of $64 million (with a fair value of $63 million), of which $22 million is due in one year. Quarterly equal repayments of $6 million commenced on 27 March 2013 (18 months after the date of the agreement). During 2014, a voluntary prepayment of $70 million was made. The loan has been used to finance the Promopharm acquisition and the Group's general capital expenditure.

*b)* A nine-year $110 million loan from the International Finance Corporation (IFC) was entered into on 19 December 2011. The loan has an outstanding balance of $49 million at year end (with a fair value of $48 million) and a $50 million unused available limit. Quarterly equal repayments for 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.

## 28. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2014 $m | 2013 $m | 2014 $m | 2013 $m |
| *Amounts payable under finance leases:* | | | | |
| Within one year | 2 | 3 | 1 | 1 |
| In the second to fifth years inclusive | 27 | 24 | 23 | 19 |
| | 29 | 27 | 24 | 20 |
| Less: interest lease charges | (5) | (7) | | |
| Present value of minimum lease payments payable | 24 | 20 | | |

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is five years (2013: five years). For the year ended 31 December 2014, the average effective borrowing rate was between 0.75% and 9.61% (2013: between 0.9% and 9.0%).

## 29. 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 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 2014, the Group's largest three customers in the MENA region represented 8.6% of Group revenue: 5.8% from one customer in Saudi Arabia, and a combined 2.8% from two customers in Algeria. At 31 December 2014, the amount of receivables due from customers based in Saudi Arabia was $110 million (2013: $100 million), and in Algeria was $46 million (2013: $74 million).

During the year ended 31 December 2014, three key US wholesalers represented 37% of Group revenue (2013: 33.3%). Sales of the US reflect success in capturing specific market opportunities. The amount of receivables due from US customers at 31 December 2014 was $75 million (2013: $76 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 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.

### Market risk

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

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## 29. 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 while 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 23), obligations under finance leases (Note 28), long-term financial debts (Note 27), 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 Group level and at the operating entities level.

This enables the Group to borrow at competitive rates and to build relationships with local 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 2014, the Group's gearing (debt/equity) was 46% (2013: 43%); the increase in the Group's gearing ratio is due to the utilisation of a $225 million bridge loan to finance the acquisition of Bedford (see Note 23), partially offset by a prepayment of a part of the syndicated term loan ($70 million).

### *Foreign exchange 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 and the Egyptian Pound cannot be hedged. Where possible, the Group uses financing facilities denominated in local currencies to mitigate the risks. The Jordanian Dinar and Saudi Riyal had no impact on the consolidated income statement as those currencies are currently pegged against the US Dollar.

### *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. Using these derivative financial instruments has not had a material impact on the Group's financial position as at 31 December 2014 or the Group's results of operations for the year then ended.

| | As at 31 December 2014 | | | As at 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | Fixed rate $m | Floating rate $m | Total $m | Fixed rate $m | Floating rate $m | Total $m |
| *Financial liabilities* | | | | | | |
| Interest-bearing loans and borrowings | 118 | 444 | 562 | 147 | 295 | 442 |
| *Financial assets* | | | | | | |
| Cash and cash equivalents | – | 199 | 199 | – | 109 | 109 |

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2014, with all other variables held constant. Based on the composition of the Group's debt portfolio as at 31 December 2014, a 1% increase/decrease in interest rates would result in an additional $2.5 million (2013: $1.8 million) in interest expense/income being incurred per year.

29. FINANCIAL POLICIES FOR RISK MANAGEMENT AND THEIR OBJECTIVES CONTINUED

*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. 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; and
- *Level 3:* Inputs that are not based on observable market data.

The Group has no material fair value financial assets and liabilities except the contingent consideration as disclosed below.

The following methods and assumptions were used to estimate the 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 – the majority of the loans are variable rate and re-price 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. For fixed-rate loan exposures, fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans;
- 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; and
- contingent consideration – the key input into the contingent consideration Level 3 financial liabilities is the future profitability of the business to which the contingent consideration relate. The range of possible outcomes for the fair value of this option is $nil to $75 million (31 December 2013: $nil).

Currency risk

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 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| USD/EUR | 0.8226 | 0.7263 | 0.7523 | 0.7529 |
| USD/Sudanese Pound | 6.2696 | 5.9755 | 6.0277 | 5.6988 |
| USD/Algerian Dinar | 87.9245 | 78.1082 | 80.6145 | 79.3595 |
| USD/Saudi Riyal | 3.7495 | 3.7495 | 3.7495 | 3.7495 |
| USD/British Pound | 0.6437 | 0.6064 | 0.6068 | 0.6390 |
| USD/Jordanian Dinar | 0.7090 | 0.7090 | 0.7090 | 0.7090 |
| USD/Egyptian Pound | 7.1582 | 6.9586 | 7.0972 | 6.8861 |
| USD/Japanese Yen | 119.9500 | 105.2188 | 105.8700 | 97.4659 |
| USD/Moroccan Dirham | 9.0154 | 8.1069 | 9.0155 | 8.3517 |
| USD/Tunisian Dinar | 1.8612 | 1.6467 | 1.7001 | 1.6253 |

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29. FINANCIAL POLICIES FOR RISK MANAGEMENT AND THEIR OBJECTIVES CONTINUED

The Jordanian Dinar and Saudi Riyal have no impact on the consolidated income statement as those currencies are currently pegged to the US Dollar.

| | Net foreign currency financial assets/(liabilities) | | | | | |
|---|---|---|---|---|---|---|
| 2014 | US Dollar $m | Euro $m | British Pound $m | Algerian Dinar $m | Japanese Yen $m | Others* $m |
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | 112 | (1) | – | (54) | – | 29 |
| – Euro | 16 | – | – | – | – | – |
| – Algerian Dinar | (72) | (6) | – | – | – | – |
| – Saudi Riyal | 8 | (2) | – | – | (1) | – |
| – Sudanese Pound | (16) | – | – | – | – | 1 |
| – Egyptian Pound | (19) | (3) | – | – | – | – |
| – Tunisian Dinar | (4) | 1 | – | – | – | – |
| – Lebanese Pound | (3) | – | – | – | – | (5) |
| – US Dollar | – | 19 | – | – | – | 57 |
| | 22 | 8 | – | (54) | (1) | 82 |

* Others include the Saudi Riyal and Jordanian Dinar

Sensitivity analysis:

| | Impact on profit or loss assuming 1% appreciation of foreign currency against functional currency as at year end | | | | | |
|---|---|---|---|---|---|---|
| 2014 | US Dollar $m | Euro $m | British Pound $m | Algerian Dinar $m | Japanese Yen $m | Others $m |
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | 1 | – | – | (1) | – | – |
| – Euro | – | – | – | – | – | – |
| – Algerian Dinar | (1) | – | – | – | – | – |
| – Saudi Riyal | – | – | – | – | – | – |
| – Sudanese Pound | – | – | – | – | – | – |
| – Egyptian Pound | – | – | – | – | – | – |
| – Tunisian Dinar | – | – | – | – | – | – |
| – Lebanese Pound | – | – | – | – | – | – |
| – US Dollar | – | – | – | – | – | 1 |
| | – | – | – | (1) | – | 1 |

## 29. FINANCIAL POLICIES FOR RISK MANAGEMENT AND THEIR OBJECTIVES CONTINUED

| | Net foreign currency financial assets/(liabilities) | | | | | |
|---|---|---|---|---|---|---|
| 2013 | US Dollar $m | Euro $m | British Pound $m | Algerian Dinar $m | Japanese Yen $m | Others* $m |
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | 96 | 18 | – | (148) | – | 25 |
| – Euro | 11 | – | – | – | – | – |
| – Algerian Dinar | (142) | – | – | – | – | – |
| – Saudi Riyal | 23 | (2) | – | – | (2) | – |
| – Sudanese Pound | (22) | 1 | – | – | – | – |
| – Egyptian Pound | (8) | (1) | – | – | – | – |
| – Tunisian Dinar | (5) | 1 | – | – | – | – |
| – Moroccan Dirham | – | – | – | – | – | – |
| – Lebanese Pound | (4) | – | – | – | – | (7) |
| – US Dollar | – | 29 | 2 | – | – | 4 |
| | (51) | 46 | 2 | (148) | (2) | 22 |

* Others include the Saudi Riyal and Jordanian Dinar

### Sensitivity analysis:

| | Impact on profit or loss assuming 1% appreciation of foreign currency against functional currency as at year end | | | | | |
|---|---|---|---|---|---|---|
| 2013 | US Dollar $m | Euro $m | British Pound $m | Algerian Dinar $m | Japanese Yen $m | Others $m |
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | 1 | – | – | (1) | – | – |
| – Euro | – | – | – | – | – | – |
| – Algerian Dinar | (1) | – | – | – | – | – |
| – Saudi Riyal | – | – | – | – | – | – |
| – Sudanese Pound | – | – | – | – | – | – |
| – Egyptian Pound | – | – | – | – | – | – |
| – Tunisian Dinar | – | – | – | – | – | – |
| – Moroccan Dirham | – | – | – | – | – | – |
| – Lebanese Pound | – | – | – | – | – | – |
| – US Dollar | – | – | – | – | – | – |
| | – | – | – | (1) | – | – |

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## 29. FINANCIAL POLICIES FOR RISK MANAGEMENT AND THEIR OBJECTIVES CONTINUED

### Liquidity risk of assets/(liabilities)

*Liquidity risk*

| 2014 | Less than one year $m | Two to five years $m | More than five years $m | Total $m |
|---|---|---|---|---|
| Cash and cash equivalents | 280 | – | – | 280 |
| Trade receivables | 384 | – | – | 384 |
| Interest-bearing loans and borrowings | (73) | (157) | (8) | (238) |
| Interest-bearing overdrafts | (248) | – | – | (248) |
| Interest-bearing import and export loans | (86) | – | – | (86) |
| Interest-bearing finance lease | (2) | (27) | – | (29) |
| Trade payables and accruals | (234) | – | – | (234) |
| | 21 | (184) | (8) | (171) |

| 2013 | Less than one year $m | Two to five years $m | More than five years $m | Total $m |
|---|---|---|---|---|
| Cash and cash equivalents | 168 | – | – | 168 |
| Trade receivables | 385 | – | – | 385 |
| Interest-bearing loans and borrowings | (69) | (266) | (15) | (350) |
| Interest-bearing overdrafts | (10) | – | – | (10) |
| Interest-bearing import and export loans | (91) | – | – | (91) |
| Interest-bearing finance lease | (3) | (24) | – | (27) |
| Trade payables and accruals | (225) | – | – | (225) |
| | 155 | (290) | (15) | (150) |

At 31 December 2014, the Group had undrawn long-term and short-term facilities of $839 million (2013: $234 million), of which $790 million (2013: $185 million) was committed. Additionally, the Group had unutilised import and export facilities of $180 million (2013: $142 million).

## 30. DERIVATIVE FINANCIAL INSTRUMENTS

### Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. These contracts have nominal values of $100 million (2013: $128 million) and have fixed interest payments at rates ranging from 1.41% to 4.34% (2013: 1.41% to 4.34%) for periods up until 2018 and have floating interest receipts at LIBOR or EURIBOR.

The fair value of swaps entered into by the Group is estimated as a liability of $nil (2013: liability of $1 million). These amounts are based on fair values provided by the banks that originated the swaps and are based on equivalent instruments at the balance sheet date. Some of these interest rate swaps are designated as effective cash flow hedges and the movement in fair value, totalling a gain of $nil (2013: gain of $3 million), has been reflected in the consolidated statement of comprehensive income. The remaining outstanding interest rate swaps that the Group was committed to at the year end are held at fair value through profit and loss.

The Group believes that the effect on the value of interest rate swaps by interest rate fluctuations will not materially affect the financial position of the Group.

## 31. SHARE CAPITAL

| Issued and fully paid – included in shareholders' equity: | 2014 Number 'm | 2014 $m | 2013 Number 'm | 2013 $m |
|---|---|---|---|---|
| *At 1 January* | 198 | 35 | 197 | 35 |
| Issued during the year | 1 | – | 1 | – |
| *At 31 December* | 199 | 35 | 198 | 35 |

## 32. NON-CONTROLLING INTERESTS

| | 2014 $m | 2013 $m |
|---|---|---|
| *At 1 January* | 17 | 15 |
| Share of profit | 4 | 4 |
| Dividends paid | (1) | (3) |
| Currency translation (loss)/gain | (1) | 1 |
| *At 31 December* | 19 | 17 |

## 33. OWN SHARES

Own shares represent 40,831 (2013: 288,084) ordinary shares in the Company held by Sanne Trust Company Limited, an independent trustee. During the year, the Company issued 587,711 ordinary shares, from which 247,248 shares were utilised from own shares during the year. The market value for own shares at 31 December 2014 was $1 million (2013: $7 million). The book value of the retained own shares at 31 December 2014 is $1 million (2013: $3 million). The trustee holds these shares to meet long-term commitments in relation to employee share plans.

## 34. NET CASH FROM OPERATING ACTIVITIES

| | 2014 $m | 2013 $m |
|---|---|---|
| *Profit before tax* | 362 | 298 |
| Adjustments for: | | |
| Depreciation, amortisation and impairment of: | | |
| Property, plant and equipment | 49 | 49 |
| Intangible assets | 23 | 26 |
| Investment in associate | – | 16 |
| Loss on disposal of property, plant and equipment | 1 | – |
| Gain on disposal of intangible assets | (1) | – |
| Movement on provisions | 5 | 9 |
| Cost of equity-settled employee share scheme | 8 | 7 |
| Finance income | (4) | (2) |
| Interest and bank charges | 38 | 37 |
| Results from associates | 6 | 3 |
| *Cash flow before working capital* | 487 | 443 |
| Change in trade and other receivables | (16) | (110) |
| Change in inventories | 2 | (2) |
| Change in trade and other payables | 24 | 35 |
| Change in other current liabilities | 7 | 56 |
| Change in other non-current liabilities | – | (1) |
| *Cash generated by operations* | 504 | 421 |
| Income tax paid | (79) | (84) |
| *Net cash generated from operating activities* | 425 | 337 |

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## 35. CONTINGENT LIABILITIES

A contingent liability existed at the balance sheet date in respect of external guarantees and letters of credit totalling $45 million (2013: $41 million).

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacturing at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods and services should be transferred between Group companies in different tax jurisdictions, has the potential to produce conflicting claims from revenue authorities as to the profits to be taxed in individual territories.

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 Department of Justice. As a result the Group is subject to certain ongoing investigations by governmental agencies as well as other various legal proceedings considered typical to its business relating to employment, product liability and commercial disputes.

## 36. SHARE-BASED PAYMENTS

### Equity-settled share option scheme

During the year ended 31 December 2014, the Company had one stock option compensation scheme settled by equity instruments, with four separate grant dates. The options over these instruments are settled in equity once exercised.

Details of the grants under the scheme are shown below:

| Date of grants | Number granted | The estimated fair value of each share option granted $ | The share price at grant date $ | Exercise price $ | Expected volatility | Expected dividend yield | Expected average contractual life | Risk-free interest rate |
|---|---|---|---|---|---|---|---|---|
| 4 November 2008 | 85,000 | 1.14 | 5.45 | 5.45 | 34.90% | 1.21% | 4.0 years | 4.11% |
| 29 April 2008 | 1,041,500 | 2.61 | 9.19 | 9.19 | 31.50% | 0.08% | 3.8 years | 4.54% |
| 13 October 2005 | 1,600,000 | 0.74 | 4.50 | 4.50 | 26.20% | 6.67% | 7.5 years | 4.54% |
| 12 October 2004 | 9,520,000 | 0.35 | 0.91 | 0.91 | 44.80% | 3.85% | 7.5 years | 4.22% |

All of the general employees' share option plans have a 10-year contractual life and vesting conditions of 20% per year for five years beginning on the first anniversary of the grant date.

The estimated fair value of each share option granted in the general employee share option plans was calculated by applying a binomial option pricing model.

It was assumed that each option tranche will be exercised immediately after the vesting date.

Further details of the general employee share option plan are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Number of share options | Weighted average exercise price (in $) | Number of share options | Weighted average exercise price (in $) |
| Outstanding at 1 January | 228,600 | 7.33 | 539,700 | 7.33 |
| Exercised during the year | (61,100) | 6.67 | (302,200) | 6.74 |
| Expired during the year | (24,000) | 0.91 | (8,900) | 9.18 |
| Outstanding at 31 December | 143,500 | 7.60 | 228,600 | 7.33 |
| Exercisable at 31 December | 143,500 | 7.60 | 228,600 | 6.85 |

The weighted average share price at the date of exercise for share options exercised during the year was $27.2. The options outstanding at 31 December 2014 had a weighted average remaining contractual life of less than four years.

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three to four years.

## 36. SHARE-BASED PAYMENTS CONTINUED

### Long Term Incentive Plan

During the year ended 31 December 2014, the Company had a Long Term Incentive Plan ('LTIP') settled by equity instruments, with 15 separate grant dates. Under the LTIP, conditional awards and nil cost options are granted which vest after three years subject to a Total Shareholder Return ('TSR') performance condition. This condition measures the Group's TSR relative to a comparator group of other pharmaceutical companies. In this case, the 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.

For awards made from 2011, the TSR condition applies in respect of 50% of the award and financial metrics apply in respect of the remaining 50%. For further details see the Remuneration Committee Report.

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 December 2014 | 5,899 | 23.28 | 31.39 | 25.40% | 0.71% | 1.28% |
| 11 June 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 April 2014 | 89,727 | 23.25 | 27.73 | 26.00% | 0.72% | 1.17% |
| 6 November 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 March 2012 | 547,780 | 8.65 | 11.43 | 30.31% | 1.14% | 0.67% |
| 18 March 2011 | 646,054 | 9.00 | 11.74 | 37.04% | 1.11% | 1.65% |
| 22 March 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 March 2009 | 920,000 | 2.94 | 5.11 | 38.98% | 1.47% | 1.88% |
| 29 April 2008 | 700,000 | 5.46 | 9.22 | 31.47% | 0.08% | 4.50% |
| 10 September 2007 | 150,000 | 4.70 | 8.28 | 34.64% | 0.08% | 5.00% |
| 23 April 2007 | 466,000 | 4.47 | 7.69 | 34.64% | 0.08% | 5.45% |
| 2 April 2007 | 160,000 | 4.33 | 7.46 | 34.64% | 0.08% | 5.40% |

All LTIPs have 10 years' contractual life and vest after three years, subject to performance conditions as mentioned above. For further details see the Remuneration Committee Report.

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.

The exercise price of the share award is $nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 36. SHARE-BASED PAYMENTS CONTINUED

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

| Year 2014 | 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 | 2011 grant 18 March Number | 2010 grant 22 March Number | 2009 grants 19 March Number | 2008 grants 29 April Number | 2007 grants 23 April Number | Total Number |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Outstanding at 1 January | – | – | – | – | 20,802 | 439,730 | 468,250 | 555,561 | 23,939 | – | – | 13,000 | 1,521,282 |
| Granted during the year | 5,899 | 151,429 | 109,000 | 89,727 | – | – | – | – | – | – | – | – | 356,055 |
| Exercised during the year | – | – | – | – | – | – | (10,330) | (391,496) | (18,194) | – | – | – | (420,020) |
| Expired during the year forfeitures | – | – | – | (4,773) | – | (7,854) | – | – | – | – | – | – | (12,627) |
| Expired during the year performance condition | – | – | – | – | – | – | – | (164,065) | (5,745) | – | – | – | (169,810) |
| Outstanding at 31 December | 5,899 | 151,429 | 109,000 | 84,954 | 20,802 | 431,876 | 457,920 | – | – | – | – | 13,000 | 1,274,880 |
| Exercisable at 31 December | – | – | – | – | – | – | – | – | – | – | – | 13,000 | 13,000 |

| Year 2013 | 2013 grants 6 Nov Number | 2013 grants 17 May Number | 2012 grant 16 March Number | 2011 grant 18 March Number | 2010 grant 22 March Number | 2009 grants 19 March Number | 2008 grants 29 April Number | 2007 grants 23 April Number | Total Number |
|---|---|---|---|---|---|---|---|---|---|
| Outstanding at 1 January | – | – | 491,950 | 577,824 | 609,503 | 80,000 | 42,000 | 13,000 | 1,814,277 |
| Granted during the year | 20,802 | 470,686 | – | – | – | – | – | – | 491,488 |
| Exercised during the year | – | – | – | – | (451,446) | (80,000) | (42,000) | – | (573,446) |
| Expired during the year forfeitures | – | (30,956) | (23,700) | (22,263) | – | – | – | – | (76,919) |
| Expired during the year performance condition | – | – | – | – | (134,118) | – | – | – | (134,118) |
| Outstanding at 31 December | 20,802 | 439,730 | 468,250 | 555,561 | 23,939 | – | – | 13,000 | 1,521,282 |
| Exercisable at 31 December | – | – | – | – | 23,939 | – | – | 13,000 | 36,939 |

The cost of the LTIP of $5 million (2013: $3 million) has been recorded in the consolidated income statement as part of general and administrative expenses.

### 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.

## 36. SHARE-BASED PAYMENTS CONTINUED

Details of the grants under the plan are shown below:

| Year 2014 | 2014 grants 11 Jun Number | 2013 grants 17 May Number | 2012 grants 18 May Number | 2011 grants 11 May Number | Total Number |
|---|---|---|---|---|---|
| Outstanding at 1 January | – | 243,534 | 370,468 | – | 614,002 |
| Granted during the year | 225,904 | – | – | – | 225,904 |
| Exercised during the year | – | (5,722) | (348,506) | – | (354,228) |
| Expired during the year | (6,608) | (8,731) | (21,962) | – | (37,301) |
| Outstanding at 31 December | 219,296 | 229,081 | – | – | 448,377 |

| Year 2013 | 2013 grants 17 May Number | 2012 grants 18 May Number | 2011 grants 11 May Number | Total Number |
|---|---|---|---|---|
| Outstanding at 1 January | – | 378,270 | 300,124 | 678,394 |
| Granted during the year | 252,576 | – | – | 252,576 |
| Exercised during the year | – | – | (300,124) | (300,124) |
| Expired during the year | (9,042) | (7,802) | – | (16,844) |
| Outstanding at 31 December | 243,534 | 370,468 | – | 614,002 |

The cost of the MIP of $3 million (2013: $4 million) has been recorded in the consolidated income statement as part of general and administrative expenses.

## 37. OPERATING LEASE ARRANGEMENTS

| | 2014 $m | 2013 $m |
|---|---|---|
| Minimum lease payments under operating leases recognised in profit or loss for the year | 5 | 5 |

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:

| | 2014 $m | 2013 $m |
|---|---|---|
| Within one year | 2 | 3 |
| In two to five years inclusive | 2 | 4 |
| | 4 | 7 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 38. RELATED PARTIES

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this Note. Transactions between the Group and its associates and other related parties are disclosed below.

### Trading transactions:

During the year, Group companies entered into the following transactions with related parties:

*Darhold Limited:* is a related party of the Group because it is considered one of the major shareholders of Hikma Pharmaceuticals PLC with an ownership percentage of 28.8% at the end of 2014 (2013: 28.9%). Further details on the relationship between Mr Samih Darwazah, Mr Said Darwazah, Mr Mazen Darwazah and Mr Ali Al-Husry, and Darhold Limited are given in the Directors' Report.

Other than dividends (as paid to all shareholders), there were no transactions between the Group and Darhold Limited in the year.

*Capital Bank – Jordan:* is a related party of the Group because one Hikma Pharmaceuticals PLC Board member is also a board member of Capital Bank – Jordan. Total cash balances at Capital Bank – Jordan were $5.7 million (31 December 2013: $17.2 million). Facilities granted by Capital Bank to the Group amounted to $nil (31 December 2013: $4.7 million). Interest expense/income is within the market rate.

*Arab Bank:* is a related party of the Group because one senior management member in Hikma Pharmaceuticals PLC is also a board member of Arab Bank PLC. Total cash balances at Arab Bank were $90.4 million (31 December 2013: $51.5 million). Facilities granted by Arab Bank to the Group amounted to $115.0 million (31 December 2013: $169.4 million). Interest expense/income is within the market rate.

*Jordan International Insurance Company:* is a related party of the Group because one board member of the company is also a Board member of Hikma Pharmaceuticals PLC. Total insurance premiums paid by the Group to Jordan International Insurance Company during the year were $0.1 million (2013: $0.2 million). The Group's insurance expense for Jordan International Insurance Company contracts in the year 2014 was $0.1 million (2013: $0.4 million). The amounts due to Jordan International Insurance Company at the year end were $nil (2013: Due to $0.1 million).

*Labatec Pharma:* is a related party of the Group because it is owned by Mr Samih Darwazah. During 2014, the Group total sales to Labatec Pharma amounted to $0.5 million (2013: $0.4 million). At 31 December 2014, the amount owed from Labatec Pharma to the Group was $0.1 million (2013: Owed from $nil).

*Jordan Resources & Investments Company:* is a related party of the Group because three Board members of the Group are shareholders in the firm. During 2014, fees of $nil (2013: $0.2 million) were paid for training services provided.

*American University of Beirut:* is a related party of the Group because one Board member of the Group is also a trustee of the University. During 2014, fees of $0.1 million (2013: $0.2 million) were paid. At 31 December 2014, the amount owed to American University of Beirut from the Group amounted to $nil (2013: owed $0.1 million).

*HikmaCure:* the Group held a 50:50 joint venture ('JV') agreement with MIDROC Pharmaceuticals Limited. The JV is called HikmaCure. Hikma and MIDROC will invest in HikmaCure in equal proportions and have committed to provide up to $22 million each in cash, of which $2.5 million has been paid in previous periods.

*Unimark:* the Group held a non-controlling interest of 23.1% in the Indian company Unimark Remedies Limited ('Unimark') at 31 December 2014 (31 December 2013: 23.1%). During 2014, the Group paid an amount of $2.5 million in relation to a products development agreement (31 December 2013: $3.0 million).

*Haosun:* the Group held a non-controlling interest of 30.1% in Hubei Haosun Pharmaceutical Co., Ltd ('Haosun') at 31 December 2014 (31 December 2013: 30.1%). During 2014, the total purchases from Haosun were $1.0 million (31 December 2013: $0.2 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 90 to 109*.

| | 2014 $m | 2013 $m |
|---|---|---|
| Short-term employee benefits | 15.7 | 14.9 |
| Share-based payments | 2.4 | 2.4 |
| Post-employment benefits | 0.1 | 0.2 |
| Other benefits | 0.2 | 0.2 |
| | 18.4 | 17.7 |

## 39. SUBSIDIARIES

The main subsidiaries of Hikma Pharmaceuticals PLC are as follows:

| Company's name | Established in | Ownership % Ordinary shares At 31 December 2014 | Ownership % Ordinary shares At 31 December 2013 |
|---|---|---|---|
| Hikma Pharmaceuticals LLC | Jordan | 100 | 100 |
| Arab Pharmaceutical Manufacturing Co. | Jordan | 100 | 100 |
| Hikma Pharma Algeria SARL | Algeria | 100 | 100 |
| Hikma Farmacêutica (Portugal) S.A. | Portugal | 100 | 100 |
| West-Ward Pharmaceutical Corp. | US | 100 | 100 |
| Pharma Ixir Co. Ltd | Sudan | 51 | 51 |
| Hikma Pharma SAE | Egypt | 100 | 100 |
| Thymoorgan Pharmazie GmbH | Germany | 100 | 100 |
| Hikma Pharma GmbH | Germany | 100 | 100 |
| Hikma Italia S. P. A | Italy | 100 | 100 |
| Al Jazeera Pharmaceutical Industries Ltd | KSA | 100 | 100 |
| Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. | Tunisia | 66 | 66 |
| SPA Societe Al Dar Al Arabia | Algeria | 100 | 100 |
| Societe de Promotion Pharmaceutique du Maghreb S.A | Morocco | 94.1 | 94.1 |
| Savanna Pharmaceuticals Industries Co. Ltd | Sudan | 100 | 100 |
| Egyptian Company for Pharmaceuticals & Chemical Industries | Egypt | 100 | 100 |

## 40. DEFINED CONTRIBUTION RETIREMENT BENEFIT PLAN

Hikma Pharmaceuticals PLC has defined contribution retirement plans in three of its subsidiaries: Hikma Pharmaceuticals LLC (Jordan), West-Ward Pharmaceutical Corp. and Arab Pharmaceutical Manufacturing Co. The details of each contribution plan are as follows:

### Hikma Pharmaceuticals LLC – Jordan:

The Group currently has an employee savings plan wherein the Group fully matches employees' contributions, which are fixed at 10% (up to 2011 was 5%) of salary. Employees are entitled to 30% of the Group contributions after three years of employment with the Group and an additional 10% for each subsequent year. Employees are entitled to 100% of the Company contributions after 10 years of employment with the Company. The Group's contributions for the year ended 31 December 2014 were $2 million (2013: $2 million).

### West-Ward Pharmaceutical Corp.: (401 (k) salary saving plan)

Prior to 2001, West-Ward Pharmaceutical Corp. established 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 one year. Employees can defer up to 95% of their gross salary into the plan, not to exceed $17,500 for both 2014 and 2013, 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 do not vest for up to two years of service, 50% after two years of service and 100% after three years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan for the year ended 31 December 2014 were $2 million (2013: $2 million).

### Arab Pharmaceutical Manufacturing Company – Jordan:

The Group currently has an employee saving plan wherein the employees contribute at 10%, and the Company at 15% of basic salary. Employees are entitled to 100% of the Company contributions after three years of employment with the Company. The Group's contributions for the year ended 31 December 2014 were $1 million (2013: $1 million).

The assets of the plans are held separately from those of the Group. The only obligation of the Group with respect to the retirement benefit plans is to make specified contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*continued*

## 41. ACQUISITION OF A BUSINESS

On 15 July 2014, Hikma announced that it had completed its acquisition of the US generic injectables business, Bedford Laboratories ('Bedford') from Ben Venue Laboratories, Inc. ('Ben Venue'), a member of the Boehringer Ingelheim Group of Companies. The consideration for the acquisition comprised an upfront cash payment of $225 million which was paid on 15 July 2014 and contingent cash payments, subject to the achievement of performance-related milestones over a period of five years from closing the transaction. Hikma acquired Bedford's large product portfolio of 82 products, intellectual property rights, inventories, a strong R&D and business development pipeline and a number of employees across key business functions. Moreover, on 17 September 2014, Hikma completed the acquisition of all the assets of Ben Venue generics injectables manufacturing site in Bedford, Ohio. The acquisition is pursuant to the exclusivity arrangement entered into with Ben Venue on 28 May 2014. No incremental consideration was payable in relation to Hikma acquiring the Ben Venue manufacturing site.

The net assets acquired in the transaction and the provisional goodwill arising are set out below:

| Net assets acquired | Provisional fair value $m |
|---|---|
| Product-related intangibles | 123[a] |
| Inventories | 15[b] |
| Tangible fixed assets | 53[c] |
| Deferred taxes liabilities | (13)[d] |
| *Net assets acquired* | 178 |
| Goodwill | 51 |
| *Total consideration* | 229 |
| | |
| Discharged by: | |
| Cash | 225 |
| Deferred consideration | 4 |
| | 229 |
| *Cash flows* | |
| Cash consideration | 225 |
| *Net cash outflow arising on acquisition* | 225 |

a. Product-related intangibles principally represent product files owned by Bedford

b. Inventory acquired included raw materials (consisting of chemicals and components) and finished goods

c. The property, plant and equipment acquired have been valued by a third party expert at current market values

d. Taxable temporary differences associated with the tangible assets acquired have been identified by reference to IAS 12 Income tax

The goodwill arising represents synergies that will be obtained through increasing the scale of Hikma's Injectables business

Goodwill is not deductible for tax purposes

The revenue and net loss from the date of the acquisition that is included in the Group's consolidated statement of comprehensive income for the year amounted to $7 million and $9 million, respectively.

# COMPANY BALANCE SHEET

*at 31 December 2014*

| | Note | 2014 $m | 2013 $m |
|---|---|---|---|
| *Non-current assets* | | | |
| Intangible assets | | 51 | – |
| Investments in subsidiaries | 44 | 2,033 | 1,678 |
| Due from subsidiaries and sister companies | 45 | 149 | 54 |
| | | 2,233 | 1,732 |
| *Current assets* | | | |
| Other current assets | | 1 | 1 |
| Cash and cash equivalents | 46 | 148 | 4 |
| Due from subsidiaries and sister companies | 45 | 85 | 131 |
| Other receivables | | 2 | 2 |
| | | 236 | 138 |
| *Total assets* | | 2,469 | 1,870 |
| *Current liabilities* | | | |
| Other payables | 47 | 1 | 1 |
| Other current liabilities | | 9 | 4 |
| Short-term debt | 48 | 247 | 22 |
| Due from subsidiaries and sister companies | 49 | 15 | 16 |
| | | 272 | 43 |
| *Net current assets* | | (36) | 95 |
| *Non-current liabilities* | | | |
| Long-term financial debts | 50 | 41 | 132 |
| Due from subsidiaries and sister companies | 49 | 147 | – |
| *Total liabilities* | | 460 | 175 |
| *Net assets* | | 2,009 | 1,695 |
| *Equity* | | | |
| Share capital | 56 | 35 | 35 |
| Share premium | 57 | 281 | 281 |
| Own shares | | (1) | (3) |
| Other reserves | 58 | 1,694 | 1,382 |
| *Equity attributable to equity holders of the parent* | | 2,009 | 1,695 |

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, were approved by the Board of Directors and signed on its behalf by:

Said Darwazah
*Director*

Mazen Darwazah
*Director*

11 March 2015

# COMPANY STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2014*

| | Paid-up capital $m | Share premium $m | Own shares $m | Merger reserve $m | Retained earnings $m | Total $m |
|---|---|---|---|---|---|---|
| *Balance at 1 January 2013* | 35 | 279 | – | 707 | 672 | 1,693 |
| Issue of Equity Shares | – | 2 | – | – | – | 2 |
| Own shares acquired in the period | – | – | (3) | – | – | (3) |
| Cost of equity-settled employee share scheme | – | – | – | – | 7 | 7 |
| Profit for the year | – | – | – | – | 35 | 35 |
| Dividends paid | – | – | – | – | (39) | (39) |
| *Balance at 31 December 2013 and 1 January 2014* | 35 | 281 | (3) | 707 | 675 | 1,695 |
| Cost of equity-settled employee share scheme | – | – | – | – | 8 | 8 |
| Exercise of employees' Long Term Incentive Plan | – | – | 2 | – | (2) | – |
| Profit for the year | – | – | – | – | 361 | 361 |
| Dividends paid | – | – | – | – | (55) | (55) |
| *Balance at 31 December 2014* | 35 | 281 | (1) | 707 | 987 | 2,009 |

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the Company is not presented as part of these accounts.

# COMPANY CASH FLOW STATEMENT

*for the year ended 31 December 2014*

| | 2014 $m | 2013 $m |
|---|---|---|
| *Profit before tax* | 361 | 35 |
| Cost of equity-settled employee share scheme | 2 | 1 |
| Finance income | (3) | (1) |
| Interest and bank charges | 10 | 6 |
| Change in other payables | – | 1 |
| Change in other receivables | – | (2) |
| Change in amounts due from/to subsidiaries | 51 | 11 |
| Change in other current liabilities | 5 | 2 |
| *Net cash from operating activities* | 426 | 53 |
| *Investing activities* | | |
| Change in amounts due from subsidiaries | (131) | 16 |
| Investment in subsidiary | 1 | – |
| Acquisition of business undertakings net of cash acquired | (225) | – |
| Interest income | 3 | 1 |
| *Net cash (used in)/generated from investing activities* | (352) | 17 |
| *Financing activities* | | |
| Proceeds from issue of new shares | – | 2 |
| Purchase of own shares | – | (3) |
| Decrease in long-term financial debts | (91) | (17) |
| Increase/(decrease) in short-term debts | 225 | (9) |
| Interest paid | (9) | (6) |
| Dividends paid | (55) | (39) |
| *Net cash generated from/(used in) financing activities* | 70 | (72) |
| *Net increase/(decrease) in cash and cash equivalents* | 144 | (2) |
| *Cash and cash equivalents at beginning of year* | 4 | 6 |
| *Cash and cash equivalents at end of year* | 148 | 4 |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 42. 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.

## 43. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and UK company law.

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 to the consolidated financial statements with the addition of the policies noted below.

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

Equity-settled employee share schemes are accounted for in accordance with IFRIC 11 Group and Treasury Share Transactions, whereby current charge expenses relating to the subsidiaries' employees are recharged to subsidiary companies.

## 44. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represent the following:

| Company's name | Established in | Ownership % Ordinary shares 2014 | Ownership % Ordinary shares 2013 |
|---|---|---|---|
| Hikma Limited | UK | 100 | 100 |
| Hikma Pharma Limited | Jersey | 100 | 100 |
| Hikma Acquisitions (UK) Limited | UK | 100 | 100 |
| Al Jazeera Pharmaceutical Industries Ltd | KSA | 52.5* | 52.5* |
| Hikma Pharmaceuticals Limited | Jordan | – | 22.8* |
| Hikma MENA Holdings | UAE | 100 | 100 |
| AMKI MENA Holdings | UAE | 100 | 100 |
| Hikma International NV | Netherlands | 100 | 100 |
| Eurohealth International SARL | Switzerland | 100 | – |
| Hikma Finance (Luxembourg) SARL | Luxembourg | 100 | – |

The investments in subsidiaries are all stated at cost.

* The remaining shares are held by other Group companies

## 45. DUE FROM SUBSIDIARIES AND SISTER COMPANIES

| Non-current assets | 2014 $m | 2013 $m |
|---|---|---|
| West-Ward Pharmaceuticals Corp. | 74 | 50 |
| Hikma Italia S. p. A | 4 | 4 |
| Hikma MENA Holdings | 18 | – |
| Hikma International Pharmaceuticals | 7 | – |
| Eurohealth International SARL | 46 | – |
| | 149 | 54 |

These balances represent loans that carry interest of 2.0% to 4.8% (2013: 2.0% to 4.8%) per annum charged on the outstanding loan balances.

| Current assets | 2014 $m | 2013 $m |
|---|---|---|
| Due from Hikma Farmacêutica – Portugal | 1 | 1 |
| Due from Hikma UK Limited | 56 | 74 |
| Due from Hikma Limited – UK | 1 | 1 |
| Due from Hikma MENA Holdings | 23 | 13 |
| Due from West-Ward Pharmaceuticals Corp. | 1 | 1 |
| Due from Hikma Pharmaceuticals Limited – Jordan | – | 39 |
| Others | 3 | 2 |
| | 85 | 131 |

NOTES TO THE COMPANY FINANCIAL STATEMENTS
*continued*

## 46. FINANCIAL ASSETS

### Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

## 47. FINANCIAL LIABILITIES

### Other payables

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

## 48. SHORT-TERM DEBT

Short-term debt mainly represents a one-year syndicated bridge loan of $225 million which was entered into on 7 July 2014. The bridge loan has been used to finance the acquisition of Bedford Laboratories (see Note 23).

## 49. DUE TO SUBSIDIARIES AND SISTER COMPANIES

| Non-current liabilities | 2014 $m | 2013 $m |
|---|---|---|
| Due to Hikma Pharmaceuticals Limited – Jordan | 100 | – |
| Due to Hikma Maple Limited | 44 | – |
| Due to Eurohealth International SARL | 3 | – |
| | 147 | – |

| Current liabilities | 2014 $m | 2013 $m |
|---|---|---|
| Due to Hikma Investment Ltd. | 15 | 16 |
| | 15 | 16 |

Amounts due to a sister company of $15 million (2013: $16 million) represent the non-interest-bearing loan repayable on demand.

## 50. LONG-TERM FINANCIAL DEBTS

The Company has a seven-year syndicated term loan of $180 million which was entered into on 27 September 2011. The loan has an outstanding balance at year end of $64 million (with a fair value of $63 million), from which $22 million is due in one year. Quarterly equal repayments of $6 million commenced on 27 March 2013 (18 months after the date of the agreement). During 2014, a voluntary prepayment of $70 million was made. The loan has been used to finance the Promopharm acquisition and the Group's general capital expenditure.

## 51. 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 and being of a monetary nature. The following table illustrates financial assets and liabilities for the Company in different currencies:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2014 $m | 2013 $m | 2014 $m | 2013 $m |
| British Pound | – | – | – | 2 |

A sensitivity analysis based on a 1% 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 29.

*Interest rate risk:* an interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2014, with all other variables held constant. Based on the composition of the Company debt and cash portfolio as at 31 December 2014, a 1% increase/decrease in interest rates would result in an additional interest expense/income of $1 million being incurred per year (2013: $nil).

## 51. FINANCIAL POLICIES FOR RISK MANAGEMENT AND THEIR OBJECTIVES CONTINUED

### Liquidity risk

| 2014 | Less than one year $m | Two to five years $m | Total $m |
|---|---|---|---|
| Cash and cash equivalents | 148 | – | 148 |
| Accounts receivable | 2 | – | 2 |
| Interest-bearing loans and borrowings | (253) | (51) | (304) |
| Other payables | (1) | – | (1) |
| | (104) | (51) | (155) |

| 2013 | Less than one year $m | Two to five years $m | Total $m |
|---|---|---|---|
| Cash and cash equivalents | 4 | – | 4 |
| Accounts receivable | 2 | – | 2 |
| Interest-bearing loans and borrowings | (26) | (141) | (167) |
| Other payables | (1) | – | (1) |
| | (21) | (141) | (162) |

The Company believes that, given the Group's forecast operating cash flow during 2014, it has the ability to satisfy its liability commitments.

## 52. STAFF COSTS

Hikma Pharmaceuticals PLC currently has 16 employees (2013: 10) (excluding Executive Directors); total compensation paid to them amounted to $4 million (2013: $3 million), of which salaries and wages compromise an amount of $3 million (2013: $2 million); the remaining balance of $1 million (2013: $1 million) represents national insurance contributions, the cost of share-based payments and other benefits.

## 53. STOCK OPTIONS

The details of the stock compensation scheme are provided in Note 36. As at 31 December 2014, the total number of options granted to employees of the Company under the stock compensation scheme during the life of the scheme was 2,560,000 (2013: 2,560,000) and the total amount of compensation expenses charged to profit or loss is $nil (2013: $nil).

## 54. LONG TERM INCENTIVE PLANS

The details of the LTIP scheme are provided in Note 36. As at 31 December 2014, 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 (2013: 1,521,000) and the total amount of the compensation expenses charged to profit and loss is $2 million (2013: $1 million).

## 55. MANAGEMENT INCENTIVE PLANS

The details of the MIP scheme are provided in Note 36. As at 31 December 2014, the total number of awards granted to employees of the Company under the MIP during the life of the plans was 15,834 shares (2013: 10,000 shares) and the total amount of the compensation expenses charged to profit and loss is $nil (2013: $nil).

## 56. SHARE CAPITAL

| Issued and fully paid – included in shareholders' equity: | 2014 $m | 2013 $m |
|---|---|---|
| 198,632,039 (2013: 198,044,328) ordinary shares of 10 pence each | 35 | 35 |

Details of the issue of share capital in the year are given in Note 31.

## 57. SHARE PREMIUM

| | Share premium $m |
|---|---|
| *Balance at 1 January 2014* | 281 |
| Premium arising on exercise of stock options | – |
| *Balance at 31 December 2014* | 281 |

NOTES TO THE COMPANY FINANCIAL STATEMENTS
*continued*

## 58. NET INCOME FOR THE YEAR

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the Company is not presented as part of these accounts. The net income in the Company for the year is $361 million (2013: $35 million).

Included in the net income for the year is an amount of $398 million (2013: $56 million) representing dividends received and $2 million (2013: $1 million) representing the current-year charge of LTIPs. The remaining $6 million (2013: $6 million) of the Group's stock options, LTIPs and MIPs charge is recharged to subsidiary companies.

## 59. RELATED PARTIES

*Darhold Limited:* is a related party of the Company because it is considered one of the major shareholders of Hikma Pharmaceuticals PLC with ownership percentage of 28.8% at the end of 2014 (2013: 28.9%). Further details on the relationship between Mr Samih Darwazah, Mr Said Darwazah, Mr Mazen Darwazah and Mr Ali Al-Husry, and Darhold Limited are given in the Directors' Report.

*Arab Bank:* is a related party of the Company because one Hikma Pharmaceuticals PLC senior management member is also a board member of Arab Bank PLC. Total cash balances at Arab Bank were $48 million (31 December 2013: $5 million). Facilities granted by Arab Bank to the Company amounted to $37 million (31 December 2013: $92 million). Interest expense/income is within the market rate.

Amounts repayable to and from subsidiaries are disclosed in Notes 45 and 49.

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 38. Details of Directors' remuneration are disclosed in the Remuneration Committee Report on *pages 90 to 109*.

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

# SHAREHOLDER INFORMATION

## 2015 financial calendar

| | |
|---|---|
| 16 April | 2014 final dividend ex-dividend date |
| 17 April | 2014 final dividend record date |
| 14 May | Annual General Meeting |
| 21 May | 2014 final dividend paid to shareholders |
| 19 August* | 2015 interim results and interim dividend announced |
| 27 August* | 2015 interim dividend ex-dividend date |
| 28 August* | 2015 interim dividend record date |
| 25 September* | 2015 interim dividend paid to shareholders |

* Provisional dates

## Shareholding enquiries

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

- in writing to Shareholder Services, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
- by telephone from within the UK on 0870 162 3100;
- by telephone from outside the UK on +44 208 639 2157; or
- through the website, www.capitaregistrars.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 Dinar. The Registrar retains records of the dividend currency for each shareholder and only changes them at the shareholder's request. If you wish to change the currency in which you receive your dividend, please contact the Registrars.

## Dividend payments – Bank Transfer

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

## Dividend payments – International Payment System

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

## Website

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

## Share listings

### *London Stock Exchange*

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

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

### *Global Depository Receipts*

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

### *American Depository Receipts (ADRs)*

Hikma Pharmaceuticals PLC has an ADR programme for which BNY Mellon acts as Depositary. One ADR equates to 2 Hikma ordinary shares. ADRs are traded as a Level 1 (OTC) programme under the symbol HKMPY. Enquiries should be made to:
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
Tel: +1 201 680 6825
Tel: +1 888 BNY ADRS (toll-free within the US)
E-mail: shrrelations@bnymellon.com

## Shareholder fraud

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

- obtain the correct name of the person and organisations;
- check they are authorised by the FCA by looking the firm up on www.fca.org.uk/register;
- report the matter to the FCA either by calling 0800 111 6768 or visiting www.fca.org.uk/consumers/scams;
- 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 and the registered office is 13 Hanover Square, London W1S 1HW. Telephone number +44 207 399 2760.

# PRINCIPAL GROUP COMPANIES

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# 2014 HIKMA PHOTOSTORY

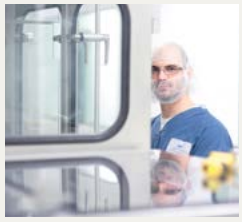
by George Brooks

*Jordan*

*Portugal*

*Sudan*

*Jordan*



*US*

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*US*

*Egypt*

*Portugal*

*US*

*Portugal*

*Egypt*

*Portugal*

*See you next year*

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