Better health.
Within reach.
Every day.

hikma.

Annual Report 2018

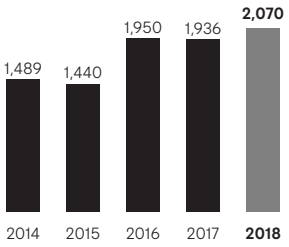
Hikma puts better health within reach, every day.

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

How we have performed

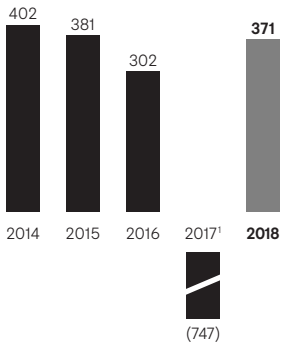
Revenue
($m)

$2,070m



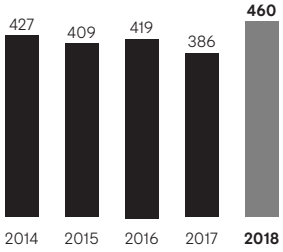
Operating profit/(loss)
($m)

$371m



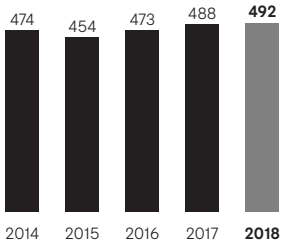
Core[2] operating profit
($m)

$460m



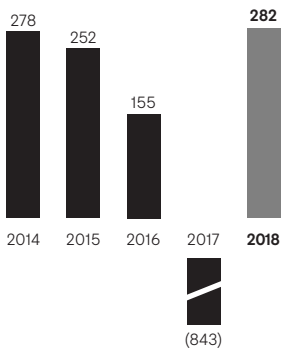
EBITDA[3]
($m)

$492m



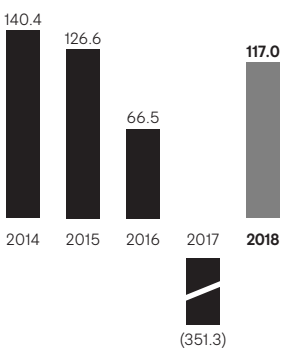
Profit/(loss) to shareholders
($m)

$282m



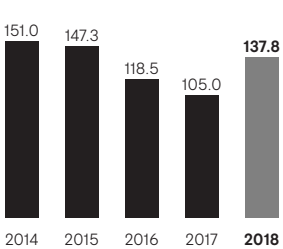
Basic earnings/(loss) per share
(cents)

117.0c



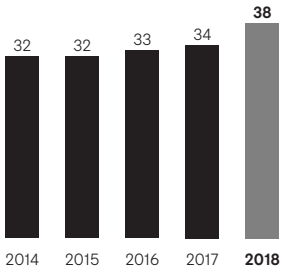
Core basic earnings per share[4]
(cents)

137.8c



Dividend per share
(cents)

38c



1. In 2017, the Group reported an operating loss of $747 million, primarily due to an impairment of the intangible assets and property plant and equipment of the Columbus business
2. Core results are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in note 6 in the Notes to the financial statements. A reconciliation from core to reported operating profit is included within the Consolidated income statement in the Financial statements
3. Earnings before interest, tax, depreciation, amortisation and impairment charges
4. Core basic earnings per share is reconciled to basic earnings per share in note 15 in the Notes to the financial statements

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Read more content online
www.hikma.com

What we do

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

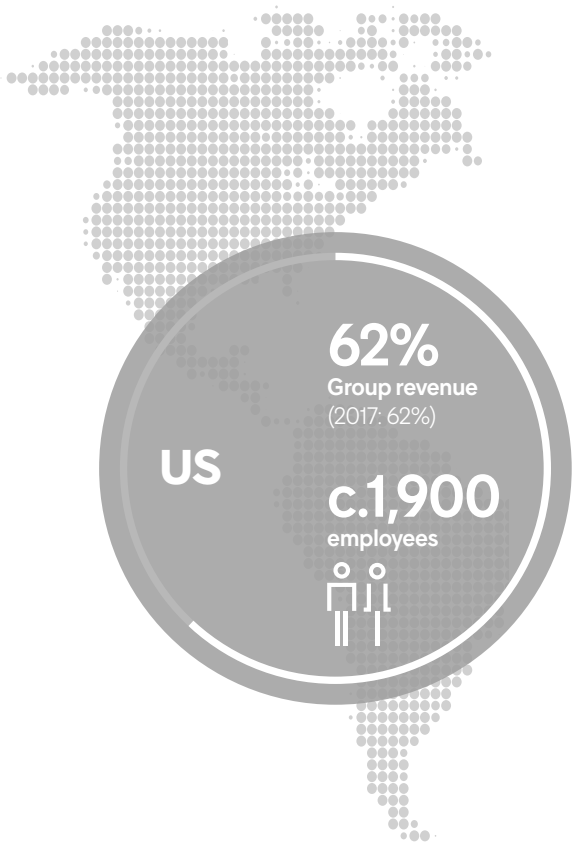
c.8,400 employees

30 manufacturing plants in 12 countries

7 R&D centres

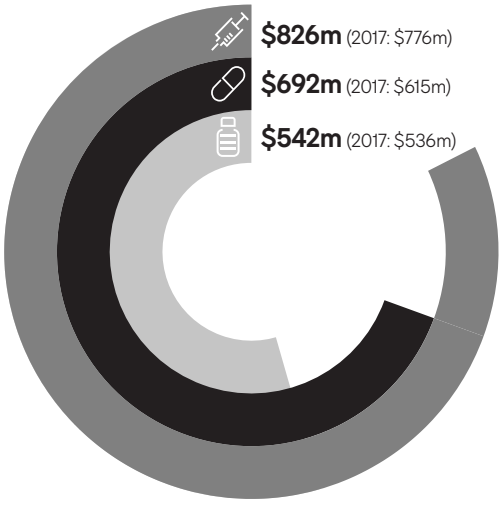
650+ compounds

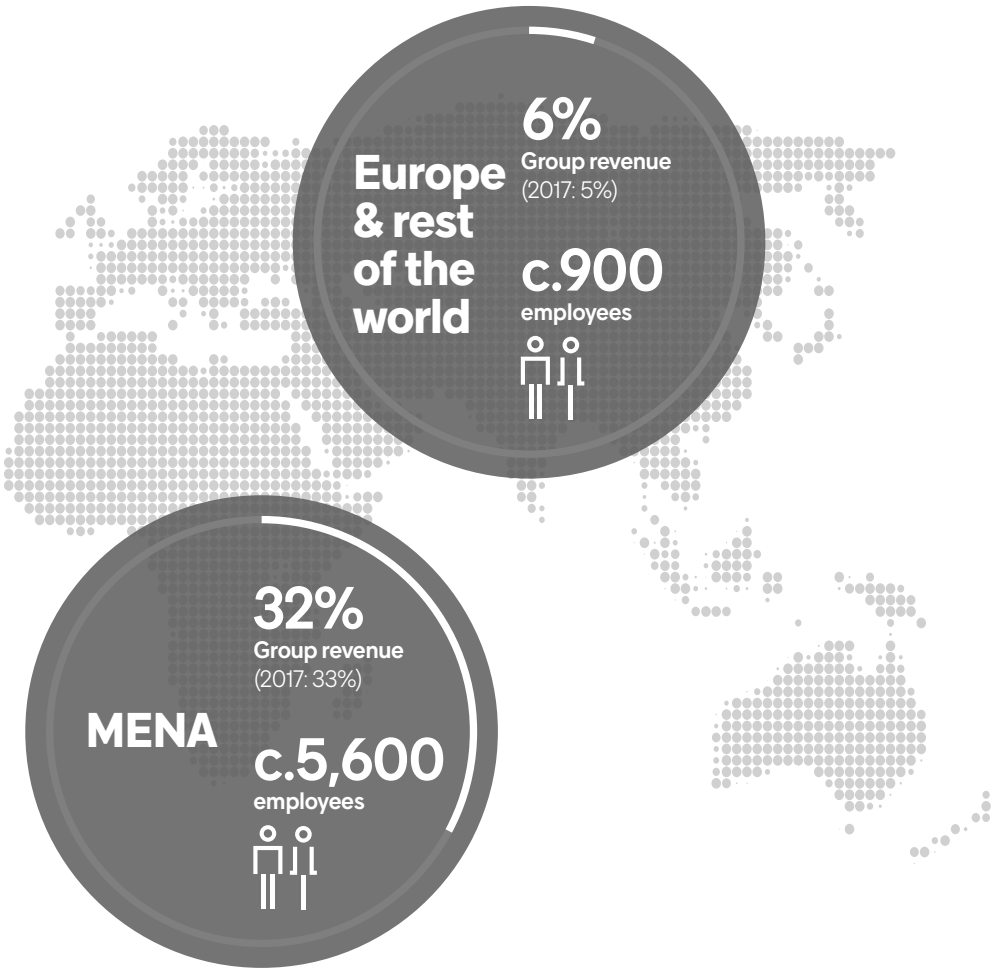
Our markets



Our business segments

Segmental revenue





US

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

MENA

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

Europe and the rest of the world

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

Injectables

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

For more information see page 20

Generics

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

For more information see page 26

Branded

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

For more information see page 32

Executive Chairman's statement

It was more than 40 years ago that my father founded Hikma with the purpose of making high-quality medicines accessible to those who need them. I am proud that our business has always remained true to this purpose.

This is an exciting time for Hikma as we embark on our next chapter of growth. As we invest in the future, we maintain our commitment to strong corporate governance, the highest quality standards and to improving the lives of our patients and our communities."

Transformational change in leadership

It has been more than 30 years since I first held an executive leadership role at Hikma. During this period, the Group has grown significantly, expanding into the US and Europe and solidifying our position as the leading local pharmaceutical company in MENA.

In order to deliver the next chapter of growth, the Board and I felt that this year was the right time to bring in new leadership. On 20 February 2018, we announced the appointment of Sigurdur (Siggi) Olafsson as our new Chief Executive Officer (CEO).

As Executive Chairman, I am working closely with Siggi to set and deliver the strategic vision for the Group. I have known and admired Siggi for many years and I am confident that he is the right person to strengthen our business, accelerate our growth and to help us achieve our goal of putting better health within reach for patients across our markets.

Strong corporate governance

Over a number of years, we have been evolving and strengthening the governance of Hikma. This year, we continued on this trajectory, most notably by appointing the first non-family CEO, as discussed above. We also completed the implementation of our succession plan for longer-serving independent directors. Details of the activities of the Board, and its Committees, are laid out in the Corporate governance section of this report.

Supporting our communities

My father's vision was that Hikma would enrich the communities in which we operate and enable a better quality of life for the patients we serve. We strive to fulfil this commitment by increasing access to high-quality medicines across our markets, as well as through donations, fundraising and volunteering. This year, we were very proud to form a four-year global partnership with Direct Relief, one of the

world's leading medical relief organisations, and to become a Patron of The Prince's Trust, the UK's leading youth charity.

Our continued commitment to strong environmental, social and governance (ESG) practices continues to be recognised as demonstrated by our inclusion in the FTSE4Good Index in 2018. Further information on our commitment is provided in the Sustainability section of this report.

Strong financial performance and shareholder returns

The Group has delivered a strong set of results in 2018, ahead of our expectations. Group core operating profit increased by 19% and core basic earnings per share increased by 31%.

Our improved financial performance and significant strategic progress this year has been reflected in our share price which increased by 51% to 1,716p at 31 December 2018. Hikma has a long track record of creating value for shareholders. Over the last five years, we have delivered a total shareholder return of 53%, exceeding the FTSE 100 and the FTSE Pharmaceutical indices of 21% and 49% respectively, over the same period.

We remain committed to delivering consistent dividend payments. The Board has recommended a final dividend of 26 cents per share (approximately 20 pence per share), bringing the total dividend for the full year to 38 cents per share (approximately 29 pence per share), up from 34 cents per share (approximately 24 pence per share) in 2017.

Investing in the future

Across our markets, where increasing competition is putting downward pressure on prices, we need to continuously develop new, more differentiated products to deliver sustainable long-term growth, making pipeline development a key strategic focus.

In recent years, we have made good progress strengthening our R&D capabilities through acquisitions and new hires. However, there is still much to do to increase the number of more specialised products in the pipeline and improve the pace of new product launches. We have recently strengthened our business development capabilities and we will continue working with global partners to co-develop, license and acquire products.

Through our venture capital arm, Hikma Ventures (HV), we are investing in the growing global digital health space. In 2018, we expanded our portfolio with new investments in Click Therapeutics and Nebula Genomics. HV also completed its first successful exit when one of its early portfolio investments was acquired in 2018.

Quality without boundaries

As we grow our businesses and expand our capabilities, we are benefitting from our reputation as a consistent and reliable partner in all of our markets. Hikma has been built on a culture of quality that is reflected not just in the products we manufacture but in our people, our relationships and our thinking. Maintaining a culture with quality at its core will ensure we continue to deliver the highest standards in the future.

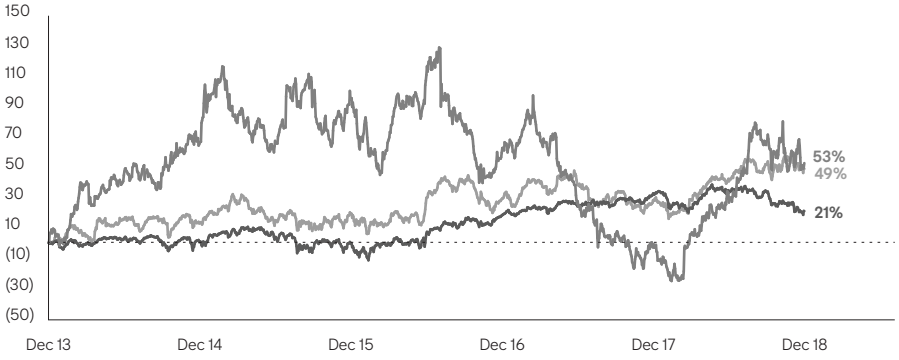
Looking ahead

Looking ahead to 2019 and beyond, I am very optimistic for the future of Hikma. Whilst market conditions are likely to remain challenging, we have demonstrated the resilience of our businesses. I believe we have set ourselves the right strategic objectives and have a strong leadership team in place to deliver sustainable growth over the long term.

Finally, I would like to thank my colleagues across the Hikma family for their hard work and dedication, and the healthcare professionals and other stakeholders that we serve for their continued support.

Said Darwazah
Executive Chairman

Total shareholder returns, 2013–2018



Hikma Pharmaceuticals PLC
FTSE 100
FTSE 350 Pharmaceuticals & Biotechnology

Chief Executive Officer's statement

I am very pleased and excited to have joined Hikma as Chief Executive Officer. It has truly been a fantastic year and I want to thank all of our employees for welcoming me so warmly into the Hikma family.

By inspiring and enabling our people to develop a portfolio that meets the future needs of doctors and patients, we are building a business that can deliver sustainable growth over the long term."

Since joining Hikma in February 2018, I have visited many of our sites worldwide and had the opportunity to speak with employees across the Group and meet with a number of our customers. Having worked in the industry for many years, I have been very impressed with the quality of our facilities and operations and the talent and commitment of our people.

Building a stronger leadership team

To enable stronger decision-making, execution and accountability I have made some changes to simplify our organisational structure. These have included changes to the composition of the executive team, a redefinition of individual roles and responsibilities and the creation of new corporate functions.

Across the Group, we have made a number of new hires to support our leadership teams. The expertise we have added has significantly strengthened our key functions, including our operations, commercial, R&D, business development, legal and compliance teams. We will continue to bring in new talent and expertise where we need it.

Returning to growth

I am very pleased with the performance of the Group this year. Group revenue was $2.1 billion, operating profit was $371 million and core operating profit was $460 million. Each of our three businesses achieved both revenue and, more importantly, profit growth.

The strong performance of our Injectables business in an environment where competition is intensifying, demonstrates the resilience of our portfolio and the scale and flexibility of our manufacturing facilities. I am proud of our team's response to the market shortages of injectable pain management products in the US this year. Our investment in additional capacity and people to rapidly increase production of critical medicines for hospitals demonstrated our commitment to customers and patients as a high-quality, reliable supplier.

During a challenging time for the US retail generics industry, our Generics business delivered strong growth in revenue and profitability this year, exceeding the expectations we set at the beginning of 2018. We drove strong demand for our differentiated portfolio and started to see the benefits of the commercial and operational improvements we have initiated.

Our Branded business also achieved good results in 2018, with steady growth in revenue and profitability. We continued to improve patient access to important medicines across MENA, with new product launches and new licensing agreements. In 2018, we began implementing a tiered approach across our 18 MENA markets to prioritise our investments and resources in the markets that offer the highest growth potential.

While our businesses performed strongly this year, we have refined our strategy to ensure we can withstand increasing competitive pressure and are positioned to deliver future growth. We have identified three strategic priorities.

Deliver more from a strong foundation

Hikma has a solid foundation from which to build: a broad product portfolio, a differentiated pipeline, strong commercial capabilities, high-quality manufacturing facilities and an extensive network of global partners. We will leverage these strengths, maximising the value of our products through a focus on commercial and operational excellence and a lean cost base.

Build a portfolio that anticipates future health needs

New products that meet the evolving needs of healthcare professionals and patients will deliver sustainable growth in competitive markets. While our pipeline is good, we can do better. The 6-7% of revenue that we invest in core R&D each year needs to deliver a higher return. We will focus on increasing the number of products in our pipeline and on adding more differentiated and specialised products. Over the next five years, I want our annual revenue from new launches to increase to 10% of Group core revenue up from around 6% today.[1]

Alongside our internal R&D programme, we will build on our long track record of successfully working with partners to add innovative and differentiated products through licensing and co-development agreements. A great example of this is the expansion of our partnership agreement with Vectura this year. We are very pleased to be building on our strong relationship to develop and commercialise generic versions of GSK's Ellipta® portfolio, adding to our pipeline of complex respiratory products.

We continue to leverage our position as 'partner of choice' in MENA to add new in-licensed products to our portfolio. In 2018 this included an agreement to license and distribute a portfolio of consumer healthcare products from Omege Pharma Trading NV, an affiliate of Perrigo Company PLC. We are also using licensing as a strategy to add more complex products to our US portfolio. In 2018 this included agreements with Hansoh Pharmaceutical Group Co., Ltd and Beijing Sciecure Pharmaceutical Co., Ltd.

2019 is off to a good start and I'm optimistic about the year ahead. We have developed a new strategy, which I'm confident will deliver sustainable growth over the long term."

1. Percentage of core revenue from products launched in 2018 and the second half of 2017.

Inspire and enable our people

It is ultimately our people that will deliver our strategy and achieve our ambitious growth targets. Fostering a culture where people can thrive is a priority in order to retain our best people and to continue attracting new talent.

This is the second year that we have undertaken a global employee survey. The results pointed to several areas where we are doing well and also identified others where we can improve. Employee engagement was 69% in 2018, which was a promising improvement over last year. Continued improvement in the levels of engagement and enablement across the Group are a priority for all of Hikma's leadership team. We want to make Hikma an inspiring place to work and we are launching several initiatives to achieve this.

For the first time, we held a Global Leadership Conference in 2018, which brought together 180 leaders from more than 20 countries across our organisation. It gave us the opportunity to collectively discuss the future growth and direction of Hikma and was invaluable in connecting and motivating our global leaders.

In 2018, we launched our refreshed global brand and transitioned all of our businesses under the Hikma name. This is proving to be a powerful tool in unifying our people behind a shared vision and purpose of putting high-quality medicines within reach of those who need them. The brand is helping us be more aligned and work better together, and articulates the value Hikma provides for doctors and patients.

Maintaining high-quality standards

Quality has been a cornerstone of Hikma since its inception. Our investment and commitment to quality has always been an important differentiator for us. In 2018, our teams were able to supply critical medicines to hospitals when competitors were struggling to supply, strengthening our reputation as a manufacturer that our customers and our global partners can trust. This was reinforced by five US FDA inspections at our manufacturing plants in Cherry Hill, Columbus, Eatontown, Portugal and Germany this year; all of these inspections resulted in zero critical observations.

Outlook

The Group delivered a strong financial performance in 2018 and we have started 2019 in a good position. We still have work to do to strengthen our base business and develop a pipeline that can deliver sustainable growth over the long term. However, the progress that we have made so far is considerable and I am confident that we can build on this to deliver Hikma's next chapter of growth.

Our business has a positive and important impact on people's lives around the world, so I want to thank all of our employees, our customers and our partners for helping us to put better health within reach every day for millions of people.

Sigurdur Olafsson
Chief Executive Officer

CEO Siggi Olafsson presenting to Hikma's management team at the Global Leadership Conference

Investment case

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

Five reasons to invest in Hikma

Unique and diversified business model

Our business is uniquely positioned, with three distinct business segments and strong foundations in the US, MENA and Europe. Our products are sold in both the retail and hospital markets.

Revenue by business segment

Injectables	40%
Generics	33%
Branded	26%
Other	1%

Strong market position

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

#3
Third largest generic injectable manufacturer in the US

#5
Fifth largest pharmaceutical company in MENA

Commitment to quality

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

5
FDA inspections in 2018 with zero critical observations

Large and growing pipeline

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

300+
Products in our pipeline

Cash generation

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

70%
Free cash flow/core operating profit[1]

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

Delivering our brand promise

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

Delivering for stakeholders

For more than 40 years, we have been dedicated to transforming people's lives by providing the medicine and support that they need every day. We are committed to delivering our brand promise for the stakeholders we come into contact with – the patients who use our medicines, healthcare professionals, our customers, our employees and the wider community.

Patients

We are committed to making high-quality medicines more accessible. We have a broad and growing product portfolio across multiple therapeutic categories, including anti-infectives, cardiovascular, diabetes, central nervous system, respiratory and oncology. We are continuously investing to expand our capabilities and capacity to meet the growing demand for our products and to ensure our customers and patients receive the products they need, when they need them.

Healthcare professionals

By continuously working to better understand the needs of doctors, nurses, clinicians and pharmacists, we are ensuring we develop a pipeline of products and technologies that meet the future needs of patients.

In MENA, we have around 2,000 sales representatives that meet with doctors on a daily basis and support them in improving the healthcare available to their patients. We regularly provide a forum for bringing together key opinion leaders, doctors and global research institutes to share knowledge and raise awareness.

To see more from our stakeholders see pages 22, 28 and 34

"We are committed to ensuring our customers and patients have the products they need, when they need them."

"We are proud to work for a business that positively impacts the lives of millions of people every day."

Our people

It is the passion and commitment of our people that make it possible for our business to positively impact the lives of millions of people every day. Across our organisation, our teams are building strong and trusted relationships with patients, healthcare professionals and our customers.

Our people are proud to work for Hikma and to enrich the communities in which we operate. We continuously invest in important partnerships globally, including Direct Relief and The Prince's Trust, that provide unique volunteering opportunities for our people and enable us to give back to our community.

Our markets

Our strategic priorities are influenced by the key industry trends shaping our markets.

The global context

Geopolitical tension around the world is contributing to economic uncertainty. Despite this, demand for healthcare continues to grow, driven by demographic shifts and changes in lifestyle. Over the next five years, the global pharmaceutical market is expected to grow at a compound annual growth rate (CAGR) of 3-6%.[1]

Growing population

1 billion+

By 2030, there will be an additional one billion people around the world

A growing population is leading to increased demand for healthcare. Between 2000 and 2016, global average life expectancy increased by around six years, the fastest increase since the 1960s.[3] The United Nations predicts that by 2030, there will be an additional one billion people around the world.[4]

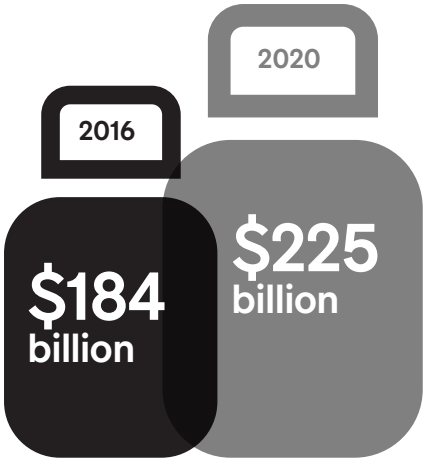
Chronic diseases

50%

of global healthcare expenditure will be directed at three therapeutic areas in 2020

Changes in lifestyle are driving demand for healthcare. Worldwide obesity has nearly tripled over the last 40 years, leading to a significant growth in related diseases.[3] By 2020, it is expected that 50% of global healthcare expenditure will be directed at just three therapeutic areas – cancer, respiratory and cardiovascular diseases.

Global generic pharmaceutical market size[2]



Our strategic response:
Across our three core geographies, we continue to invest in our manufacturing capacity and capabilities to enable us to meet current and future demand. We are committed to improving access to high-quality, affordable medicines.

Our strategic response:
We regularly meet with key stakeholders to identify unmet demand. Our R&D teams use this information to help select products for our pipeline. We are focused on providing patients with the products that they need.

1. IQVIA, 'The global use of medicine in 2019 and outlook to 2023', 2019
2. UBS, 'Longer term investments, Generics', 2017
3. World Health Organisation, 2018
4. United Nations, 'World population prospects', 2017

Population growth and increased prevalence of chronic diseases are driving demand for better, more accessible healthcare. Hikma is well-positioned to respond to this growing demand."

Key industry trends

Pricing and access

50%

drop in price when two generic products enter the market

The increased demand for healthcare is putting pressure on government budgets. As a result, governments around the world are looking for ways to lower the cost of medicines.

In the US, the price of medicines has become a prominent public issue, with political campaigns and media attention directed at pharmaceutical companies and their approaches to drug pricing. In this environment, companies are under significant pressure to maintain or lower drug prices.

Our strategic response:
Generics are part of the solution to lower drug pricing. Our focused investment in R&D enables us to continuously bring new generic products to market.

When two generic products enter a branded market, the price typically drops by around 50%. The discount accelerates as more generic products enter the market.[5]

Drug shortages

110

products remain on the US shortage list

Over the past six years, the number of new drug shortages in the US has declined significantly from 251 newly-reported shortages in 2011 to 35 in 2017. Despite this improvement, around 110 products remain on the shortage list and drug shortages continue to have a significant impact on patients. Manufacturing issues are the primary cause of shortages.[6]

Outside the US, shortages are also presenting challenges in Europe and MENA.

Our strategic response:
We are committed to helping alleviate drug shortages. In the last two years, we have launched 15 injectable products into shortage situations in the US.

We continue to invest in our manufacturing capabilities and capacity, enabling us to ramp up production of products as required. We also continue to grow our broad product portfolio to ensure we have the products that patients need.

Competition

90%

of all US retail generics were sold to three customers

The generics industry is highly competitive. In the US, consolidation has reduced the number of buyers so that 90% of all retail generics are sold to three buying consortia.[7] At the same time, the number of competitors is increasing and the FDA is approving a record number of ANDAs.

In Europe, governments have introduced tendering to encourage competitive bidding. Across MENA, there has been an increase in local pharmaceutical companies, as well as an influx of generic manufacturers from Asia.

Our strategic response:
To offset price erosion, it is critical that we have a steady stream of new launches. We invest 6-7% of revenue in core R&D and are focused on developing differentiated products, which we expect will have limited competition.

While price is very important to our customers, there are other factors which impact purchasing decisions. We continue to focus on strengthening our relationships with customers by demonstrating that we are a reliable partner.

Government regulations

#5

largest pharmaceutical company in MENA

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

Our strategic response:
Our focus is on strengthening our presence in our core MENA markets. Our local management, operations and sales teams are experienced in navigating challenging market conditions. We have invested in local manufacturing facilities in MENA markets, including FDA-inspected plants in Jordan and Saudi Arabia.

5. FDA, 2017, available at https://www.fda.gov/AboutFDA/CentersOffices/OfficeofMedicalProductsandTobacco/CDER/ucm129385.htm
6. FDA drug shortages, 2018, available at https://www.fda.gov/Drugs/DrugSafety/DrugShortages/ucm441585.htm
7. Association for Accessible Medicines, Ensuring the future of accessible medicines in the U.S., 2018

Our business model

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

Our inputs

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

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

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

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

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

Our strategy

For a full explanation of our strategy see page 16

Deliver more from a strong foundation

Our activities

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

Our business segments:

Injectables **Generics** **Branded**

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

Find out more about how we are **managing risk**
see page 55

Build a portfolio that anticipates future health needs

Inspire and enable our people

Develop and innovate

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

6%
Group revenue invested in core R&D (2017: 6%)

Manufacture and maintain quality

We are committed to maintaining high-quality standards in all of our manufacturing facilities. We have 30 plants across the Group that supply our global markets with a broad range of injectable and non-injectable products, including 11 US FDA-inspected plants and 11 EMA-inspected plants.

30
manufacturing plants

11
US FDA-inspected plants

11
EMA-inspected plants

Market across geographies

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

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

The value we create

Patient benefits

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

650+
Compounds

Employee engagement

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

69%
Employee engagement score

Shareholder returns

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

53%
Total shareholder return over last five years

Sustainable business

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

– Partnership with Direct Relief
– Patron of The Prince's Trust

Focusing on our strategy

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

Our purpose

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

Our strategy

Deliver more from a strong foundation

Build a portfolio that anticipates future health needs

Inspire and enable our people

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

Our focus is on:
- Maximising value from our current portfolio
- Building stronger customer relationships
- Driving efficiencies and cost savings

KPIs:
- **Core revenue**
- **Core operating profit**
- **Return on invested capital**

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

Our focus is on:
- Building R&D capabilities to add differentiated and complex products
- In-licensing other innovative products
- Leveraging partnerships and M&A to fill pipeline gaps and add new capabilities

KPI:
- **Core revenue from new products launched**

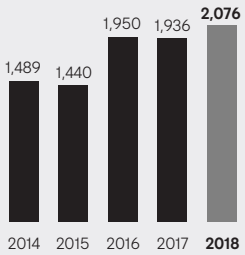
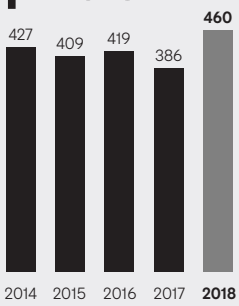
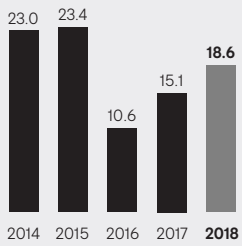
Our people are delivering our strategy. Our strong brand and clear purpose support a culture that enables us to achieve our goals.

Our focus is on:
- Building a culture of collaboration
- Creating an environment where people can do their best
- Recruiting and retaining the best talent

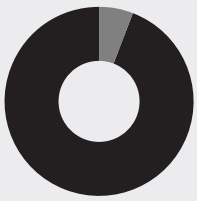
KPIs:
- **Employee enablement**
- **Employee engagement**

Measuring our progress

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

Strategic priority	Deliver more from a strong foundation		
KPI	**Core revenue** ($m) **$2,076m**  	**Core operating profit** ($m) **$460m**  	**Return on invested capital**[2] (%) **18.6%** 
Description	Total annual revenue generated across all businesses within the Group	Core operating profit generated by the Group	Core operating profit after interest and tax divided by invested capital (calculated as total equity plus net debt)
Why is it a KPI?	This measures our ability to extract value from our product portfolio across our global markets	This measures our ability to grow revenue, deliver efficiencies and ensure cost control, while maintaining high-quality manufacturing facilities	This measures our efficiency in allocating capital to profitable investments
2018 performance	Group revenue increased by 7% reflecting strong growth in our Generic, Injectable and Branded businesses	The increase in core operating profit was driven primarily by a significant improvement in the profitability of our Generics business	The increase in return on invested capital reflects the significant increase in core operating profit, primarily in our Generics business, and lower borrowings, resulting from the paydown of debt in 2018
Link to remuneration	R	R[1]	R

1. As one of the performance criteria for determining the Executive Directors' remuneration, core operating profit is adjusted to be before R&D
2. See reconciliation on page 41

	Build a portfolio that anticipates future health needs	Inspire and enable our people		
	Core revenue from new product launches (%) **6%** 	**Employee enablement** (%) **65%** 	**Employee engagement** (%) **69%** 	Find out more about our **strategy** see page 16 Find out more about how we are **managing risk** see page 55 Find out more about our **remuneration report** see page 81
	Percentage of core revenue contribution from products launched in 2018 and the second half of 2017	Global employee enablement score	Global employee engagement score	
	This demonstrates our ability to offset price erosion and other competitive pressures	This measures whether people find their work fulfilling and rewarding, and whether they feel supported to achieve their full potential	This measures people's pride in working for Hikma, their willingness to recommend Hikma as an employer and their desire to stay long term	
	We had a high number of low value launches across the Group. As we improve the potential of our pipeline, we expect the percentage of core revenue from new launches to increase towards 10%	Our employee enablement score decreased. During 2019, we will do more to remove barriers that hinder employees' ability to do their best work	The increase in our employee engagement score reflects improved communications and collaboration across the Group	
		R	R	

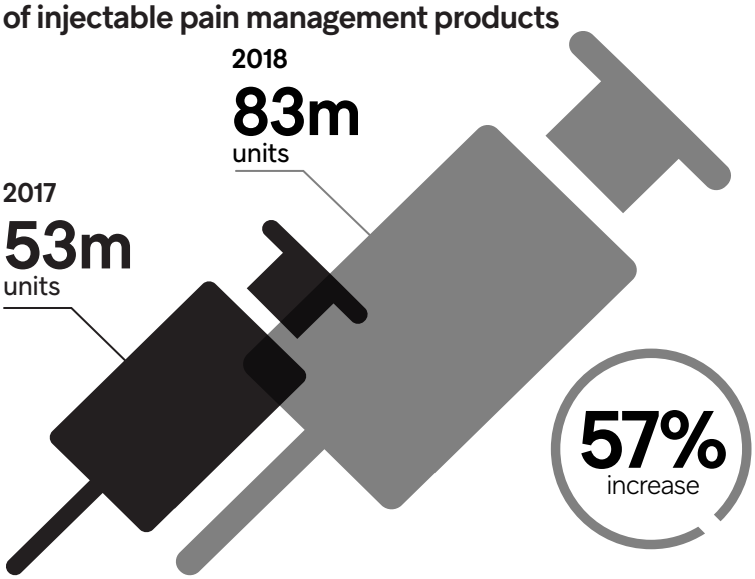
Injectables

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

Bringing important medicines to customers

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

Increasing our manufacturing output of injectable pain management products



Case study:

Working with our customers to address critical shortage

Hikma continues to play a major role in helping to alleviate drug shortages. In the last two years, we have helped hospitals, doctors and patients by launching 15 products into shortage situations.

In 2018, US hospitals faced a critical shortage of injectable medicines used for patient pain management after a competitor experienced a significant manufacturing disruption. The shortage had a substantial impact on hospitals, as these medicines had to be rationed, which at times resulted in surgeries being delayed.

In response to this shortage, we significantly increased production of these products at our US manufacturing facility, by adding production lines, recruiting additional staff and manufacturing around the clock. We also worked closely with the FDA and US Drug Enforcement Agency to ensure we had the required raw materials.

Stakeholder perspective

With these essential medicines in short supply, we were concerned about our hospitals and their patients since they were facing some difficult decisions. By working together with us and US government agencies, Hikma was able to ramp-up production of these important medicines, helping to ease the shortage."

Lee Perlman
President, Greater New York Hospital Association Ventures, Inc.

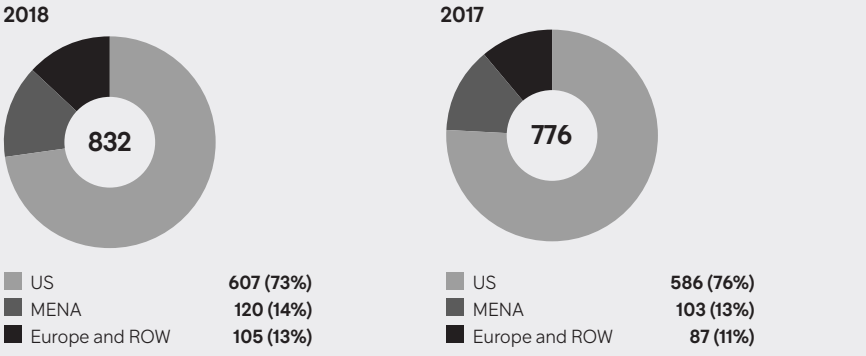
Injectables continued

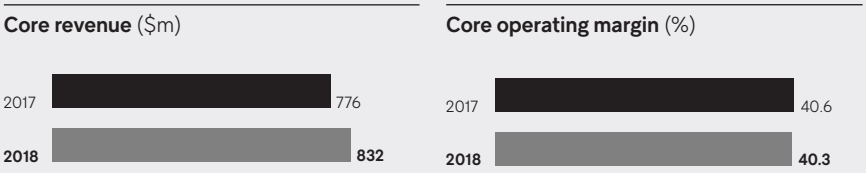
Overview

Financial highlights

$ million	2018	2017	Change	Constant currency change
Revenue	**826**	776	6%	6%
Core revenue	**832**	776	7%	7%
Gross profit	**497**	480	4%	4%
Core gross profit	**503**	480	5%	5%
Core gross margin	**60.5%**	61.9%	(1.4)pp	(1.2)pp
Operating profit	**305**	293	4%	5%
Core operating profit	**335**	315	6%	8%
Core operating margin	**40.3%**	40.6%	(0.3)pp	0.2pp

Injectables core revenue by region





Business review

In 2018, our global Injectables business performed well, with core revenue up 7% to $832 million (2017: $776 million). In constant currency, global Injectables core revenue was also up 7%.

US Injectables core revenue was $607 million, up 4% (2017: $586 million). While competition on certain products increased significantly, strong demand from our hospital customers for our large and diversified portfolio, recent product launches and our flexibility in responding to market shortages enabled our US business to deliver growth.

MENA Injectables revenue was $120 million, up 17% (2017: $103 million). In constant currency, MENA Injectables revenue increased by 21%, reflecting a strong performance in Saudi Arabia and a significant increase in sales of Remsima®, our infliximab biosimilar product licensed from Celltrion.

European Injectables revenue was $105 million, up 21% (2017: $87 million). In constant currency, European Injectables revenue increased by 15%, reflecting the contribution from recently launched products and expanded capacity for our lyophilised products.

Injectables core gross profit increased to $503 million (2017: $480 million) and core gross margin remained relatively stable at 60.5% (2017: 61.9%), reflecting a favourable product mix. Core operating profit, which excludes the amortisation of intangible assets other than software and exceptional items[1], was $335 million (2017: $315 million). Core operating margin remained extremely strong at 40.3% (2017: 40.6%). This reflects the strong gross margin, which more than offset increased investment in R&D.

Outlook

In 2019, we expect global Injectables revenue to be in the range of $850 million to $900 million. We expect core operating margin to be in the range of 35% to 38%.

1. Exceptional items include the costs related to the consolidation of our distribution facilities in the US. Refer to note 6 for further information

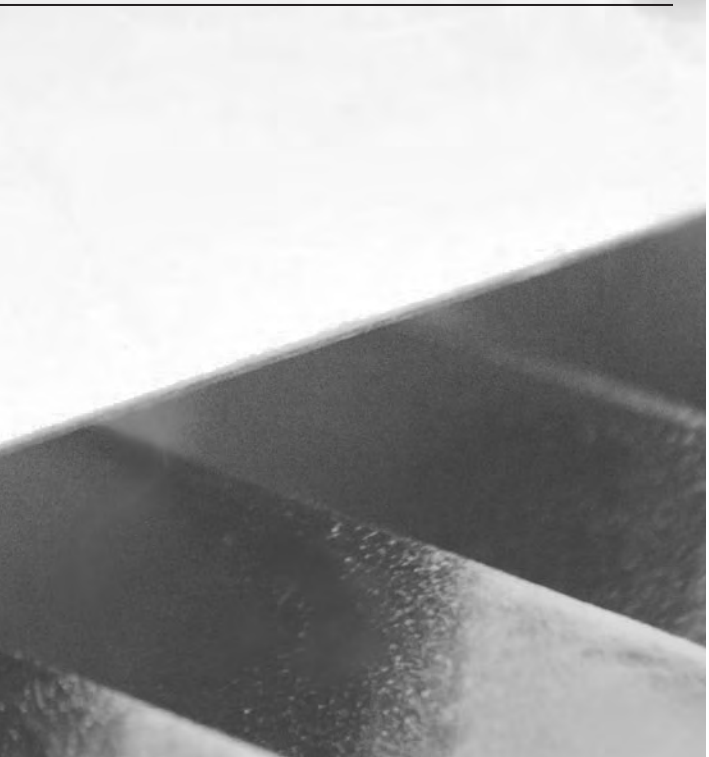
During the year, the Injectables business launched 15 products in the US, 17 in MENA and 20 in Europe. We submitted 130 filings to regulatory authorities across all markets and signed a number of licensing agreements to add more complex products to our pipeline. In the US, this included licensing agreements with Hansoh Pharmaceutical Group Co., Ltd. (Hansoh), for a portfolio of injectable oncology medicines, and Beijing Sciecure Pharmaceutical Co., Ltd (Sciecure) for one of their niche injectable anti-viral medicines. In MENA, we signed a licensing agreement with Laboratorios Farmaceúticos Rovi SA (Rovi) for their enoxaparin.

In 2019, we expect global Injectables revenue to be in the range of $850 million to $900 million. We expect revenue growth from new product launches and good demand for our in-market portfolio to more than offset continued price erosion and an easing in demand for products on shortage. We expect core operating margin to be in the range of 35% to 38%.

Riad Mishlawi
President of Injectables

"Our Injectables business delivered strong growth in all our markets. Our broad product portfolio and flexible manufacturing capabilities enabled us to rapidly respond to the needs of our customers and we continued to bring important new products to market."

Generics

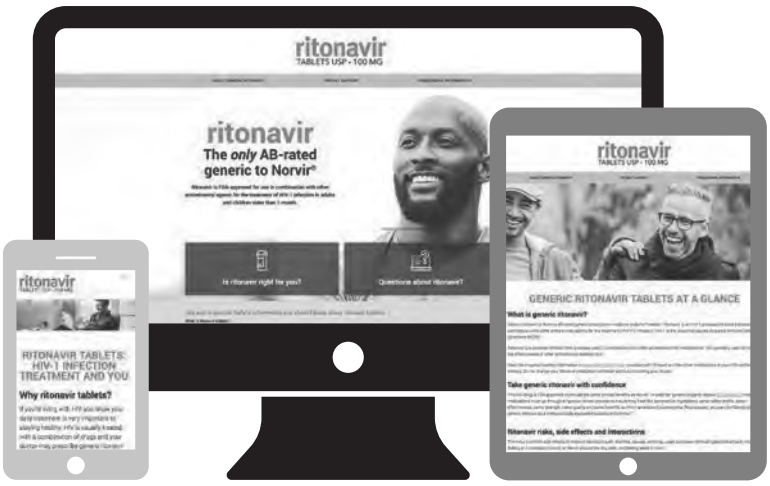


Our Generics business develops and manufactures oral and other non-injectable generic products. Our products are sold in the US retail market.

We think creatively and act practically

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

Supporting ritonavir patients



Case study:

Improving patient's access to ritonavir

At Hikma, we are focused on providing patients with the medicines they need. This year, we launched ritonavir, an important, life-saving medicine used to help patients manage their human immunodeficiency virus (HIV-1) infections. Hikma's ritonavir is the first generic version of Norvir® for the US market.

To improve access to generic ritonavir, we engaged with patient advocacy groups to understand how we could best support patients and healthcare providers during the launch of the first available generic. We implemented an education and awareness campaign and helped patients access co-pay assistance. These activities were unconventional for a generic pharmaceutical launch, but provided patients and healthcare providers with the support they needed for this essential medicine.

Stakeholder perspective

Providing new, generic treatment options for people living with HIV is very important, and we were impressed that Hikma worked so hard to understand what ritonavir patients would want to know about this first-to-market generic alternative."

Kathie Hiers,
CEO, AIDS Alabama

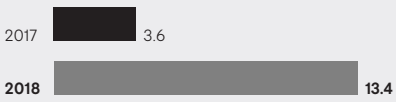
Overview

Financial highlights

$ million	2018	2017	Change
Revenue	**692**	615	13%
Gross profit	**279**	219	27%
Core gross profit	**295**	225	31%
Core gross margin	**42.6%**	36.6%	6.0pp
Operating profit/(loss)	**40**	(1,082)	N/A
Core operating profit	**93**	22	323%
Core operating margin	**13.4%**	3.6%	9.8pp

Revenue ($m)

Core operating margin (%)



Outlook

We expect Generics revenue to be in the range of $650 million to $700 million in 2019 and core operating margin in the mid-teens.

Business review

In 2018, our Generics business performed extremely well, exceeding the expectations we set at the beginning of the year. Revenue grew 13% to $692 million (2017: $615 million). While the US retail generics market remains competitive, we benefitted from our enhanced commercial capabilities and strengthened business operations. Good growth from our more differentiated product portfolio and new product launches more than offset the impact of continued price erosion.

Generics gross profit was $279 million (2017: $219 million). As previously announced, we consolidated our manufacturing and distribution facilities during the year and restructured our Columbus facility. Excluding related costs, core gross profit was $295 million (2017: $225 million). Gross margin was 40.3% (2017: 35.6%), and core gross margin increased to 42.6% (2017: 36.6%), reflecting an improvement in the product mix, operating leverage and a significant reduction in overheads, partly due to closure of our Eatontown plant.

Generics core operating profit, which excludes the amortisation of intangible assets other than software and exceptional items[1], increased to $93 million (2017: $22 million). This primarily reflects the strong improvement in gross profit. Core operating margin was 13.4% (2017: 3.6%). On a reported basis, Generics operating profit was $40 million compared to an operating loss of $1,082 million in 2017 that arose as a result of an impairment of the intangible assets and property, plant and equipment of the Columbus business.

1. Exceptional items include the expenses related to a repeat clinical endpoint study for generic Advair Diskus®, the restructuring of our Columbus facility and the closure of our Eatontown manufacturing plant. Refer to note 6 for further information

During the year, the Generics business launched 13 products, including a first-to-file Paragraph IV product with market exclusivity. We continued to invest in pipeline development, submitting eight filings to regulatory authorities, as well as adding products through licensing and partnership agreements. In particular, we expanded our partnership with Vectura with an agreement to develop and commercialise their Open, Inhale, Close (OIC) dry powder inhaler (DPI) platform, including generic versions of GSK's five Ellipta® DPI products. The generic respiratory market is a key area of focus for us and this agreement leverages the investment we have made and the experience we are gaining through our generic Advair Diskus® development programme.

As previously announced, we initiated a repeat clinical study for generic Advair Diskus® during the year. The study is progressing well and we expect to submit a response to the FDA with new clinical data in 2019.

We expect Generics revenue to be in the range of $650 million to $700 million in 2019. This reflects continued price erosion on our marketed portfolio, which we expect to be partially offset with market share gains and new product launches. We expect our focus on cost reduction and operational efficiencies to enable us to achieve a core operating margin in the mid-teens.

Brian Hoffmann
President of Generics

"The performance of our Generics business exceeded our expectations in 2018. Actions we've taken to strengthen our commercial and business operations have successfully returned this business to growth, despite the challenging market conditions."


Vastor®
Atorvastatin
calcium trihydrate
10 mg
30 Film Coated Tablets
30 Comprimés pelliculés
hikma.

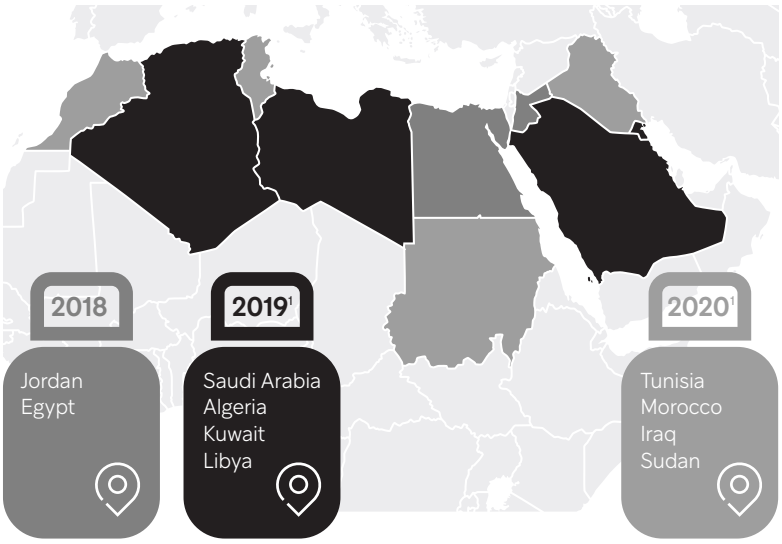
Branded

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

Where worldwide expertise meets local solutions

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

Launching dimethyl fumarate across MENA



1. Pending regulatory approval

Case study:

Improving access to an important MS treatment

In MENA, many patients do not have access to the range of healthcare solutions that are available elsewhere in the world.

Through discussions with key stakeholders, we identified that an important medicine, dimethyl fumarate (DMF), used for the treatment of multiple sclerosis (MS) was not available in many MENA countries. This year, we became the first company to launch this product in two markets and we expect to launch it in a further eight markets by the end of 2020.

We are engaging with healthcare professionals to help raise awareness and develop the skills required in the treatment and diagnosis of MS. Many of these physicians helped advocate for fast-track approval of Hikma's DMF to speed up access to this critical medicine for their patients.

Stakeholder perspective

Multiple sclerosis is a progressive disease which we have to stop. DMF represents a very suitable option for patients with moderate disease activity."

Dr Nevin Mohieldin
Professor of Neurology,
Cairo University

Branded continued

Overview

Financial highlights

$ million	**2018**	2017	Change	Constant currency change
Revenue	**542**	536	1%	5%
Gross profit	**271**	265	2%	7%
Gross margin	**50.0%**	49.4%	0.6pp	1.3pp
Operating profit	**111**	107	4%	17%
Core operating profit	**117**	114	3%	15%
Core operating margin	**21.6%**	21.3%	0.3pp	2.1pp

Revenue ($m)

Core operating margin (%)

Outlook

We expect Branded revenue to grow in the mid-single digits in constant currency in 2019.

Business review

On a reported basis, Branded revenue was $542 million, up 1% (2017: $536 million). On a constant currency basis before adverse movements against the US dollar, primarily in the Sudanese pound and the Algerian dinar, Branded revenue grew 5% to $560 million.

Egypt delivered double-digit revenue growth, reflecting strong underlying market growth, an improvement in our product mix and new product launches. This strong performance in Egypt more than offset lower revenue in Saudi Arabia and Algeria. Revenue in Saudi Arabia decreased slightly, reflecting the timing of sales. A strong pipeline of new launches is expected to drive a return to growth in 2019. In Algeria, planned upgrades at our general formulation plant impacted revenue growth in the first half of the year. We expect a stronger performance in 2019 now that the plant is back on line and manufacturing has commenced at our recently-acquired cephalosporin facility. Our businesses in Iraq, Jordan, Libya and Sudan delivered strong growth in constant currency during the year.

Revenue from in-licensed products represented 36% of Branded revenue (2017: 37%). During the year, we strengthened and expanded our partnerships, adding new in-licensed products to our portfolio. We signed a partnership agreement with Omega Pharma Trading NV, an affiliate of Perrigo Company PLC (Perrigo), for the exclusive right to license and distribute more than 30 consumer healthcare products across MENA, with the exception of current agreements in place. We also have the right of first refusal to the full range of Perrigo's OTC medicines in the region.

During the year, the Branded business launched 57 products and submitted 68 filings to regulatory authorities.

Branded gross profit was $271 million, up 2% (2017: $265 million) and gross margin was 50.0% (2017: 49.4%). In constant currency, gross profit increased by 7% and gross margin increased to 50.7% (2017: 49.4%), reflecting the receipt of an allowance from a supplier to compensate for changing market dynamics.

Core operating profit, which excludes the amortisation of intangibles, was $117 million, up 3% (2017: $114 million), and core operating margin was 21.6%. In constant currency, core operating profit grew 15% and core operating margin increased to 23.4%, up 210 basis points. This primarily reflects the improvement in the gross margin and the release of doubtful debt provisions following collection during the year.

We expect Branded revenue to grow in the mid-single digits in constant currency in 2019.

Other businesses

Other businesses, which is primarily comprised of Arab Medical Containers, a manufacturer of plastic specialised medicinal sterile containers, International Pharmaceuticals Research Centre, which conducts bio-equivalency studies, Hikma Emerging Markets and Asia Pacific FZ LLC, and the chemicals division of Hikma Pharmaceuticals LLC (Jordan) contributed revenue of $10 million in 2018 (2017: $9 million) and an operating loss of $5 million (2017: $(4) million).

Mazen Darwazah
Executive Vice Chairman & President of MENA

During the year, we continued to leverage our unique footprint to deliver good growth. We formed new partnerships and expanded existing agreements, reinforcing our position as the 'partner of choice' in MENA."

Group performance

Strategic highlights

- Appointed new Chief Executive Officer and strengthened leadership teams across the Group
- Leveraged our high-quality injectables manufacturing facilities and broad product portfolio to deliver critical medicines to our hospital customers
- Strengthened our Generics business, by enhancing commercial capabilities and streamlining operations
- Reinforced our position as 'partner of choice' in MENA, adding important in-licensed products
- Restructured our global R&D function to improve productivity and increase returns on investment
- Launched 122 new products across all markets, expanding our global product portfolio
- Strengthened our pipeline through a long-term agreement with Vectura to develop and commercialise generic versions of GSK's Ellipta® products

Summary financial results

Core[1] results	2018 $ million	2017 $ million	Growth	Constant currency[2] growth
Core revenue	**2,076**	1,936	7%	8%
Core operating profit	**460**	386	19%	24%
Core EBITDA	**549**	468	17%	21%
Core profit attributable to shareholders	**332**	252	32%	39%
Core basic earnings per share (cents)	**137.8**	105.0	31%	38%

Reported results	2018 $ million	2017 $ million	Growth	Constant currency growth
Revenue	**2,070**	1,936	7%	8%
Operating profit/(loss)	**371**	(747)	N/A	N/A
EBITDA	**492**	488	1%	5%
Profit/(loss) attributable to shareholders	**282**	(843)	N/A	N/A
Basic earnings/(loss) per share (cents)	**117.0**	(351.3)	N/A	N/A

1. Core results are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in note 6. EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charge. Core results and EBITDA are non-IFRS measures. Reconciliations to reported IFRS measures are provided on page 41
2. Constant currency numbers in 2018 throughout the document represent 2018 numbers re-stated using average exchange rates in 2017, excluding price increases in the business which resulted from the devaluation of currencies

Group

Group revenue grew 7% to $2,070 million in 2018 and Group core revenue grew 7% to $2,076 million (2017: $1,936 million), reflecting good demand for our in-market products and new product launches. Group gross profit was $1,050 million (2017: $967 million). As previously announced, we consolidated our Generics manufacturing facilities and our US distribution facilities and we restructured our Columbus facility. Excluding the related costs, Group core gross profit grew 10% to $1,072 million (2017: $973 million), primarily due to a strong improvement in the profitability of our Generics business. Group gross margin was 50.7% (2017: 49.9%) and core gross margin was 51.6% (2017: 50.3%).

Group operating expenses were $679 million, compared to $1,714 million in 2017. Group operating expenses in 2017 included exceptional items of $1,084 million that arose as a result of an impairment of the Columbus intangible assets and property, plant and equipment. Excluding the amortisation of intangible assets other than software and exceptional items, Group core operating expenses were $612 million (2017: $587 million). The paragraphs below address the Group's main operating expenses in turn.

Sales and marketing (S&M) expenses were $224 million (2017: $236 million). Excluding the amortisation of intangible assets other than software and exceptional items, core S&M expenses were $191 million (2017: $188 million), up 2%. This slight increase reflects enhanced commercial activities in the US and MENA and investments to strengthen our sales and marketing capabilities.

General and administrative (G&A) expenses were $246 million (2017: $239 million), up 3%, due to the cost of strengthening our corporate functions and higher employee benefits. Net impairment reversals on financial assets were $11 million, which related to the release of doubtful debt provisions following collection during the year.

R&D expenses were $147 million (2017: $121 million). Excluding exceptional items[1], core R&D expenses were $118 million (2017: $115 million). This reflected increased investment in our Branded and Injectables R&D programmes, which was partially offset by a reduction in R&D expenditure for our Generics business following a detailed review of our R&D pipeline in 2017. Core R&D was 6% of Group core revenue, in line with 2017.

Other net operating expenses were $73 million (2017: $1,118 million). Excluding exceptional items, core other net operating expenses increased to $68 million (2017: $46 million), primarily reflecting a foreign exchange loss in 2018 compared to a gain in 2017.

The Group reported operating profit of $371 million (2017: $(747) million). Excluding the impact of amortisation other than software and exceptional items, Group core operating profit increased by 19% to $460 million (2017: $386 million) and core operating margin was 22.2% (2017:19.9%).

Research & development

Our investment in R&D and business development is enabling us to continue expanding the Group's product portfolio. During 2018, we had 122 new launches and received 136 approvals. To ensure the continuous development of our product pipeline, we submitted 206 regulatory filings.

Hikma product pipeline

		2018 submissions[2]	2018 approvals[3]	2018 launches[4]
Injectables	US	20	14	15
	MENA	76	34	17
	Europe	34	33	20
Generics		8	9	13
Branded		68	46	57
Total		**206**	**136**	**122**

1. In 2018, Hikma incurred $29 million of R&D costs related to a repeat clinical endpoint study for generic Advair Diskus®. In 2017, Hikma recognised a $29 million contingent consideration gain from Boehringer Ingelheim as compensation for failure to receive FDA approval of generic Advair Diskus® before 24 December 2017. To obtain approval, the FDA requires the completion of an additional clinical endpoint study. Both the contingent consideration and the repeat clinical study have been treated as exceptional items. See note 6 for further information
2. Submissions for new products includes Marketing Authorisations, NDAs, ANDAs, supplements, line extensions, and re-introduction of legacy products by country, submitted in 2018
3. New product approvals includes technical approvals and tentative approvals, line extensions, and the re-introduction of legacy products by country, approved in 2018
4. New product launches includes line extensions and the re-introduction of legacy products by country, launched in 2018

Net finance expense
Core net finance expense decreased 12% to $51 million (2017: $58 million), due to lower debt in the year. After recognising a non-cash expense of $26 million, which primarily resulted from the remeasurement of the contingent consideration related to the Columbus business acquisition, net finance expense was $77 million. We expect Group core net finance expense to be around $50 million in 2019.

Profit/(loss) before tax
The Group reported profit before tax of $293 million (2017: $(738) million). Core profit before tax was $408 million (2017: $328 million).

Tax
The Group incurred a tax expense of $8 million (2017: $101 million). The reported effective tax rate was 2.7% (2017: (13.7)%), primarily due to the recognition of previously unrecognised deferred tax assets and favourable prior year tax rulings in the US.

Excluding exceptional items, Group core tax expense was $73 million (2017: $72 million). The core effective tax rate decreased to 17.9% (2017: 22.0%), primarily due to a reduction in the effective tax rate in the US and smaller uncertain tax positions in 2018. We expect the Group core effective tax rate to be around 21% in 2019.

Profit attributable to shareholders
Profit attributable to shareholders was $282 million, compared with a loss of $843 million in 2017. Core profit attributable to shareholders increased by 32% to $332 million, compared with $252 million in 2017.

Earnings per share
Core basic earnings per share increased by 31% to 137.8 cents (2017: 105.0 cents) and core diluted earnings per share increased by 31% to 137.2 cents (2017: 104.6 cents). Basic earnings per share was 117.0 cents (2017: (351.3) cents). The basic loss per share in 2017 arose as a result of an impairment of the intangible assets and property, plant and equipment of the Columbus business.

Dividend
The Board is recommending a final dividend of 26 cents per share (approximately 20 pence per share) (2017: 23 cents per share) bringing the total dividend for the full year to 38 cents per share (approximately 29 pence per share) (2017: 34 cents per share, approximately 24 pence per share). The proposed dividend will be paid on 22 May 2019 to eligible shareholders on the register at the close of business on 5 April 2019, subject to approval at the Annual General Meeting on 17 May 2019.

Net cash flow, working capital and net debt
The Group generated strong operating cash flow of $430 million (2017: $443 million). Group working capital days were down 15 days to 210 days, primarily driven by improved cash collections and improved supplier payment terms across the Group in 2018.

Capital expenditure was $107 million (2017: $107 million). Of this, around $45 million was spent in the US to expand the manufacturing capacity and capabilities of our Generics and Injectables businesses. In MENA, around $44 million was spent on strengthening our manufacturing capabilities in Algeria and upgrading our facilities in Jordan, Algeria and Egypt to manufacture new in-licensed products. In Europe, we spent approximately $18 million, primarily on the expansion of our manufacturing facilities in Portugal. We expect Group capital expenditure to be in the range of $120 million to $140 million in 2019.

The Group's net debt (excluding co-development agreements and contingent liabilities) was $361 million at 31 December 2018 (31 December 2017: $546 million)[1]. The significant decrease was due to the paydown of debt during the year. We continue to have a very strong balance sheet with a net debt to core EBITDA ratio of 0.66x.

In January 2019, a litigation matter with an external party was concluded in Hikma's favour and Hikma received compensation of $32 million.

Balance sheet
Net assets at 31 December 2018 were $1,697 million (31 December 2017: $1,528 million). Net current assets were $775 million (31 December 2017: $777 million).

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

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

Core results
Reported results represent the Group's overall performance. However, these results can include one-off or non-cash items that mask the underlying performance of the Group. To provide a more complete picture of the Group's performance to external audiences, we provide, alongside our reported results, core results, which are a non-IFRS measure. Our core results exclude the exceptional items and other adjustments set out in note 6.

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

Constant currency numbers in 2018 represent reported 2018 numbers re-stated using average exchange rates in 2017, excluding price increases in the business which resulted from the devaluation of currencies.

1. Group net debt is calculated as Group total debt less Group total cash. Group net debt is a non-IFRS measure, see page 41 for a reconciliation of Group net debt to reported IFRS results

EBITDA
EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charge.

EBITDA	2018 $million	2017 $million
Reported operating profit	**371**	**(747)**
Depreciation, amortisation and impairment	121	1,235
Reported EBITDA	**492**	**488**
Research and development costs	29	-
Contingent consideration gain	–	(29)
Acquisition, integration and other costs	28	9
Core EBITDA	**549**	**468**

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

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

Group net debt	Dec-18 $million	Dec-17 $million
Bank overdrafts and loans[1]	(75)	(87)
Long-term financial debts	(539)	(670)
Obligations under finance leases	(23)	(20)
Total debt	**(637)**	**(777)**
Cash and cash equivalents	276	231
Net debt	**(361)**	**(544)**

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

ROIC	2018 $million	2017 $million
Core operating profit	460	386
Interest income	4	3
Total tax	(81)	(75)
Core operating profit after tax	**383**	**315**
Net debt	360	545
Equity	1,697	1,528
Invested capital	**2,057**	**2,073**

1. Includes obligations under finance leases

Outlook

Group
The Group delivered a strong financial performance in 2018 and we made good strategic progress.

Looking beyond 2019, we expect to benefit from our continued investment in R&D across our businesses and we will look to fill pipeline gaps through business development.

Injectables
Going forward, we expect global Injectables revenue to be in the range of $850 million to $900 million in 2019. We expect revenue growth from new product launches and good demand for our in-market portfolio to more than offset continued price erosion and an easing in demand for products on shortage. We expect core operating margin to be in the range of 35% to 38% in 2019.

Generics
We expect Generics revenue to be in the range of $650 million to $700 million in 2019. This reflects continued price erosion on our marketed portfolio, which we expect to partially offset with market share gains and new product launches. We expect our focus on cost reduction and operational efficiencies to enable us to achieve a core operating margin in the mid-teens.

Branded
We expect Branded revenue to grow in the mid-single digits in constant currency in 2019.

Net finance expense, tax and capital expenditure
We expect Group net finance expense to be around $50 million in 2019 and the core effective tax rate to be around 21%. We expect Group capital expenditure to be in the range of $120 million to $140 million.

Sustainability

We pride ourselves on being a responsible organisation that is committed to helping people and improving the communities in which we operate.

In our sustainability strategy we have prioritised four key areas.

Operating responsibly and ethically
see page 44

Supporting our patients and communities
see page 46

Enabling our people
see page 50

Monitoring and minimising our environmental impacts
see page 52

Operating responsibly and ethically

Operating responsibly and ethically is vital to our long-term organisational success. Through a continuous focus on strengthening our governance frameworks, building trusted and transparent partnerships and upholding high standards of human rights and ethical conduct, we are building a sustainable platform for the future.

Upholding high standards of ethical conduct

Our culture is built upon shared values of integrity, respect, excellence and transparency. We have developed a robust programme of internal controls to reduce the risk of bribery and corruption. As a publicly-listed company on the London Stock Exchange (LSE), we abide by the regulations of the UK Listing Authority. We operate in compliance with the UK Bribery Act 2010, the Foreign Corrupt Practices Act and the Physician Payments Sunshine Act, as well as local laws and regulations. We also remain founding members of the Partnering Against Corruption Initiative, an offshoot of the World Economic Forum dedicated to promoting compliance and eliminating corruption on a global scale. For four years we have been members of the Business 20 Anti-Corruption Working Group, which operates under the umbrella of the G20 international forum of governments with the mandate of helping companies improve their ethical conduct.

Our Compliance, Responsibility and Ethics Committee (CREC) – a Board-level committee established in 2010 which is chaired by an independent non-executive director – leads our efforts to strengthen anti-bribery and corruption (ABC) policies and manage associated risks.

Our Code of Conduct provides all employees with a clear understanding of the principles of business conduct, standards and ethical behaviours. The Code of Conduct is publicly available on our website, communicated annually through Group-wide e-learning training modules to all employees with management support to engage their teams, reinforce messages, and ensure understanding.

We maintain an 'open-door' policy and have in place a process that enables stakeholders inside or outside Hikma to confidentially raise concerns about incidents that do not align with our values. We review 100% of reported incidents and respond to all substantiated cases with the necessary actions. All cases are reviewed by our Preliminary Investigations Committee, which includes members of our Legal, Human Resources and Compliance teams.

Defending the principles of human rights

We respect and uphold the principles of the Universal Declaration of Human Rights both within Hikma and across our value chain. We are also committed to upholding the principles of the Modern Slavery Act (MSA) – taking measures to ensure that modern slavery in the form of forced or compulsory labour and human trafficking does not exist in any of our businesses or in those of our partners and suppliers. These principles are articulated within our Code of Conduct, and communicated to all our people through annually distributed e-learning modules. We conduct regular audits to assess MSA compliance for major spend suppliers, and maintain a zero-tolerance policy towards violations of these principles.

Eliminating discrimination

Our Code of Conduct upholds Principle 6 of the United Nations Global Compact on the elimination of discrimination in the workplace. We welcome variety and treat all employees equally regardless of any actual or perceived characteristic. We are committed to employing and engaging talented people, irrespective of their race, colour, religious creed, age, sex, marital status, national origin, present or past history of mental or physical disability and any other factors not related to a person's ability to perform a role.

Our inclusion in the FTSE4Good Index

In 2018, we maintained our membership of the FTSE4Good Index Series – an index of LSE-listed companies that demonstrate strong Environmental, Social and Governance (ESG) practices as measured against international benchmarks. The FTSE4Good assesses companies' effectiveness in addressing issues, such as human rights, anti-corruption, environmental impacts, health and safety, and community engagement. Their assessments are used by a wide variety of market participants to develop responsible investment funds and other products. We increased our FTSE4Good score to 3.5 out of 5, placing us in the 70th percentile amongst member companies. We will continue strengthening our ESG monitoring and performance in the future.

Addressing anti-microbial resistance

As a manufacturer of anti-infective medications, we consider it our responsibility to educate patients, healthcare professionals and policymakers, particularly in MENA, about the rising threat of anti-microbial resistance (AMR) and to encourage the responsible use of our products. Throughout the year, we undertook several activities to address the threat of AMR in the MENA region.

- In November, we sponsored 'The Rational use of Antibiotics and Antimicrobial Stewardship Summit' in Jordan. The objectives of the summit were to share developments amongst regional policymakers and industry peers about the role of government in curbing AMR, the possibility of collaboration to promote national awareness and the role of conventional and novel diagnostic and therapeutic techniques to confront AMR.
- Working alongside the Jordan Food and Drug Administration (JFDA), the Ministry of Health and the Pharmaceutical Association of Jordan, we organised and sponsored the 'National Action Plan for Containment of Antimicrobial Resistance' initiative – developing local solutions to manage AMR in Jordan.

Aligning with the United Nations Sustainable Development Goals

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

In 2017, we selected six goals that are aligned with our business and values. We have made good progress towards these goals and will continue to focus on them in 2019.

Our adopted goals

Supporting our patients and communities

Across our business and in our communities, our activities are directed towards four themes that align most closely with our values and our brand promise:

— Ensuring access to medicine
— Supporting education
— Raising awareness of healthcare needs
— Empowering women

Ensuring access to medicine

Addressing drug shortages

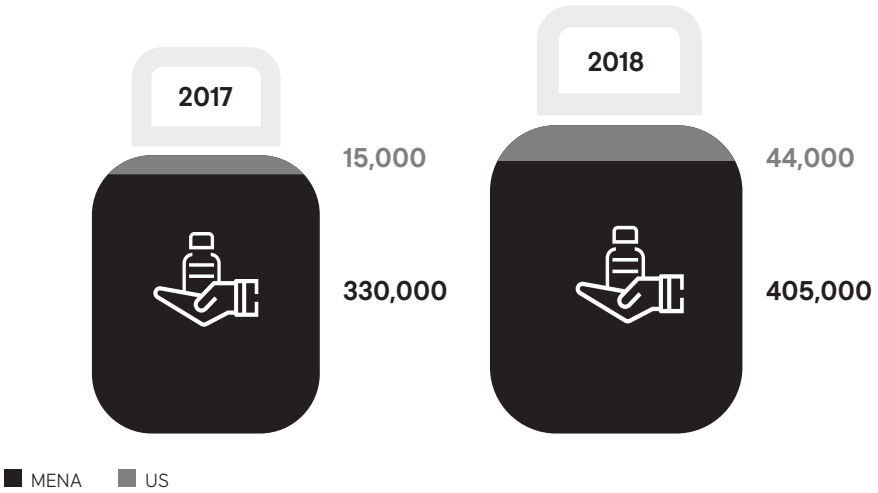
We are committed to improving access to medicines for patients in need and are dedicated to addressing drug shortage situations in the US and elsewhere. Shortages are a major public health risk. As a top three manufacturer of injectables in the US with a broad portfolio of more than 100 different products, we recognise our responsibility for ensuring patients maintain reliable and consistent access to vital medicines during supply shortages. During 2018, we worked with the US FDA and DEA to address this issue in the US.

More information on our efforts to address shortages can be found on page 22.

Providing access for those in need

We strive to put better health within reach for patients. By providing in-kind medicine donations we are addressing unmet healthcare needs for refugees and low-income groups in MENA as well as patients in the US without sufficient medical insurance. The chart below gives information about our in-kind medicine donations in 2017 and 2018.

In-kind medicine donations – number of units donated 2017–2018



Partnering with Direct Relief

2018 marked the start of our collaboration with Direct Relief – a global NGO dedicated to providing tailored medical solutions for vulnerable and at-risk populations around the world. In our first year of the partnership, we delivered regular in-kind donations to support US safety net clinics near our operations. Direct Relief maintains the largest charitable medicine programme in the US with a network of safety net clinics that provide comprehensive health services to more than 27 million patients each year, where nearly 70% of those patients have incomes below the federal poverty level and roughly 23% lack health insurance.

We aim to expand the scope of donations beyond the US, sustain our financial contributions and incorporate employee volunteering opportunities that will help create tangible benefits on the ground.

Supporting education

Our partnership with The Prince's Trust

In 2018, we began a four-year partnership with The Prince's Trust, a UK-based organisation dedicated to providing capacity-building and job readiness opportunities to young people facing barriers to education and employment. As Patrons of The Prince's Trust, we are committed to supporting the organisation through financial contributions and by enabling our employees to volunteer as mentors.

In 2017 and 2018, The Prince's Trust supported more than 66,000 young people across the UK, and we are hopeful that our partnership will contribute meaningfully to their goal of assisting one million young people over the next ten years.

Funding for STEM-related activities

A significant portion of our financial assistance for The Prince's Trust is directed towards supporting STEM (Science, Technology, Engineering and Maths) education through the implementation of a series of STEM-enrichment workshops. The workshops are aimed at providing young participants with the tools and knowledge to diversify their capabilities and secure future employment opportunities.

Volunteering activities

We also organised several volunteering opportunities where our people could directly offer their support. During the 'World of Work Day', we welcomed young participants to our offices in London, where they spent the day with our employees developing their interpersonal skills, enhancing their curriculum vitae and practising interviews. We also participated in the 'Palace to Palace' cycle challenge to raise funds for the Trust – helping them exceed their fundraising goal by 169%.

> The participants absolutely loved it! We were so impressed with how well Hikma had managed to tailor the day to the young people and make it fun yet really informative."
>
> Laura Guy, Lead Specialist Mentor at The Prince's Trust, reflecting on 'World of Work Day'

Through our partnership with Direct Relief, we aim to deliver medical solutions to those in need

Taking part in The Prince's Trust 'Palace to Palace' cycling fundraiser challenge

Supporting our patients and communities continued

Providing opportunities for refugees: our partnership with MIT ReAct

We continue to develop and support programmes that assist displaced people. The Massachusetts Institute of Technology (MIT) ReAct programme was developed in 2017 to provide educational and professional opportunities for displaced people around the world. The programme combines the university's educational strengths with networking and internship opportunities. MIT ReAct also incorporates workshops in innovation, entrepreneurship and soft skills, generating an individualised, contextualised, and blended learning experience.

In 2018, we hosted five interns – two of whom have become permanent employees. We plan to build on the success of the programme and expand our support in 2019 by hosting ten interns.

Supporting cancer research

For the second consecutive year, cancer specialists from across MENA gathered to attend the 'Hikma Cancer Network – Middle East and North Africa Forum' which was organised in collaboration with the Department of Leukemia at the University of Texas MD Anderson Cancer Center. The two-day forum, held in Jordan, attracted more than 200 regional cancer specialists and key opinion leaders, offering educational sessions and opportunities to share information about the latest advances in cancer treatments. This forum reflects our dedication to ensuring that medical professionals across the MENA region are sharing best medical practices and the latest advances in the field of cancer.

Adopting the Sweimeh School for Girls in Jordan

The Sweimeh School for Girls is located in the Balqa province in Jordan, where less than half of women are enrolled in basic education and the illiteracy rate for women and girls is more than double that of men and boys. In 2015, we began to work with the school in an effort to reduce dropout rates and raise the graduation rate, which had been zero for the previous five years. We also provided financial assistance to improve the school's infrastructure, and employees volunteered to assist with renovations as well as taking part in mentoring and teaching activities. We continue offering mentorship and training to improve the students' employability after graduation.

We are proud that since we began to work with Sweimeh there has been a noticeable improvement. The number of graduates has increased to three in 2017 and then seven in 2018.

Employees in Sudan distributed school supplies helping rebuild Sondos School for Girls

Volunteers had the opportunity to help teach classes at the Sweimeh School for Girls in Jordan

Rebuilding the Sondos School for Girls in Sudan

Following heavy rains and flooding in Sudan in 2017, the Sondos School for Girls' infrastructure collapsed. For months, students attended their classes outdoors. Our employees in Sudan assisted with the rebuilding effort. Through a combination of financial donations and volunteer assistance over a period of several months we were able to complete the necessary infrastructure repair that enabled the school's 403 students to return to classrooms in July 2018.

Raising awareness of healthcare needs

Addressing iron deficiency

This year, in both Lebanon and Jordan, we collaborated with public and private entities to raise awareness of the dangers of iron deficiency. Iron deficiency affects almost one-third of the world's population and has a high prevalence in the MENA region. Our teams partnered with ministries of health in Jordan and Lebanon, along with the medical diagnostics company Biolab, to organise a large-scale awareness and testing programme in both countries. Through the campaign, we used public booths and TV broadcasts to spread awareness, and provided free testing.

Fighting leukaemia

The 'Light the Night' walk helps fund research for people in the US living with or in remission from leukaemia, lymphoma or myeloma. For the seventh year, employees across our US locations participated in 'Light the Night' walks. More than 80 volunteers took part in the walk this year, and even more helped with fundraising. Through a combination of employee donations and Hikma sponsorships, we were able to raise more than $15,000 in 2018.

Empowering women in the community

Supporting women entrepreneurs

As part of our effort to empower women in our communities, we established the Hikma Fellowship in Support of Women Entrepreneurs Programme in Jordan in 2016. The programme offers workshops to help women entrepreneurs develop their businesses. The programme also provides opportunities to network and share ideas. We recently expanded the programme to include opportunities for our people to 'adopt' startups and offer them mentorship and assistance. In 2018, we adopted four startups in Jordan. We aim to expand the scope of the programme to other markets in MENA over the next few years.

Strengthening women's leadership in the health sector

The 'Strengthening Women's Leadership in the Health Sector Conference' was held in 2018 in Jordan, where stakeholders and policymakers identified major opportunities and barriers facing professional women in the healthcare sector. Several representatives from Hikma attended the event, which was organised by USAID. Following the conference, participants established the Women Leaders in Health Steering Committee. The goal of the Committee is to help women in Jordan attain leadership positions, particularly in healthcare. Sandra Shaqareq, a member of our Hospital Unit team, was selected as Vice Chair of the Committee.

More than 80 volunteers across our US locations participated in the 'Light the Night' walk to help fund research for leukaemia, lymphoma and myeloma

Enabling our people

Our people are our most valuable asset and the driving force behind our success. We are committed to investing in the development of our workforce and in protecting their health and safety.

Investing in our people's growth and development

A key achievement in 2018 was the launch of the Hikma Academy, an institution dedicated to consolidation and optimisation of all of our learning and development (L&D) efforts under a global training hub. The Academy is intended not only for employee training, but also for students and interns to strengthen their employment prospects. The Academy oversees employee development on a Group level with systems including a global learning management system that allows Hikma to deliver high-quality employee learning activities.

Supporting continuing education for our people

We are committed to enabling our people to realise their full potential. To support this, we began our Continuing Education programme in 2010 – offering our employees with opportunities to advance their formal education through partial or full scholarships. Through these opportunities, employees can further their education at the undergraduate, graduate or doctoral level. Through the programme, 47 people have attained higher education diplomas.

The Hikma International Professional Excellence (HIPE) programme

HIPE was launched in 2016 as a cross-functional rotation programme for exceptional employees and fresh graduates, providing them with opportunities to gain exposure to the operational, financial and commercial aspects of our organisation. The programme includes workshops, team-building activities and regular skills assessments to provide a comprehensive learning experience.
HIPE exemplifies our approach to nurturing employee potential – combining on-job training and experience with managerial and leadership skill development. Launched in Jordan, the programme is currently being rolled out internationally.

What our people say about HIPE...

"I consider myself extremely fortunate to have been taught and supported by many great leaders at Hikma. Management strongly believe in young people, their energy and their willingness to learn and this has supported me in my professional journey with HIPE.
Soula Alhaj Asad, Senior Packaging Supervisor, Jordan, and former HIPE participant

"I gained an understanding of the whole company and the links between departments on territory and corporate levels.
Firas Momani,
HIPE participant

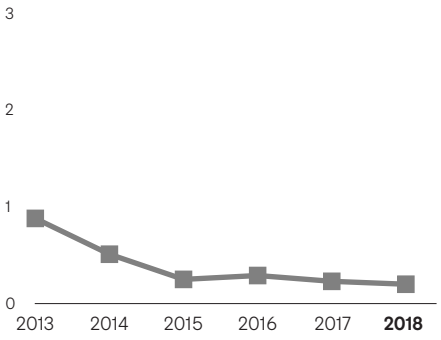
"I'm proud to have been able to positively contribute to each team I have worked with, build a good reputation in the company, and grow my professional network by meeting great people across different sites and departments.
Sahag Pailian,
HIPE participant

Ensuring health and safety

It is fundamental to our business success that we secure a safe and healthy workplace for our employees. We continue to prioritise Occupational Health, Safety, Environment and Energy (OHSEE) management. We provide information, training and support to all our employees to ensure we have safe working environments and processes.

All our units comply with stringent industry standards, which we monitor across all our operations. We are continually refining our production processes, equipment and training to minimise potentially harmful situations and to prevent and manage environmental accidents and emergencies. This year, we expanded the monitoring of Lost Time Injury Rates (LTIR) to include all of our locations. The chart below illustrates LTIR across our US facilities between 2013 and 2018.

Lost time injury rate – US facilities



— LTIR is defined as number of injuries x 200,000/number of total working hours.
— Injuries defined as those resulting in one or more days away from work.

Ten years of 'You are Hikma' campaign

2018 marked the tenth year of our global 'You are Hikma' campaign, which focuses on spreading employee awareness about relevant health and safety issues as well as the importance of community engagement and environmental stewardship. Activities across our sites vary based on local needs, and include awareness lectures, blood drives and fire safety tutorials.

In our US locations, we hosted our first 'Household Hazardous Waste Takeback Day,' helping our employees safely dispose of 4,000 pounds of potentially harmful substances, such as pesticides, paints and electronic waste. Across many of our other locations, we provided free medical testing, and blood drives, and worked alongside public servants to provide firefighting training to our employees. We also held sessions on the reduction of energy consumption, first aid treatments, and informational sessions on our Compliance, Process Improvement and Technical Management (CPITM) Committee roles and functions.

Enabling a culture of diversity and inclusion

We believe in equality for all employees and are an equal opportunity employer. We oppose discrimination in all its forms and pride ourselves on the diversity of our people.

Empowering women in our workplace

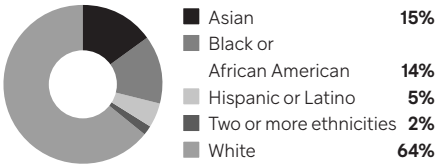
We continue to develop programmes and policies to promote women's empowerment within our organisation. Our 'Dare to Dream Big' programme in Jordan – a series of monthly educational sessions targeting capacity-building and the development of leadership skills amongst women – was rolled out to five more MENA countries in 2018.

2018 also marked the beginning of our mentorship programme with the Business and Professional Women Association (BPWA) in Jordan. The BPWA is a non-profit organisation dedicated to facilitating the empowerment of professional women in the Jordanian workforce. Through our partnership, 32 women from the BPWA will serve as mentors to women at Hikma over a six-month period, helping to promote their professional and career development.

Monitoring ethnic diversity

Our inclusive corporate culture contributes to our diverse workplace. Although we are committed to diversity, we do not set ethnic diversity quotas. We actively monitor ethnic diversity where required by local laws, including at all our US locations.

Ethnicity breakdown – our US locations



Innovation and Leadership Advisory Board

For the third consecutive year, our Innovation and Leadership Advisory Board (ILAB) has served as a channel for young people in Hikma to nurture and develop new ideas. ILAB has achieved much success, most notably by:

— representing young employees across the organisation
— helping foster an innovative culture
— identifying and implementing innovative and creative solutions to address business issues

Amongst the most successful ILAB projects has been i-Tech, a series of events designed to showcase ideas and companies that are at the forefront of innovation and technology. Our latest i-Tech event was held as a panel discussion amongst industry experts around the theme 'Healthcare Disrupted?'.
We also organised our second Hikma Innovation Competition (HIC), a company-wide competition where colleagues propose innovative ideas to help achieve business goals, of which the most practical and feasible is selected by a committee of judges. The winning idea in 2018 was the 'Visual Expiry Indicator' – a colour-coded indicator that, once activated by a patient, will change colours as the product nears expiry, thereby keeping the patient continuously aware of the product's shelf-life.

Winners of the Hikma Innovation Competition accept their prize from CEO Siggi Olafsson

Monitoring and minimising our environmental impacts

We are committed to monitoring and minimising our environmental impacts. We continue to achieve progress in making our Company more energy efficient, and are making improvements in our management of waste and water consumption.

Measuring our emissions

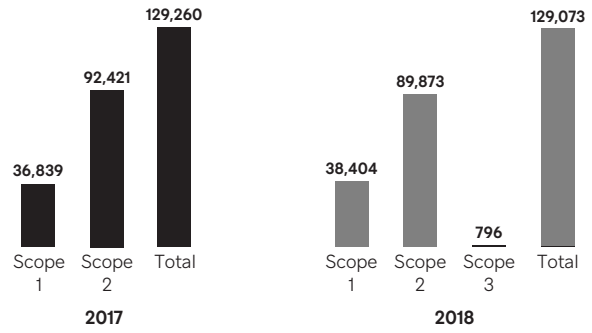
The table and graph on this page show our emissions performance for the last two years. Emissions are reported from sites which represent 86% of all employees. Non-manufacturing facilities with less than 150 employees, and joint ventures with less than 50% holdings are not included in our greenhouse gas (GHG) reporting scope.

Performance

Our reported GHG emissions decreased by 0.8% in 2018 compared with 2017. By relying more on the use of cleaner fuels, such as natural gas and liquefied petroleum gas (LPG) rather than diesel, we were able to offset the emissions that resulted from our production increases.

Greenhouse gas emissions: 2017–2018

	2018	2017
Scope 1 – combustion of fuel and operation of facilities (tCO_2e)	**38,404**	36,839
Scope 2 – (location-based) – electricity (tCO_2)	**89,873**	92,421
Total Scope 1 and 2 emissions (location-based)	**128,277**	129,260
Scope 3 – indirect emissions from waste (tCO_2e)	**468**	N/A
Scope 3 – indirect emissions from water (tCO_2e)	**328**	N/A
Total Scope 3 emissions	**796**	N/A



Data notes:

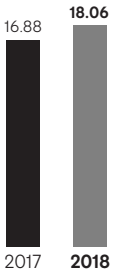
- Emissions from the consumption of electricity are reported in tonnes of carbon dioxide (tCO_2) rather than tonnes of carbon dioxide equivalent (tCO_2e) since the International Energy Agency emission factors for electricity currently account for carbon dioxide emissions only
- Emissions are calculated in alignment with the WRI's Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard
- The full-time equivalent (FTE) employee figures used to calculate the reported intensity metric cover the sites for which emissions data was provided rather than the total FTE figure for the organisation as a whole

Our emissions from the consumption of electricity (scope 2) declined 3% despite the expansion of many of our facilities. This is due to energy efficiency measures that were implemented throughout the year.

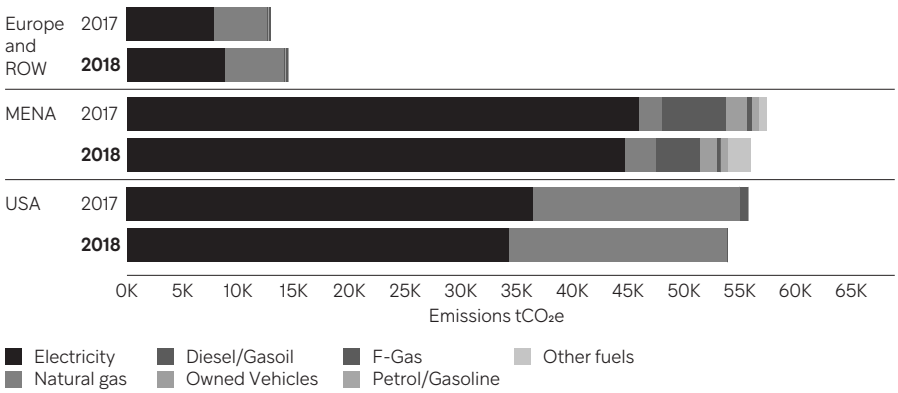
Our emissions per full-time employee (FTE) increased 7% in 2018 compared with 2017. This is primarily a result of the reduction in the number of our employees, as well as operation expansions.

As part of our commitment to refine the accuracy of our environmental reporting, we are now measuring indirect emissions resulting from waste management and water consumption (scope 3). Improvements to our reporting will enable us to achieve greater efficiency in the future.

Emissions/FTE (tCO_2e)



Year-on-year change by emission source



Improving energy efficiency

This year, we completed several projects that improved our energy efficiency, most notably:

— We completed upgrades to building management systems (BMS) for buildings within our facilities in Jordan and Algeria. The upgrades resulted in electricity consumption reductions of **18,600 kilowatt hours (kWh)** in Jordan and **11,000 kWh** in Algeria.

— The installation of Light Emitting Diode (LED) fixtures across six of our sites resulted in electricity consumption decreases of around **1.2 million kWh**.

— The refurbishment of our boiler and energy recovery infrastructure in one of our facilities in Tunisia led to **335,000 kWh** of energy savings.

Non-financial disclosures

The table below summarises our position on matters relevant to the Non-Financial Reporting Directive, in line with the requirements of the Companies Act 2016 sections 414C(7)(b). All references made are to publicly accessible information.

	Position, performance and impact	Further information
Our business model	— We operate in a competitive, highly-regulated industry, across many markets. Our diversified business model enables us to respond to the many opportunities and challenges we face, whilst delivering value for our customers, patients, employees, shareholders and our wider communities.	— Annual Report, page 14
Principal risks	— Our risk management framework is designed to ensure we take a comprehensive view of risk. This includes non-financial risks that may impact our business and stakeholders.	— Annual Report, Risk section, pages 58 to 60
Environmental matters	— Our approach is to identify and capitalise on opportunities to improve our energy efficiency and address our environmental impacts. — In support of this approach, we are developing an Environmental Policy to identify risks and set KPIs.	— Annual Report, Monitoring and minimising our environmental impacts, page 52 — Principal risk: Annual Report, Reputation, page 58
Employees	— Our people are our most valuable asset and the driving force behind our success. We are committed to investing in the development of our workforce and in protecting their health and safety. We have around 8,400 employees across the US, MENA, Europe and ROW. — Code of Conduct — Occupational Health, Safety, Energy, Environment Policy	— Annual Report, Upholding high standards of anti-corruption and ethical conduct, page 44 — Code of Conduct: https://www.hikma.com/about/ethics-and-compliance/code-of-conduct/ — Annual Report, Our people, page 50 — Occupational Health, Safety, Energy, Environment Policy: https://www.hikma.com/media/2069/ohsee-english.pdf — Principal risk: Annual Report, Organisational development, page 58

Social matters	— Our CSR activities address social challenges primarily across four themes:
	  — Ensuring access to medicine
	  — Supporting education
	  — Raising awareness of healthcare needs
	  — Empowering women
	— Our position on addressing drug shortages
	— Animal Testing Policy
		— Annual Report, Supporting our patients and communities, page 46
		— Annual Report, Addressing drug shortages in the US, pages 22 and 46
		— https://www.hikma.com/about/our-policies-and-positions/
		— Animal Testing Policy Statement: https://www.hikma.com/sustainability/protecting-our-planet/
		— Principal risk: Annual Report, Reputation, page 58

Respect for human rights	— We respect and uphold the principles of the Universal Declaration of Human Rights both within Hikma and across our value chain. — Code of Conduct — Modern Slavery Policy Statement — Our position on the use of our products for capital punishment	— Annual Report, Operating responsibly and ethically, page 44 — Modern Slavery Policy Statement: https://www.hikma.com/about/ethics-and-compliance/ — Use of products for capital punishment: https://www.hikma.com/about/our-policies-and-positions/use-of-products-in-capital-punishment/ — Principal risk: Annual Report, Reputation, page 58
Anti-bribery and corruption	— Our Compliance, Responsibility and Ethics Committee (CREC) leads our efforts to strengthen anti-bribery and corruption (ABC) policies and manage associated risks. — As a publicly-listed company on the London Stock Exchange (LSE), we abide by the regulations of the UK Listing Authority. We operate in compliance with the UK Bribery Act 2010, the Foreign Corrupt Practices Act (FCPA) and the Physician Payments Sunshine Act, as well as local laws and regulations. — Code of Conduct	— Annual Report, Upholding high standards of anti-corruption and ethical conduct, page 44 — Code of Conduct — Principal risk: Annual Report, Ethics and compliance, page 59
Non-financial KPIs	— We monitor the position, performance and impact of Hikma across a wide range of financial and non-financial KPIs. Non-financial KPIs are used to measure progress towards our strategic priorities (see page 18), our exposure to risks (see page 55), and are in place in other areas throughout the organisation as part of Hikma's long-term sustainable growth strategy and our commitment to helping people and improving the communities in which we operate.	— Annual Report, Environmental matters: Carbon emissions (Scope 1, 2 and 3), pages 52 and 53 — Annual report, Employees: Engagement and Enablement, page 19

Risk management

Managing the uncertainties

In 2018, we embedded risk processes into our management practices and developed a range of enterprise-wide key risk indicators to monitor our risk exposure.

56 Risk management framework
57 Risk management activities
58 Principal risks and uncertainties
61 Going concern
61 Longer-term viability

Risk management framework

Risk context

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

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

The 'Our markets' section on pages 12 and 13 and the 'Our business model' section on pages 14 and 15 provide an overview of the external and internal context for risk management at Hikma.

Risk strategy

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

Risk appetite

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

Risk governance

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

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

Internal audit provides independent assurance of the Group's risk management and internal control systems. For more details on our internal audit approach see page 75.

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

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

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

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

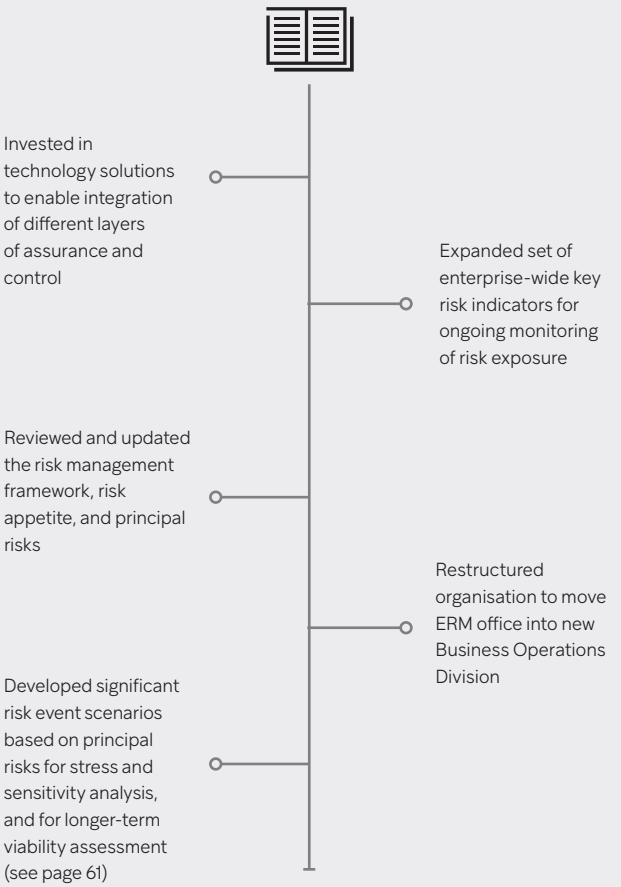
Global risk owners coordinate risk management activities across the organisation with divisional risk owners and management teams to ensure risk exposure is managed appropriately and in accordance to the risk appetite.

Roles	Responsibilities
Board of Directors	— Define and communicate the Group's risk appetite — Determine principal risks and uncertainties — Effectiveness of the risk management framework — Review risk management key outcomes
Audit Committee	— Oversee design and implementation of risk management framework and report to the Board — Review risk and assurance reports from management, internal audit and external audit — Consider risks highlighted by the Compliance, Responsibility and Ethics Committee — Full committee responsibilities available on page 71
Internal audit	— Provide independent assurance of the effectiveness of the Group's risk management and internal control systems
CEO and Executive Committee	— Review regular risk and assurance reports to ensure Group operates within risk appetite — Take enterprise view of risk exposure, consider interrelation of risks and significant emerging risks — Make decisions on prioritisation for risk response
ERM office	— Enable and drive the implementation of effective risk management practices by management and assist global risk owners in assessing and reporting their risks
Compliance and control functions	— Develop, implement and monitor compliance to enterprise-wide and functional policies and standards
Global risk owners	— Implement effective risk management practices to identify, assess and manage risks within the business — Coordinate risk management activities across the organisation — Report on risk management status
Divisional risk owners and management teams	— Own and manage risks — Implement Group-wide policies and procedures — Implement and monitor internal controls

Risk management activities

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

Key risk management activities in 2018



Brexit

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

Priorities for 2019

In addition to our core risk management activities, in 2019 we will continue to strengthen our global risk management process with a focus on simplification. We will further roll out our risk management technology, develop our risk culture, and reinforce partnerships between compliance and control functions to enhance our risk management capability and bring greater assurance for the Group.

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

Principal risks and uncertainties

The Group faces risks from a range of sources that could have a material impact on our financial commitments and ability to trade in the future. The Board of Directors has performed a robust assessment to determine the principal risks for the Group considering our risk context and with input from executive management. Effectively managing these risks is directly linked to the performance of our strategic KPIs and the delivery of the strategic priorities we have outlined on pages 18 and 19. Our principal risks are set out below with examples of management actions that help to control the risk. The Board recognises that certain risk factors that influence these risks are outside the control of management. The Board is satisfied that the principal risks are being managed appropriately and consistently with the target risk appetite. The set of principal risks should not be considered as an exhaustive list of all the risks the Group faces.

Industry earnings

What does the risk cover?	Management actions
The commercial viability of the industry and business model we operate may change significantly as a result of political action, economic factors, societal pressures, regulatory interventions or changes to participants in the value chain of the industry.	— Securing key talent to manage complex commercial environment and develop our business — Growth and expansion in existing markets with new products and in new therapeutic areas — Portfolio management programmes to focus on strategic products that support revenue, profit and margin targets — Development of capacity and diversification of capability through differentiated technology — Capital investment in the countries in which we operate to ensure continued market access — Active product life cycle and pricing management — Continuous alignment of commercial and R&D organisations to identify market opportunities and meet demand through internal portfolio — Collaboration with external partners for development and in-licensing partnerships

Product pipeline

What does the risk cover?	Management actions
Identifying, developing and registering new products that meet market needs to provide continuous source of future growth.	— Align selection process for pipeline products to ensure optimal use of our expansive global product portfolio with increased focus on specialty products with high value and differentiation — Strategic oversight of pipeline delivery through dedicated global project management office — Product-related acquisitions to bolster pipeline — Third-party pharmaceutical product specialists brought in to assist in the development of manufacturing processes for new generic products

Organisational development

What does the risk cover?	Management actions
Developing, maintaining and adapting organisational structures, management processes and controls, and talent pipeline to enable effective delivery by the business in the face of rapid and constant internal and external change.	— Strengthening teams with key talent appointed to fill strategic regional and global positions — Deployment of Group-wide human capital management system — Developing global programmes that attract, manage and develop talent within the organisation — Ongoing updates to organisation design, structures and accountabilities to maintain empowerment in decision-making and bring appropriate level of governance

Reputation

What does the risk cover?	Management actions
Building and maintaining trusting and successful partnerships with our many stakeholders relies on developing and sustaining our reputation as one of our most valuable assets.	— Internal and external monitoring of issues that may impact reputation — Increasing investment in corporate social responsibility initiatives including sustainability reporting — Establishment and development of strategic industry and community partnerships — Communication and engagement programmes on appropriate use of products — Strengthening communication and corporate affairs capabilities in our core geographies

Principal risks and uncertainties continued

Ethics and compliance

What does the risk cover?	Management actions
Maintaining a culture underpinned by ethical decision-making, with appropriate internal controls to ensure staff and third parties comply with our Code of Conduct, associated principles and standards, as well as all applicable legislation.	— Board level oversight from the Compliance, Responsibility and Ethics Committee (see pages 79 and 80 for details) — Code of Conduct approved by the Board, translated into seven languages and rolled out to all staff — Active participation in international anti-corruption initiatives — Anti-bribery and corruption, sales and marketing, and other compliance programmes implemented and monitored through internal compliance assessments — Implementation of third-party due diligence and oversight programme

Information, technology and infrastructure

What does the risk cover?	Management actions
Ensuring integrity, confidentiality and resilience of data, securing information stored and/or processed internally or externally, maintaining and developing technology systems that enable business processes, and in ensuring infrastructure supports the organisation effectively.	— IT organisational structure designed to enable coordinated, consistent and comprehensive enterprise approach — Industry-standard information security solutions and best practice processes adopted and adapted for local and Group requirements — Cyber-risk activity monitored and changes implemented as necessary to combat evolving threats — Partnership established with strategic third parties to implement and maintain a robust Group-wide information security framework — Investment in enterprise-wide standardisation initiative incorporating data management, access and process control, and risk management

Legal, regulatory and intellectual property

What does the risk cover?	Management actions
Adapting to changes in laws, regulations and their application, managing litigation, governmental investigations, sanctions, contractual terms and conditions, and potential business disruptions.	— Continuous assessment of developments in legal and regulatory frameworks and impact on the organisation — Internal communication and training on policies and processes drives awareness and understanding and builds a compliance culture — External advice procured to provide independent services and ensure highest standards — Strengthened experience and capability for managing intellectual property matters

Inorganic growth

What does the risk cover?	Management actions
Identifying, accurately pricing and/or realising expected benefits from acquisitions or divestments, licensing, or other business development activities.	— Extensive due diligence of each acquisition in partnership with external support, including financial and legal advisers, investment banks, and industry specialists in order to strategically identify, value, and execute transactions — Executive Committee review of major acquisitions before they are considered by the Board — The Board spends a significant amount of time reviewing major acquisitions to ensure strategic alignment — Dedicated integration project teams led by the business head responsible — Post-acquisition performance (financial and non-financial) monitored closely to ensure integration and delivery on business plan — Post-transaction reviews highlight opportunities to improve effectiveness of processes

Principal risks and uncertainties continued

Supply chain and active pharmaceutical ingredient (API) sourcing

What does the risk cover?	Management actions
Maintaining continuity of supply of finished product and managing cost, quality and appropriate oversight of third parties in our supply chain.	— Continuity of API supply maintained for high-value products through alternative API suppliers, stocking strategies, and supply chain modelling — Rigorous selection process for API suppliers and focus on building long-term supply contracts — Vertically integrated plant in Jordan to synthesise selected strategic injectable APIs — Strengthening trade compliance capability to ensure compliance and drive efficiency — Programmes rolled out across the Group to ensure compliance with serialisation requirements for US, Europe and MENA

Crisis response and continuity management

What does the risk cover?	Management actions
Preparedness, response, continuity and recovery from crisis events, such as natural catastrophe, economic turmoil, operational issues, political crisis, and regulatory intervention.	— Continued strengthening of central oversight of systems, processes, and capabilities to enhance our Group-wide resilience and crisis preparedness — Updated crisis management framework to enhance our ability to respond effectively to crises, and to expedite the restoration of critical processes after disruption — Identified key third parties involved in preparedness, response and recovery with updated framework — Corporate insurance programme aligned to ensure appropriate coverage of high-impact, low-likelihood events

Product quality and safety

What does the risk cover?	Management actions
Maintaining compliance with current Good Practices for Manufacturing (cGMP), Laboratory (cGLP), Distribution (cGDP) and Pharmacovigilance (cGVP) by staff, and ensuring compliance is maintained by all relevant third parties involved in these processes.	— Quality culture driven throughout the organisation by global quality initiatives, and regularly reinforced by communication from senior executives — Global implementation of quality systems that ensure valid consistent manufacturing processes leading to the production of quality products — Facilities maintained as inspection-ready for assessment by relevant regulators — Documented procedures continuously improved and regular staff training — Continued environment and health certifications — Global pharmacovigilance programme in place

Financial control and reporting

What does the risk cover?	Management actions
Effectively managing treasury activities, tax position, income, expenditure, assets and liabilities, and debtors, and reporting accurately and in a timely manner in compliance with statutory requirements and accounting standards.	— Extensive financial control procedures implemented and assessed annually as part of the financial compliance monitoring programme — Network of banking partners maintained for lending and deposits — Management monitors debtor payments and takes precautionary measures and action where necessary — Selected hedging of exchange rate and interest rate exposure — External advice to help manage tax exposures and upgraded internal tax control systems

Going concern

A full assessment of the Group's financial position is used to assess the going concern position, including the following matters (as at end of 2018):

- Cash flow: Net cash flow from operating activities was $430 million.
- Net debt: The Group's overall net debt position was $361 million (0.66 times EBITDA).
- Available borrowing capacity: The Group has $1,456 million of undrawn short-term and long-term banking facilities, in addition to $268 million of unutilised import and export financing limits. These facilities are well-diversified across the subsidiaries of the Group and are with a number of financial institutions.
- Forecasting: The Group's forecasts, taking into account reasonable possible changes in trading performance, facility renewal sensitivities, and maturities of long-term debt, show that the Group should be able to operate well within the levels of its facilities and their related covenants.

The analysis shows that Hikma is well-placed to manage its business and financial risks successfully despite current uncertainties and confirms that the going concern basis should be used in preparing the financial statements.

Longer-term viability

In accordance with the UK Corporate Governance Code, the longer-term viability of the Group is assessed for a period longer than the 12 months required by the going concern statement. This assessment takes into account our current position and prospects, our principal risks and uncertainties (see pages 58 to 60), and the assumptions that are part of our financial modelling.

Viability period

The assessment of the viability of the Group is over a period of three years, ending on 31 December 2021. This is the timeframe for acquisitions and business development opportunities to become integrated into our business, and for pipeline products to contribute as marketed products. Our forecasts are more accurate in the near term than in the long term and so the limitation also applies to our viability assessments.

Assessment of position and prospects

The position and prospects of the Group are assessed at Executive Committee meetings and at the end of the financial year. The assessments consider strategic and operational updates from each member of the Executive Committee, including review of the principal risks to the industry and business set out on pages 58 to 60, financial reporting and forecasting from the Chief Financial Officer, and through the development of a business plan. The business plan takes into account our current position, specific risks and uncertainties facing the business and known changes to our organisation and business model.

The Executive Committee assesses the future strategic positioning of Hikma as a company in the context of the changing macroeconomic and healthcare environment. Aspects of this analysis is shown in 'The global context' (see page 12) and 'Key industry trends' (see page 13).

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

Assumptions

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

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

Stress testing and sensitivity analysis

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

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

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

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

Corporate governance

During the year, we continued to advance our Hikma values, which are integrity, respect, excellence and transparency.

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105 Directors' report

Message from our Chair
Evolving governance

Dear Shareholders
During 2018, we have successfully advanced the governance of Hikma through role changes, succession developments, dialogue with stakeholders on remuneration and responding to the evolving governance regulatory landscape. We have evolved from a family company, to a global company with family values.

Chief Executive Officer
Earlier in the year, Siggi Olafsson joined Hikma as Chief Executive Officer (CEO) and became a member of the Board. Since that point, Siggi and I have worked very closely on transitioning the responsibilities I previously held in the capacity of CEO under the combined role of Chairman and Chief Executive. Over 2018, a significant proportion of my time has been spent empowering our new CEO and developing strategy together. I am delighted that Siggi has joined us, he significantly strengthens our team and we have already made significant progress due to his leadership of the executive.

Board composition
At our AGM in May we bade Ron Goode farewell. Ron's retirement brings to a close the era of the Independent Directors who joined early in Hikma's listed life and were instrumental in developing our capabilities and leadership. Under Ron's guidance, the Compliance, Responsibility and Ethics Committee and our business integrity programme were created. We owe him a great deal.

I am delighted to confirm that Cynthia Schwalm will be joining the Board as an independent non-executive director with effect from 1 June 2019. Cynthia brings a wealth of pharmaceutical experience which is invaluable following Ron's retirement. Additionally, her appointment ensures that we continue to make progress enhancing gender diversity on the Board.

Over the course of the next year we will further develop our succession planning for both the non-executive directors and the executive team.

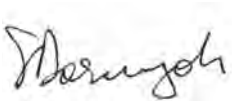
Committees
Our Board Committees undertake a significant workload of important governance and listing related tasks that enable the Board to concentrate on business performance, strategy and risk related issues. I am pleased to report that the performance evaluation exercise highlighted that the Committees are operating highly effectively. I would like to thank the Chairs of our Committees for their commitment and dedication.

Said Darwazah
Executive Chairman

Effectiveness
Having undertaken an extensive evaluation exercise in 2017 that contributed towards some of the governance changes that I have outlined today, we undertook a shorter form evaluation in 2018. It was clear from the most recent exercise that the changes we have made and the manner in which we have executed them were both rated very highly. There are some areas that we will be working on over the course of 2019 which are discussed later in this report.

Employee engagement
Our founder, my father, was fundamentally committed to supporting, empowering and developing the people who worked for him. Accordingly, I am delighted that, going forward, Nina Henderson will be engaging with our people and bringing further employee perspective to our decision-making.

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



Said Darwazah
Executive Chairman

> We have evolved from a family company, to a global company with family values."

Corporate governance at a glance

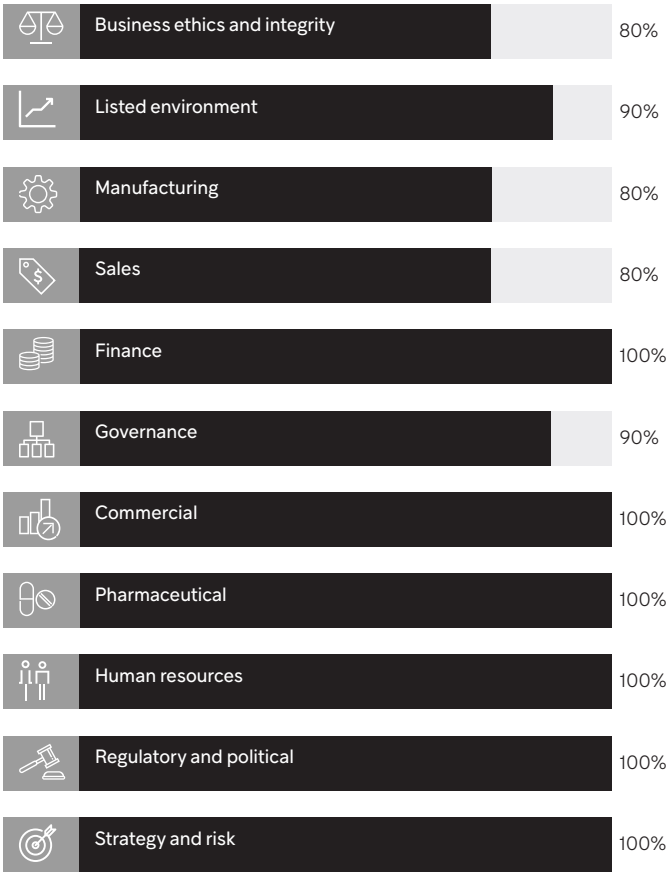
Highlights 2018

- Initiated a search process for a new Independent Director
- Transitioned from a combined Chairman and Chief Executive to separate roles and responsibilities
- Restructured executive responsibilities with a more focused leadership team
- Enhanced our employee engagement programme by allocating specified responsibilities to a Board Director
- Discussed the approach to remuneration with the governance community and responded accordingly
- Enhanced the appraisal process for the Executive Chairman
- Enhanced our strategic leadership and oversight of cyber-risk
- Simplified objectives for executive directors, in line with shareholder observations

Priorities 2019

- Increase the level of independent representation on the Board
- Further enhance gender diversity in the boardroom
- Develop a new executive succession plan reflecting recent role and people changes to the leadership
- Oversee management's delivery of employee enablement enhancements
- Implement recommendations arising from the recent externally facilitated Board evaluation
- Enhance the consideration of employee perspectives in the boardroom

Board experience



Geographical experience

Country of origin

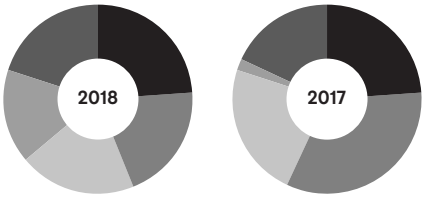
Board attendance

Directors	Meetings attended (7 scheduled and 2 unscheduled)	%
Said Darwazah	9/9	100%
Siggi Olafsson[1]	6/6	100%
Mazen Darwazah	9/9	100%
Robert Pickering	9/9	100%
Ali Al-Husry	9/9	100%
Dr Ronald Goode[2]	5/5	100%
Pat Butler[3]	8/9	89%
Dr Pamela Kirby	9/9	100%
Dr Jochen Gann[4]	7/9	78%
John Castellani	9/9	100%
Nina Henderson	9/9	100%

1. Siggi Olafsson joined the Board as of March 2018
2. Dr Ronald Goode retired following the May 2018 AGM
3. Pat Butler was unable to attend one meeting due to timing change made by Hikma
4. Dr Jochen Gann was unable to attend two Board meetings, one due to a time conflict with obligations to his primary employer and one called at short notice

Board's time

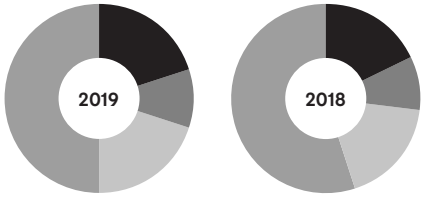
	2018	2017
Corporate governance	**24%**	24%
Financial performance	**20%**	33%
Operational developments	**20%**	23%
Risk[1]	**16%**	2%
Strategy and acquisitions	**20%**	18%



1. During 2017 risk related tasks were primarily undertaken by the Audit Committee. During 2018 the Board increased its direct oversight of risk

Board composition

	March 2019	March 2018
Executive Chairman and Chief Executive Officer	**20%**	18%
Other Executive Directors	**10%**	9%
Non-Independent NED	**20%**	18%
Independent NED	**50%**	55%



Independent NED tenure (as at 12 March 2019)

	Number	%
0–3 years	2	40%
4–6 years	2	40%
7–9 years	1	20%

Diversity (as at 12 March 2019)

Board

- Women 2 (20%)[1]
- Men 8 (80%)
- BAME[2] 3 (30%)
- White 7 (70%)

1. When Cynthia Schwalm joins the Board on 1 June 2019 the ratio will change to 27% women and 73% men

Executive Committee

- Women 3 (33%)
- Men 6 (67%)
- BAME[2] 5 (56%)
- White 4 (44%)

2. BAME: Refers to people who identify as either Black, Asian or Minority Ethnic

Group as a whole

- Women 2,899 (35%)
- Men 5,444 (65%)
- BAME[2] 677 (36)%[3]
- White 1,204 (64)%[3]

3. Data from Hikma's US operations only

Board of Directors

Said Darwazah, 61
Executive Chairman

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

Board experience:

Committee membership:
None

Experience: Said served as Chief Executive from July 2007 to February 2018 and has served as Chair since May 2014. Said has over 37 years of experience in numerous leadership roles at Hikma. Under Said's leadership, Hikma has expanded into the US and become a leading player in injectables and the MENA region.

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

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

Siggi Olafsson, 50
Chief Executive Officer

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

Board experience:

Committee membership:

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

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

Other appointments: Independent Director of Pfenex Inc., a biologics company listed on the New York Stock Exchange. Trustee of the American-Scandinavian foundation.

Mazen Darwazah, 60
Executive Vice Chairman, President of MENA

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

Board experience:

Committee membership:

Experience: Mazen has led and expanded the MENA region at Hikma. Since listing, he has Group level responsibility in his role as Executive Vice Chairman. Since 2014, he became responsible for the Group's expansion into emerging markets.

Qualifications: BA in Business Administration from the Lebanese American University, AMP from INSEAD.

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

Robert Pickering, 59
Senior Independent Director

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

Board experience:

Committee membership:

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

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

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

Ali Al-Husry, 61
Non-Executive Director

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

Board experience:

Committee membership:
None

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

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

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

Patrick Butler, 58
Independent Non-Executive Director

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

Board experience:

Committee membership:

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

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

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

Dr Pamela Kirby, 65
Independent Non-Executive Director

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

Board experience:

Committee membership:

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

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

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

Dr Jochen Gann, 54
Non-Executive Director

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

Board experience:

Committee membership:
None

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

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

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

John Castellani, 68
Independent Non-Executive Director

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

Board experience:

Committee membership:

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

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

Other appointments: Director of 5th Port. Trustee of The John Hopkins Medical System Sibley Memorial Hospital, Washington, DC.

Nina Henderson, 68
Independent Non-Executive Director

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

Board experience:

Committee membership:

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

Qualifications: Honours graduate and BSc from Drexel University.

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

Peter Speirs
Company Secretary

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

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

Qualifications: Fellow of the Institute of Chartered Secretaries and Administrators. Law degree from the University of East Anglia.

Board experience:

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

Committees:

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

For detailed Directors' biographies go online:
www.hikma.com/about/leadership/

Executive Committee

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

Siggi Olafsson
Chief Executive Officer

Joined: 2018
Nationality: Icelandic

For further biographical details please see page 66.

Khalid Nabilsi
Chief Financial Officer

Joined: 2001
Nationality: Jordanian

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

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

Mazen Darwazah
Executive Vice Chairman, President of MENA

Joined: 1985
Nationality: Jordanian

For further biographical details please see page 66.

Brian Hoffmann
President, US Generics

Joined: 2009
Nationality: American

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

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

Bassam Kanaan
EVP, Corporate Development and M&A

Joined: 2001
Nationality: Jordanian

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

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

Majda Labadi
EVP, Organisational Development

Joined: 1985
Nationality: Jordanian

Role: Majda has Group level responsibility for human resources. Majda has held several executive positions during 33 years with Hikma, including VP Injectables and VP MENA Operations.

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

Riad Mishlawi
President, Injectables

Joined: 1990
Nationality: Lebanese

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

Qualifications: BSc in Engineering and a Master's in Engineering and Management from George Washington University.

Henriette Nielsen
EVP, Business Operations

Joined: 2018
Nationality: Danish

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

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

Susan Ringdal
EVP, Strategic Planning and Global Affairs

Joined: 2005
Nationality: American

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

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

Governance report

UK Governance Code

Governance principles

The Board is committed to the standards of corporate governance set out in the UK Corporate Governance Code (the UK Code) adopted in April 2016 and the Markets Law of the Dubai Financial Services Authority (the Market Law). The report on pages 69 to 104 describes how the Board has applied the Main Principles of the UK Code and Markets Law throughout the year ended 31 December 2018. The UK Code is available at www.frc.org.uk. The Board considers that this Annual Report provides the information shareholders need to evaluate how we have complied with our current obligations under the UK Code and Market Law.

The Board acknowledges that Said Darwazah holding the position of Chairman and Chief Executive until February 2018 and, since that point, Executive Chairman, requires explanation under the UK Code. Should shareholders require any further information, questions may be directed to the Company Secretary. Other than the Executive Chairman position and one Independent Director (who retired at the 2018 AGM) serving for more than nine years, throughout the year and up until the date of this report, Hikma was in full compliance with the UK Code.

Executive Chairman position

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

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

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

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

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

Control enhancements

The Board continues to operate the following enhanced controls:

- **Governance structure review:** The Independent Directors meet at least bi-annually in a private session chaired by the Senior Independent Director. This meeting includes consideration of the appropriateness of the governance structure, the division of responsibilities between the Executive Chairman and the CEO and safeguards for shareholders.
- **Committee Chair roles:** The Chairs of the Board Committees, all of whom are Independent Non-Executive Directors, undertake a significant amount of work in the oversight of the functions that report to their Committees and have in-depth relationships with the relevant executives.
- **Transparency and engagement:** Hikma has always had the highest regard for shareholders, with many of the original investors from before listing still investing and supporting Hikma today. Over the circa 14 years since flotation Hikma has maintained the highest standards of shareholder engagement, which is reflective of the importance placed in maintaining strong investor relations and governance.
- **Senior Independent role:** The Senior Independent Director has joint responsibility, with the Executive Chairman, for setting the Board agenda, agreeing action points and the minutes of the meetings.

Independence

The Board rigorously reviewed and considered the independence of each Non-Executive Director during the year as part of the annual corporate governance review, which included consideration of progressive refreshment of the Board. The Board considers Robert Pickering, Pat Butler, Dr Pamela Kirby, John Castellani and Nina Henderson to be independent. The Board considers Cynthia Schwalm, who will join on 1 June 2019, to be independent. These individuals provide extensive experience of international pharmaceutical, financial, corporate governance and regulatory matters and were not associated with Hikma prior to its listing in 2005.

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

The Board does not view Jochen Gann as an Independent Director as his appointment is in accordance with the shareholder agreement with Boehringer Ingelheim, a major shareholder and his primary employer. However, Jochen brings significant M&A and corporate finance experience with a particular focus on the pharmaceutical sector.

UK Code changes

The 2018 UK Corporate Governance Code applies to the next accounting period ending 31 December 2019. Whilst the Board has time to make adjustments, it fully embraces early adoption of the Code enhancements. The Board has considered the amendments to the UK Code, and has resolved to:

- **Employee Engagement:** Nina Henderson accepted the Board's request to be responsible for enhancing, where appropriate, the consideration of employee perspectives in the Board's decision-making processes. During 2019, Nina will engage with employees at Hikma's sites by participating in employee activities. Nina has become a member of each Board Committee in order that there is an opportunity to ensure that the employee voice is heard in each key decision-making forum.
- **Remuneration:** Other than considering a post-employment share ownership policy, Hikma's approach to remuneration is already compliant with the 2018 UK Code. During 2019, the Remuneration Committee will develop a relevant policy.

Evaluation and performance

The Board considered its first full, externally moderated, interview-based evaluation in 2017 and will repeat the exercise every three years. For 2018, the Board undertook a questionnaire-based evaluation, which was externally moderated.

Process

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

The results of the 2018 evaluation process formed part of the Executive Chairman's appraisal of the overall effectiveness of the Board and its members. Additionally, during the period between assessments, the Directors suggest and promote improvements as they arise.

Progress on 2017 recommendations

Observations	Action taken
Operational focus	In order to enhance the executives' focus on operations, the Board separated the combined role of Chairman and Chief Executive. The Executive Chairman role enables the entrepreneurial talents of Said Darwazah to be retained.
Stretched management	The executive team has been enhanced by the clarification of roles and centralisation of support-related functions under an executive with significant external experience.
Communication lines	To enhance the communication of and discussion around more challenging matters, the Board has allocated more time at meetings to hold open discussions without executives present.
Columbus integration	The Board has reviewed a presentation from the executive team reviewing the key learnings of the Columbus acquisition and integration.

New action points

Observations	Action being undertaken
Further Independent Director required	The Board began a search process for an additional Independent Director with pharmaceutical experience in 2018 and has appointed Cynthia Schwalm.
Monitoring of individual strategic plans	The CEO has enhanced the executive report to include detail on the progress against each strategic initiative that was discussed at the strategic review.
Senior Independent Director succession	The Nomination and Governance Committee has been asked to consider succession for the Senior Independent Director over the course of 2019.
Focus of the Board agenda	The Company Secretary has categorised the Board agenda in strategic, performance and governance segments with a view to focusing decision making.

Conclusions and action

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

- the transfer of responsibilities to and empowerment of the new CEO
- the strategic review held in October was considered to be a significant success with several enhancements embraced by directors
- interaction and atmosphere providing for good, healthy discussions and challenges
- Non-Executive Directors provide support and constructive challenge to management
- oversight of risk management and advancement of the risk agenda

Executive Chairman's appraisal

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

Director appraisal

The Executive Chairman reviewed the performance of each of the Directors during the year and concluded that each Director contributes effectively to the Board and devotes sufficient time to their role.

The Nomination and Governance Committee considered the evaluation and concluded that each Director be recommended to shareholders for re-election at the 2019 AGM.

Board and Committees

Board

For additional information on the Board:

Board responsibility
www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/

Board regular items and responsibilities
www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/

Full schedule of matters reserved
www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/

Internal and external advisers
www.hikma.com/investors/corporate-governance/board-roles-and-responsibilities/

Board Roles

Executive Chairman
The Executive Chairman is responsible for running the Board, mentoring the CEO and developing strategy.

CEO
Hikma's executives report to the CEO, who reports to the Executive Chairman.

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

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

Employee engagement
Nina Henderson is responsible for ensuring, where appropriate, that employee perspectives are taken into account in the Board's decision-making processes.

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

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

Board Committees

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

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

See page 73

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

See page 77

CREC
- Anti-bribery and corruption
- Ethics
- Speak up
- Code of Conduct
- Trade Sanctions Compliance

See page 79

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

See page 81

Executive Committee

The CEO chairs the Executive Committee, which develops strategic proposals to the Board, makes operational decisions and oversees risk control within the parameters of the Matters Reserved to the Board.

Governance

Shareholder engagement

The Directors undertook a series of meetings with major investors and relevant bodies in order to discuss the governance and remuneration aspects of the Chairman and CEO roles. During the year the Chair of the Remuneration Committee met with members of the governance community to enhance dialogue related to remuneration. The Board is taking these comments into consideration in its plans for further development of remuneration policy over the course of 2019 and beyond.

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

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

Electronic communications

Hikma's preference is to communicate through Hikma's website, rather than in paper form. Shareholders are encouraged to visit the website to access Hikma's Annual Reports and half-year and final results presentations. Shareholders who wish to receive paper communications can elect to do so through Hikma's registrars, Link Asset Services (www.hikmashares.com).

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

Peter Speirs
Company Secretary
12 March 2019

Investor engagement summary 2018

Audit Committee
Letter from the Chair

Pat Butler

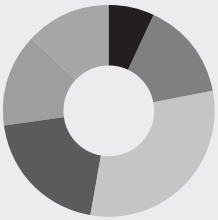
2018 Highlights

- Reviewed the effectiveness of the internal audit and risk management programmes, and suggested changes to priorities and processes
- Requested the attendance of the CEO to better understanding the operational context and management focus
- Assessed the impact of new accounting standards
- Re-assessed our medium-term projections and longer-term prospects and asset valuations, and assessed potential for impairments and writebacks
- Assessed management's progress on improving financial and operational processes

2019 Priorities

- Considering and assessing the impacts of the change in operational structure on reporting
- Improving the strategic information from the risk management programme
- Overseeing the strengthening of information technology platforms
- Enhancing the financial reporting, processing and forecasting capabilities

Allocation of time



Corporate governance	7%
External audit	15%
Financial reporting	31%
Forecasts	20%
Internal audit	14%
Risk	13%

Members and attendance

Member	Meetings	Attendance
Pat Butler (Chair)[1]	9/9	100%
Dr Ronald Goode[2]	5/5	100%
Robert Pickering	9/9	100%
Dr Pamela Kirby	9/9	100%
John Castellani	9/9	100%
Nina Henderson	9/9	100%

1. Pat Butler, the Independent Chair has extensive experience of financing, accounting, risk and internal control matters and is therefore considered to have recent and relevant financial experience. All members are independent and when considered as a whole, have competence relevant to the sector in which Hikma is operating. Dr Ronald Goode, Dr Pamela Kirby and John Castellani all have extensive pharmaceutical experience
2. Dr Ronald Goode retired following the 2018 May AGM
3. Cynthia Schwalm is to join the Committee on 1 June 2019

Raising capabilities and improving resilience

Dear Shareholders

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

Commentary

The 2018 year has been successful for the Audit Committee. The finance team has been strengthened over the year with several new senior appointments in areas, such as forecasting and leadership of the US (where circa 62% of our business is based). The team is well positioned to grow and develop with the business and is continuing to strengthen the accounting platforms and processes. As a result, the recent year-end financial reporting process has been smooth.

Following the impairment at the 2017 year end, the Committee reviewed management's 2018 reassessment and is pleased to report that each cash generating unit (business division) has appropriate headroom. We also considered the impact of the impairment on distributable reserves and concurred with management's assessment that Hikma has sufficient reserves for its dividend programme.

The Committee received and reviewed regular capital expenditure and treasury reports from management and projected investment requirements of Hikma. During the year, Hikma has reduced its overall debt using free cash flow, whilst ensuring that sufficient facilities are available to fund future capital projects.

We reviewed the progress of the Chief Information Officer's programme to improve cyber resilience. We will continue to monitor this programme, as well wider programmes associated with business continuity.

The Committee oversees the work of Hikma's risk function, which is reported on pages 55 to 61. The Board undertook a robust assessment of the principal risks and uncertainties during the year, as detailed on pages 58 to 60 and reviewed Hikma's risk appetite, as detailed on page 56.

The Enterprise Risk Management process, has become well embedded in the organisation. In 2018 the organisation made particularly good progress in developing quantitative risk indicators.

The Committee was delighted that Siggi Olafsson accepted the request to attend meetings where appropriate, to provide greater operational context to the reports received in the discharge of the Committee's responsibilities. Siggi's involvement has particularly helped in responding to internal audit recommendations and clarifying ownership of principal risks.

Significant judgements

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

- **Impairment:** The Committee asked management to assess the impairment position early in the audit process and to develop a policy for impairment reversal. The Committee reviewed and challenged the estimate of the fair value of assets and liabilities. Following the impairment incurred last year, the changes to management's medium-term expectations for Hikma were not significant and led to an impairment of $9 million (2017: $1,084 million). The policy for impairment reversal has been agreed in principle and its application will be further developed during 2019.
- **Exceptional items:** The major exceptional items for Hikma were related to product development clinical studies, acquisition related costs and software. The Committee reviewed the treatment of these items and management's assessment of their impact.
- **Legal matters:** The Committee reviewed management's conclusions regarding the appropriate accounting treatment for the settlement of legal claims in Hikma's favour. Hikma has claims against other parties, claims from third parties against Hikma, and formal information requests from regulatory authorities relating to a wide range of matters that are in the normal course of business for a generic pharmaceutical company.
- **Investment in subsidiaries and distributable reserves:** Hikma's fixed and intangible assets are held in various subsidiaries. As the 2017 impairment was applied across Hikma, the value of the assets in those subsidiaries was re-assessed. The Committee reviewed the re-assessment exercise and the resulting implications for distributable reserves of the holding company. The Group continues to have sufficient distributable reserves.
- **Accounting standards:** Management reviewed the application of new accounting standards related to revenue recognition (IFRS 15), the measurement of financial assets and liabilities (IFRS 9), and the treatment of leases (IFRS 16). The Committee considered and challenged management's assessments. The impact of these changes is detailed in note 44 of the financial statements.
- **Revenue recognition:** The Committee reviewed the Group's policies for revenue recognition and the application by management of those policies in relation to significant products where the potential for returns and rebates was high. The Committee assessed the reports on the processing of chargebacks and rebates in the US. This is a judgemental area and applies to a significant proportion of Group revenue. In response to recommendations by the internal auditors that were endorsed by the Committee, management has enhanced the control environment. The Committee considered modelling environment and the appropriateness of associated provisions.
- **Taxation:** Hikma's worldwide operations are highly integrated and involve a number of cross-border supply chains, which results in judgement being required to estimate the potential tax liabilities in some jurisdictions. The Committee took advice from professional services firms and management in this regard, and considered the resulting impact on the effective tax rate and the deferred tax assets in key markets. The Committee reviewed the appropriateness of the disclosures in the Annual Report, and reviewed and approved Group's tax strategy statement, which is available on the website. The Committee reviewed management's proposals to deliver sufficient financial resources for certain subsidiaries.
- **Going concern:** The Committee assessed the going concern position when preparing the annual and half-yearly financial statements. The Committee took into account Hikma's forecasts and budget, borrowing facilities, contingent liabilities, medium and long-term plans, and financial and operational risk management. See page 61.
- **Viability:** The Committee reviewed the medium-term business projections and considered the scenarios that could impact those projects and the ability of Hikma to remain viable. See page 61.

External audit

The external audit was undertaken by PricewaterhouseCoopers LLP (PwC) as it has been since their appointment in May 2016, following a competitive tender process. Mr Mark Gill was appointed as the senior statutory auditor in May 2017.

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

- **Audit quality and technical capabilities:** The Committee considered that the auditors undertook an effective and in-depth assessment and verification exercise and that the level of expertise PwC brought to bear was high.
- **Independence:** The Committee regularly reviews the independence safeguards of the auditors and remains satisfied that auditor independence has not been compromised.
- **Non-audit fees:** The Committee's policy is that the external auditors should not undertake any work outside the scope of their annual audit. The Committee has discretion to grant exceptions to this policy where it considers that exceptional circumstances exist and that independence can be maintained. The Committee's approval is required to instruct PwC's services.

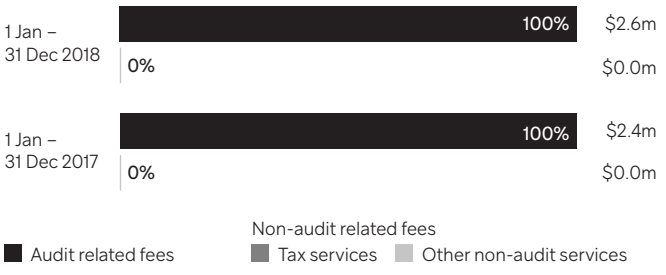
The Committee provides feedback on the auditor's performance as part of the regular meetings with them without management present, takes into account the reports and analysis of the Financial Reporting Council, and believes that there is an open and appropriately challenging relationship between the audit leadership team, the Audit Committee and management.

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

Auditor's fee ($m)

$2.6m

PwC



Internal control

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

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

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

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

- **Risk:** The principal risks and uncertainties and risk management report, detailed on pages 53 to 61, that forms a fundamental part of Hikma's approach to designing and implementing new and enhancements to existing controls
- **Internal audit:** The Committee receives regular reports from the internal auditors who assess Hikma's processes, identify areas for improvement, monitor progress, and undertake their own assessment of the risks facing Hikma
- **Financial performance:** Hikma's financial performance and forecasting reports are reviewed by the Board to aid the understanding of the underlying performance of the business, deviations from expectations and management's operational challenges and responses
- **Ethics:** The business integrity and ethics procedures and controls that are led by the Compliance, Responsibility and Ethics Committee
- **Governance:** The Board and group-level controls and processes that make up our approach to governance that is led by the Nomination and Governance Committee and includes all appropriate financial controls and matters reserved
- **External auditor:** The regular and confidential dialogue with the external auditor

The Board monitors the ongoing effectiveness of the internal control systems and encourages continuous improvement. In the Committee's 2017 report to shareholders, we identified five areas for improvement which are not considered significant, and have since been addressed:

- The Committee receives regular updates on management's upgrades to the financial systems in accordance with a project plan with clear milestones
- The changes to the finance department are reported in the Chair's letter on page 73
- Significant improvements have been made processing returns and rebates following leadership change
- Payroll and salary review processes have been segregated, except for those at very small facilities where it is not practical to do so
- A group level CFO has been assigned to oversee the financial aspects of R&D and each project is now segregated and monitored independently

During the year, the Board reviewed and approved management's plans for making these enhancements which will take place during 2019 and 2020.

Internal audit

The internal audit of Hikma is performed by EY, who report directly to the Chair of the Committee. EY assess each Hikma facility and all relevant processes over a three-year period. For major sites, assessments are more frequent. Management is required to respond to findings within a short period and, where necessary, complete all process improvements within two years, with 80% of high-risk items being completed within six months. There is a regular programme of interaction between EY and the Committee.

During the year EY identified the following key areas for strengthening of controls which the Committee considers are being appropriately progressed by management:

- Updating fixed registers more frequently
- Implementing further improvements to the IT and access environment and associated operational procedures

Key internal audit events

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

May	July
The Committee Chair meets EY in order to undertake a thorough review of the internal audit findings to date and the management responses	EY report their initial findings to the full Committee. The Committee meets with EY without management present
November	**December**
The Committee Chair has a further meeting with EY to undertake an in-depth review of the full-year audit findings, review the results of the priority areas that are identified in conjunction with management and consider the plan for the following year	EY report their full-year findings, risk assessment and plan for the following year to the Committee. The Committee meets with EY without management present

Fair, balanced and understandable

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

- Initiating the review process for the Annual Report significantly before the year end, considering external developments, issuing guidance to contributors and identifying areas for improvement
- Obtaining input from external advisers, including the auditors, designers, brokers and public relations advisers
- Appointing a project manager to ensure liaison between departments and delivery to the agreed plan
- Undertaking several multi-functional offsite reviews of the disclosures as a whole prior to the publication of the Annual Report
- Overseeing a verification process to ensure the accuracy of disclosures

Each member of the Audit Committee and the Reporting Committee was satisfied that the 2018 Annual Report is fair, balanced and understandable and recommended the adoption of the report and accounts to the Board.

Board of Directors' going concern statement

The Directors considered the going concern position as detailed on page 61. The Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite current uncertainties. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence; therefore, the Directors continue to adopt the going concern basis in preparing the financial statements.

Board of Directors' viability statement

The Directors, having considered the longer-term viability position as detailed on page 61, confirm that they have a reasonable expectation that Hikma will be able to continue in operation and meet its liabilities over the viability period which ends on 31 December 2021.

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

Pat Butler
Chair of the Audit Committee
12 March 2019

> Siggi's involvement has particularly helped in responding to internal audit recommendations and clarifying ownership of principal risks."

Additional information

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

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

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

www.hikma.com/investors/corporate-governance/key-committees/audit-committee/

Nomination and Governance Committee
Letter from the Chair

Robert Pickering

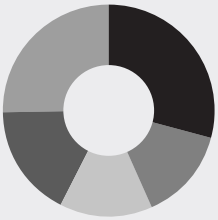
2018 Highlights

- Initiated an extensive search process for an additional Independent Director
- Developed a new succession plan for Independent Directors
- Implemented an appropriate response to forthcoming changes to the UK Governance Code
- Enhanced the controls related to defence and the delegation of authority to the CEO

2019 Priorities

- Developing a new plan for the succession of the Executive Directors and Executive Committee Members
- Complete the appointment and induction of an additional Independent Director
- Consider succession planning for the Senior Independent Director and Committee Chair

Allocation of time



Corporate governance	29%
Diversity	14%
Independence	14%
Skills and experience	17%
Succession	25%

Members and attendance

Member	Meetings	Attendance
Robert Pickering (Chair)	6/6	100%
Mazen Darwazah	6/6	100%
Pat Butler[1]	5/6	83%
Nina Henderson	6/6	100%

1. Pat Butler was unable to attend one meeting due to timing change made by Hikma
2. Cynthia Schwalm is to join the Committee on 1 June 2019

Enhancing leadership and strengthening governance

Dear Shareholders

During the year, the Nomination and Governance Committee has continued to lead succession planning for Independent Directors and executive management, governance, board structure and board effectiveness.

Executive succession

As reported last year, in February 2018 the Committee completed its search for a new Chief Executive Officer (CEO). This resulted in Siggi Olafsson joining Hikma, becoming the first non-family CEO of Hikma. In late 2018, Siggi made some adjustments to the Executive Committee. As the changes become fully embedded and new team members become more established in their roles, the Committee will develop a new executive succession plan later in 2019, which will include the Executive Directors.

Independent succession

With the retirement of Dr Ronald Goode in May 2018, Hikma completed the 2014 succession plan which related to Independent Directors who joined when the Group listed. During 2018, the Committee developed new arrangements for the succession of the current Independent Directors and considered candidates for additional appointments, with a particular emphasis on gaining additional US healthcare experience, as well as enhancing gender diversity. This process led to the appointment of Cynthia Schwalm as an Independent Non-Executive Director with effect from 1 June 2019. The Committee is committed to ensuring an independent majority on the Board and enhancing diversity.

The Company Secretary has developed a tailored induction programme for Cynthia, including presentations and advice from external experts. During 2019, the Committee will further develop the plans for medium-term succession for the Independent Directors. This will include consideration of my roles, being the positions of Senior Independent Director and Chair of this Committee.

The Committee's policy on tenure is that the Independent Non-Executive Directors are normally expected to serve for a period of up to nine years. Their appointments are formally reviewed after three years and at six years a more rigorous review process is undertaken.

Experience and training

The Committee continues to believe that a longer induction period is desirable for new Independent Directors to allow for building understanding of the business and, where succession for a Committee Chair is taking place, the transfer of knowledge and relationships associated with the particular committee. Additionally, the Board believes it is important for all directors to have significant international experience at an executive level, a challenging yet consensual style, and the highest level of integrity. The Committee regularly considers

whether there may be gaps in fulfilling the specific and in-depth experiences that the Board requires as a whole, which focuses on the following areas:

— business environment in both the US and the MENA
— pharmaceutical manufacturing and distribution
— development of new generic pharmaceutical capabilities
— listing regulation, investor perceptions and governance

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

Commitment and interests

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

The Committee monitors the external appointments of directors from both an availability and conflict of interest perspective, whilst noting that experiences with other organisations can enhance a Director's ability to perform the role.

Governance

As part of the Committee's responsibilities, it regularly reviews the internal governance and control processes and keeps abreast of external governance developments. The Committee reviews Hikma's entire governance arrangements on an annual basis. This year, the Committee focused on enhancing the defence procedures and the matters reserved to the Board, reflecting the separation of the Executive Chairman and CEO roles, and the forthcoming changes to the UK Governance Code.

Re-election

Each member of the Board will stand for election or re-election at the 2019 AGM. The position of each Board member was closely reviewed during the year as part of the consideration of succession arrangements, independence issues, the Board and Committee evaluation processes and the ongoing dialogue between the Executive Chairman and the Senior Independent Director.

Diversity

Hikma's diversity policy applies to the whole Company, including the Board. Hikma's inclusive workplace welcomes different cultures, perspectives, and experiences from across the globe. Hikma welcomes variety and treats all employees equally regardless of any actual or perceived characteristic. Hikma is committed to employing and engaging talented people, irrespective of their race, colour, religious creed, age, sex, marital status, national origin, present or past history of mental or physical disability and any other factors not related to a person's ability to perform a role. Since its founding, Hikma has actively promoted gender diversity across its operations and continues to have excellent diversity in terms of culture, age, background, skills and experience. Hikma has successful empowerment and talent development programmes to help all employees make the most of their potential. This diversity policy has been included in our updated Code of Conduct and communicated to all employees. Further detail on employee diversity is provided in the Sustainability report on page 51.

> "The Committee is committed to ensuring an independent majority on the Board and enhancing diversity."

The Committee was pleased to be able to improve gender diversity over the past few years, including the recent appointment of Cynthia Schwalm. The Committee considers that the current level of gender diversity needs to at least be maintained, if not enhanced (please see the gender diversity information on page 65). The Board has not set specific, measurable diversity objectives because it needs flexibility to recruit the right candidates. The Board considers that it has demonstrated strong ethnic diversity since the formation of Hikma and that this diversity continues to be evident today.

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

For and on behalf of the Nomination and Governance Committee

Robert Pickering
Chair of the Nomination and Governance Committee
12 March 2019

Additional information

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

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

— **Director recruitment process**
— **Calendar of events**
— **Internal and external advisers**
— **Responsibilities and terms of reference**

www.hikma.com/investors/corporate-governance/key-committees/remuneration-committee/

Compliance, Responsibility and Ethics Committee

Letter from the Chair

John Castellani

2018 Highlights

- Completed an independent risk re-assessment of US ABC programme
- Appointed an Executive Committee member with overall responsibility for all ABC, trade sanctions and compliance related matters
- Achieved independent confirmation that the main Jordanian entities' ABC programme is in compliance with international guidelines
- Advanced Hikma's approach to data protection through a risk assessment and cross-functional process enhancement exercise

2019 Priorities

- Consolidate Hikma's extensive sustainability activities under one global strategy
- Further develop our assessment of our suppliers and service providers' compliance programmes
- Implement and test the ABC enhancements from recent assessments

Allocation of time

ABC	**27%**
Anti-trust and trade sanctions	**15%**
Corporate governance	**25%**
Sustainability	**33%**

Members and attendance

Member	Meetings	Attendance
John Castellani (Chair)	**7/7**	**100%**
Siggi Olafsson[1]	**2/2**	**100%**
Mazen Darwazah[2]	**6/7**	**86%**
Pat Butler[3]	**6/7**	**86%**
Dr Ronald Goode[4]	**3/3**	**100%**
Dr Pamela Kirby	**7/7**	**100%**
Nina Henderson[1]	**2/2**	**100%**

1. Siggi Olafsson and Nina Henderson became members of the Committee on 7 November 2018
2. Mazen Darwazah was unable to attend one meeting due to illness
3. Pat Butler was unable to attend one meeting due to a timing change made by Hikma
4. Dr Ronald Goode retired following the May 2018 AGM

Building on our commitment to integrity and quality

Dear Shareholders

The Committee has had another busy year advancing our commitment to integrity and the communities in which we operate. This year we welcomed Siggi Olafsson, Chief Executive Officer (CEO), and Nina Henderson, who has board-level responsibility for overseeing employee engagement, to the Committee. They significantly strengthen the Committee, particularly due to their direct relationship with our people.

During the year, Henriette Nielsen became EVP, Business Operations, assuming overall responsibility for all Anti-Bribery and Corruption (ABC), trade sanctions and legal issues at an Executive Committee level. The Committee considers that the coordination of these efforts under one highly experienced individual greatly enhances our capabilities.

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

Commitment to integrity

The Committee is very proud of Hikma's commitment to high standards of business integrity, which is one of the four pillars of our values. It includes the Board's long-standing zero-tolerance of bribery and corruption which has been demonstrated by being a founding member of the World Economic Forum's Partnering Against Corruption Initiative. Hikma operates in some markets that are considered higher risk by ABC advisers, however; the Committee is pleased that Hikma's performance and leadership on business integrity has been recognised by several of our customers and suppliers in these jurisdictions.

The Committee is pleased to report that at several points during the year, the CEO highlighted the importance of the ABC programme to our people at events, via Hikma's intranet, and at the Global Leadership Conference.

ABC programme

Due to the 'top-down' commitment of our senior management and the effectiveness of our compliance team, our ABC programme is now well embedded into the organisation. The Committee receives regular reports on issues arising and oversees the continued improvement of the programme.

Good Corporation have continued their independent risk assessment of our ABC procedures. This year, they re-assessed our Generics and Injectables operations in the US. The report detailed certain enhancements that are being implemented by the EVP, Business Operations during 2019 and will be re-assessed later in the year.

Compliance, Responsibility and Ethics Committee
continued

During the year, we instructed Kroll Associates to undertake an independent assessment of our ABC practices of our main Jordanian entities as part of our global ABC programme. The Committee is pleased to report that the assessment was successful and the areas identified for improvement will be addressed over the course of 2019.

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

Training
Hikma undertakes direct integrity training programmes for its sales and marketing employees. Additionally, it has an online ABC training module that has been integrated with our HR on-boarding activities. The Board has fully supported the training programme, which all directors, officers and executive committee members have completed.

Speak-up
The Committee remains satisfied that the procedures, which include a committee of senior Group employees that undertake proportionate investigations and implements corrective action, are appropriate and effective. The Committee continued to receive regular reports on issues identified through the Group-wide speak-up arrangements, which include confidential reporting lines that report directly to the Investigations Committee.

Anti-trust and trade sanctions
The General Counsel oversees Hikma's compliance with the anti-trust, and trade sanctions legislation and reports to the Committee in this regard. Hikma has established extensive policies and procedures to ensure compliance, which have been reviewed by management during the year. During the year, the General Counsel provided advice to the Committee on the changing sanctions landscape and how this affects Hikma's operations and strategy. Furthermore, the legal team undertook a Group-wide training programme on anti-trust and trade sanctions, and finalised an online training tool during the year.

Compliance with Criminal Finances Act
The Committee has overseen the implementation of processes in response to the prevention of tax evasion legislation from the UK Government. Hikma's processes and procedures are proportionate to its risk of failure to prevent the facilitation of tax evasion. Hikma is steadfast in applying the principles of the UK tax evasion legislation across all its businesses within Hikma and will continue to oversee matters of compliance.

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

- training Hikma staff on labour standards and how to recognise and respond to any incidences of modern slavery
- undertaking periodic analysis and management of any modern slavery risk in Hikma's businesses or supply chains
- carrying out appropriate due diligence
- engaging on the issue with supply chain partners

> The CEO highlighted the importance of the ABC programme to our people at events, via Hikma's intranet, and at the Global Leadership Conference."

Sustainability
The Committee has overseen, encouraged and supported the Sustainability programme which is so clearly linked to our founder's desire to improve lives, particularly through educational and development opportunities for the least privileged. Our Sustainability report is contained on pages 42 to 54. For 2019, the Committee has requested that management further consolidate Hikma's sustainability activities into a global programme that supports a small group of strategic objectives linked to the direction and history of Hikma.

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

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

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

John Castellani
Chair of the Compliance, Responsibility and Ethics Committee
12 March 2019

Additional information

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- **Responsibilities and terms of reference**

  www.hikma.com/investors/corporate-governance/key-committees/
  /

- **Commitment to integrity**

  www.hikma.com/sustainability/global-frameworks/

- **Code of Conduct**

  www.hikma.com/about/ethics-and-compliance/code-of-conduct/

Remuneration Committee
Letter from the Chair

Dr Pamela Kirby

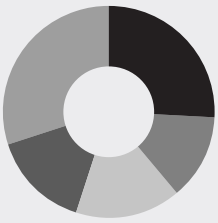
2018 Highlights

- Developed performance packages for the new Chief Executive Officer (CEO) and Executive Chairman positions
- Met with proxy advisory bodies to enhance communication
- Implemented investor and management comments on aligning performance and remuneration outcomes
- Enhanced the approach to executive compensation by creating a new role leading executive reward

2019 Priorities

- Three-yearly review of remuneration policy and liaison with stakeholders
- Develop guidelines for post-employment shareholding requirements
- Gaining greater insights into employee perspectives through the engagement director and employee survey
- Considering the CEO's first full review of compensation for his immediate reports
- Reducing the complexity of the EIP through the implementation of the new performance criteria model

Allocation of time



Wider employee issues	26%
Corporate governance	13%
Developing practices	16%
Remuneration policy	15%
Setting executive remuneration	30%

Members and attendance

Member	Meetings	Attendance
Dr Pamela Kirby (Chair)	7/7	100%
Robert Pickering	7/7	100%
Dr Ronald Goode[1]	5/5	100%
Pat Butler[2]	6/7	86%
John Castellani	7/7	100%
Nina Henderson[2]	6/7	86%

1. Dr Ronald Goode retired after May 2018 AGM
2. Pat Butler and Nina Henderson were unable to attend one meeting due to it being called at very short notice
3. Cynthia Schwalm is to join the Committee on 1 June 2019

Aligning reward with superior performance and leadership

Dear Shareholders

Since writing to you last year, I am pleased to say that the leadership transition has been very successfully implemented and is reflected in Hikma's results. The Executive Directors have increased revenue in an adverse pricing environment, reduced costs across the business, undertaken a wholesale review of product development, and enhanced the leadership structure. Whilst there is more work to do over 2019, the Committee has been very impressed by the 2018 performance.

Rewarding Performance

The performance of the Group is discussed in greater detail on pages 4 to 19, and 38 to 41.The performance remuneration that the Committee has determined for the Executive Directors reflects its assessment of the performance of the whole business, and of each individual. The Committee is pleased that Hikma returned to growth in 2018, and each business unit outperformed both the market and our expectations. US generic pharmaceuticals, our biggest market, remained highly competitive with significant price erosion. However, the executive team successfully captured several market opportunities, leveraging the breadth and quality of our market portfolio. New product launches further contributed to top line growth, and a focus on process improvement and efficiency resulted in a significant reduction in costs. In MENA, our business delivered a solid performance in an environment of continued political and economic uncertainty. We maintained our position as the leading local player, and management implemented several longer-term product development agreements.

The CEO has been instrumental in providing renewed focus to management, establishing and communicating a clear strategy for the business, capturing opportunities, strengthening and changing the executive team, and assessing costs and value throughout Hikma. This success is reflected in the significant recovery in the share price from 985p when Siggi Olafsson joined to 1,716p at the year-end (an increase of 74%). As you will see from the graphs in the dashboard (page 83), this contrasts to the significant losses in shareholder value experienced by our generic and specialty pharmaceutical peers as a whole.

This is the first year in which Hikma has been led by an external CEO. The transition of responsibilities from the Executive Chairman to the CEO has been smooth and reflects the strength of relationship and experience of the two people occupying those roles. In a transitionary year in which several changes were made to the executive team, the Committee has been impressed by the very strong performance of both individuals.

Overall, it is both the excellent actual and relative performance of Hikma that the Committee considers is crucial to the determination of the Executive Directors' performance remuneration, which range from 87% to 90% of maximum. In light of the exceptionally strong turnaround

in the Group's performance since Siggi joining, his extensive preparation work with Hikma that commenced well in advance of that point, and the short period in 2018 before his appointment, the Committee has decided not to pro rate Siggi's performance remuneration.

As I communicated to you last year, in order to recruit a CEO of Siggi Olafsson's calibre, the Committee had to offer a package that reflected the remuneration available to leading US generic pharmaceutical executives. The US is the only global jurisdiction with a significant generic pharmaceutical talent pool, chiefly as a result of the US FDA being the benchmark regulatory standard, and the size of the market. Therefore, the Committee offered additional potential performance remuneration for the first year of up to either 150% of base salary or 72,000 shares.

The additional remuneration was chiefly linked to turning around and rationalising the US Generics operations and restructuring the R&D approach, which were the underlying causes of 2017's underperformance. The Generics business has significantly out-performed expectations since Siggi restructured the team and reduced underlying costs. The R&D department has been re-focused into a team dedicated to each business division with a 5 year target to more than double the current level of new product revenue and the realistic means with which to achieve this. The potential of our product pipeline has been greatly enhanced by the extension of the partnership with Vectura for five new products. In light of these achievements, the Committee considers it is appropriate that the full potential first year performance award is granted to the CEO. The total award will be capped at 72,000 shares, equivalent to 146% of salary based on the average share price of $22.33 that is used to determine share awards in accordance with the standard rules of Hikma's share schemes.

Salaries

Having taken account of the most up-to-date benchmarking information, the Committee determined that the Executive Chairman, CEO and Vice Chairman's salaries should remain unchanged. The wider workforce experienced a salary increase of circa 3% on average.

Stakeholder views

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

During 2018, members of the Board consulted shareholders on the governance and remuneration changes that were necessary to accommodate the appointment of the CEO, the role change for the Executive Chairman, and the future direction of remuneration policy. The Committee took into account feedback from investors and governance agencies received at the 2018 AGM, which chiefly related to the complexity of the performance criteria under the Executive Incentive Plan (EIP). The Committee will take this feedback into account during the remuneration policy review that is to be undertaken during 2019.

> "The Executive Directors have increased revenue in an adverse pricing environment, reduced costs across the business, undertaken a wholesale review of product development, and enhanced the leadership structure."

Engaging with our employees

The Committee does not directly consult employees on the policy contained in this report, but receives regular updates on employee

feedback through the Group HR department and the employee engagement survey, which is conducted by an external organisation and includes views on remuneration. For 2019, the Committee is expanding its avenues for feedback via the newly-created responsibility for bringing further employee perspectives into decision-making activities, which is being undertaken by Nina Henderson, who is also a Remuneration Committee member. The Committee considers it is very important to ensure alignment between the compensation for Executive Directors and all employees.

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

Dr Pamela Kirby
Chair of the Remuneration Committee
12 March 2019

Additional information

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

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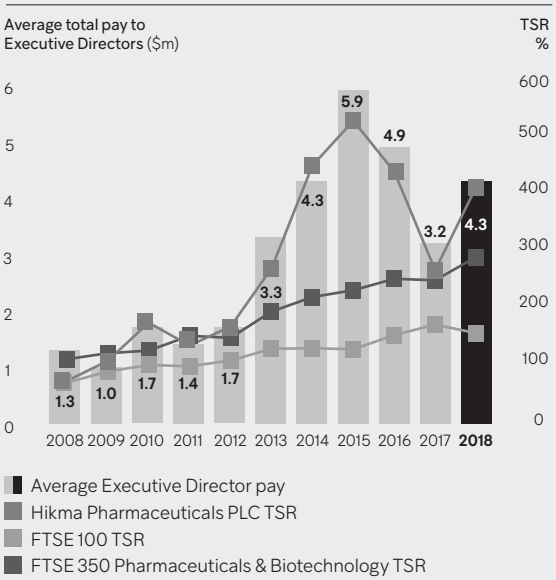
- **Responsibilities and terms of reference**

www.hikma.com/investors/corporate-governance/key-committees/remuneration-committee/

Remuneration dashboard

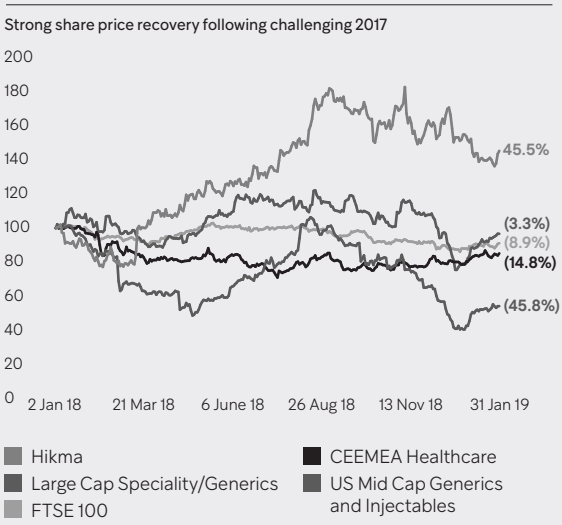
TSR and total executive pay

During 2018, Hikma performed better than its UK peers in Hikma's index (FTSE 100) and sector (FTSE 350 Pharmaceuticals & Biotechnology segment, a relatively small group of companies that are mainly focused on developing new drugs).



Generic pharmaceutical peers

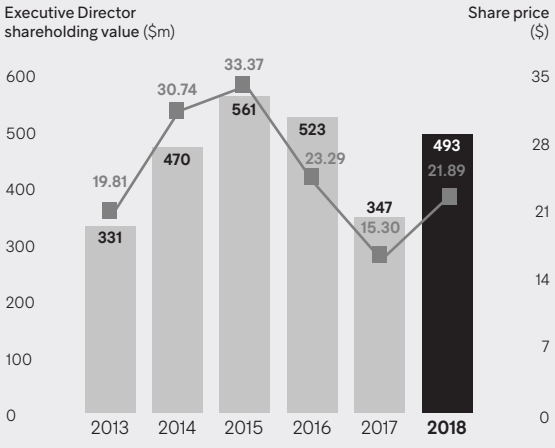
Hikma operates within a sub-set of the pharmaceutical industry that focuses on existing (generic) drugs, mainly in the US market. Hikma requires access to the US generic pharmaceutical environment to recruit its specialised and extensive talent pool. The Committee viewed Hikma's strong relative performance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



US Mid Cap Generics and Injectables includes Akorn, Endo, Lannett and Mallinckrodt
CEEMEA Healthcare includes Adcock, Aspen, Gedeon Richter and Krka
Large Cap Speciality/Generics include Concordia, Mylan, Perrigo, Teva and Valeant

Value of executive holdings

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



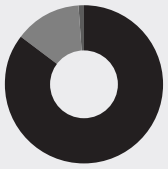
Shareholder approval

Annual report on remuneration (18 May 2018 AGM)

Votes available	**240,930,604**
Votes cast	**196,565,877**
For	**86.3%**
Against	**13.6%**
Withheld[1]	**0.1%**

Annual report on remuneration (19 May 2017 AGM)

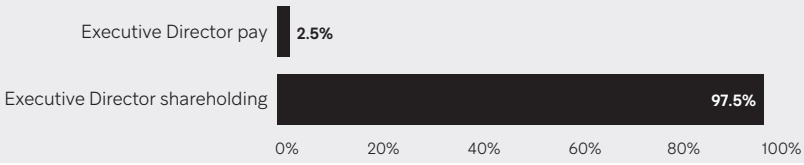
Votes available	**240,380,475**
Votes cast	**195,676,113**
For	**85.5%**
Against	**13.5%**
Withheld[1]	**1.0%**



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

Executive equity

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



CEO and average employee change

The table below shows how the percentage change in the Chief Executive Officer's (CEO) salary, benefits and bonus between 2017 and 2018 compared with the percentage change in the average of each of those components of pay for employees (excluding the Executive Directors).

	Salary			Benefits			Bonus		
	2018	2017	Percentage change	**2018**	2017	Percentage change	**2018**	2017	Percentage change
CEO	**$1,100,000**	$1,273,080	-13.6%	**$237,340**	$101,295	134.3%	**$4,063,690**	$0	>100%
Employees ($m)	**291**	284	2.5%	**106**	112	-5.4%	**55**	37	48.6%
Number of employees	**8,413**	8,521	-1.3%	**8,413**	8,521	-1.3%	**8,413**	8,521	-1.3%
Average per employee	**$34,589**	$33,329	3.8%	**$12,600**	$13,144	-4.1%	**$6,538**	$4,342	50.6%

The 2017 CEO data reflects the position of Said Darwazah as Chairman and CEO and 2018 data reflects the annualised salary of Siggi Olafsson as CEO. As a result, year-on-year comparisons between 2017 and 2018 for the CEO are not reflective of real change. Hikma's pay review, which took effect from 1 January 2018, awarded average percentage increases in wages and salaries of 3.0% for existing employees (with certain exceptions for jurisdictions experiencing very high inflation). The nature and level of benefits to employees in the year ended 31 December 2018 were broadly similar to those in the previous year. The benefits received by the CEO relate to the different circumstances of the new incumbent.

Gender diversity

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

Relative importance of spend on pay

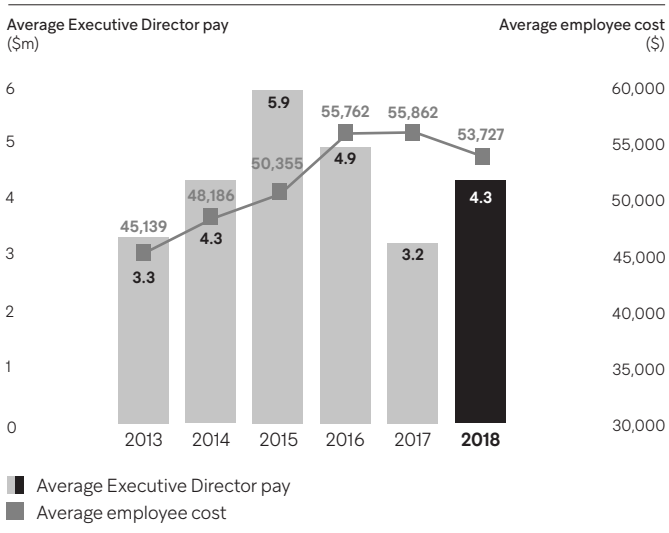
The following table sets out the total amount spent in 2018 and 2017 on remuneration of Hikma's employees and major distributions to shareholders.

Distribution expense	**2018**	2017	% change from 2017 to 2018
Employee remuneration	**$506m**	$485m	4.3%
Distributions to shareholders	**$84m**	$79m	6.3%

Employment conditions

All employees receive a salary, pension and medical insurance on a similar basis to the Executive Directors. Additionally, all employees participate in a cash bonus scheme, which is similar to Element A of the EIP. The Committee reviews detailed internal and summary benchmarking data, and is satisfied that the level of remuneration is proportionate across the HR grades.

Employee cost and average executive pay ($m)



Advice and support

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

Willis Towers Watson (WTW) continued to provide independent advice to the Committee, at the Committee's request, in relation to market practice, UK corporate governance best practice, and incentive plan target setting. WTW also provided support to our HR department. A policy fee structure is in place for the provision of advice and is used to determine a quote for each project before it is undertaken. The total fees for advice to the Committee during the year were $139k (2017: $74k). The Committee reviewed the performance of WTW during the year and fees received, concluding that WTW remained independent and continued to provide high-quality service. WTW were appointed by the Committee in 2016 following a competitive tender process. WTW adheres to the Remuneration Consultants Group Code of Conduct.

Remuneration and performance summary

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

Performance components

	2017		2018
Sales	$1,936m	7%	**$2,076m**
Core operating profit	$386m	19%	**$460m**
Share price	1,134p	51%	**1,716p**
Dividend	34 cents	12%	**38 cents**
Employee compensation	$485m	4%	**$506m**
Shareholder implementation approval	97.93%		**86.36%**
Shareholder policy approval	85.49%		**N/A%**

Total remuneration

Executive Director	2017 ($000)		2018 ($000)		2019 ($000) (estimate)
Said Darwazah	3,522	28%	**4,501**	**-10%**	**4,068**
Siggi Olafsson	N/A	N/A	**5,261**	**-40%**	**3,152**
Mazen Darwazah	2,796	8%	**3,006**	**-11%**	**2,671**

Components

	2017 ($000)		2018 ($000)		2019 ($000) (estimate)
Salary[1]					
Said Darwazah	1,273	-20%	**1,018**	**0%**	1,018
Siggi Olafsson	N/A	N/A	**943**[2]	**17%**	1,100
Mazen Darwazah	717	0%	**717**	**0%**	717
Bonus[3]					
Said Darwazah	0	>100%	**2,245**	**-32%**	1,527
Siggi Olafsson	N/A	N/A	**4,064**	**-59%**	1,650
Mazen Darwazah	402	284%	**1,543**	**-30%**	1,076
Share awards exercised[4]					
Said Darwazah	2,050	-49%	**1,050**	**27%**	1,335
Siggi Olafsson	N/A	N/A	**0**	**0%**	0
Mazen Darwazah	1,498	-61%	**591**	**22%**	723
Pensions[5]					
Said Darwazah	98	-27%	**72**	**0%**	72
Siggi Olafsson	N/A	N/A	**17**	**871%**	165
Mazen Darwazah	56	0%	**56**	**0%**	56
Other benefits					
Said Darwazah	101	15%	**116**	**0%**	116
Siggi Olafsson	N/A	N/A	**237**	**0%**	237
Mazen Darwazah	123	-20%	**99**	**0%**	99

1. Salary: The average rise for salaries across Hikma in 2018 was 3% depending on the jurisdiction. Siggi Olafsson's salary in 2018 was $1,100,000 on an annualised basis
2. Annualised salary
3. Bonus: The bonus figure comprises Elements A and C of the EIP. See page 89 for further explanation. The 2019 estimate presumes target performance
4. Share awards exercised: 2017 figures represent 2014 LTIP and Element B of the 2015 EIP exercised during that year. 2018 figures represent Element B of the 2016 EIP and Element C of the 2015 EIP exercised during that year. 2019 is an estimation of the value of Element B of the 2017 EIP and Element C of the 2016 EIP that are to vest in that year, using 31 December 2018 vesting percentages, share prices and exchange rates
5. Pension: Said Darwazah and Mazen Darwazah participate in the same pension plan as Jordanian employees, their country of employment. Siggi Olafsson is entitled to a pension contribution of 15% of salary in 2018, a contribution of $16,500 was made to his 401K plan in the US. A payment of $125,014 was due to be made in 2019 in lieu of the contractual liability for the year ended 31 December 2018.

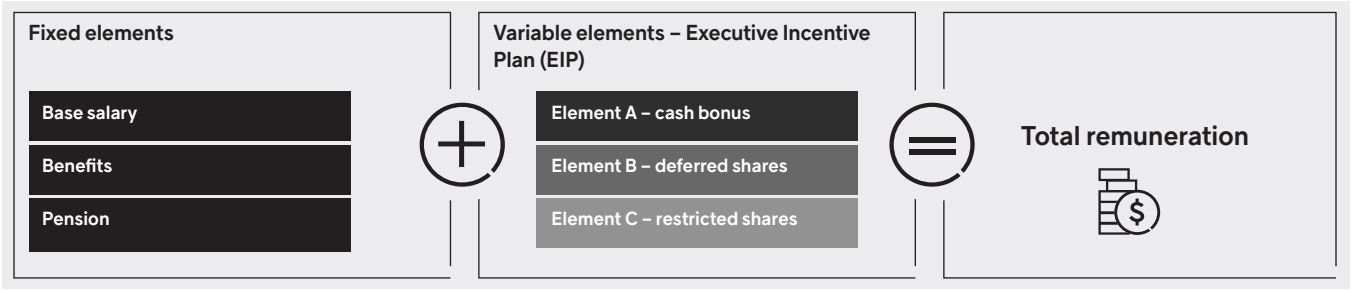
Non-Executive Directors' fees

Non-Executives	2017 (£000)		2018 (£000)		2019 (£000) (estimate)
Non-Executive Directors' average total fee[1]	84.6	-4%	**80.9**	**18%**	**95.1**

1. NED fees: The average Non-Executive Director's fee includes basic fee, Committee membership fee, fees for specific additional responsibilities, and Committee Chair fees. Full breakdown of fees on page 103. The average fee changes reflect the handover of Committee responsibilities and retirement and appointment of Non-Executive Directors.

Remuneration Policy Summary

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



Fixed elements

	Purpose and link to strategy	Operation
Fixed elements	**Base salary** Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy.	Salaries are set with reference to: pay increases for the general workforce; individual performance, experience and contribution; market pay in UK listed companies of a similar size, and relevant peer companies from the pharmaceutical sector; Company performance; and affordability.
	Benefits Provides competitive benefits in the market to enable the recruitment and retention of Directors.	Benefits may include, but are not limited to: healthcare; school fees; company cars; and life insurance.
	Pension Provides a minimum level of pension contribution to support a low fixed cost and highly entrepreneurial remuneration policy.	A defined contribution scheme and/or cash supplement in lieu of pension may be provided. Executives currently participate in the defined contribution benefit plans, according to the rules relevant to employees in the jurisdiction in which they reside.

EIP rationale

The Remuneration Committee considers that the EIP remains appropriate because:

— **Global focus:** Approximately 32% of Hikma's business is located in the MENA and 62% in the US, which requires Hikma to compete with local practices, particularly:
  - **US:** to offer sufficient leverage in the incentives to be reasonably competitive compared to US generic pharmaceutical companies, where the key talent pool is based
  - **MENA:** the strong short-term remuneration focus in the MENA which is partly reflective of the skills required to successfully navigate the political and economic environment
  - **US** and **MENA:** equity based incentives are generally subject to time based vesting following grant, not multi-year performance conditions

— **Business Dynamics:** Political and economic change in key markets may cause a short-term lack of visibility of revenues and profits that could discourage longer-term investment and development. Given such evolving, and in some cases highly volatile market conditions, it is difficult to establish testing but realistic multi-year targets that the participant associates with their own performance

EIP operational overview (EIP)

Element	Maximum award % of salary	Payout mechanism	Vesting period	Risks after award	Additional requirements	Treatment under the remuneration regulations
A	150%	Cash bonus	Immediate	— Clawback	None	Cash bonus
B	150%	Deferred Shares	2 years	— Forfeiture — Clawback — Share price — Employed	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.	Share award
C	100%	Restricted Shares	3 years	— Clawback — Share price — Employed		Bonus[1] deferred in shares

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

Hikma discloses the nature and weighting of the 2019 performance targets in the Policy Implementation report on page 88. Details of the 2018 performance targets, their level of satisfaction and the resulting performance remuneration are disclosed on pages 92 to 99.

Policy implementation 2019

Salaries, benefits and pension

Please see the Chair's letter (page 82) for commentary on salaries. The application of benefits and pension is unchanged.

		Salary		Change
Executive Director	Individual	**2019**	2018	%
Executive Chairman	Said Darwazah	**$1,018,464**	$1,018,464	0%
CEO	Siggi Olafsson	**$1,100,000**	$1,100,000[2]	0%
Executive Vice Chairman	Mazen Darwazah	**$717,155**	$717,155	0%

2. Annualised salary

Executive Incentive Plan (EIP)

The 2018 performance conditions and their weighting are detailed on this page. The Committee considers that the EIP has been very successful in aligning Executive Directors' compensation outcomes with the performance of Hikma.

Performance criteria

For 2019, the Committee has determined that the performance criteria will be:

Area	Description	Weight	Rationale
Financial	Revenue	30%	In general, the pricing of generic pharmaceutical products decreases with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. Please see page 18 of the Strategic report for the detail on this target.
	Core Operating Profit before R&D	30%	Ultimately, Core Operating Profit is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. Please see page 18 of the Strategic report for the detail on this target.
Strategic	Strategic Deliverables	40%	The targets are designed to ensure that the Executive Directors deliver the strategic plan that was approved by the Board during 2018. Further details will be disclosed on measurement.

Disclosed on measurement

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

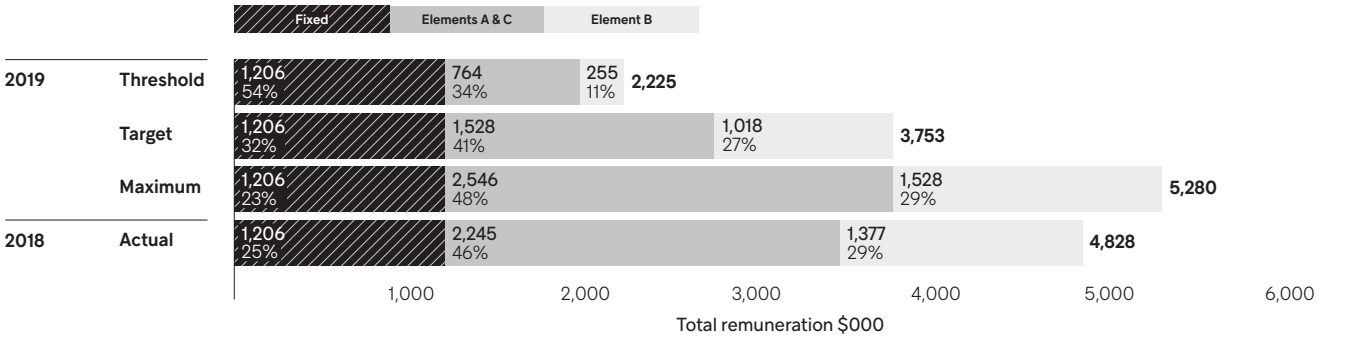
Outcome

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

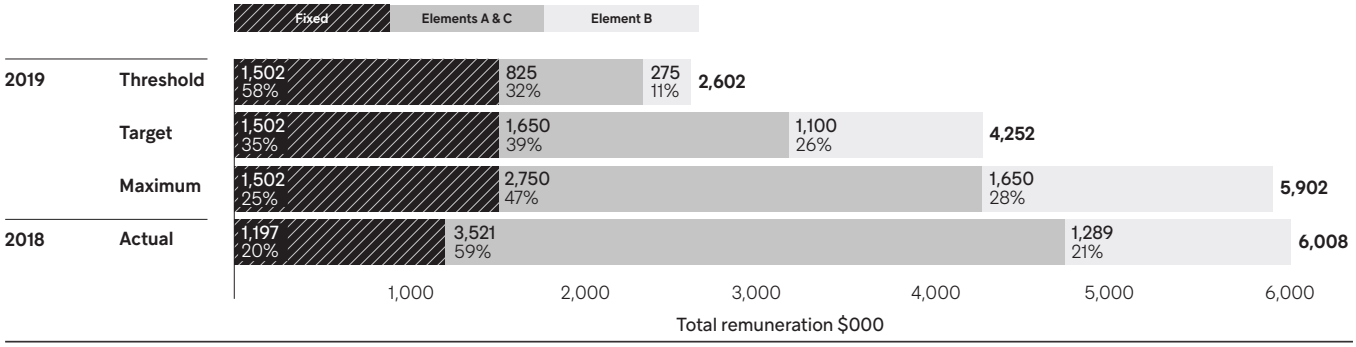
Illustration of policy

The following charts show the value of each of the main elements of the compensation package provided to the Executive Directors during 2018 and the potential available for 2019 (dependent upon performance).

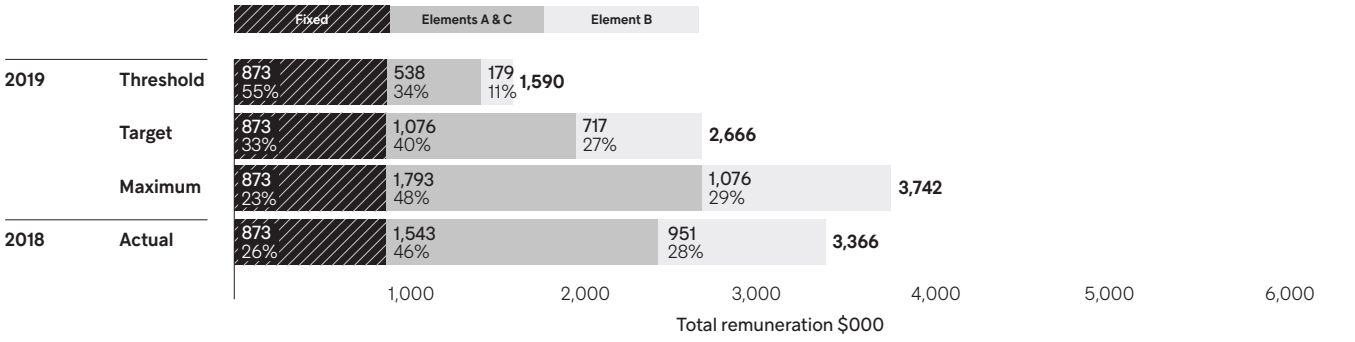
Said Darwazah



Siggi Olafsson



Mazen Darwazah



The following notes are applicable to the above calculations:

— Salary, benefits and pension comprise 'Fixed' remuneration.
— Elements A and C of the EIP comprise the bonus and; Element B comprises the share award. Elements A, B and C of the EIP are made in the year after the performance is achieved (eg for the 2019 illustration, the bonus would be paid and the share awards be made in 2020. The share awards would vest two to three years later). Please note that the Remuneration and performance summary on page 85 uses share awards vesting (ie actual shares received, not those granted) during the period in order to make clear the difference between potential remuneration and what the executive receives in practice.

Annual report on remuneration

All of the information presented on the following eleven pages has been audited by PwC. The following information is relevant to this report: the employee related disclosures on page 84, the 'Policy Implementation 2019' on page 87 and the 'Advice and Support' disclosure on page 84. For the year ended 31 December 2018, the implementation of Hikma's policy on remuneration detailed below.

Single total figure (audited)

The following table shows a single total figure of remuneration in respect of qualifying services for the 2018 financial year for each Executive Director, together with comparative figures for 2017.

Director	Year	Salary $	Benefits $	Bonus (EIP Elements A & C) $	Shares Vested (EIP Element B) $	Pension $	Total $
Said Darwazah	2018	1,018,464	115,795	2,244,788	1,049,998	72,171	4,501,216
	2017	1,273,080	101,295	0	2,049,637	98,330	3,522,342
Siggi Olafsson	2018	943,428	237,340	4,063,690	0	16,500	5,260,957
	2017	–	–	–	–	–	–
Mazen Darwazah	2018	717,155	99,405	1,542,690	591,490	56,366	3,007,106
	2017	717,155	122,500	402,324	1,497,983	55,871	2,795,833

The EIP performance criteria for 2018 are detailed on pages 92 to 99.

Benefits

Said Darwazah received transportation benefits of $97,418 (2017: $85,000) and medical benefits of $18,377 (2017: $16,295). Siggi Olafsson received housing benefits of $103,013 (2017: $nil) related to his stay in the UK, transportation benefits of $16,660 (2017: $nil), medical benefits of $39,105 (2017: $nil), life assurance of $562, and taxation benefits of $78,000 (2017: $nil) to ensure he was not disadvantaged by UK taxation to the extent that UK taxation increased his US taxation. Mazen Darwazah received transportation benefits of $64,603 (2017: $94,000) and medical benefits of $34,802 (2017: $28,500). Social security payments made in Jordan, that are required to be paid by Jordanian law, are not considered to be a benefit.

Pension

Said Darwazah and Mazen Darwazah participate in the Hikma Pharmaceutical Defined Contribution Retirement Benefit Plan (the Jordan Benefit Plan) on the same basis as other employees located in Jordan. Under the Jordan Benefit Plan, Hikma matches employee contributions made, which are fixed at a maximum of 10% of applicable salary. Participants become entitled to all of Hikma's contributions once they have been employed for ten years. Before that point, there is a staggered scale which starts at three years of employment. Said Darwazah and Mazen Darwazah have served for in excess of ten years and receive their benefits under the Jordan Benefit Plan because they are over 60 years of age. Siggi Olafsson was entitled to a pension contribution of 15% of salary in 2018, a contribution of $16,500 was made to his 401K plan in the US. A payment of $125,014 was due to be made in 2019 in lieu of the contractual liability for the year ended 31 December 2018. Hikma does not and has not operated a defined benefit scheme. The Executive Directors do not receive personal pension contributions from Hikma.

Vested share awards
During 2018, the following share awards vested for the Executive Directors. The total shares vested in 2018 are summarised in the following two tables.

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

Said Darwazah – EIP	
Maximum number of shares capable of vesting – Element B	68,346
Forfeiture	nil
Exercise Price	nil
Number of vested shares	68,346
Total value of vested shares[1]	**$1,049,998**

1. Share price on vesting was £11.02 and there were $1.3889 to £1

Mazen Darwazah – EIP	
Maximum number of shares capable of vesting – Element B	38,501
Forfeiture	nil
Exercise price	nil
Number of vested shares	38,501
Total value of vested shares[2]	**$591,490**

2. Share price on vesting was £11.02 and there were $1.3889 to £1

2018 Performance outcome: Executive Chairman

Readers are directed to the Committees' commentary on business performance that is included in the Chair's letter on pages 81 and 82.
The following table sets out the performance conditions and targets for 2018 and their level of satisfaction:

		Performance Condition
Section	Description	Rationale and Measurement
Financial	Core Revenue	In general, the pricing of generic pharmaceutical products decreases with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. Please see page 18 of the Strategic report for further detail on the performance related to this target.
	Core Operating Profit (COP)	Ultimately, COP is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. Please see page 18 of the Strategic report for further detail on the performance related to this target.
Strategic	Return on Investment	Hikma invests significant capital in acquiring new generic products to its portfolio and improving its high-quality manufacturing capabilities. Over the longer term, these activities ensure that margins can be maintained though manufacturing more complex/speciality products and capturing supply shortages, respectively. The extensive range of capital investments have various timeframes for delivering new capabilities and enhancing Hikma's competitive position. The performance of previous and existing projects is monitored by the Board on a project by project basis. ROIC provides a group-level method of assessing the time and cost delivery of projects and their ultimate returns over a one-year time frame. Please see page 18 of the Strategic report for further detail on the performance related to this target.
	CEO empowerment	Empowering, supporting and transferring responsibilities to the new CEO in order that the external expertise that the CEO brings may be fully utilised. Providing guidance and support to the Board in order to effectively maximise the transition of responsibilities. Subsequently assessed by the Committee, taking into account the Board evaluation exercise.
Total		

	Performance Level					Achievement		Application
	Weighting	Forfeiture	Minimum	Target	Maximum	Results	Achievement	% of salary
	30%	Target -30% $1,392m	Target -10% $1,789m	Target $1,988m	Target +10% $2,187m	Core Revenue of $2,076m	Target to maximum	95% of salary
	30%	Target -30% $344m	Target -10% $442m	Target $491m	Target +10% $540m	COP before R&D of $578m	Maximum	120% of salary
	30%	Target -53% 7%	Target -27% 11%	Target 15%	Target +47% 22%	ROIC of 19%	Target to maximum	101% of salary
	10%	Committee assessment of CEO empowerment taking into account the results of the board evaluation exercise				Highly effective support and empowerment of the new Chief Executive	Maximum determined by the Committee	40% of salary
		Unacceptable	**Acceptable**	**Good**	**Excellent**			**356%**

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

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
Executive Chairman	**A**	$1,018,464	150%	135.2%	$1,377,010	Cash now (March 2019)	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.
	B		150%	135.2%	$1,377,010	Shares in 2 years from March 2019	
	C		100%	85.2%	$867,778	Shares in 3 years from March 2019	
Total			**400%**	**355.6%**	**$3,621,798**		

The information in the above tables has been audited by PwC

2018 Performance outcome: Chief Executive Officer (Regular EIP)

Readers are directed to the Committees' commentary on business performance that is included in the Chair's letter on pages 81 and 82.
The following table sets out the performance conditions and targets for 2018 and their level of satisfaction:

Regular EIP Criteria

		Performance Condition
Section	Description	Rationale and Measurement
Financial	Core Revenue	In general, the pricing of generic pharmaceutical products decreases with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. Please see page 18 of the Strategic report for further detail on the performance related to this target.
	Core Operating Profit (COP)	Ultimately, COP is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. Please see page 18 of the Strategic report for further detail on the performance related to this target.
	Quality Execution	Manufacturing quality is essential to achieving the maximum benefit from Hikma's product portfolio and to meeting our customers' needs. The executive must ensure that zero warning letters for any US FDA inspected plant are received. Measurement is a matter of the public record of the US FDA. Please see page 8 of the Strategic report for further detail on the performance related to this target.
	Business Growth	The continuous launch of new products are required to maintain revenue and profitability in Hikma's increasingly competitive markets. The executive must deliver new products through successful investment in in-house R&D and by partnering, licensing or acquiring new products and technology. The result is a subjective assessment by the Committee of the quality and strategic value of R&D and business development output. Please see page 7 of the Strategic report for further detail on the performance related to this target.
	Enhanced employee engagement and enablement	Our people are essential to our business. The 2017 employee survey indicated areas for improvement regarding engagement and enablement and the CEO's actions to inspire and enable Hikma's people as detailed on pages 8 and 19 of the Strategic report. The result is assessed by the Committee taking into account the employee survey.
Total		

	Performance Level					Achievement		Application
	Weighting	Forfeiture	Threshold	Target	Maximum	Results	Achievement	% of salary
	30%	Target -30% $1,392m	Target -10% $1,789m	Target $1,988m	Target +10% $2,187m	Core Revenue of $2,076m	Target to maximum	95% of salary
	30%	Target -30% $344m	Target -10% $442m	Target $491m	Target +10% $540m	COP before R&D of $578	Maximum	120% of salary
	10%	1+ warning letter	N/A	N/A	nil warning letters	nil warning letters	Maximum	40% of salary
	20%	nil significant deals	1 significant deal	2 significant deals	3 significant deals	3+ significant deals	Maximum determined by the Committee	80% of salary
	10%	Committee assessment of the direction of employee engagement and enablement, taking into account the employee survey results and the CEO's progress on delivering the strategic pillar to inspire and enable				Significant enhancements to engagement and enablement	Target determined by the Committee	25% of salary
		Unacceptable	**Acceptable**	**Good**	**Excellent**			**360%**

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

Participant			Calculation		Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
Chief Executive Officer	**A**	$1,100,000	150%	136.6%	$1,502,965	Cash now (March 2019)	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.
	B		150%	136.6%	$1,502,965	Shares in 2 years from March 2019	
	C		100%	86.6%	$952,965	Shares in 3 years from March 2019	
Total			**400%**	**359.9%**	**$3,958,894**		

The information in the above tables has been audited by PwC

2018 Performance outcome: Chief Executive Officer (First Year Additional Remuneration)

Readers are directed to the Committees' commentary on business performance that is included in the Chair's letter on pages 81 and 82.
The following table sets out the performance conditions and targets for 2018 and their level of satisfaction:

		Performance Condition
Section	Description	Rationale and Measurement
Financial	Generics Revenue	Management were expecting Generics Revenue to decline in 2018 following a broadly flat performance in 2017. As part of the delivery of returns from the business it was essential to return to revenue growth. Measured by target Generics Revenue compared to audited Generics Revenue for the year ended 31 December 2018. Please see pages 30 and 31 of the Strategic report for further detail on this target
	Generic Core Operating Profit (COP)	During 2017, the Generics COP declined to 3.6% of revenue, an unacceptably low rate of return that was expected to continue into 2018. The Committee considered it was essential to thoroughly review the cost structure of the business, and return value from the Columbus acquisition. Measured by target Generics COP compared to audited Generics COP for the year ended 31 December 2018. Please see pages 30 and 31 of the Strategic report for further detail on this target
Strategic	R&D	Historically, the Group's investment in R&D has not delivered incremental revenue and profitability in line with expectations. The Committee tasked the CEO with restructuring Hikma's approach to R&D in order to improve the output from the investment in R&D. Please see pages 7, 19 and 39 of the Strategic report for further detail on this target
Total		

	Performance Level					Achievement		Application
	Weighting	Forfeiture	Minimum	Target	Maximum	Results	Achievement	% of salary
	30%	Target -20% $500m	Target -5% $590m	Target $620m (5% above expectations)	Target +5% $650m	Generics Revenue of $692m	Maximum	45% of salary
	30%	Target -75% $15m (the 2017 rate of return)	Target -25% $45m	Target $60m	Target +25% $75m	Generics COP of $93m	Maximum	45% of salary
	40%	No change in R&D approach	Pipeline review only	Restructuring only	Fully restructured and refocused R&D	Group R&D leadership replaced with divisional leadership. Product pipeline assessed and rationalised	Maximum determined by the Committee	60% of salary
		Unacceptable	**Acceptable**	**Good**	**Excellent**			**150%**

The above performance results in performance remuneration under the additional first-year performance remuneration as follows:

Participant		Calculation			Receive		
Executive	Equivalent to EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
Chief Executive Officer	C	$1,100,000	150%	150% (see notes)	$1,607,760	Shares in 3 years from March 2019	The value of the award is capped at 72,000 shares equivalent to 146% of salary (see page 82) and may not be sold until 5 years from grant.

The information in the above tables has been audited by PwC

2018 Performance outcome: Executive Vice Chairman

Readers are directed to the Committees' commentary on business performance that is included in the Chair's letter on pages 81 and 82.
The following table sets out the performance conditions and targets for 2018 and their level of satisfaction:

		Performance Condition
Section	Description	Rationale and Measurement
Financial	Core Revenue	In general, the pricing of generic pharmaceutical products decreases with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. Please see page 18 of the Strategic report for further detail on this target.
	Core Operating Profit (COP)	Ultimately, COP is the value of Hikma to shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. Please see page 18 of the Strategic report for further detail on this target.
Strategic	MENA Revenue	The Executive Director is responsible for this region. The Committee considered financial metrics to be the best method of ensuring delivery of the Board-approved strategy that could be measured in an objective manner that is readily understandable by investors. Measured by target MENA Revenue compared to audited MENA revenue for the year ended 31 December 2018. Please see pages 36 and 37 of the Strategic report for further detail on this target.
	MENA COP	The Executive Director is responsible for this region. The Committee considered financial metrics to be the best method of ensuring delivery of the Board-approved strategy that could be measured in an objective manner that is readily understandable by investors. Measured by target MENA COP compared to audited MENA COP for the year ended 31 December 2018. Please see pages 36 and 37 of the Strategic report for further detail on this target.
Total		

	Performance Level					Achievement		Application
	Weighting	Forfeiture	Minimum	Target	Maximum	Results	Achievement	% of salary
	30%	Target -30% $1,392m	Target -10% $1,789m	Target $1,988m	Target +10% $2,187m	Core Revenue of $2,076m	Target to maximum	95% of salary
	30%	Target -30% $344m	Target -10% $442m	Target $491m	Target +10% $540m	COP before R&D of $578m	Maximum	120% of salary
	20%	Target -30% $455m	Target -10% $585m	Target $650m	Target +10% $715m	MENA Revenue of $656m	Target to maximum	53% of salary
	20%	Target -30% $84m	Target -10% $108m	Target $120m	Target +10% $132m	MENA COP of $161m	Maximum	80% of salary
		Unacceptable	**Acceptable**	**Good**	**Excellent**			**348%**

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

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
Executive Vice Chairman	A	$717,155	150%	132.6%	$950,634	Cash now (March 2019)	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.
	B		150%	132.6%	$950,634	Shares in 2 years from March 2019	
	C		100%	82.6%	$592,056	Shares in 3 years from March 2019	
Total			**400%**	**347.7%**	**$2,493,324**		

The information in the above tables has been audited by PwC

Hikma continued to operate the EIP in 2018. The outstanding share awards under the EIP in respect of each of the Executive Directors are:

Participant	Share scheme				Quantum		
Director	Scheme description[1]	Type of interest	Date of award	Date of vesting	Basis of award	Shares (max)	Face value[2]
Said Darwazah	**EIP Element C**	Conditional award	17-Mar-16	17-Mar-19	97% salary	45,100	$987,285
	EIP Element B	Conditional award	13-Apr-17	13-Apr-19	107% of salary	60,973	$1,334,761
	EIP Element C	Conditional award	13-Apr-17	13-Apr-20	64% of salary	36,438	$797,665
Total						**142,511** (2017: 237,857)	**$3,119,710** (2017: $3,639,686)
Mazen Darwazah	**EIP Element C**	Conditional award	17-Mar-16	17-Mar-19	97% salary	25,406	$556,163
	EIP Element B	Conditional award	13-Apr-17	13-Apr-19	103% of salary	33,005	$722,513
	EIP Element C	Conditional award	13-Apr-17	13-Apr-20	60% of salary	19,318	$422,891
	EIP Element B	Conditional award	16-May-18	16-May-20	33% salary	16,953	$371,118
	EIP Element C	Conditional award	16-May-18	16-May-21	23% salary	12,042	$263,612
Total						**106,724** (2017: 136,230)	**$2,336,296** (2017: $2,084,590)

1. The performance criteria for Elements B and C of the EIP are assessed before a grant is considered. Additionally, Element B is subject to forfeiture criteria for the first two years after grant, which are detailed each year as part of the next year's EIP performance criteria on pages 92 to 99.
2. The face value is calculated using the vesting percentages described earlier in this section and the closing share price of 1,716p and foreign exchange rates of $1.2757 to £1 on 31 December 2018. The actual value received by Executive Directors under the share incentive arrangements is dependent upon the share price of Hikma at the time of exercise, the satisfaction of performance criteria and the non-occurrence of forfeiture events (EIP Element B).

The information in the table above has been audited by PwC

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

Date	Market price (Closing price)
1 January 2018	1,134p
31 December 2018	1,716p
2018 Range (low to high)	856p to 2,025p
12 March 2019	1,660p

Dilution

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

Type of plan	Granted in a rolling ten-year period	Granted during the year
Discretionary Share Plans (5% Limit)	3.72%	0.42%

Director share interests

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

	Darhold		Personal	
Director	Interest in Darhold	Effective Hikma shares	Shares (incl. connected people)	Total shareholding
Said Darwazah	21.85%	13,112,770	1,327,553	14,440,323
Mazen Darwazah[1]	11.01%	6,606,598	1,473,214	8,079,812
Ali Al-Husry[2]	8.08%	4,849,132	1,162,811	6,011,943

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

The information in the table above has been audited by PwC

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

	Ownership requirements			Total	Scheme Interests		Total
Director	Percentage of salary	Number of shares	Requirement fulfilled?	Shares owned[3]	EIP subject to performance (Element B)	EIP subject to service (Element C)	Share interests
Said Darwazah	300%	139,573	Yes	14,440,323	60,973	81,538	14,582,834
Siggi Olafsson	300%	151,747	No	20,000	0	0	20,000
Mazen Darwazah[4]	300%	98,281	Yes	8,079,812	49,958	56,766	8,186,536
Ali Al-Husry[5]				6,011,943			6,011,943
Robert Pickering				10,000			10,000
Pat Butler				3,875			3,875
Dr Pamela Kirby				3,317			3,317
John Castellani				3,500			3,500
Nina Henderson				3,500			3,500
Dr Jochen Gann[6]				0			0

3. Including shares effectively owned through Darhold as per the table above
4. Mazen Darwazah holds his shares in Darhold Limited through a family trust, in which he has a beneficial interest
5. Ali Al-Husry holds his shares in Hikma and Darhold Limited through a family trust, in which he has a beneficial interest
6. Dr Jochen Gann is senior executive in Boehringer Ingelheim who hold 40 million (16.6%) shares in Hikma

There have been no changes in the interests of the Directors in the shares of Hikma between 31 December 2018 and the date of this report. The share price used to calculate whether the shareholding requirements have been met is the price on 31 December 2018 of £17.16p and foreign exchange rates of $1.2757 to £1 on the same date

The information in the above tables has been audited by PwC

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

Director	Date	Event	No. Shares
Said Darwazah	19-Mar-18	Exercise of 2016 EIP Element B. Retained all shares.	68,346
Mazen Darwazah	19-Mar-18	Exercise of 2016 EIP Element B. Retained all shares.	38,501
Said Darwazah	15-May-18	Exercise of 2015 EIP Element C. Retained all shares.	27,000
Mazen Darwazah	15-May-18	Exercise of 2015 EIP Element C. Retained all shares.	20,000
John Castellani	22-May-18	Market purchase of shares.	1,000
Siggi Olafsson	30-May-18	Market purchase of shares.	20,000

The information in the table above has been audited by PwC

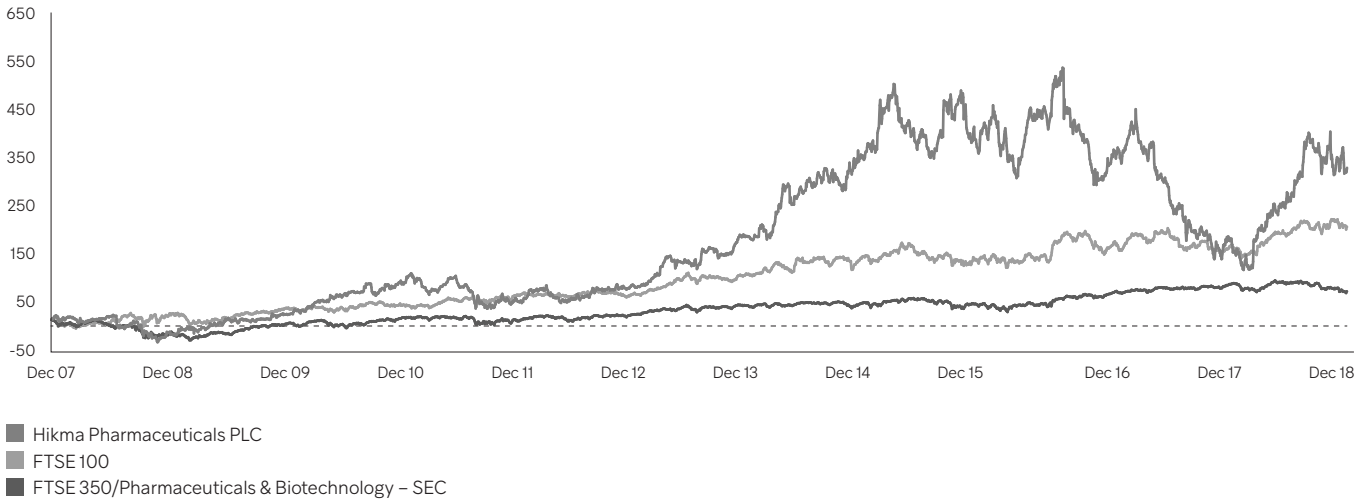
Scheme interests

The following table sets out details of the 'scheme interests' of the Directors. Element B of the EIP has been included because it has a performance period of one year plus a two-year forfeiture condition.

	Type of interest		Performance measures		Vested but unexercised
Director	Shares	Share options	Yes	No	
Said Darwazah	142,511	–	60,973	81,538	–
Siggi Olafsson	-	–	-	-	–
Mazen Darwazah	106,724	–	49,958	56,766	–
All other directors	–	–	–	–	–

Total shareholder return

During 2018, Hikma performed better than its UK peers in Hikma's index (FTSE 100) and sector (FTSE 350 Pharmaceuticals & Biotechnology segment, a relatively small group of companies that are mainly focused on developing new drugs).



Remuneration table

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

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

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

Non-Executive Directors

The table below details the fees paid to Non-Executive Directors during the year under review and the prior year. Certain Directors joined, retired or changed roles during the periods and their fees have been pro-rated for time served in the relevant position:

		2018			2017		
Name	Board position	**Fee (all elements) £,000**	**Taxable benefits[3] £,000**	**Total £,000**	Fee (all elements) £,000	Taxable benefits £,000	Total £,000
Robert Pickering	Senior Independent Director	**101.0**	**–**	**101.0**	101.0	–	101.0
Pat Butler	Audit Committee Chair	**109.0**	**–**	**109.0**	109.0	–	109.0
Michael Ashton	Independent Director	**–**	**–**	**–**	43.5	–	43.5
Dr Ronald Goode	Independent Director	**38.5**	**2.4**	**40.9**	98.7	8.4	107.1
Dr Pamela Kirby	Remuneration Committee Chair	**101.0**	**–**	**101.0**	101.0	–	101.0
Ali Al-Husry	Non-Executive Director	**85.0**	**2.5**	**87.5**	85.0	1.3	86.3
Dr Jochen Gann	Non-Executive Director	**85.0**	**1.6**	**86.6**	85.0	–	85.0
John Castellani[4]	CRE Committee Chair	**104.9**	**2.4**	**107.3**	96.8	1.3	98.1
Nina Henderson[5]	Independent Director and Employee Engagement Lead	**93.0**	**1.6**	**94.6**	116.3	–	116.3

3. 'Taxable benefits' includes certain accommodation expenses for Non-Executive Directors that are wholly related to their attendance at Board meetings and are in accordance with normal Hikma expense policy. These expenses may be treated as taxable benefits by the UK authorities and, where appropriate, the above figure includes the corresponding tax contribution
4. John Castellani was underpaid fees of £3,900 in 2017 which were paid in 2018
5. Nina Henderson was due to receive fees of £23,300 for services during 2016. These fees were paid in 2017 and, in accordance with regulations, have been included in the 2017 table

The information in the table above has been audited by PwC

During the year, the Executive Directors reviewed the fees paid to Non-Executive Directors. The conclusion from the review was that the base fee of £85,000 should remain unchanged and that the Committee membership and Committee Chair fees (having remained unchanged since 2010) should be increased from £8,000 to £10,000 (£20,000 for the Audit Committee Chair, the proportional increase). Additionally, it was concluded that the Director responsible for employee engagement should receive a Committee Chair fee. The changes will be implemented with effect from 1 June 2019.

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

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

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

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

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

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

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

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

External appointments
Hikma recognises that Executive Directors may be invited to take up non-executive directorships or public sector and not-for-profit appointments, and that these can broaden the experience, network and knowledge of the Director, from which Hikma can benefit. Executive Directors may accept external appointments as long as they do not lead to a conflict of interest and are allowed to retain any fees. During the year under review, Said Darwazah, Siggi Olafsson and Mazen Darwazah received fees of $4,100 (2017: $4,000), $114,745 (2017: N/A) and $29,400 (2017: $32,000), respectively, relating to external appointments which are detailed in their Director profiles on pages 66 and 67. The process for controlling these appointments is described in the governance statement on page 78.

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

For and on behalf of the Remuneration Committee

Dr Pamela Kirby
Chair of the Remuneration Committee
12 March 2019

Directors' report

Report of the Directors to shareholders and stakeholders

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018. This report forms the management report for the purposes of the Disclosure and Transparency Rules. Readers are asked to cross refer to the other sections of the Annual Report to the extent necessary to meet Hikma's reporting obligations as follows (statements that are not applicable have been excluded):

- Likely future developments of Hikma: Strategic report, pages 2 to 61
- Long-term incentive schemes: Directors' remuneration report, pages 90 to 100
- Related party transactions: Note 40 to the financial statements, page 162
- Going concern statement: Risk management report, page 61
- Names and biographical details of the Directors: corporate governance report, pages 66 and 67
- Independence of Non-Executive Directors: corporate governance report, page 69
- Directors' share interests: Directors' remuneration report, pages 101 and 102
- Greenhouse gas emissions: Sustainability report, pages 52 and 53
- Financial instruments and risk: Note 31 to the financial statements, pages 150 to 155

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

Item	Reference
Interest capitalised and associated tax relief	This page
Publication of unaudited financial information	None
Details of long-term incentive schemes	See Note 38 on pages 158 to 161
Waiver of emoluments by Directors	None
Allotment of securities for cash, including by major subsidiaries	None
Parent undertakings of Hikma	None
Contracts of significance with a material interest of a director or controlling shareholders	None
Services provided to Hikma by controlling shareholders	None
Arrangements by which shareholders have agreed to current or future waive dividends	See Note 35 on page 157
Controlling shareholder agreements and associated obligations	Hikma does not have any controlling shareholders within the meaning of the Listing Rules

Principal activity

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

Hikma's net sales, gross profit and operating profit are shown by business segment in Note 5 to the consolidated financial statements on pages 133 and 134.

Results

Hikma's reported profit for the year in 2018 was $285 million (2017: loss of $839 million).

Dividend

The Board is recommending a final dividend of 26 cents per share (approximately 20 pence per share) (2017: 23 cents per share) bringing the total dividend for the full year to 38 cents per share (approximately 29 pence per share) (2017: 34 cents per share, approximately 24 pence per share). The proposed dividend will be paid on 22 May 2019 to eligible shareholders on the register at the close of business on 5 April 2019, subject to approval at the Annual General Meeting on 17 May 2019.

Creditor payment policy

Hikma's policy, which is also applied by all subsidiaries and will continue in respect of the 2019 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 2018 were equivalent to 94 days' purchases (2017: 82 days), based on the average daily amount invoiced by suppliers during the year.

Donations

During the year Hikma made charitable donations of approximately $2.6 million (2017: $3.2 million):

Type of donation	Amount donated in 2017 ($)	**Amount donated in 2018 ($)**
Local charities serving communities in which Hikma operates	**1,441,861**	**1,209,550**
Medical (donations in kind)	**1,780,625**	**1,398,738**
Political donations and expenditure	**nil**	**nil**
Total	**3,222,486**	**2,608,288**

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

Research and development

Hikma's investment in research and development (R&D) during 2018 represented 5.7% of Group revenue (2017: 6.3%). Further details on Hikma's R&D activities can be found on page 39.

Interest

The interest capitalised during the year under review was $0.1 million (2017: $0.1 million). The tax impact related to the capitalised interest was $nil (2017: $nil).

Significant contracts

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

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

Directors

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

Indemnities and insurance

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

Auditors

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

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

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

Employment

During the year, Hikma continued to operate its existing employee engagement mechanisms which include Intra-Group communications, social networking, an open door policy for legitimate union representatives and the operation of share incentive arrangements. During 2019, Nina Henderson will undertake employee engagement activities as described on page 70. Hikma does not discriminate against a potential employee on grounds of disability and will make reasonable adjustments to employ and develop disabled people.

Equity

Capital structure

Details of the issued share capital, together with movements in the issued share capital during the year, can be found in Note 33 to the financial statements on page 156. Hikma has one class of Ordinary Shares of 10 pence each (Shares) which carries no right to fixed income. Each share carries the right to one vote at general meetings of Hikma.

As at 31 December 2018:

Type	Nominal value	In issue	Issued during the year
Shares	10 pence	241,455,394	776,500

During 2018, Hikma issued Ordinary Shares solely pursuant to the exercise of options under the 2005 Long Term Incentive Plan, 2009 Management Incentive Plan and 2014 Executive Incentive Plan.

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

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

Share buy-back

At the Annual General Meeting (AGM) on 18 May 2018, 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 2019 or the 2019 AGM, which is scheduled for 17 May 2019. The Directors have not used this authority during the year, but are proposing to renew this authority at the 2019 AGM. Additionally, at the Extraordinary General Meeting held on 19 February 2016, shareholders gave the Directors authority to re-purchase Shares from BI that were issued in respect of the Columbus acquisition. This authority expires on 22 January 2021.

Share issuance

At the AGM on 18 May 2018, the Directors were authorised to issue relevant securities up to an aggregate nominal amount of £8,023,630 and to be empowered to allot equity securities for cash on a non pre-emptive basis up to an aggregate nominal amount of £1,203,394 at any time up to the earlier of the date of the 2019 AGM or 30 June 2019. The Directors propose to renew these authorities at the 2019 AGM for a further year. In the year ahead, other than in respect of Hikma's obligations to satisfy rights granted to employees under its various share-based incentive arrangements, the Directors have no present intention of issuing any additional share capital of Hikma.

Details of the employee share schemes are set out in Note 38 to the financial statements on pages 160 and 161. Shares are also held by the Hikma Pharmaceuticals Employee Benefit Trust (EBT) and are detailed in Note 35 to the financial statements on page 157. The EBT has waived its right to vote on the shares it holds and also to its entitlement to a dividend. No other shareholder has waived the right to a dividend.

Annual General Meeting

The AGM of Hikma will be held at Sofitel St James, 6 Waterloo Place, London SW1Y 4AN on Friday, 17 May 2019, starting at 10.00 am The Notice convening the meeting is given in a separate document accompanying this document, and includes a commentary on the business of the AGM, and notes to help shareholders exercise their rights at the meeting.

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

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

Substantial shareholdings

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

Name of shareholder	Number of shares	Percentage held
Darhold Limited[1]	60,000,000	24.9%
Boehringer Ingelheim[2]	40,000,000	16.6%
Capital Group International	23,275,396	9.6%
Fidelity International	9,791,950	4.1%
Vanguard Healthcare Fund	7,284,981	3.0%

1. Said Darwazah, Mazen Darwazah and Ali Al-Husry, each being a Director and shareholder of Hikma, are shareholders and non-executive directors of Darhold Limited. See page 101 for details of their holdings in Darhold Limited
2. Dr Jochen Gann is a Director of Hikma and a senior executive of Boehringer Ingelheim

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

Pre-emptive issue of shares

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

Post balance sheet events

Since the year end, a litigation matter with an external party was determined in Hikma's favour resulting in a payment of $32 million becoming due to Hikma. Additionally, the acquisition of a facility in Vietnam was completed for total consideration that is not expected to exceed $17 million.

Directors' responsibility statement

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

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

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

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Hikma and the undertakings included in the consolidation taken as a whole
- the Strategic report includes a fair review of the development and performance of the business and the position of Hikma and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess Hikma's performance, business model and strategy

On behalf of the Board

Said Darwazah
Executive Chairman
12 March 2019

Sigurdur Olafsson
Chief Executive Officer
12 March 2019

Financial statements

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

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Independent auditors' report to the members of Hikma Pharmaceuticals PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Hikma Pharmaceuticals PLC's Group financial statements and Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit and cash flows for the year then ended
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law)
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and parent Company balance sheets as at 31 December 2018; the consolidated income statement and statement of comprehensive income, the consolidated cash flow statement, and the consolidated and parent Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Basis for opinion

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

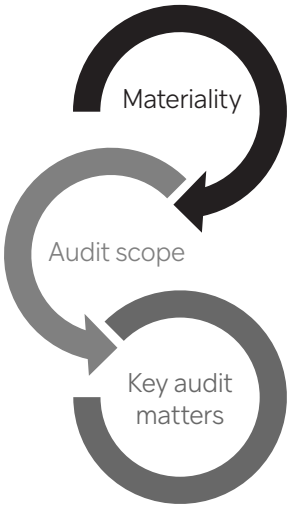
Independence

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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

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



Our audit approach

Overview

— Overall Group materiality: $17 million (2017: $14 million), based on 5% of profit before tax after adding back the following exceptional and other items: research and development costs relating to generic Advair Diskus®, restructuring costs as a result of the closure of the Eatontown, New Jersey manufacturing plant and the re-measurement of acquisition-related liabilities.

— Overall Company materiality: capped at $10 million (2017: $10 million), but calculated based on 1% of total assets.

— Our audit included full scope audits of seven components, audit procedures on specific financial statement line items of one component and audit procedures performed centrally over specific material balances at other locations around the world. Taken together the above procedures account for 84% of consolidated revenue, 75% of consolidated profit before tax and 83% of consolidated total assets.

— Recoverability of the carrying value of intangible assets and goodwill (Group).

— Recognition and measurement of accruals for chargebacks, rebates and returns in the US (Group).

— Recognition and measurement of uncertain tax positions and recoverability of deferred tax assets (Group).

— No key audit matters specific to the Hikma Pharmaceuticals PLC parent Company financial statements were identified.

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to regulations set out by the United States Food and Drug Administration (the FDA) and other industry regulators, defence of products, pricing and practices legislation, taxation and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

— discussions with management and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud

— assessment of matters reported on the Group's whistleblowing helpline and results of management's investigation of such matters

— challenging assumptions made by management in their significant accounting estimates in particular in relation to estimation of rebate and return accruals, impairment of intangible assets, and the recognition and measurement of litigation and contingent liabilities and uncertain tax provisions (see related key audit matters below)

— identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals posted by senior management, journals posted and reviewed by the same individual and consolidation journals

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Recoverability of the carrying value of intangible assets and goodwill (Group)

Key audit matter	How our audit addressed the key audit matter
At 31 December 2018, the Group had goodwill of $279 million and intangible assets of $487 million (31 December 2017: $282 million and $503 million, respectively) comprising customer relationships, product-related intangible assets, software and other identified intangible assets. This is contained within three cash generating units (CGUs). For the year ended 31 December 2017, the Group recorded $1,105 million as an exceptional impairment charge primarily as a result of uncertainty in the generics market and the delay in approval of its application for its generic version of Advair Diskus®. All CGUs containing goodwill and indefinite-lived intangible assets must be tested for impairment annually. The Group is also required to complete an impairment review of its portfolio of finite-lived intangible assets where there are indicators of impairment. Additionally, the Group must consider whether there are indicators of impairment reversal at each reporting date. The determination of carrying values requires judgement on the part of management in identifying and then estimating the higher of the value in use and a fair value less costs to dispose for the relevant CGUs. These amounts are based on management's view of future cash flow forecasts and external market conditions such as future pricing, probability of technical and regulatory success and the most appropriate discount rate. There is a risk that the carrying value of intangible assets may be higher than the recoverable amount. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods as IAS 36 states that impairment losses are reversed if there has been an event or trigger that indicates a significant, discrete and sustained change. We focused on the intangible assets in the Generics CGU, to assess if there were any significant changes in estimates relating to the external market conditions. We further focused specifically on the business plan cash flows and assumptions in the current financial year. No impairment charges or reversals of previously recognised impairment charges were recorded in the year. *Refer to notes 3 and 16 in the Group financial statements and the Audit Committee review of areas of significant judgement on page 74.*	We assessed the determination of the CGUs identified for the impairment calculation by considering the CGUs previously used as well as from our understanding of the business and how it is monitored. With support from our valuations specialists, we obtained the Group's impairment analyses and tested the integrity of the calculations, reasonableness of key assumptions, including product profit and cash flow growth or decline, terminal values and discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry forecasts. We performed the following procedures on the Group's impairment analyses, with significant involvement from senior engagement team members: — corroborated the information to Board reviewed budgets and forecasts — understood management's process for forecasting cash flows, which is underpinned by models that include a product-by-product analysis. We challenged management's market and pricing assumptions by comparing them to historical and third party market data. We also utilised our valuations specialists to identify any anomalies or trends that warranted further investigation and corroboration — for the Group's In Process Research & Development (IPRD) in 2018 we corroborated products included in the valuation model to minutes from the Product Review Committee meetings, where decisions on pipeline and IPRD opportunities are made — in respect of costs and resulting profit margins in management's model, we challenged management on forecasted trends and assumed cost savings in the context of the Group's plans for ongoing product development, maintenance of its manufacturing facilities via capital expenditure and other investment and plans for organic growth — performed look back testing to understand how accurate management had been in its previous forecasting — we recalculated the weighted average cost of capital and considered if the amount was within a reasonable range We consider management's key assumptions to be within a reasonable range. For those intangible assets including goodwill where management determined that no impairment was required, we found that these judgements were supportable. We also obtained management's sensitivity analyses which showed the impact of reasonably possible changes to key assumptions. We considered whether these were the key sensitivities and performed our own sensitivity analyses. We considered management's policy around impairment reversal given the size of the impairment loss recognised in 2017. We considered both the conditions in the US generics market and factors relating to generic Advair Diskus®. Based on our procedures, we concluded that reversing any of the prior year impairment charge was currently not appropriate. This will continue to be monitored closely during 2019. We also validated the appropriateness of the related disclosures in note 16 of the financial statements.

Recognition and measurement of accruals for chargebacks, rebates and returns in the US (Group)

Key audit matter	How our audit addressed the key audit matter
Management is required to make certain judgements and estimates in respect of revenue recognition and specifically the level of chargebacks, returns and other revenue deductions that will be realised against the Group's revenue. These estimates are material to the financial statements and involve judgement, hence the reason for inclusion as an area of focus. The largest of these estimates relates to revenue recognition, chargebacks, rebates and returns in the US for which the Group recorded revenue deductions for the year ended 31 December 2018 of $2,057 million (2017: $1,933 million). We focused on this area as rebates, discounts, allowances and returns arrangements and the deductions from gross revenue are complex and because establishing an appropriate accrual requires significant estimation by the Directors. This judgement is complex in a US healthcare environment in which competitive pricing pressure and product discounting are trends. The Directors have determined an accrual of $409 million to be necessary at 31 December 2018 (2017: $388 million). *Refer to the Audit Committee review of areas of significant judgement page 74, significant accounting policies note 2, trade and other receivables note 21 and other current liabilities note 28.*	We considered the Group's processes for making judgements in this area and performed the following procedures: — we assessed applicable controls in place around this process, tested the nature of the pricing arrangements and the accuracy of calculations and agreed the rates in customer agreements with those used in management's calculations of the required reserves and deductions — we obtained management's calculations for accruals under applicable schemes and validated the assumptions used by reference to the Group's stated commercial policies, the terms of the applicable contracts and historical levels of product returns — we compared the assumptions to contracted prices, historical rebates, discounts, allowances and returns levels (where relevant) and to current payment trends. We also considered the historical accuracy of the Group's estimates in previous years and the impact of competitive pricing pressures and greater discounting in the US market more generally — we formed an independent expectation of the largest elements of the reserve at 31 December 2018 using third party data and compared this expectation to the actual accrual recognised by the Group Based on the procedures performed, we did not identify any material differences between our independent expectations and the accrual recorded.

Recognition and measurement of uncertain tax positions and recoverability of deferred tax assets (Group)

Key audit matter	How our audit addressed the key audit matter
The Group operates across a large number of jurisdictions due to its geographic spread, resulting in complex cross-border tax arrangements. As a result, it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business including transaction related tax matters and transfer pricing arrangements. Judgement is required in assessing the level of provisions required in respect of uncertain tax positions. At 31 December 2018, the Group has recorded provisions of $53 million in respect of uncertain tax positions (2017: $61 million). In 2018 management has recorded an exceptional deferred tax credit of $43 million relating to the 2017 impairment charge on US intangible assets. This credit was not recognised in 2017 due to insufficient forecast taxable profits in the US to meet the recognition criteria in IAS 12. At 31 December 2018, the total deferred tax asset was $125 million (2017: $135 million). *Refer to notes 12 and 13 in the Group financial statements.*	In conjunction with our UK, US, international tax and transfer pricing specialists, we evaluated and challenged management's judgements in respect of estimates involved in the determination of uncertain tax provisions and judgements taken in the measurement of deferred tax assets. In understanding and evaluating management's judgement relating to the level of provisioning for uncertain tax positions, we considered the status of ongoing tax authority audits, the outcome of previous tax authority audits, developments in the tax environment and external tax advice received by the Group, where relevant, to satisfy ourselves that the tax provisions had been appropriately recorded or adjusted to reflect the latest developments. In respect of deferred tax we considered whether deferred tax assets were recoverable with reference to Board reviewed forecasts. We ensured that these forecasts were consistent with those used for impairment testing (see above). We also challenged management on whether it is appropriate to now recognise deferred tax assets in respect of the 2017 impairment charge. We concur with management that, as a result of changes to the US business model due to an internal reorganisation, which increased US taxable profits principally in relation to the Injectables business, it is now sufficiently probable that future taxable profit will be available against which the tax relief arising on the 2017 impairment loss can be utilised. Consequently we believe it is now appropriate to recognise a deferred tax asset. We also considered the appropriateness of the related disclosures in notes 12 and 13 to the financial statements. Based on the procedures performed, we noted no material matters from our work.

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

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

As at 31 December 2018, Hikma Pharmaceuticals PLC had in total 51 entities (subsidiaries and associates) as part of the Group. These entities may operate solely in one segment but more commonly operate across two. Each territory (component) submits a Group reporting package to Hikma's central accounting team including its income and financial position prepared under Group accounting policies which are in compliance with IFRSs. We requested component teams in the US (Hikma Pharmaceuticals USA Inc. and West-Ward Columbus Inc.), Jordan (Hikma Jordan), Saudi Arabia (Hikma Al Jazeera Pharmaceuticals Industries), Algeria (Hikma Pharma Algeria) and Portugal (Hikma Portugal) to audit reporting packages of certain entities in these territories and report the results of their full scope audit work to us. This work was supplemented by procedures over specific balances performed on Hikma Pharmaceuticals International Limited (HPIL) and procedures performed centrally including the consolidation, taxation and certain component balances not covered by local component teams.

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

Taken together our audit work accounted for 84% of consolidated revenue, 75% of consolidated profit before tax, 83% of total assets and 73% of the adjusted profit measure we use as a basis for determining materiality.

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

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

	Group financial statements	Company financial statements
Overall materiality	$17 million (2017: $14 million).	$10 million (2017: $10 million).
How we determined it	5% of profit before tax after adding back the following exceptional and other items: research and development costs relating to generic Advair Diskus®, restructuring costs as a result of the closure of the Eatontown, New Jersey manufacturing plant and the remeasurement of acquisition-related liabilities.	1% of total assets. This was capped at $10 million (2017: $10 million), but calculated based on 1% of total assets.
Rationale for benchmark applied	The Group's principal measure of earnings is core profit. Management believes that it reflects the underlying performance of the Group and is a more meaningful measure of the Group's performance. We took this measure into account in determining our materiality but did not add back certain non-core items unless we deemed them to be non-recurring in nature. Our materiality would have been higher if we had adjusted for all non-core items.	The Company holds the Group's investments and performs treasury functions on behalf of the Group. The strength of the balance sheet is the key measure of financial health that is important to shareholders since the primary concern for the parent Company is the payment of dividends and servicing of debt.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between $1,500,000 and $10,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $850,000 (Group audit) (2017: $500,000) and $850,000 (Company audit) (2017: $500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 62 to 107) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA (DTR) is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 62 to 107) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- the Directors' confirmation on page 58 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated
- the Directors' explanation on page 61 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

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

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

- the statement given by the Directors, on page 107, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit

- the section of the Annual Report on page 74 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

- the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Responsibility Statement set out on page 107, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit or

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us or

- certain disclosures of Directors' remuneration specified by law are not made or

- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 11 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2016 to 31 December 2018.

Mark Gill
(Senior Statutory Auditor)

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

London
12 March 2019

Consolidated income statement

For the year ended 31 December 2018

	Note	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	4	**2,076**	**(6)**	**2,070**	1,936	–	1,936
Cost of sales		**(1,004)**	**(16)**	**(1,020)**	(963)	(6)	(969)
Gross profit		**1,072**	**(22)**	**1,050**	973	(6)	967
Sales and marketing expenses		**(191)**	**(33)**	**(224)**	(188)	(48)	(236)
General and administrative expenses		**(246)**	**–**	**(246)**	(238)	(1)	(239)
Net impairment reversals on financial assets		**11**	**–**	**11**	–	–	–
Research and development expenses		**(118)**	**(29)**	**(147)**	(115)	(6)	(121)
Other operating expenses (net)	9	**(68)**	**(5)**	**(73)**	(46)	(1,072)	(1,118)
Total operating expenses		**(612)**	**(67)**	**(679)**	(587)	(1,127)	(1,714)
Operating profit/(loss)	5	**460**	**(89)**	**371**	386	(1,133)	(747)
Finance income	10	**3**	**–**	**3**	2	93	95
Finance expense	11	**(54)**	**(26)**	**(80)**	(60)	(26)	(86)
Loss from investment at fair value		**(1)**	**–**	**(1)**	–	–	–
Profit/(loss) before tax		**408**	**(115)**	**293**	328	(1,066)	(738)
Tax	12	**(73)**	**65**	**(8)**	(72)	(29)	(101)
Profit/(loss) for the year		**335**	**(50)**	**285**	256	(1,095)	(839)
Attributable to:							
Non-controlling interests	34	**3**	**–**	**3**	4	–	4
Equity holders of the parent		**332**	**(50)**	**282**	252	(1,095)	(843)
		335	**(50)**	**285**	256	(1,095)	(839)
Earnings/(loss) per share (cents)							
Basic	15	**137.8**		**117.0**	105.0		(351.3)
Diluted	15	**137.2**		**116.5**	104.6		(349.8)

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Profit/(loss) for the year		**335**	**(50)**	**285**	**256**	**(1,095)**	**(839)**
Other comprehensive income/(loss)							
Items that may be reclassified subsequently to the consolidated income statement, net of tax:							
Currency translation (loss)/gain		**(29)**	**–**	**(29)**	20	–	20
Items that will not be reclassified subsequently to the consolidated income statement, net of tax:							
Change in fair value of available-for-sale financial assets[1]	24	**–**	**–**	**–**	2	–	2
Change in the fair value of equity investments[2]	19	**7**	**–**	**7**	–	–	–
Total comprehensive income/(loss) for the year		**313**	**(50)**	**263**	**278**	**(1,095)**	**(817)**
Attributable to:							
Non-controlling interests		**1**	**–**	**1**	3	–	3
Equity holders of the parent		**312**	**(50)**	**262**	**275**	**(1,095)**	**(820)**
		313	**(50)**	**263**	**278**	**(1,095)**	**(817)**

1. This investment was previously designated as available-for-sale financial assets, upon transition to IFRS 9 it has been re-categorised as Investments measured at fair value through profit or loss (FVTPL)
2. This investment was previously classified as available-for-sale and stated at cost (under IAS 39 cost exemption); upon transition to IFRS 9 it has been re-categorised as Investments measured at fair value through other comprehensive income (FVTOCI)

Consolidated balance sheet

At 31 December 2018

	Note	2018 $m	2017 $m
Non-current assets			
Goodwill	16	**279**	282
Other intangible assets	16	**487**	503
Property, plant and equipment	17	**870**	828
Investment in associates and joint ventures	18	**11**	6
Deferred tax assets	13	**125**	135
Financial and other non-current assets	19	**57**	60
		1,829	1,814
Current assets			
Inventories	20	**528**	488
Income tax receivable		**74**	53
Trade and other receivables	21	**731**	707
Collateralised and restricted cash	22	**–**	4
Cash and cash equivalents	23	**276**	227
Other current assets	24	**59**	95
		1,668	1,574
Total assets		**3,497**	3,388
Current liabilities			
Bank overdrafts and loans	25	**74**	86
Trade and other payables	26	**465**	365
Income tax provision		**68**	82
Other provisions	27	**23**	26
Other current liabilities	28	**263**	238
		893	797
Net current assets		**775**	777
Non-current liabilities			
Long-term financial debts	29	**539**	670
Obligations under finance leases	30	**23**	20
Deferred tax liabilities	13	**16**	49
Other non-current liabilities	32	**329**	324
		907	1,063
Total liabilities		**1,800**	1,860
Net assets		**1,697**	1,528
Equity			
Share capital	33	**40**	40
Share premium		**282**	282
Other reserves		**(217)**	(190)
Retained earnings		**1,580**	1,382
Equity attributable to equity holders of the parent		**1,685**	1,514
Non-controlling interests	34	**12**	14
Total equity		**1,697**	1,528

The consolidated financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 116 to 167 were approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

Said Darwazah
Director
12 March 2019

Sigurdur Olafsson
Director

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Merger and revaluation reserves $m	Translation reserve $m	Own shares $m	Total other reserves $m	Retained earnings $m	Share capital $m	Share premium $m	Equity attributable to equity shareholders of the parent $m	Non-controlling interests $m	Total equity $m
Balance at 1 January 2017	1,077	(248)	(1)	828	1,246	40	282	2,396	15	2,411
Loss for the year[1]	(1,039)	–	–	(1,039)	196	–	–	(843)	4	(839)
Change in fair value of available-for-sale financial assets (note 24)[2]	–	–	–	–	1	–	–	1	–	1
Currency translation gain/(loss)	–	21	–	21	–	–	–	21	(1)	20
Total comprehensive (loss)/income for the year	(1,039)	21	–	(1,018)	197	–	–	(821)	3	(818)
Cost of equity-settled employee share scheme (note 38)	–	–	–	–	22	–	–	22	–	22
Dividends on ordinary shares (note 14)	–	–	–	–	(79)	–	–	(79)	(2)	(81)
Adjustment arising from change in non-controlling interests (note 34)	–	–	–	–	(4)	–	–	(4)	(2)	(6)
Total transactions with owners, recognised directly in equity										
Balance at 31 December 2017 and 1 January 2018 as previously reported	38	(227)	(1)	(190)	1,382	40	282	1,514	14	1,528
Impact of IFRS 9[3]	–	–	–	–	(3)	–	–	(3)	–	(3)
Impact of IFRS 15[3]	–	–	–	–	(25)	–	–	(25)	–	(25)
Balance at 1 January 2018 as adjusted	38	(227)	(1)	(190)	1,354	40	282	1,486	14	1,500
Profit for the year	–	–	–	–	282	–	–	282	3	285
Change in the fair value of equity investments at fair value through other comprehensive income (note 19)[4]	–	–	–	–	7	–	–	7	–	7
Currency translation loss	–	(27)	–	(27)	–	–	–	(27)	(2)	(29)
Total comprehensive income/(loss) for the year	–	(27)	–	(27)	289	–	–	262	1	263
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme (note 38)	–	–	–	–	21	–	–	21	–	21
Dividends on ordinary shares (note 14)	–	–	–	–	(84)	–	–	(84)	(3)	(87)
Balance at 31 December 2018	**38**	**(254)**	**(1)**	**(217)**	**1,580**	**40**	**282**	**1,685**	**12**	**1,697**

1. In 2017 a loss of $1,039 million had been allocated from retained earnings to the merger and revaluation reserves in relation to the Columbus business impairment (note 6, 16 and 17)
2. This investment was previously designated as available-for-sale financial assets, upon transition to IFRS 9 it has been re-categorised as Investments FVTPL
3. The Group adopted IFRS 9 and IFRS 15 from 1 January 2018 (note 1, 4, 28 and 44)
4. This investment was previously classified as available-for-sale and stated at cost (under IAS 39 cost exemption); upon transition to IFRS 9 it has been re-categorised as Investments at FVTOCI

Consolidated cash flow statement

For the year ended 31 December 2018

	Note	2018 $m	2017 $m
Cash flows from operating activities			
Cash generated from operations	36	**493**	546
Income taxes paid		**(63)**	(103)
Net cash inflow from operating activities		**430**	443
Cash flow from investing activities			
Purchases of property, plant and equipment		**(107)**	(107)
Proceeds from disposal of property, plant and equipment		**13**	4
Purchase of intangible assets		**(32)**	(44)
Cash (paid)/received from investment in joint ventures		**(4)**	2
Investment in financial and other non-current assets, net		**4**	(2)
Investments at fair value through other comprehensive income (2017: available-for-sale investment)		**(4)**	(8)
Acquisition of business undertakings net of cash acquired		**1**	3
Contingent consideration adjustment		**30**	–
Finance income		**3**	1
Net cash outflow from investing activities		**(96)**	(151)
Cash flow from financing activities			
Decrease in collateralised and restricted cash		**3**	3
Proceeds from issue of long-term financial debts[1]		**93**	349
Repayment of long-term financial debts[1]		**(224)**	(401)
Proceeds from short-term borrowings[2]		**138**	323
Repayment of short-term borrowings[2]		**(148)**	(349)
Dividends paid		**(84)**	(79)
Dividends paid to non-controlling shareholders of subsidiaries		**(3)**	(2)
Interest paid		**(51)**	(57)
Purchase of non-controlling interest in subsidiary		**–**	(6)
Payment from co-development and earnout payment agreement, net		**(2)**	(1)
Net cash outflow from financing activities		**(278)**	(220)
Net increase in cash and cash equivalents		**56**	72
Cash and cash equivalents at beginning of year		**227**	155
Foreign exchange translation movements		**(7)**	–
Cash and cash equivalents at end of year		**276**	227

1. These cash flows relate to long-term financial debts (note 29) and the movements above reconcile to the movement per the note. In the prior year, the movement reconciled to the note after including a non-cash movement of $1 million in respect of unfavourable translation differences
2. These cash flows relate to bank overdraft and loans (note 25) and the movements above reconcile to the movement per the note after including a non-cash movement of $2 million (2017: $5 million) in respect of favourable translation differences

Notes to the consolidated financial statements

1. Adoption of new and revised standards

The following new and revised standards and interpretations have been adopted in the current year. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group, but may impact the accounting for future transactions and arrangements.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendments)	Revenue from Contracts with Customers

The following standards and interpretations have not been applied in these consolidated financial statements because while in issue, these are not yet effective:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments

IFRS 15

IFRS 15 'Revenue from Contracts with Customers' is effective for accounting periods beginning on or after 1 January 2018 and replaces IAS 18 'Revenue'. It provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the Company expects to be entitled to receive. The standard also updates revenue disclosure requirements.

The key revenue recognition policy impacted under IFRS 15 is the accounting of free goods. Previously, free goods were recorded only at cost, within cost of sales and no transaction price was allocated to the free goods revenue. Under IFRS 15 an option to acquire additional goods or services gives rise to a separate performance obligation, if the option provides a material right to the customer that the customer would not receive without entering into that contract. The standard requires management to estimate the transaction price to be allocated to the separate performance obligations, to defer revenue and to recognise a contract liability for the performance obligations that will be satisfied in the future. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

The Group has adopted IFRS 15, applying modified retrospective approach on 1 January 2018 with a cumulative adjustment as an increase to other current liabilities of $27 million (contract liability), reflecting the free goods obligations outstanding as at 1 January 2018, an increase of trade receivables by $1 million, decrease in the income tax provision by $1 million and the corresponding net adjustment to decrease retained earnings by $25 million. There is no restatement to prior periods as permitted in the transition rules for IFRS 15. The impact of IFRS 15 on the consolidated financial statements for 31 December 2018 is disclosed in note 44.

IFRS 9

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018, bringing aspects of the accounting for financial instruments: classification, measurement; and impairment.

(a) Classification and measurement

The principal impact is that the portfolio investments (quoted securities portfolio) previously designated as available-for-sale financial assets have been re-categorised on initial application as Investments FVTPL. For further details, see note 24 of the consolidated financial statements and note 51 to the Company financial statements. The Group recorded the fair value movements for such investments through the consolidated income statement for the year ended 31 December 2018.

Equity instruments are normally measured at fair value through profit or loss. However, on initial recognition, the Group may make irrevocable election (on instrument-by-instrument basis) to present in other comprehensive income subsequent changes in the fair value of equity instrument not held for trading.

The fair value movements on investments in unlisted equity instrument (i.e. the Group's venture capital investments) are recorded in other comprehensive income. This category only includes equity instruments, which the Group intends to hold for the foreseeable future. The Group has irrevocably elected (on instrument-by-instrument basis) to classify these equity investments as measured at FVTOCI upon transition to IFRS 9.

Previously, the investments in unlisted shares that were not held for trading were stated at cost, less a provision for any impairment loss (under IAS 39 cost exemption). At transition date, the investments in unlisted shares ($16 million – see note 31) are re-classed as financial assets measured at FVTOCI.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

The Group has adopted IFRS 9 retrospectively, but with certain permitted exceptions. As a result, prior year results are also not restated, but a cumulative adjustment as a decrease in trade receivables and a corresponding adjustment to decrease equity at 1 January 2018 by $3 million has been made (note 44).

The adoption of the ECL requirements of IFRS 9 resulted in an increase in impairment allowance of the Group's debt financial assets.

The other changes introduced in IFRS 9 have not had a significant impact on the Group.

IFRS 16

IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal form of a Lease'.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

1. Adoption of new and revised standards continued

The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Early application is permitted. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs; it is currently anticipated that the standard will be adopted on a modified retrospective approach.

In 2018, the Group has assessed the potential effect of IFRS 16 on its consolidated financial statements. The Group expects to recognise lease liabilities of approximately $49 million on 1 January 2019, right-of-use assets of $46 million (after an adjustment for accrued rent of $3 million recognised as at 31 December 2018).

IFRIC 23

IFRIC 23 'Uncertainty over Income Tax Treatments' was issued in June 2017 and will be implemented by the Group from 1 January 2019. The interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter.

The Group has assessed the potential impact of the new interpretation and believes the application of IFRIC 23 on 1 January 2019 will not result in a material change to the provisions held for uncertain tax positions.

2. Significant accounting policies

General information

Hikma Pharmaceuticals PLC is a public limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is given on page 176.

The Group's principal activities are the development, manufacture, and marketing of a broad range of branded and non-branded generic pharmaceuticals products across the US, the Middle East and North Africa (MENA) and Europe. Hikma is also a leading licensing partner in MENA.

Basis of preparation

The Group consolidated financial statements are prepared in accordance with:

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

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

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

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

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

The presentation and functional currency of the Group is the US dollar as the majority of the Group's business is conducted in US dollars.

Going concern

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and therefore considered the going concern basis as appropriate. Therefore, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements (see page 61).

Basis of consolidation

The consolidated financial statements incorporate the results of Hikma Pharmaceuticals PLC (the Company) and entities controlled by the Company (together the Group). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The consolidated financial statements include:

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

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

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

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

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

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

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

2. Significant accounting policies continued

Business combinations

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

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

Contingent consideration classified as an asset or liability is a financial instrument and within the scope of IFRS 9 'Financial Instruments', is measured at fair value with changes in fair value recognised in consolidated income statement in line with IFRS 9, 'Other Contingent Consideration' that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated income statement.

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

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

Investment in associates and joint ventures

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

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

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

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

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit after tax.

Foreign currencies

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

Hyperinflationary economies

In hyperinflationary economies, when translating the results of operations into US dollars, assets, liabilities, income statement and equity accounts are translated at the rate prevailing on the balance sheet date. Sudan was considered as a hyperinflationary economy in the year ended 31 December 2018 in which the rate prevailing was 47.6 Sudanese pounds per US dollar as of 31 December 2018. The effect of inflation accounting in Sudan for the year ended 31 December 2018 was not material.

Revenue recognition

Under IFRS 15 revenue is recognised in the consolidated income statement when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

2. Significant accounting policies continued

The transition to IFRS 15 had no significant impact on the Group's revenue recognition policies as the majority of the Group's revenue is derived from the supply of goods (i.e. single performance obligation). The only significant revenue recognition policy that is impacted by IFRS 15 transition is free goods. Refer to free goods policy for more details.

The Group has generally concluded that it acts as principal in its revenue arrangements because it typically controls the goods or services before the transfer to customer.

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

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

If the ultimate net selling price cannot be reliably measured, revenue recognition is deferred until a reliable measurement can be made. Revenue is only recognised when it is highly probable that a significant reversal will not occur.

The Group does not expect to have any contract where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Variable consideration

Chargebacks

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

Returns

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

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

Rebates

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

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

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.

Customer option that provides a material right

Free goods

Free goods are issued to customers as sale incentives. Under IFRS 15 an option to acquire additional goods or services gives rise to a separate performance obligation, if the option provides a material right that the customer would not receive without entering into that contract. IFRS 15 requires management to estimate the transaction price to be allocated to the separate performance obligations and to recognise a contract liability for the performance obligations that will be satisfied in the future. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

Previously, free goods were recorded only at cost, within cost of sales and no transaction price was allocated to the free goods revenue.

2. Significant accounting policies continued

Contract manufacturing
The Group manufactures certain medicines on behalf of customers. The revenue from providing contract manufacturing services is recognised when these medicines are approved by the quality control department. There is no alternative use of these medicines and the Group also has the enforceable right to payments once these medicines are quality approved.

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

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

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

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

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

The dilutive effect of outstanding share-based payments is reflected as additional share dilution in the computation of diluted earnings per share.

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

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

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

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

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

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

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated 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.

A new standard for leasing, IFRS 16 'Leases' will come into effect on 1 January 2019, the potential effect on the consolidated financial statement is disclosed in note 1.

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

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

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

2. Significant accounting policies continued

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

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

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

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

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

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

Deferred tax is booked on unrealised inter-company profits on inventory sales, to the extent they are expected to unwind, at the rate applicable to the distribution company. Where there is a significant difference between the tax rates of the relevant companies, this creates deferred tax that can materially impact the Group's effective tax rate. In 2018, this had a 1.3% favourable impact on the effective tax rate (2017: 0.9% unfavourable).

Core results

Reported results represent the Group's overall performance. However, these results can include one-off or non-cash items that mask the underlying performance of the Group.

Non-IFRS measures are used to report and monitor the underlying performance of our business. Management uses these numbers internally to measure our progress and for setting performance targets. To provide a more complete picture of the Group's performance we present core results, alongside our reported results, to external audiences to help them understand the underlying performance of our business. Our core results may be calculated differently to other companies.

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

Our core results exclude the exceptional items and other adjustments set out in note 6 to the consolidated financial statements.

Exceptional items

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

Other adjustments

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

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

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

Intangible assets

An intangible asset is recognised if:

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

The probability of expected future economic benefits is assessed using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset and are amortised on a straight-line basis on the following amortisation rates:

Customer relationships	7%
Product related intangibles	7% to 14%
Trade names	10%
Marketing rights	10% to 50%
Software	10% to 30%

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

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

2. Significant accounting policies continued

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

Principal intangible assets are:

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Impairment of property, plant and equipment and intangible assets

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

2. Significant accounting policies continued

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

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

The Group's goodwill and intangible assets are tested as follows:

(a) Goodwill is allocated to each of the Group's CGUs. These CGUs 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 CGU 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. The assumptions used in the impairment tests are set out in note 16.

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a sustained change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. In line with IAS 36, previously recognised impairment losses on goodwill are not reversed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Purchased products are stated at acquisition cost including all additional attributable costs incurred in bringing each product to its present location and condition. The costs of own-manufactured products comprise of direct materials and, where applicable, direct labour costs and any overheads that have been incurred in bringing the inventories to their present location and condition. In the consolidated balance sheet, inventory is primarily valued at standard cost, which approximates to historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the consolidated income statement.

Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs necessary to make the sale. Inventory related provisions are made for net realisable value lower than cost, slow moving and short-dated inventory.

Cash and cash equivalents

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

Financial instruments

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

Financial assets

From 1 January 2018, the Group classifies its financial assets in the following measurements categories:

(i) Financial assets at fair value through profit and loss (P&L)

Listed shares and investment portfolios held by the Group that are traded in an active market are classified as being financial assets at FVTPL and are stated at fair value. Gains and losses arising from changes in fair value are recognised in the consolidated income statement, see note 24.

(ii) Financial assets designated at fair value through other comprehensive income (OCI)

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, see note 19.

(iii) Financial assets at amortised cost

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

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit loss. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. Significant accounting policies continued

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

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

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

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

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

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

The effective interest method is 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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

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

Restructuring provisions
Restructuring provisions are recognised only when the Group has a constructive obligation, which is when:

(i) There is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and

(ii) The employees affected have been notified of the plan's main features.

Decommissioning provisions
The Group records a provision for decommissioning costs of a manufacturing facility. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated income statement as a finance expense. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Onerous contracts
The present obligation under the onerous contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Own shares
The Group provide finance to the trustee of the Employee Benefit Trust (EBT) which is Link Trustees (Jersey) Limited. Own shares are deducted from equity. These shares are held to be used to satisfy long-term commitments arising from the employee share plan operated by the Company.

Cash dividend
The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. In accordance with the laws of the United Kingdom, a final dividend is binding on the Company when it is approved by the shareholders and an interim dividend obtains this status when it is approved by the Board of Directors.

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Revenue recognition (notes 4 and 5)

The Group's revenue recognition policies require Directors to make estimates of the net selling price, which is made complicated due to chargebacks, product returns, rebates and price adjustments. These significant estimates vary by product arrangements and buying groups. We have not included sensitivity disclosures with respect to these given the commercially sensitive nature of this information. Refer to note 2 for more detail on each of the underlying estimates.

Goodwill (note 16)

The critical areas of estimates in relation to the valuation of goodwill involve:

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

- evaluation of current and future market conditions, market size, market share, and competition
- estimating a five-year business plan for purposes of forecasting free cash flows which involves forecasting appropriate sales and operating expenses taking into considerations both internal and external information
- estimating a discount rate that appropriately reflects the Group's weighted average cost of capital as adjusted for specific risk premiums reflecting risks inherent in achieving the projected future cash flows
- estimating appropriate terminal growth rate beyond the forecast period

Acquired intangible assets (note 16)

When testing for impairment, the following judgements and estimates are made:

- judgement around determining whether a 'triggering event' has occurred for intangible assets. In such cases we first assess the qualitative factors to determine whether it is more likely than not that the fair value of the intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test
- for pipeline products, establishing the launch date and probability of a successful product approval are critical judgements
- estimating revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices)
- estimating the future product profitability
- estimating a discount rate and specific risk premiums
- estimating appropriate terminal growth rate beyond the forecast period

For previously impaired assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased, see note 2.

Taxation (notes 12 and 13)

Critical judgements in applying the Group's accounting policies

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

Recognition of deferred tax assets

The recognition of deferred tax assets is based on the current forecast of taxable profits arising in the jurisdiction in which the deferred tax asset arises. A deferred tax asset is recognised to the extent that there are forecast taxable profits within a reasonable period. The Group has a potential deferred tax asset of $219 million (2017: $278 million), of which $125 million (2017: $135 million) has been recognised. This exercise is reviewed each year and, to the extent forecasts change, an adjustment to the recognised deferred tax asset may be made.

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

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

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

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

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

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

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

Valuation risk
As part of a reorganisation following the Columbus business acquisition in 2016, certain assets and liabilities were transferred intra-Group with external valuations obtained. If these valuations are successfully challenged by relevant tax authorities, it could adversely impact the tax recorded on the reorganisation.

Sensitivity
As at the consolidated balance sheet date, the Group held an aggregate provision in the sum of $57 million in respect of liabilities likely to arise from the above estimation uncertainties. Hikma released $20 million in 2018 mainly due to the statute of limitations but this was offset by new provisions of $13 million booked in 2018. In 2019, up to $9 million could be released on the same grounds. If all areas of uncertainty were audited and all areas resulted with an adverse outcome, management does not believe any material additional tax would be payable beyond what is provided.

Contingent liabilities
The promotion, marketing and sale of pharmaceutical products and medical devices is highly regulated and the operations of market participants, such as Hikma, are closely supervised by regulatory authorities and law enforcement agencies, including the US FDA and the US Department of Justice. As a result, the Group is subject to certain investigations by governmental agencies, as well as other various legal proceedings considered typical to its business relating to employment, product liability and commercial disputes, see note 37.

4. Revenue from contracts with customers

Business and geographical markets:

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

Year ended 31 December 2018	Branded $m	Injectables $m	Generics $m	Others $m	Total $m
United States	–	601	692	–	1,293
Middle East and North Africa	531	120	–	5	656
Europe and rest of the world	11	100	–	5	116
United Kingdom	–	5	–	–	5
	542	826	692	10	2,070

Year ended 31 December 2017	Branded $m	Injectables $m	Generics $m	Others $m	Total $m
United States	–	586	615	–	1,201
Middle East and North Africa	523	102	–	5	630
Europe and rest of the world	13	86	–	4	103
United Kingdom	–	2	–	–	2
	536	776	615	9	1,936

The top selling markets in 2018 are as below:

	2018 $m	2017 $m
United States	1,293	1,201
Saudi Arabia	170	157
Egypt	97	75
	1,560	1,433

Included in revenue arising in the Generics and Injectables segments is revenue of approximately $309 million (2017: $301 million) which arose from the Group's largest customer which is located in the US.

Contract balances:

	2018 $m	2017 $m
Trade receivables (note 21)	654	650
Contract liabilities (note 28)	151	127

Trade receivables are non-interest bearing. Typical credit terms in the US range from 30 to 90 days, in Europe from 30 to 120 days, and in MENA from 180 to 360 days.

Contract liabilities mainly relate to returns provisions and free goods balances. The movement in the year is mainly due to the increase in contract liability offset by the settlement of free goods liability of $28 million against a customer account receivable balance.

There was nominal amount of revenue recognised in the year in relation to the contract liability balance recognised at the beginning of the year.

5. Business segments

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

Core operating profit, defined as 'segment result', is the principal measure used in the decision-making and resource allocation process of the chief operating decision maker, who is the Group's Chief Executive Officer.

Information regarding the Group's operating segments is reported below:

Injectables	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	**832**	**(6)**	**826**	776	–	776
Cost of sales	**(329)**	**–**	**(329)**	(296)	–	(296)
Gross profit	**503**	**(6)**	**497**	480	–	480
Total operating expenses	**(168)**	**(24)**	**(192)**	(165)	(22)	(187)
Segment result	**335**	**(30)**	**305**	315	(22)	293

Generics	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	**692**	**–**	**692**	615	–	615
Cost of sales	**(397)**	**(16)**	**(413)**	(390)	(6)	(396)
Gross profit	**295**	**(16)**	**279**	225	(6)	219
Total operating expenses	**(202)**	**(37)**	**(239)**	(203)	(1,098)	(1,301)
Segment result	**93**	**(53)**	**40**	22	(1,104)	(1,082)

Branded	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	**542**	**–**	**542**	536	–	536
Cost of sales	**(271)**	**–**	**(271)**	(271)	–	(271)
Gross profit	**271**	**–**	**271**	265	–	265
Total operating expenses	**(154)**	**(6)**	**(160)**	(151)	(7)	(158)
Segment result	**117**	**(6)**	**111**	114	(7)	107

Others	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Revenue	**10**	**–**	**10**	9	–	9
Cost of sales	**(7)**	**–**	**(7)**	(6)	–	(6)
Gross profit	**3**	**–**	**3**	3	–	3
Total operating expenses	**(8)**	**–**	**(8)**	(7)	–	(7)
Segment result	**(5)**	**–**	**(5)**	(4)	–	(4)

'Others' mainly comprises Arab Medical Containers LLC, International Pharmaceutical Research Center LLC, Hikma Emerging Markets and Asia Pacific FZ LLC, and the chemicals division of Hikma Pharmaceuticals LLC (Jordan).

5. Business segments continued

Group	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Segment result	**540**	**(89)**	**451**	447	(1,133)	(686)
Unallocated expenses	**(80)**	**–**	**(80)**	(61)	–	(61)
Operating profit/(loss)	**460**	**(89)**	**371**	386	(1,133)	(747)
Finance income	**3**	**–**	**3**	2	93	95
Finance expense	**(54)**	**(26)**	**(80)**	(60)	(26)	(86)
Loss from investment at fair value	**(1)**	**–**	**(1)**	–	–	–
Profit/(loss) before tax	**408**	**(115)**	**293**	328	(1,066)	(738)
Tax	**(73)**	**65**	**(8)**	(72)	(29)	(101)
Profit/(loss) for the year	**335**	**(50)**	**285**	256	(1,095)	(839)
Attributable to:						
Non-controlling interests	**3**	**–**	**3**	4	–	4
Equity holders of the parent	**332**	**(50)**	**282**	252	(1,095)	(843)
	335	**(50)**	**285**	256	(1,095)	(839)

Unallocated corporate expenses mainly comprise employee costs, third-party professional fees, IT costs, travel expenses, rent expenses and donations.

6. Exceptional items and other adjustments

Exceptional items and other adjustments are disclosed separately in the consolidated income statement to assist in understanding the Group's core performance.

Exceptional items	2018 $m	2017 $m
Research and development cost	**(29)**	–
Contingent consideration gain	**–**	29
Acquisition, integration and other costs	**(30)**	(26)
Impairment of the Columbus business goodwill	**–**	(407)
Impairment of product-related intangible assets, software, property, plant and equipment and others	**–**	(681)
Exceptional items included in operating profit/(loss)	**(59)**	(1,085)
Tax benefit associated with prior year impairment loss for which a tax benefit is recognised	**43**	–
Prior year favourable US tax ruling	**13**	–
US tax reform bill	**–**	(49)
Exceptional items included in profit/(loss)	**(3)**	(1,134)
Other adjustments		
Intangible amortisation other than software	**(30)**	(48)
Remeasurement of contingent consideration, financial liability and asset, (net)	**(26)**	67
Exceptional items and other adjustments	**(59)**	(1,115)
Tax effect	**9**	20
Impact on profit/(loss) for the year	**(50)**	(1,095)

6. Exceptional items and other adjustments continued

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

Exceptional items

- During 2018, Hikma incurred $29 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. In 2017, Hikma recognised a $29 million contingent consideration gain from Boehringer Ingelheim as compensation for failure to receive FDA approval of generic Advair Diskus® before 24 December 2017. To obtain approval, the FDA requires the completion of an additional clinical endpoint study. Both the compensation and the repeat clinical study cost have been treated as exceptional items.
- Integration and other costs were incurred in relation to the restructuring of the Columbus manufacturing facility and the closure of the Eatontown manufacturing facility, in addition to the consolidation of the distribution centre in the US, of which $6 million is included in revenue, $16 million is included in cost of sales, $2 million in sales and marketing, $1 million in general and administrative and $5 million in other operating expenses.
- Tax benefit associated with prior year impairment loss recognised in 2018 (note 12).
- The prior year favourable US tax ruling relates to the benefit associated with a change in the tax reporting for chargebacks in the US.

In previous periods, exceptional items and other adjustments were related to the following:

- acquisition, integration and other costs were incurred in relation to the acquisition of the Columbus business and disposal the Eatontown plant and were included in the cost of sales, general and administrative expenses, sales and marketing expenses, research and development expenses and other operating expenses (notes 9 and 17)
- impairment of the Columbus business goodwill related to the unfavourable industry developments in the US generics industry in the second half of 2017 and was included in other operating expenses (note 16)
- impairment of product related intangible assets, property, plant and equipment and others, related to the impairment of assets of the Columbus business, including product rights, in process R&D, software and property, plant and equipment, and was included in other operating expenses (notes 16 and 17). In addition, impairment of other product-related intangible assets of $4 million which was included in research and development expenses (note 16)
- contingent consideration gain represents compensation received from Boehringer Ingelheim for failure to receive FDA approval of generic Advair Diskus® before 24 December 2017 (notes 9 and 24)
- US tax reform bill represents the estimated impact on the US deferred tax asset of lowering the US federal tax rate which was signed in December 2017 and effective from 1st January 2018 (note 12)

Other adjustments

Remeasurement of contingent consideration, financial liability and asset represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments receivables in respect of the Columbus business acquisition and the financial liability in relation to the co-development earnout payment agreement in respect of certain generic injectable products that were acquired from Boeringher Ingelheim (notes 19, 24, 28 and 32). The remeasurement is included in finance expense/income.

7. Audit remuneration

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

	2018 $m	2017[2] $m
Audit of the Company's annual accounts	**0.6**	0.9
Audit of the Company's subsidiaries pursuant to legislation	**1.8**	1.7
Total audit fees	**2.4**	2.6
Assurance services[1]	**0.2**	0.2
Total audit and assurance fees	**2.6**	2.8

1. Assurance services relate to review procedures in respect to the interim financial information
2. Amounts have been restated for audit fees related to statutory accounts

Nominal non-audit fees were charged in both years for subscriptions to a technical accounting portal, for general training and for services required to be performed by the incumbent in Ireland.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 73 to 76 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

8. Staff costs

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

	2018 Number	2017 Number
Production	**4,634**	5,017
Sales and marketing	**2,246**	2,123
General and administrative	**1,158**	1,047
Research and development	**375**	334
	8,413	8,521

	2018 $m	2017 $m
Their aggregate remuneration comprised:		
Wages, salaries and bonuses	**346**	321
Social security costs	**32**	30
Post-employment benefits	**13**	16
End of service indemnity	**18**	10
Share-based payments (note 38)	**21**	22
Car and housing allowances	**20**	19
Health insurance	**38**	39
Other costs and employee benefits	**18**	28
	506	485

9. Other operating expense/income

Other operating expense	**2018 Core results $m**	**2018 Exceptional Items and other adjustments (note 6) $m**	**2018 Reported results $m**	2017 Core results $m	2017 Exceptional Items and other adjustments (note 6) $m	2017 Reported results $m
Inventory related provisions	**62**	**–**	**62**	58	–	58
Impairment loss	**8**	**2**	**10**	–	1,101	1,101
Loss from disposal of property, plant and equipment	**–**	**3**	**3**	3	–	3
Forex losses (net)	**5**	**–**	**5**	–	–	–
	75	**5**	**80**	61	1,101	1,162

Other operating income	**2018 Core results $m**	**2018 Exceptional items and other adjustments (note 6) $m**	**2018 Reported results $m**	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Gain from disposal of property, plant and equipment	**–**	**–**	**–**	1	–	1
Forex gain (net)	**–**	**–**	**–**	4	–	4
Others	**7**	**–**	**7**	10	29	39
	7	**–**	**7**	15	29	44

10. Finance income

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Interest income	**3**	**–**	**3**	2	–	2
Remeasurement of contingent consideration, financial liability and asset	**–**	**–**	**–**	–	93	93
	3	**–**	**3**	2	93	95

11. Finance expense

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Interest on bank overdrafts and loans	**19**	**–**	**19**	29	–	29
Interest on Eurobond	**22**	**–**	**22**	22	–	22
Remeasurement of contingent consideration, financial liability	**–**	**26**	**26**	–	26	26
Other bank charges	**13**	**–**	**13**	8	–	8
Net foreign exchange loss	**–**	**–**	**–**	1	–	1
	54	**26**	**80**	60	26	86

12. Tax

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Current tax:						
Domestic tax	**1**	**–**	**1**	2	–	2
Foreign tax	**36**	**(9)**	**27**	48	(20)	28
Deferred tax (note 13)						
Current year	**39**	**(43)**	**(4)**	22	49	71
Adjustment to prior year	**(3)**	**(13)**	**(16)**	–	–	–
	73	**(65)**	**8**	72	29	101

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profit made in the UK for the year.

The Group incurred a tax expense of $8 million (2017: $101 million). The effective tax charge rate is 2.7%, (2017: credit 13.7%). The reported effective tax rate is lower than the statutory rate mainly due to the tax benefit associated with the impairment loss incurred in the prior year, for which a current year deferred tax benefit is being recognised.

Taxation for all jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

12. Tax continued

The charge for the year can be reconciled to profit/(loss) before tax per the consolidated income statement as follows:

	2018 $m	2017 $m
Profit/(loss) before tax	**293**	(738)
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	**56**	(142)
Profits taxed at different rates	**14**	13
Permanent differences		
– Non-taxable income	**(14)**	(13)
– Non-deductible expenditure	**2**	6
– Adjustment on intercompany inventory	**1**	(7)
– Other	**–**	(7)
– Impairment of goodwill	**–**	78
State and local taxes	**4**	(4)
Temporary differences		
– Tax losses and other deductible temporary differences for which no benefit is recognised	**8**	119
– Prior year favourable US tax ruling	**(13)**	–
– Tax benefit associated with losses incurred in a prior year for which a current benefit is recognised	**(43)**	–
– Tax rate changes (US tax reform)	**–**	49
– Other deductible temporary differences for which no benefit is recognised	**(3)**	–
Change in provision for uncertain tax positions	**(2)**	7
Unremitted earnings	**4**	2
Prior year adjustments	**(6)**	–
Tax expense for the year	**8**	101

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

Permanent differences relate to items which are non-taxable or for which no tax relief is ever likely to be due. The major items are differences in GAAP between IFRS and local territory GAAP, expenses and income disallowed where they are covered by statutory exemptions, foreign exchange differences in some territories and statutory reliefs such as R&D and manufacturing tax credits.

Temporary differences for which no benefit is recognised includes items on which it is not possible to book deferred tax and comprise mainly unrecognised tax losses. Management has not recognised a benefit for the losses on the basis that there are insufficient forecasted taxable profits in the foreseeable future.

The change in provision for uncertain tax positions relates to the provisions the Group holds in the event of a revenue authority successfully taking an adverse view of the positions adopted by the Group in 2018 and primarily relates to a transfer pricing adjustment. This category also includes adjustments (favourable or adverse) in respect of uncertain tax positions following agreement of the tax returns with the relevant tax authorities.

The prior year favourable US tax ruling relates to the benefit associated with a change in tax reporting for chargebacks in the US.

Prior year adjustments include differences between the tax liability recorded in the tax returns submitted for previous years and estimated tax provision reported in a prior period's consolidated financial statements.

US tax reform

In 2017, the impact of the US Tax Cuts and Jobs Act of 2017 was restricted to the reduction of the US deferred tax asset, as a result of the fall in the federal corporate income tax rate from 35% to 21%, by $49 million (note 6).

US deferred tax assets recognition

In 2017, management did not recognise a tax benefit associated with the impairment of certain assets of the Columbus business on the basis that there were insufficient forecasted taxable profits in the foreseeable future. In 2018, as a result of positive changes to the US business model due to internal reorganisation which increased the US taxable profit principally in relation to our Injectables business, management determined that it is now more likely than not that such tax benefit is realisable from forecasted taxable profits in the foreseeable future.

12. Tax continued

State Aid

The Group is monitoring developments in relation to the EU's State Aid investigations, in particular, the EU Commission's announcement in October 2017 that it will be opening a State Aid investigation into the Group Financing Exemption of the UK's Controlled Foreign Company (CFC) legislation. This exemption was introduced by the UK Government in 2013. In common with other UK-based international companies that have arrangements in line with the UK's current CFC legislation, Hikma is potentially affected by the outcome of this investigation. The Group does not currently consider any provision is required in relation to EU State Aid. As with all uncertain tax positions, the assessment of risk is subjective and involves significant management judgement. The judgement is based on management's understanding of legislation, experience and professional advice taken on the matters.

Publication of tax strategy

In line with the UK requirement for large UK businesses to publish their tax strategy. Hikma's tax strategy has been made available on the Group's website.

13. Deferred tax

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

	As at 31 December	
	2018 $m	2017 $m
Deferred tax liabilities	**(16)**	(49)
Deferred tax assets	**125**	135
	109	86

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

	Tax losses $m	Deferred R&D costs $m	Other short-term temporary differences[1] $m	Amortisable assets $m	Fixed assets $m	Share-based payments $m	Total $m
At 1 January 2017	6	1	202	(23)	(29)	–	157
Credit/(charge) to income	(3)	–	(71)	7	(4)	–	(71)
At 1 January 2018 as previously reported	3	1	131	(16)	(33)	–	86
Impact of IFRS 9 and 15	–	–	2	–	–	–	2
At 1 January 2018 as adjusted	**3**	**1**	**133**	**(16)**	**(33)**	**–**	**88**
Credit/(charge) to income	–	–	(16)	5	31	1	21
At 31 December 2018	**3**	**1**	**117**	**(11)**	**(2)**	**1**	**109**

1. The other deferred taxes on short-term temporary differences primarily relate to charge backs and product returns in the US of $49 million (2017: $76 million), tax benefit in respect of US impairment of $39 million (2017: $nil) and unrealised intercompany profits of $15 million (2017: $17 million)

No deferred tax asset has been recognised on temporary differences totalling $536 million (2017: $770 million) due to the unpredictability of the related future profit streams. $527 million (2017: $578 million) of these temporary differences relate to losses on which no deferred tax is recognised. None of these losses are expected to expire.

A deferred tax liability has been recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries of $8 million (2017: $4 million). No deferred tax liability has been recognised on the remaining unremitted earnings of $187 million (2017: $278 million), as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

14. Dividends

	2018 $m	2017 $m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2017 of 23.0 cents (2016: 22.0 cents) per share	**55**	53
Interim dividend for the year ended 31 December 2018 of 12.0 cents (2017: 11.0 cents) per share	**29**	26
	84	79

The proposed final dividend for the year ended 31 December 2018 is 26.0 cents (2017: 23.0 cents).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 17 May 2019 and has not been included as a liability in these consolidated financial statements. Based on the number of shares in issue at 31 December 2018 (241,455,394), the unrecognised liability is $63 million.

15. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders by the weighted average number of the Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on conversion of all dilutive potential Ordinary Shares into ordinary shares. The number of Ordinary Shares used for the basic and diluted calculations is shown in the table below. Core basic earnings per share and core diluted earnings per share are intended to highlight the core results of the Group before exceptional items and other adjustments.

	2018 Core results $m	2018 Exceptional items and other adjustments (note 6) $m	2018 Reported results $m	2017 Core results $m	2017 Exceptional items and other adjustments (note 6) $m	2017 Reported results $m
Earnings/(loss) for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**332**	**(50)**	**282**	252	(1,095)	(843)

Number of shares	2018 Number m	2017 Number m
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**241**	240
Effect of dilutive potential Ordinary Shares:		
Share-based awards	**1**	1
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**242**	241

	2018 Core earnings per share Cents	2018 Reported earnings per share Cents	2017 Core earnings per share Cents	2017 Reported earnings per share Cents
Basic	**137.8**	**117.0**	105.0	(351.3)
Diluted	**137.2**	**116.5**	104.6	(349.8)

16. Goodwill and other intangible assets

The changes in the carrying value of goodwill and other intangible assets for the years ended 31 December 2018 and 31 December 2017 are as follows:

	Goodwill $m	Product-related intangibles $m	Software $m	Other identified intangibles $m	Total $m
Cost					
Balance at 1 January 2017	683	1,006	87	106	1,882
Additions	–	7	31	1	39
Translation adjustments	7	2	–	4	13
Balance at 1 January 2018	**690**	**1,015**	**118**	**111**	**1,934**
Additions	–	–	12	21	33
Acquisition of subsidiaries (note 43)	–	1	–	–	1
Translation adjustments	(3)	(1)	–	(2)	(6)
Balance at 31 December 2018	**687**	**1,015**	**130**	**130**	**1,962**
Amortisation					
Balance at 1 January 2017	(1)	(87)	(28)	(47)	(163)
Charge for the year	–	(41)	(11)	(7)	(59)
Impairment (note 6)	(407)	(505)	(12)	–	(924)
Translation adjustments	–	–	–	(3)	(3)
Balance at 1 January 2018	**(408)**	**(633)**	**(51)**	**(57)**	**(1,149)**
Charge for the year	–	(22)	(10)	(8)	(40)
Impairment	–	(4)	(5)	–	(9)
Translation adjustments	–	1	–	1	2
Balance at 31 December 2018	**(408)**	**(658)**	**(66)**	**(64)**	**(1,196)**
Carrying amount					
At 31 December 2018	**279**	**357**	**64**	**66**	**766**
At 31 December 2017	282	382	67	54	785

Amortisation of all intangible assets with finite useful lives is charged on a straight-line basis in which $1 million is included in the cost of sales, $30 million in sales and marketing expenses and $9 million in general and administrative expenses.

In 2018, the Group recorded a total intangible impairment charge of $9 million, of which $5 million related to software and $4 million to product related intangibles. $7 million of the impairment charge is included within other operating expenses (note 9).

In 2017, the Group recorded a total intangible impairment charge of $924 million related to goodwill of $407 million, product-related intangibles of $505 million and software of $12 million. Of this amount $920 million relates to the impairment of the intangible assets related to the Columbus business. As a result of this impairment the Generics business goodwill was written off to $nil.

Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	As at 31 December	
	2018 $m	2017 $m
Branded	**166**	169
Injectables	**113**	113
Total	**279**	282

16. Goodwill and other intangible assets continued

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

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

Valuation basis	Higher of fair value less costs to sell and value in use			
Key assumptions	Sales growth rates			
	Profit margins			
	Terminal growth rate			
	Discount rate			
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information			
	Margins reflect past experience, adjusted for expected changes			
	Terminal growth rates based on management's estimate of future long-term average growth rates			
	Discount rates based on Group WACC, adjusted where appropriate			
Period of specific projected cash flows	5 years			
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)	Pre-tax discount rate	Post-tax discount rate
	Branded	2%	16.3%	14.1%
	Injectables	2%	13.1%	11.1%

CGUs: The Group also performed its annual goodwill impairment test on a quantitative basis for the Branded and Injectables CGUs. The Group conducted a sensitivity analysis on the impairment of each CGU's carrying value. Although the Directors have concluded sufficient headroom[1] exists for all of the CGUs, there is a possibility that changes to the key assumptions could result in impairment. The Group has performed sensitivity analysis on the key assumptions affecting the valuation of the Branded and Injectables CGUs and has determined that sufficient headroom exists. Specifically, an evaluation of the valuation of the CGUs was made assuming an increase of 1% in the discount rate, or a 5% decline in the forecasted net sales, or a 5% decline in the gross margins in the terminal year, or a 1% decline in the terminal growth rate and in all cases sufficient headroom exists.

Whilst there is some uncertainty regarding the short-term impact of the political events in the MENA region, the Group does not consider that the likelihood of impairment losses in the long term has increased.

1. Headroom is defined as the excess of the higher of fair value less costs to sell and value in use, compared to the carrying value of a CGU

Other intangible assets

Other intangible assets with a net book value of $487 million at 31 December 2018 (2017: $503 million) consists of in-process research and development (IPR&D) of $236 million (2017: $223 million), product rights of $125 million (2017: $159 million) and other intangible assets of $126 million (2017: $121 million).

IPR&D: As of 31 December 2018, the Group performed its annual review of IPR&D. The result of this testing is an impairment charge of $4 million.

Product rights: Whenever impairment indicators are identified for definite life intangible assets, Hikma reconsiders the asset's estimated life, calculates the undiscounted value of the assets or asset group's cash flows and compares such value against the asset's or asset group's carrying amount. If the carrying amount is greater, Hikma records an impairment loss for the excess of book value over valuation based on the discounted cash flows by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. The more significant estimates and assumptions inherent in the estimate of the recoverable amount of identifiable intangible assets include all assumptions associated with forecasting product profitability. As at 31 December 2018, management did not identify any impairment indicators.

Software: Software intangibles mainly represent the Enterprise Resource Planning solutions that are being implemented in different operations across the Group in addition to other software applications. The software has an average estimated useful life that varies from three to ten years.

In 2018, the Group recorded an impairment charge of $5 million related to software.

Customer relationships: Customer relationships represent the value attributed to existing direct customers that the Group acquired on the acquisition of subsidiaries. The customer relationships have an average estimated useful life of 15 years.

Trade name: Trade names were mainly recognised on the acquisition of Hikma Germany GmbH (Germany) and Promopharm with estimated useful lives of ten years.

Marketing rights: Marketing rights are amortised over their useful lives commencing in the year in which the rights are ready for use with estimated useful lives that vary from two to ten years.

As at 31 December 2018, the Group had entered into definitive contractual commitments for the acquisition of intangible assets of $4 million (2017: $5 million).

17. Property, plant and equipment

	Land and buildings $m	Machinery and equipment $m	Vehicles, fixtures and equipment $m	Projects under construction $m	Total $m
Cost					
Balance at 1 January 2017	**530**	**539**	**98**	**192**	**1,359**
Additions	2	7	8	95	112
Adjustments to opening balance	2	1	1	–	4
Disposals	(1)	(4)	(2)	(2)	(9)
Transfers	52	64	7	(123)	–
Translation adjustment	7	12	2	2	23
Balance at 1 January 2018	**592**	**619**	**114**	**164**	**1,489**
Additions	8	15	6	100	129
Acquisition of subsidiaries (note 43)	7	5	–	–	12
Disposals	(33)	(22)	(4)	(3)	(62)
Transfers	6	18	2	(26)	–
Translation adjustment	(6)	(8)	(1)	(4)	(19)
Balance at 31 December 2018	**574**	**627**	**117**	**231**	**1,549**
Accumulated depreciation					
Balance at 1 January 2017	**(84)**	**(242)**	**(57)**	**(7)**	**(390)**
Charge for the year	(21)	(45)	(11)	–	(77)
Adjustments to opening balance	(2)	(1)	(1)	–	(4)
Disposals	–	1	2	–	3
Impairment (note 6)	(86)	(84)	(5)	(6)	(181)
Translation adjustment	(3)	(8)	(1)	–	(12)
Balance at 1 January 2018	**(196)**	**(379)**	**(73)**	**(13)**	**(661)**
Charge for the year	(19)	(38)	(12)	–	(69)
Disposals	19	23	4	–	46
Impairment (note 6)	–	(3)	–	–	(3)
Translation adjustment	2	5	1	–	8
Balance at 31 December 2018	**(194)**	**(392)**	**(80)**	**(13)**	**(679)**
Carrying amount					
At 31 December 2018	**380**	**235**	**37**	**218**	**870**
At 31 December 2017	396	240	41	151	828

Land is not subject to depreciation.

A depreciation amount of $55 million is included within the cost of sales, $2 million in sales and marketing expenses, $7 million in general and administrative expenses and $5 million in research and development expenses.

In 2018, the Group reported an impairment charge of $3 million, of which $2 million related to the closure of Eatontown (note 6).

The net book value of the Group's property, plant and equipment includes an amount of $2 million (2017: $6 million) in respect of assets held under finance lease.

As at 31 December 2018, the Group had pledged property, plant and equipment with a carrying value of $8 million (2017: $11 million) as collateral for various long-term loans. This amount includes both specific items around the Group and the net property, plant and equipment of the Group's businesses in Germany and Tunisia (2017: Germany, Tunisia and Egypt).

As at 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $27 million (2017: $12 million).

18. Investments in associates and joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) is 49.0% at 31 December 2018 (31 December 2017: 30.1%) with an investment balance of $8 million at 31 December 2018 (31 December 2017: $3 million),

The Group's share of the results of Hubei Haosun Pharmaceutical Co Ltd (China) is $nil (2017: loss of $1 million).

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Joint ventures $m	**Associates $m**	**Total $m**	Joint ventures $m	Associates $m	Total $m
Balance at 1 January	**3**	**3**	**6**	3	4	7
Additions	**–**	**5**	**5**	–	–	–
Share of loss	**–**	**–**	**–**	–	(1)	(1)
Reclassification	**8**	**(8)**	**–**	–	–	–
Balance at 31 December	**11**	**–**	**11**	3	3	6

On 13 February 2018, Hikma acquired an additional stake in Hubei Haosun Pharmaceuticals Co Ltd (China) bringing the total ownership to 49.0% (2017:30.1%).

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

	As at 31 December 2018 $m	As at 31 December 2017 $m
Total assets	**17**	16
Total liabilities	**(2)**	(7)
Net assets	**15**	9
Group's share of net assets of joint ventures/associate[1]	**7**	3

	For the year ended 31 December 2018 $m	For the year ended 31 December 2017 $m
Total revenue	**6**	3
Net profit/(loss)	**1**	(1)
Group's share of loss of joint ventures/associate[1]	**–**	(1)

1. This represents the Groups share of net assets/share of results of Hubei Haosun Pharmaceuticals Co Ltd

In 2017, Hikma and MIDROC have agreed not to proceed with the Hikmacure joint venture and to liquidate it. As part of the liquidation process the joint venture granted two loans of $2 million each to the Group and MIDROC, the balance is currently outstanding and the liquidation is still in progress.

19. Financial and other non-current assets

	As at 31 December	
	2018 $m	2017 $m
Investments at FVTOCI (2017: available-for-sale investments)	**27**	16
Other non-current asset	**30**	44
	57	60

Investments at FVTOCI include investments in seven venture capital companies through the Group's venture capital arm Hikma International Ventures Developments LLC and Hikma Ventures Limited.

Other non-current assets mainly represent inventory expected not to be sold within one year.

20. Inventories

	As at 31 December	
	2018 $m	2017 $m
Finished goods	**135**	135
Work-in-progress	**83**	63
Raw and packing materials	**253**	234
Goods in transit	**32**	33
Spare parts	**25**	23
	528	488

Inventories are stated net of provisions as follows:

	As at 31 December 2017 $m	Additions $m	Utilisation $m	**As at 31 December 2018 $m**
Provisions against inventory	**81**	**62**	**(71)**	**72**

21. Trade and other receivables

	As at 31 December	
	2018 $m	2017 $m
Trade receivables	**654**	650
Prepayments	**57**	41
VAT and sales tax recoverable	**17**	13
Employee advances	**3**	3
	731	707

The fair value of receivables is estimated to be equal to the carrying amount.

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

	As at 31 December 2017 $m	IFRS 9 impact $m	As at 31 December 2017 and 1 January 2018 (adjusted) $m	Additions /(releases), net $m	Utilisation $m	Translation adjustments $m	**As at 31 December 2018 $m**
Chargebacks and other allowances	**238**	**–**	**238**	**1,861**	**(1,863)**	**–**	**236**
Doubtful debts	**67**	**3**	**70**	**(11)**	**(2)**	**(1)**	**56**
	305	**3**	**308**	**1,850**	**(1,865)**	**(1)**	**292**

More details on the Group's policy for credit and concentration risk are provided in note 31.

22. Collateralised and restricted cash

Collateralised and restricted cash amounted to $nil (2017: $4 million) and mainly represents restricted cash retained against short-term bank transactions granted to the Group's Sudanese, Algerian and Egyptian operations.

23. Cash and cash equivalents

	As at 31 December	
	2018 $m	2017 $m
Cash at banks and on hand	**112**	98
Time deposits	**128**	80
Money market deposits	**36**	49
	276	227

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

24. Other current assets

	As at 31 December	
	2018 $m	2017 $m
Price adjustment receivable	**20**	61
Investment at FVTPL (2017: available-for-sale investments)	**21**	22
Others	**18**	12
	59	95

Price adjustment receivable represents the current portion of the contingent receivable in relation to the Columbus business acquisition, whereby as part of the acquisition, the Group will be reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received $45 million reimbursement (2017: $3 million) in cash. The non-current portion of price adjustment receivable is included within other non-current assets (note 19).

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

25. Bank overdrafts and loans

	As at 31 December	
	2018 $m	2017 $m
Bank overdrafts	**–**	10
Import and export financing	**58**	48
Short-term loans	**7**	1
Current portion of long-term loans (note 29)	**9**	27
	74	86

	2018 %	2017 %
The weighted average interest rates paid are as follows:		
Bank overdrafts	**5.31**	4.55
Bank loans (including the non-current bank loans)	**4.48**	3.65
Eurobond	**4.25**	4.25
Import and export financing	**5.45**	4.58

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

26. Trade and other payables

	As at 31 December	
	2018 $m	2017 $m
Trade payables	**263**	218
Accrued expenses	**185**	134
Other payables	**17**	13
	465	365

The fair value of payables are estimated to be equal to the carrying amount.

Other payables mainly comprise employees' provident fund liability of $7 million (31 December 2017: $4 million), which mainly represents the outstanding contributions to the Hikma Pharmaceuticals Ltd (Jordan) retirement benefit plan, on which the fund receives 3.5% interest.

27. Other provisions

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

Movements on the provision for the end of service indemnity:

	2018 $m	2017 $m
1 January	**26**	27
Additions	**5**	3
Utilisation	**(8)**	(4)
At 31 December	**23**	26

28. Other current liabilities

	As at 31 December	
	2018 $m	2017 $m
Contract liability[1]	**151**	127
Co-development and earnout payment	**2**	3
Supply manufacturing agreement	**18**	9
Obligations under finance leases (note 30)	**1**	1
Indirect rebate and other allowances	**65**	67
Others	**26**	31
	263	238

1. The 2018 balance includes the IFRS 15 transition impact of $27 million (note 1)

Contract liability: The Group allows customers to return products within a specified period prior to and subsequent to the expiration date. In addition, free goods are issued to customers as sale incentives, reimbursement of agreed upon expenses incurred by the customer or as compensation for expired or returned goods.

Co-development and earn out payment agreement: The liability mainly relates to the present value of future payments on a co-development and earn out agreement. As part of this agreement, milestone payments dependent on successful clinical development of defined products are received by the Group. In return of receiving such milestone payments, the Group has agreed to pay the contracting party a certain percentage of future sales of those products. As at 31 December 2018, the liability associated with these earn out payments was adjusted to reflect the present value of the expected future cash outflows and the difference is presented as a finance expense. This balance represents the current portion of the liability and the non-current portion is disclosed in note 32.

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

Indirect rebate and other allowances: represents rebates granted to healthcare authorities and other parties under contractual arrangements with certain customers, see note 2.

29. Long-term financial debts

	As at 31 December	
	2018 $m	2017 $m
Long-term loans	**51**	201
Long-term borrowings (Eurobond)	**497**	496
Less: current portion of long term loans (note 25)	**(9)**	(27)
Long-term financial loans	**539**	670
Breakdown by maturity:		
Within one year	**9**	27
In the second year	**509**	139
In the third year	**8**	520
In the fourth year	**8**	4
In the fifth year	**9**	2
In the sixth year	**5**	5
	548	697
Breakdown by currency:		
US dollar	**514**	673
Euro	**17**	12
Algerian dinar	**16**	–
Saudi riyal	**–**	1
Egyptian pound	**–**	9
Tunisian dinar	**1**	2
	548	697

The loans are held at amortised cost.

Long-term loans amounting to $1 million (31 December 2017: $2 million) are secured on certain property, plant and equipment.

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

(a) A $500 million (carrying value of $497 million, and fair value of $496 million) 4.25% Eurobond due in April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of the Columbus business acquisition.

(b) A syndicated revolving credit facility of $1,175 million was entered into on 27 October 2015. The facility has an outstanding balance of $nil at 31 December 2018, (with a fair value of $nil) (2017: $112 million with a fair value of $112 million) and a $1,175 million unused available limit (2017: $1,063), $1,000 million of the facility matures on 24 December 2021 and the remainder matures on 24 December 2019. The facility can be used for general corporate purposes.

(c) A ten-year $150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was no utilisation of the loan as at 31 December 2018. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan will be used in the MENA region and in other World Bank countries of operation for general corporate purposes. The facility matures on 15 December 2027.

30. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018 $m	2017 $m	**2018 $m**	2017 $m
Amounts payable under finance leases:				
Within one year[1]	**2**	2	**1**	1
In the second to fifth years inclusive	**24**	21	**23**	20
	26	23	**24**	21
Less: Interest lease charges	**(2)**	(2)		
Present value of minimum lease payments payable	**24**	21		

1. The current portion of the obligations under finance leases is included within other current liabilities (note 28)

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 (2017: five years). For the year ended 31 December 2018, the average effective borrowing rate was between 1.89% and 14.00% (2017: between 1.87% and 14.00%).

31. Financial policies for risk management and their objectives

Credit and concentration of risk

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

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts, chargebacks, and other allowances. A provision for impairment is made based on expected credit losses which are estimated based on previous experience, current events and forecasts of future conditions.

The credit risk on liquid investments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In line with local market practice, customers in the MENA region are offered relatively long payment terms compared to customers in Europe and the US. During the year ended 31 December 2018, the Group's largest two customers in the MENA region represented 5.3% of Group revenue, 3.5% from one customer in Saudi Arabia, and 1.8% from a customer in Algeria. At 31 December 2018, the amount of receivables due from all customers based in Saudi Arabia was $83 million (2017: $131 million), and in Algeria was $55 million (2017: $67 million).

During the year ended 31 December 2018, three key US wholesalers represented 40.0% of Group revenue (2017: 44.3%). The amount of receivables due from all US customers at 31 December 2018 was $298 million (2017: $293 million).

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

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

31. Financial policies for risk management and their objectives continued

The following table provides a summary of the age of trade receivables (note 21):

At 31 December 2018	Not past due on the reporting date $m	Past due less than 90 days $m	Between 91 and 180 days $m	Between 181 and 360 days $m	Over one year $m	Total $m
Total trade receivables as at 31 December 2018	**739**	**102**	**21**	**21**	**63**	**946**
Related allowance for doubtful debts	**(1)**	**–**	**(1)**	**(1)**	**(53)**	**(56)**
	738	**102**	**20**	**20**	**10**	**890**
Chargebacks and other allowances						**(236)**
Net receivables						**654**

At 31 December 2017	Not past due on the reporting date $m	Past due less than 90 days $m	Between 91 and 180 days $m	Between 181 and 360 days $m	Over one year $m	Total $m
Total trade receivables as at 31 December 2017	750	82	22	24	77	955
Related allowance for doubtful debts	(1)	–	(1)	(1)	(64)	(67)
	749	82	21	23	13	888
Chargebacks and other allowances						(238)
Net receivables						650

Market risk

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

Capital risk management

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

The Group defines capital as equity plus net funds, which includes bank overdrafts and loans (note 25), obligations under finance leases (note 30), long-term financial debts (note 29), net of cash and cash equivalents (note 23), and collateralised and restricted cash (note 22).

31. Financial policies for risk management and their objectives continued

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

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

At 31 December 2018, the Group's gearing ratio (total debt/equity) was 38% (2017: 51%). The decrease in the Group's gearing ratio is due to the repayment of long-term debt during 2018.

Cash management

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

Foreign exchange risk and currency risk

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

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

The currencies that have a significant impact on the Group accounts and the exchange rates used are as follows:

	Period-end rates		Average rates	
	2018	2017	**2018**	2017
US dollar/Euro	**0.8719**	0.8319	**0.8442**	0.8848
US dollar/Sudanese pound	**47.6190**	20.0000	**32.6797**	16.9779
US dollar/Algerian dinar	**118.3304**	114.9402	**116.6424**	110.9802
US dollar/Saudi riyal	**3.7495**	3.7495	**3.7495**	3.7495
US dollar/Pound sterling	**0.7839**	0.7379	**0.7464**	0.7755
US dollar/Jordanian dinar	**0.7090**	0.7090	**0.7090**	0.7090
US dollar/Egyptian pound	**17.8571**	17.7936	**17.7936**	17.8891
US dollar/Japanese yen	**109.5600**	112.7800	**110.2800**	112.1826
US dollar/Moroccan dirham	**9.5655**	9.3574	**9.3836**	9.6800
US dollar/Tunisian dinar	**2.9940**	2.4839	**2.6469**	2.4194
US dollar/Lebanese pound	**1,507.5000**	1,507.5000	**1,507.5000**	1,507.5000

31. Financial policies for risk management and their objectives continued

2018	Net foreign currency financial assets/(liabilities) US dollar $m	Euro $m	Algerian dinar $m	Japanese yen $m	Others[1] $m
Functional currency of entity:					
– Jordanian dinar	**89**	**43**	**(21)**	**(3)**	**9**
– Euro	**6**	**–**	**–**	**–**	**–**
– Algerian dinar	**(6)**	**(1)**	**–**	**–**	**–**
– Saudi riyal	**27**	**(1)**	**–**	**–**	**–**
– Sudanese pound	**(27)**	**–**	**–**	**–**	**–**
– Egyptian pound	**(42)**	**(1)**	**–**	**–**	**–**
– Tunisian dinar	**(1)**	**2**	**–**	**–**	**–**
– Moroccan dirham	**(3)**	**(6)**	**–**	**–**	**–**
– Lebanese pound	**(2)**	**–**	**–**	**–**	**(1)**
– US dollar	**–**	**1**	**–**	**–**	**2**
	41	**37**	**(21)**	**(3)**	**10**

1. Others include Saudi riyal, Jordanian dinar and Pound sterling

2017	Net foreign currency financial assets/(liabilities) US dollar $m	Euro $m	Algerian dinar $m	Japanese yen $m	Others[1] $m
Functional currency of entity:					
– Jordanian dinar	19	28	(11)	(1)	37
– Euro	–	–	–	–	–
– Algerian dinar	(6)	–	–	–	–
– Saudi riyal	39	(3)	–	(4)	–
– Sudanese pound	(10)	–	–	–	–
– Egyptian pound	(35)	(1)	–	–	–
– Tunisian dinar	(2)	2	–	–	–
– Moroccan dirham	(1)	(5)	–	–	–
– Lebanese pound	(3)	–	–	–	2
– US dollar	–	–	–	–	1
	1	21	(11)	(5)	40

1. Others include Saudi riyal and Jordanian dinar

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

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

31. Financial policies for risk management and their objectives continued

	As at 31 December 2018			As at 31 December 2017		
	Fixed rate $m	**Floating rate $m**	**Total $m**	Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	**521**	**116**	**637**	515	262	777
Financial assets						
Cash and cash equivalents	**–**	**164**	**164**	–	129	129

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2018, with all other variables held constant. Based on the composition of the Group's debt portfolio as at 31 December 2018, a 1% increase/decrease in interest rates would not result in a material decrease/increase in finance cost being incurred per year (2017: $1 million increase/decrease).

Fair value of financial assets and liabilities

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

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

- cash 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 their fair value because of the short maturity of these instruments
- long-term loans – loans with variable rates are re-priced in response to any changes in market rates and so management considers the carrying amount to be not significantly different from their fair market value
- loans with fixed rates relate to the $500 million Eurobond accounted through amortised cost. The fair value is determined with reference to quoted price in an active market on the consolidated balance sheet date (note 29)
- receivables and payables – the fair values of receivables and payables are estimated to be equal to the respective carrying amounts;
- lease obligations – are valued at the present value of the minimum lease payments

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

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

Financial assets and liabilities that fall under Level 1 are:

- Investment at FVTPL amounted to $21 million (note 24).

Financial assets and liabilities that fall under Level 3 are:

- Co-development and earnout payment liabilities (note 28)
- Contingent consideration asset and liability resulting from the acquisition of the Columbus business (notes 24,28 and 32)
- Investment at FVTOCI (note 19)

31. Financial policies for risk management and their objectives continued

The following table presents the changes in Level 3 items for the year ended 31 December 2018 and the year ended 31 December 2017:

	Financial assets $m	Financial liabilities $m
Balance at 1 January 2017	39	258
Additions	29	–
Release	(3)	(3)
Remeasurement through income statement (note 6)	2	(65)
Balance at 31 December 2017 and 1 January 2018	67	190
Restatement on adoption of IFRS 9[1]	16	–
Balance at 1 January 2018 (adjusted)	**83**	**190**
Received/settlement	**(45)**	**(2)**
Remeasurement through income statement (note 6)	**–**	**26**
Additions	**4**	**–**
Fair value adjustments recognised in equity	**7**	**–**
Balance at 31 December 2018	**49**	**214**

1. As per IFRS 9 available-for-sale investments stated at cost (under IAS 39 cost exemption) have been re-classified to investments at FVTOCI

Liquidity risk of assets/(liabilities)

Liquidity risk

2018	Less than one year $m	One to five years $m	More than five years $m	Total $m
Cash and cash equivalents	**276**	**–**	**–**	**276**
Trade receivables	**654**	**–**	**–**	**654**
Interest-bearing loans and borrowings[1]	**(32)**	**(548)**	**(6)**	**(586)**
Interest-bearing import and export loans[1]	**(68)**	**–**	**–**	**(68)**
Interest bearing finance lease	**(2)**	**(24)**	**–**	**(26)**
Trade payables and accruals	**(448)**	**–**	**–**	**(448)**
	380	**(572)**	**(6)**	**(198)**

2017	Less than one year $m	One to five years $m	More than five years $m	Total $m
Cash and cash equivalents	227	–	–	227
Trade receivables	650	–	–	650
Interest-bearing loans and borrowings[1]	(52)	(700)	(6)	(758)
Interest-bearing overdrafts[1]	(10)	–	–	(10)
Interest-bearing import and export loans[1]	(51)	–	–	(51)
Interest-bearing finance lease	(2)	(21)	–	(23)
Trade payables and accruals	(352)	–	–	(352)
	410	(721)	(6)	(317)

1. As these are interest bearing liabilities, expected interest expense have been included in the balance

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

At 31 December 2018, the Group had undrawn facilities of $1,724 million (2017: $1,534 million). Of these facilities, $1,391 million (2017: $1,256 million) were committed and the remainder were uncommitted.

32. Other non-current liabilities

	As at 31 December	
	2018 $m	2017 $m
Contingent consideration	**204**	178
Contingent liability	**109**	109
Supply manufacturing agreement (note 28)	**4**	25
Co-development and earnout payment (note 28)	**7**	8
Others	**5**	4
	329	324

Contingent consideration and contingent liability represent a contractual liability to make payments to thirds parties in the form of milestone payments that depend on the achievement of certain US FDA approval milestones; and royalty payments based on future sales of certain products that are currently under development.

33. Share capital

Issued and fully paid – included in shareholders' equity:

	2018		2017	
	Number	**$m**	Number	$m
At 1 January	**240,678,894**	**40**	239,954,532	40
Issued during the year (Ordinary Shares of 10p each)	**776,500**	**–**	724,362	–
At 31 December	**241,455,394**	**40**	240,678,894	40

34. Non-controlling interests

	2018 $m	2017 $m
At 1 January	**14**	15
Share of profit	**3**	4
Dividends paid	**(3)**	(2)
Currency translation loss	**(2)**	(1)
Acquisition of subsidiaries	**–**	(2)
At 31 December	**12**	14

35. Own shares

The Employee Benefit Trust (EBT) of Hikma holds 40,831 (2017: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Link Trustees (Jersey) Limited an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2018 was $0.9 million (2017: $0.6 million). The book value of the retained own shares at 31 December 2018 are $0.6 million (2017: $0.6 million). The Ordinary Shares held in the EBT will be used to satisfy long-term commitments arising from the employee share plans operated by the Company.

36. Net cash generated from operating activities

	2018 $m	2017 $m
Profit/(loss) before tax	**293**	(738)
Adjustments for:		
Depreciation, amortisation, impairment, and write-down of:		
Property, plant and equipment	**72**	258
Intangible assets	**49**	983
Loss from investment at fair value through profit or loss	**1**	–
Loss on disposal of property, plant and equipment	**3**	3
Movement on provisions	**(3)**	(1)
Cost of equity-settled employee share scheme	**21**	22
Finance income	**(3)**	(95)
Interest and bank charges	**80**	86
Foreign exchange loss/(gain)	**5**	(4)
Cash flow before working capital	**518**	514
Change in trade and other receivables	**(41)**	52
Change in other current assets	**(5)**	(28)
Change in inventories	**(51)**	(31)
Change in trade and other payables	**88**	15
Change in other current liabilities	**7**	31
Change in other non-current liabilities	**(23)**	(7)
Cash generated from operations	**493**	546

37. Contingent liabilities

A contingent liability existed at the consolidated balance sheet date in respect of external guarantees and letters of credit totalling $53 million (31 December 2017: $47 million), arising in the normal course of business. No provision for these liabilities has been made in these consolidated financial statements.

In 2018, the Group received a civil investigative demand from the US Department of Justice requesting information related to products, pricing and related communications. In 2017, the Group had received a subpoena from a US state attorney general and a subpoena from the US Department of Justice. Hikma is still cooperating with all such demands, and management still does not believe that sufficient evidence exists at this point to make any provision.

38. Share-based payments

Executive Incentive Plan

The 2014 Executive Incentive Plan (EIP) was approved by shareholders at the 2014 Annual General Meeting. The EIP is a combined cash bonus (element A), deferred shares (element B) and restricted shares (element C) scheme. Under the EIP, the Group makes grants of conditional awards and $nil cost options under elements B and C to the Executive Directors and senior executives of the Group. Awards under all elements are dependent on the achievement of individual and Group KPIs over one year prior to grant. The shares awarded under element B are not released for a period of two years during which they are subject to a forfeiture condition. The shares awarded under element C are not released for a period of three years, but are not subject to a forfeiture condition. Members of the Executive Committee must retain 100% of the shares received from elements B and C for a period of five years from the date of grant. For EIP element B and C grants made in 2017 and before, Members of the Executive Committee must retain 50% of these shares for a period of five years from the date of grant.

Year 2018	2018 grants 7 June	2018 grants 16 May	2017 grants 11 May	2016 grants 11 May	2016 grants 17 March	2015 grants 15 May	2015 grants 10 April	Total Number
Beginning balance	–	–	608,376	149,579	448,875	47,000	114,430	1,368,260
Granted during the year	28,818	553,741	–	–	–	–	–	582,559
Exercised during the year	–	–	(60,330)	(119,464)	(236,472)	(47,000)	(90,406)	(553,672)
Outstanding at 31 December	**28,818**	**553,741**	**548,046**	**30,115**	**212,403**	**–**	**24,024**	**1,397,147**
Exercisable at 31 December	–	–	–	30,115	35,620	–	24,024	89,759
Weighted average contractual useful life (years)	9.40	3.66	2.63	0.36	2.36	-	6.28	2.84

Year 2017	2017 grants 11 May	2016 grants 11 May	2016 grants 17 March	2015 grants 15 May	2015 grants 10 April	Total Number
Beginning balance	–	165,553	448,875	118,000	338,808	1,071,236
Granted during the year	613,269	–	–	–	–	613,269
Exercised during the year	–	(3,578)	–	(71,000)	(224,378)	(298,956)
Expired during the year	(4,893)	(12,396)	–	–	–	(17,289)
Outstanding at 31 December	608,376	149,579	448,875	47,000	114,430	1,368,260
Exercisable at 31 December	–	–	–	–	17,386	17,386
Weighted average contractual useful life (years)	4.10	2.49	2.49	1.07	1.32	3.06

The cost of the EIP of $13 million (2017: $16 million) has been recorded in the consolidated income statement as part of general and administrative, and sales and marketing expenses.

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

The weighted average share price for 2018 is $19.59 (2017: $20.03).

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $
EIP 1	10/04/2015	338,808	33.24216	33.24216
EIP 2	15/05/2015	118,000	33.11449	33.11449
EIP 3 B	17/03/2016	242,608	26.97918	26.97918
EIP 3 C	17/03/2016	206,267	26.97918	26.97918
EIP 4	11/05/2016	165,553	32.15333	32.15333
EIP 5 B	13/04/2017	428,528	23.97771	23.97771
EIP 5 C	13/04/2017	184,741	23.97771	23.97771
EIP 6 B	16/05/2018	440,231	19.09082	19.09082
EIP 6 C	16/05/2018	113,456	19.09082	19.09082
EIP 7	07/06/2018	28,818	18.83410	18.83410

The exercise price of the share award is $nil.

38. Share-based payments continued

Management Incentive Plan

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

Details of the grants under the plan are shown below:

Year 2018	2018 grants 16 May Number	2017 grants 19 May Number	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 June Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	259,099	173,725	10,563	8,149	4,787	456,323
Granted during the year	443,288	–	–	–	–	–	443,288
Exercised during the year	(3,960)	(17,270)	(165,471)	–	–	–	(186,701)
Expired during the year	(2,966)	(3,363)	–	–	–	–	(6,329)
Outstanding at 31 December	**436,362**	**238,466**	**8,254**	**10,563**	**8,149**	**4,787**	**706,581**
Weighted average remaining contractual life (years)	1.76	0.37	7.34	6.37	5.45	4.38	1.28

Year 2017	2017 grants 19 May Number	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 June Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	192,725	132,442	12,632	9,973	347,772
Granted during the year	273,724	–	–	–	–	273,724
Exercised during the year	–	–	(121,879)	(4,483)	(5,186)	(131,548)
Expired during the year	(14,625)	(19,000)	–	–	–	(33,625)
Outstanding at 31 December	259,099	173,725	10,563	8,149	4,787	456,323
Weighted average remaining contractual life (years)	1.38	0.36	7.37	6.45	5.30	1.27

The cost of the MIP of $8 million (2017: $6 million) has been recorded in the consolidated income statement as part of general and administrative, sales and marketing, cost of sales, and research and development expenses.

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

The weighted average share price for 2018 is $19.59 (2017: $20.03).

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $	Expected dividends yield %
MIP 1	19/03/2009	340,000	4.89	5.11	1.47
MIP 2	28/03/2010	147,561	9.15	9.36	1.15
MIP 3	11/05/2011	356,894	12.96	13.23	1.00
MIP 4	18/05/2012	412,056	9.47	9.72	1.29
MIP 5	17/05/2013	252,482	14.61	14.93	1.10
MIP 6	11/06/2014	225,904	27.73	28.33	0.71
MIP 7	11/05/2015	145,918	32.17	32.63	0.71
MIP 8	11/05/2016	196,373	31.73	32.20	0.73
MIP 9	19/05/2017	273,724	22.09	22.54	1.01
MIP 10	16/05/2018	443,288	18.45	19.09	1.71

The exercise price of the share award is $nil.

38. Share-based payments continued

Long-term Incentive Plan

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

Details of the grants under the plan are shown below:

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

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

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

The exercise price of the share award is $nil.

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

Year 2018	2014 grants 11 June Number	2013 grants 17 May Number	2012 grant 16 March Number	Total Number
Outstanding at 1 January	**24,720**	**26,630**	**22,220**	**73,570**
Exercised during the year	**(4,347)**	**–**	**–**	**(4,347)**
Expired during the year	**(903)**	**–**	**–**	**(903)**
Outstanding at 31 December	**19,470**	**26,630**	**22,220**	**68,320**
Exercisable at 31 December	**19,470**	**26,630**	**22,220**	**68,320**
Weighted average remaining contractual life (years)	5.45	4.38	3.21	4.30

38. Share-based payments continued

Year 2017	2014 grants 3 December Number	2014 grants 14 June Number	2014 grants 29 May Number	2014 grants 3 April Number	2013 grants 6 November Number	2013 grants 17 May Number	2012 grant 16 March Number	2007 grants 23 April Number	Total Number
Outstanding at 1 January	5,899	151,429	109,000	84,954	5,180	31,985	22,220	13,000	423,667
Exercised during the year	(4,885)	(104,914)	(90,252)	(70,342)	(4,485)	(4,637)	–	(13,000)	(292,515)
Expired during the year	(1,014)	(21,795)	(18,748)	(14,612)	(695)	(718)	–	–	(57,582)
Outstanding at 31 December	–	24,720	–	–	–	26,630	22,220	–	73,570
Exercisable at 31 December	–	24,720	–	–	–	26,630	22,220	–	73,570
Weighted average remaining contractual life (years)	–	6.45	–	–	–	5.38	4.21	–	5.39

No costs for LTIPs were recognised in the consolidated income statement (2017: $1 million credited to profit and loss).

The weighted average share price for 2018 is $19.95 (2017: $20.03).

39. Operating lease arrangements

	2018 $m	2017 $m
Minimum lease payments under operating leases recognised in profit or loss for the year	**13**	9

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

	2018 $m	2017 $m
Within one year	**7**	9
In two to five years inclusive	**21**	22
After five years	**10**	13
	38	44

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

40. Related parties

Transactions between Hikma and its subsidiaries (together, the Group) have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates, joint ventures and other related parties are disclosed below.

Trading transactions

During the year ended 31 December 2018, the Group entered into the following transactions with related parties:

Boehringer Ingelheim (BI): is a related party of Hikma because BI owns 16.6% (2017: 16.6%) of the share capital of Hikma, controls 11.8% (2017: 11.8%) of the voting capital of Hikma, has the right to appoint a director of Hikma and a senior executive of BI holds a directorship of Hikma. The Group total sales to BI amounted to $66.6 million (2017: $79.1 million) and the Group total purchases from BI amounted to $5.1 million (2017: $10.6 million). As at the year end, the amount owed from BI to the Group was $18.1 million (2017: $43.8 million). Additionally, balances arising from the acquisition of the Columbus business from BI relating to contingent consideration are disclosed in notes 24, 28 and 32.

Capital Bank, Jordan: is a related party of Hikma because one director of Hikma is the founder and former Chief Executive Officer of Capital Bank. At the year end, total cash balance at Capital Bank was $7.5 million (2017: $11.8 million) and utilisation of facilities granted by Capital Bank to the Group amounted to $nil (2017: $nil). The interest income is within the market range.

Darhold Limited (Darhold): is a related party of Hikma because three directors of Hikma jointly constitute the majority of directors and shareholders (with immediate family members) in Darhold and because Darhold owns 24.85% (2017: 24.93%) of the share and voting capital of Hikma. Other than dividends (as paid to all shareholders), there were no transactions between the Group and Darhold Limited during the year.

Hikmacure Limited (Hikmacure): is a related party of Hikma because Hikmacure is a 50:50 joint venture (JV) with MIDROC Pharmaceuticals Limited (MIDROC). Hikma and MIDROC have invested in Hikmacure in equal proportions of $2.5 million each in cash (2017: $2.5 million). During 2017, Hikma and MIDROC agreed not to proceed with and to liquidate the venture.

HMS Holdings SAL (HMS): is a related party of Hikma because HMS is owned by the family of two directors of Hikma. Other than dividends (as paid to all shareholders), there were no transactions between the Group and HMS during the year.

Hubei Haosun Pharmaceutical Co Ltd (Haosun): is a related party of Hikma because the Group holds a 49.0% interest in the joint venture (JV) with Haosun (2017: 30.1%). During 2018, total purchases from Haosun were $2.3 million (2017: $1.4 million). At 31 December 2018, the amount owed from Haosun to the Group amounted to $0.2 million (2017: $1.6 million). During the year Hikma acquired an additional stake in Haosun bringing the total ownership to 49.0% (note 18).

Labatec Pharma (Labatec): is a related party of the Group because Labatec is owned by the family of two directors of Hikma. During 2018, total Group sales to Labatec amounted to $2.9 million (2017: $1.8 million). As at the year end, the amount owed by Labatec to the Group was $0.3 million (2017: $0.3 million).

Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive and Non-Executive Directors and certain of senior management as set out in the Directors' report) of the Group is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of the individual Directors is provided in the audited part of the Remuneration Committee report on pages 81 to 104.

	2018 $m	2017 $m
Short-term employee benefits	**17.4**	11.0
Share-based payments	**8.0**	10.2
Post-employment benefits	**0.1**	10.3
Other benefits	**0.8**	0.6
	26.3	32.1

41. Subsidiaries, associate and joint venture

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

			Owned by the Group		*Owned by PLC 'the Company'*	
Company's name	**Incorporated in**	**Address of the registered office**	**Ownership% Ordinary Shares At 31 December 2018**	**Ownership% Ordinary Shares At 31 December 2017**	**Ownership% Ordinary Shares At 31 December 2018**	**Ownership% Ordinary Shares At 31 December 2017**
Al Jazeera Pharmaceutical Industry S.A.R.L	Algeria	Zone d'Activité, Propriété N° 379 Section N° 04 Staoueli, Algeria	99%	99%	–	–
Algerie Industrie Mediterraneene Du Medicament S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	97%	97%	–	–
Hikma Pharma Algeria S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	100%	100%	–	–
SPA Al Dar Al Arabia pour la Fabrication de Médicaments	Algeria	Zone d'Activité El Boustane N° 78, Sidi Abdellah, Al Rahmania, Algeria	100%	100%	–	–
Hubei Haosun Pharmaceutical Co Ltd	China	No 20 Juxian Road, Gedian Economic and Technology Development Area, Hubei, China	49%	30%	–	–
Hikma for Importation Co. LLC	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	99%	99%	–	–
Hikma Pharma S.A.E[1]	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	100%	100%	–	–
Hikma Pharmaceuticals Industries S.A.E	Egypt	16 Ahmed Hosny Street, First Zone, Naser City, Cairo, Egypt	100%	100%	–	–
Hikma Specialised Pharmaceuticals (S.A.E)	Egypt	10 D, 11 D, Industrial Zone, Badr City, Cairo, Egypt	98%	98%	–	–
Hikmacure Pharmaceuticals Share Company	Ethiopia	Addis Ababa, Bole Sub City, Kebele 16, Woreda, Ethiopia	50%	50%	–	–
Hikma Pharma GmbH	Germany	Lochhamer Strasse 13, 82152, Martinsried, Germany	100%	100%	–	–
Thymoorgan GmbH[1]	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Deutchland	100%	100%	–	–
Thymoorgan Pharmazie GmbH	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Deutchland	100%	100%	–	–
Hikma Finance (Ireland) Limited	Ireland	2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland	100%	100%	–	–
Hikma Italia S.p.A	Italy	Viale Certosa 10, 27100, Pavia, Italy	100%	100%		
Hikma Pharma Limited[1]	Jersey	47 Esplanade, St Helier, JE1 0BD, Jersey	100%	100%	100%	100%
Arab Medical Containers LLC[1]	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Arab Pharmaceutical Manufacturing PSC[1]	Jordan	Al Buhaira – Salt, P.O. Box 42, Jordan	100%	100%		
Future Pharmaceutical Industries LLC	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Hikma International Pharmaceuticals LLC (Exempt)	Jordan	122 Queen Zain AlSharaf Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
Hikma International Ventures and Development LLC (Exempt)	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma Investment LLC[1]	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma Pharmaceuticals LLC[1]	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma United Renewable Energy	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–

41. Subsidiaries, associate and joint venture continued

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* Ownership% Ordinary Shares At 31 December 2018	*Owned by the Group* Ownership% Ordinary Shares At 31 December 2017	*Owned by PLC 'the Company'* Ownership% Ordinary Shares At 31 December 2018	*Owned by PLC 'the Company'* Ownership% Ordinary Shares At 31 December 2017
International Pharmaceutical Research Centre LLC	Jordan	P.O. Box 963166, Amman, 11196, Jordan	51%	51%	–	–
Sofia Travel and Tourism	Jordan	Mustafa Semreen Complex Building No. 29, Jamal Qaytoqa Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
Specialised for Pharmaceutical Industries LLC	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%	–	–
Hikma CIS JSC	Kazakhstan	Apt. 1, House 7, Building-28, 'Keremet' Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%	–	–
Hikma Pharmaceuticals Co. Ltd., Almaty (Kazakhtan) Representative Office	Kazakhstan	Apt. 1, House 7, Building-28, 'Keremet' Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%	–	–
Hikma Liban S.A.R.L.	Lebanon	Saria Building, Ground Floor, Embassies Street, Bir Hassan, Beirut, Lebanon	67%	67%	–	–
Hikma Finance (Luxembourg) SARL	Luxembourg	20 rue des Peupliers, L-2328 Luxembourg	100%	100%	–	–
Société de Promotion Pharmaceutique du Maghreb (Promopharm S.A.) [1]	Morocco	Zone Industrielle du Sahel, Rue N. 7, Had Soualem, Province de Settat, Morocco	94%	94%		
Hikma International N.V	Netherlands	Luna Arena, Herikerberweg 238, 1101 CM, Amersterdam Zuidoost, Netherlands	100%	100%	100%	100%
Hikma Pharma Benelux B.V	Netherlands	Nieuwe Steen 36, 1625 HV, Hoorn, Netherlands	100%	100%	–	–
Eurohealth N.V	Netherlands Antilles	Pareraweg 45, P.O. Box 4914, Curacao, (Netherlands Antilles)	100%	100%	–	–
Hikma Farmaceutica, (Portugal) S.A	Portugal	Estrada Rio Da Mo no.8, 8a, 8B-Fervenca, 2705-906, Terugem SNT, Portugal	100%	100%	–	–
Lifotec Farmaceutica S.G.P.S S.A[1]	Portugal	Estrada Nacional 9, Fervença, São João das Lampas e Terrugem, Sintra, Portugal	100%	100%	–	–
Al Jazeerah Pharmaceutical Industries Ltd[1]	Saudi Arabia	Riyadh Gallery, Olaya Street, P.O. Box 106229, Riyadh-11666, Kingdom of Saudi Arabia	100%	100%	52.5%	52.5%
Hikma Slovakia s.r.o	Slovakia	Seberíniho 1, 821 03 Bratislava, Slovakia	100%	100%	–	–
Pharma Ixir Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	51%	51%	–	–
Savannah Pharmaceutical Industries Co. Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	100%	100%	–	–
Eurohealth International S.A.R.L.	Switzerland	Rue des Battoirs 7, 1205 Genève, Switzerland	100%	100%	100%	100%
APM Tunisie S.A.R.L.	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage, 2035, Tunisia	99%	99%	–	–
STE D'Industriee Pharmaceutique Ibn Al Baytar[1]	Tunisia	11 Rue 8610 Charguia 1-2035 Tunis-Carthage, Tunisia	100%	100%	–	–
STE Hikma Pharma Tunisie	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage 2035, Tunisia	100%	100%	–	–
STE Medicef	Tunisia	Avenue Habib Bourguiba, Sidi Thabet, 2020 Ariana, Tunisia	100%	100%	–	–

41. Subsidiaries, associate and joint venture continued

Company's name	Incorporated in	Address of the registered office	*Owned by the Group* Ownership% Ordinary Shares At 31 December 2018	*Owned by the Group* Ownership% Ordinary Shares At 31 December 2017	*Owned by PLC 'the Company'* Ownership% Ordinary Shares At 31 December 2018	*Owned by PLC 'the Company'* Ownership% Ordinary Shares At 31 December 2017
Hikma Emerging Markets and Asia Pacific FZ-LLC	United Arab Emirates	Premises 202-204, Floor 2, Building 26, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma International Trading Limited	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma MENA Holdings Limited[1]	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma (Maple) Limited	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Acquisitions (UK) Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikma Holdings (UK) Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma UK Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Ventures Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	100%	100%
Hikmacure Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	50%	50%	–	–
West-Ward Holdings Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Hikma Pharmaceuticals International Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%	–	–
Bedford Property Holdings, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Eurohealth (U.S.A.) Inc[1]	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, DE 19802, United States	100%	100%	–	–
Hikma Speciality USA, Inc.	United States	C T Corporation System, 800 S Gay Street, Suite Knoxville TN 2021 37929-9710, United States	100%	100%	–	–
Hikma Labs Inc.	United States	Corporation Trust Company of Nevada 701 S Carson Street Suite 200, Carson City, NV 89701, United States	100%	100%	–	–
West-Ward Columbus Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
Hikma Injectables, Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
Hikma Pharmaceuticals USA Inc.	United States	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle DE 19802, United States	100%	100%	–	–
Hikma (HK) Limited	Hong Kong	4603-4609, 46/F Jardine HSE, One Connaught Place, Central Hong Kong	100%	–	–	–
Hikma Shefaa for Pharmaceuticals and Medical Supplies PSC	Palestine	West Bank Al Birah, Ramallah	100%	–	–	–

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

The investments in associates and joint ventures are accounted for using the equity method in the Group (note 18).

The Group's subsidiaries principally operate in trading pharmaceuticals products and associated goods and services. Companies marked (1) were incorporated as holding companies.

42. Defined contribution retirement benefit plan

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

Hikma Pharmaceuticals PLC – United Kingdom

The Group currently has a defined contribution pension plan available for staff working in the United Kingdom whereby the Group contributes 10% of basic salary. Employees are immediately entitled to 100% of the Group's contributions. The Group's contributions for the year ended 31 December 2018 were $0.4 million (2017: $0.2 million).

Hikma Pharmaceuticals LLC – Jordan

The Group currently has an employee savings plan whereby the Group fully matches employees' contributions, which are fixed at 10% (up to 2011 was 5%) of basic salary. Employees are entitled to 30% of the Group contributions after three years of employment with the Company and an additional 10% for each subsequent year. Employees are entitled to 100% of the Company contributions after ten years of employment with the Company. The Group's contributions for the year ended 31 December 2018 were $3 million (2017: $3 million).

Arab Pharmaceutical Manufacturing PSC – Jordan

The Group currently has an employee saving plan whereby the employees contribute at 10%, and the Company at 15% of basic salary. After three years of employment with the Company, employees are entitled to 100% of the Company contributions. The Group's contributions for the year ended 31 December 2018 were $0.9 million (2017: $1 million).

Hikma Pharmaceuticals USA Inc.: (401 (k) salary saving plan)

Hikma Pharmaceuticals USA Inc. has a 401(k)-defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. All employees not covered by any collective bargaining agreement are eligible after being employed for 90 days. Employees can defer up to 95% of their gross salary into the plan, not to exceed $18,500 (2017: $18,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The Company matches the employees' eligible contribution dollar-for-dollar on the first 6% of eligible pay contributed to the plan. Employer contributions vest 50% after two years of service and 100% after three years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan for the year ended 31 December 2018 were $3.5 million (2017: $3 million). The assets of both retirement plans are held separately from those of the Group. The only obligation of the Group with respect to both retirement benefit plans is to make specified contributions.

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

West-Ward Columbus Inc. has a 401(k)-defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. Employees can defer up to 95% of their gross salary into the plan, not to exceed $18,500 (2017: $18,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The Company matches 100% on first 5% of the employees' eligible contribution. Employer contributions vest after six years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan for the year ended 31 December 2018 were $7 million (2017: $8 million). The assets of both retirement plans are held separately from those of the Group. The only obligation of the Group with respect to both retirement benefit plans is to make specified contributions.

43. Business combinations

Acquisition of Geber Health

On 12 March 2018, Hikma signed an asset purchase agreement with EURL Geber Health. The overall cash consideration for the tangible and intangible assets amounted to $13 million.

This acquisition has been accounted for as per IFRS 3 'business combination' where a set of activities and assets that is capable of being conducted and managed for the purpose of providing a return exists.

The assets acquired included an oral general formulation facility located in Algeria. Hikma has converted this facility into an oral cephalosporin facility in order to locally manufacture its cephalosporin portfolio for the Algerian market.

The fair value of the assets acquired included property, plant and equipment of $12 million and intangible assets of $1 million.

There was insignificant goodwill as a result of this acquisition.

From the date of acquisition, Geber Health contributed $4 million of revenue and $0.4 million to profit before tax of the Group.

If the acquisition of Geber health had been completed on the first day of the financial year, the Group's revenues for the year would have been approximately USD $2,073 million and the Group's profit before tax would have been approximately USD $294 million.

44. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 transition impact on opening balance sheet as at 1 January 2018

The Group has adopted IFRS 15 applying modified retrospective approach on 1 January 2018 with a cumulative adjustment as an increase to other current liabilities of $27 million (contract liability), reflecting the free goods obligations outstanding as at 1 January 2018, an increase of trade receivables by $1 million, a decrease in the income tax provision by $1 million and the corresponding net adjustment to decrease retained earnings by $25 million. There is no restatement to prior periods as permitted in the transition roles for IFRS 15.

IFRS 15 impact on the consolidated income statement for the year ended 31 December 2018

The Group revenue was reduced by $36 million under IFRS 15 reporting. This was mainly due to the change in the accounting treatment for payments made to customers ($32 million) and free goods ($4 million) under IFRS 15. Previously, certain customer payments were accounted for as sales and marketing expenses whereas under IFRS 15, any payments made to customers (unless payments made in exchange for distinct good or service that the customer transfers to the entity) are treated as a reduction of transaction price and recognised as a reduction of revenue. See note 2 for change in accounting policy for free goods.

IFRS 15 impact on the consolidated balance sheet as at 31 December 2018

The Group current liabilities balance was increased by $31 million and the retained earnings balance decreased by $29 million under IFRS 15 reporting. This was mainly due to the change in free goods accounting treatment. See note 2 for change in accounting policy for free goods.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group applied IFRS 9 retrospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The effect of adopting IFRS 9 as at 1 January 2018 is explained in note 1.

45. Subsequent events

Acquisition of Medlac

On 2 January 2019, the Group acquired 100% of the share capital of Medlac Pharma Italy Co Ltd. (Medlac), an injectable manufacturing company in Vietnam. The total consideration amount includes an initial upfront cash payment of $8 million and is not expected to exceed $17 million. The consideration includes deferred and contingent consideration payable on successful achievement of certain conditions and milestones. The acquisition includes an injectable facility, adjacent vacant land, Medlac's product portfolio of 23 injectables products, its pipeline and all employees.

The fair value and purchase price allocation of the acquired assets and liabilities will be disclosed in the financial statements for the interim period ending 30 June 2019.

Legal settlement

On 13 January 2019, a litigation matter with an external party was concluded in Hikma's favour and Hikma was entitled to receive compensation of $32 million. The settlement amount was received on 13 February 2019 and this will be recognised in the financial statements.

Company balance sheet

At 31 December 2018

	Note	2018 $m	2017 $m
Non-current assets			
Property, plant and equipment		**3**	3
Intangible assets	48	**23**	20
Investments in subsidiaries	49	**3,328**	3,323
Due from subsidiaries	50	**177**	362
Financial and other non-current assets		**1**	5
		3,532	3,713
Current assets			
Other receivables		**5**	3
Due from subsidiaries	50	**41**	71
Cash and cash equivalents	52	**50**	25
Other current assets	51	**41**	86
		137	185
Total assets		**3,669**	3,898
Current liabilities			
Other payables	53	**3**	4
Due to subsidiaries	54	**39**	39
Other current liabilities		**13**	14
		55	57
Net current assets		**82**	128
Non-current liabilities			
Long-term financial debts	55	**500**	610
Due to subsidiaries	54	**77**	115
		577	725
Total liabilities		**632**	782
Net assets		**3,037**	3,116
Equity			
Share capital	57	**40**	40
Share premium	58	**282**	282
Other reserves		**1,745**	1,745
Retained earnings	59	**970**	1,049
Equity attributable to equity holders of the parent		**3,037**	3,116

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 168 to 174 were approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

Said Darwazah
Director
12 March 2019

Sigurdur Olafsson
Director

Company statements of changes in equity

For the year ended 31 December 2018

	Share capital $m	Share premium $m	Own shares $m	Merger reserve $m	Retained earnings $m	Total $m
Balance at 1 January 2017	40	282	(1)	1,746	1,093	3,160
Profit for the year	–	–	–	–	12	12
Change in fair value of available-for-sale financial assets[1]	–	–	–	–	1	1
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**13**	**13**
Total transactions with owners, recognised directly in equity						
Cost of equity settled employee share scheme	–	–	–	–	22	22
Dividends paid	–	–	–	–	(79)	(79)
Balance at 31 December 2017 and 1 January 2018	40	282	(1)	1,746	1,049	3,116
Loss for the year	–	–	–	–	(16)	(16)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(16)**	**(16)**
Total transactions with owners, recognised directly in equity						
Cost of equity settled employee share scheme	–	–	–	–	21	21
Dividends paid	–	–	–	–	(84)	(84)
Balance at 31 December 2018	**40**	**282**	**(1)**	**1,746**	**970**	**3,037**

1. This investment was previously designated as available-for-sale financial assets. Upon transition to IFRS 9 it has been re-categorised as Investments FVTPL

Notes to the Company financial statements

For the year ended 31 December 2018

46. 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.

47. Significant accounting policies

Basis of accounting

These financial statements, for the year ended 31 December 2018 have been prepared in accordance with FRS 101.

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

The following paragraphs of IAS 1, 'Presentation of Financial Statements':

- 10(d), statement of cash flows
- 16 (statement of compliance with all IFRS)
- 38A (requirements for a minimum of two primary statements, including cash flow statements)
- 45B and 46 to 52 share-based payment
- IFRS 7 financial instruments disclosure
- IAS 24 (paragraph 17)
- IAS 8 (paragraph 30 and 31)
- 111 (cash flow statement information); and
- IAS 7 'Statement of Cash Flows'.

We have considered the impact of IFRS 9. The Company does not expect any credit losses from intra-Group receivables.

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

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

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

There are no significant judgements and estimates affecting the financial statements of the Company.

The carrying value of investments are reviewed for impairment when there is an indication that the investments might be impaired. Any provision resulting from an impairment review is charged to the income statement.

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

48. Intangible assets

	Software $m	Total $m
Cost		
Balance at 1 January 2017	13	13
Additions	8	8
Balance at 1 January 2018	**21**	**21**
Additions	8	8
Transfer	(2)	(2)
Balance at 31 December 2018	**27**	**27**
Amortisation		
Balance at 1 January 2017	–	–
Charge for the year	(1)	(1)
Balance at 1 January 2018	**(1)**	**(1)**
Charge for the year	(1)	(1)
Impairment	(2)	(2)
Balance at 31 December 2018	**(4)**	**(4)**
Carrying amount		
At 31 December 2018	**23**	**23**
At 31 December 2017	20	20

Details of useful lives and amortisation rates are included in note 16.

49. Investments in subsidiaries

The details of investment in subsidiaries are mentioned in note 41.

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

	2018 $m	2017 $m
Beginning balance	**3,323**	3,179
Additions to subsidiaries	**5**	144
Ending balance	**3,328**	3,323

50. Due from subsidiaries

Non-current assets

	2018 $m	2017 $m
Hikma Pharmaceuticals USA Inc.	**8**	8
Hikma Italia S. P. A	**1**	4
Hikma Hong Kong	**10**	–
Hikma Pharmaceuticals International Limited	**54**	167
Hikma UK Limited	**104**	183
	177	362

Current assets

	2018 $m	2017 $m
Hikma Pharmaceuticals LLC	**2**	–
Hikma UK Limited	**–**	55
Hikma MENA Holdings Limited	**19**	5
Hikma Pharmaceuticals USA Inc.	**9**	4
Hikma Pharma SAE	**4**	3
Hikma Farmaceutica, (Portugal) S.A.	**1**	1
Hikma Emerging Markets and Asia Pacific FZ-LLC	**5**	3
Others	**1**	–
	41	71

51. Other current assets

	2018 $m	2017 $m
Price adjustment receivable	**20**	61
Investments at FVTPL (2017: available-for-sale investments)	**21**	22
Others	**–**	3
	41	86

Price adjustment receivable in respect to note 24 this represents the current portion of the contingent receivable in relation to the Columbus business acquisition, whereby as part of the acquisition, the Group will be reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. During the year, the Group received $45 million reimbursement (2017: $3 million) in cash. The non-current portion of price adjustment receivable is included within other non-current assets (note 19).

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

52. Cash and cash equivalents

	As at 31 December	
	2018 $m	2017 $m
Cash at banks and on hand	**7**	5
Time deposits	**43**	20
	50	25

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

53. Other payables

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

54. Due to subsidiaries

Non-current liabilities

	2018 $m	2017 $m
Hikma (Maple) Limited	**–**	44
Hikma Investment LLC	**1**	1
Hikma Pharmaceuticals LLC	**–**	10
Hikma MENA Holdings Limited	**59**	60
Hikma Pharma Limited	**17**	–
	77	115

Current liabilities

	2018 $m	2017 $m
Hikma Investment LLC	**17**	22
Hikma Pharmaceuticals International Limited	**18**	15
Hikma Pharma Limited	**2**	2
Hikma UK limited	**2**	–
	39	39

55. Long-term financial debts

The balance comprises mainly of a $500 million (carrying value of $497 million, and fair value of $496 million) 4.25% Eurobond due in April 2020 with the rating of (BB+/Ba1) and a withdrawal of $nil on the syndicated revolving credit facility (note 29).

56. Staff costs

Hikma Pharmaceuticals PLC currently has an average of 36 employees (2017: 30 employees) (excluding Executive Directors); total compensation paid to them amounted to $10 million (2017: $8 million) of which salaries and bonuses compromise an amount of $8 million (2017: $6 million) the remaining balance of $2 million (2017: $2 million) represents national insurance contributions.

57. Share capital

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

	2018		2017	
	Number	**$m**	Number	$m
At 1 January	**240,678,894**	**40**	239,954,532	40
Issued during the year (Ordinary Shares of 10p each)	**776,500**	**–**	724,362	–
At 31 December	**241,455,394**	**40**	240,678,894	40

58. Share premium

	Share premium $m
Balance at 1 January and 31 December 2018	**282**

59. Loss/profit for the year

The net loss in the Company for the year is $16 million (2017: profit $12 million). Included in the net loss for the year is an amount of $47 million (2017: $16 million) representing dividends received and $4 million (2017: $5 million) representing the current year charge of share-based payments. The remaining income statement components represents general and administrative expenses and net financing expenses. Audit fees for the Company are disclosed in note 7.

60. Contingent liabilities

A contingent liability exists at the balance sheet date in respect to a standby letter of credit totalling $9 million (2017: $9 million) for potential stamp duty obligation that may arise if a repayment of the syndicated revolving credit facility (see note 29) is made by the intercompany guarantors on behalf of the Company. It is not probable that the repayment will be made by the intercompany guarantors.

Shareholder information

2019 financial calendar

4 April	2018 final dividend ex-dividend date
5 April	2018 final dividend record date
17 May	Annual General Meeting
22 May	2018 final dividend paid to shareholders
9 August*	2019 interim results and interim dividend announced
8 August*	2019 interim dividend ex-dividend date
9 August*	2019 interim dividend record date
12 September*	2019 interim dividend paid to shareholders

* Provisional dates

Shareholding enquiries

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

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

Dividend payments – currency

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

Dividend payments – bank transfer

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

Dividend payments – international payment system

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

Website

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

Share listings

London Stock Exchange

Hikma's Ordinary Shares of 10 pence each (Shares) are admitted to the Official List of the London Stock Exchange. They are listed under EPIC – HIK, SEDOL – B0LCW08 GB and ISIN – GB00B0LCW083.

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

Global Depository Receipts

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

American Depository Receipts (ADR)

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

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

Shareholder fraud

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

— obtain the correct name of the person and organisations
— check they are authorised by the FCA by looking the firm up on www.fca.org.uk/register
— report the matter to the FCA either by calling 0800 111 6768 or visit www.fca.org.uk/consumers
— if the caller persists, hang up

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

Hikma's website is www.hikma.com and the registered office is 1 New Burlington Place, London W1S 2HR. Telephone number + 44 207 399 2760.

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